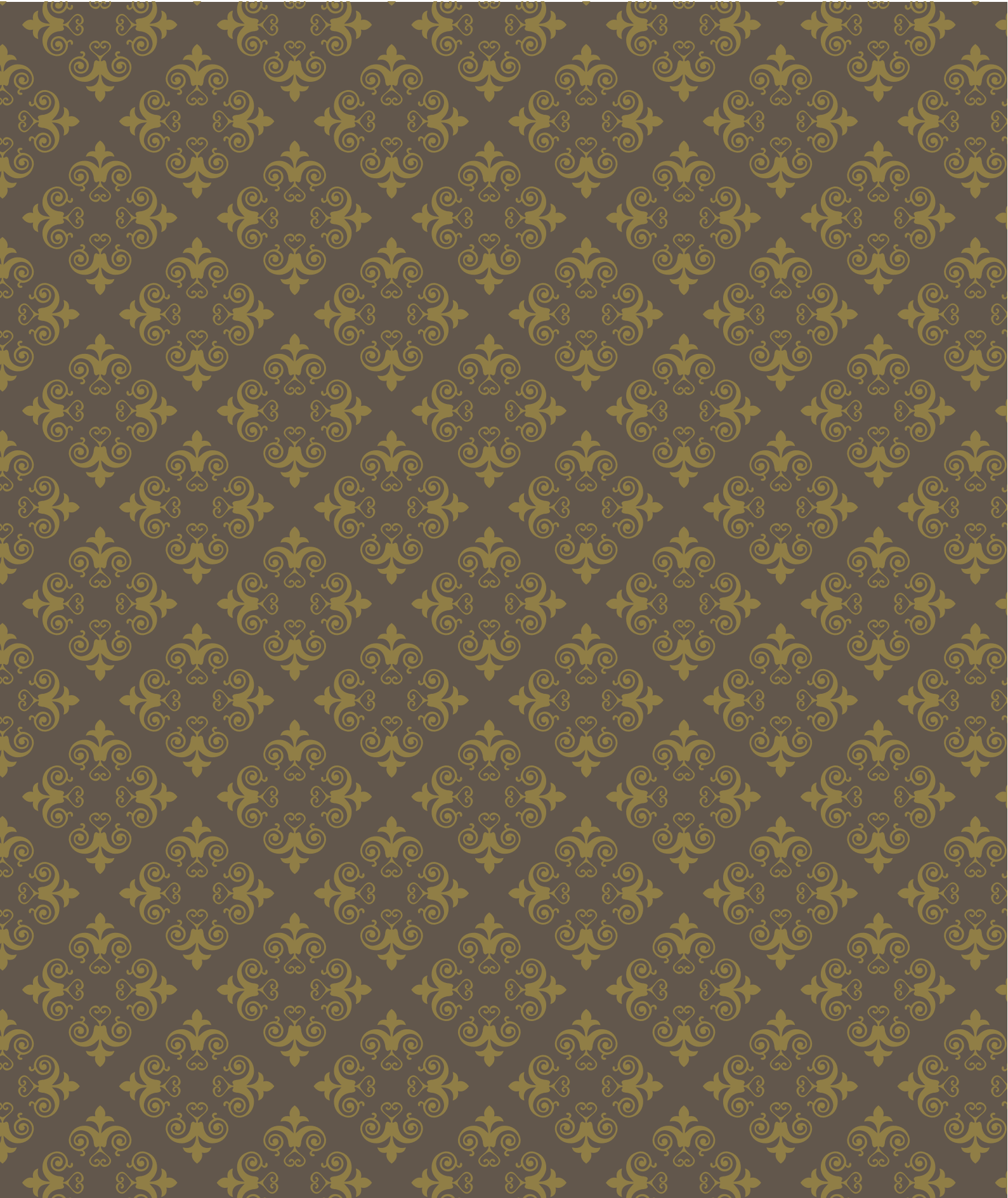




Bridged

Annual Report 2013 | National Savings Bank



Furthering our value to a nation that has banked its trust in us for over 40 years, the National Savings Bank is a bridge for Sri Lanka to access a world of financial and industrial opportunity.

We are the proud torchbearers of a nation's resurgence, conveying the power of our burgeoning prosperity to the world beyond our shores while drawing valuable investments and wealth in to our country. Today our local corporate strength and international business reach are exponentially expanded through the immensely successful 5-year US\$ 750 million dollar denominated bond issued by the Bank in 2013. This was the single largest issue by a Sri Lankan Bank.

At National Savings Bank, we are committed to empowering the nation to achieve financial excellence and economic strength; a bridge that takes Sri Lanka towards our cherished dreams of financial security, national development and regional influence.



The Leader in Developing You and Your Country

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Read the NSB Annual Report 2013 Online
www.nsb.lk



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, whilst meeting the expectations of all our Stakeholders.

Values

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

Highlights of the Year 2013

01

Introduction of Regional Management System to the Bank

Opening of 225th Branch at Pugoda

02

03

Received AAA credit rating for 11th consecutive year from Fitch Rating Lanka (Pvt) Ltd.

Received international credit rating of B+ Stable and BB- Stable from Standard and Poor's Rating service and Fitch Inc. respectively

04

05

Launched International student debit card

06

Issuance of US\$ 750 Mn international Bond

NSB's Annual Report 2012 won the Gold award in the Financial institutions category at CA Sri Lanka Annual Reports Awards

07

08

Annual Report 2012 won Platinum award for excellence at the 2012/2013 vision award conducted by LACP

09

Won the award for best Sri Lankan deal from Finance Asia Magazine for USD 750 Mn International Bond Issue

Deposit base of the Bank surpassed Rs 500 Bn

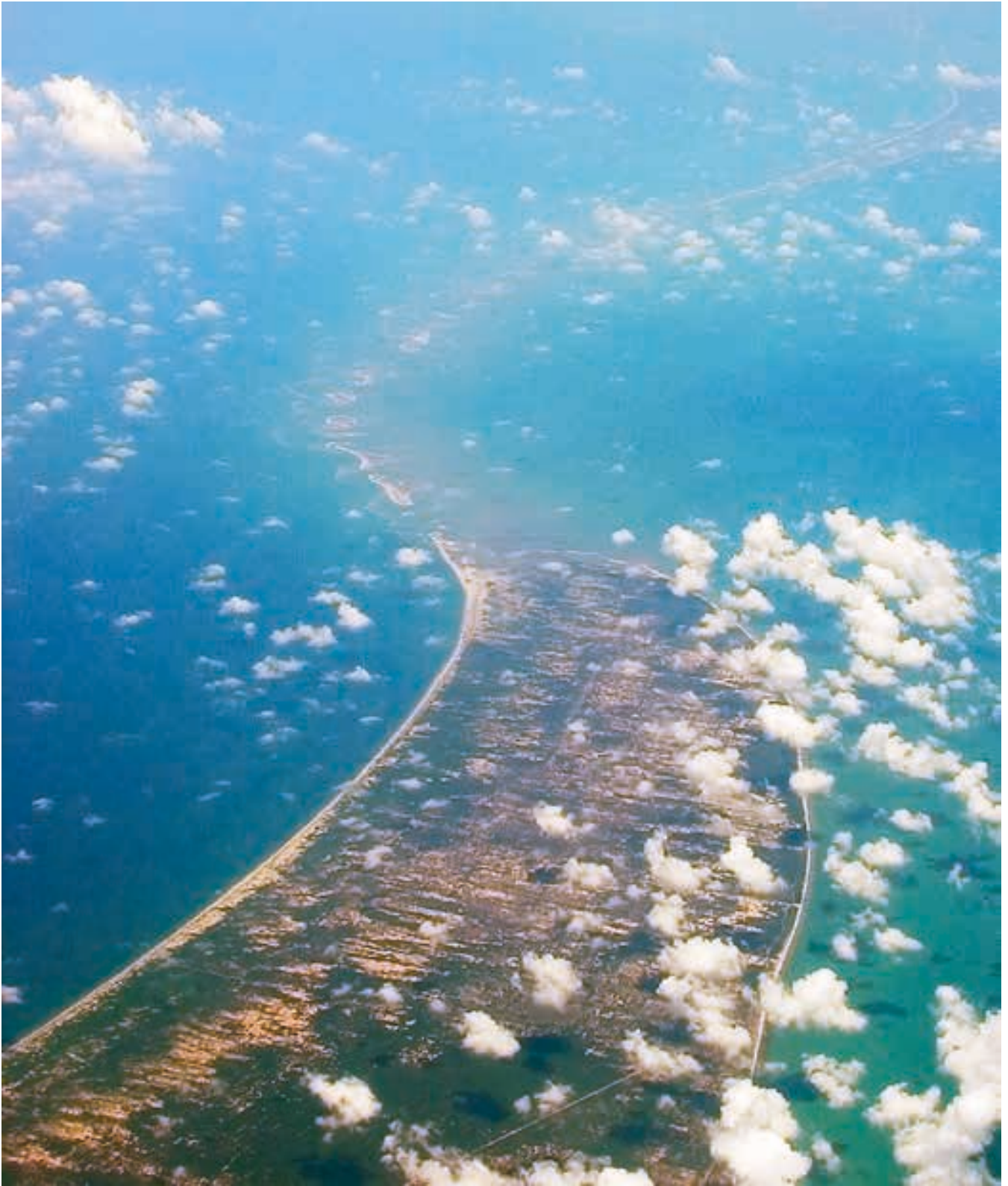
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How We Performed in 2013

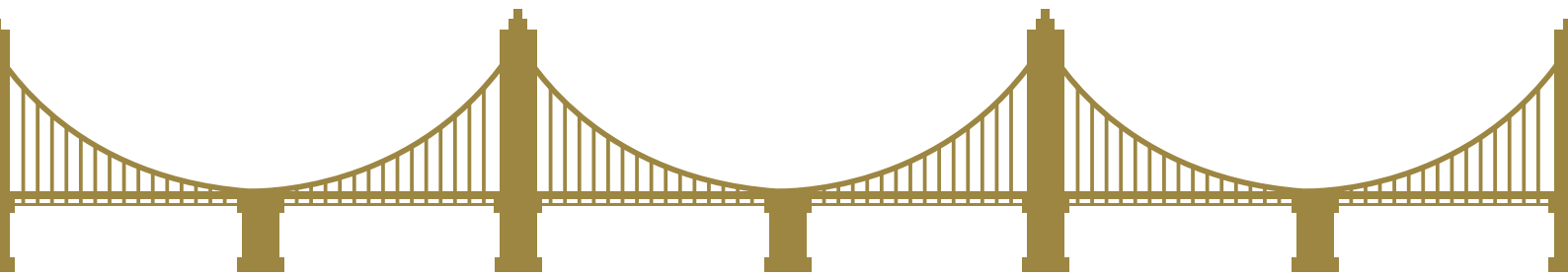
Financial Highlights

	Bank			Group		
	2013 Rs. Mn	2012 Rs. Mn Restated	% Growth	2013 Rs. Mn	2012 Rs. Mn Restated	% Growth
Results For the Year						
Gross Income	65,573	52,903	24	66,671	53,872	24
Net Interest Income	9,684	13,389	(28)	9,833	13,573	(28)
Net Profit Before Income Tax	2,279	6,340	(64)	2,669	6,392	(58)
Income Tax on Profit	1,095	2,578	(58)	1,141	2,622	(56)
Net Profit after Taxation	1,184	3,763	(69)	1,528	3,770	(59)
Contribution to the Government	4,719	6,327	(25)	4,813	6,020	(20)
At the Year End						
Total Assets	654,368	508,813	29	662,346	518,389	28
Loans & Investments	632,187	492,009	28	640,138	501,538	28
Deposits from Customers	501,890	457,650	10	501,890	457,650	10
Shareholders' Funds (Capital and Reserves)	22,217	23,767	(7)	23,797	25,003	(5)
Ratios						
Return on Average Shareholders' Funds (%)	5.1	16.1		6.26	15.69	
Return on Assets (%)	0.4	1.3		0.5	1.3	
Net Interest Margin (%)	1.7	2.7		1.7	2.8	
Liquidity Ratio (%)	92.7	69.5		-	-	
Tier I (%) (Statutory Minimum Ratio Required is 5%)	20.1	20.4		21.02	21.3	
Tier I & II (%) (Statutory Minimum Ratio Required is 10%)	18.4	19.1		19.40	21.2	
Cost: Income (%) (With VAT)	66.5	52.8		64.3	52.5	
Non-Financial Indicators						
Branches	229	219				
Agents (Post Offices & Sub-Post Offices) (No.)	4,063	4,053				
Account Holders (Mn)	17.92	17.47				
Staff (No)	2943	3129				
School Bank Units (No.)	1723	1185				
ATMs (No.)	247	231				



Chapter 1

Strategy and Vision



Linking people, places and resources
from here to everywhere.



Our bank has remained true to our fundamentals of permeating savings as a means of poverty alleviation and upgrading quality of life as envisioned by our founder Dr. N.M. Perera.

Message from Ms. W.A. Nalani *Chairperson*

It is truly an honour for me to present you the Annual Report and Audited Financial Statements of National Savings Bank, the country's premier Savings Bank, for the year ended December 31st 2013. The Bank which has a legacy of 41 years speaks of how it has lived up to its ideals and values this year too, journeying even closer to its vision and partnering the nation's development quest, having concluded another challenging year.



Ms. W.A. Nalani

Message from Ms. W.A. Nalani

Chairperson

Year 2013 was a significant year in Bank's history with a paradigm shift initiating changes to our business model. Through this transformational year, taking on the mantle of numerous re-engineering efforts to optimise on the goals we have set for ourselves, we met fast changing needs of people, economy and society at large. Our pragmatic initiatives did reap in rewards by way of a host of accolades and awards.

Our Performance in Review Transforming and Consolidating

2013 was yet another year filled with changes and challenges posed by local and global environments and NSB had to contend with a milieu of volatility in performing its multifaceted tasks. However drawing on a legacy of 41 years and having honed our strengths, our skills and experience NSB did work astutely to weather the many storms we encountered with pragmatism and vigour.

2013 Total Assets inclined by 29%, notched at Rs. 654,368 Million, attributed considerably to the international Bond Issue which increased the asset base by 19%. Total gross income grew by 24%. In the industry our capital adequacy ratios continued to be the highest.

Market position in terms of total assets and total deposits too were satisfactorily maintained.

A key milestone recorded this year was the journey we made into the international financial market and the issuance of US Dollar 750m bond very successfully, the largest by a Bank in the history of Sri Lankan banking industry. With this great stride we made our transition from local to global, being an indigenous savings bank for over 41 years.

In our multifaceted role we continuously emphasized on promoting countries savings, accessibility to housing finance and retail banking. Financial inclusion, empowering entrepreneurs especially in the micro and

SME sectors, to uplift the rural and other challenged areas of the economy remained a high priority. We also contributed extensively to the government's ambitious infrastructure development program island wide prompting social inclusivity as well. We believe that education is a true means of sustainable development. Therefore we focused on educational upliftment at all levels.

The impact of Global Economy

This year too, a relatively similar growth trend in performance was seen in the global economy since the economic downturn, although most developed economies seemed to be very slowly rising upward while showing more signs of economic activity.

The sweeping monetary policies seen around the world, held foreign exchange markets to ransom. Volatility was a strong characteristic as was seen in the dramatic depreciation of the Yen against the US Dollar and the Australian Dollar. With the purchase of US bonds being scaled down, currencies in emerging economies saw drastic devaluations; Indonesia by 20.9%, South Africa by 19%, Turkey by 16.4%, Brazil by 13%, India by 11.7% and Pakistan by 7.9%. While the Euro showed promise gaining 4.4% against the US Dollar as did the Pound Sterling by 2%, similar appreciations were noted in the Chinese and Bangladesh currencies.

The sudden sharp decline in gold prices over 25% in the international market in 2013 after several years of price improvements impacted the gold backed advances in some Banks of South Asia including Sri Lanka.

Sri Lanka Showcases Economic Prowess

Real GDP growth of 7.3% is what Sri Lanka proudly showcased this year, well above the average of both regional and global counterparts. It is doubly remarkable because globally, there existed volatility and uncertainty

and internally, the country continued to pursue ambitious development goals including increase of per capita income to US Dollar 4,000 by 2016. This year, the country's GDP per capita rose to US Dollars 3,280 of GDP. Headline inflation has declined to a single digit level of 4.7%.

Substantial inflows reflected the gradual recovery of the global economy reflecting much more buoyancy in the investor confidence and resulting in, an increase in FDIs including foreign loans to BOI companies moving upwards by 2.8% to US Dollars 1,421 Million. Adding to these inflows were the substantial debt securities issued by the banking sector in foreign financial markets which included NSB's bond issue too. The reduction of the fiscal Debt to GDP ratio also added more impetus.

The country is also highest ranked in South Asia in the Global Prosperity Index as well as the Human Development Index. The poverty head count ratio was pushed to decline to an admirable 6.5% and unemployment ratio to below 4.7%.

The Financial Services Sector Strengthens Fundamentals

Several regulatory and supervisory initiatives were introduced to reduce potential risks including a Supervisory Review Process for banks in moving towards BASEL II Capital Accord and the enhancement of disclosure requirements to improve transparency and comparability adhering to the new Sri Lanka Accounting Standards (LKAS) and Sri Lanka Financial Reporting Standards (SLFRS). Regulations pertaining to payment cards and mobile payment systems were introduced, while the regulatory framework which governs the

Lanka Settle System was revised to match international standards and best practices.

In 2013, Banking Sector expanded with an assets growth of 16.5% and a deposit growth of 15%. The Banking sector liquidity and capitalization was strong during the year.

The dramatic price reduction in international gold market, impacted quality of advances and led to a decline in pawning advances. Much is needed to be done to address the impact created, though banking industry has initiated many actions to respond to this situation.

In absolute terms this was a main course for the private sector credit growth to decelerate. Increased access to domestic and foreign capital markets also contributed to a decline in demand for bank credit from the private sector. In a positive note the strong foundation for the financial sector to remain resilient and upbeat amidst unprecedented

global crises, further augmented international investor confidence in the sector. However low interest margins recorded in 2013 demonstrates the need for the Banks to harness diversification into business activities that will support non-interest income.

Some visionary features expected in the banking sector to focus on for 2014-2016 are, at least five Sri Lankan banks must possess assets of Rs. 1 Trillion or more with strong regional presence and encourage Mergers & Acquisitions for consolidation of banking and financial sector from 2014.

NSB Builds the Bridge from Local to Global

NSB is the only bank in Sri Lanka which provides state guarantee on customer deposits and interest liability. Given that our bank has remained true to

Real GDP growth of 7.3% is what Sri Lanka proudly showcased this year, well above the average of both regional and global counterparts

Message from Ms. W.A. Nalani

Chairperson

our fundamentals of permeating savings as a means of poverty alleviation and upgrading quality of life as envisioned by our founder Dr. N.M. Perera, it was apparent, that NSB has a much larger role to play in building the country's national vision taking into cognizance the accelerated development and growth in our national economy after the dawn of peace. This prompted us to move into the international markets in an effort to mobilize global savings. This also encouraged us to lay a new framework for the next bridge, building through a comprehensive Strategic and Business Plan, for further transformation and broad-basing, changing our business model.

Compliance and Governance

Very cognizant of our role as a model corporate citizen, while sustainable development plays an integral role in our journey of progress, we emphasize 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 II in 2013 and for implementation of BASEL III, from 2014 and these are being focused upon emphatically at NSB. NSB is very comfortably placed in our capital adequacy requirements, possessing the highest capital adequacy ratio at present and we have maintained a culture of compliance.

At NSB we place the value of Corporate Governance at high priority and are committed and dedicated to fully comply with the best corporate governance practices by the management team and the Board of Directors in carrying out our Bank's activities in the best interest of our stakeholders.

We are proud that for the 11th consecutive year, the Bank maintained our rating of AAA (lk) Long Term Credit Rating by Fitch Ratings Lanka (Pvt) Ltd. We also got international credit ratings of BB-Stable by Fitch Inc. and B+ stable by Standard and Poor's Rating Services.

Awards and Accolades

We were conferred with a host of awards including the Best Sri Lanka Deal for 2013 by Finance Asia Magazine for our Bond Issue. Our Annual Report for 2012 gained immense credence in the international arena when the League of American Communication Professionals conferred NSB the Platinum Award for Excellence and placed NSB's Annual Report among the top 14 of the Top 50 Annual Reports in the Asia Pacific Region at the LACP Vision Awards 2012/13.

Further, the Institute of Chartered Accountants of Sri Lanka presented NSB a Gold award in the Financial Institutions category, for its 2012 Annual Report an honour we gained for the very first time in our history.

Business Outlook

In the prevailing competitive environment we identified a myriad opportunities as well as challengers in going forward. The opportunities primarily emanate from Sri Lanka's burgeoning economy resulting in poverty reduction and promoting entrepreneurship development, increasing income levels in the rural economy. Our bridge for the future is constructed on three main themes as expanding channels with value added products and services, ICT Development and HR Development, which we have identified to implement in the medium term. Customer service has now moved beyond the realm of simply interacting with the customer, to be a more informed proactive lifelong relationships culture.

NSB in 2013 adopted a new ICT development strategy and a complete core banking solution will be institutionalized. HR competency and expertise plays a vital role in our business transformation. Through a comprehensive HRD Plan, we equip our team with improved skills, capacities and competencies suited to a contemporary and evolving banking environment, where in-depth knowledge will preempt customer expectations and aspirations.

According to the CBSL's Roadmap and the National Budget for 2014, the conduct of monetary policy and fiscal policy will be fashioned towards realizing a sound medium-term macroeconomic framework. This now positions Sri Lanka's key performance indicators on the following platforms for 2014: GDP at 7.8%, total investment at 32% and headline inflation at 5%. A sustained real economic growth of 8% is targeted in the medium term.

We have now envisioned a new journey of growth under a three years strategic business focus aligning to the National Vision for Development. Refocus on our business model and structure will lay a strong foundation in this journey. This will be supported by re-engineering of business processes, systems and procedures.

While strategising our operational expansion focusing on a significant growth in the asset base we will pay a greater importance on risk management, compliance and corporate governance in ensuring greater success and sustainability of our future journey as a systemically important and socially responsible bank.

Appreciations

I have felt most gratified in the immense support and cooperation I received from the Board of Directors, during this period.

I extend my deep appreciation to the management and staff for their dedication and commitment to uphold the ideals and values of the Bank and to improve performance during this challenging year. Also I am thankful to the staff of NSB Fund Management Company

for their continued commitment. I also wish to thank NSB trade unions who have been very supportive in our journey, this year.

I value very much the trust and confidence that all our customers have placed in us and convey my sincere thanks for their support and loyalty.

I place on record my gratitude to Auditor General and Attorney General, for their unsparing support and cooperation.

Very cognizant of our role as a model corporate citizen, while sustainable development plays an integral role in our journey of progress, we emphasize on inculcating a culture of compliance

I extend our appreciation to Post Master General and his officials for commitment, for building common business interests.

I take this opportunity to extend my grateful thanks to His Excellency the President, and the Minister of Finance, Mahinda Rajapaksa for his valuable guidance. I am thankful to Hon. Minister (Senior) International Monetary Co-operation and

Hon Deputy Minister of Finance & Planning Dr. Sarath Amunugama, the Secretary, Ministry of Finance and Planning and Economic Development, Dr. P.B. Jayasundera, The Governor, Central Bank of Sri Lanka, Mr. Ajith Nivard Cabraal, for their continuous guidance and advice. I also thank their officials very much for their continued support.

We stay focused with a great enthusiasm on our vision "Country's Premier Savings Bank" while broad basing and further diversifying our multi-faceted role taking the bank to the next phase of development. In this forward march we will deeply commit to safeguard and improve stakeholder's value and to play a central role in the National development.



We strongly believe that savings remains a foundation of economic and social inclusivity, empowering the people and the nation to reach towards goals that will enable the people themselves to build bridges for their own empowerment and development

Review by Mr. Hennayake Bandara *General Manager / CEO*

For NSB, 2013 has certainly been a year in which we have achieved some very exciting goals, despite a challenging business environment, declining of interest rates narrowing margins and significant transformations evolving within the industry milieu. We have, however, never lost sight of our ultimate vision of being the savings bank for our people, ensuring that every decision we make and every action we take will always be aligned to that vision. We have built a strong and stable foundation that bridges the savings and investment gap prevalent in the country which needs to be accomplished with foresight and dynamism, given the country's ambitious goals as a Middle Income Country.



Mr. Hennayake Bandara

Review by Mr. Hennayake Bandara

General Manager / CEO

We are cognisant of the fact that Sri Lanka is aspiring to be a regional hub and we are also aware that it is the savings base that will form the backbone of the economy pushing the country closer to this goal. For 180 years, we have been the spearhead for savings in the country. Therefore, it is our responsibility to reach out to those citizens who have had no prospects of savings or banking, having never been exposed to the formal banking system. Over five thousand touch points including an impressively expansive branch network coupled with a strong brand image has seen us construct a progressive bridge to ensure that the unbanked population will access the formal banking system. This, we know, is a strong conduit that would augment funding for national development projects.

Having always employed advancement and innovation in our interactions with the people and the nation, we have now constructed a formidable bridge of funding, channelled towards development projects, from retail lending to industry to corporates and government, adding prowess to the nation's hub status goal.

We strongly believe that savings remains a foundation of economic and social inclusivity, empowering the people and the nation to reach towards goals that will enable the people themselves to build bridges for their own empowerment and development. We will continue to build bridges that will empower people, by inculcating the savings habit, creating awareness on the importance of savings and the role it plays in creating a sustainable and highly developed society. What you see therefore in the next few pages in my review of operations, is a synopsis of how NSB has performed this year, the initiatives we embarked upon and the opportunities we grasped, constructing bridges of stability and resilience along the way.

Our debut foray into the international financial market with a US \$750 Mn International Bond Issue saw us proudly hold aloft an accolade from the Finance Asia Magazine for the Best Sri Lankan Deal in 2013. We are equally proud

to now possess an international credit rating on par with a sovereign rating influencing our strategy to venture into the international financial market. The Bank now possesses sovereign ratings BB-Stable by Fitch Ratings and B+ stable by Standard and Poors, while having retained an AAA (lk) Long Term Credit Rating by Fitch Ratings Lanka for eleven consecutive years.

Bridged for solutions

While remaining well aligned to our vision of being the most reliable and sought after savings and investment solutions and options for the people of Sri Lanka, we are also aware that we have a responsibility that goes beyond the purview of savings. We are the bridge that connects the country's achievement of goals and the well-being of the people. So we ensure that our country must achieve its goals. By reaching out to people and continuing to instil confidence among our stakeholders, we are striving to conceptualise a savings and investment culture that goes beyond the rhetoric and into a much more tangible qualitative milieu.

This is why we ensued our branch expansion plans to see that our touch points growing beyond the five thousand we already encompass around the island. With ten new branches increasing the existing branch network to 229, 247 ATMs, 4,063 post offices and point of sales machines (POS) collated under our network. Having effected some crucial structural changes to improve the effectiveness, efficiency and productivity of this expansive network, we now know that our team is well endowed to strengthen relationships with stakeholders, while growing the Bank's bottom line with unrelenting focus. This amply showcases that we have constructed that strong bridge of a sustainable savings culture that will enable access to building a sustainable economy where economic inclusivity becomes a hallmark.

Quantitatively, we have passed some milestones this year including within our retail lending portfolio (except for pawning advances), which performed exceptionally well.

Our project related lending and remittance business also displayed an impressive growth trajectory, details of which you will find elsewhere in this report. With our asset base also showcasing noteworthy growth to stand at Rs. 654 Bn by the end of 2013, what is most significant is that NSB, despite operating in an extremely challenging and competitive environment, continues to uphold its financial prowess and its mission of growing the savings portfolio of the country.

I do believe that this is due to the Strategic Plan that we have been working on over the last three years, which did take account of the various risks, both external and internal that could arise, allowing us to overcome those risks with progressive solutions. Into this equation, we added new initiatives that would enable us to gain a better footing and more space in competitive spheres. As an example, we expanded our foreign partner network, inking partnerships with strategic foreign exchange houses which we assuredly know will add more impetus to our remittance business, which continues to show an increasing growth.

Nevertheless, the performance of the Bank during the year did not meet expectations owing to many factors. The increase in cost of funds was higher than income growth, as assets re-priced faster than liabilities. This resulted in a 28% decline of the net interest income to Rs. 9.7 Bn and the net interest margin to 1.7%. The Bank's Operating Profit before Tax, decreased by 64% to Rs. 2.3 Bn. In addition to the high cost of funding, decrease in government securities yields, the exponentially negative impact of decline in gold prices and the low demand for credit brought adverse impact on the performance of the Bank.

I did speak about some of the salient points in our restructuring plans last year, one of which was the Regional Management System (RMS) which we were strategically cascading into the branch network. This year it came into fruition with the RMS being implemented, designed to add more autonomy and discretionary power to identified leaders in those regions. Regional Managers now have more authority and are responsible for more informed decision

making, heading a team who are well trained and skilled to identify emerging opportunities.

Challenged, yet determined

NSB's journey in the last year has not been without its hurdles. Being mandated as a savings bank, we are forced to compete in a commercial environment, giving us little advantage to compete on a level playing field. We are also experiencing a new business environment post a protracted three decade ethnic strife which has its own characteristics, including being transformational

and evolutionary. This is further driven by the national development agenda which has gained immense momentum and therefore requires all stakeholders to optimise their contribution into the macro economy.

From an industry perspective however, the unprecedented gold price fallout experienced in the international gold market had a crushing impact on the gold loan business segment. Pawning comprises a considerable portion of the entire financial sector's business and this volatility, which the industry was ill-prepared for, brought in permeating

With our asset base also showcasing noteworthy growth to stand at Rs. 654 Bn by the end of 2013, what is most significant is that NSB, despite operating in an extremely challenging and competitive environment, continues to uphold its financial prowess and its mission of growing the savings portfolio of the country.

Review by Mr. Hennayake Bandara

General Manager / CEO

negativities throughout the year, including rising NPLs industry-wide.

Numerous initiatives were introduced to manage risks of this nature. We consciously concentrated on improving the savings mix, launching new products and services that would add value to the products and service portfolio we already offered. We also introduced a culture of prudent management both in cost and risk, where it was imperative for us to manage our funding costs more astutely, keeping well aligned to the challenges and risks that continue to emerge from time to time. This also led us to infuse initiatives that would enable us to reduce the NPL ratio to below industry average, a goal we couldn't quite maintain this year due to the above mentioned gold crisis, but one we will continue to pursue.

Based on our concluding Business Plan, we had already instilled numerous features into our operational and strategic focus.

A concerted effort was employed to improve productivity wherein, linked with new systems and processes and better HR development and management, our team was equipped to continuously raise the bar in improving their productivity levels and thereby their own career aspirations as well as service standards. Credit recovery also gained momentum with better controls and monitoring procedures being added to strengthen credit recovery processes. We are intent on building a quality credit portfolio, designed to withstand the shocks and repercussions the industry could experience in this transformative environment.

We have always recognised that it is imperative for the Bank to have some compulsory strategic enablers

that would support us to maximise on the emerging opportunities in this post war era. Working on our Business Plan which clearly identified IT as a crucial backbone to gain that sustainable competitive advantage and the key facilitator in driving business goals towards realisation, the new IT Roadmap will instil a framework and pathways for NSB to gain that competitive edge.

Inking a visionary blueprint

Having successfully met a majority of the objectives set for the last three years, NSB is now ready to step up to the next level. We have seen a higher growth in deposits and advances and a sustained picture of profitability, with a prudent balance being maintained in risk management. One of the strongest support trusses in the bridge to savings is that NSB is the largest savings bank in terms of assets and in possession of one of the largest account bases. The fact that we are a state guaranteed

Bank with an expansive reach has also given us considerable competitive advantages.

We are well in support of the Government's unrelenting stance in increasing domestic savings, which offers NSB a unique opportunity and also a responsibility. With the country pursuing an aggressive development agenda and seeing its economy growing faster than that of the region, we are also seeing the emergence of a new middle class, poverty reduction and increasing income levels of the rural population. We know that we are tasked, or I would say mandated with bridging the gaps that exist in this milieu. We must create much more awareness in this regard and thereby increase the financial literacy of the

We also introduced a culture of prudent management both in cost and risk, where it was imperative for us to manage our funding costs more astutely, keeping well aligned to the challenges and risks that continue to emerge from time to time.

people, spearheading a savings culture that would add value to the economy.

Our goals for 2014 to 2016 were inked based on four priority areas which will be focused upon in the next three years, all of which are detailed in elsewhere this report.

We are confident that NSB has the rudiments to delve deep into the intricacies within the Master Plan for the industry's consolidation. We do have the strength to acquire smaller banks and financial institutions to add financial soundness, resilience and stability. We also foresee opportunities for business diversification, adding value through innovative financial services that can continue to strengthen the Bank's stature as the premier savings bank. However, limitations contained within the NSB's mandate and the business model do hamper our progress, a feature which we continue to scrutinise with greater vigour, infusing dynamics that could avoid some of the limitations we face.

The commitment and the efforts of many parties made our success during this year a reality. While I extend my appreciation to the Chairperson and the Board of Directors in retaining their confidence in my abilities to continue taking NSB closer to its vision, it is each and every member of NSB team to whom I render further appreciation, for their untiring efforts, loyalty and commitment to this journey we have embarked upon. Further, I wish to acknowledge the valuable contribution made by our team members who retired in 2013 after long years of committed service to the Bank. The Post Master General and employees of the Postal Department too contributed innately to become partners of our accomplishments.

The Ministry of Finance with its unremitting assistance and guidance has always been the beacon of light in our journey. I am very much grateful to the Central Bank of Sri Lanka for its regulatory guidance; especially the guidance imparted towards the successful completion of our debut

international bond issue. Similarly, the cooperation and guidance of the Attorney General's Department as well as the Auditor General's Department was invaluable in bringing the USD bond issue to fruition. The contribution made by the management and NSB Team involved in this bond issue was also very impressive and truly deserves appreciation.

I would like to express my particular thanks to our customers for the confidence they have placed in NSB and also would like to thank other stakeholders for their support.

We will undoubtedly continue to face challenging times, especially in the uncertainty that prevails both globally and from an industry perspective; we also know that risks and challenges will be commonplace and there has to be preparedness for ensuing times. You, my team, have taken on the challenge and become savings champions, well focused to ensure that our strategic goals will be achieved.

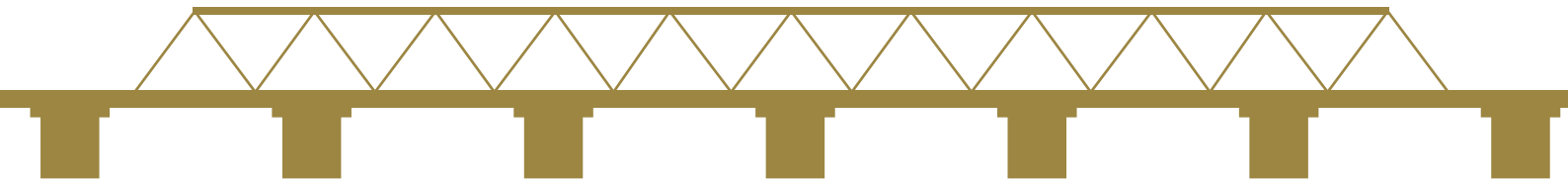
As ingrained within our new three year Business Plan, we will now begin a new era where our responsibility as the savings champion will be further entrenched, where we are being tasked to make a difference in the savings culture of the nation. We must continue to innovate and develop products and services that will exceed stakeholder expectations and this includes long term savings products and a much more proactive role in the remittance industry, given our continually expanding presence in the global agency network. There will be new initiatives in retail lending where each of our customer segments will be focused upon and products and customer service initiatives adapted to suit their unique requirements.

But most of all, I look forward to flying the momentous flag of achievement in three years' time, when NSB will proudly carry the banner of being a Rs. 1 Tn Bank. What better achievement than that could be out there, my dear stakeholders?



Chapter 2

Management Discussion & Analysis



Opening our country to
cross-border opportunities

Quantitative Bridges

Financial Review

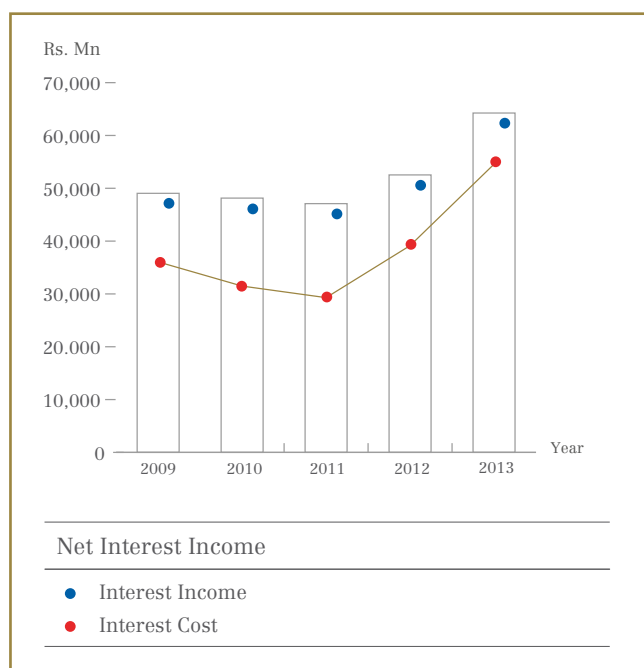
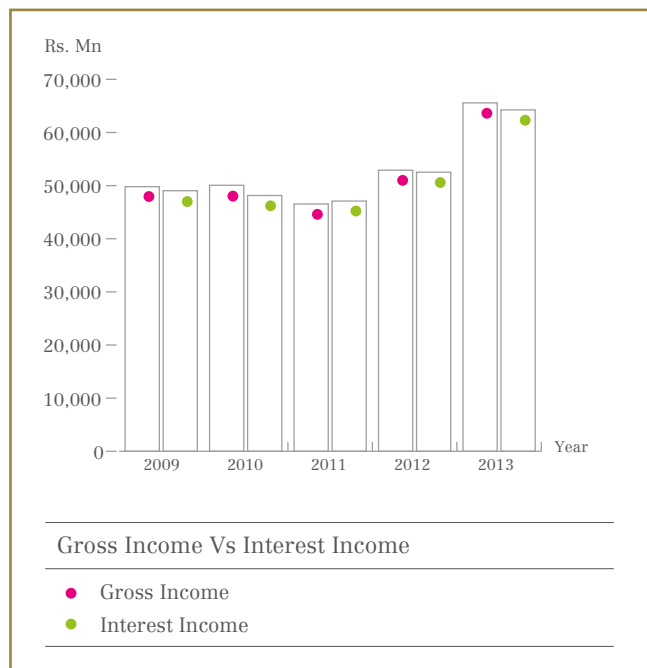
In its forty plus years of history, NSB has not only focused on the qualitative dimensions of stability and sustainability as a savings bank, but also on the financial fundamentals which are imperative to construct the bridge for NSB to reach out to opportunities. Being one of the largest banks in the country, especially in terms of customer reach and accessibility, it is notable that NSB also has the third largest customer deposit base and assets as at end 2013. These are undoubtedly the firm support trusses, especially in a quantitative sense, that the Bank leans upon in its quest to build bridges that would be the avenue to which the country reaches onwards and outwards.

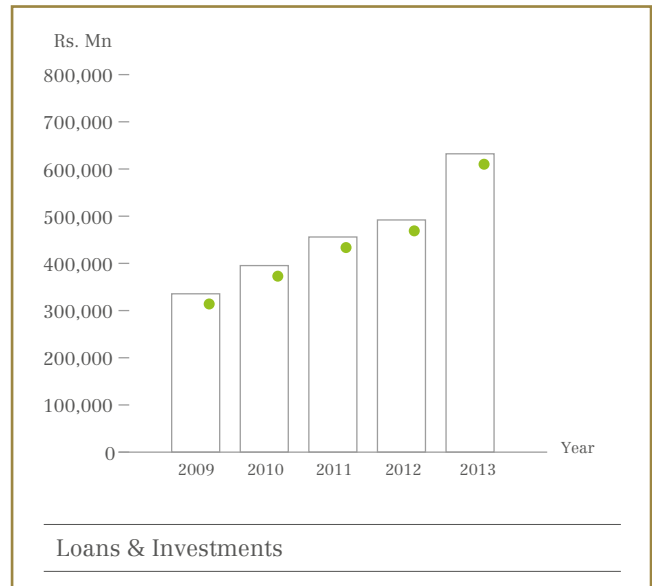
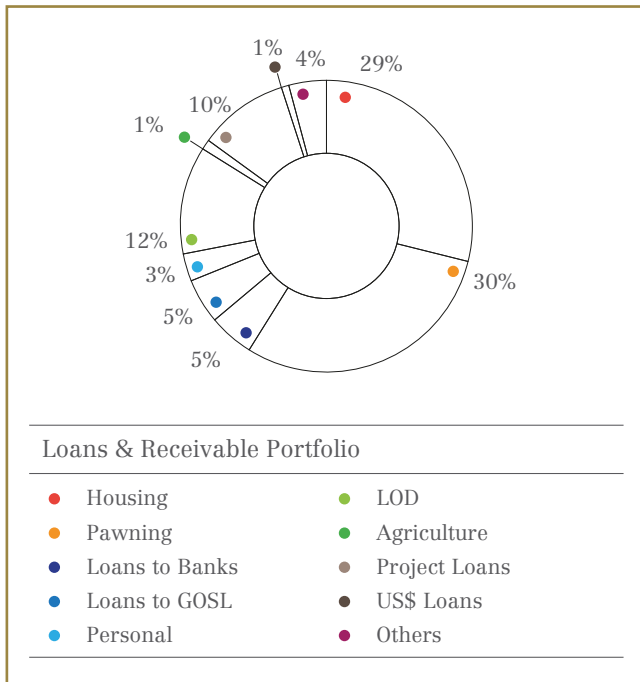
Another feature that adds immense value to customer perceptions and thus the strength of the bridge built is the fact that NSB is a wholly owned Government entity. This means that depositors have their investments in the only bank in Sri Lanka whose deposits are fully

guaranteed by the Government. This advantage is in addition to NSB's depositors being insured under the CBSL Deposit Insurance Scheme, adding further stability and security to deposits under the NSB umbrella.

One of the most significant features in journeying over the bridge to take Sri Lanka to the world of opportunity beyond was NSB's historical move into international capital markets in 2013 through the issue of senior note of US \$750 Mn. This was augmented with the strong capital base the Bank maintains and the prudent growth it espouses in its core business locally. This debut Bond Issue in September 2013 was designed to increase the Bank's contribution towards national development, while permeating NSB's strong presence within Sri Lanka into the international arena.

NSB also continued to display resilience in both its quantitative and qualitative fundamentals, firmly





cementing its position as the third largest bank in Sri Lanka, despite numerous changes and transformations that continued to take place, both locally and globally. Numerous pragmatic strategies were employed, including rebuilding a corporate brand image and reputation to well establish the Bank as a pioneer in savings and extending accessibility and outreach to 229 branches and more access points, initiatives that have surely strengthened customer confidence.

Income Growth

The fundamentals that were bridged to ensure a strong and stable financial foundation is amply evidenced with the Bank's income for 2013 inclining a notable 24% over last year. Interest income, which represented 98% of the total income, has increased by 22% to Rs. 64,248 Mn from Rs. 52,531 Mn showcased in 2012. Interest income

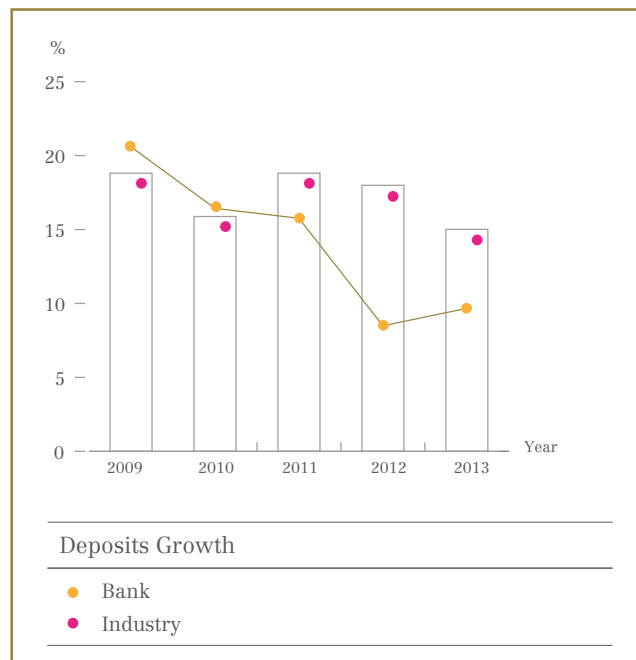
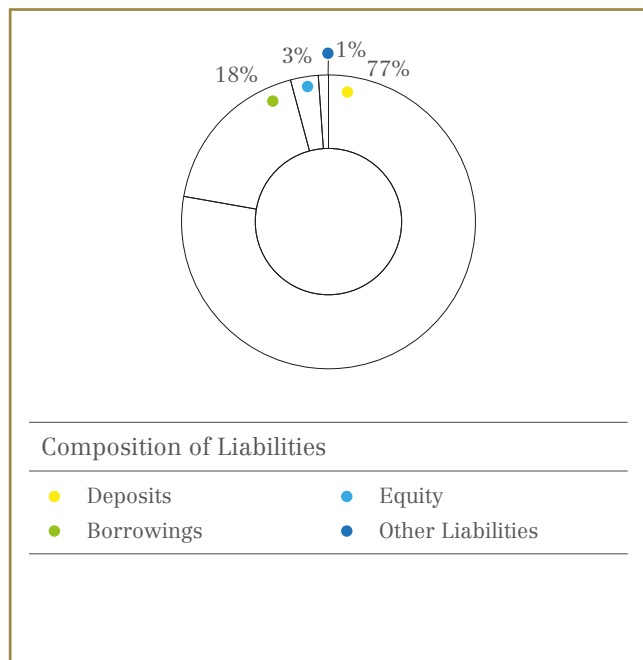
on government securities held to maturity and on loans and receivables, represented 62% and 36% respectively of the total interest income for the year. There was also a significant increase of 19%, that is Rs. 6.4 Bn in interest income from Government securities held to maturity, as a result of the increase in total value of the portfolio. There also existed a low yield on Government securities through 2013. An impressive 29% increase was posted via interest income pertaining to the Bank's loans and advances portfolio, primarily due to the increase in credit volume seen in 2013, in particular the volume of pawning advances, showing a cascading impact on interest income in 2013.

Cost of Funds

Interest expenses meanwhile, due to other customers (deposits) increasing by 33%, was posted at Rs. 49,416 Mn in 2013, compared to Rs. 37,050 Mn in 2012. This increase in interest expense was attributed to the higher interest rates pertaining to NSB's fixed deposits,

Quantitative Bridges

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necessitated due to intense and increasing competition observed in 2012 and early 2013. This had a cascading impact all the way through the first nine months of 2013.

The average interest cost of deposits increased by 1.8% in 2013. Interest expenses on local borrowings also increased, with average local borrowings of Rs. 21,453 Mn. Further the Bank’s interest cost also increased due to Rs. 2,552 Mn of interest accrued to US Dollar Bond holders for the last three months of the year.

Net Interest Income

Accordingly, there was a tangible increase in interest expenses in 2013, well above the increase in interest income on HTM investments in Government securities and loans and advances. Net Interest Income decreased by 28% from Rs. 13,389 Mn in 2012 to Rs. 9,684 Mn in 2013. Temporary investment of proceeds of the US Dollar Bond Issue in low yield government securities

until disbursement of project loans did succeed in contributing towards the incline in interest cost over interest income during the year.

Fee & Commission Income, Trading and Other Operating income

Fee and commission income remained steady this year, with net trading income showing a growth of Rs. 875 Mn. This was primarily due to the gain experienced on the revaluation of the Treasury Bond trading portfolio, which also enjoyed the parallel impact of lower interest rates of Treasury Bonds compared to that of 2012. The Bank received dividends of Rs. 156 Mn from equity investments held under available for sale. This was the primary reason for the increase observed in other operating income, which notched Rs. 240 Mn in 2013.

Cost Efficiency & Impairment

While quantitative measures were well imbued into the Bank's rudiments, NSB also focused emphatically on numerous programmes aimed at increasing productivity. This was implemented in tandem with cost management programmes which all served to match the low interest margins to prudently manage operating expenses during the year, keeping them at similar levels to that of 2012. However, unfavourable market factors which saw a disadvantageous spiralling decline in gold prices, resulted in an increase of non-performing loans and advances at NSB, although it must be mentioned that this was an impact that was felt throughout the industry. The loan impairment provision charged for 2013 therefore, stood at a considerable Rs. 1,380 Mn compared to Rs. 131 Mn in 2012.

Profitability & Return on Assets

Net profit after tax for the year reduced by Rs. 2,579 Mn to Rs. 1,184 Mn, primarily due to the decrease of 28% notched in net interest income. This can also be well observed in the cost to income ratio which showcased an incline to 66.7% compared to 52.9% in 2012. Declining profitability resulted in a decline of Return on Assets ratio to 0.4% from 1.3% in 2013. The Return on Equity (ROE) also declined from 16.1% in 2012 to 5.1% in 2013 due to the decrease in profitability. The assets growth also adversely impacted the return on assets and return on equity. The main factor that affected the financial performance of the Bank in 2013 was the lesser net interest income, incurring pawning impairment charge of Rs. 1,380 Mn.

Reinstatement of Comparatives

The Income and the Financial Position of year 2012, given in comparatives of the Financial Statements of

2013 were restated to effect the reclassification of Rs. 6,000 Mn from loans and receivable to other assets.

Other Comprehensive Income

The Bank recorded Rs. 284 Mn of net comprehensive income for the year which was an increase of Rs. 495 Mn over the negative net comprehensive income of previous year, resulting from surplus of Rs. 482 Mn on revaluation of the Banks free hold Land and Buildings.

Currency Risk

The Bank's debut International Bond issue led the Bank to focus on the exchange rate exposure of its rupee investments out of the Bond proceeds. The Bank entered into a SWAP arrangements with the Central Bank of Sri Lanka (CBSL) in relation of capital amount involved in disbursement of project loans in rupees. In addition the dollar proceeds to be disbursed for project loans was converted to rupees and invested in rupees to capitalise on higher, yields while they are also hedged by another SWAP arrangement with CBSL.

The Bank adopted a Hedge Accounting method under LKAS 39 after assessing hedge effectiveness. At the end of 2013, the fair value of foreign SWAP assets was Rs, 5,118 Mn.

Group Performance

Group profit before tax decreases to Rs. 2.7 Bn which is a decrease of 58% over the previous year. Profit after tax for the period decreased to Rs. 1.5 Bn, recording a reduction of 59%.

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Asset Base

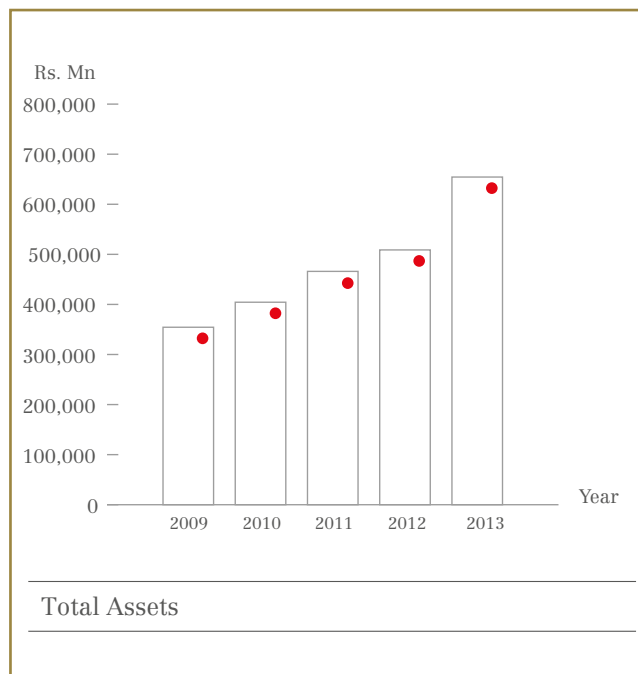
The Banks' total assets saw a growth of 29% by Rs. 145,555 Mn to stand at Rs. 654,368 Mn as at end 2013. The asset growth attributable to the US\$ 750 million raised via International Bond increased the asset base by 19% and investments, new investments and re-investments of interest generated augmented the asset base, an increase by 29% has seen a decline in ROA from 1.3% to 0.4% for 2013.

Investment in Government Securities

The Bank's Treasury portfolio which comprises primarily of Government Treasury Bonds and Bills, began the year at Rs. 315,967 Mn and ended up the year at Rs. 391,966 Mn resulting a significant increase of 24% during the year.

The Bank's T-Bond portfolio reflected about 83% of the total investment portfolio, valued at Rs. 326,605 Mn in 2013 compared to Rs. 255,981 Mn at end 2012. The T-bond Held to Maturity (HTM) portfolio notched a total of Rs. 318,404 Mn, which included the Investment Fund Account valued at Rs. 540 Mn, increasing by Rs. 67,047 Mn during the year 2013. The invested through Investment Fund Account (IFA) HTM portfolio was maintained at the same level. During the year the Bank invested US\$ 375 Mn (Rs. 49,125 Mn) in Sri Lanka Development Bond.

The trading portfolio increased significantly in 2013 to take full advantage of the monetary policy easing. The FVTPL portfolio, which include T-Bills invested through IFA valued at Rs. 1,674 Mn, was placed at Rs. 9,980 Mn by end 2013. In 2012, this portfolio was posted at Rs. 6,371 Mn, including T-Bills invested through IFA at Rs 1,747 Mn.



Loans & Advances Portfolio

The Bank's Loans & Advances portfolio encompassed Rs. 158,870 Mn of loans and receivables to other customers, in comparison to Rs. 149,103 Mn in 2012, and loans and receivables to other banks amounting to Rs. 7,550 Mn, which was Rs. 13,374 Mn in 2012. The overall growth of the Bank's loan portfolio was only 2.4% compared to the 2012 portfolio. However, the Bank's personal loan, auto loan and project loan portfolios saw considerable growth patterns of 68%, 107% and 121% respectively. This unwelcome overall growth pattern was resultant of the high market liquidity that led to settlement of corporate loans and the negative growth of pawning advances observed during 2013.

Deposits to Customers

The total deposit to customers grew to Rs. 501,890 Mn to Rs. 457,650 Mn in 2012 by 9.7% which was below expectation, largely due to the decreasing trend shown in overall banking industry. The Bank recorded mobilisation of Rs. 44,240 Mn deposits to other customers out of which 84% was time deposits.

Contribution to the Treasury

With our focus on bridging the gaps to create an overarching path of opportunity for national development, NSB takes great pride in contributing to the Treasury, which funds are utilised for progressive national development projects. This year, the dividend payment to the Treasury was Rs. 3,000 Mn, which is an increase of Rs. 177 Mn over last year's dividend payment of Rs. 2,823 Mn. The Bank also paid Value Added Tax of Rs. 624 Mn, which is a decrease from the VAT of Rs. 926 Mn paid in 2012. NSB also made an income tax payment of Rs. 1,095 which once again is a decrease over the 2012 income tax payment of Rs. 2,577 Mn.

Expansive Bridges that Connect Macro Economic Journeys

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From time immemorial, bridges have been constructed as a means to reach out to new opportunities. NSB has for over forty years, been a bridge that has moved the savings dimension to one that now plays a multi-faceted role in Sri Lanka's growth. We have observed the country's prowess and strengths and have been determined to construct strong and sustainable bridges that would allow Sri Lanka to maximise on the opportunities the world has to offer. The following pages detail the dynamics we employed during the last year in continuing to construct these bridges of opportunity, empowering Sri Lanka to create for itself a solid foundation of economic growth in a milieu of financial excellence that would permeate strongly to social inclusivity and equality.

The global economy shows gradual resurgence

Despite high hopes for the global economy, real growth was relatively slower than envisaged, although there were strong signs of increased economic activity in the latter part of 2013. Particularly in advanced economies, this increasing economic activity was quite tangible especially since expanded domestic demand was quite apparent, while softer financial market conditions and improving customer and business confidence egged the positive spiral on. Emerging markets however displayed converse paradigms as some slowed due to weaker than expected domestic demand, although exports did have better growth prospects. One reason for this downward pattern could be the tighter financial conditions which most emerging market economies prompted, constraining domestic demand. Developing economies continued their positive growth rates despite a slew of challenges especially in employment generation, infrastructure development, diversification and higher value added production. Global growth

hence is estimated at 3%, which is marginally lower than the growth experienced in 3.1%, although this year, the underlying momentum seemed stronger and more dynamic.

Most growth forecasts however were not met as was seen with advanced economies posting a growth of 1.3% in 2013, although 1.4% growth was anticipated. In a nutshell, the US did grow by 1.9% but definitely not as much as the year before which was 2.8%. However, strong contributions from consumption, investment and inventory accumulation did buoy the trend. A significant feature in 2013 was the US Federal Reserve's announcement of a gradual winding down of its stimulus efforts, reducing US \$10 Bn each month from January to April 2014, from its monthly bond purchases.

The Eurozone meanwhile, showed a refreshing turnaround, coming out of its negative growth to 0.4% in 2013, with export growth and growing domestic demand, particularly in Germany assisting in this recovery. The UK expanded by 1.7%, propped by easy credit conditions and improved confidence. Japan's bold stimulus policies adopted in 2012 boosted economic growth to 1.7%, although targeted structural reforms and a planned increase in the consumption taxation rate from 2014 will surely curb domestic demand.

It is interesting too that global financial systems are undergoing a series of transitions, with advanced economies moving towards safer financial fundamentals and emerging markets facing the risk of transitioning into more volatile external conditions and higher risk premiums. There are expectations that major central banks will curb the purchase of long term assets, which tend to provoke movement of asset prices in emerging markets, leading to portfolio re-allocation and capital outflows. For example, with the US Federal

Reserve declaring the reduction of its bond buying programme, net capital inflows into emerging market economies declined by 13%, augmented by waning growth prospects and macroeconomic imbalances adding to the downward fray. However, net capital inflows from emerging market economies have increased by 1.3%, with China increasing its outward direct investment by encouraging government policies and some Latin American countries, including Brazil, Chile, Colombia, Mexico and Peru increasing outward capital outflows primarily via portfolio investments.

In the backdrop of this improving outlook, the growth projection for 2014 is now placed at 3.7%, while 2015 will also have a marginal improvement to 3.9%. The US economy is expected to expand 2.8% and 3% in 2014 and 2015 although risks will emanate from both the monetary and fiscal policy fronts, the latter, is believed to be more acute, if the political divide continues on the debt ceiling and budget issues. With the Eurozone's recession now ebbing, GDP growth for this region would increase to 1% in 2014 and 1.4% in 2015. However, risks do still remain due to continued fiscal tightening and a fragmented banking system. The Japanese fillip adopted to boost economic growth did have its positive features, but the impending structural reforms and the increase in consumption tax rate may herald a moderate growth of 1.7% and 1% in 2014 and 2015 respectively.

Another milestone achieved this year was that the country maintained inflation at single digits for an impressive fifth consecutive year. This also reduced wage pressure and an increase in investor confidence which was well evidenced with FDIs surpassing the US \$1 Bn benchmark for the third year consecutively.

It is envisaged that emerging markets and developing economies will grow by 5.1% in 2014 with a slight improvement in 2015 to 5.4%, due to increasing consumer demand and steady export recovery. China is billed to actually have a decline in growth in 2015 to 7.3% from 7.5% to be posted in 2014. This is primarily due to the concerns emerging due to re-balancing domestic demand from investment to consumption, which would naturally require a need to contain

risks to growth and financial stability. India meanwhile will expand its growth forecasts to 5.4% and 6.4% in 2014 and 2015, reflecting a recovery in investment and strong export support, backed by a depreciating currency and better global conditions.

Sri Lanka continues growth trajectory

Despite global growth paradigms continuing to show uncertainty to some extent, the Sri Lankan economy showed strong signs of continuity, placing an annual real GDP growth of 7.3% for

2013. Another milestone achieved this year was that the country maintained inflation at single digits for an impressive fifth consecutive year. This also reduced wage pressure and an increase in investor confidence which was well evidenced with FDIs surpassing the US \$1 Bn benchmark for the third year consecutively. This was further augmented with Sri Lanka hosting CHOGM, a first for the country and certainly very successfully managed, adding fillip to the vision of making Sri Lanka an investment destination.

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The favourable weather conditions and gradual recovery in external demand supported by the steady rise in economic growth saw all sectors in the economy contribute positively, with GDP in nominal terms inclining by 14.5% to US \$67 Bn. This also brought the country's GDP per capita to US \$3,280, taking it closer to the per capita income of US \$4,000 by 2016. Yet another cementing factor for Sri Lanka's strong fiscal fundamentals was the fact that despite global ratings and rankings being downgraded in most developed countries and even in the region, Sri Lanka retained a BB- stable and B+ stable outlook respectively from Fitch Ratings and Standard & Poors.

There were significant upward adjustments made to domestic energy prices, prudent monetary management and improved domestic food supply which did prompt a decline in headline inflation, pushing core inflation to its lowest level. Continued low inflation levels allowed the CBSL to ease monetary policy further, which cascaded further growth in economic activity, encouraging a marked improvement in the Balance of Payments. Headline inflation stood at 4.7% YoY and 6.9% on an annual average basis, the former having remained at close to double digits at the beginning of 2013, but decelerating to mid-levels by end of the year, due to improved domestic supply conditions and prudent demand management policies. Core inflation was 2.1% YoY and 4.4% on an annual average basis by end year.

There was a marked shift of the workforce from the Agriculture sector to the Services sector, with the labour

force expanding 4.1%, unemployment rising 4.4% due to new job seekers entering the labour market and labour productivity improving. The trend in seeking foreign employment continued to grow, although departures in the housemaid categories declined substantially, with more women entering the local labour force.

The more diversified migration profile heralded an increase in worker remittances, which combined with improved earnings from merchandise and service exports, pushed the narrowing of the external current account deficit to 3.9% of GDP from a high of 6.7% last year. Together with considerable FDI inflows, foreign investment in government securities and long term debt inflows to the government and the financial services sector, saw the country's BOP record a surplus of US \$985 Mn, compared to the 2012 figure of US \$151 Mn. Consequently, gross official reserves increased to US \$7.5 Bn to prove a five month import cover.

All these factors, including improved BOP and a strong international reserve position, positioned the Sri Lankan Rupee to remain relatively stable, despite increasing volatility in other emerging market economies. The SLR therefore depreciated by only 2.75% against the US dollar, while appreciating against several other major currencies.

The financial sector continued to remain resilient with both the private and public sector financial services institutions pushing boundaries considerably to facilitate investment and the requirements to feed the growth momentum.

Domestic Financial Sector

Meanwhile, the financial sector continued to remain resilient with both the private and public sector financial services institutions pushing boundaries considerably to facilitate investment and the requirements to feed the growth momentum. CBSL's constant monitoring and surveillance ensured robustness and dynamism, while maintaining a strong yet pragmatic supervisory and regulatory environment. This ensured that financial markets maintained liquidity for much of the year, while market interest rates saw a gradual downward adjustment. There was also a consistent rudiment of possessing diversified lending portfolios and strong capital and liquidity buffers, creating a sound and stable presence of these financial entities.

The Colombo Bourse, maintaining improving net inflows, continued to sustain its vibrancy, despite some volatility emanating from global financial markets. Having seen the two consecutive years previously being sluggish, it was refreshing to see the All Share Price Index (ASPI) and the S&P Sri Lanka 20 Index record gains in 2013. The downward trend in domestic interest rates, which resulted in a significant drop in interest rates during the year, relatively stable exchange rate and the favourable impact of the gradual recovery of the global economy on domestic macroeconomic performance supported the favourable performance in the stock market. Meanwhile, the Government securities market also gained significant capital inflows. There was also an unprecedented number of long term debt instruments issued to buoy the domestic corporate debt market.

The country's drive to upper middle income status largely depends on the strength, robustness and soundness of the financial sector, which creates an opportunity for the development of financial

institutions, markets and instruments which would reduce transaction and information cost, while boosting lending. There is a greater need for more diversity in the financial services portfolio and a greater harnessing to create a larger savings pool that would be channelled for more productive investments. The developments that have thus far been implemented have been astute and pragmatic, but given the country's very ambitious goals, there is much more need to optimise on the positives and advantages with in the financial sector.

Future Outlook

With the fundamentals now well entrenched into the country's economic and fiscal foundation with added fillip given by improving macro economic stability and improving global economic conditions, the growth momentum being mapped out for the Sri Lankan economy is expected to continue in the medium term. However, the chart being mapped is not without challenges and bridging the challenges require structural adjustments for the sustained and continued growth momentum.

There are numerous facets that have already been collated under a single umbrella which is already creating a strong base for this map. This includes the impressive development observed in physical infrastructure which naturally cascades to enhancement in productive capacity, resulting in the country's output improving substantially in the post-conflict period. There has also been greater involvement by the private sector which has heralded tangible results albeit more such unwavering support is now required for ensuring that future ambitious goals are achieved. While productivity levels and the human capital base in emerging industry sectors must continue to be enhanced, the country is also tasked with creating an enabling environment

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for productive activity to form a strong nucleus for sustained economic growth. This would mean facilitating the diversification of economic activity, as well as the portfolio of products and services offered and expansion of the country's external market base.

The Five Plus One Hub Strategy has already created the blueprint for this diversification, while also being designed to ensure a smooth transition through the 'middle income trap'. There are also salient features which point to the world soon recovering from the aftershocks of the economic downturn, giving Sri Lanka space to further augment relationships with external trading partners, increasing the portfolio of products and services being exported. Given the increased openness seen in capital markets, strengthening buffers should be established, due to the inherent challenges that could arise from external developments.

The financial sector is being banked on considerably, to not only continue its strengthening but also the adoption of international best practices, buoyed by the planned consolidation programme. The combination of prudent yet futuristic monetary policy and the improved domestic supply conditions as well as envisaged productivity improvement, is expected to maintain inflation at mid-single digit levels in the medium term, auguring well for the continued development agenda the Government has chartered.

How We Constructed the Bridge to Opportunity

Operational Review

Our mandate for the nation is simple. It is based on inclusive empowerment with savings as the axis. But over more than four decades, NSB has strengthened this axis, imbuing multi-faceted interventions that will empower the nation and thereby its citizens. We have continued to retain the ethos of our founders, encouraging the nation to save, while adding our prowess to the country's development plans. We initially began by constructing the trusses that would be the initial support in the nation's development which was the strong and sustainable savings base.

It is by using this foundation, that NSB has now become the bridge that would take Sri Lanka into a global landscape overflowing with opportunity. Eclipsed as the world was to growth and development due to various economic challenges, it was at this time that Sri Lanka began working on a timely blueprint for aggressive development. This was a blueprint that augured well in putting into place the trusses required for building the bridge to achieve NSB's vision. The vision of being the most reliable and sought after choice for savings and investment solutions has continued to be the anchor in our bridge building, where our mission and values have been placed atop to create strength, stability and a sustainable business model.

We then added further support trusses to our bridge, by way of training and developing a professional team, the establishment of systems and processes that would make banking with NSB an efficient, reliable and flexible experience, conceptualised a diverse array of products and services that would touch the hearts and minds of our diverse customer profile and forge relationships with communities for sustainable long term interventions.

Instilling the values of responsiveness, innovativeness, trust, mutual respect and integrity into the milieu of providing total financial solutions to our customer profile, we have continued to draw on lessons from the past and opportunities in the future. NSB has thus bridged the old and the new, rooted through our legacy of over forty years and moving ahead to exploit the myriad opportunities that remain in our midst. The bridge we have constructed will prompt multi-faceted development, where our stakeholders draw from the opportunities we present them and also, where the world will be presented opportunities to invest in our burgeoning economy.

The NSB bridge therefore is an imperative ideologue for creating opportunity. It is a sustainable path that encourages saving, prompts investment and instils development; it is a bridge that improves skills, creates entrepreneurs and empowers communities; but most of all, it is a bridge that presents the nation with a solid foundation of inclusive empowerment, while enabling the country to move into the global arena of financial and industrial opportunity with confidence, stability, strength and inherent power. This is the bridge we at NSB have built and it is the bridge that will take us, our stakeholders and the country into a world of opportunity.

Bridged with a strong foundation

One of Sri Lanka's primary focus areas has been in increasing banking penetration and thereby savings penetration around the country. This is considered an important means of not only poverty alleviation, but also in creating empowered communities who will contribute towards the country's development agenda. We at NSB do believe very strongly in the model of having a strong savings base that will herald

How We Constructed the Bridge to Opportunity

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development and hence, each of our products and services inculcate this inherent feature. This savings focus has given us ample scope to imbue systems, processes and operations onto that bridge being manned by a skilled team. It is this therefore that has seen NSB provide deposit products and consumer lending services to over 17 million customers across the country this year, while banks and financial institutions, State Owned Enterprises (SOEs) and the Government of Sri Lanka remain among our primary lending clientele. We also had our asset base showcase immense growth by Rs. 146 Bn, to stand at Rs. 654 Bn by end of 2013.

Also aligned with the Government's vision for the banking and financial services sector in Sri Lanka and the Road Map for Sri Lanka unveiled by CBSL, there is a dire need for banking services to be accessible around the country. This led to a concentrated effort of not only increasing penetration and thereby the outreach of our network, but also a concerted effort to move into areas where accessibility is difficult or in some cases, there's no banking presence. We also consciously concentrated on expanding our branch network beyond the western province and into non-banked areas.

Based on the NSB Strategic Plan, our aggressive expansion plan for the branch network saw NSB open 72 new branches in the last four years, which now collates a total of 229 branches. This is in addition to 247 ATMs as well as non-exclusive access to 4,063 post offices and postal service points, which provide deposit and withdrawal facilities. This expansion plan however did entail considerable structural changes, both tangible and intangible, all designed to enhance efficiency, competitiveness, competencies and capabilities, while also enabling the access of timely

information for better informed decision making and closer supervision and monitoring of branches. All this would naturally permeate to improved business activity, better relationships between the bank and stakeholders and a significant contribution to national development goals. This network outreach has also helped us explore regional business opportunities.

The Bank operated on the Zonal system till end of 2012 which was introduced a decade ago taking into account the business needs prevailing at the time. With the expansion of the branch network, a structural change was a necessity to improve business activities, timely decision making, competitiveness and exploring regional opportunities. The regional Management system implemented with effect from 1 January 2013 for the Banks was Delivery Channel Management. The new Regional System will surely add value to the facets within our Strategic Plan and the future journey of the Bank.

Donning crowns of success

One of our biggest and most significant milestones this year was the US \$750 Mn International Bond Issue that NSB raised in September 2013. It is the largest bond issue by a Bank at a time in Sri Lankan history. Having thus raised international investor confidence not only for the Bank but also for Sri Lanka, NSB was amply rewarded with the accolade for the Best Sri Lankan Deal in 2013 by Finance Asia Magazine, which added further value to this milestone.

Adding to this accolade was the fact that the Bank gained the sovereign ratings of BB- stable by Fitch Ratings and B+ stable by Standard and Poors, while also retaining AAA (lk) Long Term Credit Rating by Fitch Ratings Lanka for the 11th consecutive year. The

latter is yet another positive for NSB and the bridge we have constructed in pursuance of opportunity. In addition, the fact that the industry itself faced numerous challenges both locally and globally over these years, NSB's ability to weather the storm and continue showcasing a stable and sustainable foundation has continued to augment investor confidence in the Bank's financial prowess.

NSB continued to collect a host of prestigious awards during the year, some of them firsts, while others surely place the Bank in the spotlight in the global financial circuit. For the first time, NSB's Annual Report 2012 won the Gold Award in the Financial Institutions Category at the 49th Annual Reports Awards organised by the Institute of Chartered Accountants of Sri Lanka. This Annual Report was also ranked 14th from among the Top 50 Annual Reports in the world, as well as gaining the laurel of the Platinum Award for Excellence at the 2012/2013 Vision Awards conducted by the League of American Communication Professionals.

The Treasury stands firm despite marginal growth

Comprising primarily of Government Treasury Bonds and Bills, the Treasury Portfolio posted an end figure of Rs. 391,966 Mn by end 2013, a growth of 24% from the Rs. 315,967 Mn notched in 2012. The Treasury portfolio earned a total gross return of 12.3% this year, a marginal increase from 11.4% in 2012, which points to having increased its return by 90 basis points. In

comparison to the T-Bill 12 month gross rate over 2012, the portfolio posted a positive return of 50 basis points of the T-Bill rate. This positive positioning of the portfolio, despite the declining interest rate environment seen in the market, is attributed to the higher interest income generated from Treasury investments made in 2012. Most investments made in 2012 were invested at comparatively higher rates and those higher incomes were spread over the year in 2013, while the Bank did capitalise on trading

opportunities through the FVTPL portfolio in 2013.

It is pertinent that despite the year being one of consolidation, the T-Bill and T-Bond portfolios generated a total gross income of Rs. 39,871 Mn, which is an increase of Rs. 6,290 Mn, over last year's Rs 33,581 Mn. This increase is mainly attributed to the increase in interest income of Rs 5,779 Mn and the increase of Rs. 511 Mn in capital gains.

Total gross interest income stood at Rs. 39,366 Mn in comparison to Rs. 33,587 in 2012, while realised and unrealised capital gains from the FVTPL portfolio generated Rs. 505 Mn, compared to a loss of Rs. 6 Mn last year. Of the capital gains generated, the realised gain was Rs. 139 Mn.

Given the nature of our portfolio, the primary risk faced is the reinvestment risk, as on the back of market rates declining, the Bank is compelled to invest the maturity proceeds of the Treasury investments at lower rates, which cascade a direct negative impact on the Bank's interest income. Since the Bank's treasury investment portfolio consisted of more long term investments,

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the Bank managed to gain a yield of 11.26% in 2013 against a 10.8% in 2012, while the market played a low yield scenario.

Market risk too is analysed astutely especially for the FVTPL portfolio, studying the sensitivity of the market value of the portfolio when market interest rates change. This was measured using the duration of the portfolio, which this year was 1.94 compared to 1.48 last year, based on the market value weighted, indicative that the portfolio duration has increased marginally. The duration must be managed at reasonable levels by liquidating longer tenor-lower coupon maturities, replacing these with the shorter tenor maturities, in tandem with maintaining FVTPL at reasonable levels.

The Bank's capital market portfolio also gained a significant impetus. The portfolio currently comprises 55 listed stocks and two Unit Trusts, with primary investments being in the categories of Bank, Finance & Insurance with 40% and Diversified Holdings having a 15% investment. The underlying reasoning for these two categories having a total of 55% of the Bank's equity portfolio is that these sectors are more sensitive to macroeconomic impacts and hence, can be analysed for optimum advantage. NSB's total exposure in equity investment was Rs. 7,950 Mn, a decrease of Rs. 503 Mn from the figure of 2012.

Innovating products to build bridges

The Bank's core business is retail banking, providing its customer base of over 17 million accounts a range of deposits and savings products and consumer lending services. The Bank's deposit products include savings accounts and term deposits specifically designed for customers in various segments, such as children young adults, women, seniors and expatriate Sri Lankans. The Bank's deposit products are given in the Products and Service details of this Annual Report. The consumer

lending services include a wide range of products including housing loans, pawning advances, personal loans and auto loans. The Bank is also engaged in corporate lending through direct loans to banks and financial institutions, syndicated loans to Sri Lankan private corporations and SOEs and direct loans to Sri Lankan SOEs that may be guaranteed by the Government. The Bank also offers trustee services to certain financial institutions.

Constantly innovating and building bridges to ensure that stakeholders always attain their aspirations and expectations, NSB broke away from the convention of rewarding depositors with non-essential goods and services through the new promotional scheme, NSB Salli Salli.

A noteworthy annal was etched in our product and service portfolio this year when, in collaboration with ISIC, NSB launched the very first International Student Debit Card in July 2013. With exceedingly large numbers of Sri Lankan students venturing abroad for higher studies, this card is truly a reliable bridge, offering myriad benefits, enabling these young people to have the security of cash in hand, while also enjoying the safety of a debit card.

Constantly innovating to ensure that stakeholders always attain their aspirations and expectations, NSB broke away from the convention of rewarding depositors with non-essential goods and services through the new promotional scheme, NSB Salli Salli. This scheme is designed to present cash prizes, which currently will share Rs. 19.8 Mn among 918 lucky winners. NSB Salli Salli is the second in a series of mega promotions, the first of which was Win Win Thegi Warusa, which also distributed Rs. 8 Mn among 71 lucky customers.

Bridge to Development

The Bank continued to be the leading provider of housing loans to Sri Lankans to have shelter to all. As of December 2013 the Bank's gross loan portfolio was Rs. 49,480 Mn which was an incline of Rs. 5,909 Mn from Rs. 43,571 Mn in 2012.

Our two main credit segments are retail credit and corporate credit. Year 2013 recorded an overall credit growth gross of 3.3% mainly due to low market growth compared to 18.2% of credit growth in 2012. Despite the monetary policies stimulating the credit growth in the financial sector. The main cause was the negative growth in the gold backed advances due to decline of gold prices. However the Bank catered to the diverse financial requirements of individuals recording a growth of 14.1% in the housing loan portfolio and 67.9% in personal and 107.4% auto loan portfolios.

The corporate and project lending activities supported other banks and businesses whose direct funding was relatively higher than the Bank and the Government and state owned enterprises. Our project lending extended to various national development projects and

recorded 121.3 % of growth in 2013 in comparison to a 15% growth in 2012.

Bridged across the oceans

NSB's International Business Unit has continued to remain extremely active in the last year, operating within a milieu of all four major currencies appreciating, which naturally makes it a very favourable environment for Sri Lankan expatriates remitting their earnings in Sri Lankan Rupees. This also favourably impacted the increase of LKR deposits at branches which have a higher concentration of migrant workers who have opened more SFIDA LKR accounts. With this exchange rate appreciation and the high LKR interest rates prevalent at the beginning of 2013, we observed NRFC/RFC account holders converting their deposits into LKR due to the appreciation of exchange rates, which on the converse, has seen our foreign currency deposit base decline. However in the middle of the year, the Bank was able to obtain foreign institutional deposits which contributed towards the achievement of set targets. As a result, the Bank couldn't impact from the sluggish economic performance in the Eurozone, given our large expatriate community in most parts of Europe.

However, the IBU's business activities are positioned to truly build bridges with our large expatriate Sri Lankan community working overseas, encouraging them not only to save their valuable earnings, but also to invest astutely to maximise their investment, while also contributing to the country's growth agenda. Numerous promotional campaigns organised by these expatriate communities overseas as well as Sri Lankan missions abroad, gained our sponsorship and served to promote NSB foreign currency products and services.

How We Constructed the Bridge to Opportunity

Operational Review

The Bank also focused on increasing outreach and instilling better relationships, which would have a beneficial impact in promoting NSB foreign currency products among Sri Lankan migrant workers, as well as employing more innovative marketing strategies. This has resulted in NSB team members being deployed at the Al Fardan Exchange in Qatar, the UAE Exchange Centre in the UAE and Asia Express in Oman and the appointment of a new agent in South Korea. The distribution of brochures to NSB agents worldwide, forms an integral part of our overseas promotional initiatives.

Negotiations are currently underway with both Japan Post and Swiss Post for NSB to have a presence in both Japan and Switzerland. Remittance channels will also be enhanced in existing markets with the forging of new relationships with key exchange houses including Delma Exchange House in the UAE and City International in Qatar.

However, NSB also believes very strongly that the bridges we build overseas, must have strong trusses in Sri Lanka as well, if all stakeholders are to gain maximum benefits from the foreign currency products and services we offer. This led us to conduct awareness programmes for families of migrant workers in collaboration with AGA offices around the country, encouraging these families to use our foreign currency products to save by using prudent financial management processes, which would ultimately benefit their lifestyles. We also continued the awareness programmes for migrant workers in conjunction with the Sri Lanka Bureau of Foreign Employment Centres, especially for those embarking to South Korea and the Middle East.

NSB, already a member of both Eurogiro A/S and SWIFT, is currently installing the MoneyGram System

at NSB branches. There has been considerable awareness observed among the market of the NSB remittance channels, especially through targeted promotional programmes including those held for residents and foreigners vacationing or residing in the Hikkaduwa, Aluthgama and Beruwala environs.

With customer service being the key to enhancing these relationships, from a back office perspective, NSB is currently developing a new IRH system and modifying the Bill Payment System to enhance efficiencies and facilities which will prompt a more user friendly environment. Counter Payments/Cash Transactions at the International Division is also being computerised.

Trained to strengthen the bridge

A well trained, skilled and knowledgeable team has been one of the most significant assets that NSB possesses. The Bank itself has seen numerous transformations that have prompted attitudinal and mindset changes, designed to be aligned with external and macro milieus that are constantly evolving. This also means that our team must be equipped not only with conventional skills, but also with an inherent knowledge to think on their feet, make timely decisions and operate with efficiency and speed. We work in an intensively competitive industry, which relies heavily on customer service, innovation and integrity. These surely remain our competitive edge and more importantly, these are all driven by a skilled team, a team that is trained to envision, think and act, constructing a bridge that will allow NSB to exploit opportunity.

This year, our training programmes were designed to optimise skills and talent in a volatile and speedily transforming environment. The training and development calendar, was developed to ensure that

the team remain aligned to our vision, mission, values and Strategic Plan and saw them undergo a series of comprehensive training programmes, including those on products and services, development of soft skills and most importantly, programmes targeting the transforming of the NSB shared vision, mission and values into reality, team building, positive attitudes and discipline. A Code of Conduct is now implemented to ensure that the team maintains absolute discipline, trust and integrity at all times. Identified team members also followed training and development programmes overseas as well as relevant external training programmes, both long term and short term.

NSB Fund Management Co. Ltd.

NSB Fund Management Company Ltd. is fully-owned subsidiary of NSB. It was formed on 1st March 2000, with capital of Rs. 150 Mn to perform accredited primary dealer activities in accordance with the requirement of the Central Bank. (CBSL).The Company contributed to NSB's activities as a lead manager in issue of Government Securities to the Sri Lankan diaspora, by managing customer investments in Government Securities under this scheme as the agent of CBSL.

NSB Obtains a number of services via the Company, including bidding at primary auctions and settlement of funds and securities of successful bids, the acceptance and settlement of funds and securities of private placement from CBSL, fund transfer through Real Time

Gross Settlement (RTGS), acceptance and delivery of Government Securities from counterparties for NSB, repositioning of securities on purchase or sale of Treasury Bills and Bonds from counterparties of NSB in Central Depository System (CDS) and regular provision of the holding balance of NSB's Government Securities portfolio.

We work in an intensively competitive industry, which relies heavily on customer service, innovation and integrity. These surely remain our competitive edge and more importantly, these are all driven by a skilled team, a team that is trained to envision, think and act, constructing a bridge that will allow NSB to exploit opportunity.

Performance against Strategic Objectives

It is also pertinent to note that the Bank has implemented all strategic plans set out for 2013, despite having to contend with a financial performance that did not meet forecasts in some areas. This was primarily due to low market growth and the overall industry facing numerous challenges which naturally permeated to NSB's performance as well. However, it is certainly creditable that NSB has performed considerably well in this challenging environment, which augurs well for our plans

- The Bank's financial performance saw a slowdown due to an inherent mismatch between assets and liabilities due to the Bank investing in long term government treasury bonds which it obtained from lower tenure deposits. The resulting gap was bridged with the launch of the 'Pas Avurudu' Savings Scheme
- The IT Strategic Plan implementation process was initiated during this year, beginning the Bank's journey towards establishing a cutting

How We Constructed the Bridge to Opportunity

Operational Review

technology milieu which will culminate with the implementation of the Core Banking Solution

- The branch network operation was collated into an astute regional system to enhance accessibility and reach, taking NSB to the customer's doorstep
- The US \$750 million international Bond Issue successfully placed NSB in the international arena
- Established our foot print in foreign remittances market by achieving more than the target increase of 45% and 15% respectively in foreign currency remittances and foreign currency mobilisation.
- Team strategy was strengthened to infuse higher productivity, efficiency and better work life balance; the strategies implemented included targeted and better designed training and development initiatives, brain storming sessions, financial

and non- financial benefits and a more cohesive performance appraisal system

- Continued efforts in moving beyond a culture of compliance by developing and enhancing systems and processes for more sound internal controls
- Strengthening the fully integrated Risk Management System
- The Bank could not maintain the expected NPL Ratio of 4% due to the unprecedented gold price crisis in the world market which permeated to all pawning business

This also enables us to set ourselves well on the path of ensuring that our strategic objectives will continue to be met, based on the Strategic Plan we are currently pursuing.

Building More Bridges for the Future

Future Plans

The foundation we have constructed now points us towards being a Leader in Savings Promotions, although we have also poised ourselves to becoming the nucleus upon which the nation will be positioned to move ahead and reach beyond our vision. NSB will have a new Strategic Plan beginning in 2014, designed to take the Bank to 2016. As mentioned above and as detailed in prior years, the supporting trusses in our bridge were constructed on a strong foundation and the bridge now built is meant to withstand the challenges that may arise in the future. Based on analysis of macro developments and fundamentals, as well as economic, industry and business developments, transformations and impending paradigms, the Strategic Plan will seek to exploit opportunities that are imminent as the country and the world moves on. The next year will see us working on key priority areas and objectives we have set for ourselves, including keeping pace with the rapidly changing milieu in economic development in Sri Lanka, prompting innovation and development of new banking services designed to elevate living standards.

We also foresee intense competition emerging in the banking and finance industry, which may require the re-branding and relaunch of some of our services and products, more aligned to fit the transforming paradigms. There will also be a concerted effort by NSB to be more proactive and interactive with the rural population, as well as senior citizens and youth as a means of financial inclusion, which is one of the national goals. We intend to be extremely aggressive in inculcating the savings habit among the nation, by adopting better accessibility and new strategies, especially with expatriate Sri Lankans. Our systems and processes will also continue to be enhanced, ensuring efficiency, efficacy and timely response to meet the aspirations of each of our stakeholder segments.

The Strategic Plan 2014-2016 has identified key business goals to focus on in these next three years, establishing specific, measurable and achievable targets to ensure these

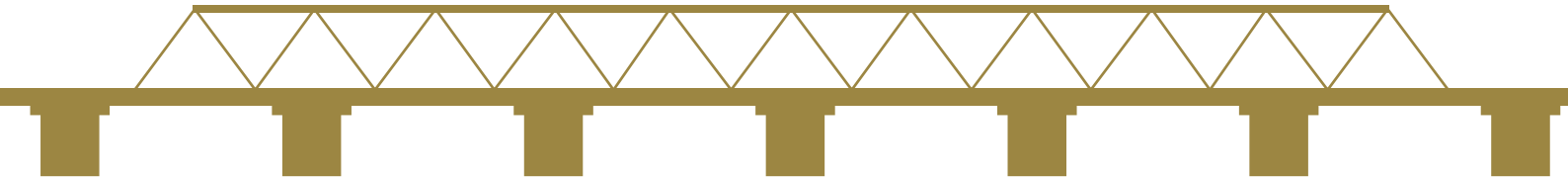
goals are met. There are four key priority areas that have been identified based on the challenges, opportunities and factors highlighted by the SWOT analysis.

- ICT Development – Given that banking and financial services will be heavily dependent on ICT, with customers rapidly moving into a virtual banking era
- Customer Satisfaction – With relationship building and nurturing being the foundation upon which NSB has maintained strong linkages to its success, we intend to enhance the interactive processes we employ with our customers even further, identifying their expectations, aspirations and specific requirements. The delivery of these requirements and responses from customers will also be measured for a more quantitative analysis of our customer service levels. We intend to develop a Customer Service Index (CSI) to ensure that measurements, monitoring and supervision will be tangible, with results available for NSB to bridge any gaps
- Human Resource Development – Recruitment, training, development and retention of young professionals as well as experienced team members is a priority as we move into a transformational era. Given that HR is the foundation of the bridge of success for us, we intend to employ programmes that would improve skills, capacities and competencies, fill all vacant positions ensuring that all branches have adequate staff and conduct effective performance evaluation which link performance to rewards. These will be embedded into a penetrative and comprehensive Human Resource Development (HRD) Plan.
- Treasury Management – The NSB Treasury will be demarcated to operate as a stand alone profit centre, which will require apt restructuring and the employment of qualified, skilled and competent staff.



Chapter 3

Governance



Balancing strong relationships
locally and across the world

Bridges that Prompt a Qualitative Foundation

Corporate Governance

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

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

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

- Corporate success and economic growth,
- Investor confidence resulting in an institution's increased ability to raise capital efficiently and effectively,
- Positive impact on the share price,
- Providing proper inducement to the Board, Senior Management as well as managers to achieve objectives that are in the best interest of the stakeholders and the organisation,

- Minimise wastage, corruption, risks and mismanagement,
- Help in brand formation and development,
- Ensuring the organisation is managed with the best interests of all stakeholders in mind, and
- Minimising Reputational Risk.

Governance at NSB

NSB is built on basic, simple 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 high 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 and Direction No. 12 of 2007 on Corporate Governance to Licensed Specialised Banks issued by the Central Bank of Sri Lanka (CBSL) and best business practices. The guidelines and their amendments/updates issued by the CBSL from time to time are well followed by NSB for its effective governance.

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

In addition, as a State owned Bank, NSB is governed by the provisions and the administrative regulations of

the Ministry of Finance. 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. Further the Compliance Division has a provision in its Action Plan to carry out a quarterly compliance audit review in selected branches. Therefore a three pronged audit is conducted for the compliance function to enable its smooth functioning. Apart from annual government audit and external compliance audit, the Internal Audit Division also assesses the Compliance Division by conducting special audits. 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.

NSB believes that all of the above enhances the Bank's Corporate Governance aspects and strengthens the good governance practices in the best interests of the Bank and all its stakeholders. The general supervision, control and administration of the affairs and the business of the Bank are vested with the Board of Directors which is appointed by the Ministry of Finance & Planning. The Board of NSB comprises of seven Directors. The positions of the Chairperson and CEO are kept separate. The NSB Board comprises professionals, experienced and eminent persons from both the private and public sectors who are able to add value to the Corporate Governance process. The Bank has also initiated appropriate checks and balances to ensure that the Corporate Governance process is upheld.

Governance Framework at NSB is based foremost on the following principles:

- Assuming responsibility and accountability in respect of management of the affairs of the NSB at all levels.

- Ensuring the oversight of specific responsibility assigned to them through Board appointed Sub-Committees.
- Determining the best structures of management for the Bank to achieve its business objectives and striking the balance between business and true spirit of 'National Savings' and delegating Key Management Personnel appropriately.
- Evaluating the business activity and prudent risk management policies of the Bank thus ensuring the safety and soundness of NSB.
- Infusing and accommodating new ideas and maintaining cordial relationship at Board and senior management levels.
- Having an active role in discussing with relevant regulatory bodies the implementation and complying with governance regulations.
- Overseeing of internal control systems including internal audit, compliance and risk management functions independent of the business lines.
- Adhering to all requirements of the NSB Act, laws and directions of Regulators.
- Keeping social responsibility in mind when carrying out its core activities.

The Board has also delegated some of its functions to Board Sub Committees keeping in line with the Directions on Corporate Governance. These Sub-Committees namely, Board Audit Committee (BAC), Integrated Risk Management Committee (IRMC), Human Resources and Remuneration Committee (HRRC) and Nomination Committee (NC) are given the authority to make recommendations to the Board on matters within their purview. The Board Audit Committee (BAC) and Integrated Risk Management Committee (IRMC) assist the Board to review and make decisions on the adequacy

Bridges that Prompt a Qualitative Foundation

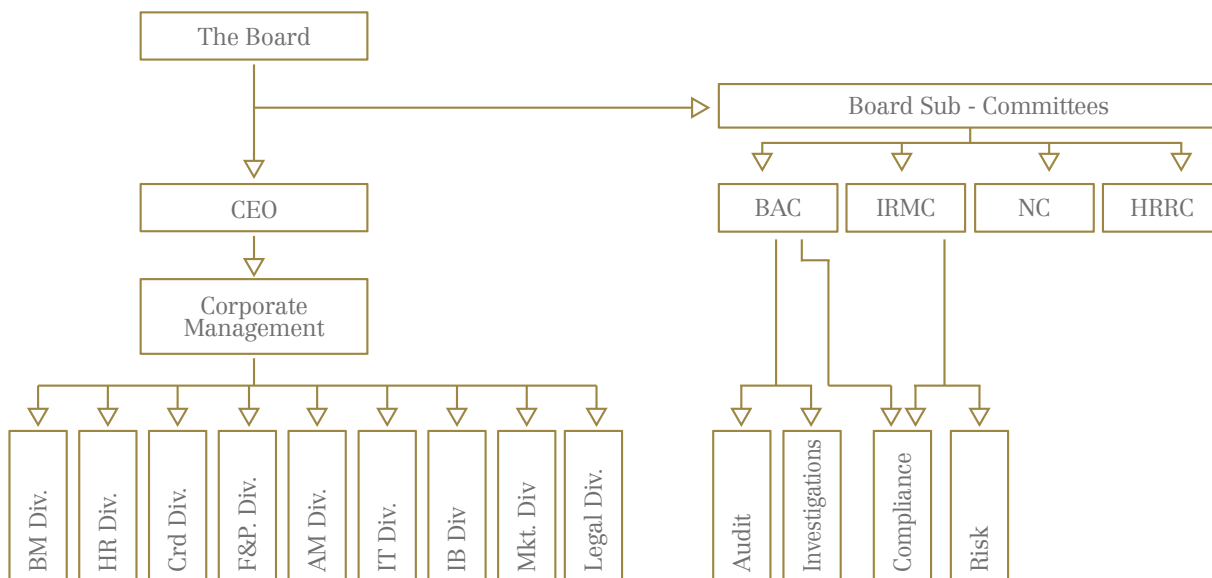
Corporate Governance

and integrity of internal controls, review of financial information and their integrity, principal risk elements of the industry and precise risk factors and Corporate Governance of the Bank. The Board has also retained the critical areas of operations under its purview without delegating to the operational level as per Corporate Governance practices. The authority and responsibilities of the Chairperson and the Chief Executive Officer are separated as per the CBSL directions.

The Bank in line with CBSL Statutory Examination 2012, is in the process of complying and uplifting corporate governance standards. Compliance best practices were followed throughout the year including issuing and implementation of two policies namely, Related Party Transaction (RPT) Policy and Internal Information Disclosure (IID) Policy respectively and Compliance Division was assessed by audit of Internal Audit Division.

The Corporate Governance Organisational Chart

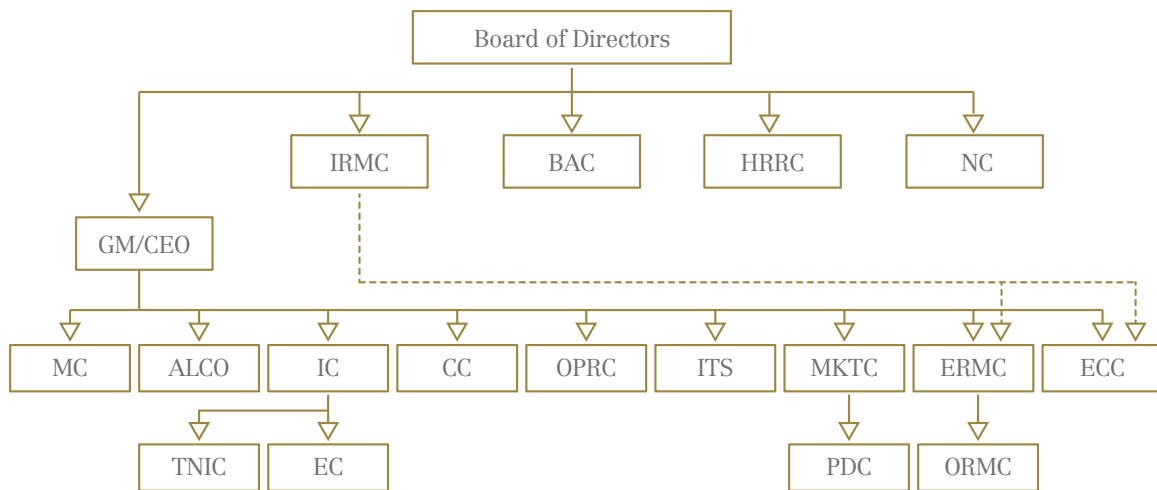
The Board of Directors of NSB who oversees and assumes overall responsibilities and accountability of the Bank by setting high level strategic directions, overseeing the risk management function etc. has delegated the implementation of strategies to the CEO who exercises executive authority through the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



➤ The Corporate Governance Organisational Chart

The Compliance framework of the Bank is guided by the Compliance Charter. The Compliance Charter was reviewed and approved by the Board in January 2013. The salient features included at the review comprises of

the introduction of an Executive Compliance Committee (ECC), role and responsibilities of Head of Risk & Compliance, Role of Compliance Officer, re-defined responsibilities of Senior Management etc.



- ALCO* – Asset and Liability Management Committee
- BAC* – Board Audit Committee
- CC* – Credit Committee
- EC* – Equity Committee
- ECC* – Executive Compliance Committee
- ERMC* – Executive Risk Management Committee
- HRRC* – Human Resource Remuneration Committee
- IC* – Investment Committee
- IRMC* – Integrated Risk Management Committee

- ITS* – IT Steering Committee
- MC* – Management Committee
- MKTC* – Marketing Committee
- NC* – Nominations Committee
- OPRC* – Operational Performance Review Committee
- ORMC* – Operational Risk Management Committee
- PDC* – Product Development Committee
- TNIC* – Tender and New Investment Committee

➤ *The Management Committee Structure of the Bank*

The Management Committees

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

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.

Bridges that Prompt a Qualitative Foundation

Corporate Governance

Attendance of the Board Members for Board Meetings during the Year 2013

Name of Present Directors	Date of Appointment	Eligible to Attend	Attended
Ms. Weragoda Arachchige Nalani - Chairperson	Appointed on 30-05-2013	15	15
Mr. Sumanadasa Tilak Abeygunawardana, Working Director	Appointed on 30-08-2007 Resigned on 07-05-2010 Reappointed on 17-06-2010 Resigned on 18-05-2012 Reappointed on 06-08-2012	25	21
Mr. Disanayake Lekamwasamge Priyantha Rohana Abeyaratne (Ex officio)	Appointed on 09-02-2012 Acting Chairman from 23-05-2012 to 5-8-2012 Continuing as a Director	25	22
Mr. Naida Panikkilage Lionel Pathmabandu Fernando	Appointed on 06-08-2012	25	25
Mr. Wijesinghe Wellappili Don Sumith Wijesinghe	Appointed on 06-08-2012	25	21
Mr. Hema Madiwela	Appointed on 29-11-2007 Resigned on 07-05-2010 Reappointed on 25-08-2010 Resigned on 18-05-2012 Reappointed on 26-04-2013	17	14
Mr. Sajith Ruchika Attygalle (Ex officio)	Appointed on 31-01-2006 (Acting Chairman from 31-01-2009 to 07-05-2010) Reappointed on 23-04-2013 as a Director	18	17
Name of Directors who were on the previous Board Director	Period	Eligible to Attend	Attended
Mr. Sunil Shanthakumara Sirisena - Chairman	From 06-08-2012 to 30-05-2013	10	10
Mr. Pathira Arachchillage Abeysekara	From 22-08-2012 to 15-02-2013	3	2
Mr. Priyantha Jayawardena	From 06-08-2012 to 26-04-2013	8	6
Mr. R.M.P. Rathnayaka (Director - Ex Officio)	From 04-03-2013 to 23-04-2013	4	4

Scope, functions and attendance of committee meetings during the year 2013 are given below for the Board appointed sub - committees in accordance with the Banking Act Direction No. 12 of 2007.

1. Board Audit Committee (BAC)

Scope of the Board Audit Committee (BAC)

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

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

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

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

The Board Audit Committee Report is given on page 86.

2. Human Resources and Remuneration Committee (HRRC)

Scope of the HRRC

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

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

The Human Resources & Remuneration Committee Report is given on page 89.

3. Nomination Committee (NC)

Scope of the Nomination Committee

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

Bridges that Prompt a Qualitative Foundation

Corporate Governance

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

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

The Nomination Committee Report is given on page 91.

4. Integrated Risk Management Committee (IRMC)

Scope of the Integrated Risk Management Committee

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

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

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

The Committee takes 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.

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

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

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

The Integrated Risk Management Committee Report is given on page 90.

Board Appointed Committee Attendance

The number of meetings to be held as per Corporate Governance, meetings conducted and individual attendance for the year 2013 are shown below:

Names	Directorship Status	Board Audit Committee	Nomination Committee	Integrated Risk Management Committee	Human Resource Remuneration Committee
Total minimum Number of Meetings to be held during the year as per statutory requirements		4	2	4	4
Total No. of Meetings held during the year.		5	Not held	5	3
Ms. W.A. Nalani - Chairperson (from 30-05-2013)*	Chairperson HRRC Non-Independent Non-Executive	N/A	N/A	N/A	2
Mr. S.T. Abeygunawardana (Re appointed on 06-08-2012)*	Working Director Non- Independent Non-Executive	N/A	0	N/A	N/A
Mr. H. Madiwela (Re appointed on 26-04-2013)	Independent Non-Executive Director	2	N/A	N/A	2
Mr. S.R. Attygalle (Re appointed on 23-04-2013)	Independent Non-Executive Director	3	0	N/A	2
Mr. D.L.P.R. Abeyrathne (from 09-02-2012)*	Non-Independent Non-Executive Director-Chairman IRMC	N/A	N/A	5	N/A
Mr. L.P. Fernando (from 06-08-2012)*	Non-Independent Non-Executive Director (Chairman BAC)	5	N/A	5	N/A
Mr. W.W.D.S. Wijesinghe (from 06-08-2012)	Independent Non-Executive Director	3	0	3	N/A
Mr. S.S. Sirisena - Former Chairman (from 06-08-2012 to 30-05-2013)*	Chairman Non-Independent Non-Executive	N/A	N/A	N/A	1
Mr. R.P.M. Ratnayake (Former Board) (from 04-03-2013 to 23-04-2013)	Independent Non-Executive Director	1	0	N/A	1
Mr. P.A. Abeysekara (Former Board) (upto 15-02-2013)	Independent Non-Executive Director	0	N/A	N/A	N/A
Mr. P. Jayawardane (Former Board) (from 06-08-2012 to 26-04-2013)	Independent Non-Executive Director	N/A	N/A	1	1

NA - Not Applicable

0 - Required to be present but not attended

* Non executive but non independent due to their appointment as Directors of NSB Fund Management Company Limited, a fully owned subsidiary of the Bank which functions as a Primary Dealer for Government Securities.

The Nomination Committee was not held as per the direction in its charter during the year 2013.

Bridges that Prompt a Qualitative Foundation

Corporate Governance

Compliance at NSB

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

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

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

Annual Corporate Governance Report published in terms of banking Act Direction No. 12 of 2007 and subsequent amendments for Annual report 2013.

3 (1) The Responsibilities of the Board		
3 (1) (i)	The Board shall strengthen the safety and soundness of the Bank, by ensuring the following:	
3 (1) (i) (a)	Approve and oversee the Bank's strategic objectives and corporate values and ensure that these are communicated throughout the Bank.	Complied with
3 (1) (i) (b)	Approve the overall business strategy of the Bank, the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least the next three years.	The Board approved three year strategic plan (2014-2016) is implemented. This covers business strategy, directions and measurable goals. Complied with
3 (1) (i) (c)	Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently.	In addition to the prevailing policies such as IRM Policy, the policies for operations (Treasury, Investments, Outsourcing, HR, Compliance, Audit Charter, etc.). The Operational Risk Policy, Credit Policy, Related Party Transaction Policy and Internal Information Disclosure Policy were introduced during the year and other risk identification measures (Stress Tests, KPI & KRI, Risk Reports etc.) introduced to ensure identification of principal risks and risks at operational levels. Further the ICAAP document was submitted to CBSL. Complied with

3 (1) The Responsibilities of the Board		
3 (1) (i) (d)	Approve implementation of a policy of communication with all stakeholders, including depositors, borrowers, Creditors, share-holders.	Internal Information Disclosure Policy and Customer Charter were introduced during the year. Complied with
3 (1) (i) (e)	Review the adequacy and the integrity of the Bank's internal control systems and management information systems.	Complied with
3 (1) (i) (f)	Identify and designate Key Management Personnel, as defined in the International Accounting Standards.	Complied with
3 (1) (i) (g)	Define the areas of authority and key responsibilities for Directors themselves and for Key Management Personnel (KMP).	Complied with
3 (1) (i) (h)	Ensure that there is appropriate oversight of the affairs of the Bank by Key Management Personnel (KMP) that is consistent with Board policy.	Complied with
3 (1) (i) (i)	Periodically assess the effectiveness of the Board of Directors' own governance practices, including: the selection, nomination and election of Directors and Key Management Personnel; the management of conflicts of interests; and the determination of weaknesses and implementation of changes, where necessary.	The Bank is wholly owned by the Government of Sri Lanka and the Directors are appointed by the Minister in charge of Finance and Planning. Annual declarations in respect of related parties and their interests are obtained from Directors to monitor conflict, if any. This process has now been extended to KMPs through Related Party Transaction Policy. The implementation is in progress. Complied with
3 (1) (i) (j)	Ensure that the Bank has an appropriate succession plan for Key Management Personnel.	Structural arrangements are in place for filling immediate vacancies. Succession Plan is documented and obtaining formal approval is in progress.
3 (1) (i) (k)	Meet regularly, on a need basis, with the Key Management Personnel to review policies, establish communication lines and monitor progress towards corporate objectives.	Complied with
3 (1) (i) (l)	Understand the regulatory environment and ensure that the Bank maintains an effective relationship with regulators.	Complied with
3 (1) (i) (m)	Exercise due diligence in the hiring and oversight of External Auditors.	The Auditor General is the External Auditor to the Bank. Complied with

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3 (1)	The Responsibilities of the Board	
3 (1) (ii)	The Board shall appoint the Chairman and the Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and the Chief Executive Officer in line with Direction 3 (5) of these Directions.	Complied with
3 (1) (iii)	The Board shall meet regularly and Board meetings shall be held at least twelve times a year at approximately monthly intervals. Such regular Board meetings shall normally involve active participation in person of a majority of Directors entitled to be present. Obtaining the Board's consent through the circulation of written resolutions/papers shall be avoided as far as possible.	The Board has held 25 meetings during the year on the following basis. 10 meeting from 10th January 2013 to 22nd May 2013. 15 meetings with the reconstituted Board appointed from 30th May 2013 to 31st December 2013. Complied with
3 (1) (iv)	The Board shall ensure that arrangements are in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the Bank.	Complied with
3 (1) (v)	The Board procedures shall ensure that notice of at least 7 days is given of a regular Board meeting to provide all Directors an opportunity to attend. For all other Board meetings, reasonable notice may be given.	Complied with
3 (1) (vi)	The Board procedures shall ensure that a Director, who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director.	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) The Responsibilities of the Board		
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>	Complied with
3 (1) (xii)	<p>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.</p>	Complied with
3 (1) (xiii)	<p>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.</p>	Complied with
3 (1) (xiv)	<p>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>	<p>No such situation has arisen during the year.</p> <p>Complied with</p>
3 (1) (xv)	<p>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.</p>	Complied with
3 (1) (xvi)	<p>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>	<p>Corporate Governance Report is given on pages 46 in the Annual Report.</p> <p>Complied with</p>
3 (1) (xvii)	<p>The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually, and maintain records of such assessments.</p>	Complied with

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3 (2)	Board's Composition	
3 (2) (i)	The number of Directors on the Board shall not be less than 7 and not more than 13.	Complied with
3 (2) (ii) (A)	The total period of service of a Director other than a Director who holds the position of Chief Executive Officer shall not exceed nine years.	Complied with
3 (2) (ii) (B)	A Director who has completed nine years as at 1st January 2008, or who completes such term at any time prior to 31st December 2008, may continue for a further maximum period of 3 years commencing 1st January 2009.	Not applicable
3 (2) (iii)	An employee of a bank may be appointed, elected or nominated as a director of the Bank (hereinafter referred to as an 'Executive Director') provided that the number of Executive Directors shall not exceed one third of the number of directors of the Board. In such an event, one of the Executive Directors shall be the Chief Executive Officer of the Bank.	As per the NSB Act, the Minister selects five out of seven Directors. The other two Directors according to the NSB Act are Treasury Secretary or his Nominee and Postmaster General or his Nominee. Therefore, no such situation arises.
3 (2) (iv)	The Board shall have at least three Independent Non-Executive Directors or one third of the total number of Directors, whichever is higher.	Directors are appointed by the Minister in terms of the NSB Act. Out of seven Directors, three are Independent and six are Non-Executive. Please refer to Directors details on page 174 of 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.	The NSB Act does not refer provisions to appoint alternate Directors.
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.
3 (2) (vii)	A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless more than one-half of the number of Directors present at such meeting are Non-Executive Directors.	As per the NSB Act the quorum of the Board is 4 which is more than one-half of the Directors and 6 of the Directors are Non-Executive Directors.
		Complied with

3 (2) Board's Composition		
3 (2) (viii)	The Independent Non-Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the Bank.	Please refer page 53.
3 (2) (ix)	There shall be a formal, considered and transparent procedure for the appointment of new Directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	Appointments of Directors are done by the Minister of Finance as per the NSB Act. No provision in the NSB Act to appoint and fill casual vacancies in the Board. Complied with
3 (2) (x)	All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	Not Applicable Appointments of Directors are done by the Minister of Finance as per the NSB Act.
3 (2) (xi)	If a Director resigns or is removed from office, the Board shall announce the Director's resignation or removal and the reasons for such removal or resignation; and issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.	Not Applicable Appointment and removal of Directors are done by the Minister of Finance as per the NSB Act. During the year, upon the request of Minister of Finance, three Directors resigned from the Board.
3 (2) (xii)	A director or an employee of a bank shall not be appointed, elected or nominated as a director of another bank except where such bank is a subsidiary company or an associate company of the first mentioned bank.	Senior Deputy General Manager, an employee of the Bank is a Director of RDB (Regional Development Bank) representing the shareholding of the NSB. Complied with

3 (3) Criteria to assess the Fitness and Propriety of Directors		
3 (3) (i) A,& B	The age of a person who serves as a director shall not exceed 70 years.	All Directors are below the age of 70. Complied with
3 (3) (ii)	A person shall not hold office as a director of more than 20 companies/entities/institutions inclusive of Subsidiaries or associate companies of the Bank.	No Director holds such directorships Complied with

3 (4) Management Functions Delegated by the Board		
3 (4) (i)	The Directors shall carefully study and clearly understand the delegation arrangements in place.	Please refer 3 (1) (i) g Complied with

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3 (4) Management Functions Delegated by the Board		
3 (4) (ii)	The Board shall not delegate any matters to a Board Committee, Chief Executive Officer, Executive Directors or Key Management Personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	The Board has not delegated such authority which hinders or reduces the ability of the Board as a whole to discharge its functions. Complied with
3 (4) (iii)	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Bank.	Delegation arrangements currently in place and reviewed by the Board on a need basis/ on requests made by the management.
3 (5) The Chairman and Chief Executive Officer		
3 (5) (i)	The roles of Chairman and Chief Executive Officer shall be separated and shall not be performed by the same individual.	The roles of Chairperson and the CEO are performed by two separate individuals. Complied with
3 (5) (ii)	The Chairman shall be a Non-Executive Director and preferably an Independent Director as well.	Chairperson is a Non-Executive Director. Chairperson is not independent since Chairperson is in the Board of the NSB Fund Management Ltd, a fully owned subsidiary of NSB. Complied with
3 (5) (iii)	The Board shall disclose in its corporate governance report, the identity of the Chairman and the Chief Executive Officer and the nature of any relationship	Profile of the Board and CEO are available on pages 74 to 77. 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.	Evaluation of the role of the Chairman is incorporated in the Director's Self-evaluation Process. Complied with
3 (5) (v)	The Chairman shall be primarily responsible for drawing up and approving the agenda for each Board meeting,	The Secretary to the Board, under the guidance of Chairperson draws up the agenda and the papers are submitted by the management through the General Manager / CEO. Complied with
3 (5) (vi)	The Chairman shall ensure that all Directors are properly briefed on issues arising at Board meetings and also ensure that Directors receive adequate information in a timely manner.	Complied with

3 (5) The Chairman and Chief Executive Officer		
3 (5) (vii)	The Chairman shall encourage all Directors to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the Bank.	Evaluation of the role of the Chairperson and the overall assessment of the Board's performance are incorporated in the Director's Self-evaluation Process. Complied with
3 (5) (viii)	The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relations between Executive and Non-Executive Directors.	Evaluation of the role of the Chairperson 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.	Chairperson is Non-Executive and does not directly supervise KMPs and is not engaged in executive functions. 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 Chairperson communicates with the shareholders (Treasury) through discussion on policy matters, annual reviews and other important operational matters and briefs the Board of Directors. Complied with
3 (5) (xi)	The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day management of the Bank's operations and business.	Complied with

3 (6) Board Appointed Committees		
3 (6) (i)	Each bank shall have at least four board committees as set out in Directions 3 (6) (ii), 3 (6) (iii), 3 (6) (iv) and 3 (6) (v) of these Directions. Each committee shall report directly to the Board. All committees shall appoint a secretary.	All four Committees are in place. Board Secretary acts as Secretary to all four committees. Only Board Audit Committee, Integrated Risk Management Committee and the Human Resources and Remuneration Committee have directly reported to the Board, during the year.

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3 (6) Board Appointed Committees	
3 (6) (ii)	The following rules shall apply in relation to the Audit Committee:
(a)	The Chairman of the Committee shall be an Independent Non-Executive Director who possesses qualifications and experience in accountancy and/ or audit.
	Board Audit Committee Chairman is Non-Executive but Non-Independent due to his appointment as a Director of the NSB Fund Management Company Ltd (This appointment is authorised by CBSL) a fully owned subsidiary of the Bank. He is a Fellow Member of The Institute of Chartered Accountants of Sri Lanka, who has experienced in the banking sector.
(b)	All members of the Committee shall be Non-Executive Directors.
	Complied with All members are Non-Executive Directors.
(c)	The Committee shall make recommendations on matters in connection with:
	(i) the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes;
	(ii) the implementation of the Central Bank guidelines issued to auditors from time to time;
	(iii) the application of the relevant accounting standards; and
	(iv) the service period, audit fee and any resignation or dismissal of the auditor; provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.
	(i), (ii) and (iii) By statutes the Auditor General is the External Auditor of the Bank.
	Not Applicable.
	Complied with
(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
(e)	The Committee shall develop and implement a policy on the engagement of an External Auditor to provide non-audit services.
	Not relevant as the Auditor General is appointed as per the Constitution. No such service has been obtained during the year.
	Complied with

3 (6) Board Appointed Committees

(f)	The Committee shall, before the audit commences, discuss and finalise with the External Auditors the nature and scope of the audit.	The Auditor General has a permanent office at the Bank and the Superintendent of the Government Audit attends Board Audit Committee meetings regularly and participates in deciding the scope of the Audit Committee. Complied with
(g)	The Committee shall review the financial information of the Bank, in order to monitor the integrity of the Financial Statements of the Bank, its Annual Report, accounts and quarterly reports prepared for disclosure, and the significant financial reporting judgments contained therein.	Complied with
(h)	The Committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the Auditor may wish to discuss including those matters.	The Auditor General has a permanent office at the Bank and the Superintendent of the Government Audit attends Board Audit Committee meetings. Complied with
(i)	The Committee shall review the External Auditor's management letter and the management's response thereto.	Reviewed the Auditor General's Report for the year 2012 Issued under the section 13(7) (a) and the management response thereon. Complied with
(j)	The Committee shall take the following steps with regard to the internal audit function of the Bank: i Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work; ii Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department; iii Review any appraisal or assessment of the performance of the Head and senior staff members of the internal audit department;	The Committee has reviewed the scope & functions under Audit Plan. Actions have been taken to increase staff strength and other resource requirement of the Audit division. Please refer Committee Report. Complied with The Committee has reviewed the audit programme and results and actions on recommendations. Please refer Committee Report on Page 86. Complied with The performance appraisal of Head of Audit (DGM Audit) for the year 2013 had been carried out in 1st quarter of 2014. Performance of the Senior Staff members of Audit Division is assessed by the Head of Internal audit and reports to the BAC for review.

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3 (6) Board Appointed Committees		
	iv Recommend any appointment or termination of the Head, senior staff members and outsourced service providers to the internal audit function;	No such situation has arisen during the year. No outsourced service providers Complied with
	v Ensure that the committee is appraised of resignations of senior staff members of the Internal Audit Department;	No such situation has arisen during the year. Head of Internal Audit is an Fellow Member of ICASL and the staff is well-experienced and conversant with banking operations. Head of Internal Audit reports to the BAC directly. Complied with
	vi Ensure that the Internal Audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care;	During the year, the Internal Audit function independently performs impartial proficient and due professional care. Complied with
(k)	The Committee shall consider the major findings of internal investigations and management's responses thereto;	Committee has reviewed major findings and management responses thereto. Please refer Committee Report on page 86.
(l)	The Chief Finance Officer, the Chief Internal Auditor and a representative of the External Auditors may normally attend meetings.	Complied with
(m)	The committee shall have: <ul style="list-style-type: none"> i Explicit authority to investigate into any matter within its terms of reference; ii The resources which it need to do so; iii Full access to information; and iv Authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary. 	As per the BAC Charter the Committee has been empowered to investigate any matter, access to information, authority to obtain professional advice, resources to carry out its functions etc. Refer Committee Report on page 86. Complied with
(n)	The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities	Committee has met 5 times during the year and decisions are recorded. Complied with
(o)	The Board shall disclose in an informative way: <ul style="list-style-type: none"> i details of the activities of the Audit Committee; 	Please refer, Scope of Board Audit Committee is given in page 51.

3 (6) Board Appointed Committees		
	<p>ii the number of Audit Committee meetings held in the year; and</p> <p>iii details of attendance of each individual Director at such meetings.</p>	<p>Number of meetings held during the year are given in page 53.</p> <p>Details of attendance of Directors are given in page 53.</p> <p>Complied with</p>
(p)	The Secretary of the Committee shall record and keep detailed minutes of the committee meetings	<p>The Board Secretary acts as Secretary and detailed Minutes are maintained.</p> <p>Complied with</p>
(q)	The Committee shall review arrangements by which employees of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the Committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the Bank's relations with the External Auditor.	<p>The existing Whistle-Blower Policy is being reviewed by DGM Audit and is expected to submit the same to BAC.</p> <p>A process is in place for investigation /deals with improprieties in financial reporting /frauds by Internal Audit and reports to Human Resources Division (HRD) for disciplinary action and finally report to BAC.</p> <p>Complied with</p>
3 (6) (iii)	The following rules shall apply in relation to the Human Resources and Remuneration Committee:	
(a)	The Committee shall determine the remuneration policy (salaries, allowances and other financial payments) relating to Directors, Chief Executive Officer (CEO) and Key Management Personnel of the Bank.	<p>Remuneration of the Directors is decided by the Ministry.</p> <p>Remuneration of the CEO and KMPs are determined based on the collective agreement. The Committee would get involved in the process in the future.</p>
(b)	The Committee shall set goals and targets for the Directors, CEO and the Key Management Personnel.	<p>The goals for Directors are not documented as they are appointed by the Minister.</p> <p>Goals & targets for KMPs are documented through the Action plan for achieving targets for their respective Divisions.</p> <p>Complied with</p>
(c)	The Committee shall evaluate the performance of the CEO and Key Management Personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.	Evaluation of performance of CEO is handled by Chairperson while General Manager/CEO evaluates performance of KMPs.

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

3 (6) Board Appointed Committees		
(f)	The Committee shall be chaired by an Independent Director. The CEO may be present at meetings by invitation.	An Independent Director has been appointed as the Chairman of the Committee. Complied with
3 (6) (v)	The following rules shall apply in relation to the Integrated Risk Management Committee:	
(a)	The Committee shall consist of at least three Non-Executive Directors, Chief Executive Officer and Key Management Personnel supervising broad risk categories,	Complied with
(b)	The Committee shall assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the Bank on a monthly basis.	Risk Management Division (RMD) assesses the credit, market, operational risks and submits reports to the Committee on a quarterly basis. RMD review risk through product & sectors, Stress Testing, Liquidity Ratios, KPI, KRI, Loss Event data etc. and report to IRMC/Board periodically. Complied with
(c)	The Committee shall review the adequacy and effectiveness of all management level committees.	Complied with
(d)	The Committee shall take prompt corrective action to mitigate the effects of specific risks.	The risk indicators have shown as alarming level. Complied with
(e)	The Committee shall meet at least quarterly to assess all aspects of risk management including updated Business Continuity Plans (BCP).	The Committee met 5 times during the year. Complied with
(f)	The Committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the committee, and/or as directed by the Director of Bank Supervision.	Presently all disciplinary actions are handled by the Human Resources and Development Division. No necessities have arisen during the year.
(g)	The Committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.	The RMD submits risk review reports of IRMC directly to the Board meeting held subsequently.
(h)	The Committee shall establish a compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from Key Management Personnel shall carry out the compliance function and report to the committee periodically.	Compliance Officer is appointed. Compliance officer reports to committees through head of risk and Compliance. Complied with

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3 (7)	Related Party Transactions	
(7) (i) & (ii)	The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the Bank with any person,	Complied with
3 (7) (iii)	The Board shall ensure that the Bank does not engage in transactions with related parties as defined in Direction 3 (7) (i) above, in a manner that would grant such parties 'more favourable treatment' than that accorded to other constituents of the Bank carrying on the same business.	Related Party Transactions. Carried out with Related Parties in the normal course of business are disclosed in Note 39 to the Financial Statements 'Related Party Disclosures' on page 236. Complied with
3 (7) (iv)	A bank shall not grant any accommodation to any of its Directors or to a close relation of such director unless such accommodation is sanctioned at a meeting of its Board of Directors, with not less than two-thirds of the number of directors other than the director concerned, voting in favour of such accommodation.	Accommodations granted to the Directors are governed by the NSB Act and Section 20 of the Banking Act. The Bank has not granted any accommodations to Directors as per the disclosures made at Board meeting. Complied with
3 (7) (v)	(a) Where any accommodation has been granted by a bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a Director of the Bank, steps shall be taken by the Bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a director.	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 accommodation or treatment granted under favourable basis other than the general scheme applicable to all employees. Complied with
3 (7) (vii)	No accommodation granted by a bank under Direction 3 (7) (v) and 3 (7) (vi) above, nor any part of such accommodation, nor any interest due thereon shall be remitted without the prior approval of the Monetary Board and any remission without such approval shall be void and of no effect.	Complied with

3 (8) Disclosures		
3 (8) (i)	The Board shall ensure that:	
(a)	annual audited Financial Statements and quarterly Financial Statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that,	Complied with
(b)	such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied with
3 (8) (ii)	The Board shall ensure that the following minimum disclosures are made in the Annual Report:	
(a)	A statement to the effect that the Annual Audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Refer page 171 on Annual Report of Board of Directors. Complied with
(b)	A report by the Board on the Bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	Refer page 171 on Annual Report of Board of Directors. Refer Directors' Statement on Internal Control on page 180. Complied with
(c)	The External Auditor's certification on the effectiveness of the internal control mechanism referred to in Direction 3 (8) (ii) (b) above, in respect of any statements prepared or published after 31st December 2008.	Refer Independent Assurance Report on Page 183. Complied with
(d)	Details of directors: including names, fitness and propriety, (ii) transactions with the Bank, and (iii) the total of fees/remuneration paid by the Bank.	Profiles of the Directors are given on Page 74. Refer Note 39 to the Financial Statements on page 236 Refer Note 12 to the Financial Statements on page 212 Complied with
(e)	Total net accommodation as defined in 3 (7) (iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the Bank's regulatory capital.	The net accommodations granted as a percentage of Bank's regulatory capital are given in Note 39(d) to the Financial Statements on page 237. Complied with

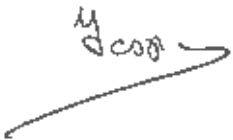
Bridges that Prompt a Qualitative Foundation

Corporate Governance

3 (8)	Disclosures	
	(f) The aggregate values of remuneration paid by the Bank to its Key Management Personnel and the aggregate values of the transactions of the Bank with its Key Management Personnel, set out by broad categories such as remuneration.	Details are given in Note 39 (c) to the Financial Statements on page 236. Complied with
	(g) The External Auditor's certification of the compliance with these Directions in the annual corporate governance report.	External Auditor's certification was Issued by Auditor General on 30th April 2014. Complied with
	(h) A report setting out details of the compliance with (i) Prudential requirements, regulations, laws (ii) internal controls and (iii) measures taken to rectify any material non-compliance.	Please refer Statement on Directors' Responsibility for financial reporting on page 178 and Directors Statement of Internal Controls on Page 180. Complied with
	(i) A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision of CBSL if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns.	Monetary Board has not directed any disclosures to be made public during the year.
3 (9)	Transitional and other general provisions	The Bank has complied with the transitional provisions. Complied with

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

The Auditor General has performed procedures in accordance with the principles set out in Sri Lanka Standards on Related Services 4400 applicable to agreed upon procedures engagements issued by the Institute of Chartered Accountants of Sri Lanka, to meet the compliance requirement of the Direction No. 12 of 2007 on Corporate Governance issued by the Central Bank of Sri Lanka. His findings given in his report dated 30th April 2014, were not materially different to the matters disclosed above and did not identify any significant inconsistencies to those reported above by the Board.



Y. F. Deen

Secretary to the Board



W. A. Nalani

Chairperson

Colombo
30 April 2014

Board of Directors

Ms. W. A. Nalani
Chairperson



Mr. S.T. Abeygunawardana
Working Director



Mr. S.R. Attygalle
Director – Ex-officio



Mr. D.L.P.R. Abeyaratne
Director – Ex officio



Mr W.W.D. Sumith Wijesinghe
Director



Mr. Lionel P. Fernando
Director



Mr. H. Madiwela
Director



Board of Directors

Ms. W.A. Nalani

Chairperson

Appointed as a Director and the Chairperson of NSB from 30 May 2013. Ms. Nalani holds a Bachelor of Arts (Honours) degree in Economics and Bachelor of Philosophy in Economics from the University of Colombo. She is a Fellow of the Institute of Bankers of Sri Lanka. She has over 37 years of extensive management experience in the fields of Banking and Finance at the Bank of Ceylon, where she rose to the position of General Manager/CEO. In 2012 April, she led the Bank of Ceylon on a ground breaking international road show on the successful debut Bond Issue of US \$ 500 Million.

She has served on the Boards of several institutions including the Merchant Bank of Sri Lanka, Institute of Bankers of Sri Lanka, Lanka Clear Ltd., Sri Lankan Airlines Limited, Credit Information Bureau of Sri Lanka, BOC Travels (Pvt) Ltd., Bank of Ceylon (UK) Ltd. and Hotels Colombo (1963) Ltd. She currently serves as Chairperson of NSB Fund Management Company and on the Board of Merchant Credit Financial Services Ltd.

Mr. S.T. Abeygunawardana

Working Director

Mr. S. T. Abeygunawardana has been an entrepreneur for 39 years and served as Managing Director of Janasetha Jothisa Seveya for the last 37 years.

He also serves as a Director of the Cooperative Hospital Galle since April 2004 and functions as Advisor (Religious & Cultural) to the Independent Television Network (ITN) since 2005. He also sits on the Board on NSB Fund Management Company.

Mr. Abeygunawardana has previously served twice on the NSB Board – he was first appointed on 30.08.2007, and resigned on 07.05.2010, and he was reappointed on 17.06.2010, ending his second tenure on 18.05.2012. He was reappointed to the Board on 06 August 2012.

Mr. S.R. Attygalle

Director – Ex-officio

Mr. S.R. Attygalle holds a Bachelor of Science Degree from the University of Colombo and a Master of Science from Warwick University, UK.

Mr. Attygalle is a senior Central Banker, having served as Economist at the Central Bank of Sri Lanka from 1991 to 1996 and as Senior Economist from 1996 to 2003. He then moved to the Ministry of Finance and Planning where he served as Deputy Director from 2003 to 2004; Director of the Department of Fiscal Policy from 2004 to 2006; Director General of the Department of Fiscal Policy from 2006 to 2010; Director General of the Department of Public Enterprises from 2010 to 2011; and as Deputy Secretary to the Treasury from 2012 to date.

Mr. Attygalle previously served on the NSB Board from 31.01.2006 to 07.05.2010, serving as Acting Chairman from 31.01.2009. He was reappointed to the Board on 23 April 2013.

He also serves as a Director of the Sri Lanka Ports Authority, University Grants Commission and Sri Lanka Insurance Board. He was previously a Director of Bank of Ceylon from May 2010 to April 2013.

Mr. D.L.P.R. Abeyaratne

Director – Ex officio

Mr. Abeyaratne holds a Bachelor of Commerce (Special) Degree and a Master of Arts in Sociology both from the University of Kelaniya.

Mr. Abeyaratne is the Post Master General of Sri Lanka since 2 February 2012. He brings to the Board 18 years of experience serving in the Sri Lanka Administrative Service Class – 1. He held the position of Divisional Secretary, Minuwangoda from 2005 – 2008; Director General of the National Gem and Jewellery Authority from 2009-2010 and Senior Assistant Secretary to the Ministry of Economic Development in 2010.

He serves on the Board of NSB Fund Management Company. He served as Acting Chairman of NSB during the period from 23.05.2012 to 05.08.2012.

Mr. Lionel P. Fernando

Director

Mr. Fernando holds a Bachelor of Commerce (Hons) degree and is a Fellow of the Institute of Chartered Accountants of Sri Lanka (FCA) and a Fellow of the Society of Certified Management Accountants (FCMA). He is also a Senior Accounting Technician (SAT).

Mr. Fernando has been a practicing Chartered Accountant for over 21 years and brings with him over two decades of experience managing businesses as a Director of various companies.

He currently serves as a Director of NSB Fund Management Company; Benjarong (Pvt) Limited; L M Management Services (Pvt) Limited; Kelani Uni Insurance Brokers (Pvt) Limited; Director, Amerasian

Travels (Pvt) Limited; Sundance Property Developers (Pvt) Limited; Amerasian Engineering Consultants (Pvt) Limited; Peerapat Cleaning Technology (Pvt) Limited and Friendshio (Pvt) Limited.

Mr. W.W.D. Sumith Wijesinghe

Director

Mr. Wijesinghe is an Attorney-at-Law and holds a Bachelor of Laws (LLB) degree. He presently functions as the Secretary to the Leader of the House of Parliament.

He has served on a number of high profile Boards including Sri Lanka Telecom (PLC) (2007-2010); Mobitel (Pvt) Ltd. (2007-2010); National Development Trust Fund (Gar) Ltd. (2007-2010); National Development Trust Fund Company (2007-2010) and Lankaputra Development Bank (2011-2012). His work with the community has included coordinating an Integrated Poverty Alleviation Programme (including savings and credit programmes) supported by NDTF/World Bank (1993-1997) and planning and implementing programmes among the fishing community. Currently, he is also a member of the National Transport Commission.

Board of Directors

Mr. H. Madiwela

Director

He holds a Bachelor of Arts Degree in Labour Education from the University of Colombo and a Diploma in Personnel Management from NIBM.

Mr. Madiwela has served as Coordinating Director to His Excellency the President from 2005 to date. He is also the Director/Administration of the Mahaweli Authority of Sri Lanka.

Mr. Madiwela has previously served two tenures as a Director of NSB, the first from 29.11.2007 to 07.05.2010, and the second from 25.08.2010 to 18.05.2012. Then he was appointed to the Board on 26.04.2013.

Ms. Y.F. Deen

Secretary to the Board

Assistant General Manager

Yasmin Fathima Deen is an Attorney –at Law & Notary Public with 29 years’ experience in the Bank as a Legal Officer and worked as the Company Secretary for NSB Fund Management Company from the time of its incorporation in 1999. Appointed as the Secretary to the Board of Directors with effect from 1st February 2013.

Mr. H.M. Hennayake Bandara

General Manager / CEO

H.M. Hennayake Bandara was appointed as the General Manager/CEO in May 2010. He is a former President of the Association of Professional Bankers of Sri Lanka.

He is a Member of the Board of Directors of the World Savings Banks Institute representing the Asia Pacific region, a Council Member of the Institute of Certified Management Accountants of Sri Lanka, Board Member of the Institute of Bankers of Sri Lanka and Director of NSB Fund Management Co. Ltd. He had been a Director of the Sri Lanka Banks' Association and the Financial Ombudsman of Sri Lanka (Guarantee) Ltd.

In addition, Hennayake has been a Council Member of the Institute of Chartered Accountants of Sri Lanka and the Sri Lanka Institute of Advanced Technological Education, Board Member of Sri Lanka Accounting and Auditing Standards Monitoring Board, and a technical advisor and Committee Member of the Professional Accountants in Business of the South Asian Federation

of Accountants. He also formerly served as a President of the Association of Accounting Technicians of Sri Lanka.

He was a member of the Expert Group appointed by the Central Bank of Sri Lanka to provide expertise to Registered Finance Companies and specialised Leasing Companies in respect of the implementation of the "Stimulus Package for Banking, Finance & Leasing Industry".

A recipient of the award for "Excellence in Business Management" awarded by the Institute of Certified Management Accountants of Sri Lanka.

Hennayake holds a Bachelor of Commerce (Special) degree from the University of Sri Jayewardenepura and is Fellow Member of the Institute of Chartered Accountants of Sri Lanka, the Institute of Certified Management Accountants of Sri Lanka and the Association of Accounting Technicians of Sri Lanka. He also holds a higher national diploma in Accountancy from the Technical College, Sri Lanka.

Corporate Management Team

H.M. Hennayake Bandara
General Manger/CEO



S.D.N. Perera
Senior DGM



J.K. Gamanayake
DGM (Branch Operations & Marketing)



Ms. C.S. Jesudian
DGM (Corporate Finance)

R.M. Gunathilaka
Head of Risk & Compliance



K.B. Wijeyaratne
DGM (Finance and Planning)



K. Raveendran
DGM (Audit)



T.M.K. Bandara - Additional General Manager (Retired on 13.04.2014)
Ms. A. Jayasinghe - DGM (Branch Administration) (Retired on 03.01.2014)

Executive Management Team

E.M.M.G. Ekanayake

AGM (Operations)



Ms. B.P.J. Gunasekera

AGM (Asset Management)



A.C. Gamage

AGM (Credit)



U.L. Rafeek

AGM (Marketing)



S.N.B.M Gunawardena

AGM (Postal Banking)



K.K.V.V.L.W. Karunatilaka

AGM (Corporate Finance)



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

AGM (Finance)

M.P.A.W. Peiris

AGM (International Banking)



W. Piyaratne

AGM (Audit)



P.A. Abeysooriya

AGM (Information Technology)



Ms. Y.F. Deen

Secretary to the Board of Directors



Ms. M.Y. Gunasekera

AGM (Human Resource Development)



Ms. S.W. Gunasekera

AGM (Support Services)

R.C. Gooneratne - AGM (Security) Retired on 14.04.2014.

Regional Managers

J.M. Seneviratne Banda
Central Region



A.L.A. Haleem
Eastern Region



T.L.A. Wijeratne
Sabaragamuwa Region



Ms. B.K.G.B.M. Karunaratne
North Central Region



V.V. Craison
Northern Region



Ms. M. Gawrawawansa
North Western Region



T.M.D.G.D. de Alwis
Southern Region



M.T.A.J.F. Gomis
Uva Region



Ms. H.R. Silva
Western 3 Region



Ms. E.D. Seetha
Western 2 Region



P. Wattuhewa
Western 1 Region



Senior Managers

Regional Sector

Central Region

Ms. P. Punchibandara – Manager, Kandy

North Western Region

J.A.U. Gamage – Manager Kurunegala

Southern Region

P.H. Andrahennadi – Manager, Matara

M.A.M. Navaz – Manager ,Galle

Western 1 Region

Ms. R.A.N.N. Wijesinghe – Manager, Homagama

Western 2 Region

Ms. M.S.S. Fernando – Manager, Head Office

S.H.M. Mubarak – Manager, City

Ms. W.P.U.A. De Silva – Manager, Wellawatta

P.T.A. Perera – Manager, Kalurata

Western 3 Region

H.M.G.P.J. Herath – Manager, Gampaha

Head Office

Audit

D.N.J.K. Gamage – Audit

Branch Management

V. Arulanantham – Senior Manager

Ms. K.P.D.M. De Silva – Postal Administration

Finance and Planning

Ms. S.A.B.M. Bandaranayake – Superannuation

Ms. M.A. Gomes – Planning

Human Resource Development

K.S. Weerasena – Training

Ms. M.N.A. Fernando – Human Resources

IT and Support Services

K.M.W.M. Karunarathna – Premises

P.S. Wasanthatilake – Information Technology

J.A.A.S.L. Somarathna – Information Technology

G.M.S.P. Fernando – Information Technology

Legal, Risk and Compliance

Ms. A.C. Edirisinghe – Legal Officer

Ms. I.K.L. Sasi Mahendran – Compliance Officer

Ms. R.P.A.M.P. Rajanayake – Risk Manager

NSB Fund Management Company

W.M.R.B. Weerakoon – Manager

Report of the Board Audit Committee

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

The Committee comprises of three non executive Directors of the Bank, who are all independent. The following directors served on the Committee during the year 2013:

- 1) Mr. Lionel P. Fernando – Chairman of the Committee
- 2) Mr. S.R. Attygalle – Member (from 23/04/2013)
- 3) Mr. Hema Madiwela – Member (from 10/06/2013)
- 4) Mr. Sumith Wijesinghe – Member (up to 10/06/2013)
- 5) Mr. R.M.P. Ratnayake – Member (from 04/03/2013 to 23/04/2013)
- 6) Mr. P.A. Abeysekera – Member (up to 15/02/2013)

The Deputy General Manager (Audit) functioned as the Secretary to the Committee up to 10th July 2013. The Board of Directors appointed Secretary to the Board as the Secretary to the Board Audit Committee effective from 11th July 2013. The members of the senior management who were invited also attended the Committee meetings during the year. The Superintendent of the Government Audit attended to the meetings regularly, as an observer.

Meetings and Attendance

During the financial year ended 31st December 2013, five Committee meetings were held. The details of which are as follows:

	Dates and Attendance of the Committee Members				
	27th February 2013	4th April 2013	28th May 2013	5th August 2013	28th November 2013
Mr. Lionel P. Fernando	✓	✓	✓	✓	✓
Mr. S.R. Attygalle	-	-	✓	✓	✓
Mr. Hema Madiwela	-	-	-	✓	✓
Mr. Sumith Wijesinghe	✓	✓	✓	-	-
Mr. R.M.P. Ratnayake	-	✓	-	-	-
Mr. P.A. Abeysekera	-	-	-	-	-

✓ - Attended

Internal Audit Manual

The Internal Audit Manual of the Bank summarises the operations of the internal audit function and delineates the policies, standards and procedures which will generally govern the internal audit function. The said manual was reviewed and revised in 2013.

Board Audit Committee Charter

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

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

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

Internal Audit Charter

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

Activities during the Year

The Committee attended to the following activities during the year 2013:

- 1) Reviewed the Charter Checklist to assess the compliance to the Charter in performing the Committee's functions and discharging its responsibilities in the year 2012.
- 2) Discussed and completed the Self Assessment Guide for 2012.
- 3) Reviewed the financial statements of the Bank for the year ended 31st December 2012 and the quarter ended, 31st March, 30th June and 30th September 2013 before publication and recommended to submit same to the Board of Directors.
- 4) Periodically reviewed the performance of the Audit & Vigilance Division as against the Audit Plan approved in November 2012.
- 5) Approved the Report on the Board Audit Committee activities to be included in the Annual Report for the year 2012.
- 6) Reviewed and discussed the nature and the scope of the Government audit for the year 2013.
- 7) Reviewed and approved the revised Internal Audit Manual and the same was submitted to the Board of Directors for information.
- 8) Reviewed the performance appraisal of senior audit staff members of the Audit & Vigilance Division.
- 9) Reviewed the internal audit findings of the Branch Audits, Head Office Divisional Audits and the Information System Audits. The Committee considered the internal audit reports, the deficiencies observed therein, responses by the

Report of The Board Audit Committee

Heads of Divisions and branches and corrective actions taken to rectify the deficiencies observed.

- 10) Reviewed the Report of the Auditor General issued in terms of the Section 14 (2) (c) of the Finance Act No. 38 of 1971 on the accounts of the NSB for the year ended 31st December 2011 and the management response thereon.
- 11) Reviewed the Report of the Auditor General issued in terms of the Section 13 (7) (a) of the Finance Act No. 38 of 1971 on the accounts of NSB for the year ended 31st December 2011 and the management response thereon.
- 12) Reviewed the findings pertaining to the Audit & Vigilance Division in the Central Bank Statutory Examination Report and the action taken thereon.
- 13) Reviewed the summary of internal investigations on the fraudulent and irregular activities and management action thereon.
- 14) Followed up on the outsourcing of Information System Audit.
- 15) Reviewed the manpower requirement and the staff matters of the Audit & Vigilance Division.

External Audit

By statute, the Auditor General is the external auditor of the Bank. The Superintendent of Government Audit is invited to attend to the Committee meetings as an observer. The Committee reviewed and discussed the nature and scope of the external audit in 2013. The external auditor was invited to discuss the findings of the external auditor during the Committee meetings. The Committee ensured the provision of all information and documents required by the external auditor for the purpose of audit.

Reporting

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

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



Lionel P. Fernando

Chairman – Board Audit Committee

Colombo
25 April 2014

Report of the Human Resource & Remuneration Committee (HRRC)

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

Ms. W.A. Nalani	–	Chairperson (From 10/06/2013)
Mr. Sunil S. Sirisena	–	Chairman (Up to 30/05/2013)
Mr. S.R. Attygalle	–	Member (From 23/04/2013)
Mr. P.A. Abeysekera	–	Member (Up to 15.02.2013)
Mr. R.M.P. Ratnayake	–	Member (From 04.03.2013 Up to 23/04/2013)
Mr. P. Jayawardane	–	Member (Up to 26.04.2013)
Mr. H. Madiwela	–	Member (From 10.06.2013)

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

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

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

During the financial year ended 31 December 2013, three HRRC meetings were held. The HRRC attended to the following during the year under review:

1. Reviewed the Cadre for the Bank and proposed amendments to be made to the Cadre in respect of Banking and Non-Banking streams.
2. Proposed amendments to the organisational structure and recommended same to the Board of Directors along with the Cadre for the Bank.
3. Recommended the absorption of Banking Assistants in to the permanent cadre whose performances were successfully evaluated.
4. Reviewed the recruitment schemes for Dy. General Manager (HRD) and Dy. General Manager (Legal).
5. Reviewed and discussed proposed pension scheme of the Bank employees recruited on or after 01.10.1995
6. Reviewed the matters relating to revision of pension of the retired employees of National Savings Bank



W. A. Nalani

Chairperson – Human Resources & Remuneration Committee

Colombo
25 April 2014

Report of the Integrated Risk Management Committee (IRMC)

Composition of Integrated Risk Management Committee of the Bank

The Integrated Risk Management Committee (IRMC) of NSB consisted of 3 Non-Executive Directors and members of the Corporate Management and the Compliance Officer. The Secretary to the Board of Directors functions as the Secretary to the Committee. Following Directors served during the year as member of the committee

Mr. D.L.P.R. Abeyrathne	– Chairman
Mr. L.P. Fernando	– Member
Mr. W.W.D.S. Wijwsinghe	– Member (From 10/06/2013)
Mr. P. Jayawardane	– Member (Up to 26/04/2013)

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

- To advise the Board of Directors in fulfilling its responsibilities relating to risk management.
- To implement the integrated risk management policy 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, monitored, and adequately managed;
- To work with key management personnel very closely and make recommendation to the Board within the framework of the authority and responsibility assigned to the committee.

Charter and the Responsibilities of the Risk Management Division.

The Risk & Compliance Division prepares and collates the material necessary for the IRMC to deliberate and recommend the decisions on matters falling within its

mandate for approval by the Board of Directors. These papers are circulated to members in advance. The process through which risks was managed is explained in detail in the Risk Management section of this Annual Report.

IRMC Meetings of the year

IRMC meets on a quarterly basis. During the year 2013, NSB convened five IRMC meetings. The attendance of members in the Committee is listed on page 53 of the Annual Report. The minutes of the meetings and risk reports were submitted to the Board regularly.

The committee reviewed Internal Capital Adequacy Assessment Process (ICAAP) document, Introduction of Internal Information Disclosure, Related Party Transaction and Operational Risk Policies while it also reviewed Outsourcing Policy, Related Party Policies etc. The risk review covers Stress Testing, Risk appetite and tolerance, Loss Event Data examination, Risk measurement Techniques etc. The Committee was also extensively involved in monitoring of statutory examination process and control examination. Further Corporate Governance & Regulatory Framework, KYC compliance status, etc. were taken up at these meetings and was satisfied that the actions taken in respect of managing risks of Bank.



D.L.P.R. Abeyaratne
Chairman-IRMC

Colombo
25 April 2014

Report of the Nomination Committee (NC)

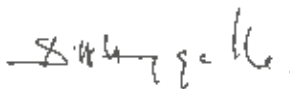
The Nomination Committee comprises three independent Directors appointed by the Board of Directors of the Bank. The following Directors serve on the Nomination Committee.

- Mr. S R Attygalle – Chairman
(From 23/04/2013)
- Mr. P A Abeysekera - Chairman
(Up to 15/02/2013)
- Mr. R M P Ratnayake - Chairman
(From 04.03.2013 Up to
23/04/2013)
- Mr. S T Abeygunawardane - Member
- Mr. Sumith Wijesinghe - Member

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

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

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



S.R. Attygalle
Chairman – Nomination Committee

Colombo
25 April 2014



Chapter 4

Risk Management

Connecting people and communities
from every part of the world

Trusses Supporting Strong Bridges

Risk Management at NSB

Overview

The Bank recognises the significance of risk management for achieving the strategic agenda and use BASEL II framework and Central Bank of Sri Lanka (CBSL) guidelines in structuring the risk management framework and capital strategy.

The Bank's continuous effort on improving the risk management capability and competency supports successful implementation of strategic priorities and enables the development of a sustainable and resilient business that is responsive to the ever changing environment.

The Bank's risk management function focuses on strengthening the ability to identify, measure and manage risk to strike a balance between the risk and return. The Bank has taken steps to establish risk governance based on the concept of three lines of defence by broadly separating the risk management function of Business Divisions, Risk Management Division and Internal Audit Division.

The responsibility for risk management resides at all levels from Board of Directors down to each business manager in order to ensure appropriate risk return decisions are taken. Every business manager is accountable for managing the risk in his or her business area, they understand and control the key risks inherent in the business undertaken.

Board Oversight

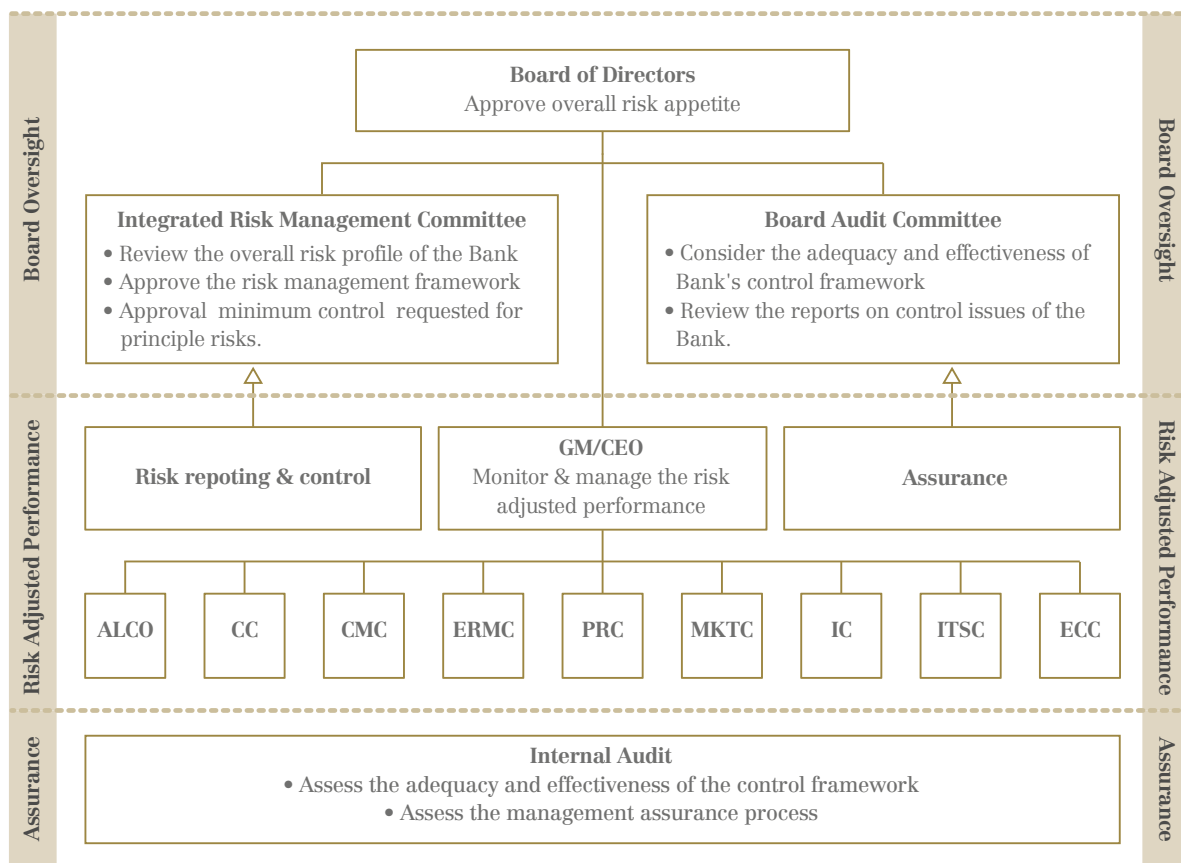
Risk management governance structure of the Bank begins with the oversight by the Board of Directors. The Board approves the risk management framework which sets the risk appetite limits and the strategic direction through risk management policies, procedures based on which the risk profile of the Bank is monitored.

The Board is assisted in discharging its duties on risk management by the Integrated Risk Management Committee (IRMC).

Integrated Risk Management Committee (IRMC)

The primary function of the IRMC is to assist the Board in fulfilling their responsibility with respect to the operation and effectiveness of risk management and compliance function of the Bank. Composition of the committee consists of members from the Board and the Corporate Management appointed by the Board.

IRMC assess all risks through appropriate risk indicators and management information. The Committee recommends corrective action to mitigate the effects of specific risks in case such risks are beyond the risk appetite and tolerance limits of the Bank. IRMC ensures submission of a risk assessment report to the Board seeking the Board's view, concurrence and/or specific directions on a regular basis.



ALCO – Asset & Liability Management Committee

CC – Credit Committee

CMC – Corporate Management Committee

ERMC – Executive Risk Management Committee

PRC – Performance Review Committee

MKTC – Marketing Committee

IC – Investment Committee

ITSC – IT Steering Committee

ECC – Executive Compliance Committee

➤ Figure : Risk Management Governance Structure

Trusses Supporting Strong Bridges

Risk Management at NSB

Risk Adjusted Performance

Board has delegated powers to the General Manager/ CEO and the management committees to have an integrated approach in achieving the strategic objectives to ensure capital efficiency in gaining operational efficiencies.

At the executive level, the management committees such as, Asset and Liability Management Committee (ALCO), Credit Committee (CC), Corporate Management Committee (CMC), Executive Risk Management Committee (ERMC), Investment Committee (IC) and Performance Review Committees (PRC) etc., headed by the General Manager/ CEO manage various risks that the Bank is exposed to.

The Risk Management Division (RMD) headed by the Head of Risk and Compliance (HRC) functions as a separate division independent from the business function responsible to design, interpret and develop the overall risk management framework on behalf of the IRMC. RMD steer management to focus on specific risk issues prevalent within the business and implement the international best practices introduced by the BASEL Committee on Banking Supervision.

Assurance

The Internal Audit Division (IAD) acts as the 3rd line of defence and provides an independent assurance on the integrity of the financial statements and the effectiveness and adequacy of the internal control structure of the Bank. DGM - Internal Audit is the head of IAD, and reports independently to the Board Audit Committee on the audit finding on a periodic basis.

In addition, IAD provides two principal sources of information for identifying potential problems and considering recommendations for improvements. System audits are undertaken by IAD to identify control weaknesses and compliance breaches in the Bank's business processes /procedures including IT systems, as well as in the risk management & compliance processes/procedures. Frequent financial audits are undertaken to ensure the validity of financial statements and valuations.

Risk Management Framework

In order to effectively and efficiently deliver its core purposes, the Bank has a comprehensive risk management framework which sets risk appetite limits to facilitate monitoring , managing and mitigating the principal risks assumed in conducting its activities.

The risk management policies, procedures and systems of the Bank are established to be in line with the Integrated Risk Management Framework guidelines issued by the CBSL and the international best practices introduced by BASEL.

The risk management model based on three lines of defence has improved defining responsibility and authority with respect to risk management to ensure effective risk identification, measurement and reporting at all levels.

1st Line of Defence		2nd Line of Defence		3rd Line of Defence
Management Control	Internal Control Measures	Risk Management	Compliance	Internal Audit
<ul style="list-style-type: none"> ➤ Operational Committees structure ➤ Operational Policies, Manuals and Office Instruction Circulars 	<ul style="list-style-type: none"> ➤ Internal Control Structure ➤ Risk assessment at operational level ➤ Staff Training (on Bank operation and risk management practices) ➤ Risk aware culture 	<ul style="list-style-type: none"> ➤ Risk Management Committees ➤ Risk Management Policies ➤ Risk assessment techniques, models, processes and reporting etc. ➤ Risk review at strategic level and operational level (Product & processes level, Portfolio level) ➤ Use of risk mitigants and continuous improvement. 	<ul style="list-style-type: none"> ➤ Compliance Committees ➤ Compliance Policies ➤ Continuous Compliance Reviews ➤ Actions on compliance findings ➤ Improvement of compliance and governance practices 	<ul style="list-style-type: none"> ➤ Board Audit Committees ➤ Audit manuals ➤ Continuous internal audits ➤ Actions on internal audit findings ➤ Improvement of internal control environment

Risk Appetite and Tolerance Limits

Risk appetite sets out the level of risk the Bank chooses to take in pursuit of its strategic objectives, recognises a range of possible outcomes as the corporate plans are implemented. To determine the acceptable level of risk, management analyses the potential volatility in earnings from different business lines and the desired level of capital adequacy, leverage and liquidity.

The Bank has established the risk appetite and tolerance limits in the beginning of the year based

on the corporate plan and the budget. The Bank's performance is within the risk appetite & tolerance limits set for the capital adequacy and the liquidity but not for profitability. The Bank has understood the impact of having low profitability on a continuous basis on the financial indicators, to take corrective action.

RMD manages both Pillar I and Pillar II risks, mainly focusing on key risk areas.

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

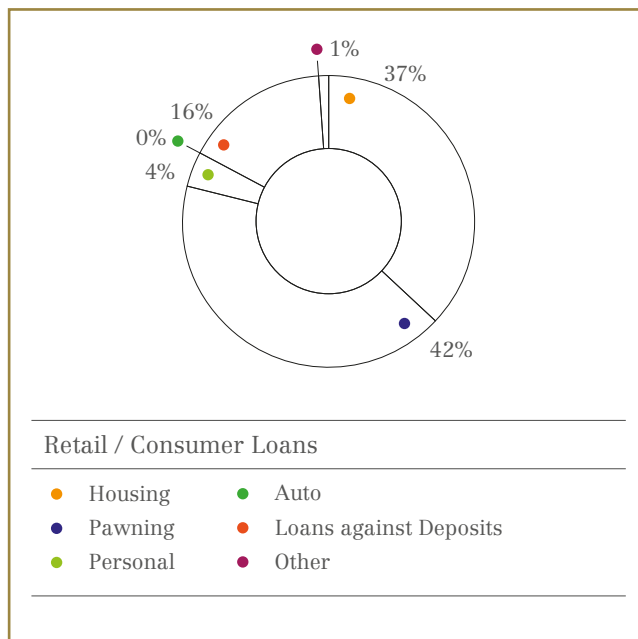
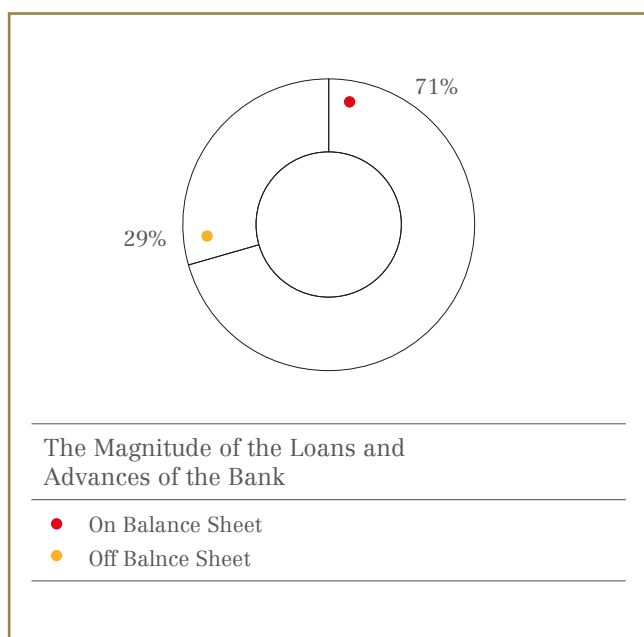
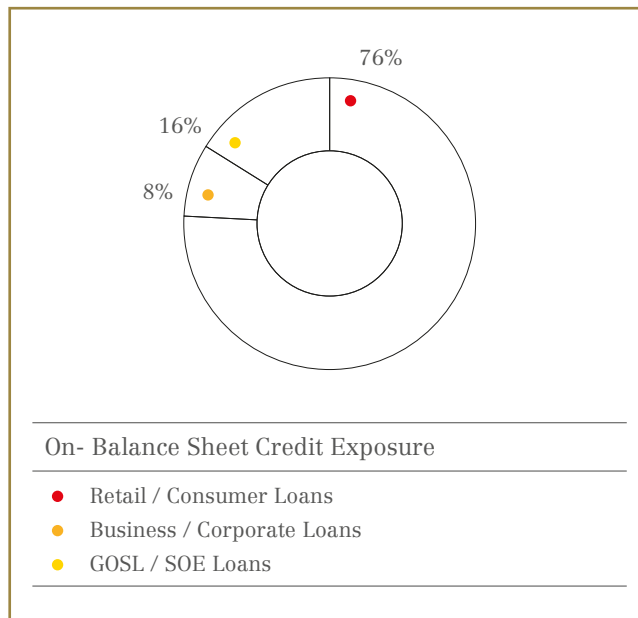
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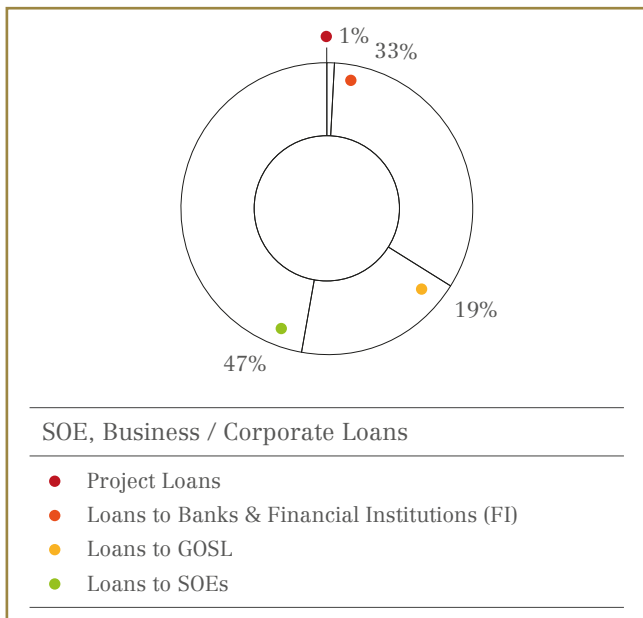
Risk Management at NSB

Credit Risk

Credit risk reflects the risk of losses due to one or more counterparties failing to meet all or part of their contractual obligations towards the Bank in accordance with the agreed terms. Credit is the second major business line of the Bank and represents 25.4% of the Bank's total assets. The exposure to credit risk arises from both on & off-balance sheet activities and considered as the largest part of the Bank's risk exposure.

The on-balance sheet credit risk arises from notional value of financial products such as Retail/ Consumer Loans, Business / Corporate Loans, Loans to Banks & Financial Institutions and Loans to State Owned Enterprises (SOEs) and to the Government. The off-balance sheet credit risk arises from undrawn loan commitments and guarantees issued.





Credit Risk Management Framework

With the view of establishing an effective risk management framework, the Bank has established / reviewed credit policies / procedures. Risk management in retail credit is governed by the Retail Credit Policy (RCP), while Loans to Banks and Financial Institutions etc. are governed by the Investment Policy Statement (IPS). Exposure limits comprising of single exposure limits, group exposure limits, sector exposure limits etc. are given in the RCP and IPS based on the risk appetite of the Bank.

The credit policies, structured credit approval hierarchy, procedures in credit administration, monitoring, reviewing and controls have strengthened the Credit Risk Management (CRM) culture of the Bank.

The Board of Directors delegates its powers to credit management and other authorities down the credit line and manage it through the Credit Committee. The

Credit Committee is responsible for the formation and reviewing of policies and procedures to govern the retail credit function, implementation of credit processes and identification of possible risks from different types of transactions. In addition, the Credit Committee is vested with the authority to approve credit facilities of which the delegated authority surpasses that of the General Manager / CEO.

The structure/process of the Bank's CRM is as follows;

- i. Credit operations are governed by authority levels set by RCP and by the IPS. The Bank focuses on secured, long to medium term credit and consider external credit rating for short term lendings to banks and financial institutions.
- ii. The Bank performs a detailed evaluation of credit proposals to ensure the risk mitigants are adequate at transaction level.
- iii. RMD has established risk appetite and risk tolerance limits for credit risk. The Bank's credit risk appetite is low and conservative. RMD monitor credit risk at transaction level and portfolio level.
- iv. Independent credit audit carried-out by the IAD at overall and individual credit levels are reported to the Board Audit Committee.

The Bank is conservative in selecting credit products and the criteria for selection of individual credits. The Bank's lending is restricted due to the mandatory requirement of investing 60% of deposits in Government Securities.

The Bank lends mainly on collaterals and the Loan to Value Ratios (LTV) are determined at policy level. The loans without collateral are short term and mainly to banks and financial intuitions with a rating of BBB or above.

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Risk Management at NSB

Credit Risk Identification and Assessment

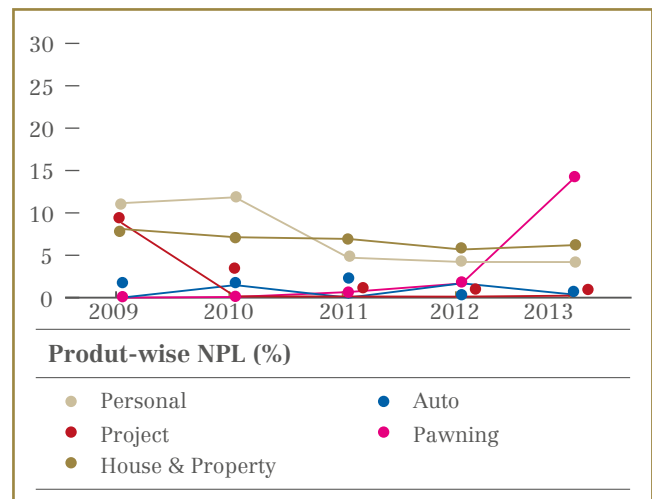
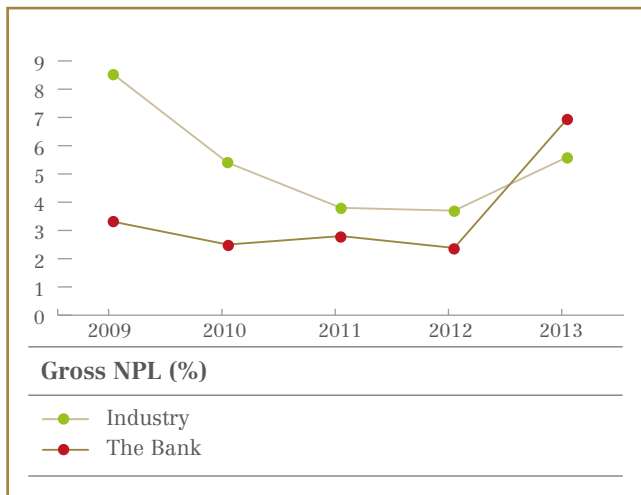
The credit risk at transaction level is assessed by the credit officers proposing adequate mitigations and communicated through the line authority in the approval process. The Bank has initiated steps to procure a credit scoring and rating models in order to strengthen the risk assessment process and to reach advance approaches in risk management under BASEL II.

The Bank has a Loan Review Mechanism (LRM) to monitor early identification of possible changes in credit quality and carry-out reviews of collaterals as per the CBSL guidelines.

Credit Quality

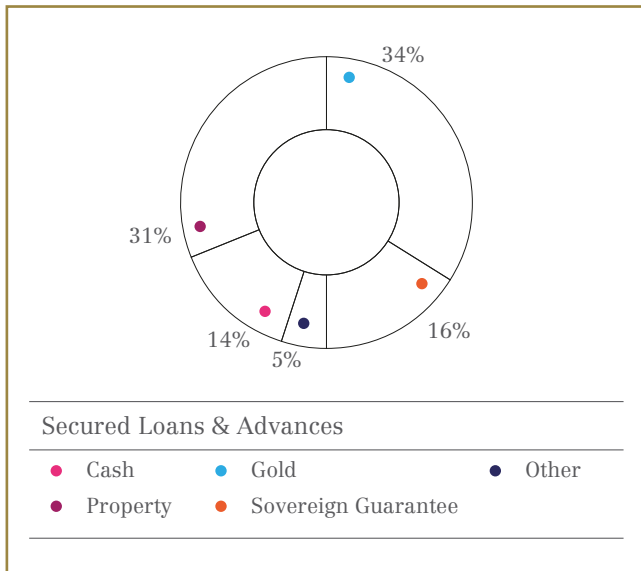
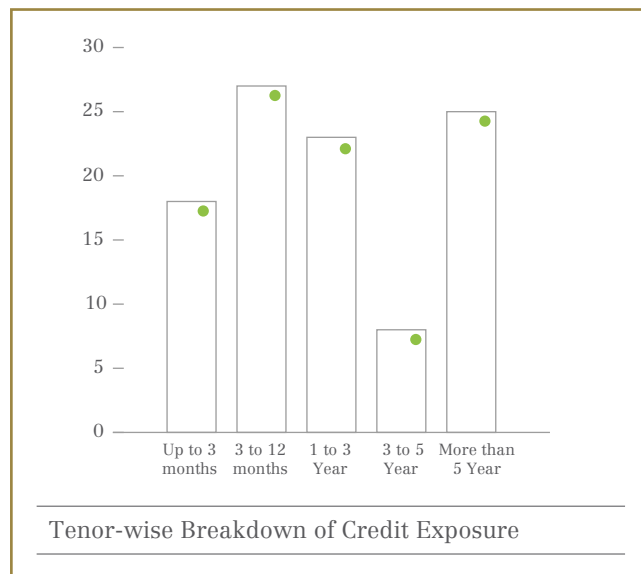
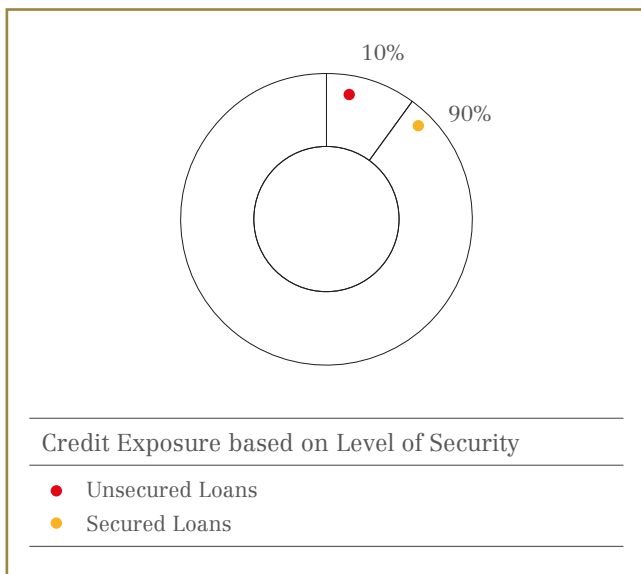
The Bank closely monitors the portfolios of different loan products on a regular basis. This enables the Bank to identify potential risks in advance and to take corrective action to prevent credit quality deterioration. Credit quality is mainly measured through Non-Performing Loan Ratios (NPLs), security obtained and tenor-wise analysis of credit exposure.

The Bank's NPL level during the year was higher than the industry even though it was lower in previous years. The increase is mainly due to an increase in non-performing pawning advances as a result of a declining trend in the market prices of gold. The NPL of House and Property Loans and Project Loans has marginally contributed to the increased NPL of the Bank during the year.



From the total loan portfolio, 90% are secured loans while the remaining 10% consists of short term loans and advances to banks and financial institutions.

From the secured loans, pawning consists of 34%. The pawning portfolio is backed by gold, which is vulnerable to adverse movements in gold prices which in turn affects the recoverability. The Bank has carried-out stress testing exercises to ascertain the level of risk in worse case scenarios of different magnitudes (*The results are included under the section on stress testing*).



Credit Exposure analysis based on the tenor depicted that 55% of the loan portfolio is in the more than 1 year maturity bucket. This indicates impact on the Bank from re-pricing risk of assets due to interest rate fluctuations in the market.

Credit Risk Monitoring, Reporting and Mitigation

The Bank considers the repayment capacity of the borrower as the first way-out with respect to credit risk. RMD carry-out an independent review of retail credit, where the exposure is above the authority level of the Credit Committee, entire corporate credit and investments.

Collaterals act as the second way-out. The Bank takes both movable and immovable properties approved by the RCP and IPS as collaterals for lending. These include properties, vehicles, gold, and cash policy on the nature of the loan product. The credit policy of the Bank enclosed with a clear set of guidelines to determine the acceptability of collateral for credit risk mitigation based on their inherent characteristics at the time of disbursing the credit facility. The Bank strikes to maintain LTV at approved levels.

The Bank monitors the market value and the forced sale value of the collateral, revalue collaterals as per the regulatory requirements and assesses the adequacy

Trusses Supporting Strong Bridges

Risk Management at NSB

of the allowance for impairment losses. It is the Bank's policy to take the decision of disposing repossessed properties in an orderly manner and the proceeds are used to recover the outstanding claims.

Recovery process is laid down in the RCP. The Bank's Recovery Unit engages in the recovery process with the support of the Legal Division. Defaulting instalments for more than two months puts the Bank in a position to demand immediate payments and conduct 'soft collection actions' which the Bank mostly relies on to recover arrears loans, failing which the Bank takes 'hard collection actions' as per the provisions made available to the Bank by the Debt Recovery (Special Provisions) (Amendment) Act No. 02 of 2003 and Recovery of Loans (Special Provisions) (Amendment) by Banks No. 1 and 19 of 2011 for non-performing loans.

Concentration Risk

The concentration risk denotes the risk arising from uneven distribution of counterparties (name concentration), business sectors (sectoral concentration) or geographical regions (geographical concentration), which is capable of generating losses large enough to affect the solvency.

Concentration risk in credit portfolio is due to a skewed distribution of loan to individual borrower, industry/product or a geographical location which may drive a bank towards financial distress.

Concentration by Customers

	Top 20	Top 50	Top 75	Top 100
Value (Rs. Mn)	355.3	684.0	907.5	1,102.3
Total Retail Loans and Advances (%)	0.28	0.53	0.70	0.85
Total Assets (%)	0.05	0.10	0.14	0.17

Concentration of exposures in credit portfolios is an important aspect of credit risk, therefore assess under Pillar II of BASEL II Framework. Concentration risk may arise from two types of imperfect diversification.

The first type; the 'name concentration risk' can arise from uneven distribution of exposures (or loans) to its borrowers. The second type; the 'sector concentration risk' arises from uneven distribution of exposures to particular sectors, regions, industries or products. Name concentration implies less than perfect granularity of the portfolio, while sectoral concentration implies that risk may be driven by more than one systematic component (factor).

Concentration Risk Identification and Assessment

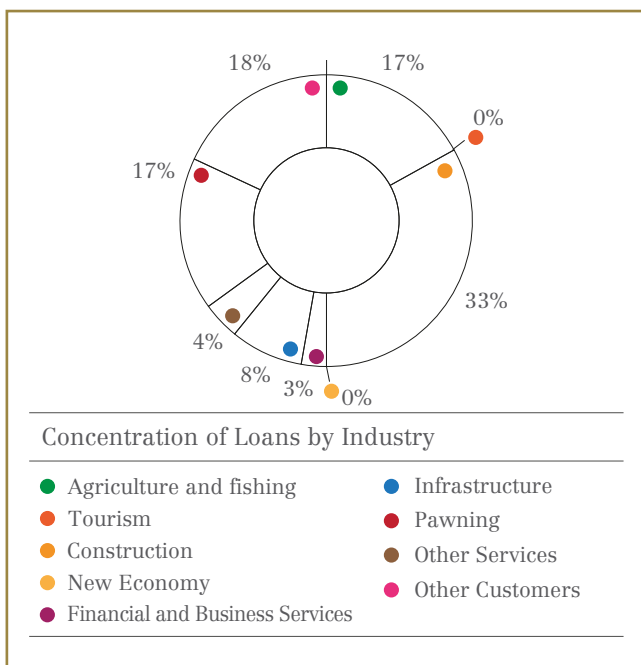
The Bank seeks to manage its concentration risk through the diversification to ensure that there are no unhealthy concentration of risks with individuals or groups of customers or institutions.

For the assessment of concentration in the portfolio, the Bank adopts the Herfindahl-Hirschman Index (HHI) method.

The concentration in total retail loan portfolio is low, where the Top 100 borrowers are below 1% of the total retail exposure.

Industry	2012	2013
HHI	0.1929	0.2089

The HHI for the Industry sector concentration in the year 2013 increased compared to the year 2012.



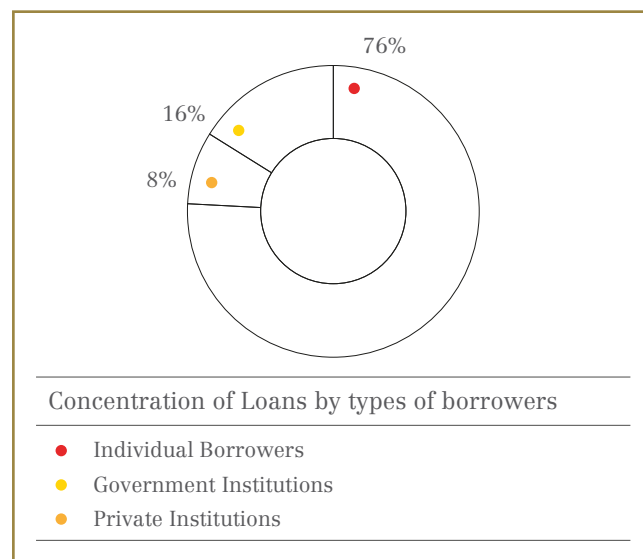
The Bank has a high concentration towards the construction industry.

Loan Category	2012	2013
HHI	0.1822	0.2041

The HHI for the Product concentration has increased in year 2013 compared to the year 2012. (Graphical presentation is given above)

The Bank's product portfolio is less diversified due to limitations of the products to be offered under the Banking Act which leads to high concentration risk. However, the low composition of total loans and

advances from the total assets has reduced the adverse impact for the Bank.

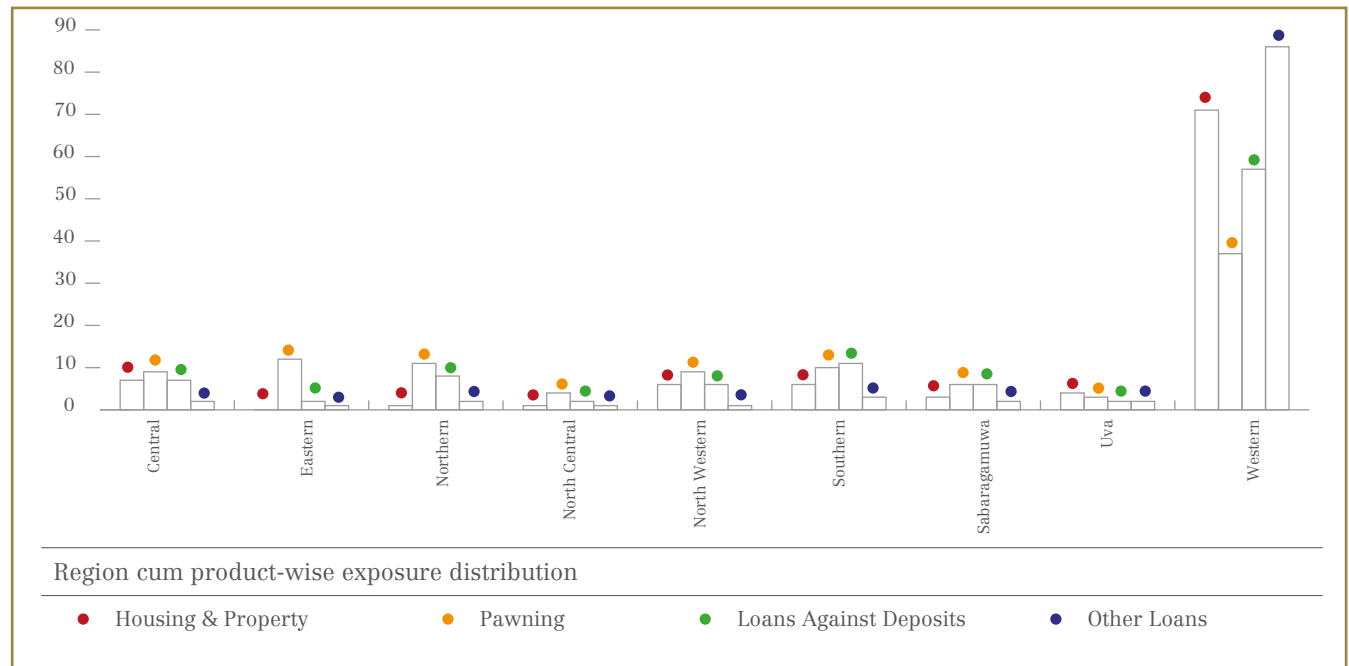
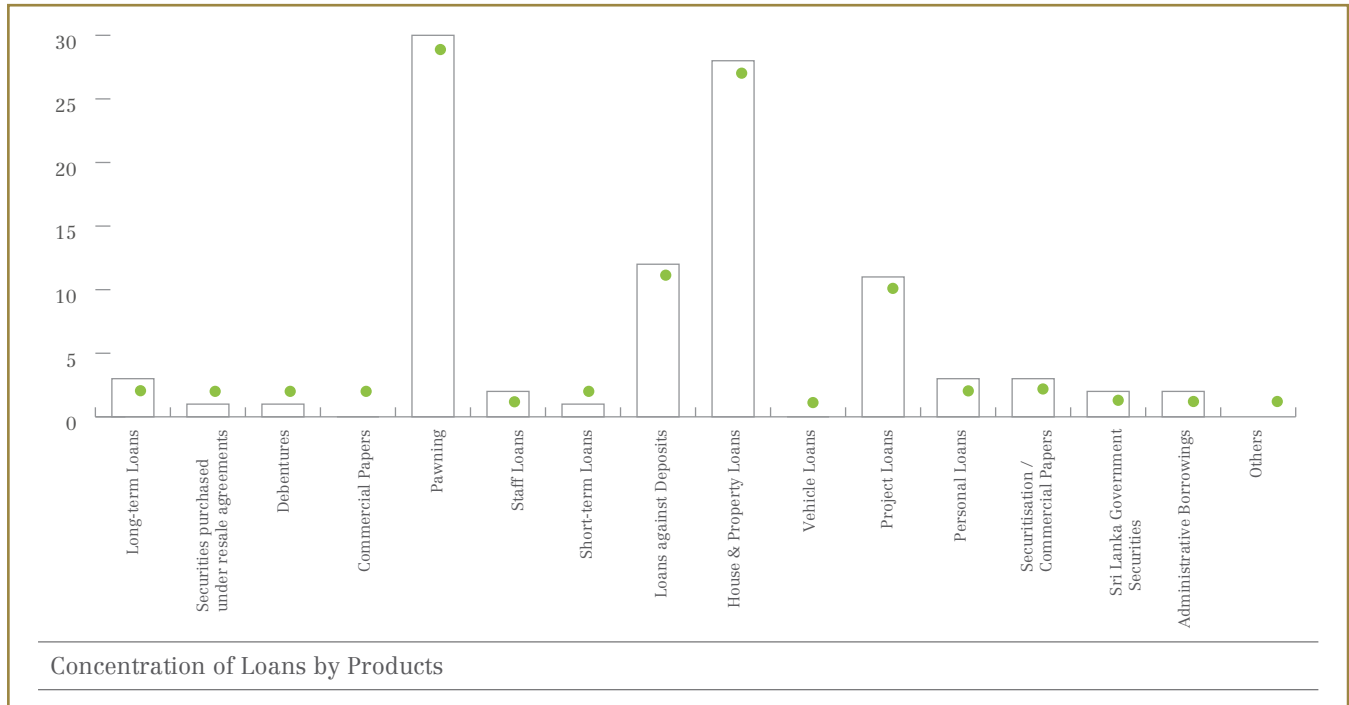


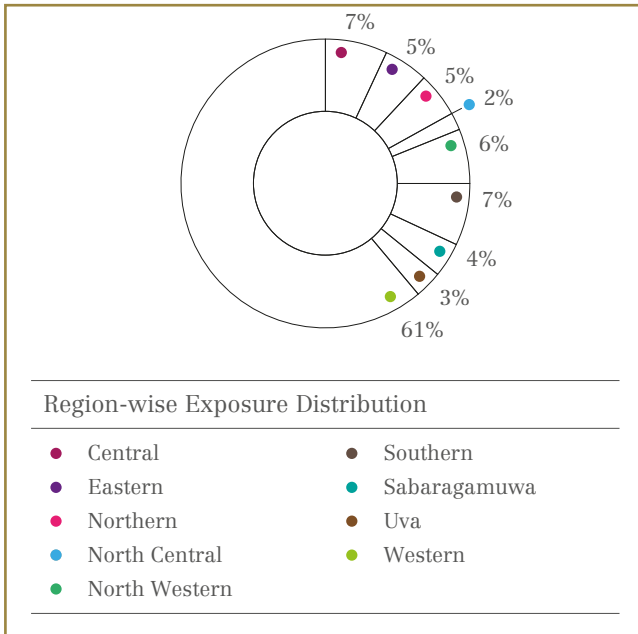
The Bank's loan portfolio consists of a large number of individual borrowers, however exposure towards the government sector may increase once undrawn commitments to SOEs are disbursed in the future.

The geographic concentration of the Bank was based on the concentration in different geographical regions and showed that there is a high concentration towards Western Region. (Graphical presentation on page 104 to 105.)

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Risk Management at NSB





Market Risk

Market risk can be defined as the risk of losses in on and off-balance sheet positions arising from adverse movements in market prices. Market risk stems from all the positions included in the Bank's trading book, foreign exchange risk as well as from commodity positions. The Bank is susceptible to market risk due to movement in the interest rates, equity prices and exchange rates and the Bank has no exposure to commodity risk.

Market Risk Management Framework

Market risk management is a systematic function on risk identification, measurement and monitoring relating to interest rates (both deposit and lending), foreign exchange and equity in order to manage/ mitigate adverse impacts. The Bank manages the market risk based on the market risk related policies, guidelines and the limit structure approved by the Board.

Management of the interest rate risk and the exchange rate risk is the responsibility of the Asset and Liability Management Committee, while the Investment Committee is responsible for managing the equity risk. The interest rate risk of the loan book is monitored by the Asset and Liability Management Committee, Credit Committee and the Credit Review Committee. Asset Management Division (AMD) on a regular basis reports to Asset and Liability Management Committee and the Investment Committee on market risks arising from business operations. The market risks are assessed independently by the RMD and reported to the Executive Risk Management Committee, Integrated Risk Management Committee and to the Board.

Market Risk Identification and Assessment

Interest Rate Risk

Interest rate risk is the risk that an investment's value will change due to a change in the absolute level of interest rates, in the spread between two rates, in the shape of the yield curve or in any other interest rate relationships. The changes in interest rates will affect the net interest income of the Bank and the value of on balance sheet rate sensitive assets & liabilities and off balance sheet positions.

Interest rate risk is one of the most significant aspects in the market risk as the changes in interest rates affect both the earnings value and the economic value of equity of the Bank. Therefore, the interest rate risk is measured in both these perspectives.

The Bank uses several techniques such as mark to market, rate sensitive gap analysis, modified duration gap analysis and stress testing to assess the interest rate risk.

Trusses Supporting Strong Bridges

Risk Management at NSB

Under the earnings perspective, maturity gap of Rate Sensitive Assets (RSAs) and Rate Sensitive Liabilities (RSLs) are assessed considering the re-pricing which is used to measure the Interest Rate Risk in the Banking Book (IRRBB). This is the simplest technique to measure the interest rate risk. The maturity/re-pricing schedule

distributes interest-sensitive balance sheet assets and balance sheet liabilities into a number of predefined time bands according to their residual maturity (if fixed rate) or time remaining to their next re-pricing (if floating-rate). The gap is arrived at subtracting the RSAs from RSLs.

Item Rs. Millions	Up to 1 Month	1 – 3 Months	3- 6 Months	6 -12 Months	1-3 Years	3-5 Years	Over 5 Years
Rate Sensitive Assets	28,727	60,353	52,207	79,382	198,063	136,576	57,419
Rate Sensitive Liabilities	91,244	163,241	85,657	141,898	14,740	98,552	2,617
Rate Sensitive Gap	(62,518)	(102,887)	(33,450)	(62,516)	183,323	38,024	54,802
Gap as a % of Total Liabilities	(118)	(63)	(39)	(44)	1,244	39	2,094

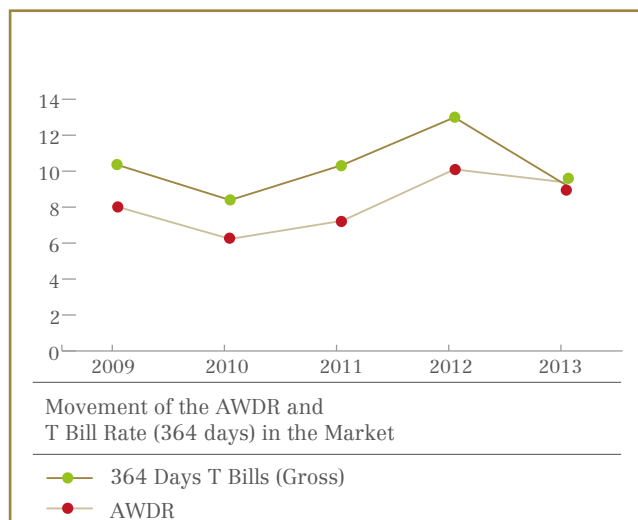
A summary of rate sensitive assets and liabilities

Note 1: The above figures have been prepared according to the SLAS and may differ from SLFRS figures given in the Statement of Financial Position/ Notes to the Financial Statements

The assets are mainly funded through deposits, which is 79% of the total liabilities, where a major portion (77%) represents Fixed Deposits (FDs) which are relatively short term. The majority of investments in the Bank represent investment in government securities in short to medium term which represents 88% of the total on balance sheet assets. The ratio of less than 12 months assets to liabilities is 1:2. Loans and advances which are mainly medium to long-term in tenure represents 31% where, the contribution to reduce the negative gap is moderate. Hence, the Bank is vulnerable to adverse movements in interest rates to a greater extent and considered as the most significant component of the market risk.

The Bank also computes the modified duration gap to calculate the interest rate risk under the economic perspective. The weighted average duration of rate sensitive assets are subtracted from that of liabilities to arrive at the duration gap. The results will be used to measure the IRRBB and take corrective actions accordingly.

The Bank is subject to high interest rate risk due to declining in the yield of government securities.



Duration of Key Asset and Liability products

Assets / Liabilities	Out Bal (Rs. Mn)	Portfolio Modified Duration
Assets		
Treasury Bills - HTM	66,456.50	0.43
Treasury Bills - IFA	1,847.39	0.46
Treasury Bonds - Trading	7,806.30	1.91
Treasury Bonds - HTM	260,851.38	1.90
Treasury Bonds - IFA	549.34	5.57
House and Property Loans	44,246.35	5.29
Personal Loans	5,594.99	2.22
Auto Loans	301.56	0.03
Project Loans	15,842.47	4.91
Pawning	52,181.37	0.26
LFD	16,837.09	1.80
Rupee Loan	4,000.00	3.67
Administrative Borrowings	11,862.40	0.69
Investments from Bond Proceeds	101,823.01	2.46
Liabilities		
Fixed Deposits	352,680.07	0.42
Repo	19,724.85	0.24
Subordinated USD Bond	98,250.00	3.69

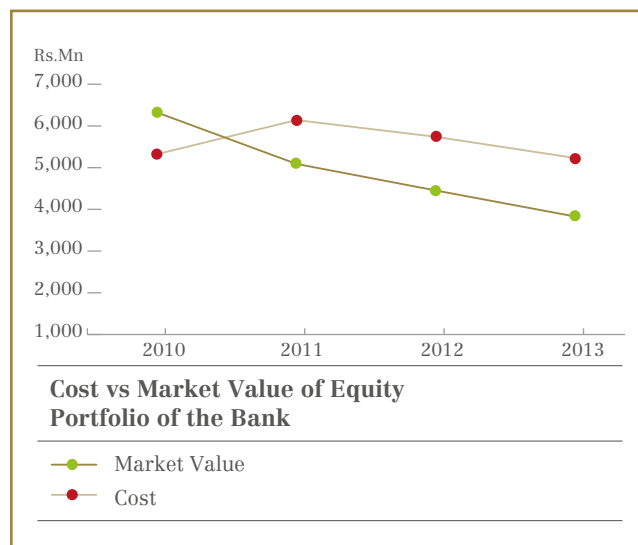
Note 2: The above figures have been prepared according to the SLAS and may differ from SLFRS figures given in the Statement of Financial Position/ Notes to the Financial Statements.

Equity risk

Equity risk is the risk that the individual's equity/debt investments will depreciate because of stock market dynamics causing one to lose money. The Bank is conscious of systematic and unsystematic risks of the equity portfolio.

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

VaR is computed internally and yet to be validated. The calculations are carried out as per the guidelines given by the BASEL Committee on Banking Supervision taking 365 days, a 10 day holding period and a 99% confidence level. The 10 day VaR computed on the above basis as at 31st December 2013 under the exponentially weighted moving average method is Rs. 93.16 Mn, which is within the risk appetite limits of the Bank.



The investments in equity represent 1% of the total assets of the Bank. Majority of the quoted equities (97%) are invested in listed equities while only the remaining (3%) is invested in unit trusts.

Trusses Supporting Strong Bridges

Risk Management at NSB

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. Foreign exchange risks arise for a bank when exposures or liabilities are accepted in a foreign currency and are not offset by a corresponding position or derivative transaction.

The Bank accepts savings and FDs in major currencies from customers and hedges the foreign exchange risk by investing those in more or less in the same tenure. Further, the Bank selects the investing banks based on their rating and the ownership. At present, the Bank has minimised the risk through investing in banks with higher notches of rating.

During the latter part of the year 2013, the Bank issued an International Bond with a tenor of five years amounting to USD 750 million which has a bullet payment at maturity. 50% of the proceeds from the Bond have been invested in Sri Lanka Development Bonds in USD. From the remaining amount of USD 375 million, 25% is to be used in foreign currency loans of which foreign currency risk is zero since coupon payment and capital repayment in USD and also the loan will be backed by government guarantee. The balance 25% bears currency risk due to converting in to LKR and lending to SOEs. The Bank has entered in to a SWAP agreement with CBSL to reduce foreign currency risk of capital payment. The coupon payment of the final portion of the 25% is exposed to foreign currency risk. Hence, the foreign currency risk of the Bank is limited only for the coupon payment.

Statement of maturities of foreign currency assets and liabilities, stress testing on the foreign exchange rate movements are used to assess the foreign exchange risk of the Bank.

Market Risk Monitoring, Reporting and Mitigation

Maintaining an acceptable level of portfolio of assets and liabilities and to manage the market risk within the risk appetite of the Bank is the responsibility of Asset and Liability Management Committee. The Treasury and Assets and Liability Management Policy and the Investment Policy set out the guidelines and limits to strengthen the control structure and decision making process.

Assets and Liability Management Committee assess the impact of movement in market rates to the underlying value of assets and liabilities and take corrective action to minimise impact on net interest income based on the findings from detailed analysis using techniques such as trend analysis, rate sensitive gap analysis, stress testing etc. and take pricing decisions to maintain the asset and liability mix to suit the changes in the market conditions.

It is a main concern of the Investment Committee of the Bank to minimise equity risk through maintaining a healthy portfolio of equity investments.

With respect to foreign exchange risk, Assets and Liability Management Committee tries to balance the maturity mismatch of foreign currency denominated assets and liabilities to prevent adverse impact to the income statement due to foreign exchange movements.

The Bank during the year has initiated a number of actions such as changing the organisation structure, re-designing the risk monitoring function, improvements of systems and procedures etc. to improve the market risk management challenges foreseen in the future.

Liquidity Risk

Liquidity risk is the risk to a bank's financial condition and soundness arising from its inability to meet contractual obligations, both on and off balance sheet. The role of banks in the maturity transformation makes banks inherently vulnerable to liquidity risk.

Liquidity Risk Management Framework

It is the responsibility of the Assets and Liability Management Committee to make liquidity decisions while operational responsibility lies with the Middle Office of the AMD. They are also responsible to abide by the directions issued by the CBSL in managing the liquidity risk. RMD reports on liquidity to Assets and Liability Management Committee and the Board of Directors independently.

The Bank's regulatory requirement to invest 60% of its deposits in Government Securities forces the Bank to maintain a high Statutory Liquid Asset Ratio. Currently, the Bank maintains the ratio at 93% which is well above the statutory requirement of 20%. The investment in government securities represents 97% from the total liquid assets of the Bank.

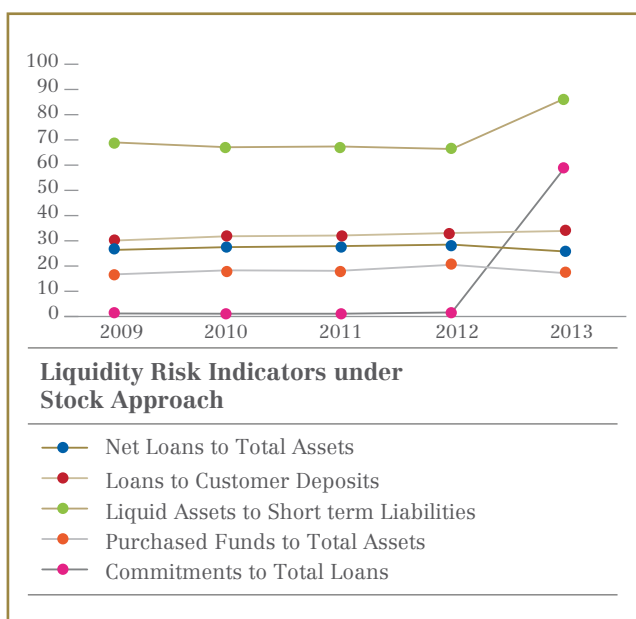
Further, the Bank's off-balance sheet exposure is limited and therefore a very minimal risk of unforeseen liquidity issues would arise. The Bank can access comfortably the inter-bank market in a situation of liquidity problems due to its large investments in Treasury Bills & Treasury Bonds, government affiliation and reputation in the market place.

Liquidity Risk Identification and Assessment

The Bank uses CBSL guidelines to measure the liquidity risk such as Ratios under Stock Approach, Maturity of Assets and Liabilities under Flow Approach, Statutory Liquid Asset Ratio (SLAR) and Stress Testing.

Stock Approach

According to the stock approach, the Bank is in a comfortable position with respect to liquidity. As a result of the mandatory requirement to invest 60% of deposits in government securities, the loans to deposit ratio is low.



Trusses Supporting Strong Bridges

Risk Management at NSB

Floor Approach

The Bank's liquidity is highlighted through maturity mismatch of assets and liabilities which is not surfaced under the Stock Approach. The following table highlights mismatch of assets and liabilities.

	Upto 1 Month	1-3 Months	3-6 Months	6-12 Months	1-3 Years	3-5 Years	Over 5 Years
Total Assets (A)	32,824	67,993	55,446	84,137	198,657	136,848	76,076
Cash	515	-	-	-	-	-	-
Due from Banks	5,741	3,620	1,875	2,820	-	-	-
Investments-Current	8,486	46,669	40,280	57,726	162,964	123,496	20,452
Loans & Advances	14,499	10,064	10,051	18,837	35,099	13,081	40,127
Loans & Advances - Non-performing	-	-	-	-	-	-	9,568
Fixed Assets	-	-	-	-	-	-	5,252
Other Assets	3,583	7,640	3,239	4,755	594	272	677
Total Liabilities (B)	96,321	170,975	94,947	145,610	16,932	98,695	28,503
Deposits	81,363	161,282	83,224	137,037	13,990	302	-
Borrowings	9,881	1,959	2,433	4,862	750	98,250	2,617
Other Liabilities	5,077	7,734	9,290	3,712	2,192	142	300
Total Capital Fund	-	-	-	-	-	-	25,586
Maturity Gap (A - B)	(63,497)	(102,982)	(39,501)	(61,473)	181,725	38,154	47,574
Cumulative Gap	(63,497)	(166,478)	(205,979)	(267,452)	(85,727)	(47,574)	0

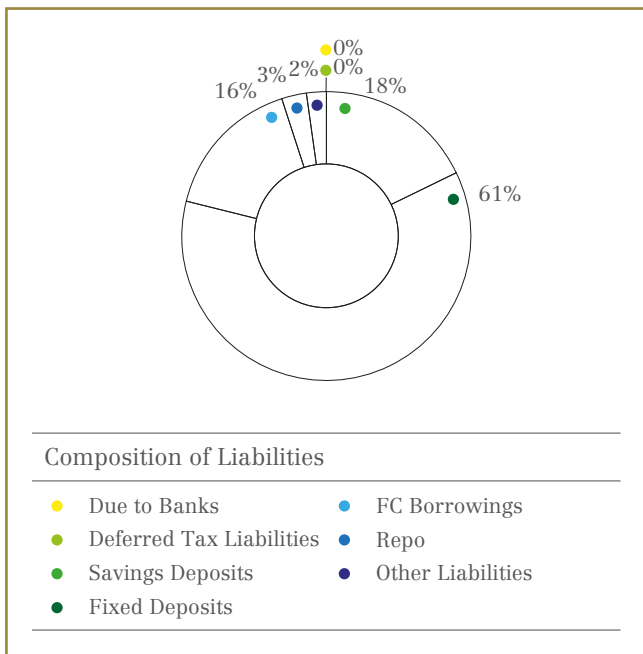
Note 3: The above figures have been prepared according to the SLAS and may differ from SLFRS figures given in the Statement of Financial Position / Notes to the Financial Statements.

The maturity table above indicates a high negative maturity mismatch in the first four maturity buckets highlighting a higher liquidity risk. However, this needs to be analysed with the composition and behavioural pattern of the liabilities and the nature of the assets that can be utilised at a time of liquidity crisis. This is partly addressed from the examination of nature and the trends of the liabilities. The following graph indicates the composition of the Bank's liability base and the trend of the deposits over the past five years.

The pattern of time and savings deposit over the last 5 years shows a consistent increase, with increase in Fixed Deposit being more pronounced than savings.

As of 31st December 2013, Fixed Deposits represented the largest item in the liabilities base amounting to 61% of which a majority are individual deposits (75%). Being a state savings bank, there is a remote possibility for a substantial portion of individuals to demand their Deposits at once.

Though there is a maturity mismatch in the first four buckets, the Bank can easily use high liquid assets to fulfil the obligations with minimum cost.



Statutory Liquid Assets Ratio (SLAR)

The Bank has at all times maintained the SLAR well above the statutory requirement of 20% and the industry average due to the holding of a higher portion of assets in Government Securities.

Liquidity Coverage Ratio (LCR)

The BASEL Committee on Banking Supervision has introduced the LCR to strengthen the liquidity positions of banks and is to be implemented by the year 2016. The Bank calculated LCR based on the guidelines given by the CBSL and observed that the ratio is well above the minimum requirement under BASEL III due to the high investments in Government Securities. The stress test

results carried out by the Bank also indicated that the Bank is in a comfortable zone in terms of liquidity.

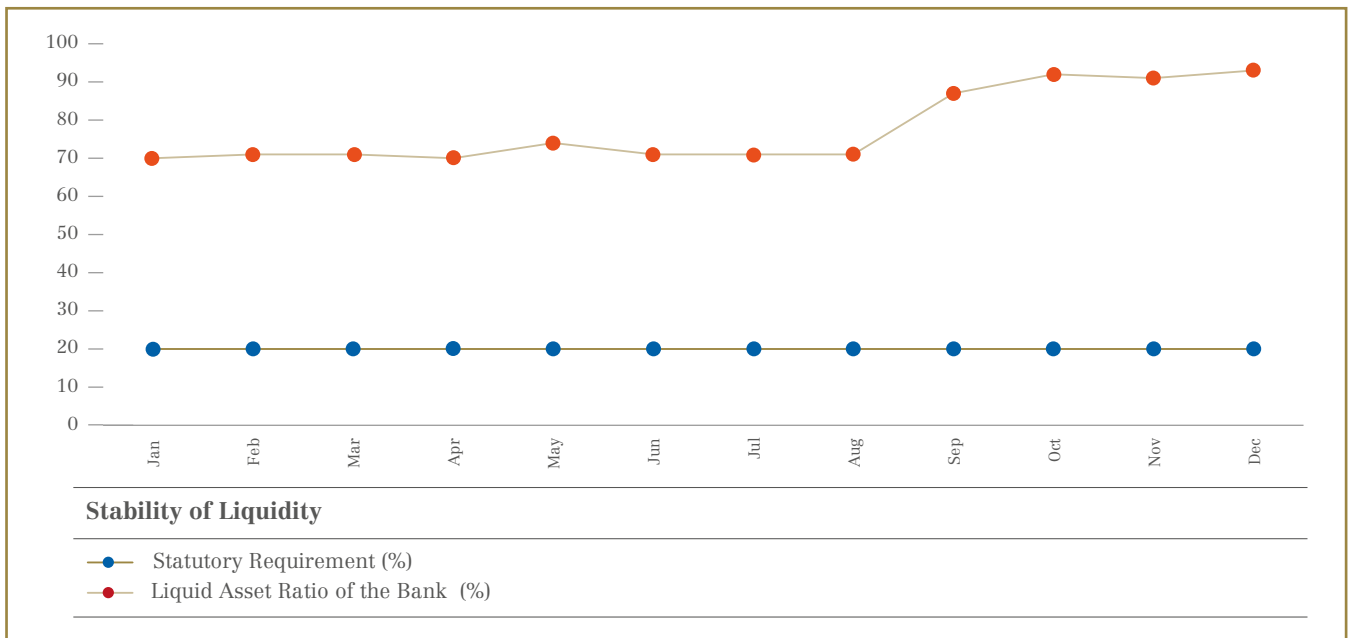
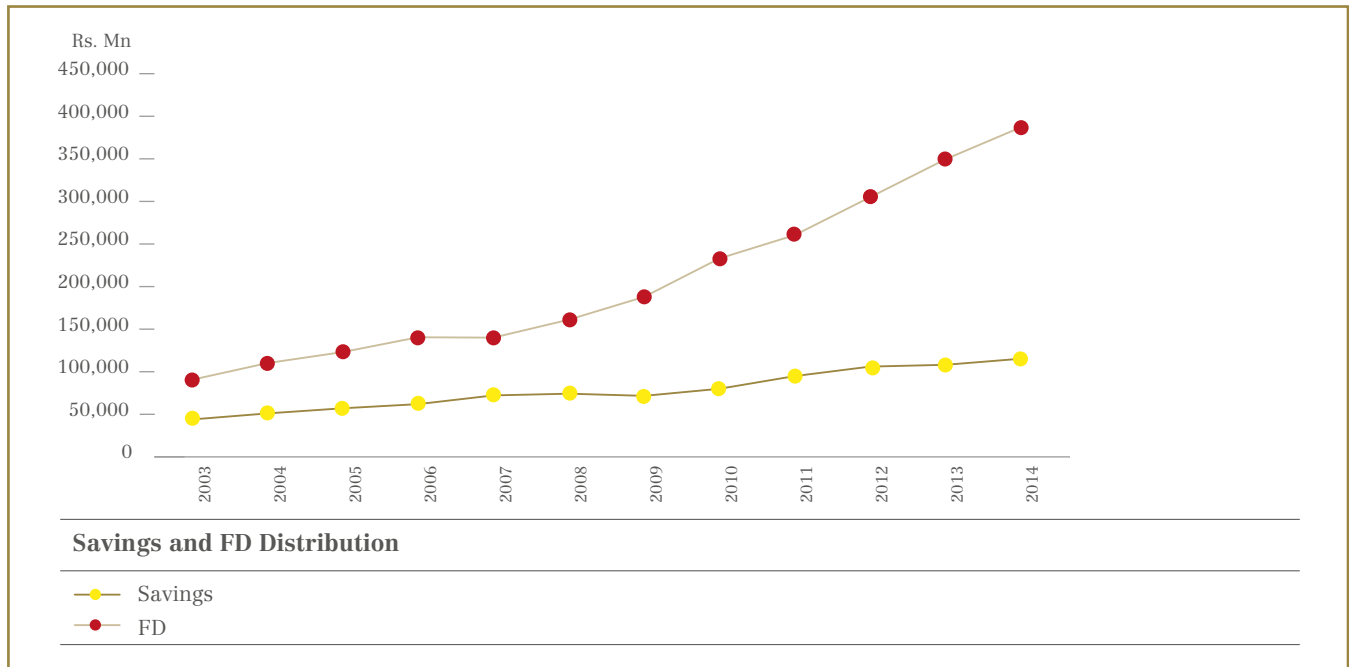
Liquidity Risk Monitoring, Reporting and Mitigation

ALCO on a regular basis monitors the magnitude of the maturity gap of assets and liabilities to ensure there will be no liquidity issue in the day to day functioning. The middle office of the AMD is responsible for operational level assessment/ monitoring and reporting of liquidity to support the decision making and for regulatory compliance.

It is evident from the assessment that the Bank is not exposed to liquidity risk even though there is a negative gap in the first four maturity buckets under the floor approach. The Bank's high investment in liquid assets will make it possible to fulfil all obligations as and when they fall due. Further, being the only state bank with a 100% government guarantee for its deposits, will act as a liquidity contingency plan in a crisis situation.

Trusses Supporting Strong Bridges

Risk Management at NSB



Operational Risk

Operational Risk, by definition is inherent in internal processes, people and systems or from external events as per the BASEL Accord and it includes legal risk, but excludes strategic and reputational risk.

In general, managing operational risk is emerging as an important element of sound risk management practice of the Bank in the wake of phenomenal increase in volume of transactions, growing sophistication of technological support systems, introduction of e-products and structural changes.

Operational Risk Management Framework

The Bank's Operational Risk Management (ORM) framework provides a mechanism for improving the overall risk practices and behaviour towards ORM. In order to achieve more efficient, transparent, profitable and sustainable business operations, the Bank is in the process of establishing a conducive ORM framework.



➤ Operational Risk Management Framework

The Bank has taken action to establish an organisation structure to align with corporate governance and the Integrated Risk Management guidelines issued by the CBSL. The three lines of defence model demonstrate and structure roles, responsibilities, accountabilities

to achieve effective governance, risk management and assurance.

ORM function acts as a second line of defence and has assigned overall responsibilities of implementing the Board approved operational risk management policy of the Bank. Further Executive Risk Management Committee and other operational committees are directly involved in the operational risk management and monitoring process.

The Bank's operational policies, manuals, circulars, provide guidelines/ directions for operational aspects and Operational Risk Management Policy stipulates directions on ORM. The Bank has broadly identified the ORM function within the operational units and initiated links to risk management functions through the risk management Liaisons Officers at each business division.

Operational Risk Identification and Assessment

The Bank's operational risk is identified and assessed through a systematic process. The risks are assessed based on severity and frequency. The Bank uses following tools/sources for the purpose of ORM.

- Internal and external loss data collection / analysis
- Key Operational Risk Indicators (KORI)
- Business process analysis and internal control examination
- Internal/external audit findings
- Assessment of new product/processes

Operational Loss Event Data

Incident reporting mechanism and the loss event data reporting mechanism, which goes hand in hand to enable the Bank to have a comprehensive loss database as per BASEL guidelines, covering all types of losses taken place in business lines. Loss events of branches

Trusses Supporting Strong Bridges

Risk Management at NSB

are collected and reported to RMD by the Branch Management Division and other divisions report directly to RMD. Analysis of the loss events are reported to the Executive Risk Management Committee at the end of each quarter by RMD. The loss events which exceed the regulatory threshold are reported quarterly by RMD.

Analysis of reported Loss Events:

Compared to the year 2012 the incidents of external frauds have increased significantly during the year 2013. The frequencies relating to loss events, ‘Damages to Physical Assets’, ‘Business Disruption and System Failures’, and ‘Execution Delivery and Process Management’ have decreased during the year 2013. There were no incidents reported on ‘Client Product and Business Practices’.

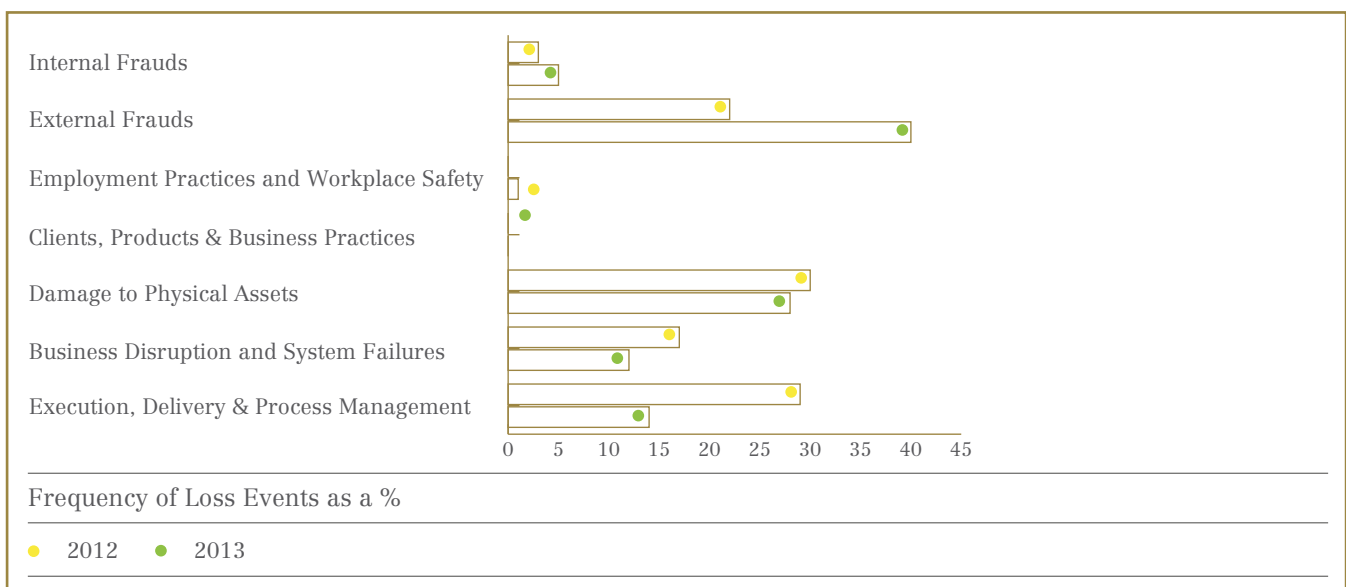
The severity of Internal Frauds has increased during the year 2013 though the frequencies of Internal Frauds remains low. This is because there were few cases which amounted to high gross value relating to retail business operations.

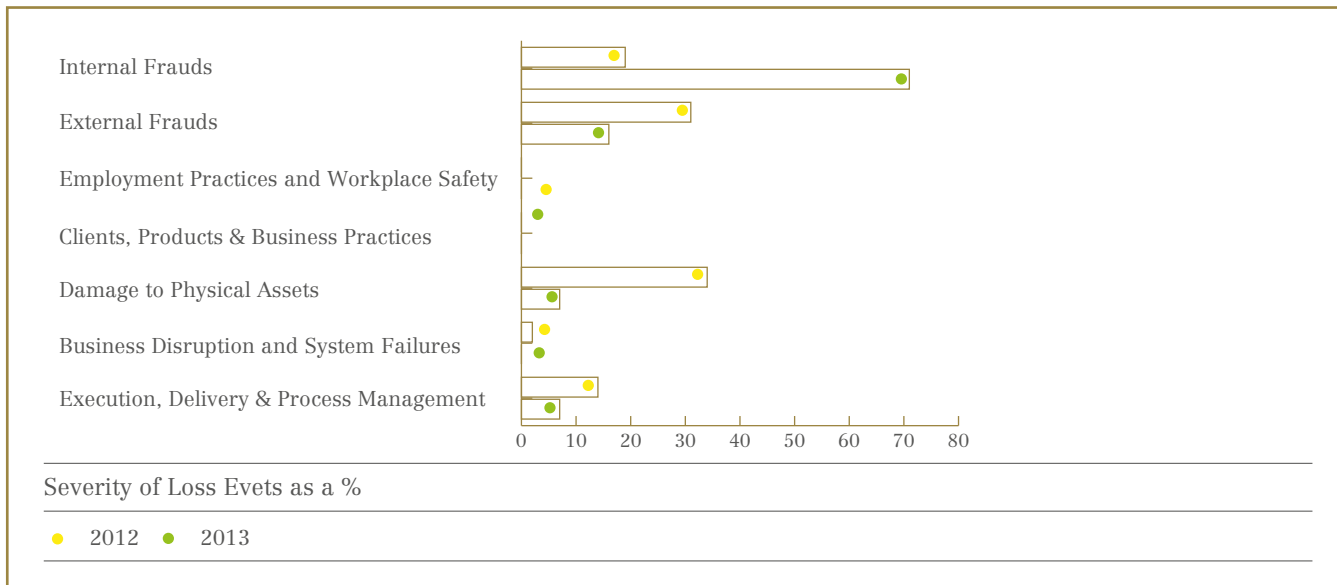
Key Operational Risk Indicators (KORI)

Key Operational Risk Indicators are defined as “Statistics and/or metrics, often financial, which can provide insight into the Bank’s operational risk position”. These indicators are reviewed on a periodic basis to alert the Bank to changes that may be indicative of risk concerns. Such indicators may include the number of loss making branches, frequency/severity of internal frauds, number of dry runs at Disaster Recovery (DR) site etc. The Bank has identified KORIs relating to key areas of operational to act as early warnings of potential risks or losses under the Operational Risk Policy.

Business Process Analysis and Internal Control Examination

The Bank undertakes business process analysis which enables business units to identify key risk points, individual risk inherent and risk interdependencies and areas of controls or risk management weakness. Details with respect to fraudulent incidents errors and omissions are obtained from IAD to perform root cause





analysis to improve the process/procedures and control environment.

Internal audit findings are a primary source for examination of control weaknesses and vulnerabilities and therefore they can also provide insight into inherent risk due to internal or external factors. Further, RMD maintains a risk register and takes measures/informs on findings to relevant divisions/authorities to take mitigation actions.

Operational Risk Vs Minimum Capital Requirement

The Bank is currently applying Basic Indicator Approach (BIA) for capital allocation for operational risk. Actual gross loss amount from operational loss events when compared with capital charge under BIA is low. The Bank is in the process of moving towards the standardised approach.

Operational Risk Monitoring, Reporting

Business owners/operational divisions report matters, vulnerabilities of operational risk to the RMD directly or through operational committees. While functioning independently, IAD and Compliance Divisions share their findings with the RMD to ensure continuous improvement in business processes / procedures and the internal control structure.

The information and the findings of the risk assessment process are used to establish the operational risk profile of the Bank which is communicated to the Board through the Executive Risk Management Committee and Integrated Risk Management Committee on a regular basis.

The operational divisions are responsible for taking corrective actions (process improvements, control establishment etc.) for the operational weakness identified as per the decisions given by Senior Management.

Trusses Supporting Strong Bridges

Risk Management at NSB

Operational Risk Mitigation

A sound internal control system with clear risk management responsibilities and accountabilities is a key to minimise operational risk. The Bank's internal control system is structured in a way to ensure oversight, to detect and prevent operational vulnerabilities; which are under the vigilant supervision of the IAD.

The Training Division of the Bank provides the staff with continuous training to enhance performance of the day to day activities with adequate awareness on the risk under taken. Hence, the Bank expects to build a risk aware culture.

Management has identified that the advancement in IT is a prerequisite to have a conducive organization structure covering the entire Bank for operational requirements (efficiency and controls) and implementation of an effective IRM Framework. As per the IT Strategic Plan, the Bank is planning to deploy a core banking solution covering all business aspects to meet current and future challenges. Apart from the core banking solution, the Bank's IT Strategic Plan has identified priority areas, such as Asset & Treasury Management, Anti Money Laundering and Credit Scorings for automation.

The Bank further undertakes the following process / procedures to minimise the operational risk of the Bank.

Business Contingency Plan/ Disaster Recovery:

The Bank's Business Continuity Policy defines the intent of the management to establish a Business Continuity Plan (BCP) to counteract interruptions to business activities. The Bank has already initiated to establish a comprehensive Disaster Recovery Plan (DRP) and Business Contingency Plan (BCP) in line with CBSL guidelines to handle failures and switch to alternative service providers at short notice. IT steering committee

addresses DRP in an acceptable manner to minimize losses in the event of severe business disruption.

Insurance: The Bank uses Insurance as a risk transfer mechanism for operational risk to cover risk events with high severity and low frequency such as damages to physical assets due to unforeseen events, i.e. natural disasters (fire, floods etc), burglary, riots etc. Further, some of the losses from operational activities such as frauds, errors & omissions and physical loss of securities are covered above a certain threshold by the Bank's Indemnity Policy.

Information System Security: It is essential for the Bank to ensure that informations is secured from destruction, corruption, unauthorised access and breach of confidentiality, whether accidental or deliberate. Secured communication is needed for both the Bank and its stakeholders to benefit from the advancements that are empowering the Bank. The Bank, during the year, has established an Information System Security Policy and the implementation is in progress.

Legal Risk

Legal risk falls within the definition of operational risk. It arises due to legal implications of failed systems, people, processes or external events. The responsibility of executing legal action on behalf of the Bank is vested with the Legal Department. The Bank's Legal Division consists of experienced legal officers and the division is in the process of strengthening organisational structure by recruiting officers and introducing new cadre positions.

Strategic Risk

Strategic risk is the risk of losses that might arise from the pursuit of an unsuccessful business plans or inability to implement appropriate business plans. Strategic risk might arise from poor decision making, from substandard execution of decisions, from inadequate resource allocation or from failure to respond well to the changes in the business environment. Therefore, strategic risk may arise due to internal and/or external reasons, causing adverse impact on earnings & capital of the Bank.

The Board of Directors retains the overall responsibility for strategic risk, to take strategic initiatives to exploit business opportunities. Senior management ensures that there is an effective strategic risk management process by transforming the strategic direction given by the Board through policy and procedures. The senior management has an understanding of the nature and level of the various risks associated with the Bank and how such risks fit within the overall business strategies.

The Bank has a well articulated corporate planning and budgeting process to set the strategic direction and a robust monitoring mechanism is in place to minimise risk on earnings. Under Pillar II, the Bank assesses the strategic risk management using the scorecard approach

Reputational Risk

Reputational risk is the potential that negative publicity regarding the Bank's business practices, whether true or not, will cause a decline in customer base, costly litigation or revenue reduction. For a financial service provider reputation is a key source of competitive advantage since trust and confidence is understood to be the key business drivers. Being the state savings bank with 100% government guarantee, the Bank does its utmost to safeguard reputation.

Reputational risk exists in the overall business model of the Bank. The Bank is therefore dedicated to manage reputational risk by promoting strong corporate governance & risk management practices at all levels, by understanding how different aspects of its business activities affect stakeholders, through effective communication in the form of timely and accurate financial reports and news bulletins, by maintaining a strong media presence, valuable customer service and investor relationships and by complying effectively with current laws and regulations.

The Bank uses a score card model to measure and monitor reputational risk under Pillar II. The model is internally built and gives scores to the reputational risk base on the potentials to tarnish the reputation due to business failures, operational failures, market perception and management action.

Compliance Risk

The compliance can be defined as acting in accordance with rules, laws, orders or regulations applicable to the corporate business. This includes identification of the laws and regulations pertaining to each aspect of operations, making all employees conversant with such laws and regulations, conducting of random tests periodically to ensure compliance and setting out ethical standards of conduct for employees and ensuring that employees adhere to the standards set out. The Bank assesses compliance risk using scorecard based qualitative assessment developed internally.

Trusses Supporting Strong Bridges

Risk Management at NSB

Capital Adequacy

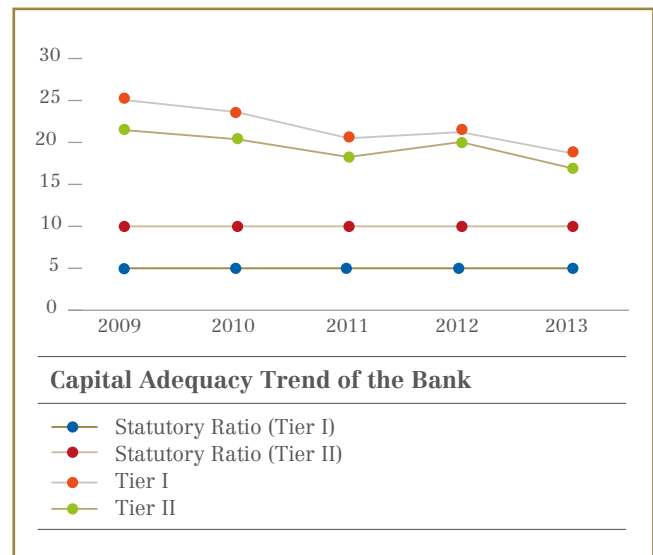
The capital adequacy is a measure of solvency for a financial institution. It measures the ability to absorb the unexpected losses with confidence so that the Bank functions without the threat of liquidation for the foreseeable future.

Capital Adequacy Ratio(CAR) is a measure of the Bank's capital expressed as a percentage of risk weighted assets for credit, market and operational risk based on the guidelines given by CBSL. Under BASEL II Pillar I, the Bank uses a Standardize Approach for Credit Risk, Standardised Measurement Approach for Market Risk and The Basic Indicator Approach for Operational Risk capital calculations.

Under BASEL Accord, two types of capital are measured: Tier I capital, which can absorb losses without a bank being required to cease trading, and Tier II capital, which can absorb losses in the event of a winding-up. Banks are required to maintain minimum of 5% of Tier I CAR and minimum of 10% of Tier I plus Tier II CAR.

Description	Rs. Mn	
Total Eligible Core Capital (T 1 Capital)	18,880	
Total Capital Base	17,271	
Total Risk Weighted Assets	93,729	
		Mix %
Credit Risk	57,912	62%
Market Risk	11,067	12%
Operational Risk.	24,750	26%
Capital Adequacy Ratio -T 1 (%)	20.14	
Capital Adequacy Ratio -T 11 (%)	18.43	

As at 31st December 2013, The Bank maintains Tire I CAR of 20.14% and a Tire II CAR of 18.43% which is above the regulatory minimum level stipulated by the CBSL. This is an indication of the financial stability and the ability of the Bank to increase the assets through lending and investment.



Internal Capital Adequacy Assessment Process

The supervisory review process is a key component of the BASEL II framework. Based on the CBSL directions on implementation of supervisory review process, the Bank has developed and documented the Internal Capital Adequacy Assessment Process (ICCAP), based on CBSL guidelines on a proportionate basis, taking in to account the size, nature and the complexity of business activities.

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

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

The objective of the Bank's ICAAP framework is to devise procedures and measures to ensure that the:

- Risk identification and measurement processes are appropriate;
- Level of internal capital commensurates the Bank's risk profile;
- Risk management systems are suitably developed and applied.

ICCAP document prepared by the Bank serves the requirement under the supervisory review process and also acts as a blue print on the financial solvency of the Bank, forecasting capital adequacy for the future base on projected financials, stress test results covering all material risk areas.

Capital Management

The Bank's capital management model consider both regulatory and economic capital to protect the Bank, its customers and the economy. The Bank's capital management objectives are to

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

The Bank strives to maintain the optimum capital since higher capital, restricts the leverage of the Bank which in turn affects the profitability. The Asset and Liability Management Committee headed by the GM/CEO reviews actual and forecasted capital to ensure capital adequacy to achieve the capital management objectives. In addition, the RMD analyses the impact of stress scenarios in order to understand and manage projected capital adequacy targets.

Trusses Supporting Strong Bridges

Risk Management at NSB

Stress Testing

Stress Tests and scenario tests focus on the effect of various conditions on earnings, capital requirements and liquidity of the Bank.

Stress testing is an integrated test that shows to varying degrees whether the Bank can withstand unforeseen scenarios of varying severity under adverse various economic, political and physical changes to the environment in which it operates.

Stressed scenarios highlight potential problems. They enable managers to see what might go wrong, how it might go wrong and how badly it affects the Bank.

Further it allows them to identify opportunities for rapid and effective responses.

Stress test reveals weaknesses which, can prevent a crisis or reduce the severity of a potential crisis by addressing revealed vulnerabilities before any threats materialise, through good advance planning.




The RMD consider a number of factors both internal and external to carry out stress testing and typically use three levels of severity for each scenario.

Some of the key scenarios that the Bank carries out for stress testing are given below.




Stress Test on Liquidity Risk

Stress Condition	LAR
Reduction in Liquid Liabilities by 30%, hence reduction Liquid Assets by 30%	90


Stress Test on Interest Rate Risk – Increase in Interest Cost by

Existing Total CAR	Scenario 1 5%	Scenario 2 10%	Scenario 3 15%
18.43	16.56	13.65	10.74
Risk Tolerance Level			

Stress Test on Credit Risk – Increase in NPL of the Pawning Portfolio by

Existing Total CAR	Scenario 1 15%	Scenario 2 20%	Scenario 3 25%
18.43	16.65	16.00	15.38
Risk Tolerance Level			

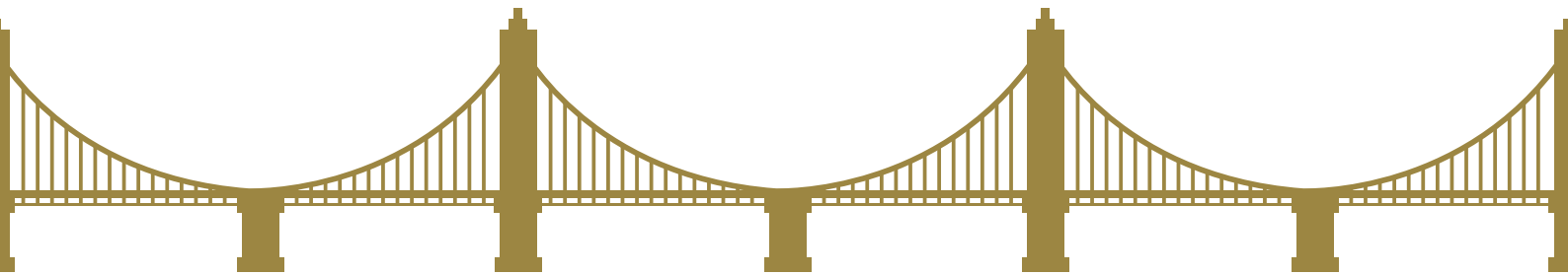
Stress Test on Foreign Exchange Risk – Impact of 1% Drop of the Interest Rate on 25% of the Portfolio

Existing Total CAR	1% Drop of the Interest Rate on 25% of the Portfolio
18.43	17.15
Risk Tolerance Level	



Chapter 5

Sustainability Review



Bridging Sri Lanka to the world
with a sustainable value network

Bridges that Herald Sustainable Stakeholder Value

Sustainability Report

Strategy and Analysis

A message from the Chairperson

For a bank that has consciously worked on bridging each stakeholder segment to the ultimate vision and ethos of this Bank as well as the nation, the blueprint we have worked on has been visionary and futuristic. We are unequivocally responsible for upholding the expectations and aspirations of our stakeholders, but at the same time, we have been named the trusted custodian of the people of this nation. This trust and responsibility are two facets we take very seriously as this means that each action and impact of this action must ensure that this trust and responsibility is reflected.

The last forty years and more has been spent in investing our vision and our goals into continually improving and developing the multi-faceted dynamics we can imbue into the people of Sri Lanka. We have always believed in being the bridge that would help the nation walk over into an era of betterment and development. After four decades, we do believe we have done exactly that. Long term sustainability is where we have bridged ourselves, ensuring that our business operations will be consistent, continuous and placed on the bridge that would create long term sustainability for our stakeholders.

Sustainability therefore becomes ingrained into our decision making, actions and impacts. Having initially used the savings base as our foundation, over the years we began shaping and transforming the way we do things to create a more dynamic multi-faceted institution that will play a larger proactive role in the nation's development. Being a large scale public financial institution, we are truly the custodians of the nation's investments, investments which we utilise within the three pronged sustainability principles of economic,

social and environmental sustainability. This year too, we continued this quest, keeping our focus on improving NSB on all three platforms, via numerous pathways and avenues that eventually lead to the strengthening of the bridge we have built.

By adding value to the services we offer to the people of Sri Lanka, we know that we have thus impacted a wider range of stakeholders over the years. This also meant that our interventions have been progressive and penetrative. While the overall banking industry did see a year that was fraught with some volatility and challenges, a feature that echoed in our economic indicators as well, NSB did revert to our age old fundamentals of being more emphatic in growing our savings base to maintain it at the third largest customer deposit base in the country. Given the intense competition we faced, this is surely an accolade. Our accessibility too has been widened strategically for wider penetration and therefore strengthening our savings base.

With IT playing a vital role in ensuring that our products and services ultimately meet the goals of sustainable long term investment and development, modern technological initiatives including improvements to our Internet and SMS banking facilities continue to be infused. The imperatives for the initiation of the Core Banking Solution is being implemented, which will ensure more efficient processes and systems aimed at enhancing our customer service delivery, which together with a continuous knowledge gaining culture imbuing into our environment, has seen our team add immense value to our mission and objectives.

A massive advantage that NSB possesses is the fact that we are a wholly owned Government entity, giving stakeholders added security and confidence when

forging relationships with us and minimising risk in an overall context. This also paves the pathway for NSB to be more active in national development initiatives, where our investments, lending and other projects are well entrenched into maximising benefits to the overall economy, which is vital at this point of the nation's history, given that Sri Lanka is pursuing an aggressive development agenda and equally ambitious national goals.

Strongly believing that savings is a definite means of poverty alleviation, NSB has been very cognisant of ensuring that the people of Sri Lanka are more focused towards building their own savings base. This is being done strategically and with massive intervention by our team who wholeheartedly believe in this ethos. By helping low income groups and rural communities to build a strong savings base, we are helping them to build bridges that would eventually link to our larger one. The north and east of the country has also gained much emphasis where multi-dimensional loans and project financing have been extended to uplift communities.

Having concentrated considerably on our economic and social fundamentals to build a strong and sustainable financial entity, NSB has been working on environmentally friendly initiatives as emphatically. While the emphasis may not have been as assertive as in the economic and social platforms, from this year, we intend changing this paradigm, taking on that facet of the triple bottom line reporting concept in its true sense, being acutely conscious of our responsibility in conserving the environment.

Our social interventions are based on the platforms of education, enabling the disabled, women & health and empowering the aged. These have been envisioned to create myriad benefits to the communities we interact

with, giving them a sustainable bridge to travel over when aspiring their individual and collective goals. Our journey towards sustainability has been continued but we do know, that given our strategic intent, it is a journey that will see us bridging our triple bottom line fundamentals with those of our stakeholders, ensuring long term stakeholder value through a balanced and visionary business culture that will ultimately benefit the people of Sri Lanka.



Ms. W.A. Nalani
Chairperson

Colombo
25 April 2014

Bridges that Herald Sustainable Stakeholder Value

Sustainability Report

Preamble

Having bridged numerous gaps in our four decade long history, there comes a time when we, as responsible corporate stewards, must look inward and outward, to sustain challenges, threats, and to move forward and succeed in exploiting the opportunities that are bound to arise in a rapidly transformational global milieu. We at NSB, have constructed a strong bridge that will take the nation and her people into a world that houses a plethora of opportunity. However, it is imperative, that we must continue to be observant, ensuring that each of our decisions and the cascading impact would always benefit our stakeholders, collectively and individually.

At NSB, this philosophy remains close to our hearts; whatever we do is always designed to ensure that our stakeholders will be assured of maximum benefit. Our savings base has proved to be the panacea for building communities, prompting empowerment and gradually, reducing our carbon footprint. We have continued to add shareholder value by investing prudently, making astute decisions that will eventually augment our economic base, build a professional team that believes in our vision and the fact that savings is truly a tool for poverty alleviation and thereby community empowerment, nurture customers who are aligned to our vision and whose confidence and loyalty we augment by enhanced customer service delivery and infuse initiatives that would eventually make a positive impact on our carbon footprint.

At each juncture of our decision making, we are bound to ask ourselves some salient questions: How would this impact our stakeholders? How long term are the results of this decision? What would be the fallout factor? Is there a balance we can obtain by making a different decision? Each answer to these questions are penetrative and provokes thought as well as a focus

on our governance tenets, values, principles, best practices and ethics. We are forced to make pragmatic decisions that would make a positive impact on every facet of sustainable development, where shareholders, customers, valued business partners, communities, our people and the environment will be focused on responsibly and with more holistic emphasis.

Report Parameters

Scope of Report

This report is the fifth we have published and aims to review the sustainability processes and initiatives that NSB has employed for the year ended 31 December 2013. The report is grounded on principles of materiality, stake holder inclusiveness, sustainability context and completeness and has been guided by triple bottom line reporting, based on the GRI Framework. We have attempted to ensure the reliability of the information stated in this report through a systematic, ongoing, data collection process, and by keeping in mind the principles of balance, accuracy, timeliness, clarity and reliability, in reporting.

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

The Finance and Planning Division

National Savings Bank
Savings House
255, Galle Road,
Colombo 3, Sri Lanka.

E-mail: nsbgen@nsb.lk

Report Boundary

This report focuses on the functions and activities of NSB within Sri Lanka and excludes NSB's subsidiary, i.e the NSB Fund Management Company, as the operations of this subsidiary are immaterial to report, unless stated otherwise.

Specific limitations on scope

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

Data Measurement and Base of Calculation

The information for the compilation of this report was drawn from a number of sources. Financial information was extracted from the Audited Financial Statements and accompanying notes. Information relevant to employees was obtained from the Human Resources Development Division and training details of employees from the Training Division. Products and services, product responsibility details and CSR activities were provided by the Marketing Division. Operational details were supplied by the Branch Management Division, Asset Management Division, International Banking Division, Postal Banking Division, Retail Lending Division and Corporate Finance Division.

Significant Changes in reporting

There is no deviation from the previous reporting period with regard to scope, boundary or measurement techniques.

Table identifying the location of the Standard Disclosures in the report.

Please refer the GRI Index in page 159.

Key impacts, risks and opportunities

The banking industry in general is impacted by a number of elements including impact permeating due to global volatilities. NSB, primarily being a home grown Bank, has to contend with a number of localised risk and threats which this year, saw a much more emphatic rise due to various macro circumstances unfolding.

Given NSB's mandate of primarily being a savings bank, moving into commercial operations is limited by statute, which gives us minimum leeway to compete on a level playing field. This is well evidenced with the slice of market pie shrinking due to the establishment of new banks and finance companies being a key impact to our operations. Diversified companies have also entered the fray of competition, adding to the large portfolio of products and services, most of which mirror similar products being offered on the market. We are also embattled with a lack of opportunity for expansion, as the banking environment does seem rather saturated and the market not being able to keep up with these developments. Another key impact is the continuously evolving technology which due to significant investment required, does limit our capabilities sometimes. Regulatory restrictions, most of them temporary however, do impact our operations which still echo in performance figures this year as well.

You will read more about the risks we face as a business entity and the measures we have taken in ensuring prudent risk management in the Risk Management segment of the Annual Report, but there are some key risk elements we face in our daily operations. These include fluctuating interest rates and exchange rates and this year, the volatility observed in gold prices, which permeated a significant negative impact on our pawning business. These volatile situations affect our bottom line, while significant impacts are also observed on interest

Bridges that Herald Sustainable Stakeholder Value

Sustainability Report

incomes, foreign exchange incomes and costs. Together with these factors, there are other dynamics that add to market volatility which lead to unpredictability of operations, as was seen in the downfall of gold prices, which saw our pawning portfolio hit unprecedented lows this year. This makes it very challenging for the Bank to steer a steady course, even though we do have pre-defined plans and goals and a Strategic Plan that does cater to eventualities. Add regulatory constraints and changes into this equation, and we find that there are inimitable risks that arise to impact our revenues, costs and profitability.

As mentioned above, with technology evolving faster than expected, our product and service delivery could suffer in the long run due to systems getting outdated or facing expiry. This could make the Bank uncompetitive and hence, it may be necessary to infuse further investment into IT, which can be quite formidable. This evolving environment would also require maintaining a constant focus on emerging trends and an eye on transforming diktats pertaining to technology.

However, NSB has operated extremely successfully in a challenging environment, based on a futuristic Strategic Plan and building a bridge that's strong in its fundamentals. These have seen the Bank pull through even the most challenging years and this year, in fact, the resulting positives are certainly better than expected. We have maintained our focus and continued to instill confidence among the people of Sri Lanka, which has led us to be more proactive in the growth opportunities that emerge, contributing significantly to the national development agenda being pursued by the Government. Being a wholly Government owned Bank also secures a considerable confidence among our stakeholders, as deposits being government guaranteed enables us to expand our market share as well as operations.

However, our most significant milestone in opportunity context is the bridge we constructed to move into the international arena, augmenting our already expansive presence around the world through agencies and exchange houses. The Bond Issue of US \$750 Mn this year firmly cemented our presence in international capital markets, enabling us to move outwards on that bridge of opportunity.

Organisational Profile

Corporate Information, Products and Services

Essential information about NSB and its subsidiary can be found in the Corporate Information Section, on page 283 of this Annual Report. For a full description of our products and services, please see page 263.

Operational structure of the organisation

NSB's operational structure comprises operational divisions, support services, other divisions and subsidiary. Our operational divisions comprise the Branch Management, Retail Lending, Corporate Finance, International Operations, Postal Banking and Treasury Operations divisions, while our support services comprise the services provided by the Legal, IT, Finance & Planning, Human Resources Development, Training and Marketing divisions of the Bank. In addition to these, the Bank's structure includes monitoring aspects that can be listed under 'other sectors' which includes Risk Management and Compliance and Internal Audit activities. Our Subsidiary is the NSB Fund Management Co. Ltd, which is located at the organisation's headquarters.

Location of organisation's headquarters

The location is stated in the Corporate Information section

Nature of ownership and legal form

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

Countries in which NSB is active

Along with NSB's access outreach across the nation – through its network of 4,063 Post Offices and Sub-Post Offices, 247 ATMs and 229 NSB branches – it is also active internationally, remitting activities in many Middle Eastern countries, serving Sri Lanka's migrant worker community. The Bank's services extend to a number of countries in South and South East Asia, and Europe: remittances are administered through Italy, Germany, UK, USA, Australia, Switzerland, France, Ireland, Sweden, Netherlands, Russia, and the Asian countries of Hong Kong, Malaysia, the Korean Republic, and the Middle East.

Markets served

Our ability to serve a variety of markets, with a wide array of financial products which address the needs of this diverse entity, is a cornerstone of our strength. We work with heterogeneous communities, demographics, social strata and economies; our island wide customer base is serviced by accepting deposits and granting loans which are also our two primary product profiles.

NSB's range of products are in the form of savings and time deposits, these are comprehensively demarcated based on factors such as interest rate; age; gender; and maturity period. In order to facilitate customer convenience, each deposit method is appended with

ATMs cards, debit cards, the Easy Card, internet and SMS banking.

While we do provide four main types of loans that are classified under retail lending, namely housing loans, pawning, personal and auto loans, our primary retail lending is focused on housing loan facilities. Given our responsibility towards developing the nation, we believe strongly that housing is a key element in empowering communities and uplifting lifestyles. This has led us to be the conduit in providing affordable housing loans.

Other retail products include pawning and personal loans. Pawning advances are granted at a lower interest rate even though NSB pays a comparatively higher rate per sovereign. This year however, the pawning portfolio did see unprecedented declination due to plummeting world gold prices. Personal loans are granted as per requirement of customers on personal guarantees, or on securities.

The other product types we provide are worked through our International Business Unit whose focus is on products and services aimed at migrant workers. In addition to mobilisation of deposits in foreign currency and investments, as well as accepting foreign currency remittances, NSB also facilitates VISA cards for migrant workers in collaboration with the Sri Lanka Foreign Employment Bureau, NRFC, RFC, Savings accounts and FD s.

Strengthening our bridge to give Sri Lanka further impetus in large scale projects, we also engage in corporate lending for projects that would create an enabling environment from an infrastructure and development perspective of national interest.

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Further strengthening the Bank's presence in international market the Bank issued its debate US dollar bond for a value of US\$ 750 million.

Scale of the organisation

At the end of 2013, NSB employed 2,943 full-time staff; of which 2,908 are permanent employees while 35 are temporary employees, under contract.

December 2013, saw NSB's chain comprising of 229 branches islandwide; a majority of which are located in rural areas where limited facilities for savings and investment exist. NSB branches have served as saviours to many a rural community, rescuing these communities from illegal financial organisations who victimise the vulnerable and gullible.

Most of the branches are well equipped with ATM machines, ensuring that accessibility is a 24/7 option. Moreover, 21 off-site ATM machines were installed across the country, bringing the total to 247 ATM machines available within the NSB network. POS mobilisations have continued along the upward trend, along with the expanding branch network. POS banking is immensely successful in providing banking solutions that encourage the savings habit at schools, weekly and weekend fairs and factories.

The following figures, taken from the 2013 Balance Sheet, indicate the financial scale of the Bank:

	2013 Rs. Million
Total Assets	654,368
Total Equity	22,217
Income	65,573
Net Interest Income	9,684
Profit after Tax	1,184

Significant Changes during the Reporting Period

A new Chairperson and two new members to the Board of Directors was appointed this year, following the resignation of the Chairman and two members of the previous Board.

From an outreach perspective, NSB opened ten new branches during the year, while 538 new school banking units were established to increase accessibility of our products and services and also to inculcate the savings habit among the younger generation.

Relationship building continued to hold emphasis this year as well both in Sri Lanka and abroad. Augmenting our relationships with foreign exchange houses in countries that have a significant Sri Lankan expatriate community, we forged new relationships with the Delma Exchange House in the UAE and City International Exchange House in Qatar. An agreement was signed with the Road Development Authority for the funding of roads and other infrastructure development.

There was considerable emphasis infused to the upgrading and revamping of our IT systems which also saw the introduction and implementation of a new IT Strategic Plan. While this would add further impetus to ensuring that NSB remains on par with our IT strategies to maximise our competencies and abilities, we also restructured the prevailing Branch Zonal Management System to a Regional Management System, establishing Regional Offices for better efficiencies and productivity. This encourages closer monitoring and supervision of utilisation of resources and more proactive interaction with branch teams.

Awards and Recognition

While we became legends by being the only local Bank in Silence to have the largest bond issue at once in history

through the US \$750 International Bond Issue, we were also conferred the crown of the Best Sri Lankan Deal for 2013 by Finance Asia Magazine for this Bond Issue. Augmenting this level of investor confidence, was the fact that we received ratings of BB- by Fitch Ratings and B- by Standard and Poors, as well as the AAA (lk) Long Term Credit Rating by Fitch Ratings Lanka for the 11th consecutive year.

As in the past, our Annual Report continued to collate numerous accolades and kudos both internationally and within Sri Lanka, further cementing our commitment to a culture that goes beyond compliance, ethics, governance and principles, while notching another first in our history as mentioned below.

- League of American Communication Professionals Vision Awards 2012/13
 - The Bank's AR 2012 was placed 14th among the top 50 Annual Reports of the Asia Pacific Region
 - Platinum Award for Excellence within the industry
- Annual Report Awards of Institute of Chartered Accountants of Sri Lanka
 - Gold Award in the Financial Institutions category for the very first time in our history
- SAFA Best Presented Annual report Awards 2012
 - Second Runner-Up in Public Sector Banking institutions

Governance, Commitments and Engagement

NSB is Sri Lanka's most popular Specialised Savings Bank, holding a 100% government guarantee. We are responsible to the people of Sri Lanka, and are accountable to them as a public institution. This is owing to the fact that the Bank's sole shareholder is

the National Treasury – the custodian of the people's development and nation's vision. Therefore we are strong in the conviction that our governance and internal procedures are focused on maximum accountability, compliance and transparency; given that our final responsibility is towards the people of our nation. The awareness of this immense responsibility ensures that NSB strictly adheres to all regulations issued by the Government, Treasury and CBSL.

Governance structure

The highest governing body of the Bank, the Board of Directors comprises those appointed by the Minister of Finance, except for two ex officio members. It is the Board of Directors, who comprise a number of professionals with different competencies, that is vested with the responsibility for achieving the Bank's mandate through policy, strategy, action and review. Directors are chosen for their probity, varied but relevant disciplinary backgrounds and broad experience. It is to be noted as mentioned above, that a new Chairperson and two Directors were appointed during 2013. The Chairperson holds a non-executive position in the hierarchy of the Bank.

For the most part, the Board exercises oversight through a number of committees. There are four Board Sub Committees. They are the Board Audit Committee (BAC), the Human Resources and Remuneration Committee (HRRC), the Nomination Committee (NC) and the Integrated Risk Management Committee (IRMC). They are constituted and mandated in accordance with guidelines issued by the CBSL and members are appointed by the Board of Directors. Each committee is governed by a founding charter. Board Committees meet quarterly, or at intervals specified by their specific charters.

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

Please refer the Corporate Governance section in page 46 of this Annual Report for more information on NSB's governance structure.

Chairperson's authority

The Chairperson is a non independent Non Executive Director.

		Executive members	Non-Executive Members	Independent Directors	Non Independent Directors	Gender		Age	
						Male	Female	Below 60 yrs	Above 60 yrs
Main Board									
1	Ms. W.A. Nalani - Chairperson (from 30.05.2013)		✓		✓		✓		✓
2	Mr. S.T. Abeygunawardana - Working Director		✓		✓	✓			✓
3	Mr. S.R. Attygalle - Director (from 23.04.2013)		✓	✓		✓		✓	
4	Mr. D.L.P.R. Abeyaratne - Director		✓		✓	✓		✓	
5	Mr. Lionel P. Fernando - Director		✓		✓	✓		✓	
6	Mr. Sumith Wijesinghe - Director		✓	✓		✓		✓	
7	Mr. H. Madiwela - Director (from 26.04.2013)		✓	✓		✓			✓

Members Communicating with the Board

Shareholders

Owing to NSB's status as a public institution, the Government of Sri Lanka is the exclusive shareholder of the Bank. The Treasury maintains a continuous relationship with the Bank, on behalf of the Government. Periodic reports are submitted to the Treasury for this purpose. Furthermore, ad hoc reports and updates are also issued when requested. Additionally the Board of Directors maintains steady ties with Treasury officials.

Employees

Employees are in continuous dialogue with the Bank, which allows for smooth operations. This relationship is boosted by more specific methods of communication with the employees and the Board. At Board Meetings the General Manager, who airs employee grievances represents employees, while the Additional General Manager, the Senior Deputy General Manager and other DGMs have access to the Board on matters concerning their operations.

Managers' Conferences are held regularly, where employee views are also expressed together with other pertinent matters, with all Board Members present. Five trade unions represent the Bank's employees and

these unions may meet with the Chairperson and the Board, on request, concerning matters of importance. Furthermore, any other issues can be conveyed through a Working Director, who is available at the Bank.

Linkage in compensation

NSB's annual targets are stated in the Strategic Business Plan, Annual Budget and Annual Action Plan. However, the Bank's governance and Corporate Management are not subject to individual targets. Hence bonuses are determined based on the overall achievement and performance of the Bank.

Conflict of interest

2012 saw a revision of procedures to avoid conflicts of interest, concerning actions of the Board of Directors and key management personnel. Accordingly, stipulations are being enacted presently and have been implemented within the Bank. Moreover, all related party transactions are closely monitored by the Board Secretary during Board proceedings, and all transactions are disclosed.

A Compliance Officer has also been designated to review and ensure the compliance requirements of statutory bodies.

Eligibility of Board Members

The NSB Act stipulates that the Minister of Finance appoints five of the seven Directors. Hence, these appointees have excelled in the disciplines of accountancy, law, marketing etc. The sixth and seventh members of the Board, are appointed by the Secretary to the Treasury (or his nominee) and the Postmaster General (or his nominee), respectively.

Board member conduct is governed by the Corporate Governance Directions issued by the CBSL, and all employees are further bound by an internal code of conduct and Government oath.

Vision, Mission, Values and Objectives

This well established mission, vision and code of conduct assures that NSB maintains a focused journey into the future. The Bank's vision and mission statements are given on page 03 of this Annual Report, and reflect our dedication to the values and principles that push us onwards and sustain us for the future.

At all times, we strive to:

- Deliver satisfaction to our customers, clients and partners: We are driven by a passion to satisfy the financial needs of the Government, as well as our individual and corporate clients. We believe that disciplined execution will lead to sustainable, long-term performance
- Trust our team: We work together around the country to meet the expectations of all our stakeholders, striving always to be consistent and straightforward in our interactions
- Embrace the power of our people: We value our differences and understand that diversity and inclusion are good for business and make the Bank stronger
- Act responsibly : We are aware that our decisions and actions often have profound effects on people's lives, we hold ourselves accountable for disciplined risk management and always doing the right thing
- Promote opportunity: We are committed to helping each other achieve our potential, to build a better future for ourselves, customers, clients, communities and the country we serve

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Management of Economic, Environmental, and Social Performance

At present the Bank utilises particular mechanisms, which allow the Board to manage the Bank's identification and management of economic, environmental and social performances, including relevant risks and opportunities, as well as compliance. These methods include a code of conduct for dealers of the Bank; an internal compliance policy; internal risk management policy; and internal credit policy, and a charter for performance reviews of Committees. Furthermore, a Board-approved HR policy and a Training and Development policy are at hand to fortify human resource management and employment training.

NSB's external processes include the preparation of financial statements in keeping with LKAS and SLFRS, and directions and regulations of CBSL. The Bank has also obtained ISO 9001:2008 certifications for its Credit Division, enhancing our commitment to ensure high standards and best practices.

Processes for Evaluating Board Performance

The Bank's vision, mission, code of conduct and rules and regulations are clearly defined, when it comes to daily operations. Additionally, our economic, social and environmental performance is reviewed periodically by Board Sub committees: the BAC, IRMC, high level operational committees such as the ALCO, Investment Committee, Marketing Committee, IT Steering Committee and Management Committee. The results of each report is carefully scrutinised and examined by the Board. NSB's Strategic Business Plan, Annual Action Plan and Annual Budget clearly define a number of performance indicators which are periodically reviewed. For more information please refer to the Corporate Governance Report on page 46 of this Annual Report.

Precautionary Approach

Pre-determined internal audits are conducted, once associated operational risks are carefully considered by the Internal Audit Division, and headed by a DGM. An independent Risk Management Division has been established within the Bank for this purpose. A detailed report on the methods utilised to mitigate risk, can be found on page 94 of the Risk Management Report.

The Bank's Compliance Division diligently observes its regulatory compliance, and ensures that corrective measures are taken as precautions. Moreover, the Business Continuity Plan and Disaster Recovery Plan were developed as a precautionary approach.

External initiatives applicable to NSB

NSB complies with a range of external regulations and codes set by regulatory and standardised institutions. Foremost amongst these are the guidelines and directives issued by the country's financial regulator, the Central Bank of Sri Lanka. The Bank is subject to directives issued by the Ministry of Finance, which is its sole shareholder and government representative. Additionally the Bank adheres to LKAS and SLFRS guidelines and standards when preparing financial statements. Internal audits are conducted in keeping with the standards issued by the Internal Auditors Association and when conducting system audits we are aligned with the requirements of the Institute of System Audit Control and Assurance standards. With risk management we are in compliance with the Basel 11 guidelines, and other generally accepted risk management principles.

Bribery & Corruption

NSB has always maintained a zero tolerance on bribery and corruption. We will not condone or knowingly

participate in any such acts that construe bribery and corruption in any way.

Corruption Risk Analysis

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

Responses to Corruption

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

Public Policy Participation

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

Political Contributions

The Bank made no political contributions during the year under review.

Anti-Competitive Behaviour

There were no cases of legal actions for anti-competitive behaviour.

Compliance

There were no fines or non-monetary sanctions imposed on the Bank for non-compliance with laws and regulations.

Membership in Associations

NSB is an active member of several associations that advocate or help shape public policy. In 2013, the Bank retained membership in the following organisations:

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

Stakeholder Engagement

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

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Stake Holder	Topics discussed	Method of Response
Shareholder: the Government of Sri Lanka, represented by the Ministry of Finance	<ul style="list-style-type: none"> • Contribution towards the Consolidated Fund • Ensuring compliance in Regulatory Reporting • Ensuring maintenance of Statutory Ratios (Capital Adequacy, Liquid Assets etc.) • Assuring feasibility of network expansion • Plans to launch and re-launch new products and existing products. • Strategies to maintain low NPLs • Ensuring compliance with laws and regulations • Preparation of Strategic Business Plan 	<ul style="list-style-type: none"> • Annual Report • Strategic Business Plan • Annual Budget • Annual Action Plan • Media statements • Publications • Interim Financial Statements • Periodic updates
Customers	<ul style="list-style-type: none"> • Satisfaction on rendered services • Facility of making utility payments • Due respect and recognition in receiving service. • Accessibility to relevant and reliable banking information (interest rates, lending rates) • Awareness on promotional activities • Facilitates for branchless banking 	<ul style="list-style-type: none"> • Branches • Ithurum Ayojana Kawa • School Banking Units • ATMs • Internet Banking • Mobile Banking • POS • Call Centre • Surveys on Customer satisfaction • Corporate Web Site
Trade unions and executive associations NSB has five trades unions and a special committee attends to employee grievances and reports to the Board.	<ul style="list-style-type: none"> • Collective Agreements. • Remuneration • Performance Bonus • Staff welfare activities • Basel II implementation • Future plans and strategic plans • Defined benefit and contribution plans • Training and other facilities • Disciplinary actions • Special appraisals 	<ul style="list-style-type: none"> • Negotiate collective agreements • Performance appraisals • Internal newsletter • Special Announcements through public address system • Circulars published in the Intranet • Training programmes • Ad hoc meetings • Periodical returns • Review meetings • Special Events
Suppliers	<ul style="list-style-type: none"> • Registration of suppliers • Procurement opportunities • Delivery of contractual obligations 	<ul style="list-style-type: none"> • Procurement Procedures • Meetings • Site inspections. • Product demonstrations

Stake Holder	Topics discussed	Method of Response
<ul style="list-style-type: none"> • CBSL • Department of Inland Revenue • Other Government organisations • External Auditors • Professional organisations and business community 	<ul style="list-style-type: none"> • CBSL regulations and directives • IRD tax regulations • Sri Lanka Accounting Standards and Sri Lanka Financial Reporting Standards by ICASL • Banking license fees • Labour regulations • Marketing and promotional campaigns • Awards and accolades 	<ul style="list-style-type: none"> • Annual Report • Directions and Circulars • Interim Financial Statements • Periodical returns to regulatory bodies. • Interviews and meetings • Specialist opinions • Participation in competitions • Corporate web site
Other interested parties	<ul style="list-style-type: none"> • Operational Performance of the Bank • Financial performance of the Bank • Recruitment from communities • Launching and re-launching products and services • Scholarships granted by Banks • Social responsibility activities carried out by the Bank. 	<ul style="list-style-type: none"> • Annual Report • Promotional advertisements • Sponsorships • Media statements • Public relations activities • Recruitment advertisements

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Commitments to External Initiatives

NSB is a signatory to various external conventions and covenants.

Economic Performance Indicators

Economic Responsibility

We are most honoured to be the axis upon which Sri Lankans learned the art of saving. For forty years, NSB has been the nucleus upon which the culture of savings has been built upon and today, it is this savings culture that builds bridges to take Sri Lanka into the heart of development.

We are a Bank that has retained very strong economic fundamentals which is amply evidenced in the strong bridge we have constructed in ensuring that ours is a sustainable ongoing business concern. We do take our economic responsibilities very seriously as being the only dedicated savings bank in the country, we are tasked with building and nurturing a savings base which is the backbone of the economy. Our economic goals, over the long term and short term, are defined in our Corporate Business Plan, Strategic Business Plan, Budget and Action Plan. With an astute communication cascade in place, we continuously ensure that these goals are communicated to our team through multiple avenues, including meetings, workshops, seminars and other internal communication dialogue.

While we have amply supported the domestic savings ambit in the country, we have also constructed numerous links to buttress inward remittances and NRFC & RFC deposits for Sri Lankans working around the world. As a trusted, guardian of income earned by migrant workers, NSB has established a network of global relationships with nearly forty prominent exchange houses around

the world, including Money Gram International and the Eurogiro fraternity.

We also believe strongly in being the conduit that would forge strong linkages to national development. Hence, our loans and advances portfolio is effectively managed to create enabling environments in rural areas and the northern and eastern provinces, uplifting communities and thus their contribution to the national economy. Housing loans, Personal Loans, Agricultural Loans, Pawning and Project Financing are the main categories within our lending orbit.

Our extensive product and service portfolio is designed to serve the under-served population in rural and remote areas, some of which are very economically challenged and have no access to banking or even the concept of banking. The products and services offered by NSB therefore bridges a massive gap that had emerged among the low income populace and the balance population, enabling those left out to be integrated into the banking mainstream, while being empowered to uplift themselves.

This also moves us towards contributing to national infrastructure and development projects, providing finance to complex projects, that would sooner rather than later, position Sri Lanka at the top of the Emerging Economies ladder.

Technology continues to play an integral role in the development of our banking prowess. Having introduced a number of initiatives to make banking more accessible and easier for various customer demographics, it is indeed imperative that we continue to focus on emerging IT trends to continually upgrade our IT platforms. We have already infused Internet Banking and SMS banking facilities, in addition to bill payment facilities

and linkages with major utility and telecom providers as well as insurance companies into our facilities. This is based on the eventual goal of building one-stop-shop conveniences through our network.

Continuous customer research and surveys enable us to quantify the benefits and even gaps prevalent within our product portfolio, giving us tools to better develop and innovate products and services for maximised customer satisfaction.

Our economic responsibilities include contribution to government income through Income Tax, VAT and contributions to the Consolidated Fund in the form of dividends. This year, 83% of our investment portfolio demonstrates our investment in government securities, and thereby channeled into funding for national development initiatives.

The national economy is also assisted by us, through equity investments in different economic sectors, i.e. banks and financial institutions; power and energy; telecommunications, and construction and engineering.

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Direct Economic Value Generated and Distributed

The table below shows economic value added through the activities of the Bank in 2013.

Economic Value Added Statement

	2013	2012
	Rs'000	Rs'000
Invested Equity		
Shareholders' Funds	22,217,487	23,767,098
Add : Cumulative Loan Loss Provision/ Provision for Impairment	2,005,578	625,773
	24,223,066	24,392,871
Earnings		
Profit after Taxation	1,183,810	3,762,632
Add: Loan Losses and Provisions	1,380,003	130,935
	2,563,813	3,893,567
Cost of Equity based on 12 months Weighted Average Treasury Bill Rate plus 1.8% for the Risk Premium	12.69%	13.90%
Cost of Average Equity	3,073,907	3,389,389

Sources and Distribution of Income

	2013	2012
	Rs' 000	Rs '000
Source of Income		
Interest	64,247,818	52,531,446
Fee & Commission	228,056	221,709
Other Income	1,097,169	150,089
Total	65,573,043	52,903,244
Utilisation of Income		
Employees - Salaries and Other Payments to Staff	4,208,706	4,077,501
Depositors' Interest	54,563,482	39,166,973
Impairment for loans and other losses	1,380,003	130,935
Other Expenses	2,517,642	2,261,322
	62,669,833	45,636,731
Net Income before Government Taxes and Levies	2,903,210	7,266,513
Government		
VAT and Income Taxes	1,719,399	3,076,986
Consolidated Fund	3,000,000	2,823,000
	4,719,399	5,899,986
To Reserves	(1,816,189)	1,366,526
Total	65,573,043	52,903,244

Value Addition and Distribution

	2013	2012
	Rs'000	Rs '000
Value Addition		
Income from Banking Services	64,247,818	52,531,446
Cost of Services	(54,563,482)	(39,142,492)
Value Added by Banking Services	9,684,336	13,388,955
Non-Banking Income	1,292,209	347,317
(Provisions) / Reversal	(1,380,003)	(130,935)
	9,596,542	13,605,336
Distribution to Employees		
Personnel Costs	4,208,706	4,077,501
To Government :		
Income Tax	1,094,954	2,577,586
Value Added Tax	624,445	926,295
Contribution to the Consolidated Fund	3,000,000	2,823,245
	4,719,399	6,327,126
Retained for Expansion and Growth :		
Earnings	334,500	2,841,852
Depreciation	333,937	358,858
	668,437	3,200,710
	9,596,542	13,605,336

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Climate Change Impacts

The Bank is not directly exposed to economic impacts arising from climate change.

However, the Bank extends funding facilities towards agricultural loans and pawning advances for agricultural purposes which may be affected by climate changes.

Government Assistance

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

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

Supporting Locally-Based Suppliers

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

Indirect Economic Impacts

NSB, through its activities has an indirect economic impact on various stakeholder segments, in addition to direct economic impacts. These are explained in detail under Community Initiatives on page 155.

Extent of Indirect Economic Impacts

The Bank has concentrated efforts in forging links that bring together stakeholders into a singular platform of empowered development. Our CSR activities, indirectly impact society and are based on fostering a savings habit that will permeate the minds of future generations and encourage positive, advantageous habits. One

of the Bank's main goals is to develop education and knowledge among the younger generation. Therefore many projects have focused on this outcome. Moreover the Bank also works towards the welfare of socially marginalised segments such as the elderly, differently abled and specially challenged and women.

Environmental Performance Indicators

Environmental Responsibility

We are a bank; a service organisation whose operations have minimum direct impact on the environment. But this however, does not mean that NSB turns a blind eye to environmental consciousness or for that matter, conservation. We are extremely aware that we have been placed among the zenith of the nation's corporate citizens, which means we have a responsibility to ensure that our actions ultimately sets standards in environmental preservation. We know full well that as a responsible public entity, we must preserve and conserve natural resources to be utilised by future generations. As we are custodians of the savings of the people of this land, we are also custodians of the environment for the people.

While our environmental actions may not have created much fanfare in corporate circles, in our own way, we have been implementing strategies that will preserve the country's and the earth's natural resources in numerous ways. Resource conservation for us begins at home and it is within the Bank that we have begun implementing initiatives that will create a larger impact eventually. From less printing of paper to reducing wastage of paper, using teleconferencing and telecommunicating whenever possible to online training, switching off electricity when not in use and using energy efficient bulbs wherever possible to developing more energy efficient office spaces, our environmental conservation

initiatives have now been firmly ingrained into our team's psyche.

But this is not all. By taking paper waste management seriously, collecting all waste paper and giving it to the Ceylon Paper Corporation for recycling, we have seen these practices also being cascaded to our team members' homes. This means that NSB is successfully ensuring that our message of astute waste management is cascading to indirect stakeholders as well.

NSB has also begun an aggressive campaign to increase the green cover at all branches, growing trees and adding greenery wherever possible, which not only enhances aesthetics, but also enables the absorption of CO2 gases prevalent in the atmosphere.

We remain emphatic in conforming to all environmental regulatory compliance diktats in the construction of NSB branches to ensure minimum environmental impact. Maximum effort is taken to avoid destruction of the natural environment, which means the felling of trees and other types of environmental damage is minimised or in most cases eliminated.

Energy saving

CFL energy saving bulbs have been installed in all areas with an intent on maximising energy saving, while VRV type A/C systems are also installed in all new branches. We use only CFC-free air conditioning units in all our offices to avoid adverse environmental impacts. A concerted decision was taken to limit the use of air conditioning to normal banking hours, which has seen a significant reduction in NSB's electricity consumption. Working hours have also been restricted during holidays, aimed at saving water, fuel and electricity.

Water Management

An initiative begun last year was to equip all our newly constructed branches with rainwater harvesting facilities. This will be a practice that will continue through all the new branches being constructed from now on.

We have made a conscious effort to reduce consumption of water at the Head Office and all our branches. While all waste water is sent to standard soakage pits within the NSB premises, storm water goes directly into the public storm water drainage systems, as per the directions issued by the regulatory authorities.

Mitigating the Environmental Impact of Products and Services

As a bank, our products and services have no direct impact on the environment. In spite of this, we are aware that we utilise products such as promotional and marketing material, stationary and fixed assets, which require transportation. Aware of the need to reduce our carbon footprint, we've taken measures to be prudent in use of transport and minimise emissions.

Our Head Office and branches have all been designed, and constructed, to minimise environmental impact. We promote features such as use of natural light, whenever possible and install eco friendly bulbs and air conditioning units. Furthermore our spaces are ergonomically designed to optimise the available space.

Retail lending is an area that is subject to environmental considerations. As we are keen to transfer the message of environmental conservation to our stakeholders, we've established a 'green process'; when granting housing loans, we require legal clearances from local authorities for approval. NSB's vehicle loan scheme promotes this notion, as it favours the purchase of

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vehicles that are less than three years old in order to reduce emissions. These best practices are encouraged by us to transfer such values to our customers, stimulating their environmental consciousness.

Taking this responsibility a step further, we also provide philanthropic and community-based activities for the construction of energy efficient, environmentally friendly houses and buildings.

Impact of Transportation

We encourage employees to use their own mode of transportation. Apart from this, suppliers deliver our fixed assets and promotional materials directly to our branches, while stationery and other official materials are transported from the Head Office to branches when necessary. Employees on official visits, are provided with transport as well.

Fines and Sanctions

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

Our Team

The strong and vibrant bridge we have constructed is undoubtedly the committed work of our team, whose unwavering spirit and undiluted dynamism has taken this Bank to horizons it didn't think possible. We are proud to possess such a team, a team that remains highly motivated, is brimming with enthusiasm to pursue new goals and dreams and a team for whom no task is impossible.

However, having now constructed the bridge that will take the nation into multiple spheres of opportunity, we also know that with this vision comes the need for our

team to be equipped with the apt skills, competencies, capabilities and knowledge tools. We are seeing a world of emerging challenges which would require our team to be multi-tasking and multi-dimensional. The banking industry too is evolving into a more sophisticated arena that will require specified training, development and learning initiatives.

Through a progressive HRD and HRM Policy, NSB is now in the process of creating an empowering environment for our team, focusing T&D on a platform of multiple skills, leadership tenets and specialist and expert competencies. These are honed to create a team that will continue to construct the next bridge of opportunity with minimum effort.

Labour Practices and Decent Work Performance Indicators

Creating a Conducive Work Environment

Having always believed that HR is the backbone of the Bank's sustainable journey ahead, our HR Policy is designed to give employees guidelines on the culture, work ethics, acceptable/unacceptable behaviour, norms and standard procedures of the Bank. These features inculcate the rudiments for operational efficiency, while addressing the HR mission leading to the Bank achieving its strategic objectives.

Our HR vision relies on building a workforce that remains focused on individual and business needs to achieve organisational excellence for sustainable competitive advantage. The HR Mission is proactive in its support of our business strategy, employing relentless focus on organisational excellence. The ultimate goals would be in possessing and retaining the right people at the right place to meet business needs, our vision and mission.

The HR objectives of the Bank are:

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

These objectives are extremely important to us and forms the nucleus upon which we function. To achieve these objectives therefore, NSB hires team members who have the right attitude and professional skills, adding to their capabilities and competencies which develops a long term relationship between us. Every new recruit becomes a member of the NSB family, a team member who is tasked with the responsibility of achieving the Bank's overall goals, while meeting or exceeding their own aspirations.

Total work force

Believing strongly that our workforce is our strength, we invest heavily in their growth and development as this we believe, cascades to the eventual growth and development of our Bank, as well the Bank's competitiveness. With astute HR management, we are also focusing on a lean organisation, which has seen the number of employees decrease from last year, but a higher level of productivity ensues due to better training and development and better identification of individual skills and aptitude.

Employment Type	No. of Employees
Full Time	2943
Outsourced	932

There's also a considerable reduction seen in the number of permanent employees and more so, in the number of contract employees, which reduced from over 400 to 35. The latter is due to the fact that Banking Assistants on a contract basis, were absorbed into the permanent cadre.

Employment Type	No. of Employees
Permanent Employees	2908
Contract Employees	35

Employees by Network Distribution

With 229 branches now within our network and the Bank also pursuing an aggressive network expansion plan, it is imperative that the branch model we possess is one which manages resources and cost efficiently. We do believe we have now been able to master the ideal branch, which maximises resources and optimises productivity. Our branch network is classified into eleven regions for ease of administration.

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Province	No. of Branches	No. of Employees
Central	24	204
Eastern	14	112
Head Office		626
North Central	13	85
North Western	23	181
Northern	17	167
Sabaragamuwa	20	160
Southern	32	322
Uva	10	93
Western1	26	319
Western2	26	366
Western3	24	308

Employees by employment category

It is imperative that our team remains a cohesive one to ensure that the Bank's goals and objectives are met without compromise. Corporate management which heads the working operations of the Bank leads this dedicated team, while other levels of management from executive, to middle to junior are empowered at various levels to give of their best.

Category	No. of Employees	Percentage
Corporate Management	7	0.27%
Executive Management	13	0.48%
Middle Management	101	3.43%
Junior Management	526	17.87%
Supervisors	626	21.27%
Banking Assistants	1,542	52.4%
Others	126	4.28%

Employee turnover

Labour turnover during the year was insignificant.

Employee Benefits

Without our employees, we are nothing. Realising this, we hold employee satisfaction in high esteem. Thus we ensure that they are provided with many welfare benefits, while continuing to attract new talent and better skills.

Non Financial benefits granted to employees

At NSB, there's a strong thread of thought that runs, instilling the ideals of tangible and non-tangible benefits being the key to ultimate employee satisfaction. While we establish a work environment that's conducive to creating a happy and fulfilling working period, we also instill values, principles and ethics into our employees, in the hope that we will create and nurture holistic citizens who will truly be a pride to the nation.

Remuneration and benefits offered by the Bank to permanent employees especially, are on par or beyond industry standards. These include a staff medical scheme, loan schemes at concessionary rates, overseas and local training opportunities and the use of holiday bungalows at concessionary rates.

The benefits also extend to families of our team members. One such initiative is that academic and sports achievements of employees' children are recognised. On Annual Achievers' Day, children with the best results in the Grade 5 Scholarship Examination, GCE (O/L), GCE (A/L) and outstanding performance in sports and other areas are rewarded. Long serving employees are also given due recognition at this event for their commitment and loyalty. To strengthen employee relations, the Bank hosts an annual sports day and religious and cultural

festivities including Vesak Bhakthi Gee and Christmas carols.

Medical Facilities

NSB's employees are covered by a comprehensive medical welfare scheme, as we believe in fostering a healthy community. Furthermore, an Employees' Medical Assistance scheme extends help to those who need it, and covers a range of medical eventualities. Routine medical expenses, hospitalisation, reimbursement on purchases of medicine, specialist charges, dental care, eye care, births, critical illness and continued medication for critical illnesses and special treatment for critical areas are included.

Compensation Benefit Scheme for personal accident or death

A beneficial compensation scheme is in place for employees and their dependents in lieu of an accident, illness, or natural causes that result in injury or death. A notable element of this scheme is that the victim need not be at work, at the time of the accident.

Labour Relations

We understand the importance of positive relationships between employees and management, for the growth of our institution. Favourable work conditions aid smooth operations, both long and short term. As an initial base however, NSB strongly adheres to International Labour Standards (ILS) as stipulated by the International Labour Organisation in our operations. ILS embraces numerous aspects of labour markets, ranging from minimum wages and equal pay, to health and safety regulations.

These standards are classified into six main categories:

- a) Respect for fundamental human rights
- b) Protection of wages
- c) Employment security
- d) Working conditions
- e) Labour Market and Social policies
- f) Industrial Relations

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

Employees covered by Collective Bargaining Agreements

All permanent employees, comprising 90% of all staff, are covered by Collective Agreements.

Minimum notice period(s) regarding operational changes

The Collective Agreement does not cover minimum notice periods regarding operational changes. However, trade union officials have the opportunity to discuss any changes with the management.

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Health and Safety

There is no particular threat to employee health and safety at NSB. Our buildings have been constructed with health and safety parameters, and there have been no instances of injury or loss of life. Fire safety measures are in place, with employees aware of procedures and emergency phone numbers should a fire breakout.

NSB's Head Office is equipped with an in house medical centre, operated by Nawaloka Hospitals. Employees can receive free medical treatment from the two medical specialists available at the centre.

Injuries and Fatalities

There have been no injuries, occupational diseases or fatalities at NSB. We have maintained a Zero Lost Workday Case environment for last year.

Education about serious diseases

In addition, in-house mobile medical clinics conducted by leading private hospitals were organised for employees during the year.

Health and Safety in Collective Agreements

Employees, their spouses and dependants are entitled to many facilities under the Staff Medical Assistance scheme. Under this scheme, medical expenses incurred by employees and their dependants, in respect of medical treatment rendered by a medical practitioner, can be reimbursed. In the case of hospitalisation, the hospital charges are also reimbursed. Employees can also claim payments for critical illnesses and costs of continued medication.

Recruitment & Remuneration

Our recruitment procedures are transparent and aligned to the stipulated guidelines laid down by the CBSL and the Government of Sri Lanka as well as renowned HR organisations. To ensure transparency, all available positions are advertised and every applicant given an equitable chance of gaining employment at NSB. However, some positions do require specialist skills and in these instances, we do head-hunt for positions requiring these specialist competencies and skills, within the marketplace and beyond.

Priority is given to citizens of Sri Lanka when recruiting and even in instances where NSB appoints agents in foreign countries, a relationship with Sri Lanka is always given priority, especially if the Agency is owned or manned by Sri Lankans residing in those countries.

The recruitment process begins with the analysis of the applicants who will, once meeting the minimum requirements, be called for an interview. On facing a panel comprising the relevant officials including those from the HR department, the successful candidate will be recruited on a probationary term for a stipulated period depending on the grade of candidate. Once the candidate successfully completes the probationary period, they are absorbed into the permanent cadre with full benefits applicable to the relevant grade. In some instances, applicants may have to face in excess of one interview and even written examinations where required.

Remuneration is based on par with market parameters and stipulated guidelines. It is to be noted that we do not condone canvassing, favouritism or discrimination in our recruitment or remuneration policy in any form. We eschew forced, child or underage labour in all forms,

and do not support gender bias and discrimination based on religious, social or cultural backgrounds.

Wages are decided through Collective Agreements signed with the Bank's trade unions and aligned to the premier state sector banks. The Collective Agreements are revised every three years.

Lifelong learning

Ours is a culture that encourages lifelong learning and each of our training programmes is designed and developed to continually update and meet the changing needs of the workforce and the market. Our training programmes promote diversity and inclusion, facilitating career development and inculcating better work-life balance.

Based on the Bank's philosophy of life long learning, the Bank conducted a number of training programmes during the year, aligned with our human resource development policies and training needs. Each training programme is designed to optimise skill and knowledge and in house training and regional training therefore are developed to ensure this. Foreign training was also extended where necessary for specialised training.

This life long learning culture is a bridge that we encourage our team members to walk on, given that it enables them to not only develop their knowledge purview, but also to give them a view of a knowledge filled horizon in which they can be active contributors. NSB encourages our team members to follow long-term educational courses including diplomas, and degree courses, such as M.Sc. and MBAs, while working at the Bank. Academic pursuits are encouraged in all forms, which also includes a number of short term training programmes, seminars and workshops.

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List of training programmes conducted during the year and number of Participants

No	Training Programme	No of Programmes	No of Participants
1.	NSB Product Knowledge & Postal Banking Products	10	411
2.	Pawn Broking / SMS & Phone Banking	10	358
3.	Credit Products (Documentation, Evaluation & Recovery Procedure)	7	252
4.	Cash Handling Techniques & Procedures	3	36
5.	Foreign Exchange Products & International Banking	9	298
6.	Risk Management & Compliance	3	161
7.	Branch Computer System/Bill Collection/Card Operation	22	673
8.	NSB Customer Care/ Service Quality & Work Ethics & Customer Relationship Management	17	567
9.	Customer Charter	7	165
10.	Selling Techniques / Savings & Credit Promotions	3	163
11.	Skills Development for Front Line Managers (III-III & IV)	4	276
12.	Leadership Development for Branch Excellence	8	461
13.	Effective Communication & Presentation Skills	5	320
14.	Staff Motivation, Personal Development & Secretarial Training (Personal Grooming, Time/Stress Management)	9	561
15.	Transforming NSB Shared Vision, Mission & Values in to reality	6	327
16.	Performance Improvement & Target Achievement through Motivational Techniques	6	329
17.	Team Building for Employee Relationship & Development of Positive Attitudes	6	327
18.	Employee Discipline & Code of Conduct	5	294
19.	Security & Safety Training	2	94
20.	Safe Driving & Maintenance Practices	1	29
21.	Preparation of Financial Statements	7	286

Details of In-house/ Regional Training Programmes

Employee Category	No of Participants	No of Training Hours
Corporate Management (DGM)	7	49
Executive Management (AGM)	8	56
Middle Management (Gr. I & II)	59	371
Junior Management (Gr. III/I & III/II)	1,200	3,959
Supervisors (Gr. III/III & IV)	1,904	7,100
Banking Assistants	2,386	9,954

Details of Foreign Training Programmes

Employee Category	No of Participants	No of Training Hours
Corporate Management (DGM)	2	49
Executive Management (AGM)	4	77
Middle Management (Gr. I & II)	3	63
Junior Management (Gr. III/I & III/II)	43	1022
Supervisory Officers (Gr. III/III & IV)	6	152

Details of Long Term Courses/ Diplomas & Degrees

Employee Category	No of Participants	No of Training Hours
Middle Management (Gr. I & II)	01	108
Junior Management (Gr. III/I & III/II)	02	216
Supervisors (Gr. III/III & IV)	05	540
Banking Assistants	22	2376

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Short Term Training Programmes/ Seminars and Workshops

Employee Category	No of Participants	No of Training Hours
Corporate Management (DGM)	15	164.5
Executive Management (AGM)	08	87
Middle Management (Gr. I & II)	69	640.5
Junior Management (Gr. III/I & III/II)	116	1318
Supervisors (Gr. III/III & IV)	34	284
Banking Assistants	17	296

Programme for Skills Management & Lifelong Training

Name of the Programme	No. of Programmes	No. of Training Hours	No. of Participants
Customer Service/ Customer Relationship Management	17	2854.50	791
Selling Techniques	03	599	203
Management Skills Development	07	1823	461
Anti Money Laundering	03	193	161

Performance Reviews

It is the practice at NSB to implement regular performance and career development reviews. We strongly believe that this is a means of furthering individual career aspirations and aligning them with the Bank's vision, mission and goals. Performance measurement vary on employee grade and level, differing for those at executive level, supervisory and Banking Assistant and Allied Grades as well as minor employees.

This year, a new performance evaluation system was introduced as per the Central Bank guidelines, assuring a two way dialogue process in performance evaluation. This avenue gives valuable feedback from the employee as well and enables a comprehensive one to one evaluation.

All promotions are effected according to meritocracy and is a transparent process.

Salary differences

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

Coverage of Defined Benefit Plans

NSB's defined benefit plan consists of a retirement gratuity and pension scheme, for which an actuarial valuation is conducted every three years. The defined contribution plan, in keeping with standard Sri Lankan business practice, involves contributions to the Employees' Provident Fund (EPF) and Employees' Trust Fund (ETF). For more information on these plans, please

see the Statement of the Bank's Accounting Policies on page 203.

Employees' pension scheme

The Bank established a non-contributory pension scheme in 1980. This is an approved scheme for pension payments for permanent employees who joined before 1st October 1995. The Bank's contribution to the pension fund is made monthly at the rate of 20% on gross salary. In total, 974 employees are entitled to the scheme. A new non contributory pension scheme has been introduced to employees who joined after 1st October 1995 which includes Widows/ Widowers and orphans pension.

Gratuity

A gratuity scheme is available for employees who are not eligible for the new pension scheme and who are not willing to join to the new pension scheme.

Defined Contribution Plans

The defined contribution schemes are the EPF, ETF. The Bank contributes to the ETF on the basis of gross salaries of employees. For further information please refer note no. 2.6.4 of the Financial Statement on page 204.

Human Rights and Equal Opportunity

Safeguarding Human Rights

There is an ingrained human rights consciousness within the annals of NSB and this is one which has surely enabled the Bank to build that bridge of opportunity with strength and confidence. We are very cognisant of being an equal opportunity employer, where employment is based totally on meritocracy and not on

race, color, religion, age, gender marital status, national origin or disability.

In similar fashion, recruitment, hiring, compensation, benefits, transfers, training and development, educational assistance, recreational programmes and promotion of individuals in all job classifications are conducted without discrimination on race, colour, religion, nationality, age, gender and physical disability. However, in the event that a bona fide occupational qualification exists, NSB does take a prudent call. Employment and promotional decisions are made to further the principle of equal employment opportunity, based upon selection criteria that are job related.

The Bank promotes a harassment free work and learning environment. Any form of harassment is considered a serious offence; vendors, visitors, customers, guests are prohibited from harassing any individual within the Bank premises.

NSB is an equal opportunity employer, where a person's qualification is the only basis for decision-making. Decisions concerning hiring, promotion, discharge, compensation, benefits, training and other entailments of employment will not be made based on an individual's disability.

We also emphasise the importance of a safe and healthy workplace for all employees. The Management and employees are all responsible for the Bank's safety and health procedures at the branches/divisions. Moreover as a responsible employer NSB upholds the ILO's convention on upholding the right to freedom of association of all employees.

Cases of Discrimination

There were no reported incidents of discrimination during the year.

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Risks to Freedom of Association

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

The following unions are recognised and active in the Bank:

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

Child Labour

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

Forced and Compulsory Labour

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

Bribery & Corruption

NSB has a zero tolerance policy concerning bribery and corruption. As one of the nation's largest public financial institutions, we support the elimination of corruption and irregularities in our bank. We have stringent controls and mechanisms to prevent actions of this nature, as it is our social duty to do so.

Additionally, our risk management mechanisms focus on minimising the risk of bribery, corruption and fraud. Thus, we have established operational risk monitoring mechanisms and appointed Liaison Officers, in all branches and divisions who report directly to the head of Risk and Compliance (HRC) concerning such matters.

Social and Community Care

Responsibility to Society

NSB's entire foundation is constructed on a responsibility to society. Our history with the people of this country actually revert to nearly two centuries, over 180 years when we, as part of Ceylon Savings Bank began mobilising savings from 1832. Since that time, we continued to win the trust of the people, now having a market share of 11.5%. We are mandated to ensure that our contribution to society is wholesome, holistic and multi-faceted.

This means, that we must move beyond our corporate mandate of being a savings bank and build a solid bridge that will empower society to become sustainable. Using this savings bank and the reputation we have garnered for ourselves in these years, we have progressively built these bridges that would ultimately culminate in the people of this nation not only uplifting themselves, but also contributing sustainably to the wealth and development of the country.

Our service and product portfolio is developed to maximise the benefits that we can extend to our customers, serving the diverse needs of many different social groups ranging from infants to senior citizens. As an example, our Ithurum Ayojana Kawa savings scheme is aimed at helping the low income segment enter the formal banking systems, which also inculcates the savings habit among a segment of society that finds banking alien to them. In uplifting education, a concessionary housing loan scheme has been introduced by the Bank for academic as well as non academic staff at universities.

While our products and services continue to be innovated and developed with emphasis on ensuring sustainability of our various stakeholders, we continue

to be well ingrained into assisting numerous strata of society. These demographic segments have been identified by the Bank as those requiring the most assistance to uplift and develop themselves. These CSR platforms therefore are based on Developing Education, Women & Health, Enabling the Disabled, Assistance to the Elderly and National Unity.

Developing Education

Optimising Potential: Believing strongly in the concept of education being the bridge to myriad opportunities, each year, we conduct Hapan Scholarship seminars for Grade Five students, tagged to our most popular children's savings product. A total of 50 free seminars were conducted throughout the country this year, ensuring that the students sitting these examinations are equipped to optimise their knowledge levels. Facilitated by well-known personalities, the seminars develop these students' academic skills, personality and attitudes.

On a project begun in 2008, NSB continued to conduct Grade Five Scholarship seminars under the Mathulowa Dinumata Nena Guna Wadamu programme, organised and conducted by Tharunyata Hetak. Fifty seminars were held island wide, including in the North and East, South, Central and Western regions, in Sinhala and Tamil media. In addition, NSB continued its Ithuru Mithuru seminar series for Ordinary level Examination students this year too.

Another annual feature, NSB in collaboration with the popular Navayugaya Magazine held nine seminars in strategic locations around the country, utilising the expertise of experienced resource personnel as a means of knowledge enhancement.

NSB also awarded scholarships to Prisoners' children through the Hapan Savings Scheme, encouraging these

children, who due to surrounding circumstances tend to drop out of school, to remain in school and further their education.

The Bank also sponsored airtime for the programme English as a Life Skill on the national television station Rupavahini, which is an English teaching programme. This is jointly organised by the Ministry of Education and the Presidential Secretariat and aims to improve English literacy skills among the public.

Spreading the message of environmental consciousness, preservation and conservation among the people of Sri Lanka, NSB sponsored the broadcast of Wananthare Kathandare (The Jungle Story). In collaboration with The Wildlife Department, this education programme imparts information about wild animals, their behaviour and other environmental factors.

Rewarding High Achievers : High achieving students at the Grade Five Scholarship examination are recognised by NSB as a means of honouring them for their academic prowess and also encouraging these young children to continue with equal enthusiasm with their education. While having rewarded the top ten performers in each district last year, this year NSB increased that number to the top fifteen performers in each district. The ceremony for these top achievers was held at Temple Trees, while students who gained merit results were recognised at special ceremonies held at NSB branches.

One of Sri Lanka's most renowned and revered Sinhala scholars, Kumarathunga Munidasa had his name etched permanently through a scholarship fund that recognises the best performer at the G.C.E. Ordinary Level examination's Sinhala language and literature examination. The student is awarded a laptop and a deposit for which the Bank contributed an investment of Rs. 300,000.

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Financial Assistance to Further Knowledge : Given our enthusiasm in encouraging uplifting education in the country, the NSB Ithru Mithuru Egenuma loan scheme was introduced to provide financial assistance to students for further education and teachers for educational purposes. Students who have enrolled for higher studies in a recognised local or foreign university, college, academy or an educational/professional institution are eligible for loans under this scheme. Loans are granted for academic or/and professional higher studies, research studies and any studies for innovative experiments either in Sri Lanka or another country.

Promoting the reading habit : Augmenting the vision of His Excellency the President in having equal access to education for all and in using all means possible to develop a knowledgeable society, NSB invested Rs 1 Mn to develop libraries in schools. Held under the aegis of His Excellency The President, members of the Presidential Office initiated this voluntary Nena Guna Thilina Presidential Book Project to promote reading among schoolchildren. With many schools not being equipped with libraries, or the existing ones being ill-equipped, each school was presented upto 300 books of educational and literary value, suitable for children up to 14 years of age. The donation enabled schools to either start new libraries or supplement the existing resources.

Enabling the Disabled

Given the large numbers of war heroes who are currently unable to live regular lives due to being permanently injured, NSB believes strongly that those who are challenged should be given the apt avenues to be empowered and live as much a regular life as all others. NSB contributed Rs 5 Mn towards the Army Benevolent Fund's Ranawiru Abimansala, which was

aimed at raising funding to provide housing for these war heroes.

Customers – Our Partners

We have, since our inception, built a bridge that would undoubtedly bring our customers closer to us, forge strong relationships that would be nurtured over decades and open opportunities for our customers. Being a savings bank that remains very cognisant of its responsibility of inculcating the savings culture among the people of Sri Lanka, our customers have truly been the tangible example of our success.

Our customer base now touches an impressive 17.9 million accounts and comprises all social strata, multiple demographics, cultural, religious and ethnic backgrounds. We know that our customers have embraced NSB as their lifelong partner. Being conscious and sensitive to this loyalty and the confidence our customers have placed in us, reverting to our long history and legacy, we have developed our products to reflect our customers' aspirations. Our product portfolio has been designed to give our customers the impetus to grow; to nurture their lifestyles; to venture into entrepreneurship and improve their accomplishments. We have added customer service excellence into the very core of our customer interactions. This has thus led us to bridge the gaps that may have existed for the people of Sri Lanka in meeting their expectations, while nurturing and strengthening their savings aspirations, becoming the savings partner for Sri Lankans, with a flexible, efficient, responsive and very proactive presence.

Our extensive product portfolio amply examples the customer ethos we espouse; we are bound to serve each of our customers, from infants to young people to senior citizens to migrant workers and women. We are intent on developing communities and the economy through

the granting of housing loans for shelter, auto loans, agricultural loans to project loans. Into this equation, we have introduced IT into the very heart of the banking process, while our products, coupled with exemplary service remain the trusses that hold aloft our bridge of success.

Customer service excellence is well evidenced in our NSB 24/7 Call Centre, which enables customers to contact us more easily, have quicker replies to their queries and gain valuable feedback. We also use this call centre as a marketing tool to glean more information of our products and services to callers.

Please refer to page 263 for information of our products and services.

Product Responsibility Performance Indicators

At NSB we ensure compliance to all relevant regulations, especially those concerning the provision of products and services to customers. Hence, we enact high ethical standards to guarantee that our customers receive the maximum benefit from our services. We do not resort to unethical advertising and/or marketing practices, and ensure that customers are informed on our products at the point of transaction. Thereby eliminating any form of ambiguity in our promotional material and products and services.

To ensure that we meet customer requirements, we conduct regular surveys and research customer behaviour and opinions. This information is then utilised for the betterment of our products.

Product and Service Labelling

We are committed to making sure that all Sri Lankans can understand and access our products and services,

regardless of ethnicity or language. This is why all product and service brochures are available in all three languages; including information on interest rates, maturity period and contact details.

Compliance

The Bank did not face any incidences of non-compliance with regulations and voluntary codes concerning product and service information and labelling. NSB has not been fined for any non-compliance in any area of marketing, product and service or promotions. This also means there have been no incidences of non-compliance with regulations, voluntary or compulsory, concerning marketing communication and hence no fines or warnings have been imposed.

It is also to be noted that the Bank adheres very stringently to all codes applicable to promotions, marketing and communication defined for the banking industry, as laid down by the CBSL and regulatory authorities, as well as other relevant marketing and communication organisations. We also maintain a strict code of conduct in our marketing and promotional practices, to ensure that customers and our stakeholders are well aware of our activities, products and services, with no ambiguity present. These codes are reviewed annually or more frequently whenever necessary by the marketing team. We do not sell or engage in selling or being associated with illegal or banned products which may be considered controversial, subject to debate or harmful to society in any way.

We also hold customer privacy at the height of confidentiality and practice internal codes of conduct very stringently to ensure that this privacy is never compromised. We have not received any complaints regarding the compromising of customer privacy from

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either customers or regulatory bodies nor have there been leaks, thefts or losses on customer data.

Practices on Customer Satisfaction

The Bank conducted surveys on customer satisfaction, customer behaviour and product awareness during the year.

We understand that customer satisfaction is an important indicator of how customers feel about our organisation and can be utilised by us to interpret work behavior, such as organisational citizenship. Therefore, a customer satisfaction survey was conducted to gauge how customers feel about NSB, and to identify the level of customer satisfaction with the Bank. The Research Division conducted external product awareness research to identify the level of awareness of NSB products among people.

Marketing Communications

NSB applies ethical banking concepts in all marketing communications and the following information is always presented in all English, Sinhala and Tamil advertisements:

- Name of the Bank
- Credit Rating
- Web URL
- Call Centre number

Business Promotion & Image Building

A wide range of business promotions and brand building activities were conducted by us, this year. In order to augment our market presence, we participated in exhibitions and conducted seminars.

We've successfully introduced a New Year campaign, this April as a part of our overall promotional and marketing drive. This coincides with the Sinhalese and Tamil New Year. We also ran a campaign during International Womens' month to promote Sthree savings accounts for women. Other campaigns were conducted in relation to Smile, Win win Thegi Warusa and the Hapan year five scholarship programme.

Technology based marketing communications

We strive to be a progressive bank, and have utilised modern communications in our promotional activities. The internet and mobile platforms have been used by us to communicate with our busy, tech savvy customers. Hence we conducted SMS and email campaigns as methods of direct communication, and promoted our technology-based products in corporate magazines, targeting our key market segments. In addition we've created web based publications for all e-papers and conducted e-flyer campaigns. We promote all technology based IT and NRFC products both internally and externally.

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HR7. Operations identified as having significant risk for incidents of forced or compulsory labour and measures taken to contribute to the elimination of forced or compulsory labour	Sustainability Review	154
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N/A - Not Applicable

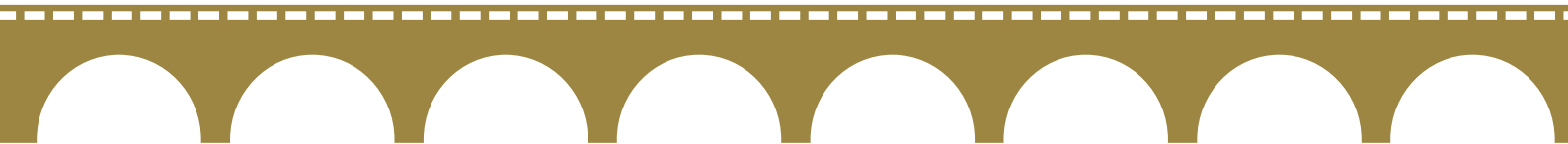
N/R - Not Reported

		2002 In Accordance	C	C+	B	B+	A	A+
Mandatory	Self Declared				✓			
	Third Party Checked			Report Externally Assured		Report Externally Assured		Report Externally Assured
Optional	GRI Checked							



Chapter 6

Financial Reports



Posting results to build bridges of growth,
performance and expansion

Financial Calendar

Financial Calendar 2013

1st Quarter Interim Results Released on	31 May 2013
2nd Quarter Interim Results Released on	22 Aug 2013
3rd Quarter Interim Results Released on	29 Nov 2013
4th Quarter Interim Results Released on	28 Feb 2014

Proposed Financial Calendar 2014

1st Quarter Interim Results will be released on	30 May 2014
2nd Quarter Interim Results will be released on	25 August 2014
3rd Quarter Interim Results will be released on	25 November 2014
4th Quarter Interim Results will be released on	25 February 2015

Annual Report of the Board of Directors

General

The Directors of the National Savings Bank have pleasure in presenting their Annual Report on the affairs of the Bank together with the audited Financial Statements of the Bank and Consolidated Financial Statements for the year ended 31st December 2013.

The audited Financial Statements were authorized to be issued on 25 April 2014. The Report also includes certain disclosures required to be made under the Banking Act, 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 2014 as per Circular No. PE D/27 of 27th January 2005, issued by the Director General of the Department of Public Enterprises to be placed before the Parliament of Sri Lanka.

National Savings Bank is incorporated in Sri Lanka by National Savings Bank Act No 30 of 1971 and was granted the status of Licensed Specialized Bank in terms of Banking Act No. 30 of 1988.

The Bank has been assigned AAA (lka) long term credit rating by the Fitch Rating Lanka (Pvt) Ltd. The Bank received B+ stable rating from Standard & Poor's and BB- rating from Fitch Ratings as International Credit Rating in line with International Bond issue. The registered office of the Bank is at No. 255, "Savings House", Galle Road, Colombo 03 at which the Bank's Head Office is located.

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 mobilized.

Subsidiary

The principal activity of NSB Fund Management Company Ltd. is dealing in Government Securities as a primary dealer authorized by the Central Bank of Sri Lanka. Details are given in Note 26 to the Financial Statements.

There were no significant changes in the nature of the principal activities of the Bank and the Group.

Vision, Mission and Values

The Bank's Vision, Mission and Values are given on page 03 of this Annual Report. The Bank maintains high ethical standards in its activities whilst pursuing the objectives stated under 'Vision' and 'Mission'. All permanent employees are being aware about the Bank's Code of Conduct of Bank with the view of reaching the Vision & Mission of the Bank.

Review of Business Performance

The Bank's performance for the financial year 2013 and its financial position were reviewed in the Message from the Chairperson (page 11), the Review by the General Manager/CEO (page 17) and Management Discussions and Analysis (page 24). These reports form an integral part of the Annual Report.

Future Performance

An overview of the future developments of the Bank is given in the Chairperson's Message (page 11), the General Manager/ CEO's Review (page 17) and Management Discussion & Analysis (pages 24).

Annual Report of the Board of Directors

Going Concern

The Board of Directors have reviewed and satisfied that the Bank has adequate resources to continue its operations in the foreseeable future. Therefore, we continue to adopt the going concern basis in preparing the Financial Statements in compliance with LKAS & SLFRS and in conformity with the GAAP applied consistently.

Financial Statements

The Financial Statements of the Bank and the Group for the year ended 31st December 2013 duly signed by the Deputy General Manager - Finance & Planning, General Manager / CEO, Chairperson and a Director of the Bank are given on page 189 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. The Directors are of the view that Income Statement, 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 and the Banking Act No. 30 of 1988 and its amendments. The Directors' Responsibility Statement appearing on page 178 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 Directors.

Auditors' Report

The Auditor General carried out the audit of the Bank. In 2013, the audit was carried out throughout the year.

Issues identified in their reports were submitted to the management regularly for prompt action. Having confirmed the accuracy of the financial reporting, the Financial Statements, together with the necessary data and information were made available to the Auditor General for examination. The Auditor General's opinion on the Financial Statements appears on page 187 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

The Bank prepared the Financial Statements in accordance with Sri Lanka Accounting Standards LKAS/SLFRS and significant Accounting Policies adopted in the preparation of Financial Statements and impact of the convergence during the year are given on page 195.

Directors' Remuneration & Other Benefits

Details of Directors' emoluments and other benefits in respect of the Bank and Group for the Financial year 2013 are given in Note 12 to the Financial Statements.

Strategic Business Plan

The Bank has adopted a Strategic Business Plan for 2011 up to 2013. A new Strategic Business Plan has been developed for 2014-2016. The Bank will strive to operate within the parameters set out in the new Business Plan, which will help to accelerate the future momentum of NSB.

International Bond Issue

The Bank issued an International Bond for a value of US\$ 750 millions in September 2013. This is the highest amount of foreign funds raised in a single issue by a local bank so far from foreign investors. The Bank has been awarded with B + stable and BB- Stable International Credit Ratings from Standard & Poor and Fitch Ratings respectively as a pre-requisite with international bond.

Income

The income of the Bank for 2013 was Rs. 65,573 Mn (2012 - Rs. 52,903 Mn) while the Group's income was Rs. 66,671 Mn (2012 - Rs. 53,872 Mn). Details of the income are given in Note 3 to the Financial Statements.

Profit and Appropriation

The Bank has recorded 64% decline in profit before income tax and 69% of profit after tax in 2013. The Group's profit before tax and profit after tax for the year recorded a decline of 58% and a 59% respectively. (Against a decline of 32% and of 38% respectively in 2012).

Details of Profit Relating to the Bank are given in the following Table:

	2013 Rs.Mn	2012 Rs.Mn
Profit for the year after payment of all expenses and providing for Depreciation, Possible Loan Losses and Contingencies before VAT & Tax	2,903	7,267
VAT on Financial Services	624	926
Provision for Income Tax	1,095	2,578
Net Profit	1,184	3,763

Provision for Taxation

The Income Tax rate applicable for the Bank on its operation is 28% and the Bank's operation is liable for Value Added Tax on Financial Services at the rate of 12%.

The Bank provided differed tax on all known temporary differences under the liability method. Information of Income Tax expenditure and Differed Taxation are given in Note No13 & 29 Respectively in pages 212 & 230.

Stated Capital

The authorized share capital of the Bank is Rs. 10 Bn divided into 1 Bn ordinary shares of Rs. 10/- each. The issued share capital of the Bank as at 31st December 2013 stood at Rs. 3.2 Bn. The Secretary to the Treasury in his official capacity holds the entirety of the issued share capital.

Shareholding

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

Reserves

The Bank's Reserves consist of -

	2013 Rs.Mn	2012 Rs.Mn
Reserve Fund	1,736	1,713
Revaluation Reserve	2,065	1,583
Other Reserves	15,216	17,271

Information on changes of reserves is given in the Statement of Changes in Equity in page 192.

Contribution to the Government

The Bank contributed Rs. 4,719 Mn by way of taxes and levies to the Government in 2013. (2012-Rs. 6,326 Mn). This consisted of Rs. 1,095 Mn of Income Tax (2012-Rs.

Annual Report of the Board of Directors

2,577 Mn), Rs. 624 Mn of Value Added Tax (2012-Rs.926 Mn)& Rs. 3,000 Mn of contribution to the Consolidated Fund (2012-Rs. 2,823 Mn).

Service Charges to Postmaster General (PMG)

Service charges to the PMG for 2013 amounting to Rs. 118 Mn has been provided on the same basis as in 2012.

Pension Fund

A sum of Rs. 593 Mn (2012 - Rs. 578 Mn) has been provided for in the accounts on account of employees who are eligible for the Non-Contributory Pension Scheme (including retired employees).

Further a pension scheme has been established for the staff member who have joined the Bank on or after 1st October 1995 and option is given to join the pension scheme or to continue with gratuity. Accordingly a sum of Rs. 118 Mn has been allocated from the profit of 2013 based on actuary estimate of valuation.

Corporate Sustainability and Responsibility

The programmes carried out under the Corporate Social Responsibility are detailed on page 155 in the Sustainability Report.

Property, Plant & Equipment, Leasehold Property and Intangible Assets

The total capital expenditure incurred by the Bank on the acquisition of Property, Plant & Equipment, leasehold property and intangible assets (Including Capital Work In Progress) during the year amounted to Rs. 340 Mn (2012 - Rs. 826 Mn) and Group amounted to Rs. 340 Mn (2012 - Rs. 826 Mn), the details of which are given in Notes 27 and 28 to the Financial Statements on pages 228 to 230 of this Annual Report.

Market Value of Free Hold Property

The Bank's policy to revalue is to free hold Land & Buildings in every 3 years. The Bank revalued its Free Hold Land & Buildings on 31st December 2013 by professionally qualified independent valuers and brought in to Financial Statements. The Directors are of the opinion that the revalued amounts are not in excess of the current market values of such properties.

Re-intatement of comparatives

The Comparative Financial Statements of 2013 were restated to effect the reclassification of Rs. 6000 Mn from loans and receivables to other assets.

Events after the Balance Sheet Date

No circumstances have arisen since the Balance Sheet date which would require adjustments to, or disclosure in, the accounts.

Outstanding Litigation

In the opinion of the Directors and the Bank's lawyers, outstanding litigation against the

Bank disclosed in Note 44 of the Financial Statements will not have a material impact on the financial position of the Bank or its future operations.

Board of Directors

The Board of Directors comprises seven Directors including the Chairperson and two Ex Officio Members representing the Ministry of Finance and the Postmaster General. The Minister of Finance appoints the Chairperson and other four Directors. The following were the Directors during the year: and whose brief profiles appear on page 74 of this Annual Report.

Name of the Director	Status
Ms. W.A. Nalani (From 30.05.2013)	NIND/NED
S.T. Abeygunawardana	NIND/NED
S.R. Attygalle (From 23.04.2013)	IND/NED
D.L.P.R. Abeyaratne	NIND/NED
Lionel P. Fernando	NIND/NED
Sumith Wijesinghe	IND/NED
H. Madiwela (From 26.04.2013)	IND/NED

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

New Appointments and Resignation

Following new appointments were made during the year.

Ms. W.A. Nalani	– Appointed as Chairperson from 30.05.2013
R.M.P. Ratnayake	– Appointed on 04.03.2013
S.R. Attygalle	– Appointed on 23.04.2013
H. Madiwala	– Appointed on 26.04.2013

Following Directors have resigned during the year

Sunil S. Sirisena	– Resigned on 30.05.2013
P.A. Abeysekara	– Retired on 15.02.2013
R.M.P. Ratnayake	– Resigned on 23.04.2013
Priyantha Jayawardena	– Resigned on 26.04.2013

Board Committees

The Board while assuming the overall responsibility and accountability has also appointed the following Board Sub-Committees to ensure conformity with Corporate Governance Standards of the Central Bank and other statutory compliances.

The composition of mandatory Sub Committees as at 31st December 2013 was as follows.

Board Audit Committee

1. Lionel P. Fernando – Chairman
2. S.R. Attygalle (From 23.04.2013)
3. H. Madiwela (From 10.06.2013)

The Report of the Board Audit Committee is given on page 86.

Board Human Resources and Remuneration Committees

1. Ms. W.A. Nalani – Chairperson (From 10.06.2013)
2. S.R. Attygalle (From 23.04.2013)
3. H. Madiwela (From 01.06.2013)

The Report of the Board Human Resources and Remuneration Committee is given on page 89.

Board Nomination Committee

1. S.R. Attygalle – Chairman (From 23.04.2013)
2. S.T. Abeygunawardana
3. Sumith Wijesinghe

The Report of the Board Nomination Committee is given on page 91.

Board Integrated Risk Management Committee

1. D.L.P.R. Abeyaratne (PMG) – Chairman
2. Lionel P. Fernando
3. Sumith Wijesinghe (From 10.06.2013)

The Report of the Board Integrated Risk Management Committee is given on page 90.

Directors' Meetings

The number of Directors' meetings which comprise Board Meetings, Audit Committee Meetings, Nomination Committee Meetings and Integrated Risk Management

Annual Report of the Board of Directors

Committee Meetings and the attendance of Directors at these meetings are given on Corporate Governance Report (pages 50 and 53) of this Annual Report.

Directors' Interests in Contracts

Directors' interests in contracts with the Bank, both direct and indirect are referred to in

Note 39 to the Financial Statements. These interests have been declared at the Board Meetings. The Directors do not have any direct or indirect interest in other contracts or proposed contracts with the Bank.

Related Party Transactions

The Directors have also disclosed the transactions if any, that could be classified as related party transactions in terms of LKAS No 24 "Related Party Disclosures" which is adopted in the preparation of the Financial Statements. Those transactions disclosed by the Directors are given in Note 39 to the Financial Statements forming part of the Annual Report of the Board.

Branch Expansion and Developments

The Bank extended its services through the addition of 10 new branches during the period under review. At the end of the year the Bank has 229 Branches in its network. The ATM network was further expanded enhancing customer convenience. The Bank installed 16 ATMs during the year across the island bringing out the total ATMs to 247 excluding peer banks' ATMs through which customers of NSB can transact. The Bank provides the internet banking and mobile banking facilities enabling customers to banking at any time from any place.

Chief Executive Officer (CEO)

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

Human Resources

The Bank continued to develop and maintain dedicated and highly motivated employees who are committed to create sustainable value through high quality service. Significant investments have been made in the development of quality of Human Capital of the Bank. The policies and procedures adopted by the Bank to upgrade Human Capital is describe in Sustainability Report on page 145.

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 page 94 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.

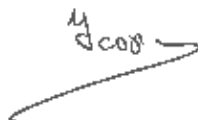
Government Guarantee

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 2013.

By Order of the Board,



Y.F. Deen
Secretary to the Board



W.A. Nalani
Chairperson

Colombo
25 April 2014

Statement of Directors' Responsibility on Financial Reporting

The responsibility of the Directors towards the Financial Statements of the National Savings Bank and Consolidated Financial Statements of the Group is set out in this statement. The responsibility of the External Auditors in relation to the Financial Statements is set out in the Auditors Report in page number 187.

The Directors of the Bank are responsible for ensuring that the Bank and the Group keep proper books of account of all the transactions and prepare Financial Statements in accordance with Generally Accepted Accounting Principles, Sri Lanka Accounting Standards & Sri Lanka Financial Reporting Standards that give a true and fair view of the state of affairs of the Bank and the Group at the end of each Financial year in compliance with statutory requirements. The Financial Statements comprise of Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in equity, Cash Flow Statement, Significant Accounting Policies and Notes thereto.

The Directors have ensured following in preparation of the Financial Statements:

1. The accounting policies adopted to prepare the Financial Statements were appropriate, consistently applied and adequately disclosed.
2. Reasonable and prudent judgments have been made where necessary when preparing the Financial Statements.
3. All applicable accounting standards as relevant have been followed.

As per the provisions of the Finance Act No. 38 of 1971, the Banking Act No. 30 of 1988 and Section 7 (i) of NSB Act No. 30 of 1971 the Board of Directors is required to control and administer the affairs and the business of the Bank. The Board of Directors are also responsible for ensuring that proper accounting records which correctly

record and explain the Bank's financial position, with reasonable accuracy at any point of time is determined by the Bank, enabling preparation of the Financial Statements.

The Board of Directors accepts the responsibility for the integrity and objectivity of the Financial Statements presented in this Annual Report. The Directors confirm that in preparing the Financial Statements exhibited on pages 189 to 194 Appropriate Accounting Policies have been selected and applied on consistent basis, while reasonable and prudent judgments have been made so that the form and substance of transactions are properly reflected.

The Financial Statements for the year 2013 prepared and presented in this Annual Report are consistent with the underlying books of accounts and are conformity with the requirements of Sri Lanka Accounting Standards, Sri Lanka Financial Reporting Standards, Sri Lanka Accounting and Auditing Standards Act, Banking Act and Directions of Central Bank of Sri Lanka.

The Board of Directors has been responsible for taking reasonable measures and care to safeguard the Bank's and group's assets and also has instituted an effective and comprehensive system of internal controls. This comprises internal check, internal audit and whole system of financial and other controls required to carry on the business of the Bank in an orderly manner, safeguard its assets, prevent and detect frauds and other irregularities.

The Directors ensure that the Financial Statements were reviewed by them directly at their regular meetings and also through the Board Audit Committee. The results of such reviews carried out during the year ended 31st December 2013 is given on page 180 of the Annual Report, "Directors Statement on Internal Control".

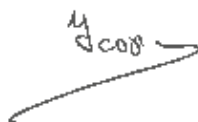
External Auditors' Assurance Report on the Internal Control is given on page 183 of the Annual Report. The Board of Directors approves the interim Financial Statements prior to release, following a review and recommendation by Board Audit Committee.

The Board appointed Audit Committee consists of 3 to 4 Directors of the Bank. The Committee has made an independent assessment of the Financial Reporting system of the Bank and confirmed that to the best of its knowledge and belief the Financial Reporting system of the Bank has been designed to provide reasonable assurance on the reliability of Financial Statements.

The Directors confirm to the best of their knowledge and belief that all statutory payments relating to employees, the Government and the other relevant regulatory and statutory authorities which were due and payable by the Bank and its Subsidiary as at the Statement of Financial Position date have been paid or where relevant provided for. Further, the Directors have confirmed that after considering the financial position, operating conditions and regulatory factors required to be included in the Corporate Governance Code issued by the Central Bank of Sri Lanka, the Bank and its Subsidiary have adequate resources to continue in operation to justify the application of the going concern basis in preparing these Financial Statements and the Board has taken all necessary measures to comply with the directives issued by the Central Bank of Sri Lanka.

The Auditor General carries out the audit of the Bank. In 2013, the audit was carried out throughout the year. Issues identified in their reports were submitted to the management regularly for prompt action. Having confirmed the accuracy of the financial reporting, the Financial Statements, together with the necessary data and information were made available to the Auditor General for examination. The Auditor General's opinion on the Financial Statements appears on page 187 of this Annual Report.

By Order of the Board,



Y.F. Deen
Secretary to the Board

Colombo
25 April 2014

Directors' Statement on Internal Controls

Responsibility

This report has been issued in accordance with the Banking Act Direction No. 11 of 2007, Section 3 (8) (11) (b), and prepared based on the guidelines issued by The Institute of Chartered Accountants of Sri Lanka (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 in the National Savings Bank (the 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 confirm the compliance with the Guidance for Directors of the of Bank's on the Directors Statement on Internal Controls issued by CA 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 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 of Directors of the view that the system of internal controls in place is sound and adequate to provide a 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.

Key Features of Internal Control Process

The Board has put in place the system of reviewing the design and the effectiveness of system of internal control periodically. The key processes, among other things include the following:

- The Board Sub-Committees have been established with defined scopes and functions to assist the Board in ensuring the effectiveness of the Bank's operations and that the Bank's operations are in accordance with the corporate objectives, strategies, & policies and business directions that have been approved, by the Board.
- The Board Audit Committee (BAC) reviews periodically the internal control issues identified by the Internal Audit Division of the Bank, the External Auditors, Regulatory Authorities and corrective actions taken to rectify the deficiencies observed. The activities of the BAC , along with minutes of the Committee meetings are submitted for information of the Board on a periodic basis.

- 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 2013 are set out in the Board Audit Committee Report appearing on page 86 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 also 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 Bank has designed and implemented processes which required to comply with the requirement of recognition, measurement, presentation and disclosures for the adoption of LKAS & SLFRS in 2012 and continued in 2013. Continuous monitoring was taken place to ensure the effectiveness of process.
- The Board Integrated Risk Management Committee (BIRMC) has been established by the Board to assist the Board to oversee the overall management of principal areas of risk of the Bank. The Executive Risk Management Committee (ERMC) which includes representation from all key business and operating units of the Bank assists with the implementation of policies advocated at the BIRMC. The Compliance

Unit ensures that the Bank's activities are conducted in accordance with applicable laws, regulations, Bank's 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 are also in operation with appropriate empowerment to ensure effective management and supervision of Bank's core areas in the day-to-day business operations. The assessment covers only the process applied by the Bank and does not include the processes carried out by its Subsidiary.
- The Auditor General carries out the external audit of the Bank and the Superintendent of the Government Audit is invited to BAC meetings.
- The findings of the Government Audit are reported to the management periodically and the management ensures that they are rectified and responded promptly. The comments made by the Government Auditors in connection with the audit of Financial Statements for the year ended 31st December 2013 on internal control system is appearing on page 183 The External Auditors commented on internal control system during the financial year 2012 and the comments were taken in to consideration and appropriate actions have been taken to establish the corrective control mechanism.

Confirmation

Based on the above processes, the Board confirms that the financial reporting system of the

Directors' Statement on Internal Controls

Bank has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

Review of the Statement by the External Auditors

The External Auditors have reviewed the above Directors' Statement on Internal Controls for the year ended 31st December 2013 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control system of the Bank.

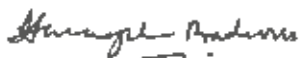
By Order of the Board,



W. A. Nalani
Chairperson



Lionel P. Fernando
Chairman - Board Audit Committee / Director



H.M. Hennayake Bandara
General Manager / CEO

Colombo
25 April 2014

Independent Assurance Report on Internal Controls



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30 April 2014

Assurance Report of the Auditor General to the Board of Directors on the Directors' Statement on Internal Control of National Savings Bank

Introduction

This report is to provide assurance on the Directors' Statement on Internal Control ("Statement") of National Savings Bank included in the annual report for the year ended 31 December 2013.

Management's responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued in compliance with Section 3(8)(ii)(b) of the Banking Act Direction No.12 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

My responsibility and compliance with SLSAE 3050

My responsibility is to issue a report to the Board of Directors on the Statement based on the work performed. I conducted my engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3050 – Assurance Report for Banks on Directors' Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka.

Summary of Work performed

This engagement has been conducted to assess whether the Statement is both supported by the documentation prepared by or for Directors and appropriately reflects the process the Directors have adopted in reviewing the system of internal control for the Bank.

The procedures performed are limited primarily to inquiries of bank personnel and the existence of documentation on a sample basis that supports the process adopted by the Board of Directors.

Independent Assurance Report on Internal Controls

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 our understanding of the process the Board of Directors have adopted in the review of the design and effectiveness of internal control over financial reporting of the Bank.



H A S Samaraweera
Auditor General

Statement of Responsibility of General Manager/CEO and Deputy General Manager (Finance & Planning)

The Financial Statements of the National Savings Bank and the Consolidated Financial Statements of the Bank and its Subsidiary (Group) as at 31st December 2013 are prepared and presented in conformity with the requirements of the following:

- National Savings Bank Act No. 30 of 1971 and amendments thereto.
- Finance Act No. 38 of 1971.
- Sri Lanka Accounting Standards and Sri Lanka Financial Reporting Standards issued by The Institute of Chartered Accountants of Sri Lanka.
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995.
- Banking Act No. 30 of 1988 and amendments thereto and Directions and Guidelines issued by Central Bank of Sri Lanka.
- Code of Best Practices on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Securities Exchange Commission.

The formats used in the preparation of the Financial Statements and disclosures made comply with the formats prescribed by the Central Bank of Sri Lanka.

The Accounting Policies used in the preparation of the “Financial Statements” are appropriate and are consistently applied by the group.

The comparative information has been reclassified wherever necessary to comply with the current presentation and material departures, if any, have been disclosed and explained.

The significant Accounting Policies and estimates that involved a high degree of judgment and complexity were

discussed with the Bank’s External Auditors and the Board Audit Committee.

The Board of Directors and the management of the Bank accept responsibility for the integrity and objectivity of these financial statements. The estimates and judgments relating to the financial statements were made on a prudent and reasonable basis; in order that the financial statements reflect in a true and fair manner, the form and substance of transactions and that the Bank’s state of affairs is reasonably presented. To ensure this, the Bank has taken proper and sufficient care in installing a system of internal control and accounting records, for safeguarding assets and for preventing and detecting frauds as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis. It is confirmed that the Bank has adequate resources to continue its operations in the foreseeable future. Therefore, the Bank will continue to adopt the ‘going concern’ basis in preparing these financial statements.

The Assurance Report on the “Directors Statement on the Internal Controls” is given on page 183 of the Annual Report

The Bank’s Internal Audit Division has conducts periodic reviews to ensure that the Internal Controls and Procedures are consistently followed. However, there are inherent limitations that should be recognized in weighing the assurances provided by any system of internal control and accounting.

The Financial Statements of the Bank and its Subsidiary were audited by the Auditor General and Messers Earnest & Young, Chartered Accountants. The Auditor General’s Report on the Bank’s Consolidated Financial Statements is given on page 187 of this Annual Report.

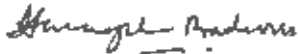
Statement of Responsibility of General Manager/CEO and Deputy General Manager (Finance & Planning)

The Bank's Board Audit Committee, inter alia, reviewed all the Internal Audit and Inspection Programmes, the efficiency of Internal Control Systems and Procedures and also reviewed the Significant Accounting Policies and their adherence to statutory and regulatory requirements, the details of which are given in the Board Audit Committee Report on page 86 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. We confirm that

- The Bank and group have complied with all applicable laws and regulations and guidelines and there are no material litigations against the Group other than those disclosed in Note 44 on page 238 of the Financial Statements.
- All taxes, duties, levies and all statutory payments by the Group and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Group as at the Balance Sheet date have been paid, or where relevant provided for.



K.B. Wijeyaratne
Deputy General Manager (Finance & Planning)



H.M. Hennayake Bandara
General Manager/CEO

Colombo
25 April 2014

Auditor General's Report



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Your No. }

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Date }

30 April 2014

The Chairperson
National Savings Bank

Report of the Auditor General on the Financial Statements of the National Savings Bank and its subsidiary for the year ended 31 December 2013

The audit of the financial statements of the National Savings Bank (Bank) and the consolidated financial statements of the Bank and its subsidiary (Group) for the year ended 31 December 2013 comprising the Statements of Financial Position as at 31 December 2013, 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 the respective subsidiary.

Management's Responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000 – 1810). Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material

Auditor General's Report

misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of Accounting Policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion – Bank

In my opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2013 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Opinion – Group

In my opinion, the consolidated financial statements give a true and fair view of the financial position of the Bank and its subsidiary as at 31 December 2013 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirement

These financial statements had been presented the information required by the Banking Act, No. 30 of 1988 and subsequent amendments.

Report to Parliament

My report to Parliament in pursuance of provisions in Article 154 (6) of the constitution will be tabled in due course.



H.A.S. Samaraweera
Auditor General



Statement of Comprehensive Income

For the year ended 31 December	Note	Bank			Group		
		2013 Rs '000	2012 Rs '000 Restated	Change %	2013 Rs '000	2012 Rs '000 Restated	Change %
Gross income	3	65,573,042	52,903,244	24	66,670,921	53,871,704	24
Interest income		64,247,818	52,531,446	22	65,066,567	53,638,616	21
Less: Interest expenses		54,563,482	39,142,492	39	55,233,594	40,065,973	38
Net interest income	4	9,684,336	13,388,954	(28)	9,832,973	13,572,643	(28)
Fee and commission income		228,056	221,709	3	228,142	221,709	3
Less: Fee and commission expenses		33,016	24,481	35	34,124	27,705	23
Net fee and commission income	5	195,040	197,228	(1)	194,018	194,004	0
Net gain/(loss) from trading	6	857,079	(17,990)	4,864	1,137,997	(156,700)	826
Net gain/(loss) from financial instruments designated at fair value through profit or loss	7	-	-	-	-	-	-
Net gain/(loss) from financial investments	8	-	-	-	-	-	-
Other operating income (net)	9	240,089	168,079	43	238,215	168,079	42
Total operating income		10,976,544	13,736,271	(20)	11,403,203	13,778,026	(17)
Less: Impairment charge for loans and other losses	10	1,380,003	130,935	954	1,380,003	130,935	954
Net operating income		9,596,541	13,605,336	(29)	10,023,200	13,647,091	(27)
Less; Expenses							
Personnel expenses	11	4,208,706	4,077,501	3	4,224,196	4,091,789	3
Other expenses	12	2,484,626	2,261,322	10	2,457,297	2,227,664	10
Operating profit before value added tax (VAT)		2,903,209	7,266,513	(60)	3,341,707	7,327,638	(54)
Less: Value added tax on financial services		624,445	926,295	(33)	672,464	935,347	(28)
Operating profit after value added tax (VAT)		2,278,764	6,340,218	(64)	2,669,243	6,392,291	(58)
Profit before Income tax		2,278,764	6,340,218	(64)	2,669,243	6,392,291	(58)
Less: Income tax expenses	13	1,094,954	2,577,586	(58)	1,141,437	2,621,860	(56)
Profit for the year		1,183,810	3,762,632	(69)	1,527,806	3,770,431	(59)
Profit attributable to:							
Equity holders of the Bank		1,183,810	3,762,632	(69)	1,527,806	3,770,431	(59)
Profit for the year		1,183,810	3,762,632	(69)	1,527,806	3,770,431	(59)
Earnings per share on profit							
Basic earnings per ordinary share (Rs.)	14	3.70	11.76	(69)	4.56	11.26	(59)
Diluted earnings per ordinary share (Rs.)		3.70	11.76	(69)	4.56	11.26	(59)
Profit for the year		1,183,810	3,762,632	(69)	1,527,806	3,770,431	(59)
Other comprehensive income, net of tax							
Net gain/(losses) on revaluation of property plant and equipment		482,106	-	100	482,106	-	100
Actuarial gain/(losses) on retirement benefit		-	-	-	(416)	(46)	804
Net gain/(losses) on cash flow hedges		(45,324)	-	(100)	(45,324)	-	(100)
Net gains/(losses) on re-measuring available-for-sale financial assets		(152,672)	(210,840)	(28)	(152,672)	(210,840)	(28)
Other comprehensive income for the year, net of taxes		284,110	(210,840)	235	283,694	(210,886)	235
Total comprehensive income for the year		1,467,920	3,551,792	(59)	1,811,500	3,559,545	(49)
Attributable to:							
Equity holders of the Bank		1,467,920	3,551,792	(59)	1,811,500	3,559,545	(49)
Total comprehensive income for the year		1,467,920	3,551,792	(59)	1,811,500	3,559,545	(49)

Statement of Financial Position

As at 31 December	Note	Bank			Group		
		2013 Rs '000	2012 Rs '000 Restated	Change %	2013 Rs '000	2012 Rs '000 Restated	Change %
Assets							
Cash and cash equivalents	16	1,546,221	1,465,542	6	1,557,267	1,467,042	6
Balances with Central Bank	17	-	-	-	203	242	(16)
Placements with banks	18	11,298,360	5,973,585	89	11,298,360	5,973,585	89
Derivative financial instruments	19	5,118,615	9,401	54,348	5,118,615	9,401	54,348
Other financial assets held-for-trading	20	13,808,239	10,729,416	29	18,111,911	16,218,386	12
Financial assets designated at fair value through profit or loss	21	-	-	-	-	-	-
Loans and receivables to banks	22	7,550,509	13,374,007	(44)	7,849,969	14,091,299	(44)
Loans and receivables to other customers	23	158,869,826	149,103,421	7	158,871,926	149,107,668	7
Financial investments - Available-for-sale	24	2,926,082	3,073,258	(5)	2,927,082	3,074,258	(5)
Financial investments - Held to maturity	25	432,465,113	309,595,845	40	435,959,845	313,063,745	39
Investments in subsidiaries	26	150,000	150,000	-	-	-	-
Property, plant and equipment	27	5,610,413	5,151,512	9	5,611,100	5,152,416	9
Intangible assets	28	81,803	112,101	(27)	81,888	112,265	(27)
Deferred tax assets	29	-	-	-	568	313	81
Other assets	30	14,942,811	10,074,623	48	14,957,063	10,118,124	48
Total assets		654,367,993	508,812,710	29	662,345,797	518,388,744	28
Liabilities							
Due to banks	31	126,989	337,014	(62)	4,118,522	6,535,883	(37)
Due to other customers	32	501,889,688	457,650,387	10	501,889,688	457,650,387	10
Other borrowings	33	120,433,536	22,620,945	432	122,790,093	24,695,847	397
Current tax liabilities		-	-	-	33,205	52,824	(37)
Deferred tax liabilities	29	143,450	123,338	16	143,450	123,338	16
Other liabilities	34	9,556,844	4,313,928	122	9,574,014	4,327,608	121
Total liabilities		632,150,506	485,045,612	30	638,548,971	493,385,887	29
Equity							
Stated capital	35	3,200,000	3,200,000	-	3,200,000	3,200,000	-
Statutory reserve fund	36	1,736,803	1,713,127	1	1,736,803	1,713,127	1
Other reserves	37	17,280,684	18,853,971	(8)	18,860,023	20,089,730	(6)
Total equity of the owners of the parent		22,217,487	23,767,098	(7)	23,796,826	25,002,857	(5)
Total equity		22,217,487	23,767,098	(7)	23,796,826	25,002,857	(5)
Total equity and liabilities		654,367,993	508,812,710	29	662,345,797	518,388,744	28
Contingent liabilities and commitments	38	69,590,143	6,804,010	923	69,590,143	6,804,010	923

Significant Accounting Policies and Notes to the Financial Statements disclosed on pages 195 to 255 are integral part of these Financial Statements.

Certification

I certify that the above Financial Statements give a true and fair view of the state of affairs as at 31st December 2013 and its profit for the year ended 31st December 2013.



K.B. Wijeyaratne

Deputy General Manager (Finance & Planning)

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

Approved and signed for and on behalf of the Board.



W.A. Nalani

Chairperson



S.T. Abeygunawardana

Working Director



H.M. Hennayake Bandara

General Manager / CEO

Colombo
25 April 2014

Statement of Changes in Equity - Bank

	Stated capital	Statutory Reserve fund	Revaluation reserve	Available for sale reserve	Cash flow hedging reserve	Other reserves	Retained earnings	Total equity
	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
Balance as at 01.01.2012	3,200,000	1,626,500	1,583,340	345,959	-	16,296,684	-	23,052,483
Profit for the year 2012 - Restated	-	-	-	-	-	-	3,762,632	3,762,632
Other comprehensive income (net of tax)	-	-	-	(210,840)	-	-	-	(210,840)
Total comprehensive income for the year				(210,840)	-	-	3,762,632	3,551,792
Transaction with equity holders, recognized directly in equity								
Transfers to reserves during the period	-	75,253	-	-	-	864,134	(939,387)	-
Contribution to consolidated fund	-	-	-	-	-	-	(2,823,245)	(2,823,245)
Unclaimed deposit reserve	-	-	-	-	-	(13,948)	-	(13,948)
Other adjustment	-	11,374	-	1,000	-	(12,358)	-	16
Total transactions with equity holders	-	86,627	-	1,000	-	837,828	(3,762,632)	(2,837,178)
Balance as at 31.12.2012 - Restated	3,200,000	1,713,127	1,583,340	136,119	-	17,134,512	-	23,767,098
Profit for the year 2013	-	-	-	-	-	-	1,183,810	1,183,810
Other comprehensive income (net of tax)	-	-	482,106	(152,672)	(45,324)	-	-	284,110
Total comprehensive income for the year	-	-	482,106	(152,672)	(45,324)	-	1,183,810	1,467,920
Transaction with equity holders, recognized directly in equity								
Transfers to reserves during the period	-	23,676	-	-	-	(1,851,707)	1,828,028	-
Contribution to consolidated fund	-	-	-	-	-	-	(3,000,000)	(3,000,000)
Contribution to national insurance trust fund	-	-	-	-	-	-	(11,838)	(11,838)
Unclaimed deposit reserve	-	-	-	-	-	(5,693)	-	(5,693)
Total transactions with equity holders	-	23,676	-	-	-	(1,857,400)	(1,183,810)	(3,017,531)
Balance as at 31.12.2013	3,200,000	1,736,803	2,065,446	(16,553)	(45,324)	15,277,112	-	22,217,487

Statement of Changes in Equity - Group

	Stated capital	Statutory Reserve fund	Revaluation reserve	Available for sale reserve	Cash flow hedging reserve	Other reserves	Retained earnings	Total equity
	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
Balance as at 01.01.2012	3,200,000	1,626,500	1,583,340	345,959		17,537,072	-	24,292,871
Profit for the year 2012 - Restated	-	-	-			-	3,770,431	3,770,431
Other comprehensive income (net of tax)	-	-	-	(210,840)		(46)	-	(210,886)
Total comprehensive income for the year	-	-	-	(210,840)		(46)	3,770,431	3,559,545
Transaction with equity holders, recognized directly in equity								
Transfers to reserves during the period	-	75,253	-	-	-	871,932	(947,184)	-
Contribution to consolidated fund	-	-	-	-	-	-	(2,823,245)	(2,823,245)
Unclaimed deposit reserve	-	-	-	-	-	(13,948)	-	(13,948)
Other Adjustments	-	11,374	-	1,000	-	(24,739)	-	(12,365)
Total transactions with equity holders	-	86,627	-	1,000	-	833,245	(3,770,431)	(2,849,558)
Balance as at 31.12.2012 - Restated	3,200,000	1,713,127	1,583,340	136,119	-	18,370,271	-	25,002,857
Profit for the year 2013	-	-	-	-	-	-	1,527,806	1,527,806
Other comprehensive income (net of tax)	-	-	482,106	(152,672)	(45,324)	(416)	-	283,694
Total comprehensive income for the year	-	-	482,106	(152,672)	(45,324)	(416)	1,527,806	1,811,500
Transaction with equity holders, recognized directly in equity								
Transfers to reserves during the period	-	23,676	-	-	-	(1,507,708)	1,484,032	-
Contribution to consolidated fund	-	-	-	-	-	-	(3,000,000)	(3,000,000)
Contribution to national insurance trust fund	-	-	-	-	-	-	(11,838)	(11,838)
Unclaimed deposit reserve	-	-	-	-	-	(5,693)	-	(5,693)
Total transactions with equity holders	-	23,676	-	-	-	(1,513,401)	(1,527,806)	(3,017,531)
Balance as at 31.12.2013	3,200,000	1,736,803	2,065,446	(16,553)	(45,324)	16,856,453	-	23,796,826

Statement of Cash Flows

<i>For the year ended 31 December</i>	Note	Bank		Group	
		2013 Rs '000	2012 Rs '000	2013 Rs '000	2012 Rs '000
Cash flow from operating activities					
Profit before tax		2,278,764	6,340,218	2,669,243	6,392,291
Adjustment for:					
Non-cash items included in profit before tax	41	1,861,004	487,828	1,860,883	488,233
Change in operating assets	42	(141,595,582)	(42,809,848)	(139,777,863)	(39,288,816)
Change in operating liabilities	43	50,162,185	36,850,618	47,748,316	34,220,909
Placement with banks		(5,324,775)	(693,057)	(5,324,775)	(693,057)
Contribution paid to defined benefit plans		(679,971)	(873,449)	(679,971)	(873,449)
Tax paid		(1,074,842)	(2,549,864)	(1,141,199)	(2,592,707)
Contribution to national insurance trust fund		(11,838)	-	(11,838)	-
Net cash used in operating activities		(94,385,055)	(3,247,553)	(94,657,204)	(2,346,596)
Cash flows from investing activities					
Purchase of property, plant and equipment		(268,407)	(353,729)	(268,407)	(353,975)
Proceeds from the sale of property, plant and equipment		2,340	-	2,340	-
Net increase in investment in Available-for-sale		147,176	210,841	147,176	210,841
Net purchase of intangible assets		(12,248)	(19,667)	(12,247)	(19,666)
Contribution to Consolidated fund		(3,000,000)	(3,196,297)	(3,000,000)	(2,389,845)
Decrease in unclaimed reserve fund		(5,693)	(13,948)	(5,693)	(13,948)
Net cash (used in) / from investing activities		(3,136,832)	(3,372,800)	(3,136,831)	(2,566,593)
Cash flow from financing activities					
Other Borrowings		97,812,591	6,479,416	98,094,246	4,772,404
Net cash from financial activities		97,812,591	6,479,416	98,094,246	4,772,404
Net (decrease) / increase in cash & equivalents		290,704	(140,937)	300,211	(140,785)
Cash and cash equivalents at the beginning of the year		1,128,528	1,269,465	1,130,270	1,271,055
Cash and cash equivalents at the end of the year		1,419,232	1,128,528	1,430,481	1,130,270

Notes to the Financial Statements

1. Corporate Information

Reporting Entity

National Savings Bank (NSB) is a saving Bank incorporated in Sri Lanka. The registered office of the Bank is located at No. 255, 'Saving House', Galle Road, Colombo -03, Sri Lanka. The 'Group' Financial Statements for the year ended 31 December 2013 comprise of the Bank (parent) and its fully-owned Subsidiary, NSB Fund Management Company Ltd.

The Bank prepares Financial Statements of the 'Bank' and the 'Group' for the twelve months period ended 31 December each year to be table in the Parliament.

The staff strength of the Bank as at 31 December 2013 was 2,943. (2012-3,128)

The Financial Statements for the year ended 31 December 2013 were authorised for issue on 25th April 2014, by a resolution of the Board of Directors.

The Bank possesses 229 Branches, 1,723 school Bank units and 247 ATMs of its service outlets and 653 Post offices and 3,410 sub-post offices as its agency network.

2. Main Accounting Policies

2.1. Basis of Preparation

The Consolidated Financial Statements have been prepared on a historical cost basis, except for available-for-sale investments, derivative financial instruments, other financial assets and liabilities held for trading, financial assets and liabilities designated at fair value through profit or loss, which have all been measured at fair value. The Consolidated Financial Statements are presented in

Sri Lankan Rupees (Rs.) and all values are rounded to the nearest thousand rupees, except when otherwise indicated.

2.1.1. Statement of compliance

The Financial Statements of the Bank and Group are prepared in accordance with Sri Lanka Accounting Standards (LKASs and SLFRSs) as issued by the Institute of Chartered Accountants of Sri Lanka.

2.1.2. Presentation of financial statements

The Bank and Group presents its statement of financial position broadly in order of liquidity.

2.1.3. Offsetting Financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if and only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

2.1.4. Basis of consolidation

The Financial Statements of the Bank and Group comprise the Financial Statements of the Bank and its Subsidiary for the year ended 31 December 2013. The Financial Statements of the Bank's Subsidiary for the purpose of consolidation are prepared for the same reporting period as that of National Savings Bank, using consistent accounting policies.

All intra-group balances, transactions, income and expenses are eliminated in full.

Notes to the Financial Statements

Subsidiary is fully consolidated from the date on which control is transferred to the Bank. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

2.2. Significant accounting Judgments, Estimates and Assumptions

In the process of applying the Bank's accounting policies, management has exercised judgement and estimates in determining the amounts recognised in the financial statements. The most significant uses of judgements and estimates are as follows:

2.2.1. Going concern

The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

2.2.2. Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values.

2.2.3. Impairment losses on loans and receivables

The bank reviews its individually significant loans and receivables at each Statement of Financial Position date to assess whether an impairment loss should be recorded in the Income Statement. In

particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and receivables that have been assessed individually and found not to be impaired and all individually insignificant loans and receivables are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilization, loan to collateral ratios, etc.) and judgments to the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

2.3. Financial Instruments

2.3.1. Financial instruments - Initial recognition and subsequent measurement

i. Date of recognition

All financial assets and liabilities are initially recognized on the trade date, i.e. the date that the bank becomes a party to the contractual provisions of the instrument.

Note: In maintaining the General Ledger, Government Securities are recognized on the settlement date which falls due after three days from the date of trade. The position is rectified in preparation of the Financial Statements.

ii. Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose and the

management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

iii. Derivatives recorded at fair value through profit or loss

The bank uses derivatives such as interest rate swaps and forward foreign exchange contracts. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in 'Net trading income'.

Cash flow hedge

The effective portion of changes in the fair Value of derivatives that are designated and qualify as cash flow hedges is recognized in Other Comprehensive Income within 'cash flow hedge' – fair value gain/ (losses). Any gain or loss in fair value relating to an ineffective portion is recognized immediately in the Income Statements.

The accumulated gains and losses recognized in Other Comprehensive Income are reclassified to the Income Statement in the periods in which the hedged item will affect profit or loss. Recognition or a non-financial liability, the gains and losses previously recognized 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 recognized in Other Comprehensive Income at that time remains in equity until the forecast transaction

is eventually recognized in the Income Statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognized in Other Comprehensive Income is immediately reclassified to the Income Statement.

iv. Financial assets or financial liabilities held-for-trading

Financial assets or financial liabilities held-for-trading are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognized in 'Net trading income'. Interest and dividend income or expense is recorded in 'Net trading income' according to the terms of the contract, or when the right to the payment has been established.

Included in this classification are Government Securities held for trading and dealing securities

v. Financial assets and financial liabilities designated at fair value through profit or loss (FVTPL)

Financial assets and financial liabilities classified in this category are those that have been designated by management on initial recognition, and designation is determined on an instrument by instrument basis.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the Statement of Financial Position at fair value. Changes in fair value are recorded in 'Net gain or loss on financial assets and liabilities designated at fair value through profit or loss'. Interest is earned or incurred is accrued in 'Interest income' or 'Interest expense', respectively using the effective interest rate (EIR), while dividend income is recorded in 'Other operating income' when the right to the payment has been established.

Notes to the Financial Statements

vi. Available-for-sale financial investments (AFS)

Available-for-sale investments include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

Note: The Bank has not designated any loans or receivables as available-for-sale

After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Equity investments under AFS that do not have quoted market price and whose fair value cannot be reliably measured shall be measured at cost.

Unrealised gains and losses are recognized directly in equity (Other Comprehensive Income) in the 'Available-for-sale reserve'. When the investment is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the Income Statement in 'Other operating income'. Where the bank holds more than one investment in the same security they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available-for-sale financial investments is recognized as interest income using the EIR. Dividends earned whilst holding available-for-sale financial investments are recognized in the Income Statement as 'Other operating income' when the right of the payment has been established. The losses arising from impairment of such investments are recognized in the Income Statement in 'Impairment losses on financial investments' and removed from the 'Available-for-sale reserve'.

vii. Held-to-maturity financial investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortized cost using the EIR, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'Interest and similar income' in the Income Statement. The losses arising from impairment of such investments are recognized in the Income Statement line 'Credit loss expense'.

If the bank were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the bank would be prohibited from classifying any financial asset as held to maturity during the following two years.

viii. Due from banks and loans and receivable to customers

Due from banks' and 'Loans and receivable to customers', include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

After initial measurement, amounts 'Due from banks' and 'loans and advances to customers' are subsequently measured at amortized cost using the EIR, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest and similar income' in

the Income Statement. The losses arising from impairment are recognized in the Income Statement in 'Credit loss expense'.

ix. Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not de-recognized from the Statement of Financial Position as the bank retains substantially all the risks and rewards of ownership. The corresponding cash received is recognized in the Consolidated Statement of Financial Position as an asset with a corresponding obligation to return it, including accrued interest as a liability within 'Cash collateral on securities lent and repurchase agreements', reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expenses and is accrued over the life of agreement using the EIR.

Conversely, securities purchased under agreements to resell at a specified future date are not recognized in the Statement of Financial Position. The consideration paid, including accrued interest, is recorded in the Statement of Financial Position, within 'Cash collateral on securities borrowed and reverse repurchase agreements', reflecting the transaction's economic substance as a loan by the Bank. The difference between the purchase and resale prices is recorded in 'Net interest income' and is accrued over the life of the agreement using the EIR.

2.3.2. Impairment of Financial Instruments

i. Impairment of financial assets

The bank assesses at each Statement of Financial Position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and

only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganization, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

ii. Financial assets carried at amortized cost

For financial assets carried at amortized cost (such as amounts due from banks, loans and receivable to customers as well as held-to-maturity investments), the bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated

Notes to the Financial Statements

future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the Income Statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest and similar income'. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the bank. If, in a subsequent year, the amount of the estimated impairment loss increased or decreased because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Credit loss expense'.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. If the Bank has reclassified trading assets to loans and receivable, the discount rate for measuring any impairment loss is the new EIR determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics such as

asset type industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable 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.

iii. Available-for-sale financial investments

For available-for-sale financial investments including debt securities, the Bank assesses at each Statement of Financial Position date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available-for-sale, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial asset carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the Income Statement. Future interest income is based on the reduced carrying amount and is accrued using the

rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest and similar income'. If, in a subsequent period, the fair value of a debt instrument increased and the increase can be objectively related to a credit event occurring after the impairment loss was recognized in the Income Statement, the impairment loss is reversed through the Income Statement.

In the case of equity investments classified as available-for-sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. The Bank treats 'significant' generally as 20% and 'prolonged' generally as greater than six months. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the Income Statement is removed from equity and recognized in the Income Statement. Impairment losses on equity investments are not reversed through the Income Statement; increases in the fair value after impairment are recognized in Other Comprehensive Income.

iv. Renegotiated Loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or

collective impairment assessment, calculated using the loan's original EIR.

2.3.3. Recognition of income and expenses for Financial Instruments

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

i. Interest and similar income and expense

For all financial instruments measured at amortized cost, interest bearing financial assets classified as available-for-sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Other operating income'. However, for a reclassified financial asset for which the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase are recognized as an adjustment to the EIR from the date of the change in estimate.

Notes to the Financial Statements

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Cash and cash equivalents as referred to in the cash flow statement comprises cash in hand, non-restricted current accounts with central banks and amounts due from banks on demand or with an original maturity of three months or less.

ii. Fee and Commission Income

Fees earned for the provision of services and credit related fees are recognized in the year in which the income is received.

2.4. Property, Plant and equipment

Property and equipment is stated at cost or valuation excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

Category of Asset	Period of Depreciation
Leasehold Property	over the period of lease
Freehold Buildings	2.5% p.a.
Office & Sundry Equipments	10% p.a.
Motor vehicles	20% p.a.
Computer hardware & Software	25% p.a.
Furniture and fittings	10% p.a.

The group provide depreciation on assets from the date on which they are available for use to the date disposal.

Property, Plant and equipment is de-recognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition 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 de-recognised.

2.5. Intangible assets

The Bank's other intangible assets include the value of computer software. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it, will flow to the Bank.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life. The amortization period and the amortization 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 amortization period or method, as appropriate, and they are treated as changes in accounting estimates. The amortisation expense on intangible

assets with finite lives is recognized in the Income Statement in the expense category consistent with the function of the intangible asset.

2.6. Pension Benefits

2.6.1. Defined benefit pension plan

Staff pension fund - 01

The Bank operates a defined benefit pension plan, for the permanent staff members who have joined the Bank prior to 1st October 1995, which requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit plan is determined separately using the projected benefit actuarial valuation method. Actuarial gains and losses are fully recognised as income or expense in the respective financial year.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service costs not yet recognised and less the fair value of planned assets out of which the obligations are to be settled directly, less actuarial losses not yet recognised. The value of any asset is restricted to the sum of any actuarial losses and past service cost not yet recognised and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

The latest actuarial valuation was carried out as of 31 December 2012, by Piyal S. Gunatilleke F.S.A. (USA), Member of the American Academy of Actuaries and Consulting Actuaries.

The principal financial assumptions used in the valuation as at 31.12.2012 are as follows:

1. Interest/ Discount Rate	12.5% p.a.
2. Increase in Cost of Living Allowances	5% p.a.
3. Increase in average Basic Salary	5% p.a.

An estimate of actuarial valuation for 2013 was obtained from Actuarial and Rs. 593 Mn. was provided in 2013.

The provision for 2012 was Rs. 578 Mn.

The Accounts of the Pension Fund are maintained separately and are subject to annual audit by Independent External Auditors. The Statement of Accounts as well as the Auditors Report are tabled and reviewed by the Board of Trustees. These statements of Accounts and Auditor's Report are also submitted for review of the disclosure of the Bank, as the Bank has an obligation of ensuring that funding is made at optimum levels. Pension is payable monthly as long as the participant is alive.

Un-Funded pension liability

The results of the actuarial valuation indicate (as at 31-12-2012) a past service deficit of Rs. 1,899 Mn and this has been provided in full. The details of Un-Funded pension liability are given in Note No-34(a).

Staff pension fund - 02

Effective from 2013, a pension scheme has been established for the staff members who have joined the Bank on or after 1st October 1995. The option has been granted to staff members to continue with gratuity entitlement or to join with the new scheme. Accordingly, it is expected to transfer the gratuity entitlement of such, staff members as initial start up or seed money for this new pension scheme. In addition Rs. 118 Mn has been allocated from the profit of 2013 and this amount was derived using an actuary estimate of valuation.

2.6.2. Gratuity

The employees who joined the Bank on or after 1st October 1995 will be eligible for gratuity under the Payment of Gratuity Act No. 12 of 1983, or if opted can join the proposed new pension scheme -02

Notes to the Financial Statements

and if so such employees will forfeit their right to gratuity.

Other employees whose services are terminated other than by retirement are eligible to receive the terminal gratuity under the Payment of Gratuity Act No. 12 of 1983 at the rate of one half of the Gross Salary applicable to the last month of the financial year in which the employment is terminated, for each year of continuous service, for those who have served in excess of 5 years.

The Bank makes a monthly provision towards such Gratuity Payment Liabilities and this value is reflected in the Financial Position of the Bank. The provision is based on the Actuarial valuation. The last Actuarial valuation was carried out as of 31 December 2011.

2.6.3. Post employment medical benefits

The Bank expenses post employment medical benefits as an annual contribution based on the annual actual expenditure and the balance of the fund made out of the Bank's contribution at the year end.

The provision made for the year 2012 was 25 Mn and no provision has been recognized during the year 2013.

2.6.4. Defined contribution plan

The Bank also operates a defined contribution plan. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Bank by the employees and is recorded as an expense under 'Personnel expenses'. Unpaid contributions are recorded as a liability. The Bank contributes to the following defined contribution plans:

i. Employees' Provident Fund

The Bank and employees contribute 12% and 8% respectively of the employee's monthly gross salary (excluding overtime) to the Provident Fund. The Bank's Provident Fund is an approved fund under the Employees' Provident Fund Act.

ii. Employees' Trust Fund

The Bank contributes 3% of the employee's monthly gross salary excluding overtime to the Employees' Trust Fund maintained by the Employees Trust Fund Board.

2.7. Taxation

Current Taxation

Current tax assets and liabilities consists of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current as well as prior years. The tax rates and tax laws used to compute the amount are those that are enacted or subsequently enacted by the date of Financial Position. Accordingly, provision for taxation is made on the basis of the profit for the year as adjusted for taxation purpose in accordance with the provision of the Inland Revenue Act No. 10 of 2006 and the amendment thereto, at the rates specified in Note 13 to the Financial Statements.

Deferred Taxation

Deferred tax is provided using the liability method on temporary differences at the Reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purpose.

Deferred tax assets are recognized for all deductible differences. Carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and the carry

forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of a deferred tax asset is reviewed at each Reporting date and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognised deferred tax asset are re-assessed at each Reporting date and are recognize to the extent that is probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply in the year when the assets are realized or the liabilities are settled, based on tax rates and tax laws that have been enacted or subsequently enacted at the date of Financial Position.

Value Added Tax on Financial Services (VAT)

Bank's total value addition was subjected to a 12% Value Added Tax as per section 25A of the Value Added Tax No. 14 of 2002 and amendments thereto.

2.8. Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expenses relating to any provision is presented in the Income Statement net of any reimbursement

Provision for fraudulent withdrawals

The total value of fraudulent withdrawals identified as at 31st December 2013 was Rs 23.20 Millions. A provision of Rs 10.83 Millions already exists in the account.

2.9. Contingent Liabilities

Where, as a result of past events, there may be an outflow of resources embodying future economic benefits in settlement of a present obligation or a possible obligation whose existence is confirmed only by occurrence/non- occurrence of one or more uncertain future events, a provision is made if there is a present obligation that probably requires an outflow of resources.

2.10. Events after the Reporting Period

The Bank updates disclosures relating to any event occurred between the end of the reporting period and the date when the Financial Statements are authorized for issue and provide evidence of the conditions that existed at the end of the reporting period.

2.11. Foreign Currency Transactions

Foreign currency transactions are translated into the functional currency, which is Sri Lankan Rupees, using the exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the Reporting date are re-translated to Sri Lankan Rupees at the functional currency rate at the Reporting date. All exchange differences arising on the settlement of monetary items or on translating monetary items at rates different to those at which they are initially recorded are recognized in the Income Statement in the period in which they arise.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Notes to the Financial Statements

The Income Statement and the Financial Position of Foreign Currency Banking Unit is translated to Sri Lankan Rupees at the middle rate of exchange prevailed during the period.

2.12 Statement of Cash Flows

The statement of cash flows has been prepared using the “Indirect Method” of preparing cash flows in accordance with the LKAS 7. Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an in significant 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 Directors’ Responsibility Statement

The Board of Directors takes the responsibility for the preparation and presentation of these Financial Statements. Please refer page 178 for the Statement of the Directors’ responsibility for Financial Reporting.

2.14 Deposit Insurance Scheme

The Bank calculate 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.

2.15 Investment Fund Account (IFA)

As required by the Government Budget 2011, with effect from 1st January 2011 the Bank is required to transfer an amount equivalent to 8% of the VAT on Financial Services and 5% of the Income Tax to an Investment Fund Accounts. The details of the fund status are given in Note 37 to the Financial Statements.

2.16 Standards Issued but not yet Effective

The following SLFRS 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 Group and may have an impact on the future Financial Statements.

SLFRS 9 – Financial Instruments:

Classification and Measurement

SLFRS 9, as issued reflects the first phase of work on replacement of LKAS 39 and applies to classification and measurement of financial assets and liabilities.

This standard was originally effective for annual periods commencing on or after 01 January 2015. However effective date has been deferred subsequently.

SLFRS 13 – Fair Value Measurement

SLFRS 13 establishes a single source of guidance under SLFRS for all fair value measurements and provides guidance on all fair value measurements under SLFRS.

This standard will be effective for the financial period beginning on or after 01 January 2014.

However use of fair value measurement principles contained in this standards are currently recommended.

In addition to the above, following standards will also be effective for the annual periods commencing on after 01 January 2014.

SLFRS 10 - Consolidated Financial Statements

SLFRS 11 – Joint Arrangements

SLFRS 12 – Disclosure of Interests in Other Entities. The above three standards will impact the recognition, measurement and disclosure aspects currently contained in LKAS 27 – Consolidated and separate Financial Statements, LKAS 28- Investments in associates, LKAS 31- Interest in joint ventures and SIC – 12 and SIC-13 which are on consolidation of special purpose entities (SPEs) and jointly controlled entities respectively.

Establishing a single control model that applies to all entities including SPEs and removal of option to proportionate consolidation of jointly controlled entities are the significant changes introduced under SLFRS 10 and SLFRS 11 respectively.

SLFRS 12, establishes a single standard on disclosures related to interests in other entities. This incorporates new disclosures as well as the ones previously captured in earlier versions of LKAS 27, LKAS 28 and LKAS 31.

The Bank and 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.

Notes to the Financial Statements

03. Gross Income

<i>For the year ended 31 December</i>	Bank		Group	
	2013	2012	2013	2012
	Rs '000	Rs '000	Rs '000	Rs '000
Interest income	64,247,818	52,531,446	65,066,567	53,638,616
Fee and commission income	228,056	221,709	228,142	221,709
Net gain/(loss) from trading	857,079	(17,990)	1,137,997	(156,700)
Net gain/(loss) from financial investments	-	-	-	-
Other operating income (net)	240,089	168,079	238,215	168,079
Gross income	65,573,042	52,903,244	66,670,921	53,871,704

04. Net Interest Income

04.a Interest Income

<i>For the year ended 31 December</i>	Bank		Group	
	2013	2012	2013	2012
	Rs '000	Rs '000	Rs '000	Rs '000
Cash and cash equivalents	2,713	7,880	2,713	7,880
Placements with banks	419,301	298,335	419,301	298,335
Derivative financial instruments	11,819	12,939	11,819	12,939
Other financial assets held-for-trading	712,171	669,215	712,171	669,215
Loans and receivables to banks	1,341,428	2,324,441	1,382,585	2,494,627
Loans and receivables to other customers	21,749,970	15,598,716	21,750,759	15,599,564
Financial investments - Held-to-maturity	40,010,417	33,619,920	40,787,220	34,556,056
Financial investments - Available-for-sale	-	-	-	-
Total interest income	64,247,818	52,531,446	65,066,567	53,638,616

04.b Interest Expenses

<i>For the year ended 31 December</i>	Bank		Group	
	2013	2012	2013	2012
	Rs '000	Rs '000	Rs '000	Rs '000
Due to other customers	49,416,240	37,049,747	49,416,240	37,049,747
Other borrowings	4,724,935	1,708,887	4,872,226	1,759,419
Debt securities issued	-	-	-	-
Others	422,306	383,858	945,127	1,256,807
Total interest expenses	54,563,482	39,142,492	55,233,594	40,065,973
Net Interest Income	9,684,336	13,388,954	9,832,973	13,572,643

04.c Net Interest Income from Sri Lanka Government Securities

<i>For the year ended 31 December</i>	Bank		Group	
	2013	2012	2013	2012
	Rs '000	Rs '000	Rs '000	Rs '000
Interest income	40,722,587	34,289,135	41,541,336	35,396,305
(Less) : Interest expenses	-	-	670,112	923,481
Net interest income	40,722,587	34,289,135	40,871,224	34,472,824

05. Net Fee and Commission Income

<i>For the year ended 31 December</i>	Bank		Group	
	2013	2012	2013	2012
	Rs '000	Rs '000	Rs '000	Rs '000
Fee and commission income	228,056	221,709	228,142	221,709
Fee and commission expenses	(33,016)	(24,481)	(34,124)	(27,705)
Net fee and commission income	195,040	197,228	194,018	194,004
Earned from				
Loans	174,554	170,633	174,554	170,633
Cards	(3,346)	108	(3,346)	108
Others	23,832	26,487	22,810	23,263
Net fee and commission income	195,040	197,228	194,018	194,004

06. Net Gain/(Loss) from Trading

<i>For the year ended 31 December</i>	Bank		Group	
	2013	2012	2013	2012
	Rs '000	Rs '000	Rs '000	Rs '000
Foreign exchange				
From banks	-	-	-	-
From others customers	79,006	77,215	79,006	77,215
Interest rates - mark to market gain / (loss) and others	504,999	65,179	785,917	(73,531)
Equities - mark to market gain / (loss) and others	282,475	(135,326)	282,475	(135,326)
Others - interest rate swap	(9,401)	(25,058)	(9,401)	(25,058)
Total	857,079	(17,990)	1,137,997	(156,700)

07. Net Gain/(Loss) from Financial Instruments Designated at Fair Value Through Profit or Loss

<i>For the year ended 31 December</i>	Bank		Group	
	2013	2012	2013	2012
	Rs '000	Rs '000	Rs '000	Rs '000
Gain / (Losses) on financial assets designated at fair value through profit or loss	-	-	-	-
Total	-	-	-	-

Notes to the Financial Statements

08. Net Gain from Financial Investments

<i>For the year ended 31 December</i>	Bank		Group	
	2013	2012	2013	2012
	Rs '000	Rs '000	Rs '000	Rs '000
Assets available-for-sale				
Debt securities	-	-	-	-
Equities	-	-	-	-
Others	-	-	-	-
Others	-	-	-	-
Total	-	-	-	-

09. Other Operating Income (net)

<i>For the year ended 31 December</i>	Bank		Group	
	2013	2012	2013	2012
	Rs '000	Rs '000	Rs '000	Rs '000
Gain on sale of property, plant and equipment	2,119	359	2,119	359
Gain/(Loss) on revaluation of foreign exchange	32,059	23,361	32,059	23,361
Equities - Divided income	156,313	93,410	156,313	93,410
Others	49,597	50,949	47,723	50,949
Other Operating Income (net)	240,089	168,079	238,215	168,079

10. Impairment for Loans and other Losses

<i>For the year ended 31 December</i>	Bank		Group	
	2013	2012	2013	2012
	Rs '000	Rs '000	Rs '000	Rs '000
Loans and receivables				
To Other customers (Refer Note 23 (d))	1,380,003	130,935	1,380,003	130,935
Total	1,380,003	130,935	1,380,003	130,935

11. Personnel Expenses

<i>For the year ended 31 December</i>	Bank		Group	
	2013	2012	2013	2012
	Rs '000	Rs '000	Rs '000	Rs '000
Salary and bonus	3,096,665	3,119,962	3,109,215	3,131,295
Contribution - staff provident fund	237,093	240,255	237,346	240,822
Contribution - trust fund	59,328	59,942	59,391	60,084
Contribution - staff pension fund - 01 (Note 11(a) - 11(d))	592,759	577,911	593,325	578,416
Contribution - staff pension fund - 02 (Note 11.(e))	118,274	-	118,274	-
Others	104,587	79,431	106,645	81,172
Total	4,208,706	4,077,501	4,224,196	4,091,789

11.(a) Provision for Staff Retirement Benefits

<i>For the year ended 31 December</i>	Bank		Group	
	2013	2012	2013	2012
	Rs '000	Rs '000	Rs '000	Rs '000
Amount recognized as expense	592,759	577,911	593,325	578,416

An estimate of actuarial valuation was obtained for the provision in 2013 and actuarial valuation was carried out in 2012 as detail given below.

11. (b) Actuarial Valuation

Actuarial valuation was carried out by Mr. Priyal S. Gunathilake, fellow of the Society of Actuaries USA of Piyal S. Gunathilake & Associates, on 31 December 2012.

11. (c) Actuarial Valuation Method

Projected unit credit method was used to allocate the actuarial present value of the projected benefits earned by employees to date of 31 December 2012.

11. (d) Principal Actuarial Assumptions

Discount rate as at 31 December 2012, per annum	12.50%
Future salary Increase per annum	5.00%
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	-

11. (e). Effective from 2013, a pension scheme has been established for the employees who were recruited on or after 01.10.1995.

Notes to the Financial Statements

12. Other Expenses

<i>For the year ended 31 December</i>	Bank		Group	
	2013	2012	2013	2012
	Rs '000	Rs '000	Rs '000	Rs '000
Directors' emoluments	1,301	1,008	1,436	1,118
Auditors' remunerations	3,942	3,336	4,121	3,803
Professional and legal expenses	13,715	4,335	13,715	4,335
Depreciation of property, plant and equipment	284,163	319,316	284,380	319,643
Amortization of leasehold property	7,228	7,228	7,228	7,228
Amortization of intangible assets	42,546	30,349	42,624	30,427
Office administration and establishment expenses	2,128,062	1,895,330	2,100,124	1,860,690
Others	3,669	420	3,669	420
Total	2,484,626	2,261,322	2,457,297	2,227,664

13. Income Tax Expenses

<i>For the year ended 31 December</i>	Bank		Group	
	2013	2012	2013	2012
	Rs '000	Rs '000	Rs '000	Rs '000
Current tax expenses				
Current year tax expenses	1,074,842	2,549,864	1,114,069	2,592,707
Prior years' (over) / under provision	-	-	7,510	1,523
Deferred tax expenses				
Temporary differences (Refer Note - 13(b))	20,112	27,722	19,858	27,630
Total	1,094,954	2,577,586	1,141,437	2,621,860

13.a Reconciliation of Tax Expenses

<i>For the year ended 31 December</i>	Bank		Group	
	2013	2012	2013	2012
	Rs '000	Rs '000	Rs '000	Rs '000
Profit before tax	2,278,764	6,340,218	2,669,243	6,392,291
Income tax for the period (Accounting profit @ 28%)	638,054	1,775,261	747,388	1,789,841
Add: Tax effect of expenses that are not deductible for tax purposes	1,195,472	1,274,489	1,125,656	1,303,208
(Less): Tax effect of expenses that are deductible for tax purposes	758,684	499,886	758,975	500,342
Tax expense for the period	1,074,842	2,549,864	1,114,069	2,592,707

13.b The deferred tax charge in the income statement comprise of the following.

<i>For the year ended 31 December</i>	Bank		Group	
	2013 Rs '000	2012 Rs '000	2013 Rs '000	2012 Rs '000
Deferred tax assets	3,870	(5,294)	4,124	(5,202)
Deferred tax liabilities	23,982	22,428	23,982	22,428
Differed tax (credit)/charge to income statement	20,112	27,722	19,858	27,630

14. Earning Per Share (EPS)

<i>For the year ended 31 December</i>	Bank		Group	
	2013 Rs '000	2012 Rs '000	2013 Rs '000	2012 Rs '000
Net profit attributable to ordinary equity holders	1,183,810	3,762,632	1,527,806	3,770,431
Adjustment for the effect of dilution	-	-	-	-
Net profit attributable to ordinary equity holders adjusted for the effect of dilution	1,183,810	3,762,632	1,527,806	3,770,431
Weighted average number of ordinary share for basic earnings per share	320,000	320,000	335,000	335,000
Weighted average number of ordinary shares adjusted for the effect of dilution	320,000	320,000	335,000	335,000
Basic earnings per ordinary shares (Rs.)	3.70	11.76	4.56	11.26
Diluted earnings per ordinary share (Rs.)	3.70	11.76	4.56	11.26

Notes to the Financial Statements

15. Analysis of Financial Instruments by Measurement Basis

15.a. Bank - 2013

	HFT Rs '000	HTM Rs '000	Amortized cost Rs '000	AFS Rs '000	FVTPL Rs '000	Hedging Rs '000	Total Rs '000
ASSETS							
Cash and cash equivalents	-	-	1,546,221	-	-	-	1,546,221
Balances with central bank	-	-	-	-	-	-	-
Placement with banks	-	-	11,298,360	-	-	-	11,298,360
Derivative financial instruments	-	-	-	-	-	5,118,615	5,118,615
Other financial assets held for trading	13,808,239	-	-	-	-	-	13,808,239
Other financial assets at fair value through profit or loss	-	-	-	-	-	-	-
Loans and receivable to banks	-	-	7,550,509	-	-	-	7,550,509
Loans and receivable to other customers	-	-	158,869,826	-	-	-	158,869,826
Financial investments	-	432,465,113	-	2,926,082	-	-	435,391,195
Total financial assets	13,808,239	432,465,113	179,264,916	2,926,082	-	5,118,615	633,582,965

	HFT Rs '000	Designated at Fair value Rs '000	Amortized cost Rs '000	FVTPL Rs '000	Hedging Rs '000	Total Rs '000
LIABILITIES						
Due to banks	-	-	126,989	-	-	126,989
Derivative financial instruments	-	-	-	-	-	-
Other financial liabilities at fair value through profit or loss	-	-	-	-	-	-
Due to other customers	-	-	501,889,688	-	-	501,889,688
Other borrowings	-	-	120,433,536	-	-	120,433,536
Debt securities issued	-	-	-	-	-	-
Total financial liabilities	-	-	622,450,213	-	-	622,450,213

Held for trading - HFT

Designated at fair value through profit or loss - Designated at fair value - FVTPL

Loans and receivables/deposits at amortized cost - Amortized cost

Held-to-maturity - HTM

Available-for-sale - AFS

Instruments of fair value and cash flow hedging - Hedging

15.b. Bank - 2012

	HFT	HTM	Amortized cost	AFS	FVTPL	Hedging	Total
	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
ASSETS							
Cash and cash equivalents	-	-	1,465,542	-	-	-	1,465,542
Balances with central bank	-	-	-	-	-	-	-
Placement with banks	-	-	5,973,585	-	-	-	5,973,585
Derivative financial instruments	-	-	-	-	-	9,401	9,401
Other financial assets held for trading	10,729,416	-	-	-	-	-	10,729,416
Other financial assets at fair value through profit or loss	-	-	-	-	-	-	-
Loans and receivable to banks	-	-	13,374,007	-	-	-	13,374,007
Loans and receivable to other customers	-	-	149,103,421	-	-	-	149,103,421
Financial investments	-	309,595,845	-	3,073,258	-	-	312,669,103
Total financial assets	10,729,416	309,595,845	169,916,556	3,073,258	-	9,401	493,324,476

	HFT	Designated at Fair value	Amortized cost	FVTPL	Hedging	Total
	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
LIABILITIES						
Due to banks	-	-	337,014	-	-	337,014
Derivative financial instruments	-	-	-	-	-	-
Other financial liabilities at fair value through profit or loss	-	-	-	-	-	-
Due to other customers	-	-	457,650,387	-	-	457,650,387
Other borrowings	-	-	22,620,945	-	-	22,620,945
Debt securities issued	-	-	-	-	-	-
Total financial liabilities	-	-	480,608,346	-	-	480,608,346

Notes to the Financial Statements

15.c. Group - 2013

	HFT Rs '000	HTM Rs '000	Amortized cost Rs '000	AFS Rs '000	FVTPL Rs '000	Hedging Rs '000	Total Rs '000
ASSETS							
Cash and cash equivalents	-	-	1,557,267	-	-	-	1,557,267
Balances with central bank	-	-	203	-	-	-	203
Placement with banks	-	-	11,298,360	-	-	-	11,298,360
Derivative financial instruments	-	-	-	-	-	5,118,615	5,118,615
Other financial assets held for trading	18,111,911	-	-	-	-	-	18,111,911
Other financial assets at fair value through profit or loss	-	-	-	-	-	-	-
Loans and receivable to banks	-	-	7,849,969	-	-	-	7,849,969
Loans and receivable to other customers	-	-	158,871,926	-	-	-	158,871,926
Financial investments	-	435,959,845	-	2,927,082	-	-	438,886,927
Total financial assets	18,111,911	435,959,845	179,577,725	2,927,082	-	5,118,615	641,695,178

	HFT Rs '000	Designated at Fair value Rs '000	Amortized cost Rs '000	FVTPL Rs '000	Hedging Rs '000	Total Rs '000
LIABILITIES						
Due to banks	-	-	4,118,522	-	-	4,118,522
Derivative financial instruments	-	-	-	-	-	-
Other financial liabilities at fair value through profit or loss	-	-	-	-	-	-
Due to other customers	-	-	501,889,688	-	-	501,889,688
Other borrowings	-	-	122,790,093	-	-	122,790,093
Debt securities issued	-	-	-	-	-	-
Total financial liabilities	-	-	628,798,303	-	-	628,798,303

15.d. Group - 2012

	HFT	HTM	Amortized cost	AFS	FVTPL	Hedging	Total
	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
ASSETS							
Cash and cash equivalents	-	-	1,467,042	-	-	-	1,467,042
Balances with central bank	-	-	242	-	-	-	242
Placement with banks	-	-	5,973,585	-	-	-	5,973,585
Derivative financial instruments	-	-	-	-	-	9,401	9,401
Other financial assets held for trading	16,218,386	-	-	-	-	-	16,218,386
Other financial assets at fair value through profit or loss	-	-	-	-	-	-	-
Loans and receivable to banks	-	-	14,091,299	-	-	-	14,091,299
Loans and receivable to other customers	-	-	149,107,668	-	-	-	149,107,668
Financial investments	-	313,063,745	-	3,074,258	-	-	316,138,003
Total financial assets	16,218,386	313,063,745	170,639,837	3,074,258	-	9,401	503,005,627

	HFT	Designated at Fair value	Amortized cost	FVTPL	Hedging	Total
	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
LIABILITIES						
Due to banks	-	-	6,535,883	-	-	6,535,883
Derivative financial instruments	-	-	-	-	-	-
Other financial liabilities at fair value through profit or loss	-	-	-	-	-	-
Due to other customers	-	-	457,650,387	-	-	457,650,387
Other borrowings	-	-	24,695,847	-	-	24,695,847
Debt securities issued	-	-	-	-	-	-
Total financial liabilities	-	-	488,882,117	-	-	488,882,117

Notes to the Financial Statements

16. Cash and Cash Equivalents

<i>As at 31 December</i>	Bank		Group	
	2013 Rs '000	2012 Rs '000	2013 Rs '000	2012 Rs '000
Cash in hand	512,938	445,465	512,942	445,470
Balances with banks	989,803	994,789	1,000,845	996,284
Money at call and short notice	43,480	25,288	43,480	25,288
Total	1,546,221	1,465,542	1,557,267	1,467,042

17. Balances with Central Bank

<i>As at 31 December</i>	Bank		Group	
	2013 Rs '000	2012 Rs '000	2013 Rs '000	2012 Rs '000
Statutory balances with Central Bank of Sri Lanka	-	-	203	242
Total balances with Central Bank	-	-	203	242

18. Placement with Banks

<i>As at 31 December</i>	Bank		Group	
	2013 Rs '000	2012 Rs '000	2013 Rs '000	2012 Rs '000
Placement with Banks - Sri Lanka	11,298,360	5,973,585	11,298,360	5,973,585
Total	11,298,360	5,973,585	11,298,360	5,973,585

19. Derivative Financial Instruments - Bank & Group

	Assets 2013	Notional Amount 2013	Assets 2012	Notional Amount 2012
Interest rate derivatives				
Interest rate swap	-	-	9,401	200,000
Cash flow hedges				
Foreign currency swap	5,118,615	48,591,175	-	-
Total	5,118,615	48,591,175	9,401	200,000

20. Other Financial Assets Held For Trading

As at 31 December	Bank		Group	
	2013 Rs '000	2012 Rs '000	2013 Rs '000	2012 Rs '000
Held for trading				
Sri Lanka government securities				
Treasury bill	1,778,133	1,746,470	2,992,381	2,759,617
Treasury bond	8,201,689	4,624,652	11,291,113	9,100,475
Equity securities - (refer - note 20(a,b))	3,828,417	4,358,294	3,828,417	4,358,294
Total	13,808,239	10,729,416	18,111,911	16,218,386

20. (a) Equity Securities (Quoted) -Bank & Group

	31-12-2013			31-12-2012		
	No. of Shares	Cost	Market Value	No. of Shares	Cost	Market Value
		Rs.000'	Rs.000'		Rs.000'	Rs.000'
1 Banks, Finance & Insurance						
Commercial Bank of Ceylon PLC	1,517,149	137,590	181,669	1,729,591	152,916	176,153
DFCC Bank	1,342,024	194,396	171,846	1,342,024	194,396	149,950
HNB Assurance PLC	105,332	6,556	5,468	105,332	6,556	5,103
Hatton National Bank PLC (NV)	1,103,175	138,244	129,808	1,103,175	138,244	122,717
Janashakthi Insurance Company PLC	1,699,500	26,322	21,342	1,699,500	26,322	17,813
National Development Bank PLC	679,868	74,247	107,897	1,554,882	169,806	212,170
Nations Trust Bank PLC	355,200	27,962	21,951	355,200	27,962	19,668
Pan Asia Banking Corporation PLC	570,200	16,269	8,739	570,200	16,269	10,712
Seylan Bank PLC (NV)	1,535,151	59,466	46,753	1,496,666	59,466	51,797
Lanka Orix Leasing Company PLC	606,900	68,594	43,507	606,900	68,594	32,406
Lanka Orix Finance PLC	4,550,000	50,340	12,597	4,550,000	50,340	17,096
People's Finance PLC	-	-	-	142,500	8,392	4,861
		799,986	751,577		919,263	820,448
2 Beverage, Food & Tobacco						
Cargill's (Ceylon) PLC	543,800	106,584	79,043	543,800	106,584	78,237
Lanka Milk Foods (CWE) PLC	311,300	39,457	33,244	311,300	39,457	30,781
		146,041	112,287		146,041	109,018
3 Chemical & Pharmaceuticals						
CIC Holdings PLC (NV)	183,700	17,302	6,267	183,700	17,302	10,027
Haycarb PLC	391,366	73,006	73,449	502,800	93,793	85,066
		90,308	79,716		111,096	95,092
4 Construction & Engineering						
Colombo Dockyard PLC	642,075	162,381	120,628	642,075	162,381	142,722
		162,381	120,628		162,381	142,722

Notes to the Financial Statements

	31-12-2013			31-12-2012		
	No. of Shares	Cost	Market Value	No. of Shares	Cost	Market Value
		Rs.000'	Rs.000'		Rs.000'	Rs.000'
5 Diversified Holdings						
Aitken Spence PLC	450,700	77,045	46,080	450,700	77,044	53,478
C T Holdings PLC	440,400	83,598	61,009	440,400	83,598	53,998
Hemas Holdings PLC	1,112,300	53,158	37,395	1,112,300	53,158	29,696
John Keells Holdings PLC	1,649,585	321,298	367,000	3,659,056	723,824	795,615
Sunshine Holdings PLC	318,200	15,038	8,841	318,200	15,038	8,810
Browns Investments PLC	93,606,200	468,031	222,139	93,606,200	468,031	370,231
Expolanka Holdings PLC	9,943,700	100,038	73,742	4,318,800	57,379	30,320
Free Lanka Capital Holdings PLC	2,900,000	13,279	6,309	2,900,000	13,279	7,169
Richard Pieris & Company PLC	5,323,900	63,909	33,165	5,323,900	63,909	41,588
		1,195,393	855,680		1,555,260	1,390,904
6 Footware & Textile						
Heyleys MGT Knitting Mills PLC	1,202,700	21,321	13,200	1,202,700	21,321	13,795
		21,321	13,200		21,321	13,795
7 Health Care						
Nawaloka Hospitals PLC	17,789,400	79,421	52,770	17,789,400	79,421	52,770
		79,421	52,770		79,421	52,770
8 Hotels & Travels						
Eden Hotels Lanka PLC	477,900	25,837	13,704	477,900	25,837	17,012
Ceylon Hotels Corporation PLC	3,304,900	116,264	52,286	3,304,900	116,264	74,508
Hotel Services (Ceylon) PLC	2,707,100	74,428	35,334	2,707,100	74,428	45,773
John Keells Hotels PLC	3,473,800	72,296	42,936	3,473,800	72,296	47,402
Lighthouse Hotels PLC	1,900,000	115,539	82,664	1,900,000	115,539	103,330
Mahaweli Reach Hotels PLC	133,300	4,884	2,109	133,300	4,884	2,807
Marawila Resorts PLC	702,750	9,413	3,683	702,750	9,413	5,073
Asian Hotels & Properties PLC	441,000	42,526	28,344	441,000	42,526	33,097
Aitken Spence Hotel Holdings PLC	1,613,400	153,681	119,331	1,613,400	153,681	117,735
		614,869	380,391		614,869	446,736
9 Investment Trusts						
Renuka Holdings PLC	2,678,073	178,838	81,031	2,678,073	178,838	94,272
Renuka Holdings PLC (NV)	148,406	5,789	3,038	148,406	5,789	3,537
		184,626	84,069		184,626	97,808
10 Land & Property						
Overseas Reality (Ceylon) PLC	5,279,241	99,789	96,572	5,591,100	105,684	79,057
		99,789	96,572		105,684	79,057
11 Manufacturing						
ACL Cables PLC	1,275,200	116,643	81,960	1,275,200	116,643	84,986
Dipped Products PLC	953,900	118,890	84,889	1,000,000	124,636	108,768

	31-12-2013			31-12-2012		
	No. of Shares	Cost	Market Value	No. of Shares	Cost	Market Value
		Rs.000'	Rs.000'		Rs.000'	Rs.000'
Chevron Lubricants PLC	-	-	-	-	-	-
Tokyo Cement Company (Lanka) PLC	1,334,520	68,723	37,608	1,213,200	68,723	34,669
Lanka Ceramic PLC	446,000	60,350	46,526	446,000	60,350	27,342
Lanka Walltile PLC	619,700	68,290	32,844	619,700	68,290	36,766
Royal Ceramics Lanka PLC	747,700	119,581	63,582	747,700	119,581	73,193
Tokyo Cement Company (Lanka) PLC(NV)	2,568,500	99,706	59,684	2,335,000	99,706	44,561
		652,183	407,093		657,929	410,285
12 Plantation						
Watawala Plantation PLC	419,500	11,250	4,148	419,500	11,250	4,895
		11,250	4,148		11,250	4,895
13 Power & Energy						
Lanka IOC PLC	15,365,100	567,966	501,369	15,365,100	567,966	294,744
Laugfs Gas PLC	154,900	5,801	4,350	154,900	5,801	3,906
Hemas Power PLC	424,800	15,605	7,687	424,800	15,605	9,367
		589,371	513,406		589,371	308,017
14 Telecommunication						
Dialog Axiata PLC	6,790,960	168,982	60,434	6,790,960	168,982	55,734
		168,982	60,434		168,982	55,734
15 Trading						
Browns & Company PLC	1,000,000	319,948	84,048	1,000,000	319,948	122,611
		319,948	84,048		319,948	122,611
16 Unit Trust						
Com Trust Equity Fund	556,793	10,000	9,541	556,793	10,000	10,089
Ceybank Unit Trust	7,604,797	85,110	202,858	7,455,661	81,382	198,312
		95,110	212,399		91,382	208,401
Total		5,230,980	3,828,417		5,738,826	4,358,294

Notes to the Financial Statements

20 - Note - (b) Reclassification

In 2013, bank reclassified Rs. 5.495 Mn of financial assets from the held-for-trading category to the available for sales category as permitted by LKAS 39. No further reclassification was undertaken. People Finance (subsidiary company) was initially classified as held for trading. This subsidiary was amalgamated with the parent company, People Leasing Ltd, which was classified initially under available for sales. Therefore, reclassification was made accordingly.

Re-classification of Bank's Financial assets.

	2013		2012	
	Carrying amount Rs '000	Fair value Rs '000	Carrying amount Rs '000	Fair value Rs '000
Reclassification to available for sales	5,495	5,495	-	-

Effect of reclassifying and not classifying financial assets.

	Bank		Group	
	2013 Rs '000	2012 Rs '000	2013 Rs '000	2012 Rs '000
Reclassification to available for sale				
Recorded in the income statement	-	-	-	-
Assuming no reclassification	(2,897)	-	(2,897)	-
Net income statement effect	(2,897)	-	(2,897)	-

21. Financial Assets Designated at Fair Value Through Profit or Loss

<i>As at 31 December</i>	Bank		Group	
	2013 Rs '000	2012 Rs '000	2013 Rs '000	2012 Rs '000
Sri Lanka Government Securities				
Treasury Bill	-	-	-	-
Treasury Bond	-	-	-	-
Less: Increase/(decrease) in falling value of securities	-	-	-	-
Sub total	-	-	-	-

22. Loans and Receivables to Banks

<i>As at 31 December</i>	Bank		Group	
	2013	2012	2013	2012
	Rs '000	Rs '000	Rs '000	Rs '000
Gross loans and receivables	7,550,509	13,374,007	7,849,969	14,091,299
(Less): Individual impairment	-	-	-	-
Net loans and receivables	7,550,509	13,374,007	7,849,969	14,091,299

22.(a) Analysis by product

<i>As at 31 December</i>	Bank		Group	
	2013	2012	2013	2012
	Rs '000	Rs '000	Rs '000	Rs '000
Loans and receivables				
Short-term loans	-	3,390,319	-	3,390,319
Long-term loans	4,228,538	8,322,283	4,228,538	8,322,283
Securities purchased under resale agreements	1,548,565	-	1,848,025	717,292
Debentures	1,671,509	1,661,405	1,671,509	1,661,405
Commercial Papers	101,897	-	101,897	-
Gross total	7,550,509	13,374,007	7,849,969	14,091,299

22.(b) All loan and receivable to Banks are in Sri Lankan Rupees.

23. Loans and Receivables to Other Customers

<i>As at 31 December</i>	Bank		Group	
	2013	2012	2013	2012
	Rs '000	Rs '000	Rs '000	Rs '000
Gross loans and receivables	160,875,404	149,729,194	160,877,504	149,733,441
(Less): Individual impairment	-	-	-	-
Collective Impairment (Refer - 23 (d))	2,005,578	625,773	2,005,578	625,773
Net Loans and receivables	158,869,826	149,103,421	158,871,926	149,107,668

Notes to the Financial Statements

23.(a) Analysis by product

<i>As at 31 December</i>	Bank		Group	
	2013	2012	2013	2012
	Rs '000	Rs '000	Rs '000	Rs '000
Loans and advances				
Pawning	50,616,531	51,797,586	50,616,531	51,797,586
Staff loans	2,638,727	2,578,573	2,638,727	2,578,573
Term loans				
Short-term	1,186,994	3,201,782	1,186,994	3,201,782
Long-term	91,310,764	74,031,890	91,310,764	74,031,890
Securities purchased under resale agreements	-	980,930	2,100	985,177
Others				
Securitisation / Commercial Papers	5,427,665	9,224,151	5,427,665	9,224,151
Sri Lanka Government Securities	4,122,500	7,057,898	4,122,500	7,057,898
Administrative Borrowings	3,389,220	-	3,389,220	-
Others	177,425	230,611	177,425	230,611
Gross total	158,869,826	149,103,421	158,871,926	149,107,668

23.(b) Analysis By industry

<i>As at 31 December</i>	Bank		Group	
	2013	2012	2013	2012
	Rs '000	Rs '000	Rs '000	Rs '000
Agriculture and fishing	1,189,561	756,004	1,189,561	756,004
Tourism	162,789	173,956	162,789	173,956
Transport	455,826	146,146	455,826	146,146
Construction	50,333,048	42,968,115	50,333,048	42,968,115
Others				
Infrastructure	6,563,471	612,426	6,563,471	612,426
Leasing & Finance	5,727,701	9,633,915	5,727,701	9,633,915
Government / State Organization	13,589,809	9,819,118	13,589,809	9,819,118
Telecommunication	90,623	182,438	90,623	182,438
Power & Energy	3,170,705	3,207,960	3,170,705	3,207,960
Health Care	74,113	100,577	74,113	100,577
Others (Pawning / Loan against Deposit)	77,512,180	81,502,766	77,514,280	81,507,014
Gross total	158,869,826	149,103,421	158,871,926	149,107,668

23.(c) Analysis By currency

<i>As at 31 December</i>	Bank		Group	
	2013	2012	2013	2012
	Rs '000	Rs '000	Rs '000	Rs '000
Sri Lankan Rupees	156,735,530	149,103,421	156,737,630	149,107,668
United States Dollar	2,134,296	-	2,134,296	-
	158,869,826	149,103,421	158,871,926	149,107,668

23.(d) Movements in Collective Impairment Charges during the Year

<i>As at 31 December</i>	Bank		Group	
	2013	2012	2013	2012
	Rs '000	Rs '000	Rs '000	Rs '000
Collective impairment				
Opening balance	625,773	495,462	625,773	495,462
Charge to income statement (Note - 10)	1,380,003	130,935	1,380,003	130,935
Net write-off during the year	(198)	(624)	(198)	(624)
Closing balance	2,005,578	625,773	2,005,578	625,773

24. Financial Investments-Available-for-Sale

<i>As at 31 December</i>	Bank		Group	
	2013	2012	2013	2012
	Rs '000	Rs '000	Rs '000	Rs '000
Quoted Investments				
Equity Securities (Note - 24 - (a))	2,628,554	2,711,605	2,628,554	2,711,605
Unquoted Investments				
Equity Securities (Note -24 - (b))	297,528	361,653	298,528	362,653
Net Available-for-sale Investments	2,926,082	3,073,258	2,927,082	3,074,258

Notes to the Financial Statements

Note - 24 - (a) Quoted Investments

	2013 - Bank			2012 - Bank		
	No. of share	Cost	Cost/Fair Value	No. of share	Cost	Cost/Fair Value
Hatton National Bank PLC	9,371,940	1,301,845	1,362,245	9,371,940	1,301,845	1,371,512
Sri Lanka Telecom PLC	13,158,700	445,643	481,419	13,158,700	445,643	572,498
People's Leasing Company PLC	59,237,340	1,064,072	784,890	58,809,540	1,058,577	767,595
		2,811,560	2,628,554		2,806,065	2,711,605

Note - 24 - (b) Unquoted Investments

	2013 - Bank			2012 - Bank		
	No. of share	Cost	Cost/Fair value	No. of share	Cost	Cost/Fair value
Investment -Credit Information Bureau	30,450	57,364	57,364	30,450	57,364	57,364
Investment -Associated News Paper Ceylon Ltd	20,000	127	127	20,000	127	127
Investment -Regional Development Bank (RDB)	7,358,448	73,584	240,037	7,358,448	73,584	304,162
Investment -Sri Lankan Airline Shares	4,236,135	1,136,500	1,136,500	4,236,135	1,136,500	1,136,500
(Less): Impairment		-	(1,136,500)		-	(1,136,500)
		1,267,575	297,528		1,267,575	361,653

All unquoted available-for-sale equities (except RDB) are recorded at cost since its fair value can't be reliably estimated. There is no market for these investments and bank intends to hold it for the long term. The investment in RDB shares have been fair valued using a valuation model based on observable data. Sri Lankan Airline shares have been fully impaired considering the negative net book value as at reporting date.

There were no Financial investments-Available-for-sale pledged as collateral

Note - 24 - (a) Quoted Investments

	2013 - Group			2012 - Group		
	No. of share	Cost	Market value	No. of share	Cost	Market value
Hatton National Bank PLC	9,371,940	1,301,845	1,362,245	9,371,940	1,301,845	1,371,512
Sri Lanka Telecom PLC	13,158,700	445,643	481,419	13,158,700	445,643	572,498
People's Leasing Company PLC	59,237,340	1,064,072	784,890	58,809,540	1,058,577	767,595
		2,811,560	2,628,554		2,806,065	2,711,605

Note - 24 - (b) Unquoted Investments

	2013 - Group			2012 - Group		
	No. of share	Cost	Cost/Fair Value	No. of share	Cost	Cost/Fair Value
Investment - Credit Information Bureau	30,450	57,364	57,364	30,450	57,364	57,364
Investment - Associated News Paper Ceylon Ltd	20,000	127	127	20,000	127	127
Investment - Regional Development Bank (RDB)	7,358,448	73,584	240,037	7,358,448	73,584	304,162
Investment - Sri Lanka Financial Services Bureau	100,000	1,000	1,000	100,000	1,000	1,000
Investment - Sri Lankan Airline Shares	4,236,135	1,136,500	1,136,500	4,236,135	1,136,500	1,136,500
(Less): Impairment		-	(1,136,500)		-	(1,136,500)
		1,268,575	298,528		1,268,575	362,653

All unquoted available-for-sale equities (except RDB) are recorded at cost since its fair value can't be reliably estimated. There is no market for these investments and bank intends to hold it for the long term. The investment in RDB shares have been fair valued using a valuation model based on observable data. Sri Lankan Airline shares have been fully impaired considering the negative net book value as at reporting date.

There were no Financial investments-Available-for-sale pledged as collateral.

25. Financial Investments-Held-to-Maturity

<i>As at 31 December</i>	Bank		Group	
	2013 Rs '000	2012 Rs '000	2013 Rs '000	2012 Rs '000
Sri Lanka Government Securities				
Treasury Bill	63,582,708	58,239,257	63,582,708	58,239,257
Treasury Bond	318,403,753	251,356,478	321,898,485	254,824,378
Debt securities	-	-	-	-
Sri Lanka Development Bond - USD	50,478,652	-	50,478,652	-
Others	-	110	-	110
(Less): Impairment	-	-	-	-
Net Held-to-Maturity Investments	432,465,113	309,595,845	435,959,845	313,063,745

26. Investments in Subsidiaries - Bank

<i>As at 31 December</i>	2013	2012	2013		2012	
	Holding %		Cost	Directors' valuation	Cost	Directors' valuation
Unquoted equity share						
NSB Fund Management Co. Ltd	100	100	150,000	150,000	150,000	150,000
(Less): Impairment			-	-	-	-
Net Total			150,000	150,000	150,000	150,000

Notes to the Financial Statements

27. Property, Plant and Equipment

27.(a) Property, Plant and Equipment -Bank

	Land and Buildings	Leasehold properties	Computer Hardware	Office Equipment, furniture and fittings	Others	Total
	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
Bank 2013						
Cost/Valuation						
Opening balance at 01.01.2013	3,905,258	475,549	1,578,243	1,257,284	199,579	7,415,913
Adjustments	-	-	-	(684)	-	(684)
Additions	158,490	-	64,294	62,426	42,111	327,321
Revaluation	482,106	-	-	-	-	482,106
Depreciation Adjustment for Revalued Assets	(114,098)	-	-	-	-	(114,098)
Disposals	(58,230)	-	(2,638)	(7,293)	(2,653)	(70,814)
Closing balance at 31.12.2013	4,373,526	475,549	1,639,899	1,311,733	239,037	8,039,744
(Less): Accumulated depreciation						
Opening balance at 01.01.2013	71,536	37,476	1,376,654	634,947	143,788	2,264,401
Adjustments	-	-	-	(23)	-	(23)
Charge for the year	42,562	7,228	121,541	100,128	19,955	291,414
Additions	-	-	-	-	-	-
Depreciation Adjustment for Revalued Assets	(114,098)	-	-	-	-	(114,098)
Disposals	-	-	(2,638)	(7,072)	(2,653)	(12,363)
Closing balance at 31.12.2013	(0)	44,704	1,495,557	727,980	161,090	2,429,331
(Less): Impairment	-	-	-	-	-	-
Net book value at 31.12.2013	4,373,526	430,845	144,342	583,753	77,947	5,610,413
Bank 2012						
Cost/Valuation						
Opening balance at 01.01.2012	3,765,766	475,549	1,560,272	1,100,156	185,728	7,087,471
Additions	583,918	-	35,813	171,770	14,568	806,069
Disposals	(444,426)	-	(17,803)	(7,347)	(717)	(470,293)
Adjustments	-	-	(39)	(7,295)	-	(7,334)
Closing balance at 31.12.2012	3,905,258	475,549	1,578,243	1,257,284	199,579	7,415,913
(Less): Accumulated depreciation						
Opening balance at 01.01.2012	31,756	30,248	1,221,533	550,555	129,050	1,963,142
Charge for the year	39,780	7,228	172,871	91,840	15,451	327,170
Additions	-	-	-	-	-	-
Disposals	-	-	(17,729)	(6,843)	(713)	(25,285)
Adjustments	-	-	(21)	(605)	-	(626)
Closing balance at 31.12.2012	71,536	37,476	1,376,654	634,947	143,788	2,264,401
(Less): Impairment	-	-	-	-	-	-
Net book value at 31.12.2012	3,833,722	438,073	201,589	622,337	55,791	5,151,512

27.(b) Property, Plant and Equipment -Group

	Land and Buildings	Leasehold properties	Computer Hardware	Office Equipment, furniture and fittings	Others	Total
	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
Group 2013						
Cost/Valuation						
Opening balance at 01.01.2013	3,905,258	475,549	1,581,759	1,258,678	199,579	7,420,823
Adjustments	-	-	-	(684)	-	(684)
Additions	158,490	-	64,294	62,426	42,111	327,321
Revaluation	482,106	-	-	-	-	482,106
Depreciation Adjustment for Revalued Assets	(114,098)	-	-	-	-	(114,098)
Disposals	(58,230)	-	(2,638)	(7,293)	(2,653)	(70,814)
Closing balance at 31.12.2013	4,373,526	475,549	1,643,415	1,313,127	239,037	8,044,654
(Less): Accumulated depreciation						
Opening balance at 01.01.2013	71,536	37,476	1,380,005	635,603	143,788	2,268,408
Adjustments	-	-	-	(23)	-	(23)
Charge for the year	42,562	7,228	121,650	100,236	19,955	291,631
Additions	-	-	-	-	-	-
Depreciation Adjustment for Revalued Assets	(114,098)	-	-	-	-	(114,098)
Disposals	-	-	(2,638)	(7,072)	(2,653)	(12,363)
Closing balance at 31.12.2013	(0)	44,704	1,499,017	728,744	161,090	2,433,555
(Less): Impairment	-	-	-	-	-	-
Net book value at 31.12.2013	4,373,526	430,845	144,396	584,383	77,947	5,611,100
Group 2012						
Cost/Valuation						
Opening balance at 01.01.2012	3,765,766	475,549	1,562,234	1,101,477	185,728	7,090,754
Additions	583,918	-	36,058	171,770	14,568	806,314
Disposals	(444,426)	-	(17,998)	(7,347)	(717)	(470,488)
Adjustments	-	-	(39)	(7,295)	-	(7,334)
Closing balance at 31.12.2012	3,905,258	475,549	1,580,255	1,258,605	199,579	7,419,246
(Less): Accumulated depreciation						
Opening balance at 01.01.2012	31,756	30,248	1,223,197	551,190	129,050	1,965,441
Charge for the year	39,780	7,228	173,198	91,840	15,451	327,497
Additions	-	-	-	-	-	-
Disposals	-	-	(17,926)	(6,843)	(713)	(25,482)
Adjustments	-	-	(21)	(605)	-	(626)
Closing balance at 31.12.2012	71,536	37,476	1,378,448	635,582	143,788	2,266,830
(Less): Impairment	-	-	-	-	-	-
Net book value at 31.12.2012	3,833,722	438,073	201,805	623,023	55,791	5,152,416

Notes to the Financial Statements

27.(c) Building Work-in Progress.

Land and building includes building work-in progress as follows,

	Bank		Group	
	2013 Rs '000	2012 Rs '000	2013 Rs '000	2012 Rs '000
Opening Balance	46,504	193,688	46,504	193,688
Add:				
Additions during the year	100,260	139,492	100,260	139,492
Less:				
Transferred to buildings	58,230	286,676	58,230	286,676
Closing Balance	88,534	46,504	88,534	46,504

28. Intangible Assets

	Bank		Group	
	2013 Rs '000	2012 Rs '000	2013 Rs '000	2012 Rs '000
Cost				
Opening balance	435,975	416,307	437,945	418,277
Additions	12,248	19,668	12,248	19,668
Disposals	-	-	-	-
Closing Balance	448,223	435,975	450,193	437,945
(Less): Accumulated Amortization				
Opening balance	323,874	293,525	325,680	295,253
Charge for the Year	42,546	30,349	42,624	30,427
Disposals	-	-	-	-
Closing Balance	366,420	323,874	368,305	325,680
Net book value	81,803	112,101	81,888	112,265

29. Deferred Tax Assets/Liabilities

29. (a). Deferred Tax Assets

<i>As at 31 December</i>	Bank		Group	
	2013 Rs '000	2012 Rs '000	2013 Rs '000	2012 Rs '000
Deferred tax assets	-	-	313	221
Income statement	-	-	255	92
Deferred tax assets	-	-	568	313

29. (b) Deferred Tax Liabilities

<i>As at 31 December</i>	Bank		Group	
	2013	2012	2013	2012
	Rs '000	Rs '000	Rs '000	Rs '000
Deferred Tax Liabilities	123,338	95,616	123,338	95,616
Income statement	20,112	27,722	20,112	27,722
Net Deferred tax liabilities	143,450	123,338	143,450	123,338

30. Other Assets

<i>As at 31 December</i>	Bank		Group	
	2013	2012	2013	2012
	Rs '000	Rs '000	Rs '000	Rs '000
Receivables	5,082,789	2,394,616	5,097,041	2,438,117
Deposits and Prepayments	91,722	87,180	91,722	87,180
Advance payment to treasury (Note - a)	8,000,000	6,000,000	8,000,000	6,000,000
Sundry debtors	1,238	16,113	1,238	16,113
Other	1,767,062	1,576,714	1,767,062	1,576,714
Total	14,942,811	10,074,623	14,957,063	10,118,124

Note - a

At the request of treasury the bank paid an advance of Rs. 6,000 Mn in 2012 and Rs. 2,000 Mn in 2013 as confirmed by the Treasury to be set off against the profit within a period of 6 years starting from 2014.

31. Due to Banks

<i>As at 31 December</i>	Bank		Group	
	2013	2012	2013	2012
	Rs '000	Rs '000	Rs '000	Rs '000
Securities sold under repurchase (repo) agreements	-	-	3,991,533	6,198,869
Other facility	126,989	337,014	126,989	337,014
Total	126,989	337,014	4,118,522	6,535,883

32. Due to Other Customers

<i>As at 31 December</i>	Bank		Group	
	2013	2012	2013	2012
	Rs '000	Rs '000	Rs '000	Rs '000
Total Amount due to other customers	501,889,688	457,650,387	501,889,688	457,650,387
Total	501,889,688	457,650,387	501,889,688	457,650,387

Notes to the Financial Statements

32. (a) Analysis By product

<i>As at 31 December</i>	Bank		Group	
	2013 Rs '000	2012 Rs '000	2013 Rs '000	2012 Rs '000
Savings deposits	115,267,167	108,139,999	115,267,167	108,139,999
Fixed deposits	386,622,521	349,510,388	386,622,521	349,510,388
Total	501,889,688	457,650,387	501,889,688	457,650,387

32.(b) Analysis by currency

<i>As at 31 December</i>	Bank		Group	
	2013 Rs '000	2012 Rs '000	2013 Rs '000	2012 Rs '000
Sri Lankan Rupee	493,134,240	451,970,975	493,134,240	451,970,975
United States Dollar	5,856,969	2,816,044	5,856,969	2,816,044
Great Britain Pound	988,819	1,034,042	988,819	1,034,042
Others	1,909,660	1,829,326	1,909,660	1,829,326
Total	501,889,688	457,650,387	501,889,688	457,650,387

33. Other Borrowings

<i>As at 31 December</i>	Bank		Group	
	2013 Rs '000	2012 Rs '000	2013 Rs '000	2012 Rs '000
Securities sold under repurchase (repo) agreements	20,285,108	22,620,945	22,641,665	24,695,847
Senior note issued (Note 33 - 01)	100,148,428	-	100,148,428	-
Total	120,433,536	22,620,945	122,790,093	24,695,847

33. Note 01

750 Million United State Dollar Senior Note was issued on 18.09.2013 at the rate of 8.875% per annum, payable semi-annually for a period of 5 years maturing on 18.09.2018.

34. Other Liabilities

<i>As at 31 December</i>	Bank		Group	
	2013	2012	2013	2012
	Rs '000	Rs '000	Rs '000	Rs '000
Sundry creditors	54,165	272,194	54,165	272,194
Interest payable	98,032	125,822	98,032	125,822
Other payables (Refer Note 34 (a))	9,404,647	3,915,912	9,421,817	3,929,592
Total	9,556,844	4,313,928	9,574,014	4,327,608

34. (a). Provision for Un-Funded Pension Scheme

	Bank		Group	
	2013	2012	2013	2012
	Rs '000	Rs '000	Rs '000	Rs '000
Opening balance	1,898,618	2,025,553	1,898,618	2,025,553
Amount Recognized in the Income Statement	-	(126,935)	-	(126,935)
Closing Balance	1,898,618	1,898,618	1,898,618	1,898,618

35. Stated Capital/Assigned Capital

<i>As at 31 December</i>	Bank		Group	
	2013	2012	2013	2012
	Rs '000	Rs '000	Rs '000	Rs '000
Authorized				
1 Billion Ordinary Share of Rs. 10/= each	10,000,000	10,000,000	10,000,000	10,000,000
Issued and Fully paid				
320 Million Ordinary Shares of Rs.10/= each.	3,200,000	3,200,000	3,200,000	3,200,000
Total	3,200,000	3,200,000	3,200,000	3,200,000

36. Statutory Reserve Fund

	Bank		Group	
	2013	2012	2013	2012
	Rs '000	Rs '000	Rs '000	Rs '000
Opening balance	1,713,127	1,626,500	1,713,127	1,626,500
Transfer during the period	23,676	86,627	23,676	86,627
Closing Balance	1,736,803	1,713,127	1,736,803	1,713,127

Notes to the Financial Statements

37. Other Reserves

37.(a) Bank - 2013

	Opening balance at 01-01-2013 Rs '000	Movement/ Transfers Rs '000	Closing balance at 31-12-2013 Rs '000
General reserve	14,254,137	(2,459,941)	11,794,196
Revaluation reserve	1,583,340	482,106	2,065,446
Available-for-sale reserve	136,119	(152,672)	(16,553)
Cash flow hedging reserve	-	(45,324)	(45,324)
Other reserves (Refer Note - 01)	2,880,373	602,544	3,482,917
Total	18,853,971	(1,573,286)	17,280,684

37.(b) Bank - 2012

	Opening balance at 01-01-2012 Rs '000	Movement/ Transfers Rs '000	Closing balance at 31-12-2012 Rs '000
General reserve	14,474,432	(220,295)	14,254,137
Revaluation reserve	1,583,340	-	1,583,340
Available-for-sale reserve	345,959	(209,840)	136,119
Other reserves (Refer Note - 01)	1,822,252	1,058,121	2,880,373
Total	18,225,983	627,986	18,853,971

37.(c) Group - 2013

	Opening balance at 01-01-2013 Rs '000	Movement/ Transfers Rs '000	Closing balance at 31-12-2013 Rs '000
General reserve	15,197,799	(2,202,673)	12,995,126
Revaluation reserve	1,583,340	482,106	2,065,446
Available-for-sale reserve	136,119	(152,672)	(16,553)
Cash flow hedging reserve	-	(45,324)	(45,324)
Other reserves (Refer Note - 01)	3,172,471	688,855	3,861,326
Total	20,089,730	(1,229,707)	18,860,023

37.(d) Group - 2012

	Opening balance at 01-01-2012 Rs '000	Movement/ Transfers Rs '000	Closing balance at 31-12-2012 Rs '000
General reserve	15,430,624	(232,825)	15,197,799
Revaluation reserve	1,583,340	-	1,583,340
Available-for-sale reserve	345,959	(209,840)	136,119
Other reserves (Note - 01)	2,114,350	1,058,121	3,172,471
Total	19,474,273	615,456	20,089,730

37 - Note - 01 Investment Fund Reserve

	Bank		Group	
	2013 Rs '000	2012 Rs '000	2013 Rs '000	2012 Rs '000
Opening Balance	2,829,999	1,581,572	2,829,999	1,581,572
Prior year adjustment	(176,368)	-	(176,368)	-
Re-stated balance	2,653,631	1,581,572	2,653,631	1,581,572
Add: Transferred during the year	608,233	1,248,427	608,233	1,248,427
Closing Balance	3,261,864	2,829,999	3,261,864	2,829,999

As required by the Government Budget 2011 and subsequent direction from Central Bank of Sri Lanka, with effect from January 1, 2011 the bank is required to transfer an amount equivalent to 8% of the VAT on Financial services and 5% of the Income Tax to an Investment Fund Account.

Investment made under Investment Fund Accounts

	Interest Rate	Tenure	2013	2012	2013	2012
Loan - Road Development Authority	9.0%	14.5 Years	1,049,956	384,250	1,049,956	384,250
Long-Term Agriculture Loan	10.5%	5 Years	2,580	3,270	2,580	3,270
Long-Term Government Bonds 1	7.5%	7 Years	14,279	8,024	14,279	8,024
Long-Term Government Bonds 2	7.0%	12 Years	539,650	539,650	539,650	539,650
Short-Term Government Securities			1,690,698	1,746,470	1,690,698	1,746,470
Total Investment			3,297,163	2,681,664	3,297,163	2,681,664

38. Contingent Liabilities and Commitments

In the normal course of business, the bank makes various commitments and incurs certain contingent liabilities with legal recoveries to its customers. No material losses are anticipated as a result of these transactions.

<i>As at 31 December</i>	Bank		Group	
	2013 Rs '000	2012 Rs '000	2013 Rs '000	2012 Rs '000
Guarantees	309,065	293,060	309,065	293,060
Other contingent items	51,890	121,800	51,890	121,800
Undrawn loan commitments	69,229,188	6,389,150	69,229,188	6,389,150
Total	69,590,143	6,804,010	69,590,143	6,804,010

Notes to the Financial Statements

39. Related Party Disclosures

39. (a) Transactions with state and state controlled entities

As at 31 December	Bank		Group	
	2013 Rs '000	2012 Rs '000	2013 Rs '000	2012 Rs '000
Assets				
Loans to Government	7,511,719	7,057,898	7,511,719	7,057,898
Investments made on Government Securities	442,444,935	315,966,967	450,243,339	324,923,837
Investments on State and State Controlled Entities	23,294,211	18,115,000	23,294,211	18,115,000
Security bought under Resale Agreements	1,548,565	980,930	1,850,125	1,702,469
Tax Receivable	3,259,465	1,469,022	3,259,465	1,469,022
Postmaster-General's Current Account	228,071	155,990	228,071	155,990
Other Advance payment to Government	8,000,000	6,000,000	8,000,000	6,000,000
	486,286,966	349,745,807	494,386,930	359,424,216
Liabilities				
Securities sold under Repurchase Agreements	20,285,108	22,620,945	22,641,665	24,695,847
Taxes paid				
Income Tax	1,094,954	2,577,586	1,141,437	2,621,860
Value Added Tax	624,445	926,295	672,464	935,347
Contribution to Consolidated Fund	3,000,000	2,823,245	3,000,000	2,823,245
	4,719,398	6,327,126	4,813,901	6,380,452

39. (b) Transactions with Subsidiary Company (NSB Fund Management Company Ltd.)

The Bank has contributed Rs. 150 Mn towards the share capital of the Company. The Company invested its funds in Treasury Bills, Bonds and Repo during the year on a regular basis. All investment in Treasury Bills and Treasury Bonds of the Bank are being made through the NSB Fund Management Co. Ltd. on which a service charge of Rs. 33 Mn has been made (Rs. 40 Mn. in 2012)

39. (c) Transactions with Key Managerial Persons

- Key managerial persons include members of the Board of Directors of the Bank and key employees of the Bank holding directorships in subsidiary, NSB Fund Management Company of the Bank.
- Loans and advances in the names of key managerial persons are given below:

As at 31 December	2013 Rs '000	2012 Rs '000
Loans & Advances	137	204

- Chairperson, Directors' and G.M.'s /CEO's emoluments and fees amounted to Rs. 9.321 Million in 2013 (Rs.7.965 Mn in 2012).

39.(d) Net Accommodation Granted to Related Parties

(Disclosure under rule 3 (8) (ii) (e) of the Governance Direction of No. 12 of 2007 issued by the Central Bank of Sri Lanka.)

<i>As at 31 December</i>	Bank	
	2013	2012
	Rs '000	Rs '000
Key Managerial Persons Loan & Advances	137	204
Total net accommodation	137	204
Regulatory Capital	15,198,498	17,659,766
Net accommodation as a % of the Bank's Regulatory Capital	0.001%	0.001%

40. Net Assets Value per Ordinary Share

<i>As at 31 December</i>	Bank		Group	
	2013	2012	2013	2012
	Rs '000	Rs '000	Rs '000	Rs '000
Amount used as the numerator				
Share holders' Funds	22,217,487	23,767,098	23,796,826	25,002,857
Number of ordinary share used as the denominator				
Total number of share	320,000	320,000	335,000	335,000
	Rs.	Rs.	Rs.	Rs.
Net Assets Value per Ordinary Share	69.43	74.27	71.04	74.64

41. Non-Cash items included in Profit Before Tax

<i>For the year ended 31 December</i>	Bank		Group	
	2013	2012	2013	2012
	Rs '000	Rs '000	Rs '000	Rs '000
Depreciation of property, plant and equipment	284,163	319,316	284,380	319,643
Amortization of leasehold property	7,228	7,228	7,228	7,228
Amortization of intangible assets	42,546	30,349	42,624	30,427
Impairment losses on loans and advances	1,380,003	130,935	1,380,003	130,935
Profit on disposal of property, plant and equipment	(2,119)	-	(2,119)	-
Accretion of discounts and amortization of premiums of investment securities	149,183	-	148,767	-
Total	1,861,004	487,828	1,860,883	488,233

Notes to the Financial Statements

42. Change in Operating Assets

<i>For the year ended 31 December</i>	Bank		Group	
	2013	2012	2013	2012
	Rs '000	Rs '000	Rs '000	Rs '000
Change in derivative financial instruments	(5,099,813)	25,057	(5,099,813)	25,057
Net increase in debt securities, treasury bills & bonds and equity shares held at fair value through profit or loss	(126,272,611)	(11,007,400)	(124,904,121)	(9,119,780)
Net increase in loans and advances to banks	5,823,498	7,717,781	6,241,330	9,607,523
Net increase in loans and advances to customers	(11,146,408)	(32,886,079)	(11,144,261)	(32,879,111)
Change in other assets	(4,900,248)	(6,659,207)	(4,870,998)	(6,922,505)
Total	(141,595,582)	(42,809,848)	(139,777,863)	(39,288,816)

43. Change in Operating Liabilities

<i>For the year ended 31 December</i>	Bank		Group	
	2013	2012	2013	2012
	Rs '000	Rs '000	Rs '000	Rs '000
Change in deposits from banks, customers	44,239,301	35,801,324	41,821,940	33,166,499
Change in other liabilities	5,922,884	1,049,294	5,926,376	1,054,410
Total	50,162,185	36,850,618	47,748,316	34,220,909

44. Litigation Against the Bank

Litigation is a common occurrence in the banking industry due to the nature of the business. The Bank has an established protocol for dealing with such legal claims. Once professional advice has been obtained on the certainty of the outcome and the amount of damages reasonably estimated, the bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. The unresolved court cases against the Bank as at the year end for which adjustments to the Financial Statements have not been made due to the uncertainty of its outcome are as follows.

<i>As at 31 December</i>	2013	2012
Tribunal / Court		
Labour Tribunal	10	8
District Court	22	16
Commercial High Court	10	11
Supreme Court	2	1
Magistrate's Court	4	3

45. Event occurring after the statement of Financial Position Date

The investment in shares (Rs 1,136.5 Mn) of Sri Lankan Air Line shown under Available for Sales as fully impaired was converted to a Treasury Bond effective from 28/03/2014. The effect of the conversion has not been adjusted in the Financial Statements 2013. Other than the above no circumstances have arisen which would require disclosure or adjustments to the Financial Statement.

46. Comparative Figures

The comparative information is re-classified as wherever necessary to confirm with the current year's classification in order to provide a better presentation. The re-stated balances are as follows.

a. Other Financial Assets Held for Trading & Available for Sale (AFS)

Rs. 94.458 Mn was over stated in Other financial assets held for trading and under stated in Available for sale investment in the Financial year 2012, This has been restated as follows.

<i>As at 31 December</i>	Bank		Group	
	2013	2012	2013	2012
	Rs '000	Rs '000	Rs '000	Rs '000
Other financial assets held for trading	-	10,823,874	-	10,823,874
Less :-Over stated amount	-	94,458	-	94,458
Re-stated balance	-	10,729,416	-	10,729,416
Available for Sale investment	-	2,978,800	-	2,979,800
Add :-Under stated amount	-	94,458	-	94,458
Re-stated balance	-	3,073,258	-	3,074,258

Notes to the Financial Statements

b. Financial Assets designated at fair value through profit and loss

Rs 5,488.970 Mn was restated from Financial assets designated at fair value through profit or loss to Other Financial assets held-for-trading due to classification error in 2012 as follows.

As at 31 December	Bank		Group	
	2013 Rs '000	2012 Rs '000	2013 Rs '000	2012 Rs '000
Financial assets designated at fair value through or loss	-	-	-	5,488,970
Less :-Over stated amount	-	-	-	5,488,970
Re-stated balance	-	-	-	-
Other Financial assets held-for-trading	-	-	-	10,729,416
Add :-Under stated amount	-	-	-	5,488,970
Re-stated balance	-	-	-	16,218,386

c. Loan and Receivable to other Customers.

As at 31 December	Bank		Group	
	2013 Rs '000	2012 Rs '000	2013 Rs '000	2012 Rs '000
Loan and Receivable to other Customers	-	155,245,236	-	155,249,483
Less:- Re-statement of loan to Advance payment & reversal of interest	-	6,141,815	-	6,141,815
Re-stated balance	-	149,103,421	-	149,107,668

d. Restatement of Other Balances

Rs 481.781 Mn was adjusted to retained earning in respect of VAT and Income Tax due to error correction as detail given bellow.

As at 31 December	Bank		Group	
	2013 Rs '000	2012 Rs '000	2013 Rs '000	2012 Rs '000
Other Assets	-	4,814,290	-	4,857,791
Less:-Over stated Tax recoverable	-	739,667	-	739,667
Add:- Re-statement of loan to Advance payment	-	6,000,000	-	6,000,000
Re-stated balance	-	10,074,623	-	10,118,124
Other Liabilities	-	4,626,718	-	4,640,398
Less:-Over stated VAT payable	-	312,790	-	312,790
Re-stated balance	-	4,313,928	-	4,327,608

47 Financial Risk Management

47.1 Risk Management Framework

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

Risk Management Structure

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

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

47.2 Board risk categories in focus

Following board risk categories arising from financial instruments are in focus.

- a. Credit Risk
- b. Liquidity risk
- c. Market risk
- d. Operational risk
- e. Equity risk
- f. Interest rate risk

(a) Credit Risk

Credit risk is the possibility of losses arising from the diminution in the credit quality of borrowers or counter-parties which could materialize from the banking book and both on or off balance sheet.

Credit Risk Exposures of the Bank

The total Credit Exposure which is 25.43% of the Bank's total assets is the second major line of business (The investment in risk free securities is 67.61% 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.

Notes to the Financial Statements

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

Management of the Credit portfolio

The Bank monitors the concentration of credit risk by product and sectors. An analysis of concentration risk of the Bank portfolio (Loan and Receivable to other customers) is given below.

Concentration by sector

As at 31 December	Bank		Group	
	2013 Rs '000	2012 Rs '000	2013 Rs '000	2012 Rs '000
Agriculture and fishing	1,189,561	756,004	1,189,561	756,004
Tourism	162,789	173,956	162,789	173,956
Transport	455,826	146,146	455,826	146,146
Construction	50,333,048	42,968,115	50,333,048	42,968,115
Others				
Infrastructure	6,563,471	612,426	6,563,471	612,426
Leasing & Finance	5,727,701	9,633,915	5,727,701	9,633,915
Government / State Organization	13,589,809	9,819,118	13,589,809	9,819,118
Telecommunication	90,623	182,438	90,623	182,438
Power & Energy	3,170,705	3,207,960	3,170,705	3,207,960
Health Care	74,113	100,577	74,113	100,577
Others (Pawning / Loan against Deposit)	77,512,180	81,502,766	77,514,280	81,507,014
Gross total	158,869,826	149,103,421	158,871,926	149,107,668

Concentration by product

As at 31 December	Bank		Group	
	2013	2012	2013	2012
	Rs '000	Rs '000	Rs '000	Rs '000
Loans and advances				
Pawning	50,616,531	51,797,586	50,616,531	51,797,586
Staff loans	2,638,727	2,578,573	2,638,727	2,578,573
Term loans				
Short-term	1,186,994	3,201,782	1,186,994	3,201,782
Long-term	91,310,764	74,031,890	91,310,764	74,031,890
Securities purchased under resale agreements	-	980,930	2,100	985,177
Others				
Securitisation / Commercial Papers	5,427,665	9,224,151	5,427,665	9,224,151
Sri Lanka Government Securities	4,122,500	7,057,898	4,122,500	7,057,898
Administrative Borrowings	3,389,220	-	3,389,220	-
Others	177,425	230,611	177,425	230,611
Gross total	158,869,826	149,103,421	158,871,926	149,107,668

Loans and receivable and impairment analysis

As at 31 December	Bank		Group	
	2013	2012	2013	2012
	Rs '000	Rs '000	Rs '000	Rs '000
Individually impaired				
Gross amount	-	-	-	-
Allowance for impairment	-	-	-	-
Carrying amount	-	-	-	-
Collectively impaired				
Gross amount	127,607,135	97,051,778	127,607,135	97,051,778
Allowance for impairment	(2,005,578)	(625,773)	(2,005,578)	(625,773)
Carrying amount	125,601,557	96,426,005	125,601,557	96,426,005
Past due but not impaired	30,064	-	30,064	-
Carrying amount	30,064	-	30,064	-
Neither past due nor impaired	33,238,205	52,677,416	33,240,305	52,681,663
Carrying amount	33,238,205	52,677,416	33,240,305	52,681,663
Total carrying amount - amortized cost	158,869,826	149,103,421	158,871,926	149,107,668

Notes to the Financial Statements

(b) Liquidity Risk

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

Liquidity risk would occur in a situation where the Bank would not be able to fulfil its obligations promptly due to inadequate cushions maintained.

Concentration of Liquid Assets

The Bank's regulatory requirement to invest a minimum of 60% of its deposits in Government Securities forces the Bank to maintains a high Statutory Liquid Assets Ratio. Currently, the Bank maintains a liquidity ratio at 93% which is well above the statutory requirement of 20%. The investment in government securities represent 97% from the total liquid assets of the Bank.

Item	Bank		Group	
	2013 %	2012 %	2013 %	2012 %
Liquidly assets ratio				
Year end	92.7	69.5	92.7	69.5
30th June	70.8	68.8	70.8	68.8
Year Beginning	69.5	74.4	69.5	74.4
Gross loans to deposits	33.9	34.1	33.9	34.1
Net loans to total assets	25.6	30.5	25.6	30.5

(c) Market Risk

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

Sources of Market Risk to NSB

The exposure to market risk arise to National Savings Bank from the following sources.

- * Treasury securities portfolio (Government securities & other permitted fixed income securities).
- * Repo and reverse repo transaction
- * Foreign currency borrowings and lending
- * Foreign exchange deposits
- * Derivatives
- * Assets-liabilities mismatch

c.1 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.

(d) Operational Risk

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

Operational Risk Management Framework

The Bank’s Operational Risk Management framework provides a mechanism for improving the overall risk culture and behaviour towards operational risk management and understanding the Bank’s inherent risk through the operational risk management process which leads to making sound decisions in order to achieve the objectives of the Bank. Further the Bank’s Operational Risk Management Functions is guided by the board approved Operational Risk Policy of the Bank.

(e) Equity Risk

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

The investment in equity represent 1.00% of the total assets while investments in quoted and unquoted equity are 0.95% and 0.05% respectively. Hence, the Bank does not have a major exposure to equity risk. However, the adverse movements in the stock market affected the yield on equity investments. The investment in non-quoted companies are made due to policy decisions on market and economic development and strategic reasons.

(f) Interest Rate Risk

Interest rate risk is the risk that an investment’s value will change in the absolute level of interest rates, in the spread between two rates, in the shape of the yield curve or in any other interest rate relationships. The Bank’s major source of funding is deposits which represent 79% of total on balance sheet liabilities. Of this, 23% represent savings deposits where 77% represent Term Deposits. On the other hand, the majority of investments in government securities in short to medium term which represent 88% of total on balance sheet assets. Hence the Bank is subject to interest rate risk to a greater extent.

Notes to the Financial Statements

Bank's Interest rate sensitivity report as at 31st December 2013 is presented bellow.

Bank

	0 to 1 Month Rs '000	0 to 3 Month Rs '000	0 to 6 Month Rs '000	0 to 12 Month Rs '000
Interest Bearing Assets	22,583,769	93,821,833	154,459,872	225,159,256
Bank balances and placements	43,480	11,341,840	11,341,840	11,341,840
Other financial assets held for Trading	58,828	1,125,871	2,731,708	4,282,347
Loan and Receivable to Bank	1,658,700	1,958,700	1,961,181	1,961,181
Loan and Receivable to Customer	13,783,743	27,678,849	45,834,563	67,783,723
Financial Investment Held to maturity	7,039,018	51,716,573	92,590,580	139,790,165
Interest Bearing Liabilities	90,657,051	254,031,743	340,567,164	484,353,904
Due to banks	126,989	126,989	126,989	126,989
Due to other customer	80,665,472	242,004,615	325,954,106	464,694,475
Other Borrowings	9,864,589	11,900,139	14,486,069	19,532,440
Net Rate Sensitive Assets (Liabilities)	(68,073,282)	(160,209,911)	(186,107,291)	(259,194,649)
Interest Rate Sensitivity Ratio %	25	37	45	46

Group's Interest rate sensitivity report as at 31st December 2013 is presented below

Group

	0 to 1 Month Rs '000	0 to 3 Month Rs '000	0 to 6 Month Rs '000	0 to 12 Month Rs '000
Interest Bearing Assets	27,675,508	94,237,520	183,241,890	227,744,075
Bank balances and placements	43,683	11,342,042	11,342,042	11,342,042
Other financial assets held for Trading	409,820	1,229,461	4,104,679	5,542,288
Loan and Receivable to Bank	728,297	2,184,890	2,235,391	2,260,641
Loan and Receivable to Customer	9,226,812	27,680,436	54,417,361	67,785,823
Financial Investment Held to maturity	17,266,897	51,800,691	111,142,418	140,813,281
Interest Bearing Liabilities	86,051,019	258,153,057	413,185,682	490,701,995
Due to banks	906,125	2,718,376	3,651,807	4,118,522
Due to other customer	80,668,205	242,004,615	390,464,522	464,694,475
Other Borrowings	4,476,689	13,430,066	19,069,354	21,888,997
Net Rate Sensitive Assets (Liabilities)	(58,375,511)	(163,915,537)	(229,943,793)	(262,957,920)
Interest Rate Sensitivity Ratio %	32	37	44	46

48. Maturity Analysis

Bank

	Up to 3 months	3 to 12 months	1 to 3 Years	3 to 5 years	More than 5 Years	Total as at 31.12.2013	Total as at 31.12.2012
	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	43,480	-	-	-	-	43,480	25,287
Balances with central banks	-	-	-	-	-	-	-
Placements with banks	11,298,360	-	-	-	-	11,298,360	5,973,585
Other financial assets held-for-trading	1,125,871	3,156,476	2,454,542	3,242,933	-	9,979,823	6,371,122
Loans and receivables to banks	1,958,700	2,481	5,257,028	332,300	-	7,550,509	13,374,007
Loans and receivables to other customers	27,678,849	40,104,873	34,736,812	13,085,117	43,264,174	158,869,826	149,103,421
Financial investments - Held to maturity	51,716,573	88,073,592	156,860,979	121,710,284	14,103,685	432,465,113	309,595,845
	93,821,833	131,337,423	199,309,361	138,370,635	57,367,859	620,207,110	484,443,267
Other Asset (Non Interest Bearing Asset)							
Cash and cash equivalents	1,502,741	-	-	-	-	1,502,741	1,440,255
Derivative financial instruments	-	1,023,723	2,047,446	2,047,446	-	5,118,615	9,401
Other financial assets held-for-trading	957,104	2,871,313	-	-	-	3,828,417	4,358,294
Financial investments - Available-for-sale	-	-	-	-	2,926,082	2,926,082	3,073,258
Investments in subsidiaries	-	-	-	-	150,000	150,000	150,000
Property, plant and equipment	-	-	-	-	5,610,413	5,610,413	5,151,512
Intangible assets	-	-	-	-	81,803	81,803	112,101
Deferred tax assets	-	-	-	-	-	-	-
Other assets	622,617	1,867,851	4,980,937	4,980,937	2,490,469	14,942,811	10,074,623
	3,082,462	5,762,887	7,028,383	7,028,383	11,258,767	34,160,882	24,369,443
Total Asset	96,904,295	137,100,310	206,337,744	145,399,018	68,626,626	654,367,993	508,812,710
Liabilities With Contractual Maturity (Interest Bearing Asset)							
Due to banks	126,989	-	-	-	-	126,989	337,014
Due to other customers	242,004,615	222,689,861	25,382,570	11,812,642	-	501,889,688	457,650,387
Other borrowings	11,900,139	7,632,301	752,668	100,148,428	-	120,433,536	22,620,945
	254,031,743	230,322,161	26,135,239	111,961,070	-	622,450,213	480,608,346
Other Liabilities (Non Interest Bearing Asset)							
Current tax liabilities	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	143,450	143,450	123,338
Other liabilities	398,202	1,194,606	3,185,615	3,185,615	1,592,807	9,556,844	4,313,928
State capital	-	-	-	-	3,200,000	3,200,000	3,200,000
Statutory reserve fund	-	-	-	-	1,736,803	1,736,803	1,713,127
Other reserves	-	-	-	-	17,280,684	17,280,684	18,853,971
	398,202	1,194,606	3,185,615	3,185,615	23,953,744	31,917,780	28,204,364
Total Liabilities	254,429,945	231,516,767	29,320,853	115,146,685	23,953,744	654,367,993	508,812,710

Notes to the Financial Statements

Group

	Up to 3 months Rs. '000	3 to 12 months Rs. '000	1 to 3 Years Rs. '000	3 to 5 years Rs. '000	More than 5 Years Rs. '000	Total as at 31.12.2013 Rs. '000	Total as at 31.12.2012 Rs. '000
Assets With Contractual Maturity (Interest Bearing Asset)							
Cash and cash equivalents	43,480	-	-	-	-	43,480	25,287
Balances with central banks	203	-	-	-	-	203	242
Placements with banks	11,298,360	-	-	-	-	11,298,360	5,973,585
Other financial assets held-for-trading	1,229,461	4,312,827	4,754,432	3,977,594	9,180	14,283,494	11,860,092
Loans and receivables to banks	2,184,890	75,751	5,257,028	332,300	-	7,849,969	14,091,299
Loans and receivables to other customers	27,680,436	40,105,387	34,736,812	13,085,117	43,264,173	158,871,926	149,107,668
Financial investments - Held to maturity	51,800,691	89,012,590	158,728,570	122,306,854	14,111,140	435,959,845	313,063,745
	94,237,520	133,506,555	203,476,842	139,701,865	57,384,493	628,307,276	494,121,918
Other Asset (Non Interest Bearing Asset)							
Cash and cash equivalents	1,513,787	-	-	-	-	1,513,787	1,441,755
Derivative financial instruments	-	1,023,723	2,047,446	2,047,446	-	5,118,615	9,401
Other financial assets held-for-trading	957,104	2,871,313	-	-	-	3,828,417	4,358,294
Financial investments - Available-for-sale	-	-	-	-	2,927,082	2,927,082	3,074,258
Investments in subsidiaries	-	-	-	-	-	-	-
Property, plant and equipment	-	-	-	-	5,611,100	5,611,100	5,152,416
Intangible assets	-	-	-	-	81,888	81,888	112,265
Deferred tax assets	-	-	-	-	568	568	313
Other assets	623,233	1,869,700	4,985,867	4,985,867	2,492,395	14,957,063	10,118,124
	3,094,125	5,764,736	7,033,313	7,033,313	11,113,033	34,038,520	24,266,826
Total Asset	97,331,644	139,271,291	210,510,155	146,735,179	68,497,526	662,345,797	518,388,744
Liabilities With Contractual Maturity (Interest Bearing Asset)							
Due to banks	2,718,376	1,400,147	-	-	-	4,118,522	6,535,883
Due to other customers	242,004,615	222,689,861	25,382,570	11,812,642	-	501,889,688	457,650,387
Other borrowings	13,430,066	8,458,931	752,668	100,148,428	-	122,790,093	24,695,847
	258,153,057	232,548,938	26,135,239	111,961,070	-	628,798,304	488,882,117
Other Liabilities (Non Interest Bearing Asset)							
Current tax liabilities	-	-	-	-	33,205	33,205	52,824
Deferred tax liabilities	-	-	-	-	143,450	143,450	123,338
Other liabilities	398,940	1,196,819	3,191,518	3,191,517	1,595,220	9,574,014	4,327,608
State capital	-	-	-	-	3,200,000	3,200,000	3,200,000
Statutory reserve fund	-	-	-	-	1,736,803	1,736,803	1,713,127
Other reserves	-	-	-	-	18,860,023	18,860,023	20,089,730
	398,940	1,196,819	3,191,518	3,191,517	25,568,700	33,547,494	29,506,627
Total Liabilities	258,551,997	233,745,758	29,326,757	115,152,587	25,568,700	662,345,797	518,388,744

49. Capital Adequacy and Management (As per regulatory reporting)

Capital adequacy measures the adequacy of Bank's aggregate capital in relation to the risks, which may arise from its assets and off balance sheet transaction, its dealing operations and its human activities, technology and natural incident. Central Bank of Sri Lanka has prescribed the minimum risk sensitive capital and effective from January 2008 required the Bank to compute the regulatory capital requirements in accordance with the "International Convergence of Capital Measurement and Capital Standards - a Revised Framework" (BASEL - II). The Bank's capital adequacy position has been computed under the following approaches of BASEL II, which are currently effective to the local banking industry.

- Standardized approach for credit risk
- Standardized measurement approach for market risk
- Basic Indicator approach for operational risk

Capital and Risk Weighted Assets

<i>As at 31 December</i>	Minimum Requirement	2013	2012
Capital to Risk Weighted Assets Ratio			
Tier I (%)		22.73	23.07
Deduction - Tier I (%)		(2.59)	(2.67)
Core capital base (%)	5	20.14	20.40
Tier II (%)		21.02	21.77
Deduction - Tier II (%)		(2.59)	(2.67)
Total Capital Base (%)	10	18.43	19.10

Notes to the Financial Statements

Details of Computation

Capital Base

<i>As at 31 December</i>	2013 Rs '000	2012 Rs '000
Tier I: Core capital		
Stated capital	3,200,000	3,200,000
Statutory reserve fund	1,718,074	1,626,500
General and other reserves	16,388,794	16,503,958
	21,306,868	21,330,458
Less: Deductions		
50% Investment in the capital of other banks and financial institutions	2,427,298	2,466,600
Total Tier I Capital	18,879,570	18,863,858
Tier II: Supplementary capital		
General provisions & Revaluation Reserve	818,437	1,286,068
Less: Deductions		
50% Investment in the capital of other banks and financial institutions	2,427,298	2,466,600
Eligible Tier II Capital		
Capital Base	17,270,709	17,683,326

Composition of Total Risk Weighted Assets

<i>As at 31 December</i>	2013 Rs '000	2012 Rs '000
Total risk weighted assets and off-balance sheet exposure for credit risk	57,911,809	53,864,937
Total risk weighted assets equivalent for market risk	11,067,470	13,927,930
Total risk weighted assets equivalent for operational risk	24,749,564	24,749,564
Total Risk Weighted Assets	93,728,843	92,542,431

50 Fair Value of Financial Instruments

50.1 Financial Instruments Recorded at Fair Value

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

*** Derivatives**

Derivative products (Foreign Currency swaps / Cash Flow Hedges) valued using valuation techniques incorporating various inputs such as foreign exchange spot rates and foreign exchange forward rates.

*** Financial Assets Held for Trading**

i. Government Treasury Bills and Bonds.

Financial assets held for trading are valued using a valuation technique consists of Government Treasury Bills and Treasury Bonds. The Bank values the securities using discounted cash flow valuation models which incorporate observable data. Observable inputs include assumptions regarding current rates of interest, broker statements and market data publishing by Central Bank of Sri Lanka.

ii. Equity Securities

The Bank values the equity securities using the quoted prices available for the identical securities in active market.

*** Available for Sales**

The Bank values the quoted equity securities using the quoted prices available for the identical securities in active market.

The unquoted equity securities have been fair valued using a valuation model based on observable data.

50.2 Determination of Fair Value and Fair Value Hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1 : Quoted (unadjusted) price in active markets for identical assets or liabilities.

Level 2 : Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3 : Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

Notes to the Financial Statements

The following table shown an analysis of financial instruments recorded at fair value by level of the fair value hierarchy.

Bank

<i>At 31 December 2013</i>	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
Derivative Financial Instruments				
Foreign currency swaps	-	-	5,118,615	5,118,615
Financial Assets Held for Trading				
Government Treasury Bills & Bond	9,979,822	-	-	9,979,822
Equity Securities	3,828,417	-	-	3,828,417
Available for sale				
Equity Securities - Quoted	2,628,554	-	-	2,628,554
Equity Securities - Unquoted	-	240,037	-	240,037
Total Financial Assets	16,436,792	240,037	5,118,615	21,795,444

<i>At 31 December 2012</i>	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
Derivative Financial Instruments				
Interest rate swaps	-	-	9,401	9,401
Financial Assets Held for Trading				
Government Treasury Bills & Bond	6,371,122	-	-	6,371,122
Equity Securities	4,358,294	-	-	4,358,294
Available for sale				
Equity Securities - Quoted	2,711,605	-	-	2,711,605
Equity Securities - Unquoted	-	304,162	-	304,162
Total Financial Assets	13,441,021	304,162	9,401	13,754,584

50.2 Determination of Fair Value and Fair Value Hierarchy

Group

<i>At 31 December 2013</i>	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
Derivative Financial Instruments				
Foreign currency swaps	-	-	5,118,615	5,118,615
Financial Assets Held for Trading				
Government Treasury Bills & Bond	14,283,494	-	-	14,283,494
Equity Securities	3,828,417	-	-	3,828,417
Available for sale				
Equity Securities - Quoted	2,628,554	-	-	2,628,554
Equity Securities - Unquoted	-	240,037	-	240,037
Total Financial Assets	20,740,464	240,037	5,118,615	26,099,116

<i>At 31 December 2012</i>	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
Derivative Financial Instruments				
Interest rate swaps	-	-	9,401	9,401
Financial Assets Held for Trading				
Government Treasury Bills & Bond	11,860,092	-	-	11,860,092
Equity Securities	4,358,294	-	-	4,358,294
Available for sale				
Equity Securities - Quoted	2,711,605	-	-	2,711,605
Equity Securities - Unquoted	-	304,162	-	304,162
Total Financial Assets	18,929,991	304,162	9,401	19,243,553

Notes to the Financial Statements

50.3 Fair value of financial instruments

Determination of fair value and fair value hierarchy

Bank

As at 31 December	2013		2012	
	Carrying amount	Fair value	Carrying amount	Fair value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial assets				
Cash and cash equivalents	1,546,221	1,546,221	1,465,542	1,465,542
Balances with central banks	-	-	-	-
Placement with banks	11,298,360	11,298,360	5,973,585	5,973,585
Derivative financial instruments	5,118,615	5,118,615	9,401	9,401
Other financial assets held-for-trading	13,808,239	13,808,239	10,729,416	10,729,416
Loans and receivable to banks	7,550,509	7,550,509	13,374,007	13,374,007
Loans and receivable to other customers	158,869,826	157,234,740	149,103,421	146,606,868
Financial investments - Available-for-sale	2,926,082	2,926,082	3,073,258	3,073,258
Financial investments - held-to-maturity	432,465,113	434,395,138	309,595,845	297,158,304
	633,582,965	633,877,905	493,324,475	478,390,381
Financial Liabilities				
Due to banks	126,989	126,989	337,014	337,014
Due to other customers	501,889,688	495,777,197	457,650,387	449,108,458
Other borrowings	120,433,536	120,433,536	22,620,945	22,620,945
	622,450,212	616,337,722	480,608,345	472,066,417

50.3 Fair value of financial instruments

Determination of fair value and fair value hierarchy

Group

As at 31 December	2013		2012	
	Carrying amount	Fair value	Carrying amount	Fair value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial assets				
Cash and cash equivalents	1,557,267	1,557,267	1,467,042	1,467,042
Balances with central banks	203	203	242	242
Placement with banks	11,298,360	11,298,360	5,973,585	5,973,585
Derivative financial instruments	5,118,615	5,118,615	9,401	9,401
Other financial assets held-for-trading	18,111,911	18,111,911	16,218,386	16,218,386
Loans and receivable to banks	7,849,969	7,849,969	14,091,299	14,091,299
Loans and receivable to other customers	158,871,926	157,236,840	149,107,668	146,611,195
Financial investments - Available-for-sale	2,927,082	2,927,082	3,074,258	3,074,258
Financial investments - held-to-maturity	435,959,845	437,783,773	313,063,745	300,261,379
	641,695,178	641,884,021	503,005,626	487,706,787
Financial Liabilities				
Due to banks	4,118,522	4,118,522	6,535,883	6,535,883
Due to other customers	501,889,688	495,777,197	457,650,387	449,108,458
Other borrowings	122,790,093	122,790,093	24,695,847	24,695,847
	628,798,302	622,685,812	488,882,116	480,340,188

50.4 Determination of fair value and fair value hierarchy

Fair Value of Financial Assets and Liabilities not Carried at Fair Value

The following describes the methodologies and assumptions used to determine the fair values for those financial instruments which are not recorded at fair value in the Financial Statements.

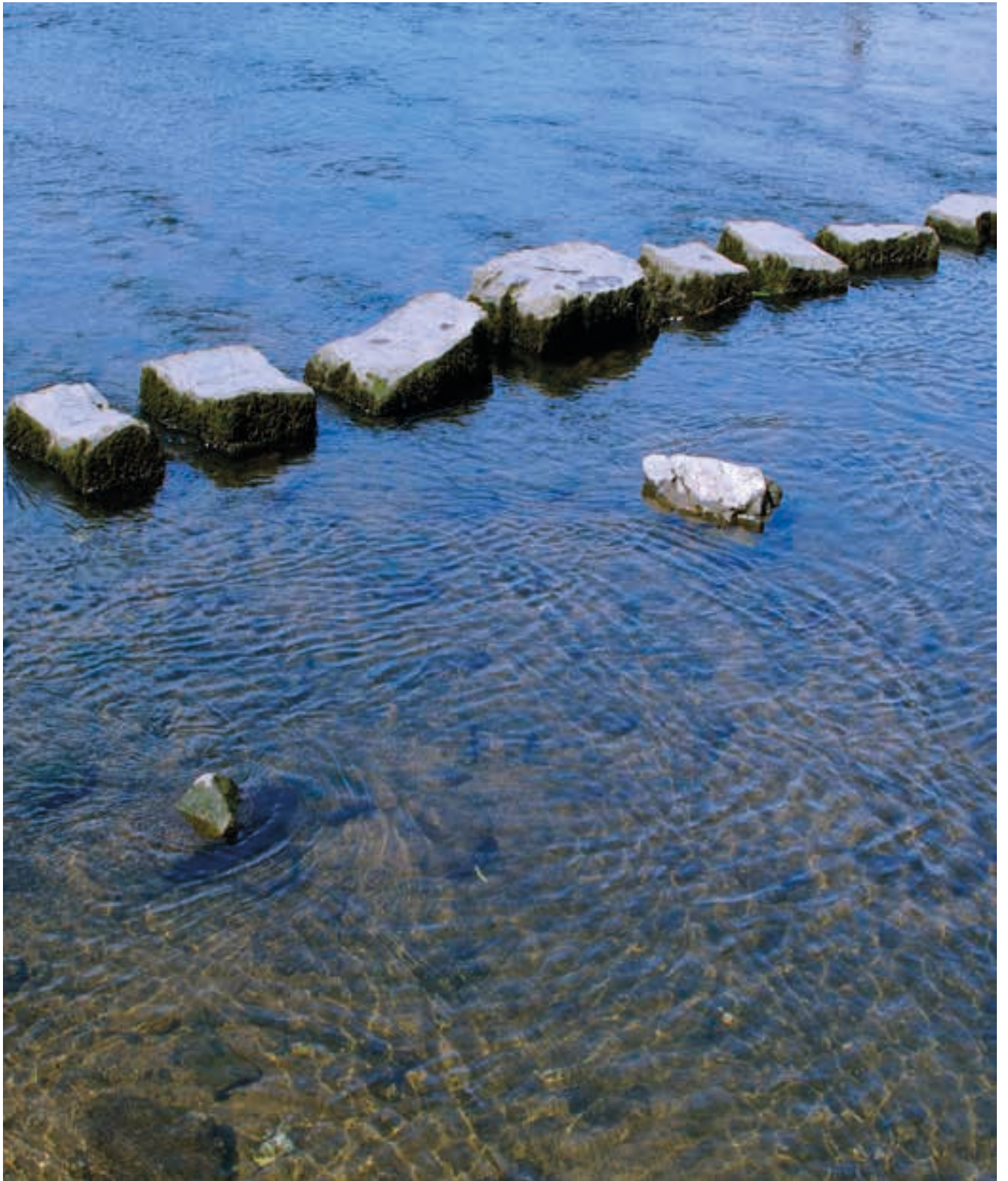
Assets for which Fair Value approximates carrying Value

For financial assets and financial liabilities that have a short term maturity (original maturities less than a year), it is assumed that the carrying amount approximate their fair values. This assumption is also applied to savings deposits without specific maturity.

Long term deposits accepted from customers for which periodical interest is paid and loan and advances granted to customers with a variable rate are also considered to be carried at fair value in the books.

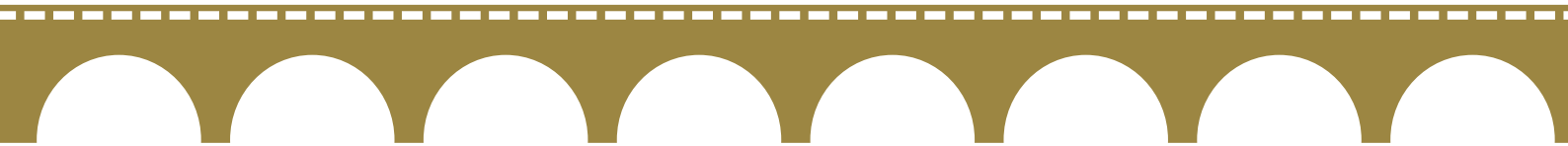
Fixed Rate Financial Instruments

Carrying amounts are considered as fair values for short term credit facilities. In Fair valuing held to maturity securities, rates published by the CBSL for similar trading securities were used. Loans and Advance with fixed interest rates were fair valued using market rates at which fresh loans were granted during the fourth quarter of the reporting year. Conversely, fixed deposits with original tenors above one year and interest paid at maturity were discounted using current market rates offered to customers during the fourth quarter of the reporting year.



Chapter 7

Annexures



Driving industry and growth to the
remotest regions of the country

Statement of Comprehensive Income in US Dollars

<i>For the year ended 31 December</i>	Bank			Group		
	2013 US \$ '000	2012 US \$ '000	Change %	2013 US \$ '000	2012 US \$ '000	Change %
Gross income	500,558	423,057	18	508,938	430,801	18
Interest income	490,441	420,084	17	496,691	428,937	16
Less: Interest expenses	416,515	313,015	33	421,630	320,400	32
Net interest income	73,926	107,069	(31)	75,061	108,538	(31)
Fee and commission income	1,741	1,773	(2)	1,742	1,773	(2)
Less: Fee and commission expenses	252	196	29	260	222	18
Net fee and commission income	1,489	1,577	(6)	1,481	1,551	(5)
Net gain/(loss) from trading	6,543	(144)	4,644	8,687	(1,253)	793
Net gain/(loss) from financial instruments designated at fair value through profit or loss	-	-	-	-	-	-
Net gain / (loss) from financial investments	-	-	-	-	-	-
Other operating income (net)	1,833	1,344	36	1,818	1,344	35
Total operating income	83,790	109,846	(24)	87,047	110,180	(21)
Less: Impairment charge for loans and other losses	10,534	1,047	906	10,534	1,047	906
Net operating income	73,256	108,799	(33)	76,513	109,133	(30)
Less; Expenses						
Personnel expenses	32,127	32,607	(1)	32,246	32,721	(1)
Other expenses	18,967	18,083	5	18,758	17,814	5
Operating profit before value added tax (VAT)	22,162	58,108	(62)	25,509	58,598	(56)
Less: Value added tax on financial services	4,767	7,407	(36)	5,133	7,480	(31)
Operating profit after value added tax (VAT)	17,395	50,701	(66)	20,376	51,118	(60)
Profit before Income tax	17,395	50,701	(66)	20,376	51,118	(60)
Less: Income tax expenses	8,358	20,612	(59)	8,713	20,966	(58)
Profit for the year	9,037	30,089	(70)	11,663	30,152	(61)
Profit attributable to:						
Equity holders of the Bank	9,037	30,089	(70)	11,663	30,152	(61)
Profit for the year	9,037	30,089	(70)	11,663	30,152	(61)
Earnings per share on profit						
Basic earnings per ordinary share (Rs.)	0.03	0.09	(67)	0.04	0.09	(56)
Diluted earnings per ordinary share (Rs.)	0.03	0.09	(67)	0.04	0.09	(56)
Profit for the year	9,037	30,089	(70)	11,663	30,152	(61)
Other comprehensive income, net of tax						
Net gain/ (losses) on revaluation of property plant and equipment	3,680	-	100	3,680	-	100
Actuarial gain/(losses) on retirement benefit	-	-	-	(3)	(0.4)	763
Net gain/(losses) on cash flow hedges	(346)	-	(100)	(346)	-	(100)
Net gains /(losses) on re-measuring available-for-sale financial assets	(1,165)	(1,686)	(31)	(1,165)	(1,686)	(31)
Other comprehensive income for the year, net of taxes	2,169	(1,686)	229	2,166	(1,686)	228
Total comprehensive income for the year	11,204	28,403	(61)	13,828	28,465	(51)
Attributable to:						
Equity holders of the Bank	11,204	28,403	(61)	13,828	28,465	(51)
Total comprehensive income for the year	11,204	28,403	(61)	13,828	28,465	(51)
US Dollar conversion rate (Rs.)	131.00	125.05		131.00	125.05	

Statement of Financial Position in US Dollars

<i>For the year ended 31 December</i>	Bank			Group		
	2013	2012	Change	2013	2012	Change
	US \$ '000	US \$ '000	%	US \$ '000	US \$ '000	%
Assets						
Cash and cash equivalents	11,803	11,720	1	11,888	11,732	1
Balances with Central Bank	-	-	-	2	2	-
Placements with banks	86,247	47,770	81	86,247	47,770	81
Derivative financial instruments	39,073	75	51,997	39,073	75	51,997
Other financial assets held-for-trading	105,406	85,801	23	138,259	129,695	7
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-
Loans and receivables to banks	57,637	106,949	(46)	59,923	112,685	(47)
Loans and receivables to other customers	1,212,747	1,192,350	2	1,212,763	1,192,384	2
Financial investments - Available-for-sale	22,337	24,576	(9)	22,344	24,584	(9)
Financial investments - Held to maturity	3,301,260	2,475,776	33	3,327,938	2,503,509	33
Investments in subsidiaries	1,145	1,200	(5)	-	-	-
Property, plant and equipment	42,828	41,196	4	42,833	41,203	4
Intangible assets	624	896	(30)	625	898	(30)
Deferred tax assets	-	-	-	4	3	33
Other assets	114,067	80,565	42	114,176	80,913	41
Total assets	4,995,176	4,068,874	23	5,056,075	4,145,452	22
Liabilities						
Due to banks	969	2,695	(64)	31,439	52,266	(40)
Due to other customers	3,831,219	3,659,739	5	3,831,219	3,659,739	5
Other borrowings	919,340	180,895	408	937,329	197,488	375
Current tax liabilities	-	-	-	253	422	(40)
Deferred tax liabilities	1,095	986	11	1,095	986	11
Other liabilities	72,953	34,498	111	73,084	34,607	111
Total liabilities	4,825,576	3,878,813	24	4,874,420	3,945,509	24
Equity						
Stated capital	24,427	25,590	(5)	24,427	25,590	(5)
Statutory reserve fund	13,258	13,700	(3)	13,258	13,700	(3)
Other reserves	131,914	150,771	(13)	143,970	160,654	(10)
Total equity of the owners of the parent	169,599	190,061	(11)	181,655	199,943	(9)
Total equity	169,599	190,061	(11)	181,655	199,943	(9)
Total equity and liabilities	4,995,176	4,068,874	23	5,056,075	4,145,452	22
Contingent liabilities and commitments	531,222	54,410	876	531,222	54,410	876
US Dollar conversion rate (Rs.)	131.00	125.05		131.00	125.05	

Statistical Indicators 2004-2013

(Rs. Mn)

	2004	2005	2006	2007	2008	2009	2010	2011*	2012*	2013*
Operating Results										
Gross Income	19,347	21,213	24,439	30,830	41,247	49,803	50,070	46,545	52,903	65,573
Interest Income	19,046	20,196	23,956	30,370	40,834	49,046	48,142	47,096	52,531	64,248
Interest Expenses	11,333	13,480	16,536	22,188	31,190	36,067	31,487	29,296	39,142	54,563
Net Interest Income	7,713	6,716	7,420	8,182	9,643	12,979	16,655	17,800	13,389	9,684
Other Income	301	1,017	483	460	413	757	1,929	(578)	347	1,292
Operating Expenses, provisions & VAT	3,897	4,276	4,402	5,340	6,956	6,792	8,807	7,967	7,396	8,698
Profit before Tax	4,117	3,457	3,501	3,302	3,100	6,943	9,777	9,255	6,340	2,279
Income Tax	1,002	1,351	1,616	1,729	2,041	3,229	4,386	3,193	2,578	1,095
Profit after Tax	3,115	2,106	1,885	1,573	1,059	3,714	5,391	6,062	3,763	1,184
Contribution to the Government	3,235	3,100	3,573	3,974	4,287	7,277	10,107	7,970	6,327	4,719
Assets										
Cash & Short Term Funds	950	861	480	533	1,146	855	1,355	1,398	1,466	1,546
Loans & Investments	188,849	212,116	224,642	256,705	277,157	335,520	395,334	455,914	492,009	632,187
Property, Plant & Equipment/Lease hold Property/Intangible Assets	1,470	1,564	1,934	2,513	3,006	3,584	4,971	5,247	5,264	5,692
Other Assets	6,945	7,574	8,522	10,453	13,010	14,463	2,733	3,415	10,075	14,943
Total	198,214	222,115	235,578	270,204	294,319	354,422	404,393	465,974	508,813	654,368
Liabilities & Shareholders' Funds										
Total Deposits	180,156	202,424	212,233	235,304	259,562	313,007	364,430	421,849	457,650	501,890
Repo/Borrowings	-	22	2,075	10,789	6,205	8,730	11,436	16,270	22,958	120,561
Differed Taxation	46	32	16	29	56	84	27	96	123	143
Other Liabilities	6,603	7,116	8,274	10,819	13,497	14,841	5,997	4,707	4,314	9,557
Shareholders' Funds	11,409	12,521	12,979	13,263	15,000	17,760	22,503	23,052	23,767	22,217
Total	198,214	222,115	235,578	270,204	294,319	354,422	404,393	465,974	508,813	654,368

* Note: Highlighted information is based on LKAS/SLFRS

(Rs. Mn)

	2004	2005	2006	2007	2008	2009	2010	2011*	2012*	2013*
Ratios										
Income Growth	(3.01)	9.64	15.21	26.15	33.79	20.74	0.54	(7.04)	13.66	23.95
Interest Margin	4.1	3.2	3.2	3.2	3.4	4.0	4.4	4.1	2.7	1.7
NIM/Gross Income	39.9	31.7	30.4	26.5	23.4	26.1	33.3	38.2	25.3	14.8
Personnel Cost/Gross Income	11.5	10.5	11.2	8.8	7.5	6.9	7.4	8.9	7.7	6.4
Overheads(Excluding Prov.) /Gross Income	15.7	14.4	15.1	12.6	11.2	10.7	12.0	13.5	12.0	10.2
Profit Before Tax/Gross Income	21.3	16.3	14.3	10.7	7.5	13.9	19.5	19.9	12.0	3.5
Contribution to the GOSL/Gross Income	16.7	14.6	14.6	12.9	10.4	14.6	20.2	17.1	12.0	7.2
Cost to Deposits	2.2	2.0	2.3	2.2	2.4	2.7	2.7	2.0	1.7	1.5
Cost to Income with VAT	47.0	50.4	59.4	56.5	58.5	55.5	48.9	45.4	52.9	66.7
Cost to Income without VAT	37.9	39.4	46.7	44.9	46.1	38.8	32.4	36.4	46.1	61.0
Return on average Shareholders' Funds (ROE)	29.4	17.6	14.8	12.0	7.5	22.7	27.3	26.61	16.07	5.15
Return on average Assets (ROA)	2.2	1.6	1.5	1.3	1.1	2.1	2.6	2.13	1.30	0.39
Deposits as % of Assets	90.9	91.1	90.1	87.1	88.2	88.3	88.0	90.5	89.9	76.7
Profit per Employee (Rs. '000)	1,551	1,196	1,207	1,152	1,077	2,382	3,205	2,826	2,027	774
Deposit per Employee (Rs. '000)	67,855	70,043	73,184	82,073	90,157	107,378	116,513	128,809	146,308	170,537
Other Information										
No of Employees	2,655	2,890	2,900	2,867	2,879	2,915	3,050	3,275	3,128	2,943
No of Branches	128	128	130	130	137	157	186	210	219	229
Post Offices/Sub Post Offices	4056	4043	4048	4042	4,045	4,055	4,053	4,058	4,053	4,063
Account Holders (Million)	14.2	14.6	15.1	15.5	15.6	16.3	16.7	17.0	17.4	17.9

* Note: Highlighted information is based on LKAS/SLFRS

Analysis of Deposits

	2008	2009	2010	2011	2012	2013
	Rs Mn	Rs Mn	Rs Mn	Rs Mn	Rs Mn	Rs Mn
Local Currency Deposits						
Savings	71,667	79,280	94,118	105,108	106,177	113,165
Time	185,755	230,147	266,007	311,569	345,794	379,969
	257,422	309,427	360,125	416,677	451,971	493,134
Growth %	10.0%	20.2%	13.5%	15.7%	8.5%	9.1%
Foreign Currency Deposits						
Savings	826	1,255	1,517	1,750	1,963	2,101
Time	1,314	2,325	2,788	3,422	3,717	6,654
	2,140	3,580	4,305	5,172	5,679	8,755
Growth %	59.3%	67.3%	20.3%	20.1%	9.8%	54.2%
Total Deposits						
Total Deposits	259,562	313,007	364,430	421,849	457,650	501,890
Growth %	10.3%	20.6%	13.5%	15.8%	8.5%	9.7%

**Note: Highlighted information is based on LKAS/SLFRS*

Our Products and Services

SAVINGS ACCOUNTS



01. Ordinary Savings Account

All Savings Account holders are entitled to a gratuity scheme worth Rs. One Million, an ATM and Shopping card with Master / Visa card facility, standing order facility and loans against savings balance with a repayment period of two years.



02. Hapan Children's Savings Account

Children upto 16 years of age can open and operate Hapan Accounts by themselves. The Hapan Children's Savings Account holders are entitled to 1% more interest than the Ordinary Savings. The Account holders who maintain a minimum balance of Rs. 2,500/= are also eligible for "Grade Five Scholarship Awards". Account holders are also eligible for an attractive gift scheme based on their account balances. Furthermore they can stand a chance to win Laptops, High Speed Dongles, LCD TV and DVD Players.



03. Ithuru Mithuru Savings Account

To encourage the savings habit among the youth, we offer a cascade of benefits to young persons between 16 - 30 years of age and they can maintain the account until the age of 35. Ithuru Mithuru Savings Account holders are entitled to 0.5% more interest than the Ordinary Savings. They are also entitled to a NSB Shopping card with Master / Visa card facility.

An Ithuru Mithuru Savings Account holder can request for Personal Loans, Auto Loans, Computer Loans, and Housing Loans. Five lucky winners could win cash prizes of Rs. 500,000/= each through a bi-annual draw. To become eligible for this draw all you have to do is to maintain a balance of Rs. 10,000/= in your Ithuru Mithuru Savings Account.



04. Sthree Savings Account

Your dream to strengthen the economy of your family by thrift "Sathen Sathe, Rupiyalen Rupiyala" and build a heavenly castle for your family will be fruitful with Sthree Savings Account. Sthree Savings Account is exclusively designed for ladies over 16 years of age. Account holders are entitled to a NSB Shopping Card with Master / Visa Card facility.

You can obtain loans against the balance in your Sthree Savings Account. Reduced rates of interests are applicable to Personal Loans. You will receive special interest concessions on Ran Sahana Pawning facility

Our Products and Services

where you will be entitled to 1% less interest up to a pawning advance of Rs. 100,000/=.

40 lucky winners could win a gold sovereign each at a quarterly draw. Sthree Account holders are also entitled to a gift on their wedding day, a cash prize of Rs.25,000/=, and eligible to receive a free Prarthana Children's Savings Certificate with a face value of Rs.100,000/= for one baby.

You can open Sthree Thepal Savings Accounts and operate them through the Post Offices and the Sub-Post Offices islandwide.



05. NSB Pension + Account

If you want to have a pension together with the money saved, you should open a NSB Pension + Account. Simply, NSB Pension + Account is a contributory retirement benefit scheme with a higher rate of return along with a free life cover and a medical cover up to Rs. One Million each. Any person over 16 can open a NSB Pension + Account.

This is an approved pension scheme by the Home Office of the Government of the UK. The deposit amount and the period of contribution are at the choice of the customer.

Retirement benefits can be drawn from the age of 55 as pension for lifetime or for a predetermined period of

time or as a lump sum or in any form of combination of these. (Conditions will apply)

06. Smile Savings Account

This gives you the opportunity to save your money with a potential cash prize at a draw which will make you SMILE. Seven draws will be conducted per year and over Rs. 50 Million will be distributed among the winners. Accounts maintained with a minimum balance of Rs.1,000/= at Branches, Post Offices and Sub Post Offices will be included in the quarterly, half-yearly and yearly grand draws.



07. Gift Tokens

Gift Tokens are the easiest and the best way to give gifts to your loved ones. Gift Tokens are available in various denominations and are easy to purchase and encash whenever you need. Gift Tokens accrue interest from the date of purchase and you can deposit Gift Tokens in any savings account. NSB Gift Tokens are available from Rs. 100/= to Rs. 2,500/= in value at any of our service points.

Pas Avurudu Account

This enables to save fractions of the hard earned money on monthly basis at attractive interest rates. Any Sri Lankan citizen over 16 years of age can open this account individually or jointly. Life cover up to Rs. 1 Mn is accompanied according to the prevailing balance of the account.

LONG TERM DEPOSIT SCHEMES



08. NSB Fixed Deposit

A Fixed Deposit at NSB symbolises financial wealth and stability. If you are over 16 years of age, you can open a Fixed Deposit Account at NSB. Minors below 16 years of age can open a Fixed Deposits Account in care of their parents / guardians. Fixed Deposits can be opened as Joint Accounts / Special Funds and also on behalf of Social Organisations.

While the minimum opening amount of annual interest earning Fixed Deposit is Rs. 1,000/=, the minimum opening balance for monthly interest earning Fixed Deposit is Rs. 25,000/=. You can open Fixed Deposit Accounts for 3, 6, 12, and 24 months, yielding annual, bi-annual, or monthly interest. You can obtain loans against deposits or NSB Easy Card, which allows you 80% revolving credit facility against your fixed deposits.

09. Triple A Fixed - Fixed Deposit

Triple A Fixed - Fixed Deposit offers 3 year or 5 year long-term deposits with high interest. The interest plus capital are payable at maturity. You can obtain loans against the deposits or NSB Easy Card, which allows you 80% revolving credit facility against your fixed deposits.



10. Gaurawa Fixed Deposit

Senior citizens over 55 years of age can open Gaurawa Fixed Deposit Accounts that pay a monthly interest, which will always be 0.5% more than that of normal monthly Fixed Deposits. The minimum deposit required is Rs.25,000/= and the maximum limit in an account is Rs. 2.5 Mn.

Special benefits to you as Gaurawa Account holders include, the “service through special counters” where you will be provided with the assistance of Customer Relations Officers when filling up forms etc. In the case of disabled customers, arrangements will be made to provide them with Banking services at their residence. This service will be provided twice a month to customers within a radius of 15 km from the Branch.



11. Prarthana Children's Savings Certificate

Prarthana Children's Savings Certificate is an ideal gift for a child; a long-term deposit scheme for kids with attractive interest rates. All you have to pay is a small percentage of its full value & the Certificate will mature when the account holder reaches 16 years of age. The Certificates have the maturity values of Rs. 5,000/=, Rs. 10,000/=, Rs. 25,000/=, Rs. 50,000/= and Rs. 100,000/=.

When you purchase the Prarthana Children's Savings Certificate, NSB gives you an assurance that the face

Our Products and Services

value of the Certificate will not be affected by any adverse fluctuations of interest rates.

SAVINGS CERTIFICATES

12. NSB National Savings Certificate

National Savings Certificate pays a high interest up-front and is available for periods from 3 months to 4 years. Anyone over 7 years can purchase NSB National Savings Certificates in values of Rs. 500/=, Rs. 1,000/=, Rs. 5,000/=, Rs. 10,000/= and Rs. 25,000/=.



13. Ridee Rekha Premium Savings Certificate

This scheme makes savings incredibly rewarding. As long as you do not encash your Ridee Rekha Premium Savings Certificate, you will continue to participate in every Draw held quarterly and be eligible to win a prize. This provides a lifetime winning chance at the cost of mere Rs.10/=. A lucky winner could win a brand new car worth Rs. 2.5 Million while 50 cash prizes of Rs. 10,000/= each and 6,000 cash prizes of Rs 1,000/= each will also be given away by the draw. The total worth of prizes for each quarterly draw is Rs. 9.0 Million totalling Rs. 36.0 Million per year.

CREDIT SERVICES

14. Mihindu Sevana Housing Loans

A loan scheme that provides facilities to construct, renovate, purchase or repair houses, purchase bare land or redeem an existing housing loan obtained from a reputed financial organisation. Permanently employed salary earners or income tax payers, both resident and

non-resident are eligible to benefit from this scheme. NSB charges the lowest rate of interest you can expect for housing loans.

Express Service

Making your busy life easier, our unique Express Service releases Housing Loans in just 4 to 10 working days.

Alankara

Alankara Housing Loans are for beautifying your house. Loans are available for landscaping, interior decor, pantry cupboards and any other improvements.

Documentation Service

As a value added service, we will undertake to arrange your Mihindu Sevana Housing Loan documents at a nominal fee.



15. Ithurum Nivasa Housing Loans

Even if you are not a permanent employee, you can still apply for a Housing Loan from NSB. Ithurum Nivasa Housing Loan is for the self-employed and for seasonal income earners aged between 18 years and 55 years. All you have to do is to start saving by opening an Ithurum

Nivasa Housing Loan Savings Account and deposit a monthly sum between Rs. 1,000/= to Rs.12,000/= in multiples of Rs. 1,000/= for a continuous period of 12 months. You can obtain a loan ranging from Rs. 90,000/= to a maximum of Rs. 1 Million subject to your repayment capacity.

***SPEED* LOAN**

Loans Against Deposit

16. NSB Auto Loans

Auto Loans are granted up to 75% of the purchasing price of unregistered vehicles and up to 60% of the purchasing price of registered vehicles for personal use of salaried employees in Public and Reputed Private Sector Organisations or Tax Payers. Loans will be released within two or three days with no hidden charges. Early settlement is allowed with no penalty.

PERSONAL LOAN SCHEME

17. Speed Loans

Loans up to 90% of your deposits in the Bank could be obtained in a matter of minutes against the security of such deposits.

18. Personal Loans

A loan for your personal needs can be obtained against the security of the primary mortgage of immovable property, surrender value of Life Policies, Government Securities and also on Personal Guarantors. Pensioners are also entitled to enjoy this facility depending on their monthly pension.



19. Ran Sahana Pawning Service

You can obtain instant loans for short-term credit needs at comparatively low rates of interest, against the security of jewellery and fully automated machinery is used to check your valued gold articles. Part payment on pawned articles is also possible. Extended Private Pawning Service is available after 3.30 p.m. on working days with prior arrangement.

20. Project Loans

Loans are granted for infrastructure and other development projects for the purposes of Direct lending to Financial Institutions, Loan Syndication and Project Lending. Prospective clients can meet our Senior Management to discuss the facilities expected.

E-CARD FACILITIES

21. NSB Easy Card

NSB Easy is a Master / Visa Card Credit Facility which will be issued against your fixed deposit at a low annual interest rate of only 2.5 % above the FD rate. The individuals or joint account holders of over 18 years, who maintain a fixed deposit for a period of 12 months or more (monthly or annual interest rates) under automatically renewed basis, are eligible for this facility which is exempted from Joining Fee, Annual Fee, Overdue and Late Payment Fees.

Our Products and Services

22. Shopping Card

Anytime anywhere money: NSB enables you to make use of the ATM facility 24 hours a day, 7 days a week with Master / Visa Card facility. You can withdraw up to Rs. 40,000/= from a Shopping Card and Rs. 80,000/= from a Platinum Card or purchase goods from any merchant with Master / Visa Card facility up to Rs. 100,000/= within 24 hours.

Your single NSB ATM card allows you to transact with 10 different accounts through its islandwide network of ATMs globally connected with over 10,000 ATMs. Further, facilities such as fund transfer, issue of statements and change of PIN etc. will also be provided by the ATM. All ATMs are equipped with security cameras.

FOREIGN CURRENCY PRODUCTS



23. NSB Ranmasu Non-Resident Foreign Currency Account (NRFC)

Sri Lankan nationals employed abroad and those who hold foreign passports are eligible to open NRFC accounts with NSB in the form of Savings or Fixed Deposits for periods of 1, 3, 6 or 12 months in US Dollars (USD), Euros (EUR), Sterling Pounds (GBP) and Australian Dollars (AUD). Prospective migrants could visit any NSB branch or the International Division at Head Office and obtain an account number prior to the departure to channel funds to Sri Lanka. Interest is

paid in the currency in which the account is maintained and is exempted from tax. NRFC accounts could also be opened for Non-resident Minors whose parents are employed abroad.

24. NSB Ranmasu Resident Foreign Currency Account (RFC)

Sri Lankan nationals resident in Sri Lanka who are in possession of foreign currency or who receive remittances in foreign currency are eligible to open RFC Accounts in the form of Savings and Fixed Deposits for periods of 1, 3, 6 and 12 months in US Dollars (USD), Euros (EUR), Sterling Pounds (GBP) and Australian Dollars (AUD). Interest is paid in the currency in which the account is maintained and is exempted from tax. RFC accounts could also be opened for Resident Minors whose parents are employed abroad.

25. A Special Foreign Investment Deposit Account (SFIDA)

Special Foreign Investment Deposit Account could be opened as Savings and Fixed Deposit Account in the currencies of USD, EUR, GBP and AUD or Sri Lanka Rupees by citizens of foreign states, Sri Lankan citizens resident abroad, corporate bodies incorporated outside Sri Lanka and Foreign Institutional Investors such as Country funds, Mutual funds and Regional funds. These accounts too are tax-exempted. The minimum initial deposit is USD 10,000 or the equivalent in EUR, GBP, AUD or Sri Lankan Rupees.

26. Loans against NRFC/RFC/SFIDA Deposits

NRFC/RFC/SFIDA Account holders are entitled to Rupee Loans up to 80% of the Rupee Value of the NRFC/RFC Fixed Deposits & SFIDA against the security of the deposit at concessionary rates.

27. Treasury Bill / Treasury Bond Investment

External Rupee Account (Formerly TIERA-D)

Non-resident Sri Lankans and Sri Lankan citizens with Dual Citizenship can invest in Government-guaranteed Treasury Bills and Bonds and contribute to the economic development of the country. Special Investment Account is exempted from tax. Repatriation of funds is permitted at the time of withdrawal.

28. Travellers' Cheques and Foreign Currency Notes

Travellers' Cheques and Foreign Currency Notes are accepted as deposits to Rupee Accounts at attractive foreign exchange rates. Facility for purchase of USD 2500 or equivalent of other three currencies (EUR, GBP and AUD) is available at the branches for NRFC/RFC customers for the purpose of foreign travel.

29. Foreign Inward Remittances

Sri Lankan nationals living/employed abroad could remit funds to their own family members' and relatives' LKR/ NRFC/RFC Accounts at NSB or to any other account with any other Bank in Sri Lanka via Exchange Houses and Banks with whom NSB has already established the relationship for fund transfer.

30. Eurogiro

NSB joined the Eurogiro Network in early 2008 and prides itself as being the sole Eurogiro Member in Sri Lanka. Eurogiro is a low cost electronic money transfer system pioneered by the Western Postal Organisations and Banks. Under the Eurogiro, funds could be transferred through Deutsche Postbank (Germany), Korea Post (Korea), Israel Post (Israel), Poste Italiane (Italy), Thai Post Bank (Thailand) and La Banque Postale (France).



31. Web-based Remittances

We are also agents in Sri Lanka for global money transfer channels such as "INSTANT CASH", "XPRESS MONEY", "UNISStream", "EzRemit", and "Transfast". Sri Lankan expatriates all over the world can remit funds easily, safely and at a low cost through these money transfer companies.

32. Money Changing Business

We have been permitted by the Central Bank of Sri Lanka to engage in Money Changing Business. Accordingly, we have already commenced this business initially at 10 selected branches. Therefore, the customers who possess Foreign Currency Notes could encash them and also customers who travel abroad could purchase foreign currency notes at the selected NSB Branches at competitive exchange rates.

OTHER SERVICES

33. Speed Cash

NSB Speed cash is a secured and fast over-the-counter fund transfer service which facilitates transfer of funds between any two parties. Whether you are an account holder or not, NSB Speed Cash service could facilitate your fund transfer.

The minimum amount of cash, a person could transfer through "NSB SpeedCash" is Rs. 1,000/= and the maximum amount is Rs. 2 Million. Only one transaction is permitted per person per day.

Our Products and Services

34. Investments in Government Securities

You can invest in Treasury Bills and Treasury Bonds as you wish at any NSB branch or NSB Fund Management Company.

35. Standing Orders

A Standing Order will enable you to authorise the Bank to make a series of payments on your behalf to a named payee or beneficiary by debiting your savings account with a fixed payment amount. Standing orders within the NSB accounts are free of charge.

36. Mail Transfer Orders

A Mail Transfer Order will enable you to authorize the Bank to transfer funds from one branch to another branch of the Bank.



37. Safety Deposit Lockers

NSB provides you with a safe and trusted place for safekeeping of your valued belongings. You will receive the facility to store your valuable belongings and documents under safe custody at a nominal annual rental at selected branches. Safety lockers are available in three sizes as Small, Medium and Large and their annual rentals are Rs. 2,000/=, Rs. 3,000/=, Rs. 4,000/= respectively.

38. Gratuity Payment Scheme

NSB also offers a Gratuity Payment Scheme up to Rs. One Million where payments are made at the death of account holders to their nominee/s or heir/s. On the basis of the balance in their accounts, any active account

holder aged between 18 to 70 years with a minimum balance of Rs. 15,000/= will be entitled to this facility.

39. Guarantees

This is an instrument, which amounts to an unconditional undertaking by the Bank, to discharge the liability of a depositor; in the event of his / her failing to discharge the obligation. The following types of guarantees can be issued against deposits on the request of the customers: Performance Bonds, Bid Bonds, Retention Guarantees, Tender Bonds, Advance Payment Guarantees.

40. Nomination

An account holder can nominate a person who shall be entitled to the money of the stated account in the event of the nominator's demise. You, as the account holder, have the authority to change the nominee/nominees at your discretion.

41. Utility Bill Payments

Utility Bill Payment Services are available at NSB and you can pay utility bills at any of our branches. Bills will be updated online as soon as you pay your bill. You can pay the following bills at NSB.

Electricity Bills of Lanka Electricity Company (LECO) and Ceylon Electricity Board (CEB)

Telephone Bills of Sri Lanka Telecom (SLT), Lanka Bell, Mobitel, Dialog and Airtel

Water Bills

Insurance premiums of Union Assurance, Aviva NDB Insurance, Ceylinco Insurance and Allianz Insurance

Credit Card bills of HSBC and Citi Bank transactions

Fees of Institute of Bankers of Sri Lanka (IBSL) and Association of Accounting Technicians of Sri Lanka (AATSL)

OUR EXTENDED CHANNEL NETWORK

42. 24 / 7 NSB Call Centre

The main objective of NSB Call Centre is to facilitate customers who contact us for enquiries related to their banking activities. Customers could obtain information related to Bank Products and Services by contacting the Call Centre by telephone, e-mail, Skype or Web chat. The Centre also assists customers in banking issues, by consulting other service centres. The well-trained Call Centre Agents do not only provide information but also deliver a superior customer service for your convenience.

Services provided by Call Centre

- Balance enquiry
- Interest rates information
- NSB products and services information
- Clarifications on Utility Bill payments
- Operation and handling of lost ATM / Master / Visa Debit Cards
- Queries relating to Housing Loans / Personal Loans
- Queries relating to Internet / SMS banking
- Any other information pertaining to bank activities
- Handling customer complaints / suggestions

Contact Details

Hotline : +94 11 2 379379
Manager : +94 11 2 379350
e-mail : callcentre@nsb.lk
Skype : nsbcallcentre
Fax : +94 11 2 379333

43. Post Office Savings

You have the facility of depositing money at NSB through any Post Office / Sub Post Office. You can open Thepal Hapan Children's Savings Accounts, Sthree Thepal Savings Accounts, Ordinary Savings Accounts, and Fixed Deposits Accounts and purchase Ridhee Rekha Premium Savings Certificates at Post / Sub Post Offices. You can

also enjoy Ran Sahana pawning facility at selected Post Offices / Sub Post Offices.



44. Virtual NSB - Internet Banking

You can view your account balance and past transactions at anytime anywhere using Internet Banking. The Internet Banking is available for Savings Accounts, Fixed Deposits, Loans against Deposits, Loans on NRFC / RFC Savings and Fixed Deposits, Easy Card and Postal Banking. You can pay your Utility Bills online at anytime as well as transfer your funds among savings accounts through NSB Internet Banking.

45. SMS Banking

You can view your Savings Account balance at anytime from your mobile phone. The SMS Banking is available for Savings Accounts holders and you can pay your Utility Bills online at anytime and transfer your funds among Savings Accounts.

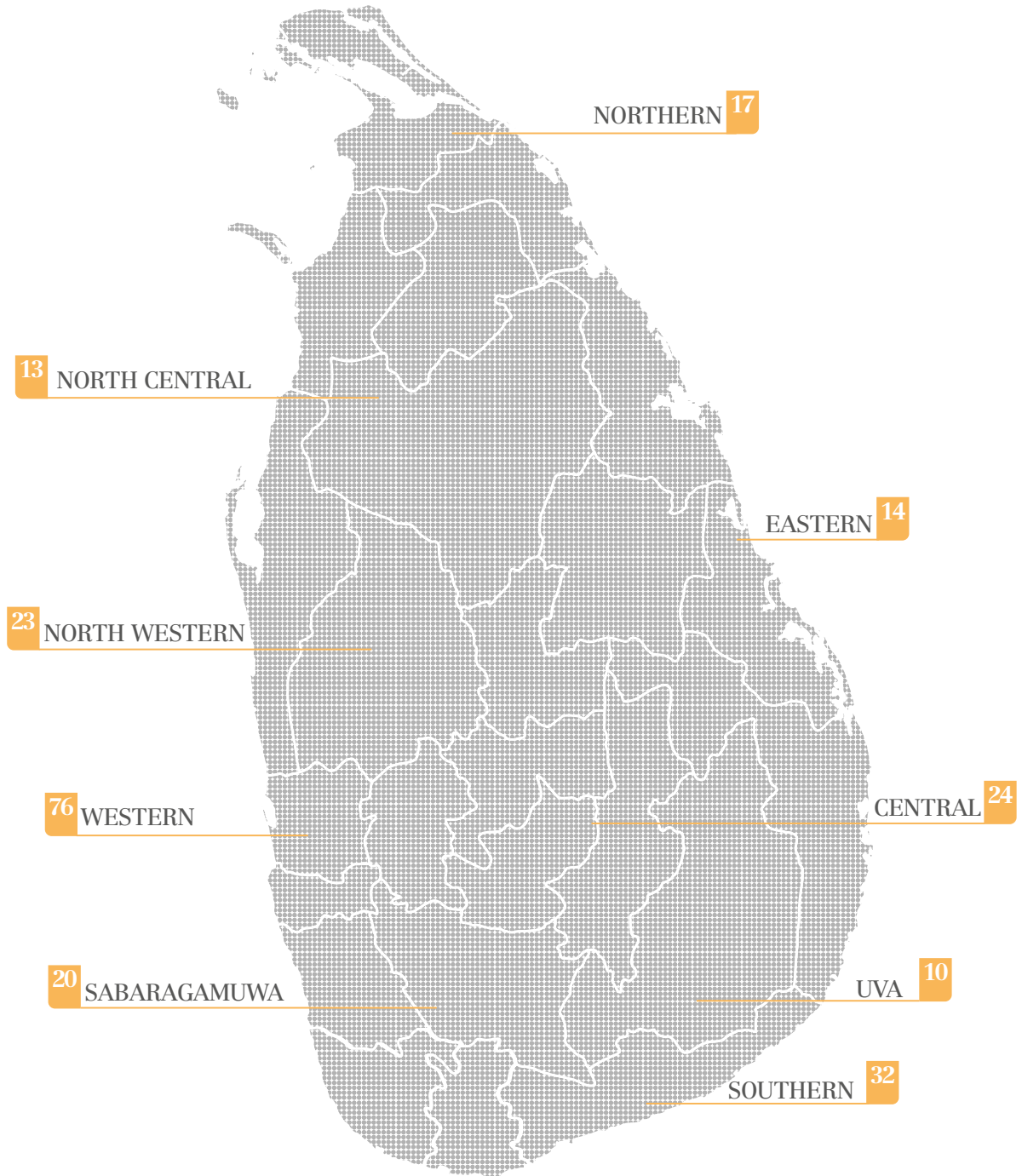
46. Mobile Banking

Point of Sale Banking (POS) or simply, Door Step Banking is open for you with the latest technology. Our Sales Team visits houses, shops, schools and weekly fairs making your life much more convenient. You can deposit money with NSB while being at home, school or workplace.

47. School Banks

NSB was involved in establishing School Banks, where school children learn the habit of savings and get used to the leadership role within the school.

Branch Network



Central Region (24)

Kandy (14)

Deltota
Digana
Gampola
Gelioya
Kandy
Kandy 2nd
Kandy 3
Kandy City Centre
Katugastota
Mulgampola
Nawalapitiya
Pilimalawa
Pussellawa
Wattegama

Matale (4)

Dambulla
Galewela
Matale
Naula

Nuwaraeliya (6)

Ginigathena
Hatton
Nuwara Eliya
Pundaluoya
Rikillagaskada
Talawakele

Eastern Region (14)

Ampara (6)

Akkaraipattu
Ampara
Ampara 2
Kalmunai
Pottuvil
Sammanthurai

Batticaloa (6)

Aryampathi

Batticaloa
Chenkaladi
Kalawanchikudi
Palugamam
Valachchenai

Trincomalee (2)

Kantale
Trincomalee

North Central Region (13)

Anuradhapura (10)

Anuradhapura
Anuradhapura 2nd
Eppawala
Galnewa
Kahatagasdigiliya
Kebithigollewa
Kekirawa
Medawachchiya
Nochchiyagama
Tambuttegama

Polonnaruwa (3)

Hingurakgoda
Kaduruwela
Medirigiriya

North Western Region (23)

Kurunegala (16)

Alawwa
Bingiriya
Galgamuwa
Giriulla
Hettipola
Ibbagamuwa
Kuliyapitiya
Kurunegala
Kurunegala Postal

Mawathagama
Melsiripura
Narammala
Nikaweratiya
Polgahawela
Rideegama
Wariyapola

Puttalam (7)

Anamaduwa
Chilaw
Madampe
Marawila
Nattandiya
Puttalam
Wennappuwa

Northern Region (17)

Jaffna (12)

Atchuvely
Chankanai
Chavakachcheri
Chunnakam
Jaffna
Jaffna 2
Karainager
Kayts
Manipay
Nelliyady
Point Pedro
Thirunalveli

Kilinochchi (1)

Kilinochchi

Mannar (2)

Mannar
Vankalai

Mullaitivu (1)

Mallavi

Vavunia (1)

Vavuniya

Sabaragamuwa Region (20)

Kegalle (10)

Aranayaka
Bulathkohupitiya
Deraniyagala
Kegalle
Kegalle 2
Mawanella
Rambukkana
Ruwanwella
Warakapola
Yatiantota

Ratnapura (10)

Balangoda
Eheliyagoda
Embilipitiya
Kahawatta
Kalawana
Kiriella
Kuruwita
Nivithigala
Pelmadulla
Ratnapura

Southern Region (32)

Galle (11)

Ambalangoda
Baddegama
Elpitiya
Galle
Galle 2
Habraduwa
Hikkaduwa
Imaduwa
Karapitiya
Neluwa
Uragasmanhandiya

Branch Network

Hambantota (10)

Ambalantota
Angunakolapelessa
Beliatta
Hambantota
Middeniya
Suriyawewa
Tangalle
Tissamharamaya
Walasmulla
Weeraketiya

Matara (11)

Akuressa
Deniyaya
Devinuwara
Dikwella
Hakmana
Kamburupitiya
Kekanadura
Matara
Matara 2
Morawaka
Weligama

Uva Region (10)

Badulla (6)

Badulla
Bandarawela
Haliela
Mahiyanganaya
Passara
Welimada

Monaragala (4)

Bibila
Buttala
Monaragala
Wellawaya

Western Region 1 (26)

Colombo (25)

Athurugiriya
Avisawella
Battaramulla
Boralesgamuwa
Borella
Delkanda
Hanwella
Head Office Postal
Homagama
Kaduwela
Kotahena
Kottawa
Maharagama
Malabe
Maligawatta
Meegoda
Mulleriyawa New Town
Mutwal
Narahenpita
Nawala
Nugegoda
Pettah
Rajagiriya
Thalawathugoda
Wellampitiya

Kalutara (1)

Bandaragama

Western Region 2 (26)

Colombo (15)

Bambalapitiya
City
Dehiwala
Head Office Branch
Kahatuduwa
Kalubowila
Katubedda
Kollupitiya 2nd
Moratumulla
Moratuwa
Mount Lavinia
Piliyandala
Puwakaramba
Wellawatta
WTC

Kalutara (11)

Aluthgama
Baduraliya
Beruwala
Bulathsinhala
Horana
Ingiriya
Kalutara
Kalutara 2
Matugama
Panadura
Wadduwa

Western Region 3 (24)

Gampaha (24)

Delgoda
Divulapitiya
Gampaha
Gampaha 2
Ganemulla
Ja-Ela
Kadawatha
Katunayaka
Kelaniya
Kiribathgoda
Kirindiwela
Kochchikade
Mahabage
Minuwangoda
Mirigama
Negombo
Nittambuwa
Peliyagoda
Pugoda
Raddolugama
Ragama
Veyangoda
Wattala
Yakkala

Correspondent Banks

Citi Bank NA

Wall Street, New York,
NY 10005, USA.

Tel: 12125591000
www.citibank.com
SWIFT: CITIUS33

Deutsche Bank Trust Company Americas

No 60 Wall Street,
New York, NY 10005,
USA.

Tel: 1 212 2502500
Tel: 1 2127970291
www.deutsche-bank.com
SWIFT: BKTRUS33

Deutsche Bank AG

P.O.B60202
Frankfurt am Main Germany.

Tel: 496991000
Tel: 49 6991034225
www.deutsche-bank.com
SWIFT: DEUTDEFF

National Australia Bank

330, Collins Street
Melbourne, VIC 3000.
Australia.

Tel: 61386413500
www.national.com.au
SWIFT: NATAAU33033

Deutsche Postbank

AG.,Friedrich-Ebert-Allee
53113 Bonn,
Germany.

Tel: 114-126, 492289200
www.postbank.de
SWIFT: PBNKDEFF

Bank of Ceylon

No 01,
Devonshire Square London
EC2M4WD

Tel: 0207 377 1888
Tel: 44 2073775430
www.info@bankofceylon.co.uk
SWIFT: BCEYGB2L

Banca Popolari Di Sondrio

Piazza Garibaldi 16
23100,
Sondrlom SO,
Italy

Tel: 390 342 528.111
Tel: 390 342 528 204
www.info@popso.it
SWIFT: POSOIT22

Unicredito Italiano SPA

Esterio F.S.D.-Via Volta 1, 20093
cologne
Monzese, MI, Italy

Tel: 390288621
Tel: 39 02 88623340
WNW. unicreditgroup.eu
SWIFT: UNCRITMM

Commonwealth Bank

Sydney, NSW 2001.
Australia

GPO Box 5227,
Tel: 61 293782000
www.commbank.com.au
SWIFT: CTBAU2S

Woori Bank

1-203,
Hoehyeon-dong,
Jung-gu, Seoul

Tel: 82 - 2 -21252001
www.wooribank.com
SWIFT: HVBK KR SE

Exchange Companies

Al Ahalia Exchange

P.O. Box 2419,
Abu Dhabi, U.A.E.
Tel: 97126269341
www.alahali.moneyexchange.com

Al Ansari Exchange

P. O. Box 325,
Abu Dhabi, U.A.E.
Tel: 97126108 888
www.alansariexchange.com
info@alansari.ae

Al Dar For Exchange Works

P.O.Box 24048,
Doha State of Qatar
Tel: 9744550455

Al Fardan Exchange-Abu Dhabi

P.O.Box 498, Amin Khourl Building,
Liwa Street, Abu Dhabi, U.A.E.
Tel: 971026223222
exchange@alfardangroup.com
farhaj.ali@alfardanexchange.com

Al Fardan Exchange-Qatar

Alfardan Centre, Grand Hamad
Avenue,
P.O.Box 339, Doha, Qatar.
Tel: 97444408408
afx@alfardan.com.qa

Al Rostamani International Exchange

Al Rostamani International
Exchange,
P.O.Box 10072, Dubai, U. A. E.
Tel: 97146098100
www.alrostamaniexchange.com
ariemgt@alrostamanigroup.ae

Arabian Exchange Co.

Mercure Grand Hotel,
Ground Floor,
Mushaireb Street,
P.O.Box 3535,
Doha-Qatar.
Tel: 9744438300
www.arabianex.com
arabianex@qatar.net.qa

Asia Express Exchange

P.O. Box 881-RUWI,
PC 112,Muscat,
Sultanate of Oman.
Tel: 96824781727
slankaex@omantel.net.om

Baharain Exchange

P.O. Box 29149,
Murgab, Kuwait.
Tel: 965824000
www.bec.com.kw
baexco@bec.com.kw

CB Unistream

20, Verhnyaya Maslovka str,
bldg. 2, 127083,
Moscow, Russia
Tel: 74957445555
www.unistream.com
relations@unistream.com

Citi Global Remittance

Baharan Financing Co.
P.O.Box 243, Manemo
Kingdom of Baharain

City International Exchange

Abdullah Dashti Building,
Abdullah Mubarak Street,

P.O.Box 21804,
Safar 13079, Kuwait
Tel: 9652448507
citex@qualitynet.net

Colombo International Money Transfer

Colombo Money Transfer Services
Pty Ltd,3 Clow st, Dandenong,
Victoria 3175,
Australia.
Tel: (03)97923065
info@colombomoneytransfer.com.au

Dalil Exchange

P.O.Box 20404,Manama,
Kingdom Of Bahrain.
Tel: 973223464
www.dalil.com.bh
dalilint@batelco.com.bh

Al Mulla International

Al Mulla Group Head Office,
Free Trade Zone,
Shuwaikh, Kuwait
Tel: 96522250888

Al Rajhi Bank

P.O.Box 28,
Riyadh 11411,
Kingdom of Saudi Arabia.
Tel: 96612116000
www.alrajhibank.com.sa

Habib Exchange-Abu Dhabi

Central Office, Hamdan Street,
P.O.Box 2370,Abu Dhabi, U.A.E.
Tel: 9713614885
www.habibexchange.com
hecoad@emirates.net.ae

Instant Cash Exchange

East Wing, Building 2,
Office No.203,DAFZA,
P.O. Box 3014, Dubai, U. A. E.
Tel: 97142990011
www.instantcashworldwide.com
rahat@instantcashworldwide.com

Majan Exchange

P.O.Box 583, Postal Code :117,
Sultanate of Oman
Tel: 96824794017
majanech@omantel.net.om

National Money Exchange

P.O.Box 29760, Safat 13158 Kuwait,
State of Kuwait.
Tel: 2462680
nmekwt@qualitynet.net

Baharain Finance Co.

P.O. Box 243, Manama
Kingdom of Baharain
Tel: 97317228888
www.bfc.com.bh

Bank Al Bilad

P.O.Box 140,
Riyadh-11411, Saudi Arabia.
Tel: 96614798888
www.bankalbilad.com.sa

Habib Qatar International Exchange

P.O.Box 1188, Mushirib Street,
Doha Qatar.
Tel: 974424373
www.habibqatar.com
habib@qatar.net.qa

Kapruka (PVT) Ltd

1/1324, Centre Road,

Clayton, VIC 3168, Australia.

Tel: 610395445060
www.kapruka.com.au

Money Gram

1550, Utica Avenue South,
Minneapolis, MN 555416, U.S.A.
Tel: 9525913000

Oman & UAE Exchange Centre

P.O.Box 1116, Postal Code: 131, Al
Hamriyah, Sultanate of Oman.
Tel: 96824796533
omanuaex@omantel.net.om

Dollarco Exchange

P.O.Box 26270,
Safat 13123, Kuwait.
9652412767
dollarco@qualitynet.net

Emirates International Exchange

P.O. Box 7190,
Dubai, U.A.E.
Tel: 97600522248
www.emiratesexchange.ae

IME (M) SDN.BHD

Ground Floor,
No 22, Jalan Medan Pasar 50050,
Kuala Lumpur, Malaysia.
Tel: 03-20727260
www.ime-txnremit.com

Kuwait Asian International Exchange

Qaiseria No.1, Shop Number 48,
Fahaheel, Kuwait.
Tel: 96523910522
kuaiew@yahoo.com

National Exchange Co.

Via Ferruccio, 3000185,
Roma, Italy.
Tel: 390644341221
www.nationalexchange.it
nec@nationalexchange.it

Samba Financial Group

King Abdulaziz Road, P.O.Box 833,
Riyadh 11421, Saudi Arabia.
Tel: 96614774770
www.samba.com.sa

Trans Fast Remittance LLC

Ammus, Paptamali Road, Irianjala
Kuda,
Trichur District, Kerala, India.
Tel: 919946000780

UAE Exchange Centre-Abu Dhabi

P.O.Box 170, Level 02,
Al Sayegh Center, Sheikh Hamdan
Street,
Abu Dhabi, U.A.E.
Tel: 97126105555
www.uaexchange.com
hq@uaexchange.com

UAE Exchange Centre-Kuwait

P.O.Box 26155, Safat 13122,
Kuwait.
Tel: 9652459417
www.uaexchangekuwait.com
kuwait.ho@uaexchange.com.kw

Glossary

Accounting Policies

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

Accrual Basis

Recognising the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalent.

Amortisation

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

Amortised Cost

Amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative 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.

Bills Sent for Collection

A bill of exchange drawn by an exporter usually at a term, on an importer overseas and brought by the exporter to his bank with a request to collect the proceeds.

Capital Adequacy Ratios

The relationship between capital and risk weighted assets as defined in the framework developed by the Bank for International Settlements (BIS) and as modified by the Central Bank of Sri Lanka to suit local requirements.

Collectively Assessed loan impairment Provisions

Also known as portfolio provisions, Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses that has been incurred but has not yet been identified at the reporting date. Loans and advances are assessed on portfolio basis.

Capital Expenditure

Total of additions to property and equipment.

Capital Reserves

Reserves identified for specific purposes and considered not available for distribution.

Cash Equivalents

High liquid investments which are readily convertible to cash with no significant loss in value.

Collective Agreement

A tripartite agreement entered into among the NSB, Ministry of Finance and Trade Unions.

Commercial Paper

Short-term instrument issued in the open market by creditworthy entities with the stand by credit facility.

Commitments

Credit facilities approved but not yet utilised by the clients as at the Balance Sheet date.

Compounded Annual Growth Rate (CAGR)

The rate at which it would have grown if it grew at an even rate compounded annually.

Contingencies

A condition or situation existing at Balance Sheet date where the outcome will be confirmed only by occurrence or nonoccurrence of one or more future events.

Contractual Maturity

Contractual maturity refers to the final payment date of a loan or other financial instrument , at which

point all the remaining outstanding principal will be re paid and interest is due to be paid.

Corporate Governance

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

Correspondent Bank

A bank in a foreign country that offers banking facilities to the customers of a bank in another country.

Cost/Income Ratio

Operating expenses excluding loan loss provision and provisioning for fall in value in dealing securities as a percentage of net income.

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 counter party will fail to meet its obligations in accordance with agreed terms and conditions

Dealing Securities

Marketable securities that are acquired and held with the intention of reselling them in the short term.

Debenture

A medium-term debt instrument issued by a Corporate entity.

Deferred Taxation

Sum set aside for tax in the Financial Statements that will become payable in a financial year other than the current financial year.

Derivative

Financial contract of which the value is derived from the value of underlined assets.

De recognition

Removal of previously recognised financial assets or financial liability from an entity's statement of financial position.

Depreciation

The systematic allocation of the depreciable amount of an asset over its useful life.

Economic Value Added

A measure of productivity which takes into consideration cost of total invested equity

Effective Interest Rate

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate a shorter period to the net carrying amount of the financial asset or financial liability

Equity Method

The equity method is a method of accounting whereby the investment is initially 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.

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'.

Effective Tax Rate

Provision for taxation excluding deferred tax divided by the profit before taxation.

Fair Value

The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Glossary

Financial Instrument

Financial Instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Foreclosed Properties

Properties acquired in full or partial; satisfaction of debts.

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.

Foreign Exchange Profit

Profit earned on foreign currency transactions arising from the difference in foreign exchange rates between the transaction/ last Balance Sheet date and the settlement/Balance Sheet date

General Provisions

These are provisions made on loans and advances for anticipated losses on aggregate exposures where credit losses cannot yet be determined on an individual facility basis.

Guarantees

Three party agreement involving a promise by one party (the guarantor) to fulfil the obligations of a person

owing a debt if that person fails to perform.

Held to Maturity Investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

Impairment

This occurs when recoverable amount of an asset is less than its carrying amount.

Impaired assets portfolio

Impaired Assets Portfolio is the total of the individually significant impaired loans and individually insignificant loans which are overdue above 180 days.

Impairment Allowances

Impairment allowances are provisions held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred loss. An impairment allowance may either be identified or unidentified and individual (specific) or collective (portfolio).

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.

Group

A group is a parent and all its subsidiaries.

Intangible Asset

An intangible asset is an identifiable nonmonetary asset without a physical substance.

Interest in Suspense

Interest suspended on nonperforming loans and advances.

Interest Margin

Net interest income expressed as a percentage of average interest earning assets

Interest Spread

Represents the difference between the average interest rate earned and the average interest rate paid on interest earning assets and interest bearing liabilities, respectively. Variables such as interest rates, exchange rates, credit spreads and other asset prices.

Investment Securities

Securities acquired and held for yield or capital growth purposes and are usually held for maturity.

Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director.

Liquid Assets

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, bills of exchange and treasury bills.

Loans and Receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those intended to sell immediately or in the near term and designated as fair value through profit or loss or available for sale on initial recognition.

Loss Given Default (LGD)

LGD is the percentage of an exposure that a lender expects to lose in the event of obligor default.

Market Risk

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

Materiality

The relative significance of a transaction or an event, the omission or misstatement of which could influence the decisions of users of Financial Statements.

Net Interest Income

The difference between the interest income from investment portfolio and the interest paid on deposits.

Non-Performing Loans (NPL)

The loans which are in default for more than three months

NPL Ratio

Total non-performing loans and advances (net of Interest in Suspense) divided by total loans and advances portfolio (net of Interest in Suspense).

Off Balance Sheet Transactions

Transactions that are not recognised as assets or liabilities in the Statement of Financial Position, but which give rise to contingencies and commitments.

Operational Risk

This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

Parent

A parent is an entity that has one or more subsidiaries.

Portfolio

A pool of investments including investment in Government Securities, loans and advances, equities, etc.

Promissory Note

A short-term instrument whereby the borrower promises to pay the borrowed money on the production of the instrument.

Probability of Default (PD)

PD is an internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation

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.

Glossary

Total Capital

The sum of Tier I and Tier II Capital.

Related Parties

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly as per the Sri Lanka Accounting Standard No. 30 on 'Related Party Disclosures'.

REPOs

Repurchase agreements. Securities sold to lenders with the commitment to buy back on a later date at a fixed price plus interest.

Revenue Reserve

Reserves set aside for future distribution and investment.

Rupee Loan

Rupee securities issued by Central Bank of Sri Lanka on behalf of the Government of Sri Lanka.

Shareholders' Funds

A Capital Reserve created as per the provisions of the Banking Act No. 30 of 1988.

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.

Single Borrower Limit

33% of the regulatory capital base.

Statutory Reserve Fund

A capital reserve created as per the provisions of the Banking Act No. 30 of 1988.

Subsidiary

An entity, including an unincorporated entity such as a partnership, which is controlled by another entity known as the parent.

Tier I Capital

Consists of the sum total of ordinary share capital, statutory reserve fund and general reserves.

Tier II Capital

Supplementary capital representing 50% of the revaluation reserve and general provisions.

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

229 Branches 1,723

School Bank Units

247 ATMs

Agency Network

653 Post Offices and 3,410 Sub-Post Offices throughout the Island.

Credit Rating

The Bank has been assigned AAA (lka) long-term credit rating by the Fitch Rating Lanka (Pvt) Ltd.

B+ Stable International Credit Rating from Standard and Poors
BB- Stable International Credit Rating by Fitch Ratings

International Membership

- World Savings Bank's Institute (WSBI)
- International Union of Housing Finance
- Society for Worldwide Interbank Financial Telecommunication
- Eurogiro global payment community

Board of Directors

Ms. W.A. Nalani – Chairperson

S.T. Abeygunawardena – Working Director

S.R. Attygalle – Director

D.L.P.R. Abeyaratne – Director

Lionel P. Fernando – Director

Sumith Wijesinghe – Director

H. Madiwela – Director (From 26.04.2013)

General Manager/CEO

H.M. Hennayake Bandara

Board Secretary

Ms. Y.F. Deen

Board Audit Committee

Lionel P. Fernando - Chairman

S.R. Attygalle (From 23.04.2013)

H. Madiwela (From 10.06.2013)

Human Resources & Remuneration Committee

Ms. W.A. Nalani – Chairperson (From 10.06.2013)

S.R. Attygalle (From 23.04.2013)

H. Madiwela (From 10.06.2013)

Board Nomination Committee

S.R. Attygalle – Chairman (From 23.04.2013)

S.T. Abeygunawardana

Sumith Wijesinghe

Board Integrated Risk Management Committee

D.L.P.R. Abeyaratne – Chairman

Lionel P. Fernando

Sumith Wijesinghe (From 10.06.2013)

Compliance Officer

Ms. I.K.L. Sasi Mahendran

Auditors

Auditor General

Corporate Information

Subsidiary

NSB Fund Management Co. Ltd.

Registered Office and Head Office

1st Floor, 'Savings House'

National Savings Bank,

No. 255, Galle Road,

Colombo 03, Sri Lanka.

Tel: 94-11-2564601, 2467731

Fax: 94-11-2564706

E-mail: nsbfmc@nsb.lk

Swift Code: NSBFLKXXXX

Board of Directors

Ms. W.A. Nalani – Chairperson (From 10.06.2013)

S.T Abeygunawardana

D.L.P.R Abeyaratne

Lionel P. Fernando

H.M. Hennayake Bandara

Chief Executive Officer

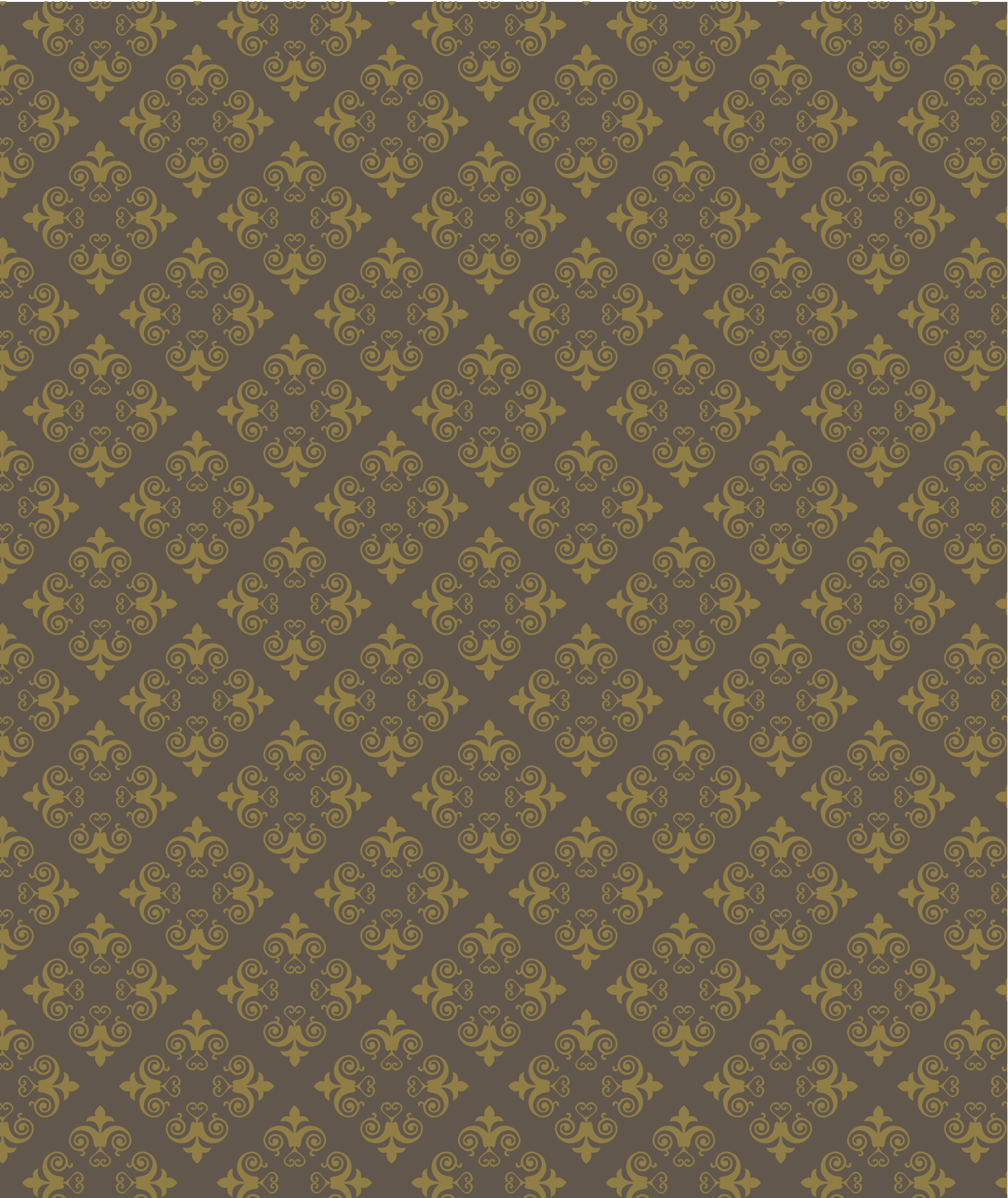
N.K. Dahanayake

Auditors

Ernst & Young Co.

Company Secretary

Ms. Y.F. Deen



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