



# *Tomorrow*

*Annual Report 2011 | National Savings Bank*



ST

SAVING

NEVER

POP!

MEET

W





MR. CAT

You will find our 'reason for being' in this report



# *T o m o r r o w*



**NATIONAL SAVINGS BANK**

Annual Report 2011

## **Tomorrow**

National Savings Bank  
Annual Report 2011

© 2011 National Savings Bank

Produced by: Smart Media - The Annual Report Company

ISBN 978-955-1619-04-6

### **This Annual Report is Carbon Neutral**

This National Savings Bank Annual Report has been produced by Smart Media - The Annual Report Company whose greenhouse gas emissions resulting from the writing, designing, photography, production, project management, usage of paper and printing are offset using verified carbon offsets.



*The*  
ANNUAL REPORT  
*Company*



— Carbonfund.org —

*The paper used in this report is certified under the  
Forestry Stewardship Council guidelines.*



*The Ensō on the cover and the installations inside portray  
our interpretation of the relationship of tomorrow to saving.*



*The Leader in Developing You and Your Country*

*First Sri Lankan Bank to be rated AAA. Reaffirmed by Fitch Ratings Lanka Ltd. for the 9th consecutive year*







<b>Guiding Principles</b>	Vision, Mission & Values 07
<b>Strategy, Results and Prospects</b>	Tomorrow 10 From the Chairman 14 General Manager Speaks 20 A Look at Our Financial Achievements 26 The “World” Outside 43 All Are Welcome 48 Looking Forward, Looking Outward 56 Proposed Actions For 2012 and 2013 61 Economic Assumptions and Possible Outcomes 65
<b>Stewardship</b>	Corporate Governance 73 Board Committee Reports 117 Board of Directors 128 Corporate Management Team 134 Executive Management Team 136 Senior Managers 138 Risk Management 141 Sustainability Supplement 185
<b>Financial Reports</b>	Annual Report of the Board of Directors 235 Statement of Directors’ Responsibility on Financial Reporting 246 Directors’ Statement on Internal Controls 248 Independent Assurance Report 251 General Manager/CEO’s and Deputy General Manager’s (Finance & Planning) Statement of Responsibility 253 Report of the Auditor General 256 Income Statement 258 Balance Sheet 259 Statement of Changes in Equity 261 Cash Flow Statement 263 Significant Accounting Policies 265 Notes to the Financial Statements 282
<b>Annexures</b>	Income Statement in US Dollars 320 Balance Sheet in US Dollars 321 Ten Years at a Glance 323 Analysis of Deposits 325 Our Products and Services 326 Branch Network 330 Correspondent Banks 332 Exchange Companies 333 Business Segment Information 335 Glossary 337 Corporate Information 340

### **Vision**

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

### **Mission**

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

### **Values**

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



# *Strategy, Results and Prospects*

<i>Tomorrow</i>	<b>10</b>	<i>A Look at Our Financial Achievements</i>	<b>26</b>	<i>Looking Forward, Looking Outward</i>	<b>56</b>
<i>From the Chairman</i>	<b>14</b>	<i>The “World” Outside</i>	<b>43</b>	<i>Proposed Actions For 2012 and 2013</i>	<b>61</b>
<i>General Manager Speaks</i>	<b>20</b>	<i>All Are Welcome</i>	<b>48</b>	<i>Economic Assumptions and Possible Outcomes</i>	<b>65</b>



*Tomorrow is our reason for being*

When we started forty years ago, we started with a vision. The vision didn't really have a name at the time. Later on, economists and development experts would call it 'financial inclusion'. The founder of the Bank, Dr. N.M. Perera, put it in more detail in his Budget Speech of 1970.

- “The new bank will provide variety in the savings facilities offered to the public, so that the preferences of different classes of depositors, particularly those in the rural sector, could be effectively exploited.”

What this most radical of Sri Lanka's finance ministers proposed was a new way of enabling ordinary people to join in, benefit from national development and build a better tomorrow. Attracted by beneficial terms and generous rates of interest, Sri Lankans would deposit their money in a new, State-owned savings bank. The Bank would then reinvest those savings in national enterprises that would build a prosperous future. Thereby, every depositor would become a stakeholder in the drive for development.

Economic fashions and ways of doing business have changed over the years that have passed since the National Savings Bank was incorporated, but our vision of inclusive partnership has never varied. It has not needed to. Our unique combination of service, reach and resources is more in demand today than it ever has been. And as the nation girds itself for its next strides forward, our ability to include, mobilise and motivate Sri Lankans in a common cause is more crucial than ever.

Tomorrow is our *raison d'être*. NSB is happy to serve the varied financial needs of all Sri Lankans irrespective of age, gender, ethnicity, belief or position in society. We did so Yesterday. It remains our mission Today as it will be Tomorrow. There are no barriers. All are welcome.

In return, we ask only for partnership – a contribution to the common national effort, to be returned with interest on demand.



*Snapshots on  
a Journey into  
the Future*





—

Who can say where the limits of the possible lie? As NSB completed forty years' service to the nation, we are no nearer those limits than we have ever been. Today's reality was the hope of yesterday; and for our forebears in generations past, it may have been no more than a dream. Yet what we Sri Lankans have achieved together so far is only the beginning. Tomorrow will bring new possibilities, new challenges. These are exciting times. We are still on our journey, all of us.

As you read through this year's Annual Report, you will see the Bank captured at a vital moment in the growth and evolution of modern Sri Lanka. The nation is on the verge of great things, and we are ready and eager to play our part. We are still, as ever, the Bank that believes in tomorrow.

—

---

## *Signposts to Tomorrow*

We live in exciting times. The nation is united in peace, the spectre of internal conflict finally banished. Sri Lankans are looking to the future with ambition and confidence. Parts of the country afflicted by war or left behind by development are thriving as trade and investment increase. Tourism and exports are booming. Though the world economic picture is not encouraging and financial markets remain changeable, Sri Lanka's economic fundamentals are sound and business confidence is high. The future reveals an exciting prospect.

It is a particularly special time for us at NSB as we celebrate our Fortieth Anniversary in 2012. Events at our branches across the country are making it a year to remember. In Colombo, upon my request the Bank was given the opportunity to host the Eighteenth Regional Meeting of the World Savings Bank Institute the Apex Body for World Savings-related financial institutions, as part of the planned celebrations. As this Annual Report will show, there is much to celebrate. The Bank has more than fulfilled the vision of its founders, and is now reinventing itself to play a central role in the new drive for national development.



**The Year in  
Hindsight**

The overall performance of the Bank was satisfactory and well-balanced in 2011. We were able to make a substantial contribution to national development, funding several important projects, even as we continued to improve access and service for all NSB customers, whether depositors or borrowers. A number of successful developments marked the year. Important tie-ups with foremost overseas exchange houses helped the Bank achieve significant growth in migrant worker remittances, bringing us within striking distance of our goal of a place among the top five banks engaged in this business in 2012. Several core savings products were re-launched in a more attractive guise. Reported customer satisfaction improved further in response to a drive to improve service standards and the quality of customer interaction among front-line staff. Leveraging information technology, the Bank was also able to achieve marked improvements in capability, efficiency and quality of oversight.

As always, some strategic changes of direction were necessary. Our SMILE savings product failed to live up to expectations despite a promising start. It turned out that issues relating to product 'ownership' were holding it back. Careful analysis suggested the situation could be rectified by shifting our distribution focus from main post offices to sub-post offices.

The wide range of savings products we offer was also rationalised to avoid overlap and this process facilitated the discontinuation of less profitable lines. Our savings product portfolio now consists of only seven products built on a long-term sustainable platform and also befitting the 21st Century needs and wants, each carefully tailored to an identified target consumer group, considering the different phases of life, from birth.

**A Vibrant  
Economy**

The Sri Lankan economy has grown by a highly encouraging 8.3% in 2011 on the back of strong performance in industry and services. Total gross investment has increased to 29.5% of GDP in 2011 from 27.8% in 2010.

Guided by the Mahinda Chinthana framework, country's development projects reached unprecedented levels during the year. This is reflected in the growth of the Bank's total investment portfolio to Rs. 333 Billion from Rs. 300 Billion in 2010. Of this, 92.7% consisted of commitments to the Government of Sri Lanka. The country's performance is all the more significant given the inclement global economic environment exacerbated by erratic weather conditions at home.

NSB also contributed Rs. 8 Billion to the Treasury in the form of taxes and transfers.

### Join Us On Our Journey

It is not only merely of our mission to play a central role in the development of our country; it is a drive that has the power of instinct. As a State-owned, State-guaranteed and secured institution, NSB not only offers its customers unbeatable resources and security; it also enrols them as contributors to national development.

This is a project that demands the cooperation and willing participation of every Sri Lankan. All must join in. Those working in foreign countries are not exempt. By mobilising their savings, we draw them into the national effort. Meanwhile, we serve them with innovative and appropriate new products, continually expanding our reach.

We have also identified an opportunity to leverage the Bank's well-established strengths to facilitate external investment, bringing resources from overseas to contribute to the national effort. Our new role as a foreign investment facilitator has been well-recognised at international level, effectively co-ordinated by Sri Lanka's missions overseas and these investors have shown their interest to work with us in this regard. Discussions are progressing at a steady pace and we are confident that we would be in a position to add a new dimension to the income generated for the Bank through this fee-based income mechanism.

**A Unique  
Team Effort**

The eminence NSB enjoys today was attained through four decades of cohesive, inclusive teamwork. Our philosophy has always been one of joint effort, our growth and success an exciting enterprise in which all Sri Lankans can share. If we have made great strides, it is because of this unique team effort. I firmly believe that if we continue to move forward in the same spirit, there is nothing we, and Sri Lanka itself, cannot achieve.

I end this short introduction by giving credit where it is due. On behalf of the Board, I offer sincere thanks to His Excellency the President and Minister of Finance & Planning, the Deputy Minister of Finance & Planning, the Secretary to the Treasury, the Governor of the Central Bank, the Auditor General, the Attorney General and the heads of other regulatory bodies for their unsparing leadership and support.

To the Postmaster General, officials of the Postal Department, postmasters, sub-postmasters and other officials, I extend our unreserved appreciation. Their commitment to building our mutual business interests has been total.

To my fellow Directors, I offer sincere thanks for their astute guidance and advice, which contributed in no small measure to the success of NSB in 2011.

I gratefully acknowledge the generous contributions of our team members, customers and partners. I am confident that they will continue to support us - and through us, the national project - as all our tomorrows turn into today.



**Pradeep Kariyawasam**  
*Chairman*

Colombo  
26th April 2012



*There are myriad ways in which we can 'bottle up' information and knowledge today, which will be of vital importance tomorrow*

---

## *“Tomorrow’s Dreams Are Made Today”*

It was a very different country forty years ago, when NSB was founded. Most people dwelt in rural areas, pursuing traditional occupations, and with simple lifestyles. Roads, railways and other national infrastructure were limited, mostly left over from the colonial era. Few people had access to modern financial services; it was mainly the rich and middle-class townfolk who had personal bank accounts. Much of the country’s productive capacity was foreign owned. There was no television and only one radio station. Even the name of the country was different; it was known to the world as Ceylon. The Republic of Sri Lanka would not be born for another two months.

Yet even in those long-gone days, the founders of NSB cherished a vision for the future. Merging several existing bodies, of which the biggest was the Post Office Savings Bank. They sought to create an institution that could provide financial support and services to all Sri Lankans regardless of their occupation, background or position in society. In the words of then Finance Minister Dr. N.M. Perera the new bank would be dedicated to the ‘promotion of savings among the people, particularly among those with limited means, and the profitable investment of savings so mobilised.’





**An All-Inclusive  
Tomorrow**

Dr. N.M. Perera's goal is now known to development economists as 'financial inclusion'. His vision of tomorrow was one in which every Sri Lankan enjoyed access to banking services while contributing financially to the development of the country. Today, thanks in large measure to NSB, that vision is almost fully realised. The hopeful tomorrows of the past are the reality of today. This Annual Report will give you some insight into how we make that happen.

Of course, the achievement of past goals does not mean that we take our eyes off the future. We continue to plan and provide for the tomorrows of our depositors and the nation through our operations and activities. We are dedicated to improving our products and services on a continuous basis. This Report will show how well we succeeded in 2011; since the relevant facts, figures and explanations are given elsewhere in this Report, I will content myself by mentioning a few highlights.

**How We  
Performed in 2011**

We continued to improve access to the Bank for all Sri Lankans, opening our two hundredth branch during the course of the year and reaching a branch total of 210 by year's end. Partly as a result of this, deposits grew by Rs. 55.6 Billion, well over the planned figure, enabling us to pass the Rs. 400 Billion mark by the end of the year.

Total assets increased by 15.5% to Rs. 467 Billion, compared with Rs. 404 Billion in 2010, reflecting growth in the loans and advances portfolio. This reached Rs. 112 Billion as against Rs. 84 Billion at the end of 2010. Wholesale or corporate lending was an exceptionally strong performer, growing by 217% to Rs. 17 Billion; wholesale lending (to banks and financial institutions) accounted for Rs. 16.7 Billion of this. Retail lending saw a more modest but still sizeable increase, from Rs. 70 Billion in 2010 to Rs. 87.5 Billion. Retail lending represents 78% of the total loan portfolio, which includes Rs. 6 Billion invested in new ventures in the reviving North and the East, mainly infrastructure projects and new businesses.

Meanwhile, our Government Securities portfolio grew by 9% to Rs. 309 Billion. This was part of a total investment portfolio valued at Rs. 333 Billion. In all, investments and loans stood at Rs. 445 Billion, representing a growth of 16%.

Return on Assets (ROA) before tax showed a decrease, from 2.6% in 2010 to 2.1%. The Tier I and Tier I & II capital adequacy ratios stood at 20% and 18% at the end of the year, well above the regulatory minima, as, at 74.4%, did the statutory liquid assets ratio.

An important step forward was taken when NSB commenced remittance operations with three international exchange companies, Valutrans, Colombo International Money Transfer and Majan Exchange, located respectively in Australia, Italy and Oman. These agreements put us in a strong position in the inward remittance market, an important foreign exchange earner for Sri Lanka.

#### **Contributions to Government Funds**

We contributed Rs. 8 Billion to the Government coffers during the year by way of income tax (Rs. 3.2 Billion), VAT on financial services (Rs. 1.6 Billion) and a transfer to the Consolidated Fund (Rs. 3.2 Billion) by way of dividends. Also, on instructions from the Central Bank, we credited a total of Rs. 1.6 Billion saved due to statutory reductions in income tax and VAT on financial services to a new Investment Fund Account which will be invested only in national development projects.

#### **Making a Difference**

The Bank continued to engage in projects of corporate citizenship carefully designed to make a difference to targeted groups and communities. One of the most important of these was a series of free seminars for Year Five Scholarship pupils, with rewards for those who performed well at national and district level at the Scholarship Examination in August 2011. In all, the Bank spent over Rs. 12 Million on such social responsibility projects.

**We're Optimistic  
About Tomorrow**

With the country at peace and the economy moving in the right direction, we are optimistic about future prospects for the country and the Bank. With strategy, foresight, and the quality of our operational and human resources, there is no limit to what we can achieve.

Going forward, our main operational objectives will be enhanced customer satisfaction, profitable and attractive new products, increased presence and competitive success. What we shall do in respect of each of these objectives is in our Action Plan 2012, In particular, we are already committed to an ongoing programme of staff training and development, with emphasis on better customer relations and service.

Looking back over the year under review, I am confident that 2012, or Fortieth Anniversary Year, will be a year to look forward to. Having assessed our performance and potential in the process of compiling Action Plan 2012 and this Report, I am assured that the Bank is heading in the right direction. The Tomorrow in which NSB becomes the leading Sri Lankan Bank in all fields of operation is very much within sight.



**H.M. Hennayake Bandara**  
*General Manager/CEO*

Colombo  
26th April 2012



*The inheritance we 'bottle and shelve' today is the basis for enrichment of generations to come*



*A Look at  
Our Financial  
Achievements*



—

In some ways, it really is all about the bottom line. The things we want to achieve - excellent customer service, strong and profitable partnerships, business growth, market share, employee welfare and development, all the things that really matter - won't happen if we can't turn a profit. Financial stability, profitability and sustainability are the most basic measures of a bank's success.

When it comes to responsibility, NSB is not like other banks. In addition to being answerable to our customers, employees and business partners, we cannot lose sight of the fact that to us every Sri Lankan is effectively a stakeholder. We cannot lose focus on our country and its economy, its development and continued progress. This is what 'financial inclusion' means to us: we cannot profit at the expense of the public good but are bound, instead, to pursue profit in the public interest. Obviously this has implications for the way we conduct our business, and on the need for transparency in reporting. You will find these concerns reflected throughout this Annual Report.

In a tribute to the Bank's sustainability and stability, Fitch Ratings Lanka Ltd. reaffirmed our AAA credit rating for the ninth consecutive year in September. NSB remains the only Sri Lankan bank to have received an AAA rating from Fitch.

—

*A Double Digit  
Asset Growth*

*Growth in  
Net Profit*

*NPL  
Ratio*

*ROA*

*Capital  
Adequacy  
Ratio*

*Liquid Assets  
Ratio*

*Cost:  
Income Ratio*





	Bank			Group		
	2011 Rs. Million	2010 Rs. Million	% Growth	2011 Rs. Million	2010 Rs. Million	% Growth
<b>Results For the Year</b>						
Gross Income	47,144	50,070	(5.84)	47,965	51,586	(7.02)
Net Interest Income	16,942	16,655	1.72	17,212	16,960	1.48
Net Profit Before Income Tax	8,952	9,777	(8.43)	9,079	10,212	(11.09)
Income Tax on Profit	3,193	4,386	(27.19)	3,277	4,649	(29.50)
Net Profit after Taxation	5,759	5,391	6.83	5,802	5,563	4.29
Contribution to the Government	7,970	10,107	(21.14)	8,074	10,482	(22.97)
<b>At the Year End</b>						
Total Assets	466,635	403,979	15.52	480,526	414,622	15.89
Loans & Investments	444,750	383,240	16.05	458,244	393,534	16.44
Deposits from Customers	411,013	355,364	15.66	411,013	355,364	15.66
Shareholders' Funds (Capital and Reserves)	24,205	21,668	11.71	25,456	22,875	11.28
<b>Ratios</b>						
Return on Average Shareholder's Funds (%)	25.1	27.3		24.0	26.7	
Return on Assets (%)	2.1	2.6		2.0	2.6	
Liquidity Ratio (%)	74.4	80.9		—	—	
Tier I (%) (Statutory Minimum Ratio Required is 5%)	20.10	22.2		20.50	22.7	
Tier I & II (%) (Statutory Minimum Ratio Required is 10%)	17.70	19.2		18.26	19.8	
Cost: Income (%)	42.4	49.0		42.1	47.0	
<b>Non-Financial Indicators</b>						
Branches	210	186		—	—	
Agents (Post Offices & Sub-Post Offices) (No.)	4,058	4,053		—	—	
Accounts Holders (Million)	17	16.7		—	—	
Staff (No.)	3,275	3,050		—	—	
School Bank Units (No.)	349	373		—	—	
ATMs (No.)	221	191		—	—	



*The 'grains of resource' we store today are the wealth of tomorrow*

**Income** The income of the Bank declined by 5.8% to Rs. 47.1 Billion from Rs. 50 Billion in 2010, mainly due to lower interest income earned from Government Securities, which were repriced at lower yields. Non-interest income declined to Rs. 767 Million in 2011 due to lower capital gains on trading securities. The Treasury Bond portfolio generated income of Rs. 27,980 Million, consisting of coupon interest income (Rs. 24,118 Million), interest amortisation (Rs. 4,095 Million) and mark to market loss (Rs. 233 Million). Treasury Bond income decreased by Rs. 1,638 Million compared to previous year. The Treasury Bill portfolio generated income of Rs. 4,760 Million, consisting of interest income of Rs. 4,772 Million and mark to market loss Rs. 11.67 Million. This represented a year on year decline in Treasury Bill income of Rs. 175 Million.

The rupee loan portfolio generated income of Rs. 1,024.58 Million, a decline of Rs. 740 Million, in the absence of any new investments in this area.

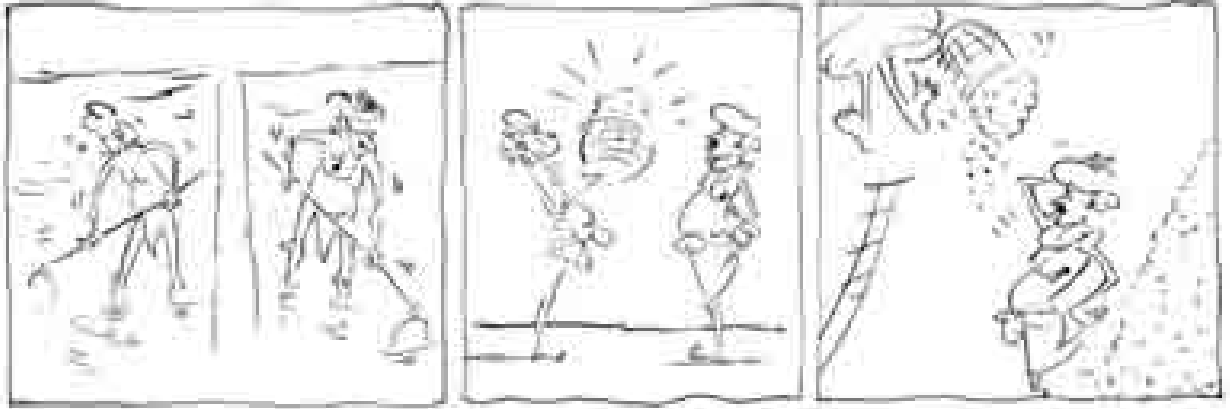
Due to low inflation, new bond issues carried lower, often single digit coupon rates and YTM's. This reduced discount amortisation income from Treasury Bonds, the main reason for the fall in NSB's portfolio income.

### Interest Income & Expense

Market interest rates fell over the course of the year, reducing the Bank's interest income by 3.7% to Rs. 46.4 Billion. Interest expenses also decreased, falling by Rs. 2 Billion from Rs. 31.5 Billion in 2010, as we had to reprice term deposits at lower rates to stay competitive. The poor performance of the stock market and increased yields on Government Bills and Bonds exerted negative pressure on, respectively, the Bank's equity and fixed income trading portfolios. As a result, the net interest margin decreased to 4% from 4.4% in 2010.



*Growth - A double digit asset growth*



*Profitability - 6.8% growth in Net Profit; ROA of 2.1%*

**Net Interest  
Income**

In spite of the declines mentioned above, careful management of the Balance Sheet enabled the Bank to achieve a marginal increase in net interest income of 1.7%.

**Operating Expenses**

Our operating expenses increased by 25.1%, mainly due to a Rs. 1.2 Billion provision made against the fall in value of dealing securities mentioned earlier. Apart from this, the increase is in line with the expansion of our operations and general inflation. As always, innovative cost control strategies helped keep overheads as low as possible, achieving an annualised cost/income ratio of 42.4%.



*Productivity - Best operational efficiency in the industry - Cost: Income ratio of 42.4%*

**Operating Profit** Total operating profit decreased by 18.1% from Rs. 12.8 Billion last year to Rs. 10.5 Billion in 2011. This was mainly due to a significant decline in interest income from Government Securities, investments and other income.

**Net Profit** Considering the difficulties we faced in the year under review, it is good to be able to record that the Bank achieved an increase in net profit of 6.8%. Net profit for 2011 was Rs. 5.8 Billion compared to Rs. 5.4 Billion in 2010.

The Bank's effective tax rate decreased to 35.67% in 2011 compared to 44.86% in 2010, mainly due to the reduction in corporate tax rates and VAT on financial services.

**Contribution to  
State Funds**

In the year under review, NSB contributed Rs. 8 Billion to the Treasury in the form of taxes and transfers, as follows:

	Rs. Billion
Income Tax	3.2
VAT on Financial Services	1.6
Transfer to Consolidated Fund	3.2
<b>Total</b>	<b>8.0</b>

This contribution is, of course, entirely in addition to the sum invested in national development in the form of Treasury portfolio and the financial facilities extended to the Government.



*Asset quality - Highest asset quality in the industry: NPL ratio of 2.8%*

**Assets** / The Bank's assets grew by 15.5%, reaching a total of Rs. 467 Billion as against Rs. 404 Billion in 2010. The main contributors to the increase were:

Asset Type	Increase Rs. Billion
Increased Placements with and Loans to Banks and Financial Institutions	21
Treasury Bonds	31
Loans and Advances	12
<b>Total</b>	<b>64</b>

**Return on Assets** The return on assets (ROA before tax) ratio also decreased slightly, falling to 2.1% from 2.6% year on year.



**Stability** Tier I and Tier I & II capital as at 31st December were 20% and 18% respectively well over the regulatory minima of 5% and 10%. The statutory liquid assets ratio stood at 74.4%, far above the specified requirement. These strong capital adequacy and liquidity ratios, coupled with a lower non-performing loans ratio of 2.8% testify to the soundness of the Bank's measures to control risk.



*Stability - 20% and 18% Capital Adequacy Ratio against minimum requirement of 5% and 10%.*



*Liquidity - Highest Liquidity in the industry: Liquid assets ratio of 74.4%*

The combined investment and loan portfolio stood at Rs. 445 Billion as at 31st December. This represents annualised growth of 16.0%, inclusive of Rs. 6 Billion dedicated to infrastructure projects, new business enterprises and economic revival in parts of the country affected by the recently concluded war.

**Savings  
Mobilisation**

NSB mobilised Rs. 55.6 Billion in deposits during the year, causing the deposit base to grow by 15.7%, reaching Rs. 411 Billion. Savings deposits grew by 12%, passing the Rs. 100 Billion mark, while term deposits increased by 17% to Rs. 304 Billion.

**A Difficult Year  
for Government  
Securities Trading**

Having enjoyed significant returns from secondary market transactions and unrealised mark to market gains in 2010, NSB saw these gains reversed in the year under review. The Bank's trading portfolio of Government Securities recorded a mark to market loss due to the significant increase in market rates which occurred in December. Disappointingly, capital gains achieved in the lower interest rate climate of the first half of the year were more than offset by unrealised mark to market losses by year's end.

Meanwhile, the gap between market interest rates and Treasury Bond coupon rates narrowed progressively as the former declined through the first ten months of the year. Because of this, the maturity proceeds of our Treasury investments had to be reinvested at lower rates, significantly reducing the discount amortisation income.

**Investments**

The Bank managed a total investment portfolio of Rs. 333 Billion in 2011, an impressive 11% increase over the previous year's figure of Rs. 300 Billion. 92.71% of this investment was in lending to the Government in the form of gilt-edged securities, reverse repo investments and rupee loans. 2.72% of the portfolio consisted of equity investments and unit trusts, the remaining 4.57% being accounted for by alternative investments.

**Treasury Portfolio  
Overview**

At the beginning of the year under review, the Bank had Treasury investments of Rs. 282.1 Billion. By year's end, this had increased to Rs. 308.7 Billion. The table below gives an analysis of these figures by investment type.

Investment Type	Value (Rs. Million)		% of Portfolio	
	2011	2010	2011	2010
Treasury Bonds	239,816	214,012	78	76
Treasury Bills	55,972	48,935	18	17
Rupee Loans	9,168	12,168	3	4
Resale Agreements	3,794	6,981	1	3
<b>Total</b>	<b>308,750</b>	<b>282,096</b>	<b>100</b>	<b>100</b>

**Loan  
Portfolio**

Retail lending, which stood at Rs. 70 Billion at the end of 2010, increased to Rs. 87 Billion as at 31st December 2011, representing 78% of the Bank's loan portfolio. In its role of wholesale lender, NSB granted Rs. 12.4 Billion to banks and financial institutions during the year.

The Bank had also made loans amounting to Rs. 14,762 Million for agricultural purposes and Rs. 91 Million to the Paddy Marketing Board by the end of 2011. This is an increase of Rs. 6,866 Million, amounting to annualised growth of 86%.

**Other Investments**

Investments in this category include debentures, and investments in securitised papers. The Bank also commenced investing in commercial paper, commencing with a face value investment of Rs. 500 Million in People's Leasing PLC.

**Group  
Performance and  
Performance of  
Subsidiary**

The NSB Group comprises NSB and its Subsidiary, NSB Fund Management Co. Ltd.

Group profit before tax dipped to Rs. 9 Billion from Rs. 10.2 Billion in 2010. Profit after tax increased by 4.3% to Rs. 5.8 Billion from Rs. 5.6 Billion.

**NSB Fund  
Management  
Co. Ltd.**

Our fund management subsidiary, one of eight dedicated primary dealers in Government Securities appointed by the Central Bank, commenced operations in 2000 with an initial capital of Rs. 150 Million. It continues to participate in the primary market as well as helping to maintain a secondary market in these securities. NSB Fund Management is also an officially designated issuer of Sri Lanka Development Bonds, which are denominated in US dollars.

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

Leveraging limited opportunities in the face of adverse market conditions, the Company recorded an operating profit of Rs. 146 Million. This was a decrease of 73% from last year's figure of Rs. 547 Million. The net assets value stood at Rs. 1,400 Million on 31st December 2011, compared to Rs. 1,357 Million a year earlier. The Company paid Rs. 19 Million by way of VAT and provided Rs. 84 Million as liability on income tax for 2011.

Net interest income for the year was Rs. 270 Million, down by 11% compared to 2010, while the Company's trading profit was Rs. 87 Million, a decrease of 82% year on year. A revaluation loss of Rs. 217 Million, incurred due to the unexpected rise in yields in the last quarter, is the main dampening factor in this year's Income Statement.



# *The “World” Outside*



STRATEGY, RESULTS  
AND PROSPECTS

THE "WORLD"  
OUTSIDE

Page 44

National Savings Bank  
Annual Report 2011



*The beauty of our flourishing 'home economy' is that it transcends the murky depths of  
the world economic order*



**International  
Economic  
and Monetary  
Turbulence**

The global economic crisis into which the world was plunged five years ago still shows no sign of ending. Every year, since 2007 has been more challenging than the last. In 2011, economic activity around the world weakened while business confidence was low and downside risks continued.

Political unrest became a common feature in some oil producing countries. Japan suffered a devastating earthquake and tsunami. In other advanced economies growth slowed still further, falling to an average of 1.6% compared to 3.1% in 2010. Growth in developing economies slowed from 7.3% in 2010 to 6.4% in 2011. In Europe, a ramifying debt crisis showed signs of threatening the Union itself. A correction in the Euro is vital for global stability, as about half of the world's funds are held by European banks.

Economic turbulence in the West had a negative effect on the economies of most other countries. Labour markets, too, were affected, especially in the Middle East.

**The Sri Lankan  
Economy: Growth  
and Challenges**

In Sri Lanka, the economy grew by a very healthy rate of 8.3%. Macroeconomic improvements, better capacity utilisation and more economic activity in the North and the East all contributed to this. Inflation remained in the middle single digits, reflecting an improved domestic supply picture. For most of the year, the monetary policy of the Government was to promote economic activity with low interest rates.

Public investment increased and infrastructure development projects were accelerated. The external sector grew stronger during the first half of the year, supported by positive macroeconomic developments, strong external demand and improved investor confidence.

Despite the healthy growth in exports, imports grew faster, widening the trade deficit. However, the national current account deficit was contained thanks to an increase in private remittances from abroad and a surplus in the services account. As a result, the country could boast a balance of payments surplus of US\$ 944 Million at the end of August. The substantial increase in imports expenditure mainly on imports of oil and investment goods resulted in a trade deficit in the 2nd half of 2011. This led to an overall deficit in the balance of payment at the end of 2011.

Domestic growth was strongly based on performance in industry and services. Industry was especially vibrant, posting a figure of 10.3% compared to 8% in 2010. The services sector grew by 8.6%, mostly due to increases in trade, tourism and transport. Agricultural productivity grew by 1.5% in 2011 over the growth of 7% in 2010.

The Gross investments have increased to 29.3% of GDP by year's end, up from 27.8% in 2010. Much of this would be private-sector investment - in tourism, telecommunications, manufacturing, construction and housing - growing side by side with a public investment programme focusing on major national and regional infrastructure development projects. Foreign Direct Investment (FDI) too, increased significantly, with US\$ 413 Million invested in the first eight months of the year compared to US\$ 208 Million over the same period in 2010. Most FDI inflows were in tourism, especially hotels and mall projects.

**Domestic  
Conditions:  
Employment,  
Inflation, Imports  
and Exports,  
Services** /

The unemployment rate declined to 4.2% in 2011, reflecting the multiplication of new employment opportunities in a growing economy.

Inflation remained within single digits for the first ten months of the year, but rose somewhat following increases in interest rates and import tariffs in November and December.

External trade, having rebounded in 2010 after a period of retrenchment, showed impressive growth during the first eight months of 2011. Export earnings and expenditure on imports both increased, partly due to rises in the prices of commodities on the world market, though trade volumes also grew. The high cost of petroleum imports reflected trends in international oil prices. Motor vehicle imports increased substantially due to the reduction of import taxes. This measure has since reversed in an effort to contain a widening trade deficit, which grew by 101% to reach US\$ 9,710 Million during the year.

Services grew by 47.6% during the same period on the back of expansion in travel and transport. Workers' remittances, a key foreign exchange earner and a stable source of external financing for Sri Lanka, grew by 25%t to US\$ 5.1 Billion during the year.

**A Vote of  
Confidence in the  
Nation** /

The country's sovereign rating was upgraded by international credit rating agencies. Fitch Ratings upgraded Sri Lanka's long-term foreign and local currency issuer default rating and the country ceiling from B+ to BB-, while Standard & Poor's Ratings and Moody's Investor Services raised its outlook on Sri Lanka's long-term foreign sovereign credit rating to positive from stable.



*All Are  
Welcome*



*Summary!*



‘All are Welcome’ - three words that define NSB’s inclusive position with respect to partnership and stakeholding. As far as we are concerned, every Sri Lankan is in some sense a stakeholder in the Bank, irrespective of whether he or she has an account with us. To the vast majority of these stakeholders, NSB discharges its responsibilities through financial probity, involvement in the ongoing national project and acts of good corporate citizenship.

However, there are some stakeholder groups with which we are particularly concerned. Chief among these are our customers. Without their support, the Bank would not be in its present strong position - indeed, it would not even exist. Conscious of their loyalty and commitment as well as their longstanding material support, we accord them a special place in our considerations. Their interest is placed foremost in all our decisions and actions. That commitment will be seen reflected throughout this review of the Bank’s operations in 2011.

**Improving  
Customer Access  
and Service**

In the midst of a challenging year, we continued to add new branches, improve and expand our product portfolio, upgrade our systems and infrastructure, recruit and develop the most capable people - all to further improve customer access and service. At the root of all these efforts is our commitment to financial inclusion - our vision of being the Sri Lankan people’s financial service provider of choice.

**Branch Expansion  
and Development**

An intensive programme of branch expansion saw NSB open a total of 24 branches in the year under review, bringing the total number of branches to 210, an increase of more than 10%.

**Diversifying Our  
Loan Product  
Range**

The year was marked by increased investment and diversification in our loan product portfolio.

- The Bank's *Ithurum Ayojana Kawa* group loan scheme for customers with savings potential who are reluctant to approach the formal banking sector was made more attractive with the introduction of higher credit limits and more dynamic loan schemes.
- A new product tailored to support Lanka's leaders of tomorrow in their academic and professional studies provides financial assistance to higher education students. Teachers are also eligible for assistance under the scheme given certain conditions.
- Policies and procedures were developed to enable the Bank to grant loans in foreign currencies.

**Reinventing Our  
Core Deposit  
Products**

Four core deposit products were relaunched during the year: *Hapan*, *Ithuru Mithuru*, *Sthree* and *Prarthana*. These relaunches were supported by strong advertising and marketing campaigns. In connection with these operations, the well-known actress Ms. Sujani Menaka was appointed the Bank's Brand Ambassador.

The decision to reinvent these important products was not taken lightly:

- *Hapan*, minors saving scheme introduced in 1998, though still very popular, was aging and losing momentum. An attractive gift scheme, initially for a period of one year, has restored the glow of youth to this product.
- *Ithuru Mithuru*, introduced a year after *Hapan* and catering to a somewhat broader (16-35) age group, started a trend in which all our competitors joined. This brand has received a double boost in the form of a gift scheme combined with loan facilities for savers.
- *Sthree*, a savings product for women, was also doubly enhanced with a gift scheme and concessionary interest rates for account holders wishing to obtain pawning advances.
- The Bank also extended a price draw to *Prarthana* account holders.

**Brightening  
Our 'Smile'**

Introduced in 2010, NSB Smile is a savings product designed to mobilise deposits at grassroots level. The product achieves near-universal countrywide distribution through Post Offices and NSB branches, and with a Rs. 100/- initial deposit, barriers to entry are low. In spite of this, however, the product has not performed in keeping with our expectations.

Largely, this was due to shortfalls on the retail side. The processes are not yet finalised to equip post offices with customer convenience facilities. Additionally, it proved impractical to offer savings-linked credit facilities - an important incentive - to customers at post offices. Together with the attachment of younger customer with modern technology, they are reluctant to deal with postal sector, these factors resulted in an underperforming product. Moves are now being made to improve the attractions of SMILE by giving it a dedicated sales team, strengthening its other features and carrying out a high-profile promotional campaign.

**Improving Our  
Professionalism**

In addition to recruiting highly capable people to certain key positions we had identified, NSB also conducted a programme of professional development training for existing staff. The training unit was compiled according to the Bank's recently adopted competency development framework.

**Adding Service  
Channels**

Through a tie-up negotiated with Sri Lanka Insurance, NSB is now able to cater to the insurance needs of loan customers through our island-wide branch network. This value added service offers the security, convenience and added flexibility of making premium payments and claim settlements via the Bank.



**Energising Inward  
Remittances**

The year saw a fall in the volume of inward remittances from migrant workers. Factors causing this included economic turbulence in the West and recession in the Middle East, both of which resulted in retrenchments and lower pay for Asian migrant workers. The effect was exacerbated by a new Korean Government Policy of delaying recruitment of migrant workers.

In response, we began to focus on new markets such as Cyprus, Malaysia and Saudi Arabia, appointing new agents in all these countries and organising a number of promotional campaigns in Malaysia and South Korea. Brochures carefully tailored to suit migrant workers in different countries were produced and distributed through our overseas agents.

The Bank also conducted a series of awareness programmes for migrant workers in collaboration with the Sri Lanka Bureau of Foreign Employment.

Another promotional initiative of the Bank was an Arabic phrase book for migrant workers in the Middle East, containing commonly used Arabic words together with their Sinhala translations.

**Launching Bureaux  
de Change**

In a move to expand foreign exchange-related business, the Bank obtained approval from the Controller of Exchange to engage in money changing activities - namely, the purchase, sale and exchange of foreign currency notes and the purchase of traveller's cheques.

**Leveraging  
Information  
Technology**

We are now partners with Sri Lanka Post in a strategic initiative to develop a common IT platform for postal and banking operations. The technology behind this ambitious IT venture is being developed with the support of University of Moratuwa.

Besides this important project, several additions and improvements were made in the Bank's IT infrastructure in the year under review. The following were the most important:

- The required IT infrastructure for the launch of the Bank's Visa Card product is completed and linked to Sampath Bank's VISA gateway, which NSB recently used for its Visa Card Product launched.
- The concept of a debit card containing embedded biometric information about the holder, to be issued to Sri Lankan migrant workers, was developed in association with the Sri Lanka Bureau of Foreign Employment. This, later became a joint project involving all State banks. The first card was handed over to its holder by HE the President during a ceremony to mark World Migrants' Day in Colombo.
- The Bank's retail lending products include housing loans, personal loans and pawning services. To improve efficiency and oversight across the board, all these operations are now run on a centralised credit application that features a loan origination module and transaction system.

- Point-of-sale deposits reached Rs. 200 Million as the number of POS devices in the field grew in parallel with the expansion of the branch network. These machines have been an immense success, with many branches seeing their monthly transaction volumes grow significantly in both numbers and value after installation.
- The Bank also completed the installation of 120 digital entertainment systems in public areas at branches around the country. In addition to creating a more pleasant and welcoming environment, these units will be used to communicate customer notices and marketing messages.


**Strengthening Risk  
Management and  
Compliance**

An important and successful initiative was the formulation of a Treasury Operations and Investments Policy to improve compliance. We are now in the process of further enhancing risk management through the development of new, more effective monitoring mechanisms.



# *Looking Forward, Looking Outward*





*The certitude with which we greet each sunrise...to that same degree are we confident of the future*

Nowadays, all management reports conclude with a look, not at the past year, but at the years to come. Trends are forecast, expectations outlined, plans described in more or less detail. The one thing certain about all these prognostications is that they are subject to brutal revision by real life. However, this should not and must not prevent us from making what survey we can of the territory ahead and preparing as best we can for the opportunities and challenges that lie along the path of our planned advance.

In 2012, the path will confront us with both challenges and opportunities in ample measure. Signals from the Sri Lankan equity market are still discouraging, though there are some signs of a revival led largely by retail investors while institutional investors mostly restrict their activity to blue-chip stocks. The prevailing liquidity shortage is likely to keep prices stagnant in the short term, though some relief in the form of foreign capital inflows may be hoped for as the year goes on. Improved economic conditions and robust growth in corporate profits would certainly place recovery on a firmer footing. Meanwhile, with Treasury Bills and Bonds offering higher interest rates, movement of funds from the equity to the debt market may be expected.

Overseas markets, too, continue to perform poorly. One important cause of this, the European debt crisis, is likely to continue in 2012, affecting all economies around the world.

Despite these portents from the markets, domestic business opportunities are good. The Bank is well-positioned to benefit from the opening of new markets in the North and the East. There will be opportunities to strengthen our numbers through investment in economic development, aided by reduced funding costs and further growth in borrowings and household spending.

**A Customer-  
Focused Action  
Plan**

Uncertain the future may be, but this only makes good planning doubly important. In its operations, NSB operates according to a professionally-drafted business plan, continuously measuring and assessing its performance against well-defined indicators.

The plan emphasises reliability and responsiveness. Customer relations training will equip our staff with better people skills, enabling them to provide assurance and service efficiently, punctually and with a smile. Special attention will be paid to encounters with customers in the 31-40 age group, among whom are professionals and senior managers whose opinions are very influential in their peer groups. Increasing levels of satisfaction among this segment will promote goodwill, help attract new customers and multiply opportunities for cross-selling. As a necessary prelude to this initiative, we are now in the process of studying the relative importance of the technical and image dimensions of service to retail banking customers.

Even as we continue to extend our reach in accordance with our founding principle of financial inclusion, we shall not lose sight of our existing, loyal customer base. All our customers can be assured of our continued care and committed service.

**Four Decades of  
Service to  
Sri Lankans**

NSB will mark its Fortieth Anniversary in 2012. Plans are afoot throughout the branch network to celebrate this important milestone in appropriate style. Religious observances will add a measure of solemnity to the occasion.

As part of the celebrations, the Bank will launch a special *Avurudu Wasana* savings promotion campaign and gift scheme, as well as a special 24-month term deposit scheme offering premium interest.

**WSBI 2012  
Colombo**

Perhaps the most significant of events connected with our Fortieth Anniversary year is the hosting of the eighteenth Asia-Pacific Regional Group Conference in joint sponsorship with the World Savings Banks Institute. The two-day conference will be attended by participants from 9 countries. Its theme will be 'The Competitiveness of the Current Retail Banking of WSBI Members.'





# *Proposed Actions For 2012 and 2013*





*Strategies that will precipitate future growth*

**Planning for  
Growth**

Yes, we are proud that eight out of ten Sri Lankans are customers of our Bank. We need to get the other two too on board. But, we need to grow beyond and hence, are planning for much more.

We need to increase the share of wallet by becoming their primary bank through providing unparalleled convenience in terms of widest possible reach, enhanced range of products and highest standard of service. For this, we are continuously enhancing our brand to a level they will covet to be associated with. We need to further enhance the efficiency and productivity of our operations and make it more profitable and value adding. Finally, we need to grow the Bank by overcoming the challenges and exploiting every viable opportunity that comes our way.

For all these initiatives, planning and speed are of the essence.

A list of initiatives for 2012 and 2013 follows.

**Enhancing  
Convenience  
Through Reach**

Whilst continuing to expand the brick and mortar branches, we will simultaneously develop new channels, specifically those based on technology. Channel enhancement through strategic partners is also on top of our agenda.

**Bringing SMILE  
Closer to the Your  
Doorstep**

Plans are already afoot to make SMILE, our savings product hitherto distributed through the main post offices of Sri Lanka Post, available through its extensive sub post office network. Our efforts to computerise the sub post offices are also ongoing.

**Leveraging  
the Strength of  
Our Network**

Given the immense potential of our extensive network, we will continue to seek ways and means of leveraging it by entertaining strategic partnerships with us.

**Diversifying Our  
Asset Portfolio**

Within the stipulated parameters, we will make arrangements to diversify the asset portfolio further with a view to mitigating investment risk. This will see more emphasis given to such products as auto loans and housing loans in addition to development of new products.

**Strengthening Our  
IT Infrastructure**

Whilst we will continue to build on the human touch which is a strong point of NSB, we will catalyse it by an array of IT investments.

**Growing Our  
Share in Inward  
Remittances**

We will continue to strengthen our current relationships with exchange houses and banks. We will also be seeking opportunities to establish new relationships with appropriate, respected organisations in countries with a concentration of Sri Lankan migrants.

**Further  
Strengthening  
Risk Management  
and Compliance**

We will devote due attention to enhancing our risk management regime based on lessons learned in the past and also deploying best of breed practices on the subject from around the world.



# *Economic Assumptions and Possible Outcomes*



—

“If you don’t know where you are going, any road will take you there”, so the saying goes. As much as the country is guided by the ‘Mahinda Chintana’ vision which concentrates on a five hub concept of Maritime, Aviation, Commercial, Energy and Knowledge to achieve the expected per capita income of USD 4,000 by 2016, we have a Strategic Plan to guide us into the future.

Apart from the most likely macroeconomic variables that are expected to prevail during 2012 based on which our Strategic Plan is built, given their uncertainties, we have done an analysis for the best case and worst case scenarios as detailed in the pages that follow.

—

The sluggish global economic growth witnessed in 2011 is expected to continue into 2012. Although the emerging economies are growing faster, overall, the world economy is expected to grow at less than 3% in 2012.

Sri Lanka recorded growth rates in excess of 8% for the past two years and is estimated to maintain this momentum in 2012 as well. Gross Domestic Product (GDP) will grow to USD 66 Billion, per capita will grow to USD 3,100, workers' remittances will be USD 6.5 Billion, Foreign Direct Investment (FDI) is estimated to go up to USD 2 Billion, foreign funds into banks will reach USD 1 Billion and tourist arrivals may top 1 Million.

It is expected that the private sector participation will enhance in the investment activities.

Remittances of workers has a potential of 11% growth.

Based on these factors, we expect inflation to remain at single digit level and the GDP deflator to be 6.5% in 2012. We also expect the fiscal deficit to decline to 6.2% and the non-bank borrowings to increase in 2012, so that the Government will not need to borrow as much as it has in the past.

### **The Most Likely Case**

The world economy will grow around 3%. Sri Lanka will grow between 7%-8%. The inflation will remain between 5%-7%. Interest rates will see a gradual increase.

The Bank will achieve its targets as set out in the Action Plan & Strategic Business Plan. The Bank will achieve its target Return on Assets (ROA) of 2.02% and Return on Equity (ROE) of 29.35%.

The Bank will achieve its mobilisation targets. This will facilitate investment in Government Securities which will pave the way for infrastructure development.

The Bank will open that number of branches as planned. Investments in infrastructure development too will be on plan. Bank will continue to support social responsibility projects too.

**The Best  
Case**

Assumes global economic growth to be around 4-5%. The Sri Lankan growth will be around 9-10%. Inflation will be below 5%. Interest rates will remain at the present level.

We will outperform targets set for 2012. ROA will reach 2.5%. ROE will improve to around 32%. Significant improvements will be seen in our service standards and productivity indicators.

**The Worst  
Case**

Assumes global economic growth to be around 1%. The country's GDP growth rate will be below 5%. Local inflation will be in double digits, causing upward pressure on prices and interest rates.

If these conditions prevail, we will not be able to achieve the target ROA and ROE levels. ROA will fall to about 1%. Accordingly, productivity indicators too may be lower.





*In cherishing nature today, we build the natural legacy of tomorrow*

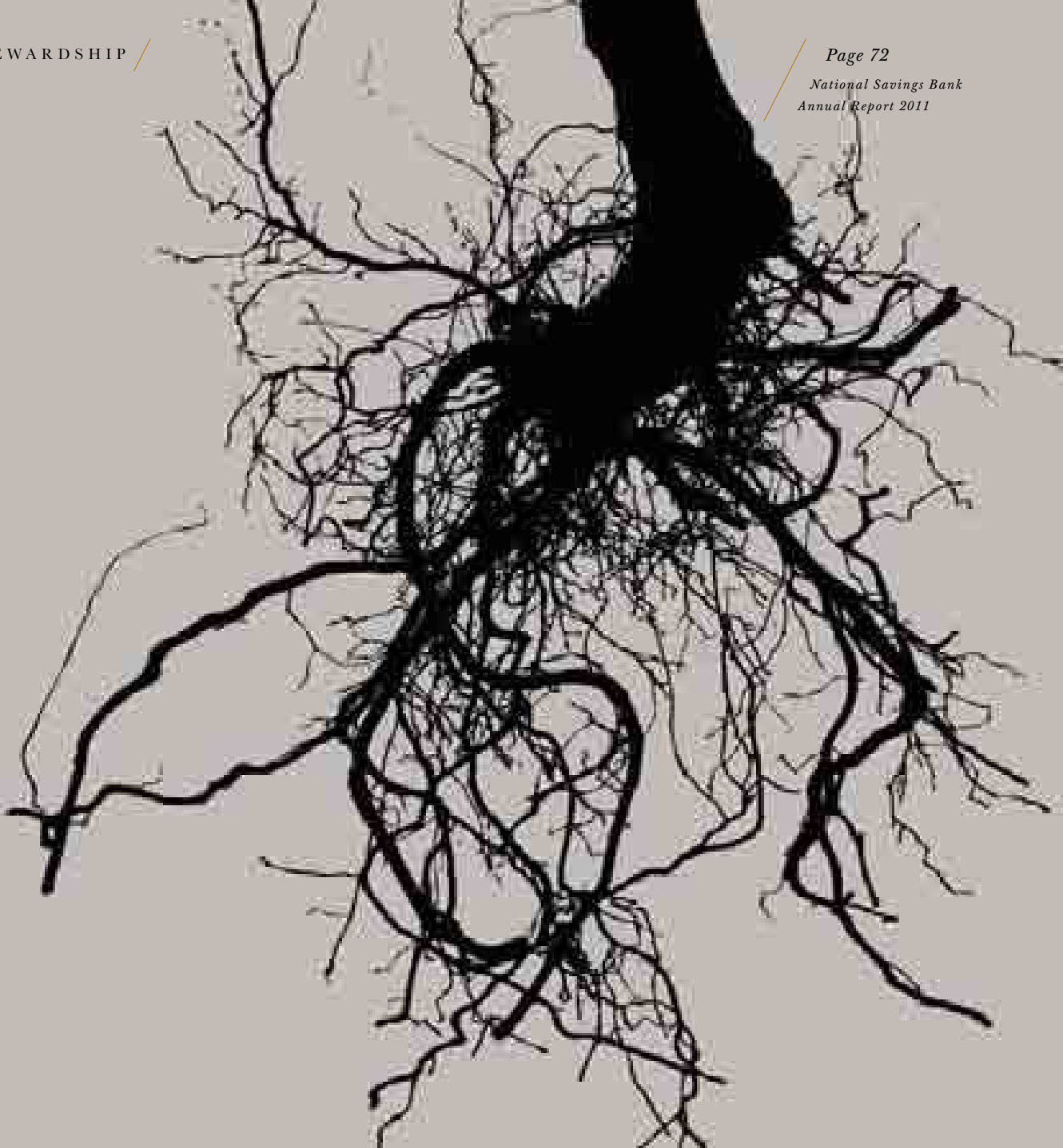


# *Stewardship*

*Corporate Governance* 73  
*Board Committee Reports* 117  
*Board of Directors* 128

*Corporate Management Team* 134  
*Executive Management Team* 136  
*Senior Managers* 138

*Risk Management* 141  
*Sustainability Supplement* 185





# *Corporate Governance*



Corporate governance refers broadly to the laws, rules or processes by which businesses are developed, operated, regulated, and controlled. The term can refer to internal factors defined by the Board of Directors, Key Management Personnel (KMPs), Officers, Other Stockholders, Act or Constitution of a corporation as well as to external forces such as Government Regulations, Regulators & Authorities, Governing Bodies, Consumer Groups, Clients etc.

Corporate governance provides a structure that works for the benefit of everyone concerned by ensuring that the enterprise adheres to accepted ethical standards and best practices as well as to formal laws and directions.

In recent years, corporate governance has received increased attention because of requirement of transparency, interrelated corporate affairs, blurred business boundaries, high risk affairs and transactions, involvement and impacts of public at large, high-profile scandals involving abuse of corporate power etc. An integral part of an effective corporate governance regime therefore not only includes governing laws and guidelines from various authorities, but also provisions for civil or criminal prosecutions of individuals and groups who conduct unethical or illegal acts in the name of the enterprise.

Many of the most significant procedures of enterprise are built on basic, simple, yet vitally important founding qualities, which is why at NSB, qualities and attributes such as honesty, fair play, exemplary morals and ethics, legal/regulatory compliance, transparency, optimal proficiencies and the like underpin our corporate governance processes.

**Governance  
at NSB**

At NSB, in carrying out its activities, place the value of corporate governance at its highest priority starting from the Board of Directors, Executive Management and at all operational levels of staff members. The Board of Directors and all staff members at NSB is committed to the highest business integrity and ethical values and 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 and best business practices.

In addition to being a State owned Bank, it is governed by the provisions and the administrative regulations of the Ministry of Finance & Planning and the Government. The Bank tables its Financial Statements annually in the Parliament. This ensures that the public interest in the Bank's affairs is secured. Financial Statements are audited by the Auditor General and in addition to his preview selected branches are audited by firms of Chartered Accountants. Also publishes its Financial Statements and other disclosures as per the regulatory requirements. This increases the transparency and reliability of the Bank's policies and processes in discharging its accountability.

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

Governance Framework at NSB is foremostly based 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 level and the executive management.
- Having an active role in discussing with relevant regulatory bodies the implementation and complying to governance regulations.
- Overseeing of internal control systems including internal audit, compliance and risk management functions independent of the business lines -
  - Adherence of all affairs to the ACT, laws and directions of regulators.
  - Keep the social responsibility in mind in 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 who could either take decisions or make recommendations to the Board on the matters under the purview of these Sub-Committees. The Audit Committee and Integrated Risk Management Committee assist the Board to review and make decisions on the adequacy and integrity of internal controls, review of financial information and their integrity, principal risk elements of the industry and precise risk factors and corporate governance of the Bank.

The Board of Directors at NSB who oversees and assumes overall responsibility and accountability of the Bank by setting high level strategic directions, overseen risk management etc., has delegated the implementation of strategies to the CEO who exercises executive authority through the corporate management which he heads and to which he provides leadership and direction. The following management committees are headed by the General Manger/CEO and represented by the Corporate Management by which the Bank's operations are monitored and controlled.

1. Asset and Liability Management Committee (ALCO)
2. Credit Committee
3. Corporate Management Committee (MC)
4. Executive Risk Management Committee (ERMC)
5. Performance Review Committee
6. Marketing Committee
7. Investment Committee
  - Equity Investment Committee
  - Tender and New Issues Committee
8. Action Plan Review Committee

**Board Meetings****Attendance of the  
Board Members for  
Meetings During  
the Year 2011**

Name of Director	Eligible to attend	Attended
P.G.S. Kariyawasam, Chairman	26	26
S.T. Abeygunawardana, Working Director	26	23
P.A. Abeysekera, Director	26	16
M.K.B. Dissanayake, Director (retired on 25.01.2012)	26	20
H. Madiwela, Director	26	24
R.A.P. Ranawaka, Director	26	24
S.S. Shanmuganathan, Director	26	21

Board Appointed Sub-Committees in accordance with the Banking Act Direction No. 12 of 2007.

Scope, Functions and Attendance during the Year 2011.

**1. Board Audit  
Committee (BAC)****Attendance**

The number of meetings of the Board appointed committees and individual attendance are shown in the table on page 82 of this Report.

**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; and to 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 would focus 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 would also assist the Board to assess the risk management system of the Bank thus ensuring that the Bank has a comprehensive policy on risk management; and would consider 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 118.

## 2. Human Resources and Remuneration Committee (HRRC)

The Human Resources and Remuneration Committee was formed in 2010 in compliance with the Banking Act Directions and is in operation in year 2011.

### Attendance

The number of meetings of the HRRC and individual attendance are shown in the table on page 82 of this Report.

### 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 the matters relating to the entire staff, are among the primary responsibilities vested in the HRRC.

The Human Resources and Remuneration Committee Report is given on page 122.

### **3. Nomination Committee (NC)**

**Attendance** The number of meetings of the Board appointed committees and individual attendance is shown in the table on page 82 of this Report.

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

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

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 the staff members.

The Nomination Committee Report is given on page 124.

#### 4. Integrated Risk Management Committee (IRMC)

##### **Attendance**

The number of meetings of the Board appointed committees and individual attendance is shown in the table on page 82 of this Report.

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

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

Ensure Integrated Risk Management framework for the Bank is implemented gradually.

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

Take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the committee on the basis of the Bank's policies and regulatory and supervisory requirements.

Assess all aspects of risk management including updated business continuity plans.

Take 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.

Ensure submission of a risk assessment report to the Board seeking the Board's views, concurrence and/or specific directions.

The committee 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 selected from Key Management Personnel carries out the compliance function and report to the committee periodically.

The Integrated Risk Management Committee Report is given on page 126.

### Board Appointed Committee Attendance

The number of meetings of the Board-appointed committees and individual attendance out of the number of eligible meetings of each Director for the year 2011 are shown below:

Names	Directorship Status	Board Audit Committee	Nomination Committee	Integrated Risk Management Committee	Human Resource Remuneration Committee
<b>Total No. of Meetings</b>		05	01	05	01
P.G.S. Kariyawasam	Chairman				01
S.T. Abeygunawardana	Working Director	–	01	–	01
P.A. Abeysekera	Independent Non-Executive Director	–	01	–	01
M.K.B. Dissanayake	Independent Non-Executive Director	–	–	02	–
H. Madiwela	Independent Non-Executive Director	04	01	–	–
R.A.P. Ranawaka	Independent Non-Executive Director	05	–	04	–
S.S. Shanmuganathan	Independent Non-Executive Director	05	–	05	–

**Management  
Committees**

Management Committees are described in the Corporate Governance Report on page 77.

**Compliance at  
NSB**

NSB has an effective process in place 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. Identifying the need of having an independent Compliance Function the Board of Directors has approved the Compliance Policy of the Bank the salient features of which are aligned with the Basel Principles on Compliance Function. 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. These reports are also circulated to the Board of Directors for their information. It further ensures that Compliance Reports are submitted to the Central Bank of Sri Lanka confirming the Bank's compliance with Central Bank regulations and Guidelines.

The Bank has obtained External Auditors' Report on Internal Control over Financial Reporting and a report on the Bank's compliance with the Corporate Governance Directions issued by the CBSL for the year 2011. These further improved the Bank's Corporate Governance approach.

Annual Corporate Governance Report to be published in terms of Banking Act Direction No. 12 of 2007 and subsequent amendments for Annual Report 2011.

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

CBSL Rule Reference	Corporate Governance Rule	Level of Compliance
<b>3 (1) The Responsibilities of the Board</b>		
3 (1) (i)	The Board Shall Strengthen the Safety and Soundness of the Bank, by ensuring the following:	
3 (1) (i) (a)	Approve and oversee the Bank's strategic objectives and corporate values and ensure that these are communicated throughout the Bank.	The strategic plan approved by the Board of Directors (BOD) sets strategic objectives, values and directions while it is communicated through constant dialogue with senior management on implementation and setting annual budgetary targets for all activities and levels. The bottom-up review process up to the Board level provides feedback for communication effectiveness.
3 (1) (i) (b)	Approve the overall business strategy of the Bank, the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least the next three years.	The Board approved three-year strategic plan (2011-2013) is being implemented. This covers business strategy, directions and measurable goals.  The Integrated Risk Management (IRM) Policy approved by the BOD outlines strategic, credit, market and operational risks measures for risk identification, measurement and mitigating procedure.



CBSL Rule Reference	Corporate Governance Rule	Level of Compliance
3 (1) (i) (c)	Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently.	In addition to the IRM Policy, the policies for operations (Treasury, Investments, Outsourcing, HR etc.), and other risk identification measures introduced to ensure identification of principal risks and risks at operational levels.
3 (1) (i) (d)	Approve implementation of a policy of communication with all stakeholders, including depositors, borrowers, creditors, shareholders.	Board approved Customer Charter is in place and communicates with stakeholders accordingly. The communication with the shareholder is through the Director appointed by the Treasury and annual reviews.
3 (1) (i) (e)	Review the adequacy and the integrity of the Bank's internal control systems and management information systems.	Review of internal controls process has been commenced and is an ongoing process. The MIS is being gradually developed and used at operational and strategic levels. Please refer to reports on pages from 248 to 250 The Board review internal controls through BAC.
3 (1) (i) (f)	Identify and designate Key Management Personnel, as defined in the International Accounting Standards.	During the year, Board of Directors reviewed the Key Management Personnel and appointed Directors, General Manager/CEO and the Corporate Management as KMPs of the Bank. Please refer pages from 128 to 135.

CBSL Rule Reference	Corporate Governance Rule	Level of Compliance
3 (1) (i) (g)	Define the areas of authority and key responsibilities for Directors themselves and for Key Management Personnel.	Area of authority and responsibility of the Directors are stated in the Act. By the Section 7 (1) of the NSB Act, the Chairman and the Board of Directors are vested with general supervision, control and administration of the affairs and the business of the Bank. As per Section 7 (2) the Board may exercise all or any of the powers of the Bank. By Section 26 (A) (1) the Board may delegate to the GM or any other officer of the Bank any of its functions activities. The Board approved job descriptions define the authority and responsibility of KMPs.
3 (1) (i) (h)	Ensure that there is appropriate oversight of the affairs of the Bank by Key Management Personnel that is consistent with Board policy.	Approval from the Board of Directors is obtained for the annual budget and the action plan to ensure that those are in accordance with the corporate plan. The KMPs are responsible for implementation and take control of the business activities of the Bank and provide guidance for proper implementation of its operations. Directives given by the Board of Directors from time to time are carried out by the Corporate Management to ensure the effectiveness of such activities, and the performances against such policies/plans are reviewed through periodical performance reviews.

CBSL Rule Reference	Corporate Governance Rule	Level of Compliance
3 (1) (i) (i)	Periodically assess the effectiveness of the Board Directors' own governance practices, including: the selection, nomination and election of Directors and Key Management Personnel; the management of conflicts of interests; and the determination of weaknesses and implementation of changes, where necessary.	The Bank is wholly-owned by the Government of Sri Lanka and the Directors are appointed by the Minister in charge of Finance and Planning. Annual declarations in respect of related parties and their interests are obtained from Directors to monitor conflict, if any. This process is expected to be strengthened and applied to KMPs as well.
3 (1) (i) (j)	Ensure that the Bank has an appropriate succession plan for Key Management Personnel.	The Board approved succession plan is in place.
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.	<p>The CEO attends all Board meetings in terms of the Act. In addition, KMPs are called regularly when the need arises by the BOD to exchange views in relation to the matters relating to their area of responsibility.</p> <p>CEO and the KMPs meet at policy formation and other strategic decisions process through operational committees and specially arranged meetings. The progress of implementation of key budgetary targets is presented the BOD periodically.</p>

CBSL Rule Reference	Corporate Governance Rule	Level of Compliance
3 (1) (i) (l)	Understand the regulatory environment and ensure that the Bank maintains an effective relationship with regulators.	The awareness and understanding of regulatory environment has been established through circulation and presentation of corporate governance, applicable laws and regulations, policies, and compliance reports. Also the management from time to time updates the Board of the new regulatory developments. Bank submits regulatory compliance reports and progress reports on annual review as specified by CBSL regularly.
3 (1) (i) (m)	Exercise due diligence in the hiring and oversight of External Auditors.	By law the Auditor General is the External Auditor of the Bank. External Auditors attend all BAC meetings by invitation.
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.	Appointment of Chairman and the CEO is stipulated in the NSB Act. Section 11 (a) of the Act states that the Minister shall nominate one of the Directors of the Board to be its Chairman. Section 26 of the Act states that the Board shall appoint a fit and proper person to be the General Manager of the Bank who shall be the Chief Executive Officer of the Bank. By Section 26 (A) (1) the Board may delegate to the General Manager or any other officer of the Bank any of its functions, activities.

CBSL Rule Reference	Corporate Governance Rule	Level of Compliance
3 (1) (iii)	The Board shall meet regularly and Board meetings shall be held at least twelve times a year at approximately monthly intervals. Such regular Board meetings shall normally involve active participation in person of a majority of Directors entitled to be present. Obtaining the Board's consent through the circulation of written resolutions/papers shall be avoided as far as possible.	As per the Act 13 (1), a meeting of the Board shall be held as often as the Chairman may deem necessary: provided that a meeting of Board shall be held at least once in every six weeks (minimum of 9 meetings accordingly). The Board has held 26 Board meetings during the year with active participation of Board Members. Obtaining of Board approval through circulation has not been done during the year.
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.	Directors can include matters and proposals to the agenda. Arrangements have been made to include matters/proposals from the Directors as a feature in the Agenda.
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.	Notices of next Board meetings are sent to Directors immediately after the preceding Board meeting. Agenda is circulated at least seven days prior to the meeting. Board Secretary facilitates this requirement.

CBSL Rule Reference	Corporate Governance Rule	Level of Compliance
3 (1) (vi)	The Board procedures shall ensure that a Director, who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director.	The Act specifies the procedure for appointment and removal of a Director. During the year, however, there has not been any such non-attendance as specified by the Direction. Board Secretary maintains an Attendance Register to ensure compliance.
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.	An Attorney-at-Law who is an employee within the permanent cadre of the Bank has been appointed as the Board Secretary.
3 (1) (viii)	All Directors shall have access to advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable rules and regulations are followed.	Directors have access to the Board Secretary for advice and services.
3 (1) (ix)	The Company Secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any Director.	The Board Secretary maintains minutes of all Board meetings which are available to the Directors upon request.

CBSL Rule Reference	Corporate Governance Rule	Level of Compliance
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>	<p>Minutes are recorded in sufficient detail based on the information provided in the Board Papers and kept at the Secretary's Division with due security. Minutes are available for regulatory and supervisory authorities for reference together with the corresponding Board Papers.</p>
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. The Board shall resolve to provide separate independent professional advice to Directors to assist the relevant Director or Directors to discharge his/her/their duties to the Bank.</p>	<p>The Directors were made aware that they could seek independent professional advice to assist them in discharging their duties. A procedure will be developed for Directors to seek professional advice on matters relating to the Bank.</p>
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>	<p>Section 14 of the Act states disclosures of interest by a Director.</p> <p>Procedure is in place to monitor conflict of interest of Directors.</p> <p>During the year, no such conflict of interest situation was noted according to the annual declarations submitted by the Directors.</p>

CBSL Rule Reference	Corporate Governance Rule	Level of Compliance
3 (1) (xiii)	The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the Bank is firmly under its authority.	A list of duties of reserved to retain control of the Bank is in place.
3 (1) (xiv)	The Board shall, if it considers that the Bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of Bank Supervision of the situation of the Bank prior to taking any decision or action.	No such situation has arisen during the year.
3 (1) (xv)	The Board shall ensure that the Bank is capitalised at levels as required by the Monetary Board in terms of the Capital Adequacy Ratio and other prudential grounds.	Board Audit Committee quarterly examines the Financial Statements and would report to the Board of any decline of Capital Adequacy Ratio or any other prudential grounds.
3 (1) (xvi)	The Board shall publish in the Bank's Annual Report, an annual Corporate Governance Report setting out the compliance with Direction 3 of these Directions.	Corporate Governance Report is given on pages 73 to 116.
3 (1) (xvii)	The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually, and maintain records of such assessments.	A scheme for self-assessment by each Director, all Directors jointly are in place and records are maintained by the Secretary.



CBSL Rule Reference	Corporate Governance Rule	Level of Compliance
<b>3 (2)</b>	<b>Board's Composition</b>	
3 (2) (i)	The number of Directors on the Board shall not be less than seven and not more than thirteen.	In terms of the NSB Act the current Board comprises seven Directors including the Chairman and the Working Director.
3 (2) (ii) (a)	The total period of service of a Director other than a Director who holds the position of Chief Executive Officer shall not exceed nine years.	As per the Section 8 (2) of the NSB Act, the term of service of a Director is three years. No Director has served the NSB for nine years.
3 (2) (ii) (b)	A Director who has completed nine years as at 1st January 2008, or who completes such term at any time prior to 31st December 2008, may continue for a further maximum period of three years commencing 1st January 2009.	Not applicable.
3 (2) (iii)	An employee of a bank may be appointed, elected or nominated as a Director of the Bank (hereinafter referred to as an 'Executive Director') provided that the number of Executive Directors shall not exceed one-third of the number of Directors of the Board. In such an event, one of the Executive Directors shall be the Chief Executive Officer of the Bank.	As per the Act the Minister selects five out of seven Directors. The other two Directors, according to the Act are Treasury Secretary or his nominee and Postmaster General or his nominee. Therefore, no such situation arises.

CBSL Rule Reference	Corporate Governance Rule	Level of Compliance
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 five are Independent and six are Non-Executive. Please refer to Directors' details on page 241 of the Annual Report of Board of Directors.
3 (2) (v)	In the event, an Alternate Director is appointed to represent an Independent Director, the person so appointed shall also meet the criteria that applies to the Independent Director.	Not relevant, since no Alternate Directors were appointed.
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.
3 (2) (vii)	A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless more than one-half of the number of Directors present at such meeting are Non-Executive Directors.	As per the NSB Act the quorum of the Board is four which is more than one-half of the Directors and out of them more than two are Non-Executive Directors.
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 241.

CBSL Rule Reference	Corporate Governance Rule	Level of Compliance
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.
3 (2) (x)	All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first General Meeting after their appointment.	Appointments of Directors are done by the Minister of Finance as per the NSB Act.
3 (2) (xi)	If a Director resigns or is removed from office, the Board shall: announce the Director's resignation or removal and the reasons for such removal or resignation; and issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.	Appointment and removal of Directors are done by the Minister of Finance as per the NSB Act.
3 (2) (xii)	A Director or an employee of a bank shall not be appointed, elected or nominated as a director of another bank except where such bank is a subsidiary company or an associate company of the first mentioned bank.	Senior Deputy General Manager is a Director of RDB representing the shareholding of the NSB.

CBSL Rule Reference	Corporate Governance Rule	Level of Compliance
<b>3 (3) Criteria to Assess the Fitness and Propriety of Directors</b>		
3 (3) (i) (a & b)	The age of a person who serves as a Director shall not exceed 70 years.	All Directors are below the age of 70.
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.
<b>3 (4) Management Functions Delegated by the Board</b>		
3 (4) (i)	The Directors shall carefully study and clearly understand the delegation arrangements in place.	Please refer 3 (1) (i) (g).
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.	No such situation has arisen during the year.
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 reviews by the Board on a need basis/on requests made by the management.

CBSL Rule Reference	Corporate Governance Rule	Level of Compliance
<b>3 (5)</b>	<b>The Chairman and Chief Executive Officer</b>	
3 (5) (i)	The roles of Chairman and Chief Executive Officer shall be separated and shall not be performed by the same individual.	The roles of Chairman and the CEO are performed by two separate individuals.
3 (5) (ii)	The Chairman shall be a Non-Executive Director and preferably an independent director as well.	Chairman is a Non-Executive Director. Chairman is not independent since Chairman is in the Board of the NSB Fund Management Ltd., a fully owned Subsidiary of NSB. No provision in the Act to designate an independent director as a Senior Director.
3 (5) (iii)	The Board shall disclose in its corporate governance report, the identity of the Chairman and the Chief Executive Officer and the nature of any relationship.	There is no financial, business, family or other material/relevant relationship between the Chairman and the CEO and among members of the Board as per the declarations submitted.
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.
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/ approval of Chairman.

CBSL Rule Reference	Corporate Governance Rule	Level of Compliance
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.	The Chairman directly and through the General Manager and Senior Management explains the issues/important matters taken up at the Board meetings. The Secretary circulates the Papers among the Board members with adequate time lines.
3 (5) (vii)	The Chairman shall encourage all Directors to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the Bank.	Evaluation of the role of the Chairman and the overall assessment of the Board's performance are incorporated in the Director's Self-Evaluation Process.
3 (5) (viii)	The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relations between Executive and Non-Executive Directors.	Evaluation of the role of the Chairman is incorporated in the Director's Self-Evaluation Process.
3 (5) (ix)	The Chairman shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	Chairman is Non-Executive and does not directly supervise CEO & KMPs and is not engaged in any executive functions.

CBSL Rule Reference	Corporate Governance Rule	Level of Compliance
3 (5) (x)	The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	The shareholder is being represented at the Board by the nominee of Treasury Secretary who is appointed as a Director by the provisions of the NSB Act. Communication with the shareholder is maintained through the nominee or on a case-by-case basis by the Chairman or the CEO, and the outcome is presented to the Board and <i>vice versa</i> . Also annual review of operations is done with the Officials of the Treasury.
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.	Functions are delegated to the CEO by the Board as per the Act and CEO acts as the Apex Executive in-Charge of the day-to-day management of the Bank's operations and business.
<b>3 (6) Board Appointed Committees</b>		
3 (6) (i)	Each bank shall have at least four Board committees as set out in Directions 3 (6) (ii), 3 (6) (iii), 3 (6) (iv) and 3 (6) (v) of these Directions. Each committee shall report directly to the Board. All committees shall appoint a secretary.	All four committees are in place. Secretaries have been appointed. Board Audit Committee and the Integrated Risk Management Committee directly submit reports to the Board. Other Committees will follow the same practice in the future.

CBSL Rule Reference	Corporate Governance Rule	Level of Compliance
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 and Independent and is a Fellow Member of The Institute of Chartered Accountants of Sri Lanka, who has experience in the banking sector.
	(b) All members of the Committee shall be Non-Executive Directors.	All members are Non-Executive Directors.
	(c) The Committee shall make recommendations on matters in connection with -	(i), (ii) and (iii) By statutes the Auditor General is the External Auditor.
	(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	



CBSL Rule Reference	Corporate Governance Rule	Level of Compliance
	(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.	(vi) Not Applicable.
	(d) The Committee shall review and monitor the External Auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.	Since the Auditor General is the External Auditor the independence and objectivity are maintained. Effectiveness of the audit process is discussed with the Superintendent of the Government Audit at Board Audit Committee meetings.
	(e) The Committee shall develop and implement a policy on the engagement of an External Auditor to provide non-audit services.	Not relevant as the Auditor General is appointed as per the Constitution. No such service has been obtained during the year.
	(f) The Committee shall, before the audit commences, discuss and finalise with the External Auditors the nature and scope of the audit.	The Auditor General has a permanent office at the Bank and the Superintendent of the Government Audit attends Board Audit Committee meetings regularly and participates in deciding the scope of the Audit Committee.

CBSL Rule Reference	Corporate Governance Rule	Level of Compliance
(g)	The Committee shall review the financial information of the Bank, in order to monitor the integrity of the Financial Statements of the Bank, its Annual Report, accounts and quarterly reports prepared for disclosure, and the significant financial reporting judgments contained therein.	The Committee reviewed the Financial Statements on quarterly basis for the year 2011. The Annual Report and the Financial Statements for the year 2011 were also reviewed at Board Audit Committee meeting along with major components of the Financial Statements.
(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.
(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 2010 issued under the Section 13 (7) (a) and the management response thereon.
(j)	The Committee shall take the following steps with regard to the internal audit function of the Bank:	The Committee has reviewed the scope and functions under Audit Plan. Actions have been taken to increase staff strength and other resource requirement of the Audit division. Please refer Committee Report.
(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;	

CBSL Rule Reference	Corporate Governance Rule	Level of Compliance
(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;	The Committee has reviewed audit programme and results and actions on recommendations. Please refer Committee Report on Page 118.
(iii)	Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;	The performance review of Head of Audit (DGM Audit) is to be carried out during the year 2012. Performance of the senior staff members of Audit Division is assessed by the head of internal audit and reports to the BAC for review.
(iv)	Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;	No such situation has arisen during the year. No outsourced service providers.
(v)	Ensure that the Committee is appraised of resignations of senior staff members of the internal audit department; 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.	No such situation has arisen during the year. Head of Internal Audit is an Associate Member of ICASL and the staff is well-experienced and conversant with banking operations. Head of Internal Audit reports to the BAC directly.

CBSL Rule Reference	Corporate Governance Rule	Level of Compliance
(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 118.
(l)	The Chief Finance Officer, the Chief Internal Auditor and a representative of the External Auditors may normally attend meetings.	Committee conducts meetings with the Head of Internal Audit and the Superintendent of the Government Audit. DGM Finance & Planning or his representative attends Board Audit Committee meetings. Executive Director is not present at the meetings. The Committee calls for other staff members as and when the necessity arises.
(m)	The Committee shall have - (i) Explicit authority to investigate into any matter within its terms of reference; (ii) The resources which it need to do so; (iii) Full access to information; and (iv) Authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	As per the BAC Charter the Committee has been empowered to investigate any matter, access to information, authority to obtain professional advice, resources to carry out its functions etc.  Refer Committee Report on page 118.
(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.

CBSL Rule Reference	Corporate Governance Rule	Level of Compliance
(o)	<p>The Board shall disclose in an informative way:</p> <ul style="list-style-type: none"> <li>(i) details of the activities of the Audit Committee;</li> <li>(ii) the number of Audit Committee meetings held in the year; and</li> <li>(iii) details of attendance of each individual Director at such meetings.</li> </ul>	<p>Please refer,</p> <ul style="list-style-type: none"> <li>- the Scope of Board Audit Committee on page 78.</li> <li>- dates of meetings held during the year on page 82.</li> <li>- Details of attendance of Directors on page 82.</li> </ul>
(p)	<p>The Secretary of the Committee shall record and keep detailed minutes of the Committee meetings.</p>	<p>DGM Audit acts as Secretary and detailed minutes are maintained.</p>
(q)	<p>The Committee shall review arrangements by which employees of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the Committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the Bank's relations with the External Auditor.</p>	<p>The existing Whistle-Blower Policy was reviewed by DGM Audit and is expected to submit the same to BAC. A process for investigation/deals with improprieties in financial reporting/frauds by Internal Audit and reports to Human Resources Division (HRD) for disciplinary actions and finally report to BAC.</p>

CBSL Rule Reference	Corporate Governance Rule	Level of Compliance
3 (6) (iii)	The following rules shall apply in relation to the Human Resources and Remuneration Committee:	
	(a) The Committee shall determine the remuneration policy (salaries, allowances and other financial payments) relating to Directors, Chief Executive Officer (CEO) and Key Management Personnel of the Bank.	Remuneration of the Directors is decided by the Ministry.
	(b) The Committee shall set goals and targets for the Directors, CEO and the Key Management Personnel.	Remuneration of the CEO and KMPs is determined based on the collective agreement. The committee would get involved in the process in the future.  The goals for Directors are not documented as they are appointed by the Minister.  Goals and targets for KMPs are documented through the Action Plan for achieving targets for their respective divisions.
	(c) The Committee shall evaluate the performance of the CEO and Key Management Personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.	Evaluation of performance of CEO is handled by Chairman while GM/CEO evaluates performance of KMPs.
	(d) The CEO shall be present at all meetings of the Committee, except when matters relating to the CEO are being discussed.	The terms of reference approved by the Board states that CEO shall not be present when matters relating to the CEO are discussed.

CBSL Rule Reference	Corporate Governance Rule	Level of Compliance
3 (6) (iv)	<p>The following rules shall apply in relation to the Nomination Committee:</p> <p>(a) The Committee shall implement a procedure to select/appoint new Directors, CEO and Key Management Personnel.</p>	<p>Appointment of the Chairman, Directors and the CEO are stipulated in the NSB Act Section.</p> <p>Section 11 - The Minister 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>Appointments of KMPs are made by the Board of Directors.</p>
	<p>(b) The Committee shall consider and recommend (or not recommend) the re-election of current Directors.</p>	<p>As per 3 (6) (iv) (a) above.</p>
	<p>(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>	<p>The criteria for eligibility to be considered for CEO and KMPs are as per the approval of the Board of Directors.</p>
	<p>(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>	<p>Declaration from Directors and CEO has been submitted to Director Bank Supervision while declaration from KMPs are retained at HRD. The declarations will be obtained through the Committee in the future.</p>

CBSL Rule Reference	Corporate Governance Rule	Level of Compliance
	(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.	Not applicable in respect of Directors. The general practice is that Senior DGM is the successor for the post of CEO.
	(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.
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.	Committee consists of three Non-Executive Directors, CEO, all DGMs and Head of Risk and Compliance.
	(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 quarterly basis. RMD reviews risk through Stress Testing, Liquidity Ratios, KPI, KRI etc., and reports to IRMC/ Board periodically.
	(c) The Committee shall review the adequacy and effectiveness of all management level committees.	The effectiveness of operational level committees is assessed through operational loss data, KPIs, KRIs, liquidity etc., and reported to the IRMC and to the Board quarterly.



CBSL Rule Reference	Corporate Governance Rule	Level of Compliance
	(d) The Committee shall take prompt corrective action to mitigate the effects of specific risks.	The risk indicators have not gone beyond the risk tolerance limits approved by the Board.
	(e) The Committee shall meet at least quarterly, to assess all aspects of risk management including updated Business Continuity Plans (BCP).	The Committee met five times during the year.
	(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.
	(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 to the Board meeting held subsequently, directly.
	(h) The Committee shall establish a compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from Key Management Personnel shall carry out the compliance function and report to the Committee periodically.	Compliance function has been established and the Chief Risk Officer (Designated as Head of Risk & Compliance - HRC). HRC submits reports on compliance to the monthly compliance meeting and to IRMC on a quarterly basis.

CBSL Rule Reference	Corporate Governance Rule	Level of Compliance
<b>3 (7)</b>	<b>Related Party Transactions</b>	
3 (7) (i) & (ii)	The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the Bank with any person.	Annual declarations are obtained from the Directors and CEO where such transactions would be identified. Based on the declarations no such transactions have been reported. Arrangements have been made to record related party transaction (if any) on monthly basis at the Board meetings.
3 (7) (iii)	The Board shall ensure that the Bank does not engage in transactions with related parties as defined in Direction 3 (7) (i) above, in a manner that would grant such parties 'more favourable treatment' than that accorded to other constituents of the Bank carrying on the same business.	Transactions are carried out with Related Parties in the normal course of business and disclosed in Note 31 to the Financial Statements 'Related Party Disclosures' on page 317.
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.

CBSL Rule Reference	Corporate Governance Rule	Level of Compliance
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.	There has been no transaction of this nature during the year.
3 (7) (vi)	A bank shall not grant any accommodation or 'more favourable treatment' other than on the basis of a scheme applicable to the employees of such bank.	There is no favourable basis other than the general scheme applicable to all employees.
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.	There has been no transaction of this nature during the year.

CBSL Rule Reference	Corporate Governance Rule	Level of Compliance
<b>3 (8)</b>	<b>Disclosures</b>	
3 (8) (i)	The Board shall ensure that -	
	(a) annual audited Financial Statements and quarterly Financial Statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that	Prepared and published.
	(b) such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Quarterly Financial Statements are published in three languages as per prescribed formats.
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 235 on Annual Report of the Board of Directors.

CBSL Rule Reference	Corporate Governance Rule	Level of Compliance
(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 235 on Annual Report of the Board of Directors.  Refer Directors' Statement on Internal Control on page 248.
(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 251.
(d)	Details of Directors - (i) including names, fitness and propriety, (ii) transactions with the Bank, and (iii) the total of fees/remuneration paid by the Bank.	Profiles of the Directors are given on pages 130 to 132.  Refer Note 31 to the Financial Statements on page 317.  Refer Note 6 to the Financial Statements on page 283.

---

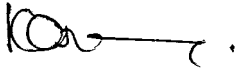
CBSL Rule Reference	Corporate Governance Rule	Level of Compliance
(e)	Total net accommodation as defined in 3 (7) (iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the Bank's regulatory capital.	The net accommodations granted as a percentage of Bank's regulatory capital are given in Note 31 (d) to the Financial Statements on page 318.
(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 31 (c) to the Financial Statements on page 318.
(g)	The External Auditor's certification of the compliance with these Directions in the annual corporate governance reports published after 31st December 2008.	External Auditor's certification was obtained and set out on page 251 on Independent Assurance Report.

---

CBSL Rule Reference	Corporate Governance Rule	Level of Compliance
(h) A report setting out details of the compliance with - (i) prudential requirements, regulations, laws, (ii) internal controls, and (iii) measures taken to rectify any material non-compliances.	Please refer Statement of Directors' Responsibility on financial reporting on page 246.	
(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, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns.	Monetary Board has not directed any disclosures to be made public during the year.	
<b>3 (9) Transitional and other general provisions</b>	The Bank has complied with the transitional provisions.	

**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, were not materially different to the matters disclosed above and did not identify any significant inconsistencies to those reported above by the Board.



**Krishanthi Gunasekara**  
*Secretary to the Board*



**Pradeep Kariyawasam**  
*Chairman*

Colombo  
26th April 2012





# *Board Committee Reports*



The Board Audit Committee (BAC) of the Bank was constituted in accordance with the provisions of the Public Enterprises Guidelines for Good Governance. It comprises three Non-Executive Directors of the Bank, who are all independent. The following Directors have served on the Committee during the year 2011:

1. Mr. S. Shan Shanmuganathan - Chairman of the Committee - (IND/NED)
2. Mr. Hema Madiwela - Member - (IND/NED)
3. Mr. R.A.P. Ranawaka - Member - (NIND/NED)

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

### Meetings

During the financial year ended 31st December 2011, five committee meetings were held of which the attendance of the Committee members at the meetings is given in page 82.

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

### Board Audit Committee Charter

The Board revised and approved the Board Audit Committee Charter in 2011. The Committee functioned within the terms of reference stipulated in the said Charter. In terms of the Charter, the scope of the Committee was to assist the Board of Directors in fulfilling its oversight responsibilities for -

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

The Charter also stipulates the functions and responsibilities, and the authority of the Committee. A Charter Checklist was introduced from 2011 to assist the Committee to assess its compliance with the Charter in performing Committee's functions and discharging its responsibilities.

**Internal Audit  
Charter**

The Committee revised and approved the Internal Audit Charter in 2011 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 2011:

1. Approved the Internal Audit Plan for the year 2011.
2. Reviewed the Financial Statements of the Bank for the year ended 31st December 2011, and quarters ended 31st March, 30th June and 30th September of 2011 and recommended to submit the same to the Board.
3. Periodic review of internal audit findings. The Committee considered the internal audit reports, the deficiencies observed therein, responses by the Heads of Divisions and branches and corrective actions taken to rectify the deficiencies observed.
4. Reviewed the reports on follow-up audits to ensure whether the audit recommendations have been implemented.
5. Quarterly review of the performance of the Audit and Vigilance division.
6. Periodic review of investigation reports with regard to fraudulent and irregular activities and management action thereon.

7. Reviewed and discussed the Report of the Auditor General for the year 2010 issued in terms of Section 14 (2) (c) of the Finance Act No. 38 of 1971 and the management responses thereon.
8. Reviewed and discussed the Report of the Auditor General for the year 2010 issued in terms of Section 13 (7) (a) of the Finance Act No. 38 of 1971 and the management responses thereon.
9. Reviewed and discussed the nature and scope of the Government Audit.
10. Initiated preparation of Expression of Interest (EOI) and Request for Proposal (RFP) to outsource the Information Systems Audit.
11. Reviewed the total manpower requirement of the Audit and Vigilance Division.
12. Reviewed the performance appraisal of senior audit staff members of the Audit and Vigilance Division.
13. Reviewed the staff matters of the Audit and 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 the Committee Meetings as an observer. The Committee reviewed and discussed the nature and scope of the external audit in 2011. 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.



**S. Shan Shanmuganathan**  
*Chairman - Board Audit Committee*

Colombo

26th April 2012

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

- Mr. P.G.S. Kariyawasam - Chairman - (NIND/NED)
- Mr. P.A. Abeysekera - Member - (IND/NED)
- Mr. S.T. Abeygunawardena - Member - (IND/WD)

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

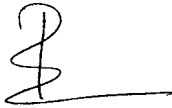
*NIND - Non-Independent Director, IND - Independent Director, NED - Non-Executive Director, WD - Working Director*

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

The Committee reviews all significant Human Resource Policies and initiatives, salary structures and terms and conditions relating to staff at Senior Executive level. In this process, necessary information and recommendations are obtained from the GM/CEO and DGM - Human Resources Development.

During the financial year ended 31st December 2011, one HRRC meeting was held of which the attendance of the Committee members at the meeting is given in page 82. The HRRC attended to the followings during the year under review:

1. Reviewed the scope, functions and responsibilities of the HRRC.
2. Reviewed the Transfer Policy of the Bank.
3. Reviewed the Demographic Analysis of the staff in relation to Succession Planning.
4. Initiated the formalities of the Human Resource Strategy of the Bank.
5. Reviewed pivotal issues and new trends/developments pertaining to the Training Policy and Human Resource Policy of the Bank.



**Pradeep Kariyawasam**

*Chairman - Human Resources and Remuneration Committee*

Colombo  
26th April 2012

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

- Mr. P.A. Abeysekera - *Chairman* - (IND/NED)
- Mr. H. Madiwela - (IND/NED)
- Mr. S.T. Abeygunawardana - (IND/WD)

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

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

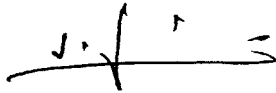
One Nomination Committee Meeting was held during 2011. The attendance of the Committee members at the meeting is given in page 82.

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



During the year under review the Nomination Committee attended to the following:

1. Reviewed the functions, authorities and responsibilities of the Nomination Committee.
2. Reviewed the recruitment schemes in respect of specialised positions of the Bank.
3. Reviewed the existing schemes of promotion of the Bank.
4. Reviewed the Organisation Chart of the Bank.
5. Reviewed the salary scales pertaining to new recruits to the Bank.



**P.A. Abeysekera**

*Chairman - Nomination Committee*

Colombo

26th April 2012

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

The Integrated Risk Management Committee (IRMC) of NSB consists of 3 Non-Executive Directors, namely Mr. M.K.B. Dissanayaka, Chairman (IND/NED) (up to 25.01.2012), Mr. D.L.P.R. Abeyaratne, Chairman (IND/NED) (from 9.02.2012), Mr. S. Shan Shanmuganathan (IND/NED) and Mr. R.A.P. Ranawaka (NIND/NED) members of the Corporate Management and the Compliance Officer. The Head of Risk and Compliance functions as the Secretary to the Committee.

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

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

**IRMC Meetings of  
the Year**

IRMC meets on a quarterly basis. During the year, NSB convened five IRMC meetings. The attendance of members in the Committee is listed on page 82 of the Annual Report. The minutes of the meetings and risk reports are submitted to the Board regularly.

The Committee established Integrated Risk Management Policy, Risk Tolerance Levels, mechanism for implementation of Operational Risk, examination of internal controls etc., and risk reviews through Stress Test, Key Risk Indicators and Key Performance Indicators, interest rate reviews, alternate funding, market positioning etc. Further the Committee reviewed status of statutory examination, directions on Corporate Governance, quarterly compliance status reports etc., at these meetings and was satisfied that the actions taken in respect of managing the Bank's risk exposure.



**D.L.P.R. Abeyaratne**  
*Chairman - Integrated Risk Management Committee*

Colombo  
26th April 2012

1 / Pradeep  
Kariyawasam



3 / P.A. Abeysekera



2 / S.T. Abeygunawardana



4 / D.L.P.R. Abeyaratne



7 / *S. Shan  
Shanmuganathan*



5 / *H. Madiwela*

6 / *R.A.P. Ranawaka*

8 / *M.K.B. Dissanayake*

**01. Pradeep  
Kariyawasam***Chairman*

Pradeep Kariyawasam is the Chairman of National Savings Bank and NSB Fund Management Co. Ltd., since 14th May 2010. He was also the former Chairman of Sri Lanka Insurance Corporation Ltd., subsequent to it being vested with the Government in June 2009, after a 6-year period of privatisation. Kariyawasam also served on the Boards of Seylan Bank and Lanka Hospitals (formerly known as Apollo Hospitals).

Kariyawasam is a senior corporate figure with over thirty years of experience in the private sector, of which over fifteen years have been as CEO/Director/GM levels at leading private sector conglomerates, including United Motors Lanka PLC, Browns Group of Companies etc. His extensive experience in marketing and sales management encompasses a cross section of large corporate conglomerates. Kariyawasam has also functioned as a respected consultant in business management and project management, both in the private sector as well as in the state sector. He holds a Certificate of Marketing from CIM (UK).

**02. S.T.  
Abeygunawardana***Working Director*

Tilak Abeygunawardana has over 39 years of experience as an entrepreneur. He is the Managing Director of Janasetha Jothisa Sevaya, Director of Co-operative Hospitals, Galle and Advisor for religious and cultural activities of Independent Television Network. He was a Director of the Employees' Trust Fund Board. He was appointed to the Board in August 2007.

**03. P.A.  
Abeysekera**  
*Director*

P.A. Abeysekera is a senior member of the Sri Lanka Administrative Service with 30 years of experience. He is the Deputy Secretary to the Treasury and is an Ex Officio Director of National Savings Bank. He was appointed to the Board in June 2010.

P.A. Abeysekera has functioned as the Secretary to the Commission to Investigate Allegation of Bribery or Corruption and currently holds the positions of

- Council Member - University Grants Commission
- Director/Member of the Council - Institute of Indigenous Medicine, Colombo University
- Board Member - Institute of Policy Studies (IPS)
- Member, Governing Council - Sri Lanka Institute of Development Administration
- Member - Advisory Committee of Sri Lanka Transport Board

**04. D.L.P.R.  
Abeyaratne**  
*Director*

Mr. D.L.P.R. Abeyaratne has more than 16 years of experience in the Sri Lanka Administrative Service as a Class I Officer. He is the Postmaster General and is an Ex-Officio Director. He was appointed to the Board on February 2012.

**05. H. Madiwela**  
*Director*

Hema Madiwela has almost 40 years of administrative experience. He was the Director Administration of Mahaweli Authority of Sri Lanka, a Director of the National Development Trust Fund and is presently the Co-ordinating Director to H.E. the President. He was appointed to the Board in November 2007.

**06. R.A.P.  
Ranawaka***Director*

R.A.P. Ranawaka is an Attorney-at-Law possessing over 18 years of experience in High Courts and Magistrate's Courts. He was appointed to the Board in June 2009.

**07. S. Shan  
Shanmuganathan***Director*

Shan Shanmuganathan is a senior Chartered Accountant with over 30 years experience in the financial services sector, of which 20 years were in commercial banks. He is also the Chairman of Finder 2000 (Pvt) Ltd., and is a Director of Associated Newspapers of Ceylon Ltd., and a Council Member of The Institute of Chartered Accountants of Sri Lanka and is a Director of Vallibel Power PLC. He was appointed to the Board in July 2010.

**08. M.K.B.  
Dissanayake***Director*

Kamal Bandara Dissanayake has more than 25 years of experience in the Sri Lanka Administrative Service. He was the Postmaster General and was an Ex Officio Director. He was a member of the Board from November 2007 to 25th January 2012.



**Mrs. K.  
Gunasekara**

Krishanthi Gunasekara is an Attorney-at-Law with 26 years experience in the Bank as a legal officer.

**H.M. Hennayake  
Bandara**

H.M. Hennayake Bandara, the General Manager/CEO of the Bank is a senior Chartered Accountant with extensive experience in banking and financial sector. He is the incumbent President of the Association of Professional Bankers Sri Lanka (APB) and is a Director of the Sri Lanka Banks' Association. He is also Board Member of the Institute of Bankers of Sri Lanka (IBSL) and a Director of NSB Fund Management Co. Ltd.

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

He was a member of the Expert Group appointed by the Central Bank of Sri Lanka to provide expertise to Registered Finance Companies (RFC) and Specialised Leasing Companies (SLC) in respect of the implementation of the 'Stimulus Package for Banking, Finance & Leasing Industry'. Hennayake holds a B.Com. Special Degree from University of Sri Jayewardenepura.



**H.M. Hennayake Bandara**

*General Manager/CEO*

*B.Com. (Special), FCA, FCMA,  
Higher National Diploma in  
Accountancy, FMAAT*

---



**T.M.K. Bandara**

*Additional General Manager*

*(from 02.01.2012)*

*Deputy General Manager (Human Resource  
Development) (Up to 01.01.2012)  
B.A. (Gen.), AMIPM*

---



**S.D.N. Perera**

*Senior Deputy General Manager*

*B.Com (Special), CISA, Diploma in  
Bank Management*

---



**K.B. Wijeyaratne**

*Deputy General Manager  
(Finance & Planning)*

*B.Sc. (Special) (Business Administration),  
FCA, DPFM, FMAAT, FCMA*

---



**Ms. A. Jayasinghe**

*Deputy General Manager  
(Branch Administration) (from 01.01.2012)*

*Assistant General Manager  
(Postal Banking) (up to 31.12.2011)  
B.Com (Special), AMIB (SL),  
Postgraduate Executive Diploma in  
Bank Management MAAT*

---



**R.M. Gunathilaka**

*Head of Risk & Compliance  
(from 25.08.2011)*

*Chief Risk Officer (up to 24.08.2011)  
B. Dev. Studies (Special), MBA (PIM),  
FCMA (UK)*

---



***K. Raveendran***  
*Deputy General Manager (Audit)*  
*B.Sc. (Special), ACA, FCMA*

---



***J.K. Gamanayake***  
*Deputy General Manager*  
*(Marketing & Deposit Mobilisation)*  
*B.Sc., Diploma in Marketing (UK),*  
*MBA (Colombo), MSLIM, MCIM (UK), AMIB*  
*(SL), Chartered Marketer*

---



***Ms. T.M. Samarasinghe***  
*Deputy General Manager (Legal)*  
*Attorney-at-Law*

---



**R.C. Gunaratne**  
Assistant General Manager  
(Security)

---



**Ms. C.S. Jesudian**  
Assistant General Manager  
(Project Finance & Credit  
Management)  
B.Sc. (Special), MBA (Colombo),  
Diploma in Treasury & Risk  
Management (IBSL)

---



**H.M. Vijitha**  
Assistant General Manager  
(Operations)  
B.Sc. (Gen.), Diploma in  
Credit Management (AICM)

---



**Ms. B.P.J. Gunasekara**  
Assistant General Manager  
(Asset Management)  
B.Sc. (Hons.), Postgraduate  
Diploma in Business & Financial  
Administration (ICASL),  
Postgraduate Executive Diploma  
in Bank Management (IBSL)

---



**P.A. Abeysoniya**  
Assistant General Manager (IT)  
Appointed on 02.01.2012  
B.Sc. (Gen), M.Sc. in Computer  
Science, Diploma in Advanced  
Programming Techniques

---



***E. M. M. G. Ekanayake***  
*Assistant General Manager*  
*(Administration)*  
*B.Sc. (Special)*  
*(Business Administration),*  
*Postgraduate Diploma in*  
*Management*

---



***A. C. Gamage***  
*Assistant General Manager*  
*(Credit)*  
*B.Sc. (Gen.), Diploma in*  
*Credit Management*

---



***M. P. A. W. Peiris***  
*Assistant General Manager*  
*(International Banking)*  
*B.Sc. (Gen.), AMIB (SL),*  
*Diploma in Credit Management,*  
*Postgraduate Executive Diploma*  
*in Bank Mgt. (IBSL), National*  
*Diploma in Training &*  
*Development (SLITAD)*

---



***Ms. G. V. A. D.***  
***Devika Silva***  
*Assistant General Manager*  
*(Finance)*  
*B.Sc. (Special) (Business*  
*Administration), MBA in*  
*Finance, ACA*

---

***K. A. U. Nandakumara***  
*who held the position of Assistant General Manager (Branch Credit)*  
*has retired with effect from 02.04.2012*

---

## Operations and Marketing

*U.L. Rafeek - Zonal Manager*

*M.S.M. Samanudeen - Zonal Manager*

*T.L.A. Wijerathna - Zonal Manager*

*J.M. Senevirathna Banda - Zonal Manager*

*P. Wattuhewa - Zonal Manager*

*V. Arulanantham - Zonal Manager*

*Mrs. H.R. Silva - Zonal Manager*

*S.N.B.M. Gunawardena - Senior Manager (Savings Promotion)*

*Mrs. E.D. Seetha - Senior Manager (City Branch)*

*K.K.V.L.W. Karunathilake - Senior Manager (Kurunegala Branch)*

*Mrs. M. Gawrawawansa - Senior Manager (Ja-Ela Branch)*

*Mrs. N.D.A. Vithanage - Senior Manager (Head Office Branch)*

*S.H.M. Mubarak - Senior Manager (Borella Branch)*

*T.M.D.G.D. de Alwis - Senior Manager (Kalutara Branch)*

*Mrs. K.P.D.M. de Silva - Senior Manager (Postal Admin.)*

## IT and Support Services

*K.M.W.M. Karunarathna - Manager (Premises)*

*P.S. Wasanthatillake - Senior Manager (IT)*

*J.A.A.S.L. Somarathna - Senior Manager (IT)*

*G.M.S.P. Fernando - Senior Manager (IT)*

**International and Credit**

*Mrs. S.W. Gunasekera - Manager (Credit)*

*H.M.B.K. Gunasekera - Senior Manager (International Banking)*

*Mrs. D.G.P. Senevirathna - Manager (Recoveries)*

**Audit**

*W. Piyarathna - Senior Manager (Audit)*

**Legal**

*Ms. Y.F. Deen - Legal Officer*

**Human Resource  
Development**

*Mrs. M.Y. Gunasekera - Personnel Manager - I*

*K.S. Weerasena - Manager (Training)*

*Mrs. A.P. Samaranayake - Personnel Manager - II*

**Finance and Planning**

*Mrs. S.A.B.M. Bandaranayake - Manager (Superannuation)*

*Mrs. M.A. Gomes - Manager (Planning)*



*'Seeing it early' and taking timely preventive action ensures we minimise threats to our 'good health'*





# *Risk Management*



Integrated Risk Management (IRM) is a continuous, proactive and systematic process to understand, manage and communicate risks from an organisation-wide perspective. It is about making strategic decisions that contribute to the achievement of an organisation's overall corporate objectives. Similarly, it respects core values such as honesty, integrity and probity at all levels, and contributes to improving results by managing risk proactively. IRM Framework provides guidance to adopt a more holistic approach to managing risk. The application of the IRM Framework is expected to enable employees and the organisations to better understand the nature of risk, and to manage it more systematically.

Integrated Risk Management requires an ongoing assessment of potential risks for an organisation at every level and then aggregating the results at the corporate level to facilitate priority setting and improved decision-making. Integrated Risk Management does not focus only on the minimisation or mitigation of risks, but also supports activities that foster innovation, so that the optimum returns can be achieved with acceptable results at a managed costs and risks. Integrated Risk Management also supports regulators as responsible organisation in compliance with national interests. The Integrated Risk Management needs to be aligned with an organisation's overall objectives, corporate focus, strategic direction, operating practices and internal culture.

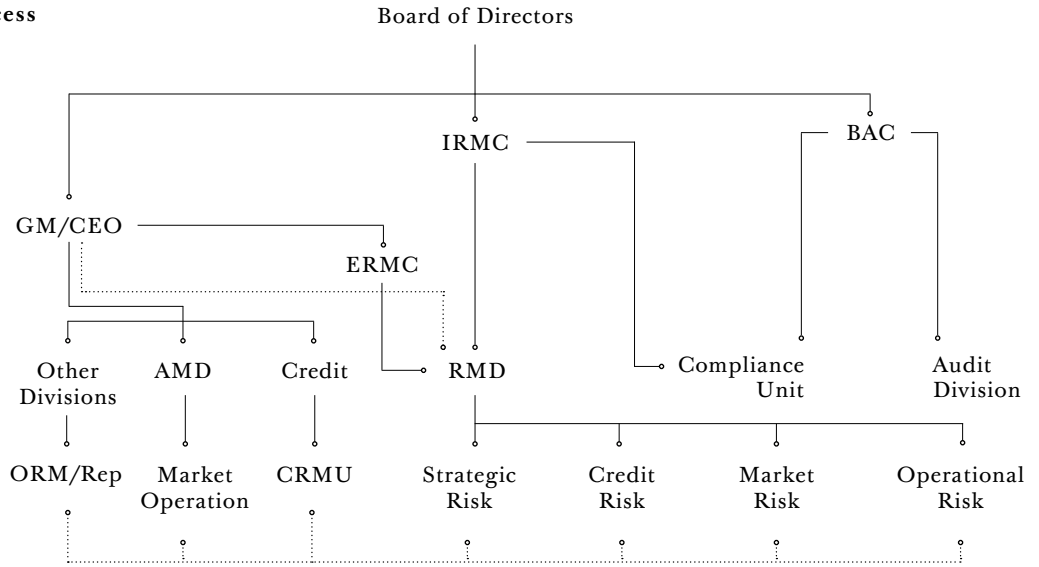
The main features of the Bank's risk management are -

1. Systematic approach,
2. Information and quantitative based approach,
3. Organisation-wide network approach (IRM Framework),
4. Continuous approach for identification, measurement and recognition of risk,
5. Subject to supervision of regulators,
6. Specific and subject wise risk assessment and management.

**Risk Management Structure**

The Bank has been taking steps to establish a cohesive risk management structure due to the nature and complexity of, and risk inherent in, the Bank's operations to ensure adequate oversight. The principal responsibilities set out below extended throughout the Bank in the year 2011.

**Risk Management Process**



*CRMU - Credit Risk Management Unit*

*ORM/Rep - Operational Management Representative*

**Risk  
Identification,  
Measurement,  
Mitigation,  
Monitoring and  
Reporting**

The Bank, with the approval of the Board established basic risk identification and measurement techniques such as KPI, KRI, Stress Tests, MIS, Risk Review, Competitor Analysis, Control Examination, Improvement of Structures, Liability Structure etc., during the period under review and used findings as yardsticks for risk measurement and mitigating measures.

The Board approved stress test policy during the year where over ten stress test conditions covering profitability (interest income and expenditure), credit (Shift of NPL categories adversely, transfer PL into NPL, impact of increasing provisions etc.), interest and liquidity (change of interest rates of Government Securities, deposit and lending rates, change of maturity profile of liabilities etc.) and adverse impacts on change of overheads.

The Key Performance Indicators (KPIs) cover profitability, performance efficiency, and assets quality. The Key Risk Indicators (KRI) highlight possible risk areas includes impact on interest rate risk, margin, assets and liability structure, market positioning, overhead etc. The findings are reported to operational committees where applicable (i.e. ALCO, ERM) IRMC and to the Board on quarterly basis.

The MIS are being developed and taken up at respective management committees as a part of risk identification and monitoring process and feedback at operational level. The Bank also carried out comparison of its performance with the Risk Tolerance Levels approved by the Board to ascertain the level of risk taken and to gauge market positioning.

## *Strategic Risk*

Strategic Risk is defined as the possibility of losses arising from adverse business decisions, lack of responsiveness to industry changes impacting current and/or prospective earnings or capital, lack of concentration on strategic direction and critical factors which may arise due to weak strategic planning process.

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

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

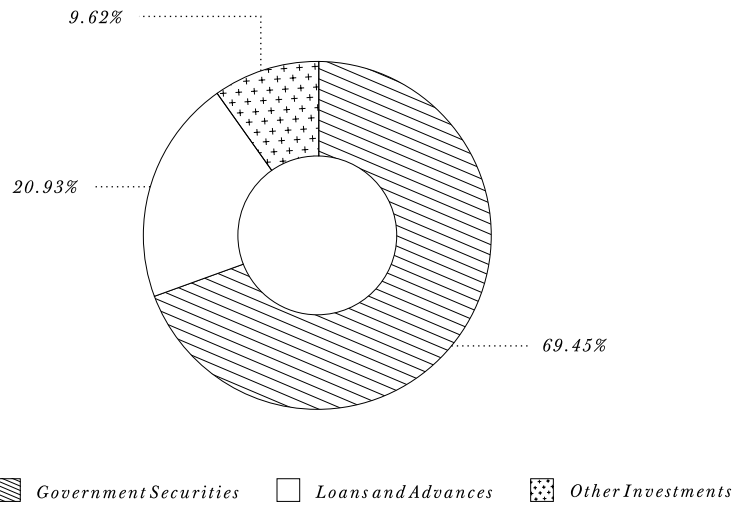
## **Risk Tolerance Levels**

During the period under review, the Bank introduced Risk Tolerance Levels with a view of monitoring the level of risk taken. The following Risk Tolerance Levels compare with the key operational parameters on actual operations of the year 2011.

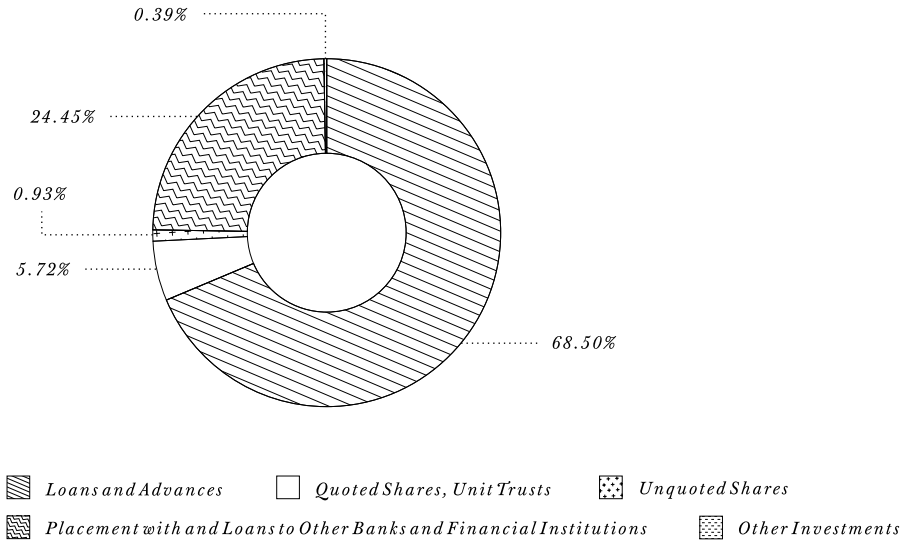
Risk Criteria		Risk Tolerance Level	Actual Position
Strategic Risk	CAR (Tier II) (%)	14.0	17.7
	Gearing (Equity) Ratio (%)	4.0	5.2
	ROE (%)	24.0	25.1
	ROA (%)	1.9	2.1
Credit Risk	NPL Ratio - Retail Loans (%) (Gross)	3.0	2.8
	NPL Ratio - Project Loans (%)	5.0	0.0
Market Risk	Interest Expenses to Interest Income (%)	70.0	63.5
	Margin (%)	3.6	4.1
	Investment in Government Securities/ Total Deposits (%)	62.5	69.0
	Dealing Securities - Shares/Total Assets (%)	2.0	1.67
	Liquid Asset Ratio (%)	20	74.4

### Composition of Assets

*Income Earning Assets*

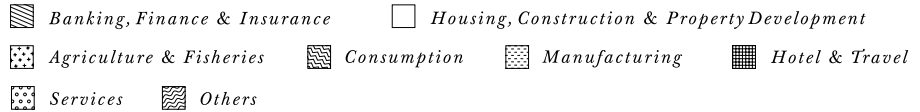
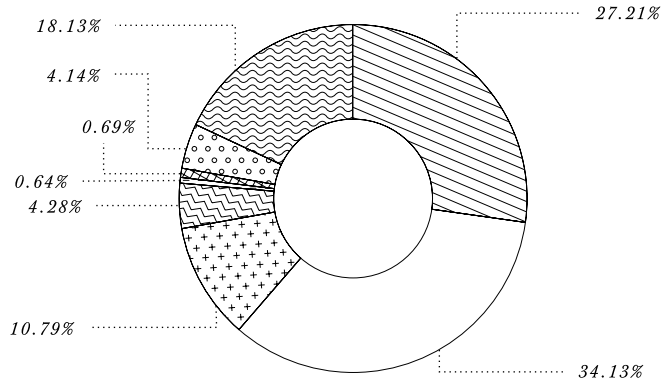


*Assets Exposed to Risk-Products*





Assets Exposed to Risk-Sectors



The loans and advances account for 19.94% of the total Balance Sheet assets and 20.93% of the total income earning assets. The income earning assets which are exposed to risk mainly comprise of Loans and Advances of 68.50%. Housing, Constructions and Property Development sector account for the major portion of Loans and Advances.

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

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

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

The Bank regularly measures and maintains its capital adequacy as required by the Section 76 j (1) of the Banking Act No. 30 of 1988 as amended by the Banking Act No. 33 of 1995. According to these requirements, the Bank should at all times, maintain a minimum core capital ratio of 5% and a total risk-weighted capital ratio of 10%.

**Capital Allocation  
and the Trend**

Year	2011	2010	2009
Risk-Weighted Assets for Credit Risk (Rs. Million)	49,146	36,736	30,317
Risk-Weighted Assets for Market Risk (Rs. Million)	16,491	16,991	9,020
Risk-Weighted Assets for Operational Risk (Rs. Million)	23,770	20,138	16,646
Total Risk-Weighted Assets	89,407	73,865	55,983
Total Core Capital (Tier I) (Rs. Million)	17,970	16,423	14,029
Total Capital Base (Rs. Million)	15,824	14,187	12,021
CAR- Tier I (%)	20.1	22.2	25.1
CAR- Tier II (%)	17.7	19.2	21.5

**Capital Adequacy Ratios - Trend 2007 to 2011**

*Pattern of the Capital Adequacy Ratios*



Both the Tier I and Tier II Capital Adequacy Ratios are well above the minimum regulatory requirements even under the serious scenarios calculated under stress tests as approved by the Board. Below is an account of the findings on Tier I CAR and 2011 figure is 20.10%.

Stress Conditions	Scenario 1	Scenario 2	Scenario 3
FD interest rates increase by 0.5% and 1% while Treasury Bill and Treasury Bond rates remain same	17.81	17.41	–
Loss of capital of all investments other than Government Securities (Shares, Investment in Financial Institutions and Banks) by (20%, 15% and 5%), (30%, 25% and 7.5%) and (50%, 50% and 15%) respectively	18.02	17.58	14.63
NPL increases up to 7.5%, 10% and 15% and provisioning of 50%	17.19	16.09	13.98
Shifting of Performing Loans (PL) by 10% into NPL and NPL categories shifting by 50%, 80% and 100% respectively.	18.25	18.11	18.04

## *Credit Risk*

Credit Risk is the risk of loss of principal or a financial reward stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation. Credit Risk arises whenever a borrower is expected to use future cash flows to pay a current debt. Investors are compensated for assuming credit risk by way of interest payments from the borrower or issuer of a debt obligation. This may be both On and Off-Balance Sheet.

Sound credit management is a prerequisite for the Bank's stability and continuing profitability, while deteriorating credit quality is the most frequent cause of poor financial performance and condition. The prudent management of credit risk can minimise operational risk while securing reasonable returns.

Ensuring lending staff comply with the set policies, procedures and guidelines of the Bank is the first step in managing credit risk. The second step is to ensure Board approved policies exist to limit or manage other areas of credit risk.

At NSB, the Board and Management set goals or targets for their loan portfolio mix, as part of their annual planning process. The loan portfolio is reviewed on an ongoing basis, to determine if performance meets the Board's expectations, and the level of risk remains within acceptable limits. Adaptation of standardised lending procedures reduces risk of transactional error and ensures compliance with regulatory requirements. Quarterly analysis of Key Performance Indicators (KPIs), Key Risk Indicators (KRIs), Stress Testing, Portfolio Review, Internal Control Assessment etc., are being applied to monitor quality of the Credit Portfolio.

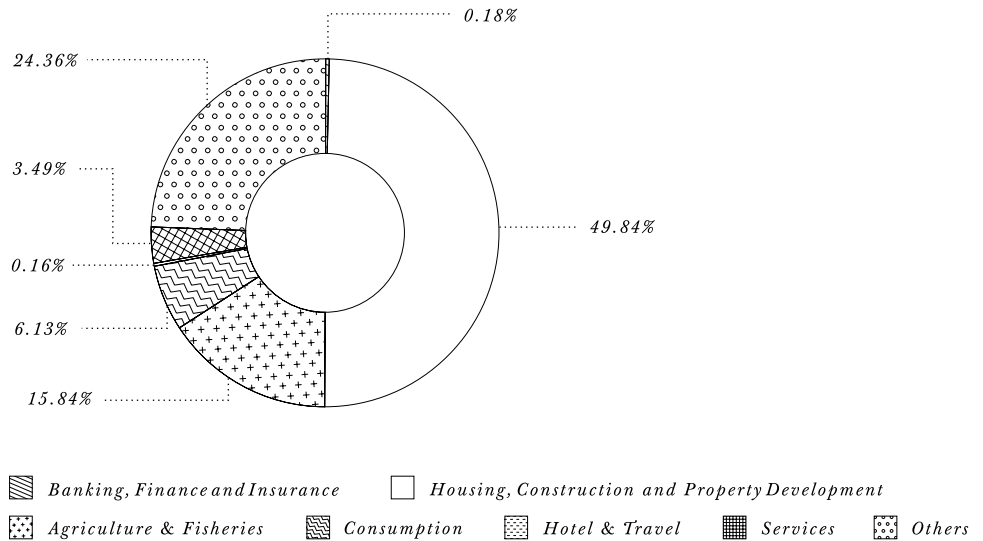
**Concentration  
of the Credit  
Portfolio****Concentration Risk**

Concentration Risk is a banking term denoting the overall spread of a bank's outstanding accounts over the number or variety of debtors to whom the Bank has lent money. This risk is calculated using a 'concentration ratio' which explains what percentage of the outstanding accounts each bank loan represents.

Risk of default is an important factor in concentration risk. The basic issue raised by the concept of default risk is, does the risk of default on a bank's outstanding loans match the overall risk posed by the entire economy or are the bank's loans concentrated in areas of higher or lower than average risk based on their volume, type, amount, and industry.

The types of concentration risks are based on the sources of the risk. Concentration risk can arise from uneven distribution of exposures (or loan) to its borrowers. The Main Concentration Risk of the Bank is low since the retail loans comprise 93.26% of the loans and advances while the corporate loans represent 6.74%. Another type is Sectoral Concentration Risk which can arise from uneven distribution of exposures to particular sectors, regions, industries or products. Housing, Construction and Property Development represent the major sector (49.84%) among the sectors financed by the Bank.

Sector-wise Loan Exposure



Even though loans and advances comprise only 19.94% of the Bank's total assets, it is the Bank's second major line of business. The investment in risk-free securities is 64.20% of total assets. Hence the magnitude of credit risk is comparatively low to the Bank, albeit the fact that the Bank considers credit risk as a major type of risk.

**Herfindahl and  
Hirschman Index  
(HHI)**

HHI is a simple technique used to measure the concentration risk of bank's credit portfolio. HHI measures the size of firms in relation to the industry or a sector in relation to the total portfolio.

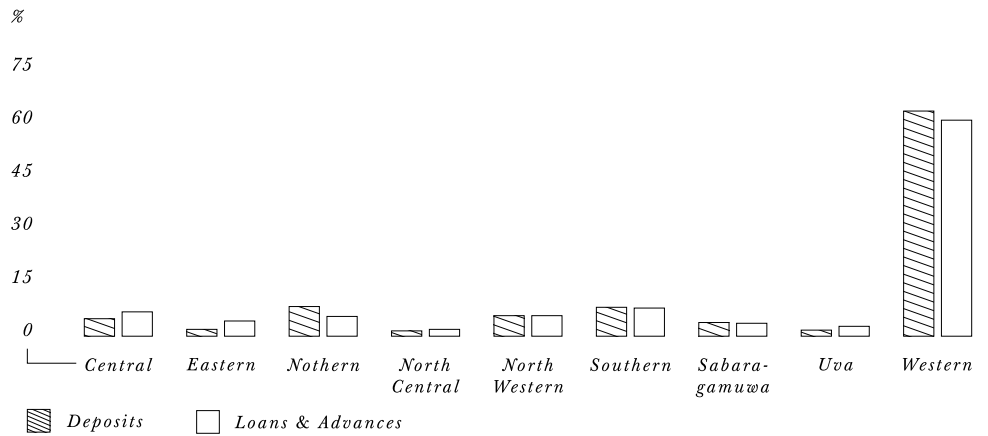
The Bank applied sector exposure to the total credit portfolio. The result of HHI can range from 0 to 1.0, moving from a large number of credit sectors to a few sectors. Minimum value of HHI Index generally indicates a low concentration and low level of competition in the market place whereas, high values indicate the opposite.

Loan Category	HHI 2011	HHI 2010	HHI 2009
Housing and Property Loans	0.20735	0.16158	0.17005
Loans against Deposits	0.03207	0.02735	0.0293
Loans to Government	0.00000	0.00492	0.00846
Loans to Government Institutions	0.00000	0.00001	0.00001
Development Finance Loans	0.00592	0.00537	0.00569
Pawning	0.15757	0.06998	0.04972
Personal	0.00039	0.00006	0.00012
	0.40329	0.26928	0.26336

The index shows a marginal increase of concentration risk from 2009 to 2010 whereas, a substantial increase from 2010 to 2011 indicating the Bank's credit portfolio is on the increasing credit concentration risk. However, the concentration risk impact on overall portfolio is low, since increased concentration risk on account of the growing products such as housing loans and pawning and these products are distributed over large number of customers and backed by marketable securities.



*Geographical  
Distribution of Deposits  
and Loans and Advances  
(Province-wise)*



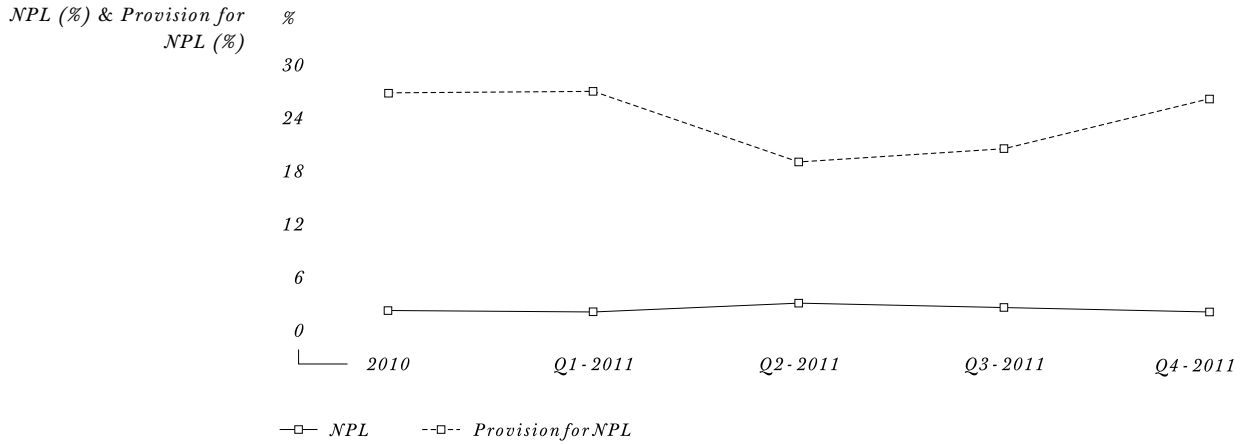
Province	Loans/ Deposits (%)
Central	31.12
Eastern	52.83
Northern	14.83
North Central	29.73
North Western	23.01
Southern	22.07
Sabaragamuwa	21.40
Uva	37.37
Western	21.95

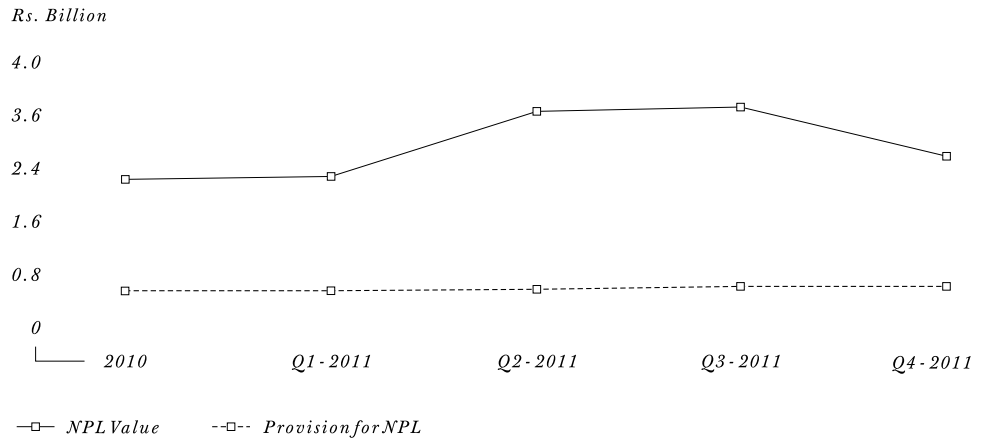
The Bank has deployed the mobilised funds in the respective provinces through loans and the ratios are in line with the Bank's loans to deposit ratio.

## Credit Quality

### Behaviour of Non-Performing Loans

The default risk which is one of the major categories of credit risk is mitigated by operating well-defined criteria for assessment of risk profile of the client and the facility.



NPL Value & Provision  
for NPL Value

NPL was stress tested to identify the deviations from the risk tolerance under assumed scenarios.

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

Stress Test	P & L Impact (%)	ROA (%)	ROE (%)
Actual	100	2.06	25.11
a	86	1.76	21.53
b	83	1.71	20.94
c	82	1.69	20.66

Increasing in NPL up to (a) 7.5%, (b) 10% and (c) 15% and provisioning by 50%.

Stress Test	P & L Impact (%)	ROA (%)	ROE (%)
Actual	100	2.06	25.11
a	61	1.26	15.38
b	47	0.97	11.83
c	19	0.39	4.73

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

**Credit Risk  
Monitoring,  
Mitigation and  
Control**

In order to maintain a healthy credit portfolio, the Bank monitors credit risk in an ongoing basis. The credit discipline and credit risk management and control process are being implemented. Credit process is streamlined through Credit Committee and Credit Operations Review Committee and continuous revision of procedures and monitoring performance. Credit risk management monitors credit limit setting, credit exceptions, security valuation, exposures etc. In order to implement the above, the Bank has taken action to strengthen and streamline the Credit Risk Management Unit (CRMU) under the supervision of Risk Management Division (RMD). The RMD will initially involve in assessment of pre-approval stage on large and high risk credits (presently loans approved by GM, CC and the Board should be recommended by CRO) as per Risk Management Policy.

### *Market Risk*

Market risk is the risk that changes in the financial market prices and rates that will reduce the value of a security or a portfolio. The value covers both On and Off-Balance Sheet positions.

The four standard market risk factors include, the interest rate risk or the risk that interest rates will change, equity risk or the risk that stock prices will change, currency risk or the risk that foreign exchange rates will change and commodity risk or the risk of commodity prices (i.e. grains, metals, etc.) will change. However, risks arising from these activities cannot occur in isolation and cannot be segregated. The market risk of the Bank's Balance Sheet occurs primarily on interest rate risk due to adverse assets and liability mismatch while the equity risk arises on account of both trading and strategic investments.

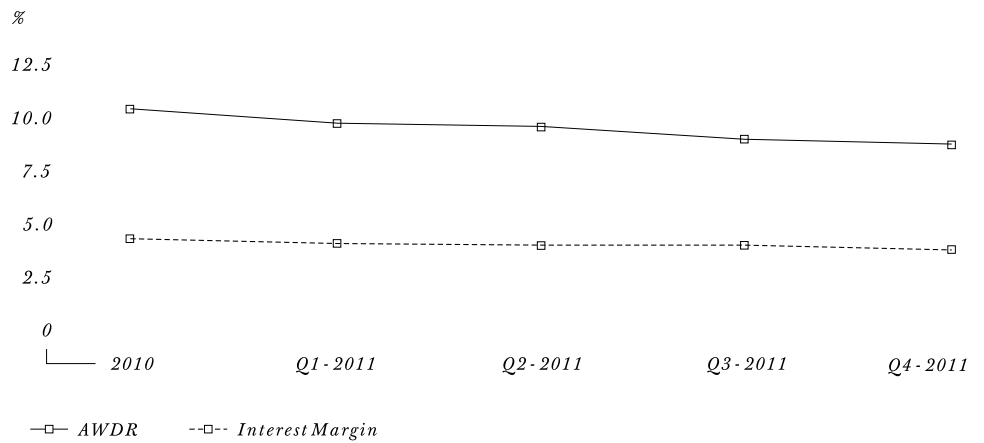
### **Interest Rate Risk**

Interest rate risk arises mainly due to the fact that there is a substantial mismatch between assets, particularly which carry long-term maturities and the deposits (liabilities) which are primarily in the short-term maturity and are subjected to interest rate adjustment within different time spans.

The Bank assesses the interest rate risk based on two perspectives namely, earnings perspective and economic value perspective.

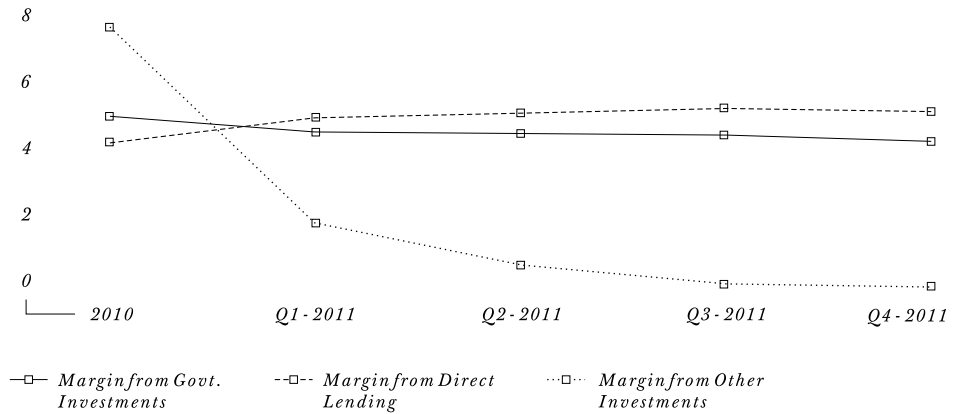
### Interest Margin

AWDR and Interest Margin



The interest margin of the Bank is on a decreasing trend compared to the fourth quarter of 2010 due to increasing market rates; however the negative impact on the increasing trend was managed by reducing the Bank's deposit rates until the third quarter of 2011. The decreased margin in the fourth quarter is mainly due to the increased interest rates on deposits at the latter part of the year 2011.

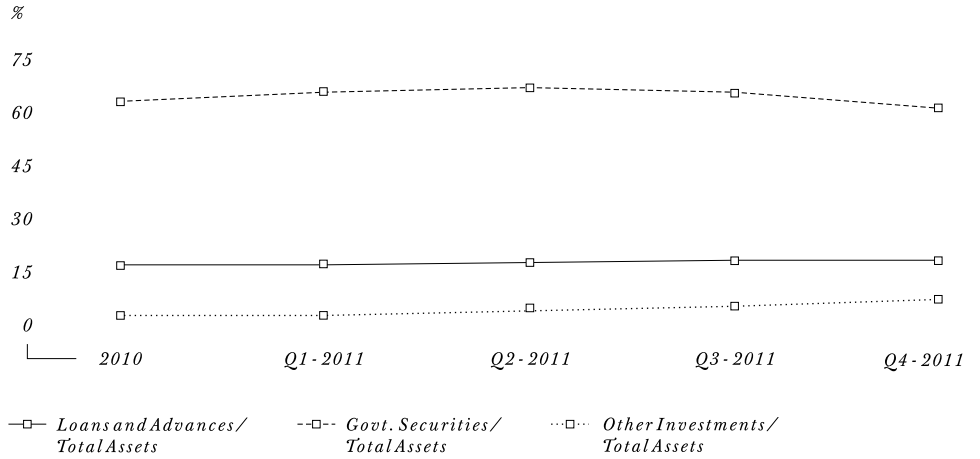
Interest Margin %



The reduction in margin is highlighted through the reduction of margin from various assets classes. The impact of the continuous reduction of margin from other investments (investment in shares) is marginal since investments in those categories are minimal (2.1% of total assets). The details are discussed under asset allocation.

Allocation of Assets  
and Yield from  
Different Asset  
Classes

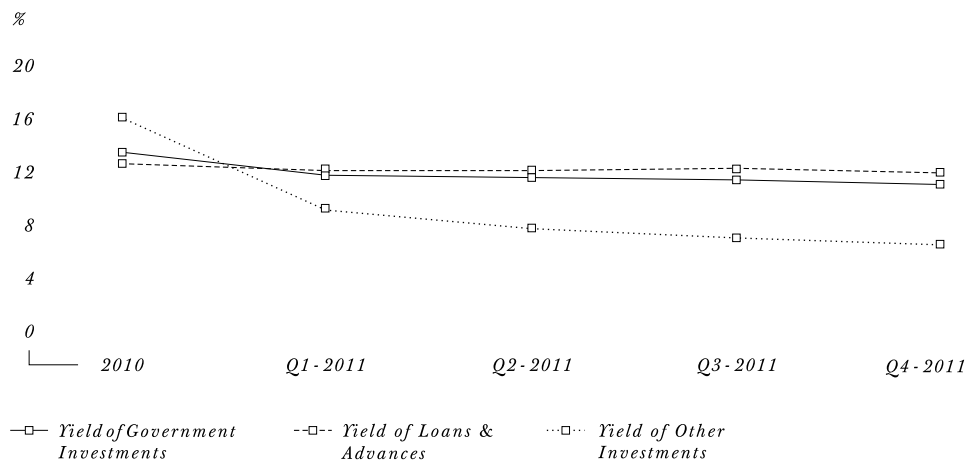
Assets Allocation



The assets allocation is based on the strategy adopted by the Bank.

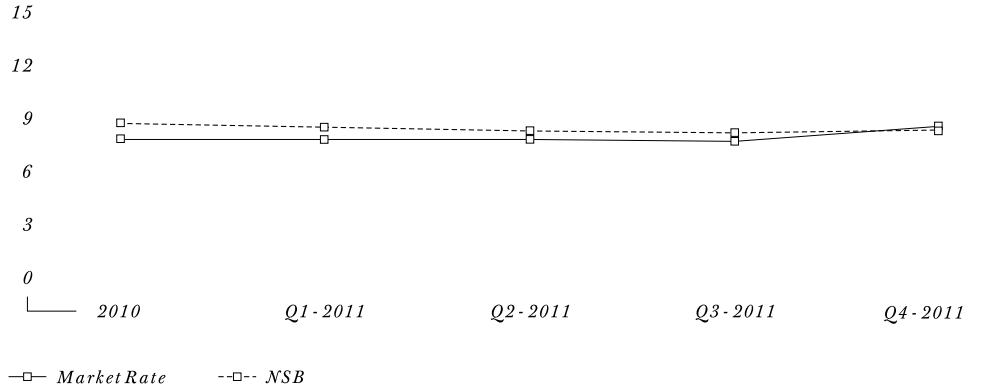


*Yield of Loans and Advances, Government Investments and Other Investments*



The yield for all investment categories are on the declining trend as a result of re-pricing of investments at reduced rates.

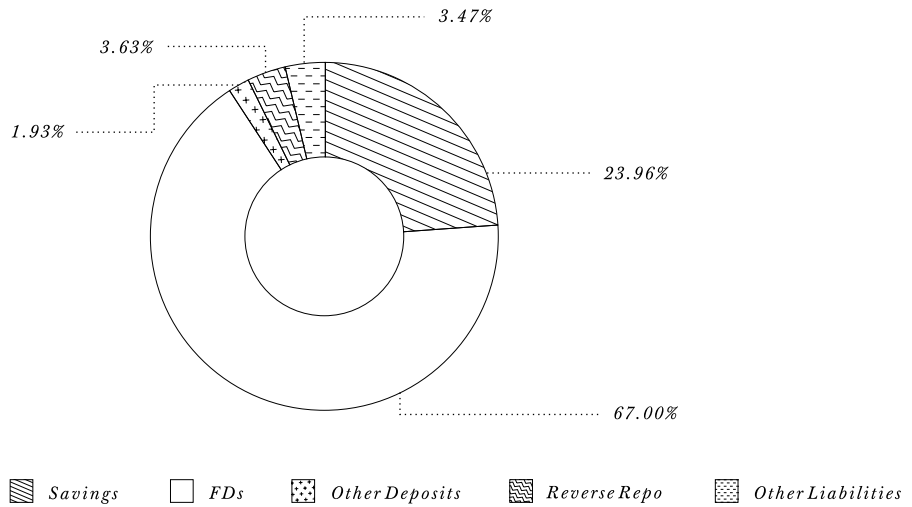
*AWFDR - Industry  
Vs NSB*



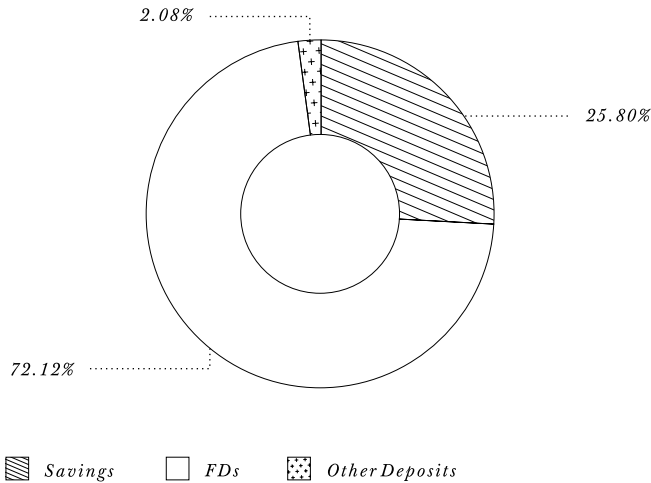
The Bank had been able to manage its funding cost by bringing down the AWFDR to be in line with the market.

### Liability Structure

Composition of  
Liabilities



Composition of Total Deposits



Majority of the Bank's funding are from savings and fixed deposits. The percentage of savings to total deposits stands at 26%. From the total FDs, 98% is short-term (12 months or less). This feature is highlighted in the interest sensitivity and the maturity gap analysis given below:

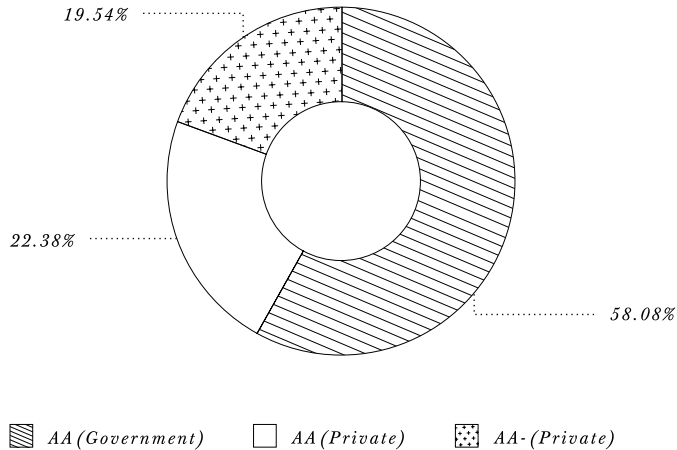
**Foreign Exchange Risk** /

Also known as 'currency risk' or 'exchange-rate risk', foreign exchange risk is the risk that the Bank will have to close out a long or short position in a foreign currency at a loss due to adverse movements in exchange rates. In terms of foreign currency operations, the Bank is only engaged in accepting savings and fixed deposits and investing in more or less in the same tenure. Hence, the foreign exchange risk faced by the Bank is at minimum and the mismatch of the foreign currency assets and liabilities is at a manageable level.

**Maturities of  
Foreign Currency  
Assets and  
Liabilities  
(Rs. Million)**

Months	Up to 1 Month	1-3 Months	3-6 Months	6-9 Months	9-12 Months	12-36 Years	36-60 Years	Total
Total Assets	–	145.3	494.0	–	4,419.5	–	–	5,058.8
Total Liabilities	31.8	1,970.8	400.0	–	1,978.2	–	–	4,380.6
Gap	(31.8)	(1,825.3)	94.0	–	2,441.2	–	–	678.1

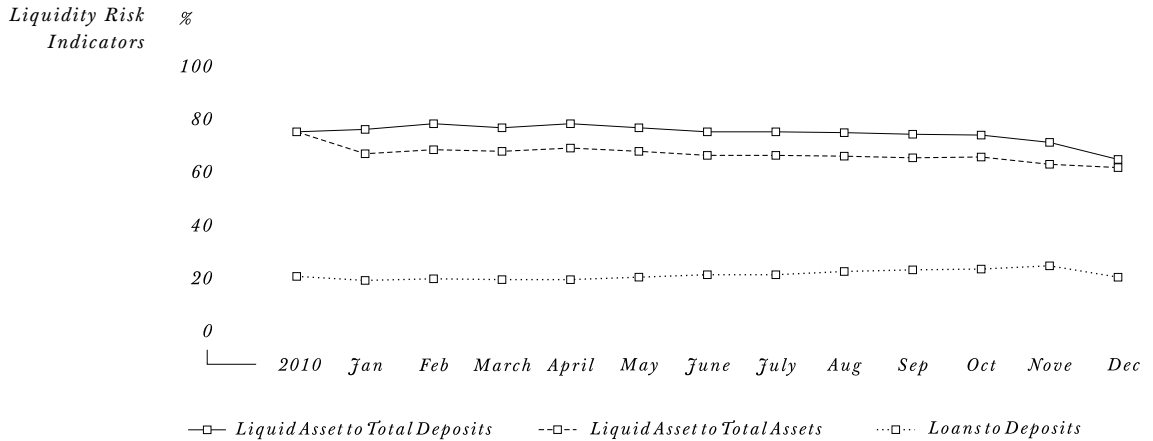
*Foreign Currency  
Investments in Banks*



**Liquidity Risk** / Liquidity risk is the risk stemming from the lack of marketability of an investment that cannot be bought or sold quickly enough to prevent or minimise a loss.

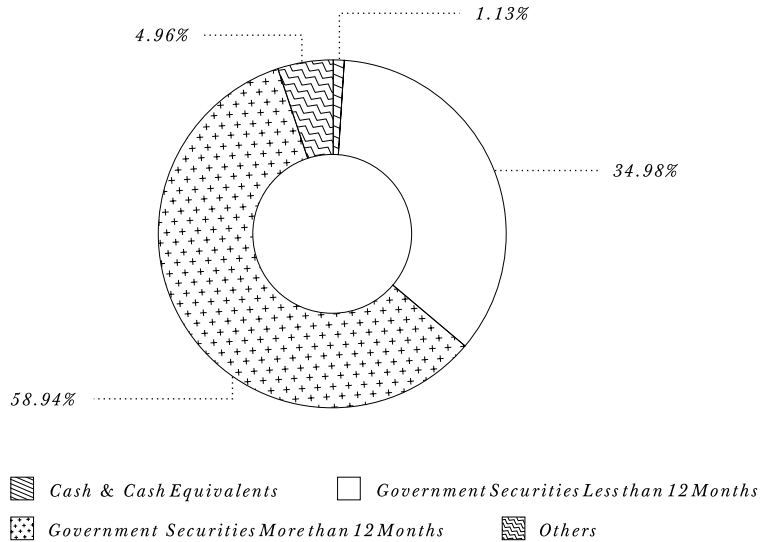
Liquidity risk would occur in situation where the Bank would not be able to fulfil its obligations promptly due to inadequate cushions maintained.

To monitor the liquidity risk of the Bank, reports such as liquidity risk indicators, maturity gap reports etc., are prepared and reported to ALCO and the Board. The liquidity risk indicators include ratios calculated under Stock Approach such as Loans to Deposit Ratio, Liquid Assets to Total Deposit Ratio etc.



As shown in the above graph, the Bank's Loans and Advances to Deposit Ratio is on the increasing trend although it is very much lower compared to the industry average. The Bank's statutory requirement to invest 60% of its deposits in Government Securities forces the Bank to maintain a high liquidity ratio.

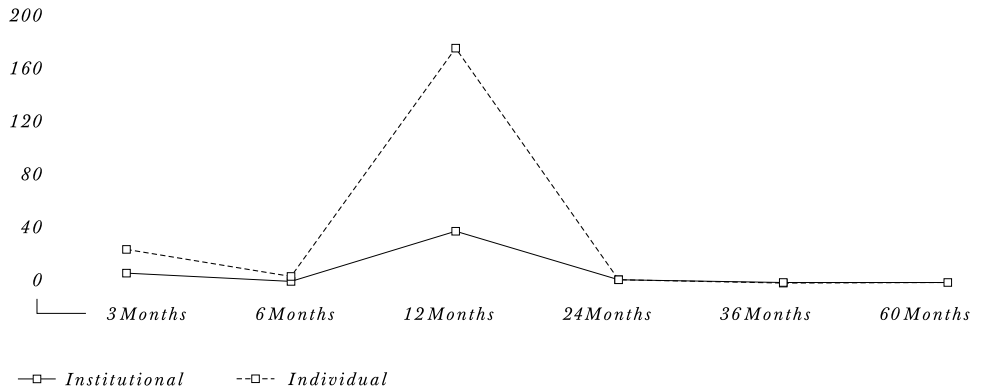
Concentration of  
Liquid Assets



The Bank maintains more liquidity than the statutory requirement which draws more attention to the interest rate risk than liquidity risk. It is very unlikely that the Bank would face liquidity problems due to its investments in Government Securities which are freely marketable.

Bank's Off-Balance Sheet exposure is limited and therefore no risk of unforeseen liquidity issues would arise. The ability of the Bank to access the Inter-bank market is also not difficult in a situation of liquidity problem due to its large investments in Treasury Bills and Treasury Bonds' Securities, reputation in the market and the Government affiliation.

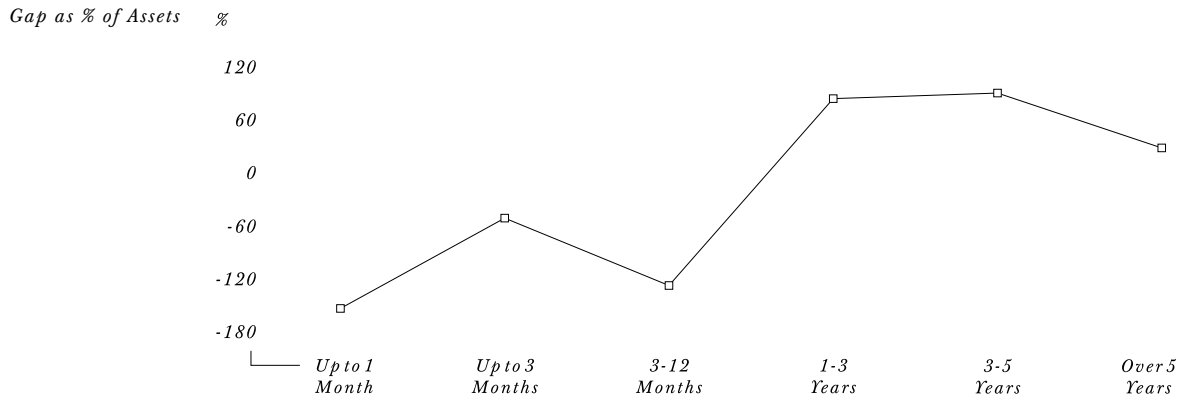
Stability of Funding Rs. Billion



The graph highlights the fact that majority of the Bank's deposits comprise individual deposits as opposed to the low level of Institutional Deposits. This indicates that the Bank is more stable in its funding as it is highly unlikely that a situation would occur where all or a fair number of the individual depositors would withdraw money within a shorter period of time.

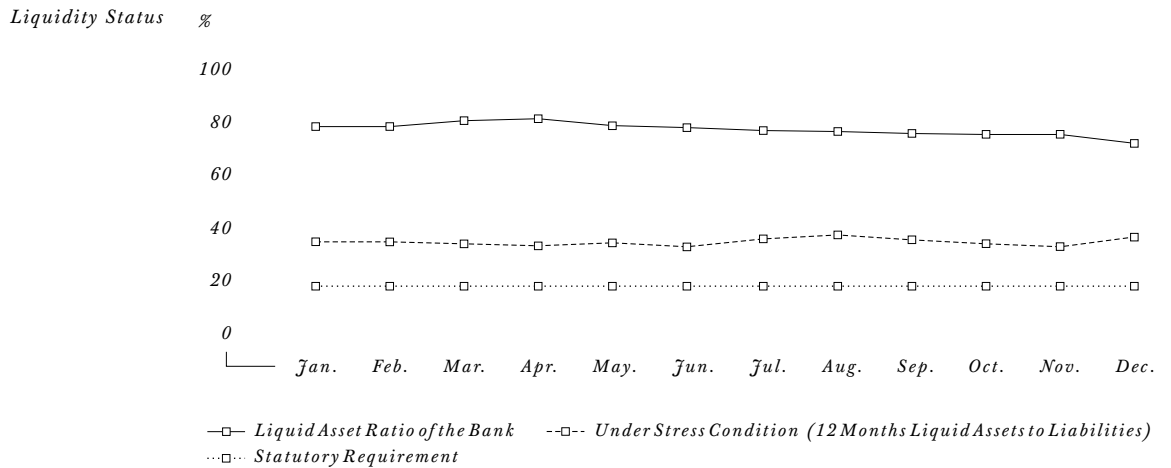


**Maturity Gap** The mismatch of assets and liabilities is highlighted in the following graph.  
(Rs. Millions)



As far as lending and investments are concerned, 42% of the total income generating assets are falling under 12 months or less maturity bucket and the same represents 89% of the liabilities. The assets book carry a fair portion of various asset classes maturing over five years mainly due to investments in long-term Government Securities and retail loans like housing. The mismatch between funding, lending and investment activities referred to above give rise to interest rate risk to the Bank. The immediate impact of variation in interest rates is on the Bank's net interest income, while a long-term impact is on Bank's net worth since the economic value of the Bank's assets, liabilities and Off-Balance Sheet exposures are affected.

**Liquid Asset Ratios** The maturity mismatch does not pose liquidity risk due to maintenance of right Liquid Asset Ratio (Statutory Requirement 20%). Details are given below:



**Equity Price Risk**

The investments in equity represent 2.1% of the total assets while investments in quoted and unquoted equity are 1.67% and 0.38% respectively. The investments in non-quoted companies are due to policy decisions on market and economic development and strategic reasons. Some of the investments in non-quoted institutions were made on the understanding that they will be listed in the Colombo Stock Exchange in the future.

The Bank is conscious of systematic and unsystematic risks of the equity portfolio and encourages portfolio diversification and therefore picking up of fundamentally sound stocks in mitigating associated risks.

The other investments represent short-term investments such as trust receipts, securitisation, etc. and are made with the objective of managing liquidity and margins.

**Stress Testing  
on Equity Price  
Shocks**

Loss of capital of all investments other than Government Securities (Shares, Investment in Financial Institutions and Banks etc.) by (a) 30%, 25%, 7.5% (b) 50%, 50%, 15% respectively. The situation of level (b) arises on an extreme financial crisis in the industry.

Stress Test	P & L Impact (%)	Margin	ROE (%)
Year	100	4.07	25.11
a	31	3.99	7.81
b	(15)	3.94	(3.67)

**Market Risk  
Monitoring,  
Mitigation and  
Control**

Monitoring, mitigation and control of market risk is mainly done through the Board approved policies, procedures and guidelines. Risk tolerance limits set by the regulatory authorities as well as by the Board will act as limits in minimising risk. Board approved Code of Conduct for Dealers is in place to monitor the dealing activities of Dealers are done according to the set guidelines. Periodical review of market risk indicators and report of the same to the ALCO, ERM and IRMC is done as a step towards market risk monitoring and control. Maturity Gap Analysis, Stress Testing, Sensitivity Analysis, Interest Rate Review etc., are used as tools in monitoring market risk.

***Operational  
Risk***

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes legal risk, but excludes strategic and reputation risk.

The operational risk is a term that has a variety of dimensions as a result of complexities of organisational structures, technology & system, deregulations, people, competition, unclear boundaries of products and services, environmental impacts etc., and therefore, for internal purposes, Bank's own definitions of operational risk are to be adopted for the system of operational risk management.

**Implementation  
of Operational  
Risk Management  
Function**

Establishment of an operational risk management process and the monitoring are the responsibility of Risk Management Division (RMD) initially while compliance and Audit involve in management of operational risks in the Bank effectively.

The Bank accepts the fact that internal audit, risk management and compliance function should have a formal status within the Bank to give it the appropriate standing, authority and independence. A close co-operation has already been established among Internal Audit, Risk Management and Compliance Divisions for provision of exchanging relevant information and the reporting of the operational risks.

The Senior Management effectively involved in managing operational risk. RMD assesses, monitors and reports operational risks as a whole and ensures that the management of operational risk in the Bank is carried out as per the policies.

### **Risk Register**

The Risk Register covers actions to be taken under strategic, credit, market and operational risk at operational level. It also covers the operational level actions such as procedure, process etc., either review of existing process/procedure and/or introduction of new systems, procedure, processes etc., to ensure operational level processes are streamlined for implementation of Basel II.

The Risk Register was taken up at the ERMCM several times prior to seeking approval of the Board of Directors to ensure incorporation and understanding of the content, ensuring the commitment for implementation of the actions proposed at operational level staff. The Risk Register is being implemented through the staff under the supervision of the Heads of Operational Activities. The Risk Register is monitored through ORMC.

The salient features of the Risk Register are given below:

Strategic Risk	Focus on Strategic/long-term directions for business diversification. Develop organisational structure and IT infrastructure for Business Development and Integrated Risk Management.
Credit Risk	Establish organisation structure for credit process. Implement Retail Scoring and Corporate rating systems. Streamline credit process, procedures and guidelines through credit policy.
Market Risk	Develop infrastructure for market risk management in an efficient manner. Restructure the organisation setup to demonstrate transparency in market operations. Development of system for improving efficiency of market operations, MIS and Risk Management advanced approaches.
Operational Risk	Improvements to business continuity and Disaster Recovery System. Examination of internal control and implementation. Review and Streamlining of compliance process. Risk review of Information Security and IT systems and procedures. Deployment/Implementation of IT applications/systems for key processes such as Asset Management, Anti-Money Laundering, Risk Management, Data Warehousing and Financial Planning and Reconciliations. Improvements of HR practices. Streamline the process of loss event data capturing mechanism.

**Policies,  
Procedures and  
Internal Controls**

The current gaps have been identified by reviewing the existing policy guidelines and procedures to meet the suitability. Integrated Risk Management Policy, Human Resource Policy, Training Policy, Outsourcing Policy, Treasury Policy, Investment Policy and Code of Conduct for Dealers are the Board approved policies during the year. Special concern was made on implementation of Basel Guidelines and the Basel II - Time Bound Action Plan was approved by the Board.

Periodic assessments on adequacy and effectiveness of the Bank's internal controls are a part of the operational risk management to ensure that the systems are with adequate control and it would minimise the operational risk in the process. RMD has already commenced the process of reviewing internal controls of existing operations. Flow process charts of current processes were mapped to examine the strength of internal controls. The process and controls of the operations of Payment Card System and the credit process have been reviewed and identified improvements to be made to the process and additional controls have been introduced. The suggestions from Audit Division were also incorporated. This will lead to establish Risk and Control Self-Assessment (RCSA) process in operational risk management.

**Loss Event Data  
Capturing and  
Reporting**

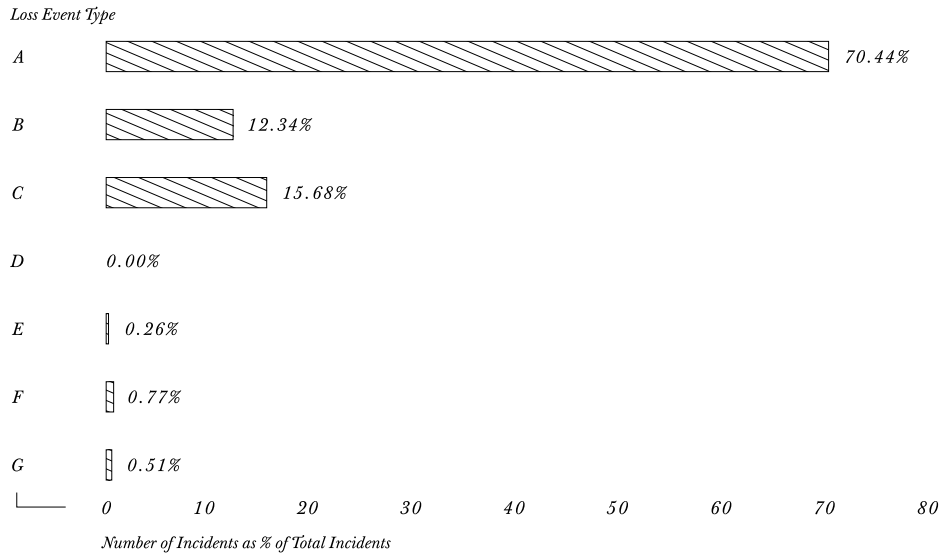
Effective assessment of operational risk involves keeping losses resulting from sources of operational risk at a minimum level as possible. The Bank has taken initial steps for recording data/information required to assess Advanced Measurement Approach (AMA) for estimating operational risk under Basel II. Internal losses are reported without any threshold. The Bank is in the process of establishing a database of operational losses. Loss events and loss values are reported to Integrated Risk Management Committee on a quarterly basis.

**Key Risk Indicators  
(KRI) and Scenario  
Analysis**

By adopting an integrated operational risk management framework, the Bank ensures that all operational risk management initiatives align with the corporate strategy elements and methodologies (RCSA & KRI) used to measure risk. The severity and the impact of the loss events, number of training programmes and employee efficiency are concerned with assessing, monitoring and mitigating the operational risk and creating a conducive risk aware culture in the Bank.

Loss Events

Operational Loss Events  
by Type - 2011



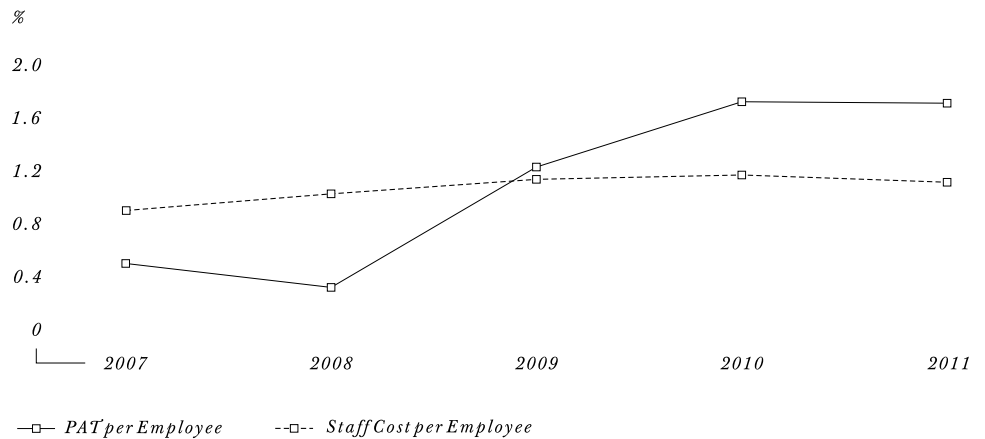
**A** - Execution and Delivery & Process Management      **B** - Business Disruptions and System Failures  
**C** - Damage of Physical Assets      **D** - Client, Product & Business Practices  
**E** - Employment Practices & Workplace Safety      **F** - External Frauds      **G** - Internal Frauds

The majority, 70.44% indicates the loss events from Execution and Delivery and Process Management Type. The tolerance limits for loss events will be set in the strategic perspective as per the risk appetite of the Bank.



Employee Efficiency

*PAT per Employee & Staff Cost per Employee*



Staff cost per employee has stabilised around Rs. 1.2 Million during the recent years whilst Profit After Tax (PAT) per employee ratio has increased.

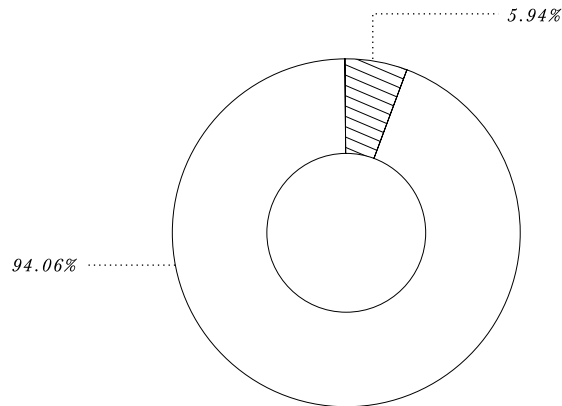
In event that the staff and related costs are increased by 15% (a), 20% (b) and 25% (c) the profitability and the efficiency ratios will drop gradually.

Impact under employee related and other expenses under stress condition.

Stress Test	P & L Impact (%)	ROA (%)	ROE (%)
Actual	100	2.06	24.46
a	91	1.86	22.17
b	88	1.80	21.42
c	84	1.74	20.66

Training/ Awareness Programmes

Training Programme Composition



Risk Mitigation Awareness
  General

A number of training programmes have been conducted on Risk Management, Compliance and Operational risk areas and internal controls during the year with a view to developing risk aware culture and improvement for the risk management process.

**Minimum Capital  
Allocation**

The Bank is currently applying Basic Indicator Approach (BIA) for Capital Allocation for Operational Risk.

The magnitude of operational risk is given below:

Year	2011	2010	2009
Total Risk Weighted Amount (Rs. Million)	89,407	73,865	55,983
Risk Weighted Amount for Operational Risk (Rs. Million)	23,770	20,138	16,646
Risk Weighted Amount for Operational Risk as a (%)	27	27	30

Under The Standardised Approach (TSA), the total amount of scaled Gross Income (according to the business lines) for the year 2009, 2010 and 2011 are Rs. 2,183 Million, Rs. 2,675 Million and Rs. 2,359 Million respectively.

**Conclusion** / Risk management underscores the fact that the survival of an organisation depends heavily on its capabilities to anticipate and prepare for the change rather than just waiting for the change and react to it. The objective of risk management is not to prohibit or prevent risk taking activity, but to ensure that the risks are consciously taken with full knowledge, clear purpose and understanding so that it can be measured and mitigated.

NSB believes that functions of risk management should actually be bank specific and directed by the size and quality of Balance Sheet, complexity of functions, technical/professional manpower and the status of MIS etc and has been taking actions in line with those features during the year.

The Bank has been relying on practicing developing policies, organisational structure, the committee approach etc. to manage various risks. The Bank has developed/reviewed a number of policies during the year while committees such as risk management, credit, ALCO, investment management are entrusted with handling the risk management aspects of the Bank. Risk Management Division, a centralised division is responsible for risk identification and monitoring, reporting etc while action has been taken to assign risk controls through functional divisions. Integration of these systems is in the process. The Bank has taken and continue to take effective actions to improve management information system, data warehousing solution, computerisation and networking of the branch activities, establishment of controls to create a better environment for risk management.

The Bank is in the process of consolidating its functions, structure, policies, systems etc to the extent the Bank can take risk more consciously, anticipate adverse changes and hedge accordingly. The Bank relies heavily on the Basel proposal and Statutory Directions/Guidelines as sources for forward-looking approach in building process and systems attuned to risk management practices.



# *Sustainability Supplement*



**Remembering  
the Future**  
/**A Message  
from the Chairman**

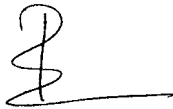
As a leading financial institution, the most significant impact we have on society and the environment is through the commercial and other activities we finance. What we invest in and who we lend to are factors that can affect society and nature in crucial ways. Such effects may be either positive or negative; it depends on the choices we make. We must choose our projects, customers and investment instruments wisely; our choices should never harm but always benefit the people and communities we are dedicated to serve, as well as the precious natural heritage shared by all Sri Lankans. To assure this, our operational policies and practices are designed to maximise both the sustainability of the enterprises we fund and the effective discharge of our responsibilities to the nation.

Another way in which we make an impact on society and the environment is through acts of corporate philanthropy. In the year under review, NSB disbursed funds for charitable donations, sponsorship of worthy causes, etc. Serving communities in this way is, I believe, an important part of our responsibility to the future. Sometimes our intervention is purely philanthropic, while at others we strive to combine community benefits with profitable lending and investment choices. Still other benefits result from innovative combinations of philanthropic and commercial activity.

Community-based banking is the key to all we do. It is our heritage as well as the key to our future. Thus we dedicate our resources to socially beneficial outcomes for the communities we serve, in times of prosperity and hardship alike.

Nearer home, we are committed to helping our employees grow and develop professionally. Training is an investment in our collective future and has a direct impact on the quality of service we provide.

Your Bank believes in tomorrow. Our environmental business initiatives have been gaining traction recently; however, our conviction that business and environmental objectives must go hand in hand is not new. We have long recognised a responsibility to help our customers develop methods of reducing the environmental impact of their activities, even in traditionally ‘dirty’ industries. Some of these initiatives are described below. To the degree that we succeed, not just in paying lip-service to the desiderata of sustainability but actually achieving sustainable growth - not only in our business but for Sri Lanka as a nation-posterity will remember us with gratitude.



**Pradeep Kariyawasam**  
*Chairman*

Colombo  
26th April 2012

**Taking  
Responsibility for  
Tomorrow** /

Creating financial inclusion for all Sri Lankans and helping finance national development are NSB's primary objectives. They are, of course, socially beneficial in themselves. Some may argue that this is enough to fulfil our duty to society, that there is no need to gild the lily by undertaking our own acts of charity and community support. However, we see things a little differently. The social benefits of our business activities are many, but they are indirect; what the money is spent on is, ultimately, in the hands of others. There are times when we should like to take the initiatives ourselves. When the opportunity to aid a needy individual, group, or community is brought to our attention, there is sometimes no better alternative than direct intervention.

Additionally, of course, there is the ever more important issue of sustainability. The way we do business must not deplete precious resources, harmfully impact the lives of others or hurt the planet whose bounty we all share. In ensuring that all we do is sustainable in the long term, we take care of all our tomorrows.

**Scope of this  
Report**

This Report offers a review of the sustainability of NSB's operations for the year ended 31st December 2011. It covers a broad range of indicators based on the triple bottom line reporting guidelines produced by the Global Reporting Initiative, an international body that sets standards for sustainability reporting. In this Report, we also look at the social and environmental impacts of the development projects we finance.



This is the third consecutive NSB Report of its kind which publishes annually. We should be happy to provide clarification or further information with respect to any of its contents. Please address all such inquiries to:

Finance & Planning Division,  
National Savings Bank,  
Savings House,  
255, Galle Road,  
Colombo 3.

Inquiries may also be addressed by email to *nsbgen@nsb.lk*. Please state the subject of the inquiry clearly in the subject line of your mail.

Report Boundary and Content	This report covers all the operations of the Bank, both within the borders of Sri Lanka and in other countries in which NSB is active.
Data Measurement and Bases of Calculation	Data for this Sustainability Supplement was extracted from the Audited Financial Statements of the Bank, which are in turn based on Sri Lanka Accounting Standards and Reporting Standards of The Institute of Chartered Accountants of Sri Lanka and the National Savings Bank Act No. 38 of 1971. An audit of these statements has been conducted by the Auditor-General. Environmental information has been gathered from each of the divisions of the Bank, while CSR information was received directly from branches, departments and other business units. Product information was provided by the Bank's Marketing Division.

**Key Impacts, Risks  
and Opportunities**

As a leading financial institution, the most significant impact we have on both the people and the communities we serve is through our investment, lending and philanthropic giving. Our practices, policies, programmes and actions in these three areas are also the most material to our business as a sustainable enterprise and a responsible bank.

NSB is one of the largest financial institutions in the country. With scale and scope come advantages, responsibilities and opportunities. In developing its business strategy, the Bank relies on the core values and ideals of service it has cherished since its foundation in 1972.

As we have seen, the role played by NSB encompasses both savings promotion and savings mobilisation in the course of national development through the financing of State projects. The Bank is also an investor in Government Securities (holding a mandatory 60% of its deposits in them). We participate in capital and financial market development, project lending and retail lending; our investments are always chosen to help promote development. We pursue these ends amid severe competition from banks and other institutions whose goal is purely one of profit, in an arena subject to volatile market forces; our development agenda often places us at a relative disadvantage *vis-à-vis* these competitors.

Risks to our operations arise from a variety of sources. They include the changing demands and roles of our stakeholders, particularly suppliers and customers. Opportunities often arise from the very same sources. These are addressed through objectives-oriented, proactive management that insists upon transparency and regulatory compliance.

**Corporate  
Information,  
Products and  
Services**

Essential information about NSB and its Subsidiary can be found in the Corporate Information Section on page 340 of this Annual Report. For a full description of our products and services, please see page 326.

**Countries in which  
NSB is active**

In addition to its domestic activities, which extend across Sri Lanka through a network of 648 Post Offices and 3,410 Sub-Post Offices in addition to its own branches, NSB is also active in most middle eastern countries with sizable Sri Lankan expatriate worker communities, as well as in Germany, Italy, Israel, Russia, South Korea, the USA and the UK. The Bank maintains direct remittance arrangements with reputable postal organisations, banks and money transfer agents in these countries.

In addition, the Bank maintains relationships with 39 exchange houses located in the following countries: Australia, Bahrain, India, Italy, Kuwait, Malaysia, Oman, Qatar, Russia, Saudi Arabia, the UAE and the USA. It also employs a total of ten local representatives in Italy, Oman, Qatar, Saudi Arabia, the UAE and the United Kingdom. In all these countries, the vast majority of the Bank's customers are Sri Lankan migrant workers.

**Scale of the  
Organisation**

As at 31st December 2011, NSB employed 2,871 permanent staff. A further 404 temporary staff were employed on contract.

The following figures, taken from the 2011 Balance Sheet, indicate the financial scale of the Bank.

	Rs. '000
Total Assets	466,634,532
Total Equity	24,205,429
Income	47,143,640
Net Interest Income	16,942,373
Profit after Tax	5,759,140

**Significant  
Changes during the  
Reporting Period**

A new Additional General Manager was appointed at the end of the year.

A total of 24 new branches was opened during the year at the following locations: Akkaraipattu, Angunukolapelessa, Galewela, Hali-Ela, Hanwella, Ibbagamuwa, Imaduwa, Ingiriya, Kahatagasdigiliya, Kantale, Kebithigollewa, Kuruwita, Madampe, Mawathagama, Medawachchiya, Palugamam, Passara, Potuvil, Pussellawa, Rambukkana, Sooriyawewa, Thambuththegama, Wariyapola and Wattagama.

**Awards and  
Recognition**

NSB is proud to be the only Sri Lankan Bank to have won the coveted AAA (Ika) national long-term rating from Fitch for nine years in succession, the last award having been made in the year under review.

The Bank's 2010 Annual Report beat a field of competitors from all over the world being ranked No. 04 in the Top 100 Annual Reports Worldwide and No. 02 in the Top 50 Annual Reports in the Asian Pacific at the 2010 League of American Communications Professionals Awards while winning the Grand Award for the Best Country Report at the International ARC Awards. The same report went on to win the Gold for Management Commentary and the Silver for Sector Excellence at the Annual Report Awards conducted by The Institute of Chartered Accountants of Sri Lanka.

**Governance,  
Commitments and  
Engagement**

The Corporate Governance and Risk Management sections of this Annual Report give comprehensive information on governance, commitments and engagement.

Responsibility for achieving the Bank's mandate through policy, strategy, action and review is vested in the Board of Directors. Directors are chosen for their probity, varied but relevant disciplinary backgrounds and broad experience.

In large part, the Board exercises oversight through a number of committees. The highest level of these are the Board Audit Committee, the Human Resources and Remuneration Committee, the Nomination Committee and the Integrated Risk Management Committee. They are constituted and mandated in accordance with guidelines issued by the Central Bank of Sri Lanka and appointed by the Board of Directors. Each committee also has a founding charter by which it must abide.

Board committees meet quarterly or at intervals as specified by their charters. For more details regarding these committees, please see the chapters on corporate governance and risk management and compliance.

Vision, Mission,  
Values and  
Objectives

The vision and mission statements of the Bank appear on page 7 of this Annual Report. They reflect our commitment to the core values and operating principles that drive and sustain us.

At all times, we strive to:

- *Deliver satisfaction to our customers, clients and partners* - We are driven by a passion to satisfy the financial needs of the Government, as well as our individual and corporate clients. We believe that disciplined execution will lead to sustainable, long-term performance.
- *Trust our team* - We work together around the country to meet the expectations of all our stakeholders, striving always to be consistent and straightforward in our interactions.
- *Embrace the power of our people* - We value our differences and understand that diversity and inclusion are good for business and make the Bank stronger.
- *Act responsibly* - 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 in order to build a better future for ourselves and the customers, clients, communities and the country we serve.

**Stakeholder  
Engagement**

In a sense, every Sri Lankan is a stakeholder in the Bank. More particularly, NSB engages daily with customers, suppliers, neighbours, partners, regulators and employees. More often than not these relationships are managed formally, through regular, mandated meetings and discussions with stakeholder representatives, as well as less formally through responses to customer enquiries, meetings with regulators and voluntary engagement with external parties such as Government officials and departments, stakeholder associations, non-profit groups and independent advisors.

Five trades unions represent the employees of the Bank: the Ceylon Bank Employees Union, the Executive Officers' Union, the Sri Lanka Independent Bank Employees' Union, the Jathika Sevaka Sangamaya and the All-Ceylon Bank Employees' Union. Corporate management conducts regular discussions and negotiations with all of them. A special committee attends to employee grievances on behalf of the Board, to which it reports.

The accompanying table describes formal stakeholder engagements in the year under review.

## Formal Discussions with Stakeholders, 2011

Stakeholders	Topics Discussed	Methods of Response
Shareholder: the Government of Sri Lanka, represented by the Ministry of Finance	<ul style="list-style-type: none"> <li>- Contribution Towards Consolidated Fund</li> <li>- Ensuring Compliance in Regulatory Reporting</li> <li>- Ensuring Maintenance of Statutory Ratios (Capital Adequacy, Liquid Assets etc.)</li> <li>- Assuring Feasibility on Network Expansion</li> <li>- Plans to Launch and Relaunch New Products and Existing Products</li> <li>- Strategies to Maintain Low NPLs</li> <li>- Ensuring Compliance with Laws and Regulations</li> <li>- Preparation of Strategic Business Plan</li> </ul>	<ul style="list-style-type: none"> <li>- Annual Report</li> <li>- Annual Budget</li> <li>- Annual Action Plan</li> <li>- Media Statements</li> <li>- Publications</li> <li>- Interim Financial Statements</li> <li>- Periodical Updates</li> </ul>
Customers	<ul style="list-style-type: none"> <li>- Satisfaction on Rendered Service</li> <li>- Facility of Making Utility Payments</li> <li>- Due Respect and Recognition in Receiving Service.</li> <li>- Accessibility to Relevant and Reliable Banking Information (Interest Rates, Lending Rates)</li> <li>- Awareness on Promotional activities</li> <li>- Facilitates to Branchless Banking</li> </ul>	<ul style="list-style-type: none"> <li>- Branches</li> <li>- Ithurum Ayojana Kawa</li> <li>- School Banking Units</li> <li>- ATMs</li> <li>- Internet Banking</li> <li>- Mobile Banking</li> <li>- POS</li> <li>- Call Centre</li> <li>- Surveys on Customer Satisfaction</li> <li>- Corporate Website</li> </ul>

Stakeholders	Topics Discussed	Methods of Response
Employee unions and executive associations	<ul style="list-style-type: none"> <li>- Discussions and implementation of Collective Agreement</li> <li>- Remuneration</li> <li>- Performance Bonus</li> <li>- Welfare Activities Towards Staff</li> <li>- Basel II Implementation</li> <li>- Future Plans and Strategic Plan Implementation</li> <li>- Defined Benefit and Contribution Plans</li> <li>- Training &amp; other Facilities to Improve Skills and Competencies of Employees</li> <li>- Disciplinary Actions</li> <li>- Special Appraisals</li> </ul>	<ul style="list-style-type: none"> <li>- Negotiations on Collective Agreements</li> <li>- Performance Appraisals</li> <li>- Internal News Letter</li> <li>- Special Announcements through Public Address System</li> <li>- Circulars published in Intranet.</li> <li>- Training Programmes</li> <li>- Ad Hoc Meetings</li> <li>- Periodical Returns</li> <li>- Review Meetings</li> <li>- Special Events</li> </ul>
Suppliers	<ul style="list-style-type: none"> <li>- Registration of Suppliers</li> <li>- Procurement Opportunities</li> <li>- Delivery of Contractual Obligations</li> </ul>	<ul style="list-style-type: none"> <li>- Procurement Procedure</li> <li>- Meetings with Suppliers</li> <li>- Site Inspections.</li> <li>- Product Demonstrations</li> </ul>



Stakeholders	Topics Discussed	Methods of Response
<ul style="list-style-type: none"> <li>- Central Bank of Sri Lanka</li> <li>- Department of Inland Revenue</li> <li>- Other Government organisations</li> <li>- External Auditors</li> <li>- Professional organisations and business community</li> </ul>	<ul style="list-style-type: none"> <li>- Regulations and Directives for Specialised Licensed Banks issued by CBSL</li> <li>- Compliance with Tax Regulations Issued by IRD</li> <li>- Sri Lanka Accounting Standards and Sri Lanka Financial Reporting Standards by ICASL</li> <li>- Banking License Fee</li> <li>- Labour Regulations</li> <li>- Marketing and Promotional Campaigns</li> <li>- Awards and Accolades</li> </ul>	<ul style="list-style-type: none"> <li>- Annual Report</li> <li>- Directions and Circulars</li> <li>- Interim Financial Statements</li> <li>- Periodical Returns to Regulatory Bodies</li> <li>- Interviews and Meetings</li> <li>- Specialist's Opinion</li> <li>- Participation in Competitions</li> <li>- Corporate Website</li> </ul>
Other interested parties	<ul style="list-style-type: none"> <li>- Operational Performance of the Bank</li> <li>- Financial Performance of the Bank</li> <li>- Recruitments from Communities</li> <li>- Launch and Relaunch of Products and services</li> <li>- Scholarships Granted by Banks</li> <li>- Social Responsibility Activities Carried Out by the Bank.</li> </ul>	<ul style="list-style-type: none"> <li>- Annual Report</li> <li>- Promotional Advertisements</li> <li>- Sponsorships</li> <li>- Media Statements</li> <li>- Public Relation Activities</li> <li>- Recruitment Advertisements</li> </ul>

**Linkage in  
Compensation**

Targets set by the Bank's corporate business plan, annual budget and annual action plan are compensation linked through a system of bonuses paid for performance. More information is available in the Corporate Governance section of this Annual Report.

**Eligibility of  
Board Members**

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

**Overseeing  
Economic, Social  
and Environmental  
Performance**

The Board of Directors reviews and evaluates important risks and opportunities faced by the Bank, which may arise from a variety of economic, social and environmental factors. There exist well-established institutions and procedures, among them the Board committees, by which these responsibilities are discharged. The Bank's economic, social and environmental actions are guided by its core values, code of ethics and commitment to openness and transparency. All employees are bound by the NSB Code of Conduct and Government Oath.

**Elements of a  
Precautionary  
Approach**

We strive to do business responsibly and ethically, demonstrating our values in every interaction with a customer, employee, supplier, vendor or other stakeholder. We recognise that our continued success and growth depends on our reputation for honesty, probity and good judgment. By always remaining true to our values we not only benefit our stakeholders but also help assure our own future success.

Thus the importance of a precautionary approach to doing business. All procedures relevant to banking operations are, of course, fully-documented. Rules and regulations of the Bank are propagated among employees and others by way of the Bank's intranet. A fully-competent Risk Management Division monitors risks, both actual and potential, and takes appropriate measures to mitigate them as and when necessary. Another important aspect of our precautionary approach is the surprise audits carried out from time to time by the Bank's Internal Audit Division.

#### Commitments to External Initiatives

NSB is a signatory to various external conventions and covenants.

#### Associations of which the Bank is a Member

The interests of the Bank often coincide with those of other groups. Consequently, NSB is an active member of several associations that advocate or help shape public policy. In 2011, the Bank retained membership in the following organisations:

- The Employers' Federation of Ceylon
- The Sri Lanka Banks' Association
- The World Savings Banks Institute
- The International Union for Housing Finance
- The Ceylon Chamber of Commerce

#### Economic Performance

The accompanying table shows economic value added through the activities of the Bank in 2011.

Statement of  
Economic Value  
Added

	2011 Rs. '000	2010 Rs. '000
<b>Invested Equity</b>		
Shareholders' Funds	24,205,429	21,667,810
Add: Cumulative Loan Loss Provision	724,482	646,176
	24,929,911	22,313,986
<b>Earnings</b>		
Profit after Taxation	5,759,140	5,390,835
Add: Loan Losses and Provisions	78,306	103,985
Less: Recoveries	(34)	(308)
	5,837,412	5,494,512
<b>Cost of Equity-based on 12 months' Weighted Average</b>		
Treasury Bill Rate plus 1.8% for the Risk Premium (%)	9.43	10.39
Cost of Average Equity	2,351,831	2,318,423
Economic Value Added	3,485,649	3,176,089

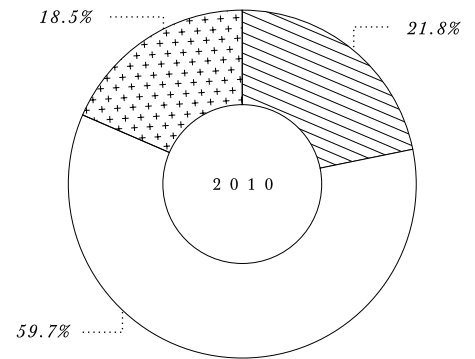
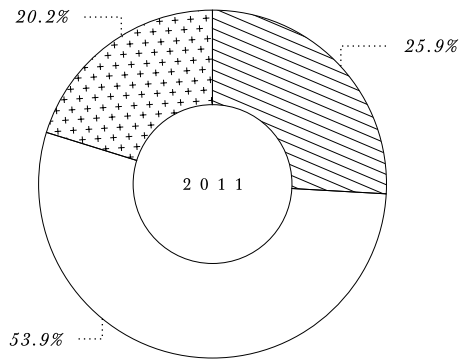
Sources and  
Utilisation of  
Income


	2011 Rs. '000	2010 Rs. '000
<b>Sources of Income</b>		
Interest	46,376,790	48,141,664
Dividends	196,205	112,444
Fee and Commission	173,047	127,337
Others	397,598	1,689,027
<b>Total</b>	<b>47,143,640</b>	<b>50,070,472</b>
<b>Utilisation of Income</b>		
Employees - Salaries and Other Payments to Staff	3,795,615	3,713,909
Suppliers - Interest	29,434,417	31,486,887
Other Expenses	3,397,168	2,036,134
	36,627,200	37,236,930
<b>Net Income before Government Taxes and Levies</b>	<b>10,516,440</b>	<b>12,833,542</b>
<b>Government</b>		
VAT and Income Taxes	4,757,300	7,442,707
Consolidated Fund	3,212,671	2,664,084
	7,969,971	10,106,791
<b>Retained Earnings</b>	<b>2,546,469</b>	<b>2,726,751</b>
<b>Total</b>	<b>47,143,640</b>	<b>50,070,472</b>


Value Addition and  
Distribution


	2011		2010	
	Rs. '000	%	Rs. '000	%
<b>Value Addition</b>				
Income from Banking Services	46,376,790		48,141,664	
Cost of Services	(31,168,107)		(33,377,750)	
Value Added by Banking Services	15,208,683		14,763,914	
Non-Banking Income	766,850		1,928,808	
(Provisions)/Reversal	(1,317,594)		330,063	
	14,657,939		17,022,785	
<b>Distribution to Employees</b>				
Personnel Costs	3,795,615	25.9	3,713,909	21.8
<b>To Government:</b>				
Income Tax	3,124,203		4,442,720	
Value Added Tax	1,564,481		3,057,028	
Contribution to the Consolidated Fund	3,212,671		2,664,084	
	7,901,355	53.9	10,163,832	59.7
<b>Retained for Expansion and Growth:</b>				
Earnings	2,546,469		2,726,751	
Depreciation	414,500		418,293	
	2,960,969	20.2	3,145,044	18.5
	14,657,939	100.0	17,022,785	100.0

*Distribution of  
Value Addition*



 *Distribution to Employees*

 *To Government*

 *Retained for Expansion and Growth*

Impact of Climate Change	The Bank is not directly exposed to economic impacts arising from climate change. All agricultural lending is channelled through various development banks or the Paddy Marketing Board, which carry the associated risks themselves.
Coverage of Defined Benefit Plans	The defined benefit plan for NSB employees consists of a retirement gratuity and pension scheme. An actuarial valuation of the plan is carried out once in every three years. The defined contribution plan, in keeping with standard Sri Lankan business practice, involves contributions to the Employees' Provident Fund and Employees' Trust Fund. For more information on these plans, please see the Statement of the Bank's Accounting Policies on page 276.
Government Assistance	The Bank received no financial assistance from the Government in the period under review.
Standard Entry Level Wage vs Local Minimum	<p>All wages are specified by collective bargaining agreements with employees. These agreements are revised every three years after the discussions with the relevant trade unions. Frequent additional discussions are held from time to time with unions and employees on the subject of wages.</p> <p>All employees, including those on probation, are entitled to join the Bank's medical assistance scheme.</p>
Energy Conservation	In addition to its internal energy conservation measures and procedures, NSB actively invests in energy conservation by financing a wide range of projects whose objectives are energy efficiency, renewable and low carbon energy production. Thus, we help Sri Lanka's businesses and communities navigate the complex transition from traditional energy sources to those that consume fewer resources or are renewable, and which produce smaller quantities of greenhouse gases.



**Supporting  
Locally-Based  
Suppliers**

All procurement processes are handled by the Head Office Supplies Division and managed according to the Government procurement manual.

Whenever possible, we aim to purchase and thus reward, local value. During 2011, the majority of purchases were from locally-based suppliers.

**Internal  
Conservation  
Measures**

Numerous measures have been taken to minimise consumption of electricity and fuel. Among these, the most important include -

- limiting the use of air conditioning units to normal banking hours only;
- restricting working hours on holidays to minimise energy use;
- using only CFC-free air conditioning units;
- using only energy-saving light bulbs and flatscreen computer monitors; and
- ensuring that official vehicles are always refuelled in the presence of an authorised officer, with specific limits on fuel reimbursements for officers provided with company vehicles.

Indirect energy savings are obtained from the use of CFL energy saving lamps for illumination at all branches. New branches are also fitted with VRV-type air conditioning systems, which reduce power consumption while improving customer and staff comfort.

**Water Use**

The average consumption of water at our Head Office is 1,650 units per month.

**Mitigating the  
Environmental  
Impact of Products  
and Services**

As a bank, our products and services have no direct impact on the environment. We produce no goods to be transported; only promotional materials for marketing campaigns require transportation, and the environmental impact of this is negligible. Our business premises, too, are always selected and constructed in order to minimise their impact on the environment.

In addition, NSB supports the conservation and sustainability efforts of its customers through advice and financing. In particular, we have funded numerous construction projects and facility improvements that enhance the energy efficiency of newly built or existing commercial buildings.

NSB sometimes finances transactions on behalf of its clients and customers that, while providing the raw materials and energy that power economic growth, may also have significant impacts on the environment. When considering such transactions, it is a priority of the Bank to help minimise the adverse impact on the environment of such operations. Thus, when granting project loans, we insist upon an assessment of the impact the project is likely to have on the environment.

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

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

#### Environmental Fines and Sanctions

No fines or non-monetary sanctions for non-compliance with environmental laws and regulations were levied on the Bank in the year under review.

**Labour Practices  
and Decent Work**

Since its inception, the Bank has striven to be an exemplary employer. At the end of the year under review we employed a total of 4,147 people, as shown by the following tables:

**Workforce by  
Employment Type**

Employment Type	No. Employed
Full Time	3,275
Outsourced	872
	4,147
Permanent	2,871
Contract	404
	3,275

Permanent Employment by Contract and Region	Province	No. of Branches	No. of Employees
	Central	21	202
Eastern	14	98	
North Central	12	80	
North Western	18	176	
Sabaragamuwa	18	152	
Southern	30	311	
Uva	9	86	
Western	73	1,615	
Northern	15	151	
	210	2,871	

Employment by Category	Category	No. of Employees	Percentage
	Corporate Management	9	0.27
Executive Management	11	0.33	
Middle Management	109	3.32	
Junior Management	316	9.64	
Supervisors	319	25.00	
Banking Assistants	1,814	55.38	
Others	197	6.01	
Total	3,275	100.00	

**Recruitment and  
Training**

Most recruitments to the Bank take place at just two levels: banking assistant and management trainee. All recruitments are handled by a dedicated Human Resources Development Division based at NSB's head office. The Bank also seeks to recruit professionals with appropriate qualifications and experience. The other recruitments are only for specialised job positions.

The procedure for recruiting banking assistants is as follows:

Vacancy advertisements are published in the media giving equal opportunities to all citizens across the country. Applicants with the required qualifications are invited to sit a written examination conducted by a suitable professional body. Candidates who attain or exceed a previously-specified pass mark are interviewed by Bank officers, who make a short list of acceptable candidates. Staff vacancies are filled from this list. All recruitments are subject to a two-year probation period.

Management trainees are subject to the same selection procedure but are given a year's training before being subjected to further examination. Successful candidates are appointed as Grade III-II executive officers.

The Bank also needs to recruit officers to specialised positions from time to time. Again, positions are advertised in the media and eligible applicants are selected by interview.

Since NSB's presence is island-wide, geography is a consideration in assignments and transfers. The Bank considers staff members' hometown locations and other relevant information before making these. In particular, most officers of branches in the North and East of the country are residents of those areas, and new recruitments to these branches are made locally.

Agents for international operations are identified by senior management and appointed by the Board.

**Employee Benefits**

Taking care of tomorrow implies taking care of our employees' tomorrow, too. We strive to furnish all our employees with a generous yet appropriate range of health, life management, retirement and other benefits. Since we are also committed to attracting the best possible talent, these benefits act as important incentives to recruitment and career development. Thus, our comprehensive range of staff benefits and incentives includes opportunities for training, professional development and personal growth.

A number of financial allowances are paid to staff members as specified in their respective collective agreements.

In addition, all full-time employees are entitled to the following benefits:

- Staff medical scheme
- Performance bonus
- Loan schemes at concessionary rates
- Overseas and domestic training
- Use of the Bank's holiday bungalow
- Payment of subscriptions to professional associations
- Terminal benefits
- Rent allowance (all employees)

Percentage of  
Employees Covered  
by Collective  
Bargaining  
Agreements

All permanent employees, comprising 90% of all staff, are covered by collective agreements. These agreements do not, however, cover minimum notice periods regarding operational changes.

Salary and Gender	There is no gender discrimination in remunerating employees; NSB prides itself on being an equal opportunity employer.
<b>Health and Safety</b>	<p>No occupational risks have been identified with regard to the working environment at NSB offices and branches. However, considerable attention and resources are devoted to health and safety. In-house clinics and medical camps for staff are held frequently, as well as educational seminars on health matters, serious illnesses, etc.. In addition, the Bank's Head Office features a medical centre for the in-house care of employees. All employees and their families also enjoy compensation benefits in case of personal accident or death.</p> <p>The facilities available under the staff medical assistance scheme are specified in the various collective agreements entered into by the Bank.</p>
Rates of Injury, Occupational Diseases, Lost Days, Absenteeism and Work-Related Fatalities	Two minor injuries were reported during the year. There were no serious injuries, fatalities, lost days, etc.
<b>Training</b>	The array of training programmes provided by the Bank changes constantly to meet the evolving needs of the workforce and the working environment. In addition, NSB also has programmes that promote diversity and inclusion, facilitate career development and point the way to better work-life balance. We are committed to providing our employees with opportunities for growth and professional development. Training is an investment in our collective success and has a direct impact on the quality of service we provide for our customers.

Training  
Programmes in  
2011

The four-fold purpose of NSB training programmes in the year under review was as follows:

1. Equip newly-recruited employees with the skills and knowledge they need to be successful;
2. Ensure that all employees have a proper understanding of risk and compliance issues and of their roles in managing risk on behalf of the Bank;
3. Meeting changing market requirements across our lines of business; and
4. Attracting and retaining a highly capable workforce.

The following tables give details of training initiatives undertaken by the Bank in 2011:

In-House and  
Regional Training

Employee Category	Hours	Attendees
Corporate Management (AGM & Above)	14	4
Senior Executive Officers (Grade I & II)	754	146
Executive Officers (Grade III-I & III-II)	2,826	539
Supervisory Officers (Grade III-III & IV)	4,641	895
Banking Assistants	11,410	2,186

Foreign Training

Employee Category	Hours	Attendees
Corporate Management (AGM & Above)	251	8
Senior Executive Officers (Grade I & II)	293	15
Executive Officers (Grade III-I & III-II)	100	06
Supervisory Officers (Grade III-III & IV)	–	–
Banking Assistants	–	–



Long-Term/  
Diploma/Degree  
Courses (M.Sc./  
MBA)

Employee Category	Hours	Attendees
Corporate Management (AGM & Above)	–	–
Senior Executive Officers (Grade I & II)	–	–
Executive Officers (Grade III-I & III-II)	800	2
Supervisory Officers (Grade III-III & IV)	1,236	7
Banking Assistants	540	5

Short-Term  
Training  
Programmes,  
Seminars and  
Workshops

Employee Category	Hours	Attendees
Corporate Management (AGM & Above)	315	32
Senior Executive Officers (Grade I & II)	463	53
Executive Officers (Grade III-I & III-II)	707	69
Supervisory Officers (Grade III-III & IV)	278	34
Banking Assistants	104	21

Skills Management  
and Lifelong  
Learning

Name of Programme	Programmes	Hours	Attendees
Customer Service/Customer Relationship Management	30	54	1,688
Selling Techniques	2	4	88
Management Skills Development	2	5	49
Productivity Techniques	2	4	45
Investigation of Fraud and Prevention Methods	1	3	22
Daily Audit	2	6	35
Anti-Money Laundering	2	4	96

**Performance  
Review and Career  
Development**

All employees undergo regular, formal performance reviews and career path discussions with senior management.

**Human Rights and  
Equal Opportunity**

The principles of human rights are embedded in our core values, as expressed in our motto 'Respond with Trust, Mutual Respect and Integrity'. We do not discriminate among individuals, either staff, customers or any other stakeholder, on the basis of ethnicity, religion, social class, caste, etc. It follows that no such incidents were reported during the year under review.

**Freedom of  
Association  
and Collective  
Bargaining**

All NSB employees enjoy complete freedom of association and collective bargaining rights. 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,  
Forced and  
Compulsory Labour**

The Bank's policy strictly prohibits the employment of any person under the age of 18 years. All Bank employees are legal adults. They provide their time and labour to the Bank voluntarily. The Bank undertakes no operations that have any significant risk of incidents of forced labour occurring.

**Social and  
Community Action**

Philanthropy is an important component of our drive to strengthen the economic and social health of the communities we serve. We seek to provide meaningful and responsive support through strategic philanthropic investments. In 2011, despite a challenging economic environment, we reaffirmed our commitment to meet critical community needs, working hand-in-hand with local community leaders to identify such needs and determine how our charitable investments might reap the greatest possible benefits. Thus, we build the capacity of charitable organisations and local leaders to strengthen the health and vitality of their neighbourhoods.

Community Action  
in 2011

- NSB contributed to a large project organised by the *Carlton Suwa Udanaya* Programme by sponsoring the purchase of a CT Scanner urgently required by Lady Ridgeway Hospital. Our contribution was Rs. 10 Million out of the total cost of Rs. 50 Million.
- The Bank donated a million rupee-worth of essential eye care equipment to hospitals around the country. Slit lamps and surgical instruments were donated to the Gampola Base Hospital, Kuliypitiya Hospital and Negombo Hospital, while surgical instruments were donated to city hospitals in Dambulla, Kegalle, Moneragala and Ratnapura.
- A cash sponsorship of Rs. 5 Million from the Bank made possible the First South Asian Beach Games, held in Hambantota and organised by the Sri Lanka Volleyball Federation. The event featured 152 beach games such as basketball, *kabbadi*, sailing, soccer, volleyball, etc.

- The Sri Lanka Prisoners' Welfare Association was formed with the aim of effecting positive change in the lives of prisoners and their families - reaffirming their human rights, redeeming them from inherited poverty and social isolation. NSB sponsored Prisoners' Day 2011, organised by the Prisoners' Welfare Association to mark the rehabilitation of prisoners and their families.
- Another intervention aimed at a disadvantaged group was the Bank's sponsorship of the International White Cane Safety Day Programme organised by the Sri Lanka Association of Handicapped Women. The Bank underwrote the donation of 300 white canes to members of the Association.
- In an effort to encourage academic achievement among the children of our country, the Bank offers scholarships to young customers who do well at the Grade 5 Scholarship Examination. The top ten scorers in each district and those who secured the highest national ranks at the Scholarship Examination received their scholarships at the Temple Trees, while the other students with meritorious results were felicitated at their respective local NSB branch. In all, 121 students were awarded scholarships worth Rs. 1.29 Million in the year under review.

### **Corruption**

Business Units  
Analysed for  
Risks Related to  
Corruption

At the commencement of each year, NSB analyses the risks associated with each of its branches, categorising them as high-, medium- or low risk branches according to certain defined parameters. The Bank's annual audit plan is developed to carry out audits with a view to minimising associated risks.

Employees Trained  
in Anti-Corruption  
Policies and  
Procedures

Seven training programmes were conducted during the year on the topic 'Prevention of Operational Frauds and Risk Management'. A total of 260 employees underwent training.

Actions Taken  
in Response to  
Incidents of  
Corruption

Where such incidents were deemed to have taken place, appropriate investigations were carried out and legal and disciplinary measures taken accordingly.

### **Public Policy**

Positions and  
Participation in  
Public Policy  
Development

The Bank, as a Government organisation, participates in public policy development by submitting a review of its operations to provide data for the preparation of the National Budget. The Bank's Annual Budget and Annual Action Plan, which are submitted to the Ministry of Finance, often contain proposals or comments concerning the formulation of national policy, in particular economic policy.

**Political  
Contributions**

No political contributions were made by the Bank in the year under review.

**Product and  
Service Information**

Information about the products of the Bank is published in the national newspapers and broadcast media from time to time as appropriate. Digital signboards at branches display interest rates on loans and deposits. Handbills and leaflets containing product information are available at or near the entrances to all customer contact points.

**Adherence to  
Laws, Standards  
and Voluntary  
Codes Related  
to Marketing  
Communications**

NSB adheres to generally accepted ethical standards in all advertising and marketing communications. In addition, Government rules and regulations and directives of the Central Bank are strictly followed in all such communications.

**Total Number of  
Incidents of Non-  
Compliance with  
Regulations**

No such incidents were recorded in the year under review.

Index No.	Description	Report Section	Page/s
<b>1.</b>	<b>Strategy &amp; Analysis</b>		
1.1	Statement from the most senior decision-maker of the Organisation	Sustainability Supplement	186
1.2	Description of Key Impacts, Risks & Opportunities	Risk Management Sustainability Supplement	142 190
<b>2.</b>	<b>Organisational Profile</b>		
2.1	Name of the Organisation	Corporate Information	340
2.2	Primary Brands, Products and/or Services	Our Products & Services	326
2.3	Operational Structure of the Organisation	Corporate Governance	74
2.4	Location of Organisation's Headquarters	Corporate Information	340
2.5	Number of countries where the Organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the Report	Sustainability Supplement	191
2.6	Nature of ownership & legal form	Corporate Information	340
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries)	Sustainability Supplement	191
2.8	Scale of the Reporting Organisation	Sustainability Supplement	191
2.9	Significant changes during the reporting period regarding size, structure or ownership	Sustainability Supplement	192
2.10	Awards received during the reporting period	Sustainability Supplement	192

Index No.	Description	Report Section	Page/s
<b>3.</b>	<b>Report Parameters</b>		
3.1	Reporting period	Sustainability Supplement	188
3.2	Date of most recent previous report	Sustainability Supplement	189
3.3	Reporting cycle	Sustainability Supplement	189
3.4	Contact point for questions regarding the Report or its Contents	Sustainability Supplement	189
3.5	Defining Report Content	Sustainability Supplement	189
3.6	Boundary of the Report	Sustainability Supplement	189
3.7	Any specific limitations on the scope or boundary of the Report	Sustainability Supplement	189
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations and other entities that can affect comparability from period to period and/or between organisations	N/A	
3.9	Data measurement techniques and the bases of calculations	Sustainability Supplement	189
3.10	Explanation of the effect of any re-statement of information provided in earlier reports	N/A	
3.11	Significant changes from previous reporting periods in the scope, boundary or measurement methods applied in the Report	N/A	
3.12	GRI Compliance Index	Sustainability Supplement	219
3.13	Policy and current practice with regard to seeking external assurance for the Report	N/A	



Index No.	Description	Report Section	Page/s
<b>4</b>	<b>Governance, Commitments &amp; Engagement</b>		
4.1	Governance Structure of the Organisation	Corporate Governance	74
4.2	Indicate whether the Chair of the highest governance body is also an executive officer	Annual Report of the Board of Directors	235
4.3	The number of members of the highest governance body that are independent and/or non-executive members	Annual Report of the Board of Directors	235
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	Sustainability Supplement	196
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives and the Organisation's performance	Sustainability Supplement	196
4.6	Processes in place for the highest governing body to ensure that conflicts of interests are avoided	Sustainability Supplement	196
4.7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the Organisation's strategy on economic, environmental, and social topics	Sustainability Supplement	196
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation	Sustainability Supplement	193
4.9	Procedures of the highest governance body for overseeing the Organisation's identification and management of economic, environmental, and social performance.	Sustainability Supplement	198

Index No.	Description	Report Section	Page/s
4.10	Processes for evaluating the highest governance body's own performance	Corporate Governance	74
4.11	Precautionary Approach	Sustainability Supplement	198
4.12	Externally developed economic, environmental and social Charters and principles	Sustainability Supplement	198
4.13	Membership in industry/business association	Sustainability Supplement	199
4.14	List of stakeholder groups engaged by the Organisation	Sustainability Supplement	194
4.15	Basis for identification and selection of stakeholders with whom to engage	Sustainability Supplement	195
4.16	Approaches to stakeholder engagement including frequency	Sustainability Supplement	195
4.17	Key topics and concerns raised through stakeholders' engagement and the Organisation's response	Sustainability Supplement	195
<b>Economic Performance</b>			
EC1	Direct economic value generated and distributed	Sustainability Supplement	200
EC2	Financial implications and other risks and opportunities for the Organisation's activities due to climate change	Sustainability Supplement	204
EC3	Coverage of the Organisation's defined benefit plan obligations	Sustainability Supplement	204
EC4	Significant financial assistance received from Government	Sustainability Supplement	204
EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation	Sustainability Supplement	204

Index No.	Description	Report Section	Page/s
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation	Sustainability Supplement	205
EC7	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation	Sustainability Supplement	209
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in kind or pro bono engagement	Sustainability Supplement	215
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts	Sustainability Supplement	215
<b>Environmental Performance</b>			
EN1	Materials used by weight or volume	NR	
EN2	Percentage of materials used that are recycled input materials	NR	
EN3	Direct energy consumption by primary energy source	NR	
EN4	Indirect energy consumption by primary source	NR	
EN5	Energy saved due to conservation and efficiency improvements	Sustainability Supplement	204
EN6	Initiatives to provide energy-efficient or renewable energy-based products and services, and reductions in energy requirements as a result of these initiatives	Sustainability Supplement	205
EN7	Initiatives to reduce indirect energy consumption and reductions achieved	Sustainability Supplement	205
EN8	Total water withdrawal by source	NR	

Index No.	Description	Report Section	Page/s
EN9	Water sources significantly affected by withdrawal of water	NR	
EN10	Percentage and total volume of water recycled and reused	NR	
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	NR	
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	NR	
EN13	Habitats protected or restored	NR	
EN14	Strategies, current action & future plans for managing biodiversity	NR	
EN15	Number of IUCN Red List Species & National Conservation List Species with habitats in areas affected by operations	NR	
EN16	Total direct and indirect greenhouse gas emissions by weight	NR	
EN17	Other relevant indirect greenhouse gas emissions by weight	NR	
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved	NR	
EN19	Emissions of ozone-depleting substances by weight	NR	
EN20	NO, SO, and other significant air emissions by type and weight	NR	
EN21	Total water discharge by quality and destination	NR	
EN22	Total weight of waste by type and disposal method	Sustainability Supplement	205
EN23	Total Number of & Volume of significant spills	NR	

Index No.	Description	Report Section	Page/s
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annexures I, II, III, and VIII, and percentage of transported waste shipped internationally	NR	
EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation's discharges of water and runoff	NR	
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	NR	
EN27	Percentage of products sold & their packaging materials reclaimed	NR	
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	Sustainability Supplement	205
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce	NR	
EN30	Total environmental protection expenditures and investments by type	NR	

### Labour Practices and Decent Work

LA1	Total workforce by employment type, employment contract, and region	Sustainability Supplement	207
LA2	Total number and rate of employee turnover by age group, gender, and region	Insignificant	

Index No.	Description	Report Section	Page/s
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations	Sustainability Supplement	210
LA4	Percentage of employees covered by collective bargaining agreements	Sustainability Supplement	210
LA5	Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements	NR	
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes	Sustainability Supplement	210
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by province	Sustainability Supplement	211
LA8	Education, training, counselling, prevention of diseases, and risk-control programmes in place to assist workforce members, their families, or community members regarding serious diseases	Sustainability Supplement	211
LA9	Health and safety topics covered in formal agreements with trade unions	Sustainability Supplement	211
LA10	Average hours of training per year per employee by employee category	Sustainability Supplement	212
LA11	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Sustainability Supplement	212
LA12	Percentage of employees receiving regular performance and career development reviews	Sustainability Supplement	212

Index No.	Description	Report Section	Page/s
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity	NR	
LA14	Ratio of basic salary of men to women by employee category	Sustainability Supplement	214
<b>Human Rights</b>			
HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening	NR	
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken	NR	
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	NR	
HR4	Total number of incidents of discrimination and actions taken	Sustainability Supplement	214
HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights	Sustainability Supplement	214
HR6	Measures taken to eliminate child labour	Sustainability Supplement	214
HR7	Measures taken to eliminate compulsory or forced labour	Sustainability Supplement	214
HR8	Percentage of security personnel trained in Organisation policies and Procedures on Human Rights	NR	
HR9	Total number of violations of rights of indigenous people and actions taken	NR	

Index No.	Description	Report Section	Page/s
	<b>Society</b>		
SO1	Nature, scope and effectiveness of any programmes and practices that assess and manage the impacts of operations on communities including entering, operating and exiting	Sustainability Supplement	215
SO2	Percentage and total number of business units analysed for risks related to corruption	Sustainability Supplement	217
SO3	Percentage of employees trained in organisation's anti-corruption policies and procedures	Sustainability Supplement	217
SO4	Actions taken in response to incidents of corruption	Sustainability Supplement	217
SO5	Public policy positions and participation in public policy development and lobbying	Sustainability Supplement	217
SO6	Total value of financial and in kind contributions to political parties, politicians, and related institutions by country	Sustainability Supplement	218
SO7	Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes	Sustainability Supplement	218
SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	Sustainability Supplement	218



Index No.	Description	Report Section	Page/s
<b>Products Responsibility</b>			
PR 1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures	Sustainability Supplement	218
PR 2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services	Sustainability Supplement	218
PR3	Type of product & service information required by procedures and percentage of significant products and services, subject to such information requirements	Sustainability Supplement	218
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling	Sustainability Supplement	218
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	NR	
PR6	Programmes for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship	Sustainability Supplement	218

Index No.	Description	Report Section	Page/s
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes	Sustainability Supplement	218
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	NR	
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	Sustainability Supplement	218

NR - Not Required as per C Level reporting

		2002 In Accordance	C	C+	B	B+	A	A+
Mandatory	Self Declared		<input checked="" type="checkbox"/>					
	Third Party Checked			Report Externally Assured		Report Externally Assured		Report Externally Assured
Optional	GRI Checked							



*'Haphazard' and 'jumbled' though they often are, our memories will be the foundation of happiness in ages to come*



# *Financial Reports*

<i>Annual Report of the Board of Directors</i>	<b>235</b>	<i>General Manager/CEO's and Deputy General Manager's (Finance &amp; Planning) Statement of Responsibility</i>	<b>253</b>	<i>Balance Sheet</i>	<b>259</b>
<i>Statement of Directors' Responsibility on Financial Reporting</i>	<b>246</b>	<i>Report of the Auditor General</i>	<b>256</b>	<i>Statement of Changes in Equity</i>	<b>261</b>
<i>Directors' Statement on Internal Controls</i>	<b>248</b>	<i>Income Statement</i>	<b>258</b>	<i>Cash Flow Statement</i>	<b>263</b>
<i>Independent Assurance Report</i>	<b>251</b>			<i>Significant Accounting Policies</i>	<b>265</b>
				<i>Notes to the Financial Statements</i>	<b>282</b>

***Financial  
Calendar 2011****1st Quarter Interim Results*  
*Released on 27th May 2011**2nd Quarter Interim Results*  
*Released on 16th August 2011**3rd Quarter Interim Results*  
*Released on 22nd November 2011**4th Quarter Interim Results*  
*Released on 29th February 2012****Proposed Financial  
Calendar 2012****1st Quarter Interim Results will*  
*be released on 21st May 2012**2nd Quarter Interim Results will*  
*be released on 20th August 2012**3rd Quarter Interim Results*  
*will be released on*  
*19th November 2012**4th Quarter Interim Results*  
*will be released on*  
*21st February 2013*

**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 2011. The draft Financial Statements together with the Annual Report were approved by the Board of Directors at the Board Meeting held on 28th February 2012 and submitted to the Auditor General on 29th February 2012. The audited Financial Statements were authorised to be issued on 26th April 2012. The Report also includes certain disclosures required to be made under the Banking Act Direction on Corporate Governance. The Annual Report and Accounts, together with the Auditor General's Report will be submitted to the Minister of Finance, on or before 31st May 2012 as per Circular No. PED/27 of 27th January 2005, issued by the Director General of the Department of Public Enterprises to be placed before the Parliament of Sri Lanka.

**Review of Business Performance**

A review of the Bank's performance during the financial year 2011, is contained in the Message from the Chairman (pages 14 to 18), the Message from the General Manager/CEO (pages 20 to 24) and Management Discussions and Analysis (pages 27 to 68). These reports form an integral part of the Annual Report.

**Vision, Mission and Values**

The Bank's Vision, Mission and Values are given on page 7 of this Annual Report. The Bank maintains high ethical standards in its activities whilst pursuing the objectives stated under 'Vision' and 'Mission'.

**Principal Activities****Bank**

The principal activity of the National Savings Bank is promotion of savings among the people of Sri Lanka and profitable investments of savings so mobilised.

**Subsidiary**

The principal activity of NSB Fund Management Company Ltd. is dealing in Government Securities as a primary dealer authorised by the Central Bank of Sri Lanka. Details are given in Note 14 to the Financial Statements.

**Going Concern**

The Board is 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 SLAS 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 2011 duly signed by the Deputy General Manager - Finance & Planning, Chief Executive Officer and two Directors of the Bank are given on pages 258 to 318, 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 these Financial Statements 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 246 of this Annual Report describes in detail the Directors' Responsibilities in relation to Financial Statements, which forms an integral part of the Annual Report of the Directors.

**Convergence with SLFRS/LKAS**

Sri Lanka has taken a decision to converge fully with International Financial Reporting Standards (IFRS) with effect from 1st January 2012. The Bank commenced working towards this goal during 2010 with the help of an external consultation. The Bank will publish its 2012 Financial Statements in accordance with these new/revised standards.



**Auditors' Report**

The Auditor General carried out the audit of the Bank. In 2011, 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 256 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**

Significant accounting policies adopted in the preparation of Financial Statements and impact of the changes of SLASs during the year are given on pages 265 to 281.

**Directors' Remuneration**

Details of Directors' emoluments paid during the year are given in Note 6 to the Financial Statements.

**Future Developments**

An overview of future developments of the Bank is given in the Message from the Chairman (pages 14 to 18) the Message from the General Manager/CEO (pages 20 to 24) and Management Discussions and Analysis (pages 27 to 68).

**Strategic Business Plan**

The Bank has formulated a Strategic Business Plan for 2011 up to 2013. 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.

**Financial Results** / The Bank has recorded 8.4% decline in profit before income tax and 6.8% growth of profit after tax in 2011. The Group's profit before tax and profit after tax for the year recorded a decline of 11% and a growth of 4.3% respectively.

**Income** The income of the Bank for 2011 was Rs. 47,144 Million (2010 - Rs. 50,070 Million) while the Group's income was Rs. 47,965 Million (2010 - Rs. 51,586 Million). Details of the income is given in Note 2 to the Financial Statements.

Details of Profit Relating to the Bank are given in the following Table:

	2011 Rs. '000	2010 Rs. '000
Profit for the year after payment of all expenses and providing for Depreciation, Possible Loan Losses and Contingencies before VAT & Tax	10,516,440	12,833,543
VAT on Financial Services	1,564,481	3,057,028
Profit before Income Tax	8,951,959	9,776,515
Provision for Taxation	3,192,819	4,385,679
Net Profit after Taxation	5,759,140	5,390,836
<b>Appropriations</b>		
Transfers to Consolidated Fund	3,212,671	2,664,084
Transfers to General Reserve	676,940	2,457,209
Transferred to Statutory Reserve	287,957	269,542
Transferred to Investment Fund Reserve	1,581,572	-

**Stated Capital**

The authorised share capital of the Bank is Rs. 10 Billion divided into 1 Billion ordinary shares of Rs. 10/- each. The issued share capital of the Bank as at 31st December 2011 stood at Rs. 3.2 Billion. The Secretary to the Treasury in his official capacity holds the entirety of the issued share capital.

**Shareholding**

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

**Reserves**

The Bank's Reserves consist of -

	2011 Rs. '000	2010 Rs. '000
Revaluation Reserve	1,583,340	1,583,340
Special Reserve	2,176	2,174
Unclaimed Deposit Reserve	238,504	247,356
General Reserve	15,973,337	15,296,397
Investment Fund Reserve	1,581,572	-
<b>Total</b>	<b>19,378,929</b>	<b>17,129,267</b>

**Contribution to the  
Government**

The Bank contributed Rs. 7,970 Million by way of taxes and levies to the Government in 2011. This consisted of Rs. 3,193 Million of Income Tax, Rs. 1,564 Million of Value Added Tax & Rs. 3,213 Million of contribution to the Consolidated Fund. The Income Tax Rate applicable on the Bank's operations is 28% (2010 - 35%). It is the Bank's policy to provide for deferred taxation on all known temporary differences under the liability method. The Bank is also liable for Financial VAT at 12% (2010 - 20%).

**Service Charges to  
Postmaster General  
(PMG)**  
/

Service charges to the PMG for 2011 amounting to Rs. 103 Million has been provided for on the same basis as in 2010.

**Pension Fund**

A sum of Rs. 865 Million (2010 - Rs. 865 Million) has been provided for in the accounts on account of 2,935 employees who are eligible for the Non-Contributory Pension Scheme (including retired employees).

**Corporate  
Sustainability and  
Responsibility**  
/

The programmes carried out under the Corporate Social Responsibility are detailed on pages 215 & 216 in the Sustainability Report. The Bank granted Rs. 11 Million during the year for Social Responsibility.

**Property, Plant &  
Equipment**  
/

The total capital expenditure incurred by the Bank on the acquisition of Property, Plant & Equipment, leasehold property and intangible assets during the year amounted to Rs. 826 Million (2010 - Rs. 915 Million) and Group amounted to Rs. 826 Million (2010 - Rs. 916 Million), the details of which are given in Notes 16, 17 and 18 to the Financial Statements on pages 296 to 300 of this Annual Report.

**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 26 of the Financial Statements will not have a material impact on the financial position of the Bank or its future operations.

**Board of Directors**

The Board of Directors comprises seven Directors including the Chairman and two Ex Officio Members representing the Ministry of Finance and the Postmaster General. The Minister of Finance appoints the Chairman and other four Directors. The following were the Directors during the year; and whose brief profiles appear on pages 130 and 132 of this Annual Report.

Name of the Director	Status
P.G.S. Kariyawasam	NIND/NED
S.T. Abeygunawardana	IND/WD
M.K.B. Dissanayake (Retired on 25.01.2012)	IND/NED
H. Madiwela	IND/NED
R.A.P. Ranawaka	NIND/NED
P.A. Abeysekera	IND/NED
S. Shan Shanmuganathan	IND/NED
D.L.P.R. Abeyaratne (Appointed on 09.02.2012)	IND/NED

*NIND - Non-Independent, IND - Independent, ED - Executive Director,  
NED - Non-Executive Director, WD - Working Director*

**New Appointments  
and Resignation**

Mr. M.K.B. Dissanayake who was the Postmaster General, an ex-officio Director of the Bank resigned on 25.01.2012 from his designation.

Mr. D.L.P.R. Abeyaratne was appointed as the Postmaster General and appointed as the ex-officio Director on 09.02.2012.

**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 2011 was as follows.

**Board Audit  
Committees** S. Shan Shanmuganathan - Chairman  
H. Madiwela  
R.A.P. Ranawaka

The Report of the Board Audit Committee is given on page 118.

**Board Human  
Resources and  
Remuneration  
Committees** P.G.S. Kariyawasam - Chairman  
P.A. Abeyssekara  
S.T. Abeygunawardena

The Report of the Board Human Resources and Remuneration Committee is given on page 122.

**Board Nomination  
Committee** P.A. Abeyssekara - Chairman  
H. Madiwela  
S.T. Abeygunawardena

The Report of the Board Nomination Committee is given on page 124.

**Board Integrated  
Risk Management  
Committee** M.K.B. Dissanayake - Chairman (upto 25.01.2012)  
D.L.D.R. Abeyaratne - Chairman (from 09.02.2012)  
S. Shan Shanmuganathan  
R.A.P. Ranawaka

The Report of the Board Integrated Risk Management Committee is given on page 126.

- Directors' Meetings** The number of Directors' meetings which comprise Board Meetings, Audit Committee Meetings, Nomination Committee Meetings and Integrated Risk Management Committee Meetings and the attendance of Directors at these meetings are given on Corporate Governance Report (page 82) of this Annual Report.
- Directors' Interests in Contracts** Directors' interests in contracts with the Bank, both direct and indirect are referred to in Note 30 to the Financial Statements. The Directors do not have any direct or indirect interest in other contracts or proposed contracts with the Bank.
- Related Party Transactions** The Directors have also disclosed the transactions if any, that could be classified as related party transactions in terms of Sri Lanka Accounting Standard No. 30 (Revised 2005) - 'Related Party Disclosures' which is adopted in the preparation of the Financial Statements. Those transactions disclosed by the Directors are given in Note 31 to the Financial Statements forming part of the Annual Report of the Board.
- Chief Executive Officer (CEO)** The General Manager is the Chief Executive Officer of the Bank and is appointed by the Board of Directors. The General Manager has the right to be present at, and to participate in the meetings of the Board.
- Human Resources** The Bank continued to develop and maintain dedicated and highly motivated employees who are committed to create sustainable value through high quality service.
- 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 has not engaged in any activity that is harmful or hazardous to environment.

**Statutory Payments**  
/

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments due to the Government and in relation to the employees have been made in time.

**Risk Management,  
Internal Controls  
and Management  
Information  
Systems**  
/

The Board of Directors assumes overall responsibility for managing risk. For this purpose, the Board of Directors has instituted and implemented an effective and comprehensive system of internal controls and management information systems in the Bank. Internal control systems have been redesigned to mitigate the risks to which the Bank is exposed, to provide reasonable assurance against material misstatements or loss. There is an ongoing process for identifying evaluating and managing the risks that are faced by the Bank. The specific measures taken by the Bank in mitigating the risk are detailed on pages 142 to 184 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 2011.

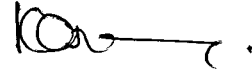
**Branch Expansion  
and Developments**

The Bank extended its services through the addition of 24 new branches during the period under review. The ATM network was further expanded enhancing customer convenience. The Bank installed 30 ATMs during the year across the island bringing out the total ATMs to 221 excluding peer banks' ATMs through which customers of NSB can transact.

By Order of the Board,



**Pradeep Kariyawasam**  
*Chairman*



**Krishanthi Gunasekara**  
*Secretary to the Board*

Colombo  
26th April 2012

The responsibility of the Directors towards the Financial Statements of the Bank and its subsidiary is preparation of Financial Statements in accordance with the relevant statutory provisions. Accordingly, the Bank's Financial Statements are prepared in accordance with Generally Accepted Accounting Principles and Sri Lanka Accounting Standards. They give a true and fair view of the state of affairs of the Bank and its Subsidiary as at end of each financial year and of the profit & loss of the Bank and its Subsidiary for each financial year in conformity with relevant statutory requirements.

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 oversees the management's responsibilities for financial reporting and has instituted effective and comprehensive systems and procedures to ensure the accuracy and the reliability of the records. The Board of Directors has been responsible for taking reasonable measures and care to safeguard the Bank'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 Board appointed Audit Committee consists of 3 Directors of the Bank. The Committee has made an independent assessment of the Financial Reporting system of the Bank and confirmed that to the best of its knowledge and belief the Financial Reporting system of the Bank has been designed to provide reasonable assurance on the reliability of Financial Statements. The report of this Committee is on page 118.

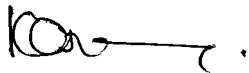
The Board of Directors approves the interim Financial Statements prior to their release, following a review and recommendation by the Board Audit Committee.

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 2011, 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 256 of this Annual Report.

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 Balance Sheet date have been paid or where relevant provided for.

By Order of the Board,



**Krishanthi Gunasekara**  
*Secretary to the Board*

Colombo  
26th April 2012

This report has been issued in line with the Banking Act Direction No. 11 of 2007, Section 3 (8) (11) (b), and prepared based on the guidelines issued by The Institute of Chartered Accountants of Sri Lanka (ICASL).

The Board of Directors (the Board) is responsible for ensuring that an adequate and effective system of internal control is established and maintained in the National Savings Bank. However, such a system is designed to manage the Bank's significant risk areas within acceptable risk parameters, rather than eliminate 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 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 is of the view that the system of internal controls in place is adequate to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes and is in accordance with relevant accounting principles and regulatory requirements.

The Board has put in place the system of reviewing the design and the effectiveness of system of internal control periodically. The key processes, among other things include the following:

- • The Board Sub-Committees have been established with defined scopes and functions to assist the Board in ensuring the effectiveness of the Bank's operations and that the Bank's operations are in accordance with the corporate objectives, strategies, and policies and business directions that have been approved.

- • The Board Audit Committee (BAC) reviews periodically the internal control issues identified by the Internal Audit Division of the Bank, the External Auditors, Regulatory Authorities and corrective actions taken to rectify the deficiencies observed. The Auditor General carries out the external audit of the Bank. The Superintendent of the Government Audit is generally invited to BAC meetings.
- • The BAC reviews the internal audit function with particular emphasis on the scope of audits and quality of the same. The activities attended to by the BAC during the year 2011 are set out in the Board Audit Committee Report appearing on page 118 of this Annual Report. The Internal Audit Division of the Bank carries out audit of branches, divisions and other units as per the Annual Audit Plan. The frequency of audit is determined by the level of risk assessed. The Audit Plan is approved by the BAC for implementation. The Internal Audit Division carries out audit checks to ensure compliance with policies and procedures and the effectiveness of the internal control systems and reports its findings in respect of any non-compliance. Audits are carried out to provide an independent and objective report on operational and management activities. The findings of the audits are submitted to the BAC for review at their periodic meetings. The activities of the BAC, along with minutes of the Committee meetings are submitted for information of the Board on a periodic basis.
- • The Board Integrated Risk Management Committee (BIRMC) has been established by the Board to assist the Board to oversee the overall management of principal areas of risk of the Bank. The Executive Risk Management Committee (ERMC) which includes representation from all key business and operating units of the Bank assists with the implementation of policies advocated at the BIRMC. The Board has also established an independent Compliance Unit which ensures Bank's activities are conducted in accordance with applicable laws, regulations and regulatory directives and any issues of non-compliance are reported to BIRMC periodically. The report on the Risk Assessment is submitted by the BIRMC to the Board periodically.
- • Management level Committees have also been functioning with appropriate empowerment to ensure effective management and supervision of Bank's core areas in the day-to-day business operations. The assessment covered only the process applied by the Bank and did not include the processes carried out by its Subsidiary.

The findings of the Government Audit are reported to the management periodically and the management ensures that they are rectified and responded promptly. The comments made by the Government Auditors in connection with the audit of Financial Statements for the year ended 31st December 2011 on internal control system is appearing on page 251.

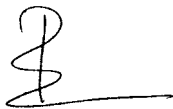
**Confirmation**

Based on the above processes, the Board confirms that the financial reporting system of the Bank has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

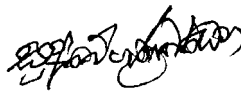
**Review of the  
Statement by the  
External Auditors**

The External Auditors have reviewed the above Directors' Statement on Internal Controls for the year ended 31st December 2011 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.

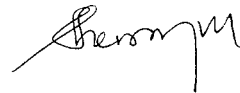
By Order of the Board,



**Pradeep Kariyawasam**  
Chairman



**S.T. Abeygunawardana**  
Working Director



**S. Shan Shanmuganathan**  
Chairman - Board Audit  
Committee/Director

Colombo  
26th April 2012



විගණකාධිපති දෙපාර්තමේන්තුව  
கணக்காய்வாளர் தலைமை அறிபதி திணைக்களம்  
**AUDITOR GENERAL'S DEPARTMENT**



මගේ අංකය  
எனது இல  
My No.

EF/K/NSB/FA/2011

ඔබේ අංකය  
உமது இல  
Your No.

දිනය  
திகதி  
Date

26 April 2012

**Assurance Report  
of the Auditor  
General to the  
Board of Directors  
on the Directors'  
Statement on  
Internal Controls  
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 2011.

**Management's  
Responsibility**

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued in compliance with the section 3 (8) (ii) (b) of the Banking Act Direction No. 11 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

**My Responsibility  
and Compliance  
with SLSAE 3050**

My responsibility is to issue a report to the Board of Directors on the Statement based on the work performed. I conducted my engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3050 - Assurance Report for Banks on Directors' Statement on Internal Control issued by 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.

SLSAE 3050 does not require me to consider whether the Statement covers all risks and controls, or to form an opinion on the effectiveness of the Bank's risk and control procedures. SLSAE 3050 also does not require me to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

**Conclusion**

Based on the procedures performed, nothing has come to my attention that causes me to believe that the Statement included in the annual report is inconsistent with my understanding of the process the Board of Directors has adopted in the review of the design and effectiveness of internal control of the Bank.



**H.A.S. Samaraweera**  
*Acting Auditor General*

නිදහස් වැරදුම,  
කොළඹ 07, ශ්‍රී ලංකාව

දුරකථනය  
දුරකථන අංකය } 2691151  
Telephone. }

සුභනුමුරු සඳුකරු,  
කොළඹ 07, ශ්‍රී ලංකාව

ලැක්ෂ් අංකය  
පැක්ස් අංකය } 2697451  
Fax No. }

INDEPENDENCE SQUARE,  
COLOMBO 07, SRI LANKA

ඉලෙක්ට්‍රොනික් තැපෑල  
E-mail } oaggov@sltnet.lk



The Financial Statements of the National Savings Bank and the Consolidated Financial Statements of the Bank and its Subsidiary (Group) as at 31st December 2011 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 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.

The formats used in the preparation of the Financial Statements and disclosures made comply with the formats prescribed by the Central Bank of Sri Lanka which are also in compliance with the disclosure requirements of the Sri Lanka Accounting Standard 23 - 'Revenue Recognition and Disclosures in the Financial Statements of Banks'. The Group presents the financial results to its users on a quarterly basis.

The Significant Accounting Policies have been consistently applied by the Group and are consistent with those used in the previous year. Significant Accounting Policies and estimates that involved a high degree of judgment and complexity were discussed with the Bank's External Auditors and the Board Audit Committee, comparative information has been reclassified wherever necessary to comply with the current presentation and material departures, if any, have been disclosed and explained. We confirm that to the best of our knowledge, the Financial Statements, Significant Accounting Policies and other financial information included in this Annual Report, fairly present in all material respects the financial condition, results of the operations and the cash flows of the Group during the period under review. We also confirm that the Group has adequate resources to continue in operation and has applied the going concern basis in preparing these Financial Statements.

We are responsible for establishing, implementing and maintaining Internal Controls and Procedures of the Bank and its Subsidiary. We ensure that effective Internal Controls and Procedures are in place ensuring material information relating to the Group is made known to us for safeguarding assets, preventing and detecting fraud and/or error as well as other irregularities, which are reviewed, evaluated and updated on an ongoing basis. We are satisfied that there were no significant deficiencies and weaknesses in the design or operation of the Internal Controls and Procedures, to the best of our knowledge. We confirm, based on our evaluations that there were no significant deficiencies and material weaknesses in the design or operation of internal controls and fraud that involved management or other employees. The Bank's Internal Audit Division also conducts periodic reviews to ensure that the Internal Controls and Procedures are consistently followed.

The Financial Statements of the Bank and its Subsidiary were audited by the Auditor General and a firm of Chartered Accountants. The Auditor General's Report on the Bank's Consolidated Financial Statements is given on page 256 of this Annual Report.

The Bank's Board Audit Committee, *inter alia*, reviewed all the Internal Audit and Inspection Programmes, the efficiency of Internal Control Systems and Procedures and also reviewed the Significant Accounting Policies and their adherence to statutory and regulatory requirements, the details of which are given in the Board Audit Committee Report on pages 118 to 121 of this Annual Report. To ensure complete independence, the Auditor General and the Internal Auditors have full and free access to the members of the Board Audit Committee to discuss any matter of substance. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal control and accounting.

We confirm that to the best of our knowledge -

- • The Bank and its Subsidiary 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 26 on page 308 of the Financial Statements.
- • All taxes, duties, levies and all statutory payments by the Bank and the Group and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Bank and the Group as at the Balance Sheet date have been paid, or where relevant provided for.



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



**H.M. Hennayake Bandara**  
*General Manager/CEO*

Colombo  
26th April 2012



විගණකාධිපති දෙපාර්තමේන්තුව  
கணக்காய்வாளர் தலைமை அறியுதி திணைக்களம்  
**AUDITOR GENERAL'S DEPARTMENT**



මගේ අංකය  
எனது இல  
My No.

EF/K/NSB/FA/2011

මගේ අංකය  
உமது இல  
Your No.

දිනය  
திகதி  
Date

26 April 2012

**Report of the  
Auditor General  
on the Financial  
Statements of the  
National Savings  
Bank and its  
Subsidiary for the  
Year Ended  
31 December 2011**

The audit of the consolidated financial statements of National Savings Bank ('Bank'), and its subsidiary for the year ended 31 December 2011 comprising the consolidated Balance Sheet as at 31 December 2011 and the consolidated Income Statement, Statement of Changes in Equity and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information was carried out under my direction 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 Consolidated  
Financial  
Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of the material misstatement of the consolidated 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 consolidated 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.

### Financial Statements

#### Opinion

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 2011 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 Requirements

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*

හිඳහස් ටැබ්ලේටය,  
කොළඹ 07, ශ්‍රී ලංකාව

දුරකථනය  
தொலைபேசி } 2691151  
Telephone. }

சுதந்திர சதுக்கம்,  
கொழும்பு 07, இலங்கை

ලැක්ස් අංකය  
பக்ஸ் இல } 2697451  
Fax No. }

INDEPENDENCE SQUARE,  
COLOMBO 07, SRI LANKA

ඉලෙක්ට්‍රොනික් තැපෑල  
#- மெயில் } oaggov@sltnet.lk  
E-mail. }

For the year ended 31st December	Note	Bank			Group		
		2011 Rs. '000	2010 Rs. '000	Change %	2011 Rs. '000	2010 Rs. '000	Change %
<b>Income</b>	2	47,143,640	50,070,471	(5.8)	47,965,136	51,586,178	(7.0)
Interest Income	3	46,376,790	48,141,664	(3.7)	47,330,576	49,159,813	(3.7)
Interest Expenses	4	29,434,417	31,486,887	(6.5)	30,118,312	32,199,611	(6.5)
<b>Net Interest Income</b>		16,942,373	16,654,777	1.7	17,212,264	16,960,202	1.5
Other Income	5	766,850	1,928,807	(60.2)	634,560	2,426,365	(73.8)
		17,709,223	18,583,584	(4.7)	17,846,824	19,386,567	(7.9)
<b>Less: Operating Expenses</b>	6						
Personnel Expenses		2,930,665	2,848,980	2.9	2,944,482	2,863,177	2.8
Provision for Staff Retirement Benefits		864,951	864,929	0.0	865,389	865,390	(0.0)
Premises, Equipment and Establishment Expenses		1,383,703	1,548,158	(10.6)	1,385,840	1,550,358	(10.6)
Fee and Commission		453,316	398,466	13.8	427,620	372,981	14.6
Provision for Loan Losses		78,272	103,677	(24.5)	78,272	103,677	(24.5)
Provision/(Reversal) for Fall in Value in Dealing Securities		1,170,706	(376,699)	410.8	1,170,706	(113,265)	1,133.6
Other Overheads		311,171	362,531	(14.2)	311,623	362,841	(14.1)
		7,192,783	5,750,041	25.1	7,183,932	6,005,158	19.6
<b>Operating Profit</b>		10,516,440	12,833,543	(18.1)	10,662,892	13,381,409	(20.3)
<b>Less: Value Added Tax</b>	7	1,564,481	3,057,028	(48.8)	1,583,762	3,169,536	(50.0)
<b>Profit on Ordinary Activities before Tax</b>		8,951,959	9,776,515	(8.4)	9,079,130	10,211,873	(11.1)
<b>Less: Income Tax Expense</b>	7	3,192,819	4,385,679	(27.2)	3,277,216	4,648,545	(29.5)
<b>Net Profit for the Year</b>		5,759,140	5,390,836	6.8	5,801,914	5,563,328	4.3
<b>Attributable to:</b>							
Equity Holders		5,759,140	5,390,836	6.8	5,801,914	5,563,328	4.3

Significant Accounting Policies and Notes to the Financial Statements disclosed on pages 265 to 318 are integral parts of these Financial Statements.

As at 31st December	Note	Bank			Group		
		2011 Rs. '000	2010 Rs. '000	Change %	2011 Rs. '000	2010 Rs. '000	Change %
<b>Assets</b>							
Cash and Short-Term Funds	8	1,398,413	1,354,733	3.2	1,400,013	1,356,765	3.2
Government Securities held for Trading	9	6,302,255	11,608,618	(45.7)	8,896,527	12,634,374	(29.6)
Government Securities bought under Resale Agreements		3,794,296	6,981,347	(45.7)	14,842,869	16,398,397	(9.5)
Treasury Bills held to Maturity		55,580,567	48,647,272	14.3	55,580,567	48,647,272	14.3
Treasury Bonds held to Maturity		233,905,120	202,690,744	15.4	233,905,120	202,690,744	15.4
Rupee Loans		9,168,000	12,168,000	(24.7)	9,168,000	12,168,000	(24.7)
Placement with and Loans to Banks and Financial Institutions	10	33,222,070	12,373,050	168.5	33,222,070	12,373,050	168.5
Dealing Securities	11	7,776,419	5,466,402	42.3	7,776,419	5,466,402	42.3
Investment Securities	12	1,791,657	1,677,266	6.8	1,792,657	1,678,266	6.8
Loans and Advances	13	93,060,080	81,477,833	14.2	93,060,096	81,477,833	14.2
Investment in Subsidiaries	14	150,000	150,000	–	–	–	–
Interest Receivable	15	13,157,554	12,670,054	3.8	13,526,730	13,009,874	4.0
Property, Plant & Equipment	16	4,935,037	4,612,632	7.0	4,936,022	4,613,691	7.0
Leasehold Property	17	189,290	193,178	(2.0)	189,290	193,178	(2.0)
Intangible Assets	18	122,782	165,432	(25.8)	123,024	165,752	(25.8)
Other Assets	19	2,080,996	1,742,742	19.4	2,106,190	1,748,240	20.5
<b>Total Assets</b>		<b>466,634,532</b>	<b>403,979,303</b>	<b>15.5</b>	<b>480,525,591</b>	<b>414,621,836</b>	<b>15.9</b>
<b>Liabilities</b>							
Deposits	20	411,012,699	355,364,179	15.7	411,012,699	355,364,179	15.7
Government Securities sold under Repurchase Agreements		16,042,515	11,164,103	43.7	28,508,153	20,284,835	40.5
Other Liabilities	21	15,278,274	15,102,902	1.2	15,435,228	15,222,979	1.4
Income Tax Liabilities	21	–	653,310	–	18,514	847,805	(97.8)
Deferred Tax Liabilities	22	95,615	26,999	254.1	95,394	26,827	255.6
<b>Total Liabilities</b>		<b>442,429,103</b>	<b>382,311,493</b>	<b>15.7</b>	<b>455,069,988</b>	<b>391,746,625</b>	<b>16.2</b>

As at 31st December	Note	Bank			Group		
		2011 Rs. '000	2010 Rs. '000	Change %	2011 Rs. '000	2010 Rs. '000	Change %
<b>Equity Attributable to Equity Holders' Funds</b>							
Stated Capital	23	3,200,000	3,200,000	—	3,200,000	3,200,000	—
Statutory Reserve Fund	24	1,626,500	1,338,543	21.5	1,626,500	1,338,543	21.5
Reserves	25	19,378,929	17,129,267	13.1	20,629,103	18,336,668	12.5
Total Equity		24,205,429	21,667,810	11.7	25,455,603	22,875,211	11.3
<b>Total Liabilities and Equity</b>		<b>466,634,532</b>	<b>403,979,303</b>	<b>15.5</b>	<b>480,525,591</b>	<b>414,621,836</b>	<b>15.9</b>
Commitments and Contingencies	26	1,463,028	1,426,845		1,463,028	1,426,845	

Significant Accounting Policies and Notes to the Financial Statements disclosed on pages 265 to 318 are integral parts of these Financial Statements.

#### Certification

I certify that the above Financial Statements give a true and fair view of the state of affairs as at 31st December 2011 and its profit for the year ended 31st December 2011.



**K.B. Wijeyaratne**

Deputy General Manager (Finance & Planning)

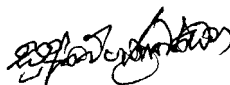
The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

Approved and signed for and on behalf of the Board,



**Pradeep Kariyawasam**

Chairman



**S.T. Abeygunawardana**

Working Director



**H.M. Hennayaka Bandara**

General Manager/CEO

Colombo  
26th April 2012



For the year ended 31st December 2011

	Attributable to Equity Holders									
	Stated Capital	Revaluation Reserve	Special Reserve	Unclaimed Deposits Reserve	Special Risk Reserve	General Reserve	Statutory Reserve	Investment Fund A/C	Retained Earnings	Total Equity
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Bank</b>										
Balance as at 01.01.2010	3,200,000	642,729	2,162	257,480	—	12,589,188	1,069,001	—	—	17,760,560
Net Profit for the Year 2010	—	—	—	—	—	—	—	—	5,390,836	5,390,835
Unclaimed Deposits - Transfers	—	—	12	(10,124)	—	—	—	—	—	(10,112)
Contribution to the Consolidated Fund	—	—	—	—	—	—	—	—	(2,664,085)	(2,664,084)
Transfers during the Year 2010	—	940,611	—	—	—	2,457,209	269,542	—	(2,726,751)	940,611
Balance as at 31.12.2010	3,200,000	1,583,340	2,174	247,356	—	15,046,397	1,338,543	—	—	21,417,810
Balance as at 01.01.2011	3,200,000	1,583,340	2,174	247,356	—	15,046,397	1,338,543	—	—	21,417,810
Prior Year Adjustment	—	—	—	—	—	250,000	—	—	—	250,000
Restated at 01.01.2011	3,200,000	1,583,340	2,174	247,356	—	15,296,397	1,338,543	—	—	21,667,810
Net Profit for the Year 2011	—	—	—	—	—	—	—	—	5,759,140	5,759,140
Unclaimed Deposits - Transfers	—	—	2	(8,852)	—	—	—	—	—	(8,850)
Contribution to the Consolidated Fund	—	—	—	—	—	—	—	—	(3,212,671)	(3,212,671)
Transfers during the Year 2011	—	—	—	—	—	676,940	287,957	1,581,572	2,546,469	—
Balance as at 31.12.2011	3,200,000	1,583,340	2,176	238,504	—	15,973,337	1,626,500	1,581,572	—	24,205,429

For the year ended 31st December 2011

## Attributable to Equity Holders

	Stated Capital	Revaluation Reserve	Special Reserve	Unclaimed Deposits Reserve	Special Risk Reserve	General Reserve	Statutory Reserve	Investment Fund A/C	Retained Earnings	Total Equity
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Group</b>										
Balance as at 01.01.2010	3,200,000	642,729	2,162	257,480	240,727	13,383,370	1,069,001	-	-	18,795,469
Net Profit for the Year 2010	-	-	-	-	-	-	-	-	5,563,327	5,563,327
Unclaimed Deposits - Transfers	-	-	12	(10,124)	-	-	-	-	-	(10,112)
Contribution to the Consolidated Fund	-	-	-	-	-	-	-	-	(2,664,084)	(2,664,084)
Transfers during the Year 2010	-	940,611	-	-	43,124	2,586,577	269,542	-	(2,899,243)	940,611
Balance as at 31.12.2010	3,200,000	1,583,340	2,174	247,356	283,851	15,969,947	1,338,543	-	-	22,625,211
Balance as at 01.01.2011	3,200,000	1,583,340	2,174	247,356	283,851	15,969,947	1,338,543	-	-	22,625,211
Prior Year Adjustment	-	-	-	-	-	250,000	-	-	-	250,000
Restated at 01.01.2011	3,200,000	1,583,340	2,174	247,356	283,801	16,219,947	1,338,343	-	-	22,875,211
Net Profit for the Year 2011	-	-	-	-	-	-	-	-	5,801,914	5,801,914
Unclaimed Deposits - Transfers	-	-	2	(8,852)	-	-	-	-	-	(8,850)
Contribution to the Consolidated Fund	-	-	-	-	-	-	-	-	(3,212,671)	(3,212,671)
Transfers during the Year 2011	-	-	-	-	10,694	709,020	287,957	1,581,572	2,589,243	-
Balance as at 31.12.2011	3,200,000	1,583,340	2,176	238,504	294,545	16,928,967	1,626,500	1,581,572	-	25,455,603

For the year ended 31st December	Bank		Group	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>Cash Flows from Operating Activities</b>				
Interest and Commission Receipts	46,062,339	48,621,507	47,020,587	49,594,476
Interest Payments	(28,464,943)	(31,028,363)	(29,104,378)	(31,748,344)
Receipts from Other Operating Activities	183,526	105,828	270,606	106,600
Cash Payments to Employees and Suppliers	(3,799,531)	(3,697,908)	(3,813,577)	(3,712,383)
Payments for Other Operating Activities	(1,733,555)	(1,890,863)	(1,764,834)	(1,901,794)
<b>Operating Profit before Changes in Operating Assets and Liabilities [Note (a)]</b>	<b>12,247,836</b>	<b>12,110,201</b>	<b>12,608,404</b>	<b>12,338,555</b>
<b>(Increase)/Decrease in Operating Assets</b>				
Treasury Bills and Bonds	(29,654,257)	(38,756,566)	(33,407,743)	(42,469,412)
Placements with and Loans to other Banks and Financial Institutions	(20,849,020)	8,029,664	(20,849,020)	8,029,664
Rupee Loans	3,000,000	6,651,571	3,000,000	6,651,571
Loans and Advances	(11,660,553)	(13,400,704)	(11,660,553)	(13,400,704)
Other Operating Assets	(2,563,743)	(8,028,600)	(2,586,103)	(8,028,834)
<b>Increase/(Decrease) in Operating Liabilities</b>				
Deposits from Customers	55,648,520	42,347,019	58,993,425	42,347,019
Other Liabilities	5,973,934	2,108,913	5,967,008	5,616,415
<b>Net Cash from Operating Activities before Income Tax</b>	<b>12,142,717</b>	<b>11,061,498</b>	<b>12,065,418</b>	<b>11,084,274</b>
VAT Paid	(2,189,366)	(3,057,028)	(2,208,647)	(3,169,536)
To Government Consolidated Fund	(3,287,329)	(2,250,000)	(3,287,329)	(2,250,000)
Income Taxes Paid	(2,667,568)	(3,266,065)	(2,906,933)	(3,674,099)
<b>Net Cash from Operating Activities</b>	<b>3,998,454</b>	<b>2,488,405</b>	<b>3,662,509</b>	<b>1,990,639</b>
<b>Cash Flows from Investing Activities</b>				
Income from Investment Securities	196,205	112,444	196,205	112,444
Purchase of Property, Plant & Equipment	(776,261)	(909,104)	(776,561)	(909,568)
Proceeds from Sale of Property, Plant & Equipment	10,710	44,237	10,710	44,237
Purchase of Securities	(3,595,114)	(2,768,778)	(4,445,681)	(2,768,778)
Proceeds from Sale of Securities	203,595	1,583,198	203,595	2,081,859
<b>Net Cash from Investing Activities</b>	<b>(3,960,865)</b>	<b>(1,938,003)</b>	<b>(4,811,732)</b>	<b>(1,439,806)</b>

	Bank		Group	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<i>For the year ended 31st December</i>				
<b>Cash Flows from Financing Activities</b>				
Borrowings	–	–	–	–
<b>Net Cash from Financing Activities</b>	–	–	–	–
<b>Net Increase in Cash and Cash Equivalents</b>	37,589	550,402	(1,149,223)	550,834
<b>Cash and Cash Equivalents at the beginning of the Period</b>	1,231,876	681,474	3,335,960	2,785,126
<b>Cash and Cash Equivalent at the end of the Period [Note (b)]</b>	1,269,465	1,231,876	2,186,737	3,335,960
<b>Reconciliation</b>				
Operating Profit before Income Tax and VAT	10,516,440	12,833,543	10,662,892	13,381,409
Profit on Sale of Property, Plant & Equipment	(10,478)	–	(10,478)	–
Proceeds from Sale of Securities	(203,595)	(1,583,198)	(203,595)	(2,081,859)
Depreciation	414,500	418,292	414,951	418,842
Bad Debt Provision	78,272	103,677	78,272	103,677
Provision for Diminution in Value of Investments	1,170,706	(376,699)	1,388,341	(113,265)
Dividends	(196,205)	(112,444)	(196,205)	(112,444)
Other Expenses	(3,778)	16,001	(7,749)	16,184
Provision for Accrued Interest				
Accrued Interest on Interest Earning Investments	(487,500)	352,506	(487,500)	274,744
Accrued Interest on Deposits & Interest Bearing Liabilities	969,474	458,524	969,474	451,266
<b>Note (a)</b>	12,247,836	12,110,201	12,608,404	12,338,555
<b>Reconciliation of Cash and Cash Equivalents</b>				
Cash in Hand	428,142	340,572	429,625	340,577
Bank Overdraft	(128,948)	(122,857)	(128,948)	(122,857)
Cash in Transit and Short-Term Fund	19,982	30,426	935,654	2,132,846
Balance with Banks	950,289	983,735	950,406	985,394
<b>Note (b)</b>	1,269,465	1,231,876	2,186,737	3,335,960

## 1. Accounting Policies

### 1.1 Reporting Entity

National Savings Bank (NSB) is a savings bank incorporated in 1972 under the National Savings Bank Act No. 30 of 1971 and domiciled in Sri Lanka. The Registered Office of the Bank is located at No. 255, 'Savings House', Galle Road, Colombo 3, Sri Lanka. The 'Group' Financial Statements for the year ended 31st December 2011 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 31st December each year to be tabled in the Parliament.

The staff strength of the Bank as at 31st December 2011 was 3,275 (3,050 as at end of 2010).

The Financial Statements for the year ended 31st December 2011 were authorised for issue on 26th April 2012, by a resolution of the Board of Directors.

The Bank provided its services through 210 branches, 349 school bank units and 221 ATMs. In addition, 648 post offices and 3,410 sub-post offices act as agents. In total, the Bank provided its services through 4,838 service points Island-wide as at 31st December 2011 (4,803 in 2010).

### 1.2 Principal Activities and Nature of Operations

<b>Bank</b>	The principal activities of the Bank continued to be the promotion of savings among the people of Sri Lanka and the profitable investment of savings so mobilised.
<b>Subsidiary</b>	Bank's fully-owned Subsidiary, namely, NSB Fund Management Company Ltd., acts as a primary dealer and is engaged in dealing in Government Securities.

**Basis of  
Preparation**  
/

- 1.3 Statement of Compliance** The Balance Sheet, Income Statement, Statement of Changes in Equity and Cash Flow Statement are prepared in accordance with the Sri Lanka Accounting Standards (SLASs) laid down by The Institute of Chartered Accountants of Sri Lanka (ICASL), and comply with the requirements of the Banking Act No. 30 of 1988 and amendments thereto. Therefore, the Financial Statements of the Bank present fairly the financial position, financial performance and the cash flows of the Bank.
- 1.4 Comparative Information** The accounting policies have been consistently applied by the Group and are consistent with those used in the previous year. Comparative information is reclassified wherever necessary to conform with the current year's presentation in order to provide better presentation.
- 1.5 Basis of Measurement** The Financial Statements of the Bank have been prepared on the historical cost basis, and applied consistently with no adjustments being made for inflationary factors affecting the Financial Statements, except for the following:
- • Land and buildings are measured at cost at the time of acquisition and subsequently at revalued amounts which are the fair values at the date of revaluation, less accumulated depreciation and impairment loss if any.
  - • Dealing securities are measured at cost and carries at lower of its carrying value or market value, whichever is lower.
- 1.6 Functional and Presentation Currency** The Financial Statements are presented in Sri Lankan Rupees, which is the Bank's functional currency. Financial Information is presented in Sri Lankan Rupees and has been rounded to the nearest thousand, unless indicated otherwise.
- 1.7 Significant Accounting Judgments and Estimates** The preparation of Financial Statements requires the management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Information about significant areas of estimates and uncertainties that have the most significant effect on the amounts recognised in the Financial Statements are described in Notes 1.7.1, 1.7.2 & 1.7.3.

The key items which involve these judgments, estimates and assumptions are discussed below:

- 1.7.1 Impairment Losses on Loans and Advances** In addition to the specific provisions and general provisions made in accordance with the Directions issued by the Central Bank of Sri Lanka, the Bank evaluates the need for additional provisions for loans and advances, based upon management's best estimates of recoverability. In estimating the recoverability, the management makes judgments about the borrowers' financial situation, and assumptions are made, based on historical experience to quantify the possible losses.
- 1.7.2 Review of Impairment Losses on Other Assets** The Bank assesses at each Balance Sheet date whether there are objective evidences that an asset or portfolio of asset is impaired. The recoverable amount of an asset is the greater of its value, in use and its fair value, less costs to sell. Estimating the 'value in use' requires the management to make estimates of the expected future cash flows from the asset and also to select a suitable discount rate in order to calculate the present value of the relevant cash flow and hence, they are subject to uncertainty.
- 1.7.3 Defined Benefit Plans** The cost of defined benefit plans, gratuity and pension obligations is determined using actuarial valuations as detailed in Notes 1.31.1 & 1.31.2. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.
- 1.8 Basis of Consolidation** The Group Financial Statements comprise the consolidation of the Financial Statements of the Bank, its Subsidiary, in terms of the Sri Lanka Accounting Standard No. 26 on Consolidated and Separate Financial Statements.

**1.8.1 Subsidiary** Subsidiary is an enterprise controlled by the Bank. Control exists when the Bank has the power, directly or indirectly to govern the financial and operating policies of the enterprise so as to obtain benefits from its activities. The Financial Statements of the Subsidiary are included in the Consolidated Financial Statements from the date that control effectively commences until the date that control effectively ceases.

The Consolidated Financial Statements incorporating the Subsidiary are prepared to a common financial year ending 31st December, using uniform Accounting Policies for like transactions and events in similar circumstances are applied consistently.

The Bank has only one fully-owned Subsidiary, namely 'NSB Fund Management Company Ltd.'

**1.8.2 Transactions Eliminated on Consolidation** All intra-group transactions and balances, income and expenses and any unrealised gains arising from such inter-company transactions, have been eliminated in full in preparing the Consolidated Financial Statements.

**1.9 Foreign Currency Transactions** Foreign currency transactions are translated into the functional currency, which is Sri Lankan Rupees, using the exchange rates prevailing at the date of transactions.

Monetary assets and liabilities denominated in foreign currencies at the Balance Sheet date are retranslated to Sri Lankan Rupees at the functional currency rate at the Balance Sheet date. All exchange differences arising on the settlement of monetary items or on translating monetary items at rates different to those at which they are initially recorded are recognised in the Income Statement in the period in which they arise.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date of initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

The Income Statement and the Balance Sheet of Foreign Currency Banking Unit are translated to Sri Lankan Rupees at the middle rate of exchange prevailed during the period.



**Assets and Bases of  
their Valuation**

- 1.10 Cash and Cash Equivalents** Cash and cash equivalents include cash in hand, balances with banks and money at call and short notice. They are brought to account at the face value or the gross value appropriate.
- 1.11 Investments in Government Securities held for Trading** Investments in Treasury Bills and Treasury Bonds in dealing portfolio are those investments that the Group acquires or incurs principally for the purpose of selling, or holds as part of a portfolio that is managed for short-term profit. These investments are initially recognised and subsequently measured at market value in the Balance Sheet. Gains and losses on marked to market valuation are dealt with through the Income Statement.
- 1.12 Government Securities bought under Resale Agreements** These are advances collateralised by purchase of Government Treasury Bills and Treasury Bonds, subject to an agreement to resell them at a predetermined price. Such securities remain on the Balance Sheet of the Bank and the asset is recorded in respect of the consideration paid.
- The difference between the purchase and the sale price represents interest income and is recognised in the Income Statement over the period of resale agreement.
- 1.13 Investments in Treasury Bills and Treasury Bonds held to Maturity** Investments in Treasury Bills and Treasury Bonds held to maturity are reflected at the value of the Bills/Bonds purchased and the discount/premium accrued thereon and carried at these values till their maturity in the Balance Sheet. Discount received/premium paid is taken to the Income Statement, based on a pattern reflecting a constant periodic rate of return.
- 1.14 Investments in Rupee Loans** These are loans to Government of Sri Lanka. Such Loans are stated at cost. The interest income is accrued.
- 1.15 Placement with and Loans to Banks and Financial Institutions** These represent the loans to other banks and financial institutions and the deposits with other banks and financial institutions. They are stated at the gross value of the outstanding balance.

**1.16 Dealing Securities**

Dealing securities are marketable investments, shares quoted in Colombo Stock Exchange and investments in Unit Trusts that are acquired for the purposes of short-term profit. These investments are initially recognised at cost and are stated at lower of cost or market value on an aggregate portfolio basis at the Balance Sheet date. The gains and losses on marked to market valuations are dealt with through the Income Statement.

**1.17 Investment Securities**

These are securities including investments in unquoted shares, debt instruments which are acquired and held for yield or capital growth in the medium- to long-term with the positive intent and ability to hold until maturity. Such securities are recorded at cost. Changes in market value of these securities are not taken into account, unless there is considered to be a diminution in value which is permanent.

**1.18 Loans and Advances**

Loans and advances to customers are stated in the Balance Sheet at the recoverable amount represented by the gross value of the outstanding balance adjusted for provision of loans and interest in suspense, which is not accrued to revenue.

**1.19 Non-Performing Loans and Advances**

The loans and advances are classified as Non-Performing Advances (NPA), based on the criteria set out in Direction No. 04 of 2008 dated 8th May 2008, issued by the Central Bank of Sri Lanka on 'Classification of Loans and Advances, Income Recognition and Provisioning'.

Provision for possible loan losses is made on the basis of continuous review of all loans and advances in accordance with the Sri Lanka Accounting Standard No. 23 on 'Revenue Recognition and Disclosure in Financial Statements of banks'.

## 1.20 Provision for Loan Losses

### 1.20.1 Specific Provision

Specific provision on possible loan losses are made in accordance with the Direction No. 04 of 2008 issued by the Central Bank of Sri Lanka. The method of classification of losses and relevant provisions made in accordance with the Direction is given below:

Period Outstanding	Classification	Provision Required Net of Realisation Value of Security
6-12 months	Substandard	20%
12-18 months	Doubtful	50%
18 months or over	Loss	100%

In accordance with the Banking Act Direction No. 04 of 2008, Classification of Loans and Advances issued by the Central Bank of Sri Lanka on 8th May 2008, specific provisions on NPA are made as follows:

### 1.20.2 General Provision

In accordance with the Direction issued by the Central Bank of Sri Lanka, the Bank has to maintain a minimum general provision of 1% on total performing and overdue loans and advances, net of interest in suspense and advances secured by cash deposits, gold or Government Securities with the Bank. This was effected from 31st March 2009. In order to comply with the requirement, the Bank maintains a provision of 1.5% on total performing and overdue loans and advances.

As per the subsequently amended Direction issued in 2010, Bank shall reduce the minimum general provision requirement of 1% to 0.5% at a rate of 0.1% per quarter during the five quarters commencing 1st October 2010. Since the direction specified the minimum requirement the Bank maintains the provision at the same rate (1.5%).

A provision of 2% is made on interest receivable on pawning every year.

- 1.20.3 Foreclosed Properties** Foreclosed properties represent properties that are acquired in full or partial satisfaction of debts. These properties are classified as non-performing advances and are accounted for at the lower of cost or net realisable value on an individual property basis. The shortfall between the prevailing market value of the foreclosed asset and related loan outstanding is recognised as a provision for loan losses in the Income Statement during the year of acquiring the said property, in satisfaction of debt.
- 1.21 Investment in Subsidiary** Investment in Subsidiary is stated at cost in the Bank's Financial Statements in accordance with the Sri Lanka Accounting Standard No. 26 on 'Consolidated and Separate Financial Statements'.
- 1.22 Property, Plant & Equipment**
- 1.22.1 Basis of Recognition and Measurement** Property, Plant & Equipment are tangible items that are held for servicing or for administrative purposes and expected to be used during more than one period.
- An item of Plant & Equipment which qualifies for recognition as an asset are recorded at cost, less accumulated depreciation. Cost includes expenditure directly attributable to the acquisition of the asset.
- Land and buildings are measured at fair value at the date of the revaluation, less depreciation on buildings and any accumulated impairment losses subsequent to the date of revaluation.
- 1.22.2 Revaluation** When an asset is revalued, any increase in the carrying amount is credited directly to a revaluation reserve under capital reserve or used to reverse a previous revaluation decrease relating to the same asset, which was charged to the Income Statement. In these circumstances, the increase is recognised as income to the extent of the previous written-down value. When an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised as an expense or debited directly to capital reserves to the extent of the revaluation surplus in respect of that same asset.

The Land and Buildings have been revalued as at 31st December 2010 by a panel of professionally qualified independent valuers.

### 1.22.3 Depreciation

The Group provides depreciation on assets from the date on which they are available for use to the date of disposal, at the following rates on a straight-line basis over the estimated useful lives of the different types of assets as follows:

Buildings	2.50% p.a.
Leasehold Property	over the lease period
Office & Sundry Equipment	10% p.a.
Motor Vehicles	20% p.a.
Computer Hardware	25% p.a.
Computer Software	25% p.a.
Furniture & Fittings	10% p.a.

Depreciation is not provided for Freehold Land.

### 1.22.4 Derecognising

An item of Property, Plant & Equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognising of an item of Property, Plant & Equipment is included in the Income Statement in the year the asset is derecognised.

### 1.23 Capital Work- in-Progress

Capital work-in-progress is stated at cost. These are expenses of a capital nature directly incurred in the construction of buildings, awaiting capitalisation.

### 1.24 Leasehold Property

Leasehold properties are recorded at carrying value in terms of Sri Lanka Accounting Standards No. 19 on 'Leases'. The carrying value of leasehold properties is amortised over the remaining lease term or useful life of leasehold property, whichever is lower.

**1.25 Intangible  
Assets**

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost, less any accumulated amortisation and any accumulated impairment losses. Internally-generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the Income Statement in the year in which the expenditure is incurred.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the Income Statement in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

**1.26 Computer  
Software**

Computer software is amortised over the 4 years from the date of acquisition. Intangible assets only comprise of computer software and software licence. They are carried at cost less cumulative amortisation.

**1.27 Impairment  
of Non-Financial  
Assets**

The Bank assesses at each reporting date or more frequently if events or changes in circumstances indicate that the carrying value may be impaired, whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount.

When the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and written-down its recoverable amount.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of the recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount.

## Liabilities and Provisions

### 1.28 Deposits from Customers

Deposits include saving deposits, term deposits and certificates of deposit. They are brought to account at the gross value of the outstanding balance. Interest paid is charged to the Income Statement.

#### 1.28.1 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.

### 1.29 Securities Sold under Repurchase Agreements

These are borrowings collateralised by sale of Treasury Bills and Treasury Bonds held by the Bank to the counterparty from whom the Bank borrowed, subject to an agreement to repurchase them at a predetermined price. Such securities remain on the Balance Sheet of the Bank and the liability is recorded in respect of the consideration received.

The difference between the sale and the purchase price represents interest expense which is recognised in the Income Statement evenly over the period of the repurchase agreement.

**1.30 Other  
Liabilities**

Other liabilities include all financial liabilities, interest, fees, expenses payable, provision for gratuity and payable to the consolidated fund. These liabilities are recorded at the cash value to be realised when they are settled.

**1.31 Employee  
Benefits****1.31.1 Defined  
Benefit Plan****1.31.1.1 Description  
of the Pension Fund**

The Bank established the non-contributory pension scheme in 1980. The contribution towards the fund had been made until year 2000 without an actuarial valuation. The funds reserved for pension purpose had been retained within the Bank, without accumulation of interest income to the fund until it was segregated from the books of account of the Bank in 2001. Effective 1st January 2001, the pension fund of the Bank was segregated from the books of account of the Bank and Trustees appointed by the Trust Deed No. 3634 to manage the fund in terms of the provisions of the said Trust Deed.

**1.31.1.2 Funding  
Arrangements and  
Employees Covered**

The Bank contributes to an approved non-contributory pension scheme for the payment of pensions for its permanent employees, who joined the Bank on or before 1st October 1995. The Bank's contribution to the pension fund is made monthly at the rate of 20% on gross salary. Employees who joined the Bank after 1st October 1995 and opted to be the members of the contributory pension scheme, contribute to the fund monthly at the rate of 13.5% of their gross salary.

**1.31.1.3 Actuarial  
Valuation and  
Principal Actuarial  
Assumptions**

In terms of the National Savings Bank Act No. 28 of 1995, the Bank should carry out an actuarial valuation of the pension fund once in two years. A firm of professional actuaries carried out an actuarial valuation of the pension fund as at 31st December 2010. The method used by the actuary for the valuation is the 'Projected Unit Credit Method'. The key actuarial assumptions used in the valuation is as follows:

Long-term interest rate	11.5% p.a.
Increase in average salary	6% p.a.
Increase in Cost of Living Allowance	5% p.a.



**1.31.1.4 Unfunded  
Pension Liability**

The results of the actuarial valuation indicate that the actuarial present value of the promised retirement benefit is Rs. 10,485 Million and that the value of the fund assets is Rs. 8,460 Million indicating a past service deficit of Rs. 2,025 Million. However, since the pension fund is solvent on discontinuance basis (i.e., assuming that the fund is terminated on the valuation date), the actuary recommended the amortisation of the past service deficit by regular contributions over the full working lifetime of the employees who are members of the pension scheme.

The amount recognised as expense for the current year is Rs. 865 Million (Rs. 865 Million in 2010).

**1.31.2 Gratuity**

Up to 31st December 2007, provision has been made in the accounts for gratuity payable under the Payment of Gratuity Act No. 12 of 1983 for employees who joined the Bank after 1st October 1995, and had not consented to be the members of the contributory pension scheme. But, due to the changes in SLAS No. 16 - 'Employee Benefits', the provision is based on an actuarial valuation from 2008 onwards. However, under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of five (5) years of continued service with the Bank. The provision has been made on the following assumptions in the process of determining the provision for Gratuity by the Actuarial Valuer in the year 2011:

Long-term interest rate	8% p.a.
Increase in average salary	6% p.a.

**1.31.3 Defined  
Contribution Plans**

Contributions to the following defined contribution plans are recognised as an expense in the Income Statement as incurred.

**1.31.3.1 Employees'  
Provident Fund**

The Bank and employees contribute to an approved private Provident Fund at 12% and 8%, respectively, on the gross salary of each employee.

**1.31.3.2 Employees'  
Trust Fund**

The Bank contributes 3% on gross salary of each employee to the Employees' Trust Fund.

**1.32 Contribution to the Government Consolidated Fund**

The Bank contributes to the Consolidated Fund annually. An amount of Rs. 3,213 Million has been provided for the year 2011 (Rs. 2,664 Million for 2010) towards the Consolidated Fund.

**1.33 Accruals and Other Creditors**

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

**1.34 Taxation****1.34.1 Income Tax**

Provision for income tax is made on the basis of the profit reported in the Financial Statements and adjusted for the taxation purpose in terms of the provisions of the Inland Revenue Act No. 10 of 2006 and the amendments thereto.

**1.34.2 Deferred Tax**

Deferred income tax is provided, using the liability method, on temporary differences at the Balance Sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the Balance Sheet date.

#### 1.34.3 Value Added Tax on Financial Services

The Bank pays Value Added Tax on Financial Services as per the requirement of the Value Added Tax Act No. 14 of 2002. An amount of Rs. 1,564 Million (Rs. 3,057 Million for 2010) is provided for on account of Value Added Tax for 2011.

#### 1.35 Post-Balance Sheet Events

When necessary, all the material events after the Balance Sheet date have been considered and appropriate adjustments/disclosures are made in the Financial Statements. No circumstance has arisen since the Balance Sheet date which requires adjustment to or disclosure in the accounts.

#### 1.36 Commitments and Contingencies

All discernible risks are accounted for in determining the amount of other liabilities.

### Income Statement

#### 1.37 Revenue Recognition

##### 1.37.1 Interest Income

In terms of provisions of the Sri Lanka Accounting Standard No. 23 - 'Revenue Recognition and Disclosures in the Financial Statements of Banks', the interest income from advances is recognised on an accrual basis. Interest ceased to be taken into revenue when principal and/or interest on advances is more than 90 days or when 03 consecutive instalments, principal and/or interest is overdue and is classified as Non-Performing Loan. Interest on cash advances that are classified as non-performing has been accounted for on cash basis. Interest falling due on non-performing advances has been credited to the Interest in Suspense Account. Interest accrued up to three months on such non-performing advances has been eliminated from interest income and transferred to interest in suspense.

- 1.37.2 Discount/  
Premium on  
Treasury Bonds
- Discount/premium on Treasury Bonds is amortised to income over the period to maturity to reflect a constant yield on the investment in Treasury Bonds.
- 1.37.3 Fees and  
Commission  
Income
- Fees and commission income arise on banking and financial services provided by the Bank. Such income is recognised on a cash basis.
- 1.37.4 Dividend  
Income
- Dividend income from shares is recognised in the period in which it is declared.
- 1.37.5 Profits or  
Losses on Disposal  
of Property, Plant  
& Equipment,  
Dealing Securities  
and Investment  
Securities
- Profits or losses resulting from disposal of Property, Plant & Equipment, Dealing Securities and Investment Securities are accounted for on a cash basis in the Income Statement.
- 1.37.6 Recovery  
of Non-Performing  
Loans and  
Advances
- Interest recovered from non-performing loans and advances is recognised as income on cash basis.
- 1.38 Expenses and  
Provisions**
- 1.38.1 Interest and  
Other Expenses
- In terms of the provisions of the Sri Lanka Accounting Standard No. 23 - 'Revenue Recognition and Disclosures in the Financial Statements of Banks', interest payable and all other expenses are recognised on accrual basis. All expenditure incurred in the operation of the business and in maintaining the capital assets in a state of efficiency has been charged to revenue in arriving at the profit for the year.
- 1.38.2 Terminal  
Benefits
- Contribution to the terminal benefits is charged to the Income Statement in the year in which such costs are determined.

- 1.38.3 Statutory Reserve Fund** The Bank transfers annually a sum equivalent to 5% of the net profit after tax to Statutory Reserve Fund. An amount of Rs. 287.9 Million was transferred to this Fund in 2011. The balance in the Statutory Reserve Fund as at 31st December 2011 was Rs. 1,627 Million.
- 1.38.4 Fraudulent Withdrawals** The total value of fraudulent withdrawals identified as at 31st December 2011 was Rs. 17.75 Million. A provision of Rs. 7.05 Million already exists in the accounts. Insurance claims for such fraudulent withdrawals have been lodged.
- 1.39 Cash Flow Statement** The cash flow has been ascertained by using the 'Direct Method' of preparing the cash flows in accordance with the Sri Lanka Accounting Standard No. 9 on 'Cash Flow Statements'. The operating profit before changes in operating assets and liabilities is reconciled with the 'Indirect Method' of preparing the cash flows.
- 1.40 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 Account. The amounts so derived for the year ended 31st December 2011 was Rs. 1,041 Million and Rs. 540 Million respectively.
- 1.41 New Accounting Standards Issued but not Effective as at Balance Sheet Date** The Institute of Chartered Accountants of Sri Lanka has issued a new volume of Sri Lanka Accounting Standards which will become applicable for financial periods beginning on or after 1st January 2012. Accordingly, these Standards have not been applied in preparing these Financial Statements as they were not effective for the year ended 31st December 2011. These Sri Lanka Accounting Standards comprise Accounting Standards pre-fixed both SLFRS (corresponding to IFRS) and LKAS (corresponding to IAS). Application of Sri Lanka Accounting Standards pre-fixed SLFRS and LKAS for the first time shall be deemed to be an adoption of SLRFSs. The Bank is currently in the process of implementing these Standards.
- 1.42 Directors' Responsibility Statement** The Board of Directors takes responsibility for the preparation and presentation of these Financial Statements.
- The Report on the Directors' Responsibility for Financial Reporting is given in pages 246 to 247.

	Bank		Group	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>2. Income</b>				
Gross Income	47,143,640	50,070,471	47,965,136	51,586,178
Income of the Bank resulted mainly from the business of banking and related activities -				
Interest Income	46,376,790	48,141,664	47,330,576	49,159,813
Other Income	766,850	1,928,807	634,560	2,426,365
	47,143,640	50,070,471	47,965,136	51,586,178
<b>3. Interest Income</b>				
Treasury Bonds	28,213,087	29,518,334	29,009,344	30,268,709
Treasury Bills	4,771,756	4,934,721	4,929,284	5,202,495
Rupee Loans	1,024,578	1,765,714	1,024,578	1,765,714
Loans and Advances	10,572,719	9,792,849	10,572,719	9,792,849
Placement with Banks and Other Financial Institutions	1,562,787	1,593,127	1,562,787	1,593,127
Placement with Other Institutions	231,864	536,919	231,864	536,919
	46,376,790	48,141,664	47,330,576	49,159,813
<b>4. Interest Expenses</b>				
Deposits	28,307,260	30,344,345	28,307,260	30,344,345
Treasury Bills Repurchased	806,737	939,530	1,490,632	1,652,254
Others	320,420	203,012	320,420	203,012
	29,434,417	31,486,887	30,118,312	32,199,611

	Bank		Group	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>5. Other Income</b>				
Gains from Investment Securities	203,595	1,583,198	73,041	2,081,859
Dividends	196,205	112,444	196,205	112,444
Fee and Commission	173,047	127,337	173,123	128,063
Others	194,003	105,828	192,191	103,999
	<b>766,850</b>	<b>1,928,807</b>	<b>634,560</b>	<b>2,426,365</b>
<b>6. Operating Expenses</b>				
Operating Expenses Include the Following:				
Chairman's Emoluments	1,303	767	1,303	767
Directors' Emoluments and Fees	2,019	1,450	2,114	1,545
Contribution to Employees' Provident Fund	196,356	187,456	196,944	187,943
Contribution to Employees' Trust Fund	48,786	50,510	48,933	50,632
Gratuity	59,299	26,331	59,482	26,514
Auditors' Remuneration	3,184	1,995	3,304	2,115
Depreciation	414,500	418,292	414,951	418,842
Expenses on Litigation	983	623	983	623
	<b>726,430</b>	<b>687,424</b>	<b>728,014</b>	<b>688,981</b>
<b>7. Income Tax Expenses</b>				
(a) Taxes on Current Year Profit	3,025,186	4,235,310	3,109,583	4,498,176
(Over)/Under Provision Relating to Previous Years	99,017	207,410	99,017	207,410
Transfer to/(from) Deferred Taxation	68,616	(57,041)	68,616	(57,041)
	<b>3,192,819</b>	<b>4,385,679</b>	<b>3,277,216</b>	<b>4,648,545</b>

(b) Provision for taxation was computed based on the profit for the year and in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and the amendments thereto.

(c) Reconciliation of Accounting Profit and Taxable Income:

	Bank		Group	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Net Profit as per the Income Statement	8,951,959	9,776,515	9,079,130	10,211,873
<b>Add:</b> Disallowable Expenses	2,504,969	4,569,652	2,772,041	4,979,843
<b>Less:</b> Allowable Expenses	456,488	2,311,668	461,784	2,316,140
Assessable Income	11,000,440	12,034,498	11,389,388	12,875,575
<b>Less:</b> Dividend Income	196,205	112,444	196,205	112,444
<b>Taxable Income</b>	10,804,235	11,922,054	11,193,183	12,763,131
<b>Tax Thereon (28% - 2011 &amp; 35% - 2010)</b>	3,025,186	4,172,719	3,134,091	4,467,096
<b>Social Responsibility Levy</b>	–	62,591	542	67,006
<b>Less:</b> Adjustments	–	–	(25,051)	(35,926)
	3,025,186	4,235,310	3,109,583	4,498,176
(d) Value Added Tax on Current Year Profit	1,562,040	3,057,028	1,581,321	3,169,536
(Over)/Under Provision Relating to Previous Year	2,441	–	2,441	–
	1,564,481	3,057,028	1,583,762	3,169,536

## 8. Cash and Short-Term Funds

Cash in Hand and Balances with Banks	1,378,431	1,324,307	1,380,026	1,326,334
Money at Call and Short Notice	19,982	30,426	19,987	30,431
	1,398,413	1,354,733	1,400,013	1,356,765



	Bank		Group	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>9. Government Securities Held for Trading</b>				
Treasury Bonds	5,911,257	11,320,792	8,505,529	12,344,549
Treasury Bills	390,998	287,826	390,998	289,825
	6,302,255	11,608,618	8,896,527	12,634,374
<b>10. Placement with and Loans to Banks and Financial Institutions</b>				
Banks	25,708,156	10,410,692	25,708,156	10,410,692
Financial Institutions	7,513,914	1,962,358	7,513,914	1,962,358
	33,222,070	12,373,050	33,222,070	12,373,050
<b>11. Dealing Securities</b>				
Quoted Shares (Note 11.1)	8,804,503	5,323,780	8,804,503	5,323,780
Unit Trusts (Note 11.2)	142,622	142,622	142,622	142,622
	8,947,125	5,466,402	8,947,125	5,466,402
<b>Less: Provision for Fall in Value</b>	1,170,706	–	1,170,706	–
	7,776,419	5,466,402	7,776,419	5,466,402

	2011			2010		
	Number of Shares	Cost	Market Value	Number of Shares	Cost	Market Value
		Rs. '000	Rs. '000		Rs. '000	Rs. '000
<b>11.1 Quoted Shares</b>						
<b>Banking, Insurance and Finance Sector</b>						
Commercial Bank of Ceylon PLC	1,699,424	152,916	168,209	788,000	142,626	202,790
Seylan Bank (NV)	1,496,666	59,466	45,331	1,122,500	46,370	54,219
Ceylinco Insurance	–	–	–	276,700	117,225	104,074
Janashakthi Insurance	1,699,500	26,322	25,569	1,538,400	23,833	24,516
DFCC Bank	1,342,024	194,396	149,969	1,092,124	146,510	215,656
Hatton National Bank PLC	9,204,030	1,301,845	1,366,522	5,578,200	1,118,183	2,207,969
Hatton National Bank (NV)	1,072,500	138,244	91,082	650,000	126,593	137,938
HNB Assurance	105,332	6,556	5,943	768,600	55,778	59,339
Lanka ORIX Leasing	606,900	68,594	50,099	–	–	–
Lanka Ventures	–	–	–	308,700	11,265	9,564
National Development Bank	1,662,000	181,505	230,307	831,000	181,505	287,472
Nations Trust Bank PLC	355,200	27,962	20,040	330,200	26,040	27,290
Pan Asia Bank PLC	570,200	16,269	14,110	285,100	16,269	14,674
People's Leasing Finance	142,504	8,392	5,035	–	–	–
People's Leasing	58,809,840	1,058,577	925,539	–	–	–
Lanka Orix Finance	4,550,000	50,340	37,380	–	–	–
Singer Finance	–	–	–	26,200	393	389
		3,291,384	3,135,135		2,012,590	3,345,890
<b>Chemical and Pharmaceutical Sector</b>						
CIC (NV)	183,700	17,302	14,001	469,500	42,972	45,123
Haycarb	502,800	93,793	77,139	405,800	77,350	67,680
		111,095	91,140		120,322	112,803

	2011			2010		
	Number of Shares	Cost	Market Value	Number of Shares	Cost	Market Value
		Rs. '000	Rs. '000		Rs. '000	Rs. '000
<b>Diversified Sector</b>						
Hemas Holdings PLC	1,112,300	53,158	36,772	1,112,300	53,158	48,882
John Keells Holdings PLC	4,259,056	842,515	720,870	1,612,642	383,525	475,825
Richard Pieris & Co. PLC	5,223,900	63,909	47,426	–	–	–
Ceylon Theatres PLC	440,400	83,598	78,028	284,200	53,934	51,197
Aitken Spence PLC	450,700	77,044	55,763	150,000	25,457	25,420
Browns Investments PLC	93,606,200	468,031	389,136	–	–	–
Expolanka Holdings PLC	4,318,800	57,379	37,190	–	–	–
Free Lanka Capital Holdings PLC	2,900,000	13,279	9,189	–	–	–
Sunshine Holdings PLC	318,200	15,038	9,134	232,100	11,989	10,499
		1,673,951	1,383,508		528,063	611,823
<b>Food, Beverage and Tobacco</b>						
Cargills PLC	543,800	106,584	109,265	1,000,000	195,999	193,011
Lanka Milk Foods (CWE) PLC	311,300	39,457	32,969	221,000	19,160	24,718
		146,041	142,234		215,159	217,729
<b>Construction and Engineering</b>						
Dockyard PLC	611,500	162,381	144,416	380,400	100,503	103,543
		162,381	144,416		100,503	103,543
<b>Footwear and Textile</b>						
Hayleys PLC	400,900	14,104	11,309	375,700	13,316	11,900
		14,104	11,309		13,316	11,900

	2011			2010		
	Number of Shares	Cost	Market Value	Number of Shares	Cost	Market Value
		Rs. '000	Rs. '000		Rs. '000	Rs. '000
<b>Hotels and Travels</b>						
Confifi Hotels	—	—	—	54,600	11,604	13,138
Eden Hotels	477,900	25,837	17,975	371,000	21,422	21,152
Hotel Corporation	3,304,900	116,264	90,285	3,599,400	126,625	131,107
Hotel Services	2,707,100	74,428	54,929	1,748,900	52,609	45,008
Keells Hotels	3,473,800	72,296	46,074	3,473,800	72,296	68,767
Lighthouse Hotels	1,900,000	115,539	100,613	1,900,000	115,539	118,749
Mahaweli Reach Hotel	133,300	4,884	3,694	343,100	12,571	12,395
Marawila Resorts	702,750	9,413	6,956	562,200	8,007	8,236
Riverina Hotels	—	—	—	58,700	5,944	6,118
Asian Hotels	441,000	42,526	34,789	—	—	—
Aitken Spence Hotels	1,613,400	153,681	110,988	—	—	—
		614,868	466,303		426,617	424,670
<b>Health Care</b>						
Nawaloka Hospitals PLC	17,789,400	79,421	68,671	1,630,000	6,184	5,808
Asiri Hospitals PLC	880,400	8,021	7,494	1,100,000	10,021	9,581
		87,442	76,165		16,205	15,389
<b>Land and Property</b>						
Overseas Realty PLC	5,591,100	105,684	78,030	5,591,100	105,684	84,671
		105,684	78,030		105,684	84,671

	2011			2010		
	Number of Shares	Cost	Market Value	Number of Shares	Cost	Market Value
		Rs. '000	Rs. '000		Rs. '000	Rs. '000
<b>Manufacturing</b>						
ACL Cables PLC	1,275,200	116,643	93,402	1,270,000	116,253	107,050
Chevron Lubricants PLC	1,276,200	219,801	214,741	1,276,200	219,801	201,478
Dipped Products PLC	1,000,000	124,636	105,414	1,000,000	124,636	118,776
Lanka Tiles PLC	–	–	–	100,250	10,733	14,388
Lanka Ceramic PLC	446,000	60,350	37,523	–	–	–
Lanka Walltile PLC	619,700	68,290	57,964	–	–	–
Royal Ceramics Lanka PLC	747,700	119,581	103,610	–	–	–
Tokyo Cement (NV) Company (Lanka) PLC	2,335,000	99,706	70,491	–	–	–
Tokyo Cement Company (Lanka) PLC	1,213,200	68,723	52,836	830,200	42,988	45,606
		877,730	735,981		514,411	487,298
<b>Plantation</b>						
Watawala Plantation PLC	419,500	11,250	5,855	–	–	–
Horana Plantation PLC	–	–	–	595,900	18,539	21,823
Kegalle Plantation PLC	–	–	–	285,100	42,547	45,151
		11,250	5,855		61,086	66,974
<b>Power and Energy</b>						
Lanka IOC PLC	15,365,100	567,966	281,355	15,365,100	567,966	287,438
Laugfs Gas PLC	154,900	5,801	5,811	634,700	15,021	16,397
Laugfs Gas (NV) PLC	–	–	–	523,100	7,972	9,527
Hemas Power PLC	424,800	15,605	11,353	–	–	–
Panasian Power PLC	–	–	–	1,413,300	4,240	4,197
		589,372	298,519		595,199	317,559

	2011			2010		
	Number of Shares	Cost	Market Value	Number of Shares	Cost	Market Value
		Rs. '000	Rs. '000		Rs. '000	Rs. '000
<b>Telecommunication</b>						
Dialog PLC	6,790,960	168,982	53,101	6,790,960	168,982	79,988
Sri Lanka Telecom PLC	13,158,700	445,643	630,385	13,158,700	445,643	625,175
		614,625	683,486		614,625	705,163
<b>Trading</b>						
Brown & Company PLC	1,000,000	319,948	232,405	-	-	-
		319,948	232,405		-	-
<b>Investment Trusts</b>						
Renuka Holdings PLC	2,678,073	178,838	144,466	-	-	-
Renuka Holdings (NV) PLC	148,406	5,789	4,847	-	-	-
		184,627	149,313		-	-
<b>Total as at 31st December</b>		8,804,503	7,472,219		5,323,780	6,505,412
<b>11.2 Unit Trust</b>						
Pyramid	1,573,620	15,000	49,498	1,573,620	15,000	56,808
NAMAL	3,961,965	50,000	104,992	3,961,965	50,000	124,762
Cey-Bank	6,880,297	67,622	212,464	6,880,297	67,622	271,290
Com Trust Equity Fund	556,793	10,000	11,684	556,793	10,000	15,123
		142,622	378,638		142,622	467,983

	Bank		Group	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>12. Investment Securities</b>				
Unquoted Shares (Note 12.1)	1,267,575	1,267,575	1,267,575	1,267,575
Other Investments (Note 12.2)	524,082	409,691	525,082	410,691
	1,791,657	1,677,266	1,792,657	1,678,266

	2011		2010	
	Number of Shares	Cost Rs. '000	Number of Shares	Cost Rs. '000
<b>12.1 Unquoted Shares</b>				
Associated Newspapers of Ceylon Ltd.	20,000	127	20,000	127
Credit Information Bureau	30,450	57,364	30,450	57,364
Regional Development Bank (R.D.B.)	7,358,448	73,584	7,358,448	73,584
Sri Lankan Airline Ltd.	4,236,135	1,136,500	4,236,135	1,136,500
<b>Total as at 31st December</b>	–	1,267,575	–	1,267,575

	Bank		Group	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>12.2 Other Investments</b>				
Investments in Debentures	274,082	292,248	274,082	292,248
Investments in Securitised Instrument	250,000	87,794	251,000	88,794
Investment in Trust Certificate	–	29,649	–	29,649
	524,082	409,691	525,082	410,691

	Bank		Group	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>13. Loans and Advances</b>				
Housing and Property Loans	37,395,564	33,011,819	37,395,564	33,011,819
Loans against Deposits	14,706,450	13,582,672	14,706,450	13,582,672
Loans to Government	–	5,760,800	–	5,760,800
Loans to Government Institutions	–	267,802	–	267,802
Development Finance Loans	6,316,962	6,017,572	6,316,962	6,017,572
Loans Granted out of Investment Fund Account (Note 13.7)	4,300	–	4,300	–
Pawning	32,599,643	21,725,406	32,599,643	21,725,406
Personal	1,614,932	648,614	1,614,932	648,614
Others	1,146,710	1,109,324	1,146,726	1,109,324
	93,784,562	82,124,009	93,784,578	82,124,009
<b>Less: Loan Loss Provision (Note 13.1)</b>	724,482	646,176	724,482	646,176
	93,060,080	81,477,833	93,060,096	81,477,833

### 13.1 Movement in the Provision for Bad and Doubtful Debts

Balance as at 1st January	646,176	542,807	646,176	542,807
<b>Less: Recoveries</b>	34	308	34	308
<b>Add: Adjustment for Recoveries</b>	68	–	68	–
	646,210	542,499	646,210	542,499
<b>Add: Provision made during the Year</b>	78,272	103,677	78,272	103,677
Balance as at 31st December	724,482	646,176	724,482	646,176



	Bank		Group	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>13.2 Movement in the Interest in Suspense Account</b>				
Balance as at 1st January	214,379	184,194	214,379	184,194
<b>Less: Recoveries</b>	21,438	10,222	21,438	10,222
	192,941	173,972	192,941	173,972
<b>Add: Interest in Suspense during the Year</b>	77,915	40,407	77,915	40,407
Balance as at 31st December	270,856	214,379	270,856	214,379

	Bank				Group			
	2011		2010		2011		2010	
	Loan Loss Provision Rs. '000	Interest in Suspense Rs. '000	Loan Loss Provision Rs. '000	Interest in Suspense Rs. '000	Loan Loss Provision Rs. '000	Interest in Suspense Rs. '000	Loan Loss Provision Rs. '000	Interest in Suspense Rs. '000
<b>13.3 Analysis of Provisions for Losses and Interest in Suspense</b>								
Housing and Property Loans	556,491	254,787	504,367	202,706	556,491	254,787	504,367	202,706
Development Finance Loans	93,454	–	90,264	–	93,454	–	90,264	–
Personal	49,405	16,069	33,088	11,673	49,405	16,069	33,088	11,673
Others	25,132	–	18,457	–	25,132	–	18,457	–
	724,482	270,856	646,176	214,379	724,482	270,856	646,176	214,379

	Bank		Group	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>13.4 Total Non-Performing Loans and Advances</b>				
Non-Performing Assets	2,684,343	2,119,010	2,684,343	2,119,010
Interest in Suspense	270,856	214,379	270,856	214,379
	2,955,199	2,333,389	2,955,199	2,333,389

**13.5 Total Non-Performing Loans and Advances on which Interest has not been Accrued as per the Accounting Policy**

Housing and Property Loans	2,592,254	2,046,181	2,592,254	2,046,181
Development Finance Loans	8,807	8,807	8,807	8,807
Personal	82,954	62,577	82,954	62,577
Other	328	1,445	328	1,445
	2,684,343	2,119,010	2,684,343	2,119,010

**13.6 Concentration of Credit Risk**

Analysis of the Bank's credit portfolio is indicated below:

Housing and Property Loans	36,839,073	32,507,452	36,839,073	32,507,452
Loans against Deposits	14,706,450	13,582,672	14,706,450	13,582,672
Loans to Government	–	5,760,800	–	5,760,800
Loans to Government Institutions	–	267,802	–	267,802
Development Finance Loans	6,223,508	5,927,308	6,223,508	5,927,308
Loans Granted out of Investment Fund Account (Note 13.7)	4,300	–	4,300	–
Pawning	32,599,643	21,725,406	32,599,643	21,725,406
Personal	1,565,527	615,853	1,565,527	615,853
Others	1,121,578	1,090,540	1,121,594	1,090,540
	93,060,080	81,477,833	93,060,096	81,477,833

**13.7 Loans Granted out of Investment Fund Account**

Type of Loan	Number of Loans Granted	Interest Rate	Tenure	Bank		Group	
				2011	2010	2011	2010
				Rs. '000	Rs. '000	Rs. '000	Rs. '000
Agriculture Loan	1	10.50%	5 Years	4,300	—	4,300	—

**14. Investment in Subsidiary Companies****Unquoted**

	Holding %		Bank			
	2011	2010	2011		2010	
			Cost	Directors' Valuation	Cost	Directors' Valuation
			Rs. '000	Rs. '000	Rs. '000	Rs. '000
NSB Fund Management Co. Ltd.	100%	100%	150,000	150,000	150,000	150,000

	Bank		Group	
	2011	2010	2011	2010
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest Receivable	13,428,410	12,884,433	13,797,586	13,224,253
Less: Interest in Suspense	270,856	214,379	270,856	214,379
	13,157,554	12,670,054	13,526,730	13,009,874

	Leasehold Buildings	Freehold Land and Buildings	Computer Equipment	Equipment and Furniture	Motor Vehicles	Total 2011	Total 2010
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>16. Property, Plant &amp; Equipment</b>							
<b>16.1 Bank</b>							
<b>Cost/Valuation</b>							
Balance as at 1st January	264,484	3,585,463	1,495,928	947,989	139,741	6,433,605	4,686,667
Depreciation Adjustment for Revalued Assets	–	(158,429)	–	–	–	(158,429)	–
<b>Add:</b> Additions during the Year	–	473,795	107,550	160,843	58,773	800,961	868,478
Revaluation	–	–	–	–	–	–	940,611
<b>Less:</b> Disposals during the Year	–	135,063	43,206	8,676	12,786	199,731	62,151
<b>Balance as at 31st December</b>	<b>264,484</b>	<b>3,765,766</b>	<b>1,560,272</b>	<b>1,100,156</b>	<b>185,728</b>	<b>6,876,406</b>	<b>6,433,605</b>
<b>Less: Accumulated Depreciation</b>							
Balance as at 1st January	5,133	158,429	1,060,166	472,390	124,854	1,820,972	1,495,595
Depreciation Adjustment for Revalued Assets	–	(158,429)	–	–	–	(158,429)	–
<b>Add:</b> Charge for the Year	3,340	31,756	204,573	86,609	16,983	343,261	337,246
<b>Less:</b> On Disposals	–	–	43,206	8,444	12,787	64,437	11,869
	8,473	31,756	1,221,533	550,555	129,050	1,941,367	1,820,972
Net Book Value as at 31st December	259,351	3,607,337	500,106	627,766	60,874	–	4,612,632
Net Book Value as at 31st December	256,011	3,734,010	338,739	549,601	56,678	4,935,037	–

	Leaschold Buildings	Freehold Land and Buildings	Computer Equipment	Equipment and Furniture	Motor Vehicles	Total 2011	Total 2010
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>16.2 Group</b>							
<b>Cost/Valuation</b>							
Balance as at 1st January	264,484	3,585,463	1,497,885	949,015	139,741	6,436,589	4,689,579
Depreciation Adjustment for Revalued Assets	–	(158,429)	–	–	–	(158,429)	–
<b>Add:</b> Additions during the Year	–	473,795	107,555	161,138	58,773	801,261	868,550
Revaluation	–	–	–	–	–	–	940,611
<b>Less:</b> Disposals during the Year	–	135,063	43,206	8,676	12,786	199,731	62,151
<b>Balance as at 31st December</b>	264,484	3,765,766	1,562,234	1,101,477	185,728	6,879,690	6,436,589
<b>Less: Accumulated Depreciation</b>							
Balance as at 1st January	5,133	158,429	1,061,547	472,935	124,854	1,822,898	1,497,042
Depreciation Adjustment for Revalued Assets	–	(158,429)	–	–	–	(158,429)	–
<b>Add:</b> Charge for the Year	3,340	31,756	204,856	86,699	16,983	343,634	337,725
<b>Less:</b> On Disposals	–	–	43,206	8,444	12,787	64,437	11,869
	8,473	31,756	1,223,197	551,190	129,050	1,943,666	1,822,898
Net Book Value as at 31st December	259,351	3,427,034	436,338	476,079	14,887	–	4,613,691
Net Book Value as at 31st December	256,011	3,734,010	339,037	550,287	56,678	4,936,022	

**16.3** Freehold land and building includes building work-in-progress of Rs. 193.69 Million. Depreciation has not been provided for building work-in-progress.

**16.4** The Land and Building were last revalued during the financial year 2010 by a panel of independent professional valuers. The results of such revaluation were incorporated in these Financial Statements from its effective date which is 31st December 2010.

Class of Assets	Cost	Cumulative Depreciation Carried at Cost	Net Carrying Amount 2011	Net Carrying Amount 2010
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Land	876,269	–	876,269	876,269
Building	1,777,174	200,989	1,576,185	1,460,810

#### **16.5 Fully-Depreciated Property, Plant & Equipment**

The cost of fully-depreciated Property, Plant & Equipment of the Bank which are still in use as at the Balance Sheet date is as follows:

	2011 Rs. '000	2010 Rs. '000
Computer Equipment	762,146	612,449
Motor Vehicle	99,272	80,567
Equipment & Furniture	171,221	156,058

	Bank		Group	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>17. Leasehold Property</b>				
Balance as at 1st January	211,065	211,065	211,065	211,065
<b>Add:</b> Additions during the Year	–	–	–	–
<b>Less:</b> Disposals during the Year	–	–	–	–
<b>Balance as at 31st December</b>	<b>211,065</b>	<b>211,065</b>	<b>211,065</b>	<b>211,065</b>
<b>Less:</b> Accumulated Amortisation				
Balance as at 1st January	17,887	13,999	17,887	13,999
<b>Add:</b> Charge for the Year	3,888	3,888	3,888	3,888
<b>Less:</b> On Disposals	–	–	–	–
	21,775	17,887	21,775	17,887
<b>Balance as at 31st December</b>	<b>189,290</b>	<b>193,178</b>	<b>189,290</b>	<b>193,178</b>

The leasehold rights to land are disclosed under leasehold property. The revised Urgent Issue Task Force (UITF) ruling does not permit revaluation of leasehold property.

	Bank		Group	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>18. Intangible Assets</b>				
Balance as at 1st January	391,606	344,935	393,576	346,513
<b>Add:</b> Additions during the Year	24,701	46,671	24,701	47,063
<b>Less:</b> Disposals during the Year	–	–	–	–
Balance as at 31st December	416,307	391,606	418,277	393,576
<b>Less: Accumulated Amortisation</b>				
Balance as at 1st January	226,174	149,017	227,824	150,595
<b>Add:</b> Charge for the Year	67,351	77,157	67,429	77,229
<b>Less:</b> On Disposals	–	–	–	–
	293,525	226,174	295,253	227,824
<b>Net Book Value as at 31st December</b>	<b>122,782</b>	<b>165,432</b>	<b>123,024</b>	<b>165,752</b>
<b>19. Other Assets</b>				
Deposits and Prepayments	693,861	92,494	693,863	92,496
Tax Recoverable	128,137	–	153,329	5,485
Postmaster General's Current Account	253,075	557,946	253,075	557,946
Others	1,005,923	1,092,302	1,005,923	1,092,313
	2,080,996	1,742,742	2,106,190	1,748,240



	Bank		Group	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>20. Deposits</b>				
Savings Deposits	106,026,686	94,893,368	106,026,686	94,893,368
Time Deposits	296,433,798	252,540,296	296,433,798	252,540,296
National Savings Certificates	39,050	103,513	39,050	103,513
Endowment Scheme	1,058,022	1,027,795	1,058,022	1,027,795
Premium Savings Certificates	679,464	714,081	679,464	714,081
Prarthana	1,051,320	992,367	1,051,320	992,367
Foreign Currency Deposits	4,905,538	4,304,982	4,905,538	4,304,982
Others	818,821	787,777	818,821	787,777
	411,012,699	355,364,179	411,012,699	355,364,179
<b>21. A. Other Liabilities</b>				
Accrued Interest	12,272,167	11,538,164	12,425,194	11,646,731
Bank Overdraft	128,948	122,857	128,948	122,857
Provision for Gratuity	163,782	121,956	164,839	122,804
Payable to the Consolidated Fund	–	664,084	–	664,084
Accruals and Other Creditors	2,713,377	2,655,841	2,716,248	2,466,247
	15,278,274	15,102,902	15,435,228	15,222,979

	Bank		Group	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>21. B. Income Tax Liability</b>				
Taxes on Current Year Profit	3,025,186	4,235,310	3,109,583	4,498,176
<b>Less:</b> Opening Notional Tax	–	523,345	–	523,345
Notional Tax	2,867,842	2,894,618	2,865,691	2,894,618
WHT on Interest	165,481	251,447	165,481	251,447
Economic Service Charge	120,000	120,000	120,000	120,000
	(128,137)	445,900	(41,589)	708,766
<b>Add:</b> Previous Year Adjustments	–	207,410	–	207,410
	(128,137)	653,310	(41,589)	916,176
<b>Less:</b> Income Tax and SRL Paid	–	–	86,548	68,371
Income Tax Payable - Group	–	–	18,514	–
Income Tax (Recoverable)/Payable as at 31st December	(128,137)	653,310	(109,623)	847,805



	Bank		Group	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>24. Statutory Reserve Fund</b>				
Balance as at 1st January	1,338,543	1,069,001	1,338,543	1,069,001
<b>Add:</b> Transferred during the Year	287,957	269,542	287,957	269,542
Balance as at 31st December	1,626,500	1,338,543	1,626,500	1,338,543

In terms of the Central Bank of Sri Lanka Direction 76J (1) applicable for Reserve Fund, the Bank should transfer a sum equivalent to not less than 5% of net profit after tax until the said Reserve is equals to 50% of paid-up or assigned capital, and further sum not less than 2% until the said Reserve equals the paid-up or assigned capital. This Fund may be utilised in a specific manner, which would be stipulated by the Central Bank of Sri Lanka.

	Bank		Group	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>25. Reserves</b>				
<b>(a) Revaluation Reserve</b>				
Balance as at 1st January	1,583,340	642,729	1,583,340	642,729
<b>Add:</b> Transferred during the Year	—	940,611	—	940,611
Balance as at 31st December	1,583,340	1,583,340	1,583,340	1,583,340

The revaluation reserve represents the increase in the fair value of the freehold land and buildings on the date of revaluation. The Bank is allowed to treat 50% of the revaluation reserve as part of the supplementary capital in the Tier II of capital base in the computation of total risk-weighted capital ratio.

	Bank		Group	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>(b) Special Reserve</b>				
Balance as at 1st January	2,174	2,162	2,174	2,162
<b>Add:</b> Transferred during the Year	2	12	2	12
Balance as at 31st December	2,176	2,174	2,176	2,174

This comprises of such amounts transferred from the dormant accounts of customers where the aggregate of the amount lying dormant is less than Rs. 10/- (Ten Rupees).

	Bank		Group	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>(c) Unclaimed Deposits Reserve</b>				
Balance as at 1st January	247,356	257,480	247,356	257,480
<b>Less:</b> Transferred to Reserves	8,852	10,124	8,852	10,124
Balance as at 31st December	238,504	247,356	238,504	247,356

In terms of Section 47 of the National Savings Bank Act No. 30 of 1971 as amended by Section 30 of the National Savings Bank (Amendment) Act No. 28 of 1995, where an amount lying dormant in a savings or deposit account for a period of ten years, it should be transferred to, Unclaimed Deposit Reserve.

The whole or such part of the monies lying to the credit of 'Special Reserve' and 'Unclaimed Deposit Reserve' may be capitalised and shares to the value of money capitalised may be issued in the name of Secretary to the Treasury. The entirety of the issued and fully-paid share capital of Rs. 3.2 Billion reflected in the Balance Sheet was issued capitalising the Unclaimed Deposit Reserve from time to time.

	Bank		Group	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>(d) General Reserve</b>				
Balance as at 1st January	15,296,397	12,589,188	16,219,947	13,383,370
<b>Add:</b> Prior Year Adjustment	–	250,000	–	250,000
<b>Add:</b> Transferred during the Year	676,940	2,457,209	709,020	2,586,577
Balance as at 31st December	15,973,337	15,296,397	16,928,967	16,219,947

This comprises amount transferred by the Board of Directors as a General Banking Reserve.

	Bank		Group	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>(e) Special Risk Reserve</b>				
Balance as at 1st January	–	–	283,851	240,727
<b>Add:</b> Transferred during the Year	–	–	10,694	43,124
Balance as at 31st December	–	–	294,545	283,851

As per a Direction from the Central Bank of Sri Lanka, 25% of the profit after tax of the NSB Fund Management Co. Ltd. was transferred to Special Risk Reserve.

	Bank		Group	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>(f) Investment Fund Account (Note f - 01)</b>				
Balance as at 1st January	–	–	–	–
<b>Add:</b> Transferred during the Year	1,581,572	–	1,581,572	–
Balance as at 31st December	1,581,572	–	1,581,572	–

As required by the Government Budget 2011 and subsequent Direction from the Central Bank of Sri Lanka, 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 Account.

	Bank		Group	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
<b>Total of Other Reserves</b>	19,378,929	17,129,267	20,629,103	18,336,668

#### Note f - 01 Investment made under Investment Fund Account

	Interest Rate %	Tenure	Bank		Group	
			2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Long-Term Agriculture Loan (Refer Note 13.7)	10.5	5 Years	4,300	–	4,300	–
Long-Term Government Bonds 1	7.5	7 Years	193,600	–	193,600	–
Long-Term Government Bonds 2	7.0	12 Years	353,400	–	353,400	–
Short-Term Government Securities			1,030,272	–	1,030,272	–
<b>Total Investment</b>			1,581,572	–	1,581,572	–

**26. Commitments and Contingencies****(a) Guarantees**

The value of the Bank Guarantees issued by the Bank on behalf of its customers as at 31st December 2011 was Rs. 266,298,029/-.

All these guarantees have been issued on collateral of time and/or savings deposits.

**(b) Litigation Against the Bank**

The Court Cases pending were as follows:

	31.12.2011	31.12.2010
Labour Tribunal	9	7
District Court	17	16
Commercial High Court	10	1
Court of Appeal	1	7
Supreme Court	1	3
Magistrate's Court	3	1

**(c) Capital Commitments**

Capital expenditures approved by the Board of Directors for which provision has not been made in the accounts amounts to approximately Rs. 178.4 Million.

	Bank		Group	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Approved and Contracted for	111,900	116,400	111,900	116,400
Approved but not Contracted for	66,500	126,200	66,500	126,200
	178,400	242,600	178,400	242,600



**(d) Loans and Advances**

Loans and advances approved but not granted as at the Balance Sheet date are as follows:

	Bank		Group	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Amount Approved	9,001,630	6,835,098	9,001,630	6,835,098
Amount Granted	8,183,300	6,108,804	8,183,300	6,108,804
Commitments to Grant	818,330	726,294	818,330	726,294

**(e) Other Commitments**

	Bank		Group	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Commitments under Interest Rate SWAP	200,000	200,000	200,000	200,000
Total of Commitments	1,463,028	1,426,845	1,463,028	1,426,845

**27. Maturity Analysis****(a) Bank**

An analysis of the total assets employed as at 31st December 2011, based on the remaining period at the Balance Sheet date to the respective contractual maturity date is given below:

	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 31.12.2011 Rs. '000	Total as at 31.12.2010 Rs. '000
<b>Interest Earning Assets</b>							
Government Securities held for Trading	355,893	173,595	2,745,294	2,696,802	330,671	6,302,255	11,608,618
Treasury Bills held to Maturity	27,059,453	28,521,114	–	–	–	55,580,567	48,647,272
Treasury Bonds held to Maturity	29,929,712	32,624,928	107,578,836	51,977,252	11,794,392	233,905,120	202,690,744
Government Securities Bought Under Resale Agreements	3,794,296	–	–	–	–	3,794,296	6,981,347
Rupee Loans	–	2,300,000	2,868,000	2,000,000	2,000,000	9,168,000	12,168,000
Placement with and Loans to Other Banks and Financial Institutions	4,913,439	14,814,065	8,188,071	5,306,495	–	33,222,070	12,373,050
Loans and Advances	10,164,601	32,735,349	16,949,743	6,018,232	27,192,155	93,060,080	81,477,833
	76,217,394	111,169,051	138,329,944	67,998,781	41,317,218	435,032,388	375,946,864

	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 31.12.2011 Rs. '000	Total as at 31.12.2010 Rs. '000
<b>Non-Interest Earning Assets</b>							
Cash and Short-Term Funds	1,398,413	–	–	–	–	1,398,413	1,354,733
Interest Receivable	3,160,773	9,996,781	–	–	–	13,157,554	12,670,054
Investment Securities	48,941	109,520	365,620	–	1,267,575	1,791,657	1,677,266
Dealing Securities	7,776,419	–	–	–	–	7,776,419	5,466,402
Investment in Subsidiaries	–	–	–	–	150,000	150,000	150,000
Property, Plant & Equipment	–	–	–	–	4,935,037	4,935,037	4,612,632
Leasehold Property	–	–	–	–	189,290	189,290	193,178
Intangible Assets	–	–	–	–	122,782	122,782	165,432
Other Assets	119,724	1,907,428	45,519	3,121	5,202	2,080,996	1,742,742
	12,504,270	12,013,729	411,140	3,121	6,669,887	31,602,148	28,032,439
<b>Total Assets</b>	88,721,665	123,182,780	138,741,083	68,001,902	47,987,104	466,634,532	403,979,303

(b) An analysis of the total liabilities as at 31st December 2011, based on the remaining period at the Balance Sheet date to the respective contractual maturity date is given below:

	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 31.12.2011 Rs. '000	Total as at 31.12.2010 Rs. '000
<b>Interest-Bearing Liabilities</b>							
Deposits	138,586,535	259,214,245	10,054,796	1,017,610	2,139,513	411,012,699	355,364,179
Government Securities Sold under Repurchase Agreements	14,340,953	252,027	16,025	1,433,510	–	16,042,515	11,164,103
<b>Non-Interest Bearing Liabilities</b>							
Deferred Tax Liabilities	–	–	–	–	95,615	95,615	26,999
Income Tax Liabilities	–	–	–	–	–	–	653,310
Other Liabilities	5,527,682	9,508,315	242,278	–	–	15,278,274	15,102,902
Stated Capital	–	–	–	–	3,200,000	3,200,000	3,200,000
Statutory Reserve Fund Reserves	–	–	–	–	1,626,500	1,626,500	1,338,543
	–	–	–	–	19,378,929	19,378,929	17,129,267
	5,527,682	9,508,315	242,278	–	24,301,044	39,579,318	37,451,021
<b>Total Liabilities</b>	160,455,169	268,974,587	10,313,098	2,451,120	26,440,557	466,634,532	403,979,303

**Note:**

1. Savings deposits have been classified into up to 3 months category, whereas time deposits and savings certificates have been classified according to the respective contractual maturity period. However, the major part of these deposits represents core retail deposits with longer-term maturity.
2. Total shareholders' funds is classified into more than 5 years category since no contractual date of maturity can be identified.
3. Loans and advances are shown net of interest in suspense and provisions for bad and doubtful debts.

**(c) Group**

An analysis of the total assets employed as at 31st December 2011 based on the remaining period at the Balance Sheet date to the respective contractual maturity date is given below:

	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 31.12.2011 Rs. '000	Total as at 31.12.2010 Rs. '000
<b>Interest-Earning Assets</b>							
Government Securities held for Trading	2,950,165	173,595	2,745,294	2,696,802	330,671	8,896,527	12,634,374
Treasury Bills held to Maturity	27,059,453	28,521,114	–	–	–	55,580,567	48,647,272
Treasury Bonds held to Maturity	29,929,712	32,624,928	107,578,836	51,977,252	11,794,392	233,905,120	202,690,744
Securities Purchased Under Resale Agreement	3,883,798	949,487	5,825,879	3,125,410	1,058,295	14,842,869	16,398,397
Rupee Loans	–	2,300,000	2,868,000	2,000,000	2,000,000	9,168,000	12,168,000
Placement with and Loans to Other Banks and Financial Institutions	4,913,439	14,814,065	8,188,071	5,306,495	–	33,222,070	12,373,050
Loans and Advances	10,164,605	32,735,361	16,949,743	6,018,232	27,192,155	93,060,096	81,477,833
	78,901,172	112,118,550	144,155,823	71,124,191	42,375,513	448,675,249	386,389,670
<b>Non-Interest Earning Assets</b>							
Cash and Short-Term Funds	1,400,013	–	–	–	–	1,400,013	1,356,765
Interest Receivable	3,207,761	10,318,969	–	–	–	13,526,730	13,009,874
Investment Securities	49,941	109,520	365,620	–	1,267,575	1,792,657	1,678,266
Dealing Securities	7,776,419	–	–	–	–	7,776,419	5,466,402
Property, Plant & Equipment	–	–	–	–	4,936,022	4,936,022	4,613,691
Leasehold Property	–	–	–	–	189,290	189,290	193,178
Intangible Assets	–	–	–	–	123,024	123,024	165,752
Other Assets	126,022	1,926,324	45,519	3,121	5,202	2,106,190	1,748,240
	12,560,156	12,354,814	411,139	3,121	6,521,113	31,850,346	28,232,167
<b>Total Assets</b>	91,461,328	124,473,364	144,566,961	71,127,312	48,896,625	480,525,591	414,621,836

(d) An analysis of the total liabilities as at 31st December 2011, based on the remaining period at the Balance Sheet date to the respective contractual maturity date is given below:

	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 31.12.2011 Rs. '000	Total as at 31.12.2010 Rs. '000
<b>Interest Bearing Liabilities</b>							
Deposits	138,586,535	259,214,245	10,054,796	1,017,610	2,139,513	411,012,699	355,364,179
Securities Purchased Under Resale Agreements	22,656,291	4,302,327	116,025	1,433,510	–	28,508,153	20,284,835
<b>Non-Interest Bearing Liabilities</b>							
Deferred Tax Liabilities	–	–	–	–	95,394	95,394	26,827
Income Tax Liabilities	18,514	–	–	–	–	18,514	847,805
Other Liabilities	5,568,646	9,624,304	242,278	–	–	15,435,228	15,222,979
Stated Capital	–	–	–	–	3,200,000	3,200,000	3,200,000
Statutory Reserve Fund Reserves	–	–	–	–	1,626,500	1,626,500	1,338,543
	–	–	–	–	20,629,103	20,629,103	18,336,168
	5,568,646	9,624,304	242,278	–	25,550,997	41,004,739	38,972,822
<b>Total Liabilities</b>	166,811,472	273,140,877	10,413,098	2,451,120	27,690,509	480,525,591	414,621,836

**Note:**

1. Savings deposits have been classified into up to 3 months category, whereas time deposits and savings certificates have been classified according to the respective contractual maturity period. However, the major part of these deposits represents core retail deposits with longer-term maturity.
2. Total shareholders' funds is classified into more than 5 years category since no contractual date of maturity can be identified.
3. Loans and advances are shown net of interest in suspense and provisions for bad and doubtful debts.

**28. Comparative Information**

The presentation and classification of Financial Statements of the comparative year have been amended where relevant to be comparable with those of the current year.

The other liability for 2010 was overstated by Rs. 250 Million and it was rectified in 2011 by adjusting the previous year retained earning as follows:

	Bank		Group	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Other Liabilities	–	15,352,902	–	15,472,979
<b>Less: Prior Year Adjustment</b>	–	250,000	–	250,000
Restated Balance	–	15,102,902	–	15,222,979
Reserves	–	16,879,267	–	18,086,668
<b>Add: Prior Year Adjustment</b>	–	250,000	–	250,000
Restated Balance	–	17,129,267	–	18,336,668

Other than the above, no comparative information was changed during the year which requires disclosure or adjustments in the Financial Statements.

**29. Assets Pledged**

The following assets have been pledged as security for liabilities:

	2011 Rs. '000	2010 Rs. '000
<b>Nature of Liability</b>		
Government Securities Secured Against the REPO Instruments	16,042,575	5,129,500
	16,042,575	5,129,500

The above disclosed amount signifies the carrying amount of assets pledged in Government Treasury Bills and Bonds as at 31st December.

**30. Directors' Interest in Contracts with the Bank**

The Directors of the Bank were not directly or indirectly interested in contracts with the Bank. Mr. Pradeep Kariyawasam and Mr. R.A.P. Ranawaka were also the Chairman and the Director respectively of the NSB Fund Management Company Ltd. The Bank has leased part of its premises to the Company at a monthly rental of Rs. 156,150/-. The total amount received in 2011 as rental was Rs. 1,873,800/-.



**31. Related Party Disclosures****(a) Transactions with State and State-Controlled Entities**

As at 31st December	Bank	
	2011 Rs. '000	2010 Rs. '000
<b>Assets</b>		
Loans to Government	–	5,320,000
Investments Made on Government Securities	304,955,942	275,114,633
Placement with Treasury	–	440,800
Investments on State and State-Controlled Entities	16,144,008	11,052,354
Security Bought under Resale Agreements	3,794,296	5,195,669
Taxes Recoverable/(Payable)	128,137	653,310
Postmaster General's Current Account	253,075	557,946
	<b>325,275,458</b>	<b>298,334,712</b>
<b>Liabilities</b>		
Securities Sold Under Repurchase Agreements	16,042,215	11,164,103
	<b>16,042,215</b>	<b>11,164,103</b>
<b>Taxes</b>		
Income Tax	3,192,819	4,385,679
Value Added Tax	1,564,481	3,057,028
Contribution to the Consolidated Fund	3,212,671	2,664,084
	<b>7,969,971</b>	<b>10,106,791</b>

**(b) Transactions with Subsidiary Company (NSB Fund Management Company Ltd.)**

The Bank has contributed Rs. 150 Million towards the share capital of the Company. The Company invested its funds in Treasury Bills, Bonds and Repo during the year on a regular basis. All investments in Treasury Bills and Treasury Bonds of the Bank are being made through the NSB Fund Management Company Ltd. on which a service charge of Rs. 33.0 Million has been made (Rs. 32.6 Million in 2010).

**(c) Transactions with Key Managerial Persons**

(i) Key managerial persons include members of the Board of Directors of the Bank and key employees of the Bank holding directorships in subsidiary, NSB Fund Management Company Ltd. of the Bank.

(ii) Loans and advances in the names of key managerial persons are given below:

	Bank	
<i>As at 31st December</i>	2011 Rs. '000	2010 Rs. '000
<b>Loans and Advances</b>	<b>468</b>	<b>690</b>

(iii) Chairman's, Directors' and GM/CEO's emoluments and fees amounted to Rs. 8.092 Million in 2011.

**(d) Net Accommodation Granted to Related Parties**

(Disclosure under Rule 3 (8) (ii) (c) of the Governance Direction No. 12 of 2007 issued by the Central Bank of Sri Lanka.)

Key Managerial Persons	2011 Rs. '000	2010 Rs. '000
Loans and Advances	468	690
Total Net Accommodation	468	690
Regulatory Capital	15,824,323	14,186,000
Net Accommodation as a percentage of the Bank's Regulatory Capital (%)	0.003	0.005

# *Annexures*

*Income Statement in US Dollars* **320**

*Balance Sheet in US Dollars* **321**

*Ten Years at a Glance* **323**

*Analysis of Deposits* **325**

*Our Products and Services* **326**

*Branch Network* **330**

*Correspondent Banks* **332**

*Exchange Companies* **333**

*Business Segment Information* **335**

*Glossary* **337**

*Corporate Information* **340**

	Bank			Group		
<i>For the year ended 31st December</i>	2011 US\$ '000	2010 US\$ '000	Change %	2011 US\$ '000	2010 US\$ '000	Change %
<b>Income</b>	417,200	454,360	(8.2)	424,470	468,114	(9.3)
Interest Income	410,414	436,857	(6.1)	418,855	446,096	(6.1)
Interest Expenses	260,482	285,725	(8.8)	266,534	292,192	(8.8)
<b>Net Interest Income</b>	149,933	151,132	(0.8)	152,321	153,904	(1.0)
Other Income	6,786	17,503	(61.2)	5,616	22,018	(74.5)
	156,719	168,635	(7.1)	157,936	175,922	(10.2)
<b>Less: Operating Expenses</b>						
Personnel Expenses	25,935	25,853	0.3	26,057	25,982	0.3
Provision for Staff Retirement Benefits	7,654	7,849	(2.5)	7,658	7,853	(2.5)
Premises, Equipment and Establishment Expenses	12,245	14,049	(12.8)	12,264	14,069	(12.8)
Fee and Commission	4,012	3,616	10.9	3,784	3,385	11.8
Provision for Loan Losses	693	941	(26.4)	693	941	(26.4)
Provisioning for Fall in Value in Dealing Securities	10,360	(3,418)	403.1	10,360	(1,028)	1,108.0
Other Overheads	2,754	3,290	(16.3)	2,758	3,293	(16.2)
	63,653	52,178	22.0	63,575	54,493	16.7
<b>Operating Profit</b>	93,066	116,457	(20.1)	94,362	121,428	(22.3)
<b>Less: Value Added Tax</b>	13,845	27,741	(50.1)	14,016	28,762	(51.3)
<b>Profit on Ordinary Activities before Tax</b>	79,221	88,716	(10.7)	80,346	92,667	(13.3)
<b>Less: Income Tax Expense</b>	28,255	39,797	(29.0)	29,002	42,183	(31.2)
<b>Net Profit for the Year</b>	50,966	48,919	4.2	51,344	50,484	1.7
<b>Attributable to:</b>						
Equity Holders	50,966	48,919	4.2	51,344	50,484	1.7
US Dollar Conversion Rate (Rs.)	113.00	110.20		113.00	110.20	

Income Statement and Balance Sheet given in US Dollars do not form part of the Financial Statements.

As at 31st December	Bank			Group		
	2011 US\$ '000	2010 US\$ '000	Change %	2011 US\$ '000	2010 US\$ '000	Change %
<b>Assets</b>						
Cash and Short-Term Funds	12,375	12,293	0.7	12,389	12,312	0.6
Government Securities held for Trading	55,772	105,341	(47.1)	78,730	114,649	(31.3)
Government Securities bought under Resale Agreements	33,578	63,352	(47.0)	131,353	148,806	(11.7)
Treasury Bills held to Maturity	491,863	441,445	11.4	491,863	441,445	11.4
Treasury Bonds held to Maturity	2,069,957	1,839,299	12.5	2,069,957	1,839,299	12.5
Rupee Loans	81,133	110,417	(26.5)	81,133	110,417	(26.5)
Placement with and Loans to Banks and Financial Institutions	294,001	112,278	161.9	294,001	112,278	161.9
Dealing Securities	68,818	49,604	38.7	68,818	49,604	38.7
Investment Securities	15,855	15,220	4.2	15,864	15,229	4.2
Loans and Advances	823,541	739,363	11.4	823,541	739,363	11.4
Investment in Subsidiaries	1,327	1,361	(2.5)	—	—	—
Interest Receivable	116,439	114,973	1.3	119,706	118,057	1.4
Property, Plant & Equipment	43,673	41,857	4.3	43,682	41,867	4.3
Leasehold Property	1,675	1,753	(4.4)	1,675	1,753	(4.4)
Intangible Assets	1,087	1,501	(27.6)	1,089	1,504	(27.6)
Other Assets	18,416	15,814	16.5	18,639	15,864	17.5
<b>Total Assets</b>	<b>4,129,509</b>	<b>3,665,874</b>	<b>12.6</b>	<b>4,252,439</b>	<b>3,762,449</b>	<b>13.0</b>

As at 31st December	Bank			Group		
	2011 US\$ '000	2010 US\$ '000	Change %	2011 US\$ '000	2010 US\$ '000	Change %
<b>Liabilities</b>						
Deposits	3,637,281	3,224,720	12.8	3,637,281	3,224,720	12.8
Government Securities Sold under Repurchase Agreements	141,969	101,308	40.1	252,285	184,073	37.1
Other Liabilities	135,206	137,050	(1.3)	136,595	138,140	(1.1)
Income Tax Liabilities	—	5,928	—	164	7,693	(97.9)
Deferred Tax Liabilities	846	245	245.4	844	243	246.8
<b>Total Liabilities</b>	<b>3,915,302</b>	<b>3,469,251</b>	<b>12.9</b>	<b>4,027,168</b>	<b>3,554,870</b>	<b>13.3</b>
<b>Equity Attributable to Equity Holders' Funds</b>						
Stated Capital	28,319	29,038	(2.5)	28,319	29,038	(2.5)
Statutory Reserve Fund	14,394	12,146	18.5	14,394	12,146	18.5
Reserves	171,495	155,438	10.3	182,558	166,394	9.7
<b>Total Equity</b>	<b>214,207</b>	<b>196,623</b>	<b>8.9</b>	<b>225,271</b>	<b>207,579</b>	<b>8.5</b>
<b>Total Liabilities and Equity</b>	<b>4,129,509</b>	<b>3,665,874</b>	<b>12.6</b>	<b>4,252,439</b>	<b>3,762,449</b>	<b>13.0</b>
Commitments and Contingencies	12,947	12,948		12,947	12,948	
US Dollar Conversion Rate (Rs.)	113.00	110.20		113.00	110.20	

Income Statement and Balance Sheet given in US Dollars do not form part of the Financial Statements.

## Statistical Indicators 2002-2011

For the year ended 31st December (Rs. Million)	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	CAGR* %
<b>Financial</b>											
Gross Income	17,746	19,948	19,347	21,213	24,439	30,830	41,247	49,803	50,070	47,144	11.47
Interest Income	16,839	19,287	19,046	20,196	23,956	30,370	40,834	49,046	48,142	46,377	11.91
Interest Expenses	13,191	12,587	11,333	13,480	16,536	22,188	31,228	36,067	31,487	29,434	9.33
Net Interest Income	3,648	6,700	7,713	6,716	7,420	8,182	9,606	12,979	16,655	16,942	18.60
Other Income	907	661	301	1,017	483	460	413	757	1,929	767	-1.85
Operating Expenses, Provisions & VAT	2,171	3,215	3,897	4,276	4,402	5,340	6,919	6,792	8,807	8,757	16.76
Profit before Tax	2,384	4,146	4,117	3,457	3,501	3,302	3,100	6,943	9,777	8,952	15.84
Income Tax	817	612	1,002	1,351	1,616	1,729	2,041	3,229	4,386	3,193	16.35
Profit after Tax	1,567	3,534	3,115	2,106	1,885	1,573	1,059	3,714	5,391	5,759	15.56
Contribution to the Government	1,735	2,280	3,235	3,100	3,573	3,974	4,287	7,277	10,107	7,970	18.46
<b>Assets</b>											
Cash and Short-Term Funds	591	498	950	861	480	532	1,146	855	1,355	1,398	10.04
Loans and Investments	141,113	168,960	188,849	212,116	224,642	256,705	277,157	335,520	383,240	444,751	13.60
Property, Plant & Equipment	756	1,382	1,470	1,564	1,934	2,513	3,006	3,584	4,971	5,247	24.03
Other Assets	6,313	6,608	6,945	7,574	8,522	10,453	13,010	14,463	14,413	15,239	10.29
<b>Total</b>	<b>148,772</b>	<b>177,449</b>	<b>198,214</b>	<b>222,115</b>	<b>235,577</b>	<b>270,204</b>	<b>294,319</b>	<b>354,422</b>	<b>403,979</b>	<b>466,635</b>	<b>13.54</b>

\* CAGR - Compound Annual Growth Rate

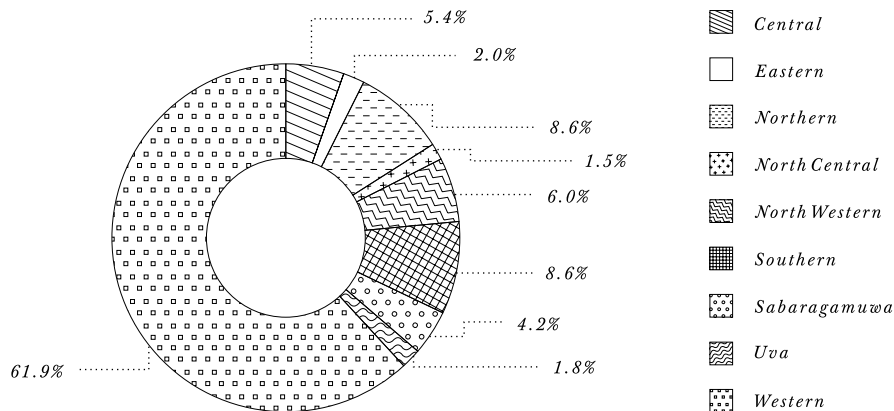
For the year ended 31st December (Rs. Million)	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	CAGR* %
<b>Liabilities and Shareholders' Funds</b>											
Total Deposits	134,555	161,162	180,156	202,424	212,233	235,304	259,562	313,007	355,364	411,013	13.21
Repo/Borrowings	–	–	–	22	2,075	10,789	6,205	8,730	11,164	16,043	–
Deferred Taxation	44	46	46	32	16	29	56	84	27	96	8.90
Other Liabilities	7,383	6,450	6,603	7,116	8,274	10,819	13,497	14,841	16,006	15,278	8.42
Shareholders' Funds	6,790	9,791	11,409	12,521	12,979	13,263	14,999	17,760	21,668	24,205	15.17
<b>Total</b>	<b>148,773</b>	<b>177,448</b>	<b>198,214</b>	<b>222,115</b>	<b>235,578</b>	<b>270,204</b>	<b>294,319</b>	<b>354,422</b>	<b>403,979</b>	<b>466,635</b>	<b>13.54</b>
Income Growth (%)	11.88	12.41	(3.01)	9.64	15.21	26.15	33.79	20.74	0.54	(5.85)	–
Return on Average Assets (Pre Tax)	1.7	2.5	2.2	1.6	1.5	1.3	1.1	2.1	2.6	2.1	2.09
Deposits as % of Assets	90.4	90.8	90.9	91.1	90.1	87.1	88.2	88.3	88.0	88.1	-0.29
Profit per Employee (Rs. '000)	893	1,545	1,551	1,196	1,207	1,152	1,077	2,382	3,205	2,733	13.24
Deposit per Employee (Rs. '000)	50,395	60,068	67,855	70,043	73,184	82,073	90,157	107,378	116,513	125,500	10.67
<b>Other Information</b>											
<b>Non-Financial (Nos.)</b>											
Staff	2,670	2,683	2,655	2,890	2,900	2,867	2,879	2,915	3,050	3,275	
Branches	116	119	128	128	130	130	137	157	186	210	
Post Offices/Sub-Post Offices	4,049	4,045	4,056	4,043	4,048	4,042	4,045	4,055	4,053	4,058	
Account Holders (Million)	13.5	13.7	14.2	14.6	15.1	15.5	15.6	16.3	16.7	17.0	

\* CAGR - Compound Annual Growth Rate



	2007 Rs. '000	2008 Rs. '000	2009 Rs. '000	2010 Rs. '000	2011 Rs. '000
<b>Local Currency Deposits</b>					
Savings	74,227,216	71,667,263	79,280,327	94,117,544	105,108,208
Time	159,734,073	185,754,984	230,147,008	256,941,558	300,998,953
	233,961,289	257,422,247	309,427,335	351,059,102	406,107,161
Growth %	10.5	10.0	20.2	13.5	15.7
<b>Foreign Currency Deposits</b>					
Savings	614,541	825,958	1,254,514	1,517,151	1,750,209
Time	728,293	1,313,678	2,325,199	2,787,926	3,155,329
	1,342,834	2,139,636	3,579,713	4,305,077	4,905,538
Growth %	191.5	59.3	67.3	20.3	13.9
<b>Total Deposits</b>					
	235,304,123	259,561,883	313,007,048	355,364,179	411,012,699
Growth %	10.9	10.3	20.6	13.5	15.7

## Province-wise Deposits



**Savings Accounts****01. Ordinary Savings Account**

Any person over 7 years of age can open these accounts with an initial minimum deposit of Rs. 5/-. Ordinary savings accounts can be opened on behalf of individuals/special funds/social organisations/bank guarantees/legal compensations, and as joint accounts.

Using Post Office passbook savings accounts depositors can deposit or withdraw money through any Post Office or Sub-Post Office situated island-wide and NSB branch network.

**02. 'Hapan', 'Punchi Hapan' and 'Thapal Hapan' Children's Savings Account**

The 'Hapan' account is meant for kids between 7 years and 16 years of age. The minors can open and operate 'Hapan' accounts by themselves, whereas 'Punchi Hapan' accounts are for infants below 7 years of age and can be maintained by the parents/guardians.

**03. 'Ithuru Mithuru' Savings Account**

The account caters to the needs of any young person between 16 and 30 years of age and can continue the account until the age of 35.

Interest rate on this product is 0.5% higher than the interest rate on savings account.

**04. 'Sthree' and 'Sthree Thalpal' Savings Account**

This is a scheme exclusively designed for ladies over 16 years of age. Reduced rates of interests are applicable on personal loans and pawning advances to the account holders.

**05. 'Friends' Savings Account**

This is for persons above 18 years and with 'Friends' you receive a monthly income for life, after a series of equal monthly payments or a lump sum.

**06. NSB Pension + Account**

A contributory retirement benefit scheme with a higher rate of return along with a free life cover up to Rs. 1 Million and a medical cover up to Rs. 1 Million.

**07. NSB Happy Savings Account**

This provides higher interest while enjoying the freedom of withdrawing funds anytime.

**08. Gift Token**

Gift tokens are available in various denominations and easy to purchase and encash whenever needed.

**09. NSB Smile Savings Account**

This gives you the opportunity to save your money with a potential cash prize. Sri Lankan citizen above the age of 16 years and can operate the account individually or jointly. Any parent or a legal guardian can open the account on behalf of their children, below the age of 16 years. Any child between the ages of 7 to 16 years can open and operate the account under their names. Minimum deposit to open the account is Rs. 100/-. Can be opened from any Post Office, Sub-Post Office or NSB branch. Interest will be credited to the account quarterly. Altogether seven price draws will be conducted per year.

**Long-Term Deposit Schemes****10. NSB Fixed Deposit**

Individuals can open a fixed deposit at NSB whom are over 16 years of age/minors below 16 years of age in care of their parents/guardians or as joint accounts/special funds/on behalf of social organisations can open a fixed deposits at NSB.

**11. 'Triple A Fixed' Fixed Deposit**

This offers 3-year or 5-year long-term deposits with high interest for far-sighted depositors. The interest plus capital are payable at maturity and instant credit facility is available.

**12. 'Prarthana' Savings Certificate**

A long-term deposit scheme for kids with attractive interest rates paid in upfront. The 'Prarthana' Savings Certificate matures when the account holder reaches 16 years of age.

**13. Gaurawa Fixed Deposit**

The senior citizens over 60 years of age can open Gaurawa as a fixed deposit account that

pays a monthly interest and the interest rate will always be 1.5% more than those of normal fixed deposits while the minimum deposit in an account is Rs. 25,000/-, the maximum limit in an account is Rs. 1.5 Million.

### Savings Certificates

#### 14. NSB National Savings Certificate

These certificates pay a high interest upfront and are available in various denominations for periods from 3 months to 4 years. Anyone over 7 years can purchase NSB National Savings Certificates in value of Rs. 500/-, Rs. 1,000/-, Rs. 5,000/-, Rs. 10,000/- and Rs. 25,000/-.

#### 15. 'Ridee Rekha' Premium Savings Certificate

Savings Certificates which can be purchased at the values of Rs. 500/-, Rs. 100/-, Rs. 250/-, Rs. 500/-, Rs. 1,000/- and Rs. 5,000. As long as the 'Ridee Rekha' Premium Savings Certificate is not encashed it is entitled for quarterly draws to win a prize.

### Credit Services

#### 16. 'Mihindu Sevana' Housing Loan

A loan scheme for providing facilities to construct, renovate, purchase or repair houses or purchase bare land or to redeem an existing housing loan obtained from a reputed financial organisation.

#### 17. 'Ithurum Nivasa' Housing Loan

'Ithurum Nivasa' housing loan is for the self-employed and for seasonal income earners aged between 18 and 55.

#### 18. NSB Auto Loan

Auto loans are granted up to 90% of the value for the purchase of unregistered vehicles for personal usage of salaried employees in Public and reputed private sector organisations.

#### 19. Speed Loan

Loans up to 90% of your deposits in the Bank could be obtained in a matter of minutes, against the security of such deposits.

#### 20. Personal Loan

A loan for personal needs can be obtained against the security of the primary mortgage of immovable property, surrender value of Life Policies, Government Securities of Personal Guarantors.

#### 21. 'Ran Sahana' Pawning Facility

This is a scheme of loans for short-term credit needs at comparatively low rates of interest. These loans are granted against the security of pawned jewellery.

#### 22. Housing Loans to Sri Lankan Expatriates

The expatriates who are employed abroad on permanent, contract or self-employed basis are eligible to obtain this facility.

#### 23. Project Loan

Loans granted for infrastructure and other development projects for the purposes of direct lending to financial institutions, loan syndication and project lending.

#### 24. Personal Loans for Sesa Account Holders

Under this scheme, salaried employees may obtain 12 times of gross salary or Rs. 1 Million whichever is less by providing adequate security.

### Electronic Card Facilities

#### 25. NSB Easy Card

It is an electronic card issued with an approved credit limit determined by FD balances and it enables to obtain the required amount of cash from any service point at any time of the day.

#### 26. Shopping Card

Automated Teller Machine (ATM) facility with 24 hours a day, 7 days a week with Master facility. You can withdraw up to Rs. 40,000/- from an ATM or purchase goods from any merchant you like with MasterCard International Network up to Rs. 100,000/- within 24 hours.

## Foreign Currency Products

### 27. 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).

### 28. 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).

### 29. Special Foreign Investment Deposit Account (SFIDA)

Fixed deposit account that can be opened in USD, EUR, GBP and AUD or Sri Lankan 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.

### 30. Loans Against NRFC/RFC/SFIDA Deposits

NRFC/RFC/SFIDA account holders are entitled to a Rupee Loan up to 80% of the Rupee value of the NRFC/RFC Fixed Deposits and SFIDA against the security of the deposit at concessionary rates.

### 31. Treasury Bills/Treasury Bonds Investment External Rupee Account (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.

### 32. 'Ranmasu' Floating Rate Deposit Accounts of Applicants for Sri Lankan Dual Citizenship

Non-citizen Sri Lankans who seek to apply for dual citizenship may avail funds of NRFC and RFC Fixed Deposit accounts and SFIDA to fulfil the eligibility criteria for dual citizenship.

### 33. Travellers' Cheques and Foreign Currency Notes

Travellers' Cheques and foreign currency notes are accepted as deposits to Rupee accounts at attractive foreign exchange rates.

### 34. Foreign Inward Remittances

Sri Lankan nationals living/employed abroad could transfer funds to their own Rupee/NRFC account or to Rupee/RFC account of any resident Sri Lankan national through the agents abroad.

## Global Network

### 35. SWIFT

Remittances in foreign currencies can be sent to NSB from any country via SWIFT.

NSB SWIFT Bank Identifier Code is NSBALKLX.

### 36. Eurogiro

NSB joined the Eurogiro Network in early 2008 and prides itself of being the sole Eurogiro member in the SAARC Region.

### 37. WEB-Based Remittance

We are also the agents in Sri Lanka for the web-based remittance products known as 'INSTANT CASH' and 'XPRESS MONEY'.

## Other Services

### 38. Investments in Government Securities

Investments in Treasury Bills and Treasury Bonds are provided at any NSB branch or Fund Management Company.

### 39. Standing Orders

A Standing Order can enable to authorise the Bank to make a series of payments to a beneficiary by debiting savings account with a fixed payment amount.

#### **40. Mail Transfer Orders**

A Mail Transfer Order will enable to authorise the Bank to transfer funds from one branch to another branch of the Bank.

#### **41. Safety Lockers**

NSB provides safe and trusted place for safe keeping of valued belongings.

#### **42. Gratuity Payment Scheme**

NSB also offers a Gratuity Payment Scheme up to Rs. 1 Million where payments are made to the nominees or to his/her heirs at the death of an account holder.

#### **43. Guarantees**

This is an instrument, which amounts to an unconditional undertaking by the Bank, to discharge the liability of a depositor; who has entered into a contract in the event of his/her failing to discharge his/her obligation.

#### **44. Nomination**

An account holder can nominate who shall be entitled for the money in the event of his/her demise.

#### **45. Utility Bill Payments**

Utility Bill Payment services are available at NSB and bills will be updated online as soon as the payment done.

#### **46. Acceptance and Issuance of Cheques/Bills**

Cheques can be deposited in savings accounts which are drawn in favour of the National Savings Bank or Salary Cheques of Government Institutions and Private Organisations. Cheques can also be issued on request of customers.

#### **47. 24/7 NSB Card Centre**

This is available to facilitate customers who contact us for inquiries related to their banking activities. The centre also assists customers in their banking issues by consulting other service centres.

#### **48. Post Office Savings**

Money can be deposited at NSB through any Post Office/ Sub-Post Office.

#### **49. Virtual NSB - Internet Banking**

This facilitates to view account balances, execute bill payment and view past transaction.

#### **50. SMS Banking**

SMS Banking is available for savings account holders to view balance at any time.

#### **51. Mobile Banking**

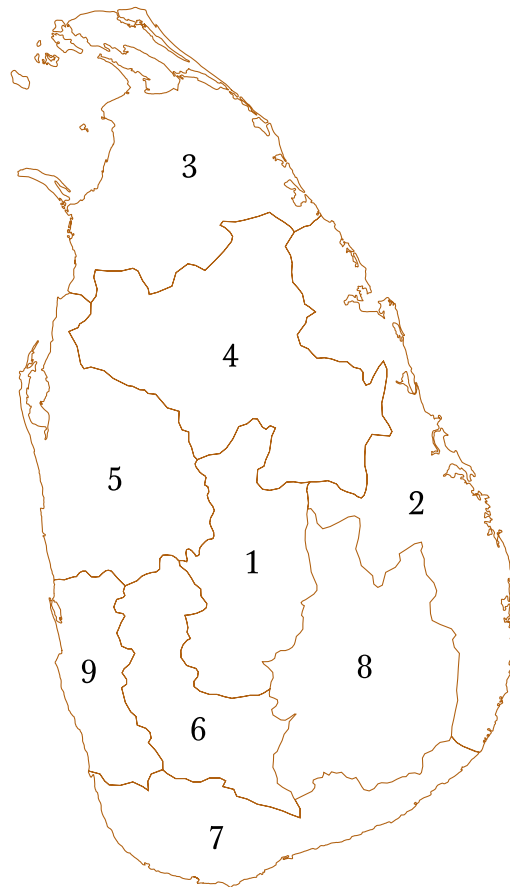
Point of sale mechanism method at Banking or door step Banking with latest technology.

#### **52. Ithurum Ayojana Kawaya - Barefoot Banking**

Micro Finance Credit and Savings enable people to start or expand micro enterprises or other income generating accumulate their small savings safely.

#### **53. School Banks**

School Banking Units are established to teach school children the habit of saving and get used to the leadership role within the school.



1. Central **21** / 2. Eastern **14** / 3. Northern **15** / 4. North Central **12** / 5. North Western **18** / 6. Sabaragamuwa **18** / 7. Southern **30** /  
8. Uva **9** / 9. Western **73**

**Central Province**

1. Dambulla
2. Digana
3. Galewela
4. Gampola
5. Haliela
6. Hatton
7. Kandy
8. Kandy City Centre
9. Kandy Postal
10. Kandy 2nd
11. Katugastota
12. Matale
13. Mulgampola
14. Nawalapitiya
15. Nuwara-Eliya
16. Pilimalalawa
17. Pundaluoya
18. Pussellawa
19. Rikillagaskada
20. Talawakelle
21. Wategama

**Eastern Province**

22. Akkaraipattu
23. Ampara
24. Ampara Postal
25. Arayampathy
26. Batticaloa
27. Chenkaladi
28. Kalawanchikudi
29. Kalmunai
30. Kantale
31. Palugamam
32. Pothuvil
33. Sammanthurai
34. Trincomalee
35. Valaichchenai

**Northern Province**

36. Atchuveley
37. Chankanai
38. Chavakachcheri
39. Chunnakam
40. Jaffna
41. Jaffna Postal

42. Karainagar

43. Kayts
44. Kilinochchi
45. Manipay
46. Mannar
47. Nelliady
48. Point Pedro
49. Thirunalveli
50. Vavuniya

**North Central Province**

51. Anuradhapura
52. Anuradhapura Postal
53. Galgamuwa
54. Galnewa
55. Hingurakgoda
56. Kaduruwela
57. Kahatagasdigiliya
58. Kebithigollewa
59. Kekirawa
60. Medawachchiya
61. Nochchiyagama
62. Tambuttegama

**North Western Province**

63. Alawwa
64. Anamaduwa
65. Chilaw
66. Hettipola
67. Ibbagamuwa
68. Kuliypitiya
69. Kurunegala
70. Kurunegala Postal
71. Madampe
72. Marawila
73. Mawathagama
74. Narammala
75. Nattandiya
76. Nikaweratiya
77. Polgahawela
78. Puttalam
79. Wariyapola
80. Wennappuwa

**Sabaragamuwa Province**

81. Aranayake
82. Balangoda
83. Bulathkohupitiya
84. Deraniyagala
85. Eheliyagoda Postal
86. Embilipitiya
87. Kahawatta
88. Kalawana
89. Kegalle
90. Kegalle Postal
91. Kuruwita
92. Mawanella
93. Pelmadulla
94. Rambukkana
95. Ratnapura
96. Ruwanwella
97. Warakapola
98. Yatiyantota

**Southern Province**

99. Akuressa
100. Ambalangoda
101. Ambalantota
102. Angunakolapelessa
103. Baddegama
104. Beliatte
105. Deniyaya
106. Devinuwara
107. Dickwella
108. Elpitiya
109. Galle
110. Galle Postal
111. Habaraduwa
112. Hakmana
113. Hikkaduwa
114. Imaduwa
115. Kamburupitiya
116. Karapitiya
117. Matara
118. Matara Postal
119. Middeniya
120. Morawaka
121. Neluwa
122. Sooriyawewa

123. Tangalle
124. Tissamaharamaya
125. Uragasmanhandiya
126. Walasmulla
127. Weeraketiya
128. Weligama

**Uva Province**

129. Badulla
130. Bandarawela
131. Bibile
132. Buttala
133. Mahiyanganaya
134. Moneragala
135. Passara
136. Welimada
137. Wellawaya

**Western Province**

138. Aluthgama
139. Athurugiriya
140. Avissawella
141. Bambalapitiya
142. Bandaragama
143. Battaramulla
144. Beruwala
145. Boralessgamuwa
146. Borella
147. Bulathsinhala
148. City
149. Dehiwela
150. Delgoda
151. Delkanda
152. Divulapitiya
153. Gampaha
154. Gampaha Postal
155. Ganemulla
156. Hanwella
157. Head Office
158. Homagama
159. Horana
160. Ingiriya
161. Ja-Ela
162. Kadawatha
163. Kaduwela
164. Kahathuduwa
165. Kalubowila
166. Kalutara
167. Kalutara Postal
168. Katubedda
169. Katunayake
170. Kelaniya
171. Kiribathgoda
172. Kirindiwela
173. Kochchikade
174. Kollupitiya 2nd
175. Kotahena
176. Kottawa
177. Mahabage
178. Maharagama
179. Malabe
180. Maligawatta
181. Matugama
182. Meegoda
183. Minuwangoda
184. Mirigama
185. Moratumulla
186. Moratuwa
187. Mt. Lavinia
188. Mulleriyawa
189. New Town
190. Mutwal
191. Narahenpita
192. Negombo
193. Nittambuwa
194. Nugegoda
195. Panadura
196. Peliyagoda
197. Pettah
198. Piliyandala
199. Postal Head Office
200. Puwakaramba
201. Raddolugama
202. Ragama
203. Rajagiriya
204. Veyangoda
205. Wadduwa
206. Wattala
207. Wellampitiya
208. Wellawatta
209. World Trade Center
210. Yakkala

**Bank of Ceylon**

No. 1, Devonshire Square,  
London EC 2M 4 WD,  
United Kingdom.  
Tel: +44 2073771888  
Fax: +44 2073775430  
Website:  
www.info@bankofceylon.co.uk  
SWIFT Code: BCEYGB2L

**Banca Nazionale del  
Lavoro**

SPA, Via Vittorio Veneto,  
119, 00187, Rome,  
RM, Italy.  
Tel: +39 0647021  
Fax: +39 0647026715  
Website: www.bnl.it  
SWIFT Code: BNLIITRR

**Banca Popolare Di  
Sondrio**

Piazza Garibaldi,  
16, 23100, Sondriom SO, Italy.  
Tel: +39 0342528111  
Fax: +39 0342528204  
Website: www.info@popso.it  
SWIFT Code: POSOIT22

**Citi Bank N.A.,**

Wall Street, New York  
NY 10005, USA.  
Tel: +1(212) 5591000  
Website: www.citibank.com  
SWIFT Code: CITIUS33

**Commonwealth Bank**

GPO Box 5227,  
Sydney, NSW 2001,  
Australia.  
Tel: +61 293782000  
Website: www.commbank.com.au  
SWIFT Code: CTBAAU2S

**Deutsche Bank AG.,**

D-60262, Frankfurt am Main,  
Germany.  
Tel: +49 6991000  
Fax: +49 6991034225  
Website: www.deutsche-bank.com  
SWIFT Code: DEUTDEFF

**Deutsche Bank Trust  
Company Americas**

No. 60, Wall Street,  
New York, NY 10005, USA.  
Tel: +1(212) 2502500  
Fax: +1(212) 7970291  
Website: www.deutsche-bank.com  
SWIFT Code: BKTRUS33

**Deutsche Postbank**

Friedrich-Ebert-Allee 114-126,  
53113 Bonn, Germany.  
Tel: 49 228 9200  
Website: www.postbank.de  
SWIFT Code: PBNKDEFF

**National Australia Bank**

330, Collins Street,  
Melbourne, VIC 3000,  
Australia.  
Tel: +61 386413500  
Website: www.national.com.au  
SWIFT Code: NATAAU33033

**Unicredito Italiano SPA**

Estero E.S.D.-Via Volta 1,  
20093, Cologno Monzese,  
MI, Italy.  
Tel: +39 02 88621  
Fax: +39 02 88623340  
Website: www.unicreditgroup.eu  
SWIFT Code: UNCRITMM



**Australia****Colombo International Money Transfer Services**

No. 3, Clow Street,  
Dandenong, Victoria 3175,  
Australia.  
Tel: (03) 97923065  
Fax: +61 397923065  
Website:  
info@colombomoneytransfer.com.au

**Kapruka Pty Ltd.**

No. 1/1324, Center Road,  
Clayton Victoria 3168,  
Australia.  
Tel: +61 0395445060  
Fax: +61 0395442010  
Website: www.kapruka.com.au

**Italy****National Exchange Company**

Via Ferruccio, 3000185,  
Roma, Italy.  
Tel: +39 0644341221  
Fax: +39 0649380567  
Website: www.nationalexchange.it  
nec@nationalexchange.it

**Valutrans Spa**

Via Melchiore Gioia 168,  
Milano, Italy.  
Tel: +390291431300  
Fax: +390291431301  
Website: www.valutrans.it

**India****Trans Fast**

Ammus, Paptamali Road,  
Irianjala Kuda, Trichur District,  
Kerala, India.  
Tel: 919946000780

**Kingdom of Bahrain****Dalil Exchange**

P.O. Box 20404, Manama,  
Bahrain.  
Tel: +97 3223464  
Fax: 97 3213731  
Website: www.dalil.com.bh  
dalilint@batelco.com.bh

**Kingdom of Saudi Arabia****Al Rajhi Bank**

P.O. Box 28, Riyadh 11411,  
Kingdom of Saudi Arabia.  
Tel: 96612116000  
Website: www.alrajhibank.com.sa

**Bank Al Bilad**

P.O. Box 140, Riyadh-11411,  
Saudi Arabia.  
Tel: 96614798888  
Website: www.bankalbilad.com.sa

**Samba Financial Group**

King Abdulaziz Road,  
P.O. Box 833, Riyadh 11421,  
Saudi Arabia.  
Tel: 96614774770  
Website: www.samba.com.sa

**Russia****CB Unistream**

20, Verhnyaya Maslovka Street,  
Bldg. 2, 127083, Moscow, Russia.  
Tel: +74957445555  
Fax: +74952878066  
Website: www.unistream.com  
relations@unistream.com

**State of Kuwait****Al Mulla International Exchange Company**

Al Mulla Group Head Office,  
Free Trade Zone, Shuwaikh,  
Kuwait.  
Tel: +9696522250888  
Fax: +9652437285

**Bahrain Exchange Company W.L.L.**

P.O. Box 29149, Murgab  
Kuwait.  
Tel: +9651824000  
Fax: +96522401859  
Website: www.bec.com.kw  
baexco@bec.com.kw

**City International Exchange Company W.L.L.**

Abdullah Dashti Building,  
Abdullah Mubarak Street,  
P.O. Box 21804, Safat 13079,  
Kuwait.  
Tel: +9652448507  
Fax: +9652407371  
Website: citex@qualitynet.net

**Dollarco Exchange**

P.O. Box 26270, Safat 13123,  
Kuwait.  
Tel: +9652412767  
Fax: +96 52412788  
Website: dollarco@qualitynet.net

**Kuwait Asian International Exchange**

Qaiseria No. 1,  
Shop Number 48, Fahaheel,  
Kuwait.  
Tel: +96523910522  
Fax: +96523910511  
Website: kuaiew@yahoo.com

**National Money Exchange**

P.O. Box 29760, Safat 13158  
Kuwait, State of Kuwait.  
Tel: 2462680  
Website: nmekwt@qualitynet.net

**UAE Exchange Centre Kuwait**

P.O. Box 26155, Safat 13122,  
Kuwait.  
Tel: +96 522459417  
Fax: +96 522459419  
Website:  
www.uacexchangekuwait.com

**State of Qatar****Al Dar for Exchange Works**

P.O. Box 24048, Doha,  
State of Qatar.  
Tel: +9744550455  
Fax: +9744550888

**Al Fardan Exchange**

Alfardan Centre,  
Grand Hamad Avenue,  
P.O. Box 339, Qatar.  
Tel: +97444408408  
Fax: +97444335242  
Website: afx@alfardan.com.qa

**Arabian Exchange**

Mercure Grand Hotel  
Ground Floor, Mushaireb Street,  
P.O. Box 3353,  
Doha, Qatar.  
Tel: +97444438300  
Fax: +97444419910  
Website: www.arabianex.com  
arabianex@qatar.net.qa

**Habib Qatar International Exchange**

P.O. Box 1188, Mushirib Street,  
Doha, Qatar.  
Tel: +9744242373  
Fax: +974434143  
Website: www.habibqatar.com

**Sultanate of Oman****Asia Express Exchange**

P.O. Box 881, Ruwi,  
Postal Code: 112, Muscat,  
Sultanate of Oman.  
Tel: +96824781727  
Fax: +96824781729  
Website: slankaex@omantel.net.om

**Majan Exchange**

P.O. Box 583,  
Postal Code: 117,  
Sultanate of Oman.  
Tel: +96 824794017  
Fax: +96 824794019  
Website: majanech@omantel.net.om

**Musandam Exchange**

P.O. Box 2155,  
Postal Code 112, Ruwi,  
Sultanate of Oman.  
Tel: +96 824834954  
Fax: +96 824831154  
Website: musandex@omantel.net.om  
musandam.gm@gmail.com

**Oman & UAE Exchange Centre**

P.O. Box 1116, Postal Code: 131,  
Al Hamriya,  
Sultanate of Oman.  
Tel: +96824796533  
Fax: +96824750909  
Website: omanuaex@omantel.net.om

**United Arab Emirates****Al Ahalia Money Exchange Bureau**

P.O. Box 2419,  
Abu Dhabi, UAE.  
Tel: +97126269341  
Fax: +97126269587  
Website:  
www.alahali.moneyexchange.com

**Al Ansari Exchange**

P.O. Box 325,  
Abu Dhabi, UAE.  
Tel: +97126108888  
Fax: +97126224421  
Website: www.alansariexchange.com  
info@alansari.ae

**Al Fardan Exchange**

P.O. Box 498,  
Amin Khourl Building,  
Liwa Street,  
Abudhabi, UAE.  
Tel: +97126223222  
Fax: +97126223331  
Website:  
exchange@alfardangroup.com  
farhaj.ali@alfardanexchange.com

**Al Rostamani International Exchange Centre**

P.O. Box 10072, Dubai, UAE.  
Tel: +046098100  
Fax: +043964233  
Website:  
www.alrostamaniexchange.com  
ariemgt@alrostamanigroup.ae

**Emirates International Exchange**

P.O. Box 7190,  
Dubai, UAE.  
Tel: +97600522248  
Fax: +97142964311  
Website: www.emiratesexchange.ae

**Habib Exchange Abu Dhabi**

Central Office, Hamdan Street,  
P.O. Box 2370,  
Abu Dhabi, UAE.  
Tel: +9715614885  
Fax: +97165618308  
Website: 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  
Fax: 97142991394  
Website:  
www.instantcashworldwide.com  
rahat@instantcashworldwide.com

**UAE Exchange Centre**

P.O. Box 170, Level 02,  
Al Sayekh Centre,  
Sheikh Hamdan Street,  
Abu Dhabi, UAE.  
Tel: +97126105555  
Fax: +97126212068  
Website: www.uaexchange.com  
hq@uaexchange.com

**Wall Street Exchange**

P.O. Box 3014, Dubai, UAE.  
Tel: +97142284889  
Fax: +97142286533  
Website: www.wallstreet.corp.com  
info@wallstreet.ae

**Xpress Money Exchange**

3rd Floor, Al Sayekh Building,  
Hamdan Street, P.O. Box 170,  
Abu Dhabi, UAE.  
Tel: +97126105691  
Fax: +97126355890  
Website: www.expressmoney.com

**USA****Moneygram**

1550, Utica Avenue South,  
Minneapolis, MN 555416, USA.  
Tel: 9525913000

**ICICI Bank Colombo**

58. Dharmapala Mawatha,  
Colombo 07.  
Tel: 4242400  
Website: www.icicibank.lk

**IME (M) SDN.BHD**

Ground Floor, No 22,  
Jalan Medan Pasar 50050,  
Kuala Lumpur, Malaysia.  
Tel: 03-20727260  
Website: www.ime-txnremit.com

**Business Segment Information - 2011**

Segment information is presented in respect of the Group business segments.

Description	Treasury Rs. '000	Banking Rs. '000	Dealing** Rs. '000	Total Rs. '000
<b>Revenue</b>				
Interest Income	34,947,215	10,710,695	1,670,232	47,328,142
Gains from Investment Securities & Dividends	–	–	269,246	269,246
Fee & Commission	41,115	220,362	757	262,234
Other Income	33,181	72,271	63	105,515
Gross Income	35,021,511	11,003,328	1,940,298	47,965,136
<b>Expenses</b>				
Interest Expenses	22,163,827	6,356,209	1,598,276	30,118,312
Provision for Loan Losses	–	78,272	–	78,272
Provision/(Reversal) for Fall in Value in Dealing Securities	–	–	1,170,706	1,170,706
	22,163,827	6,434,481	2,768,982	31,367,290
<b>Segmental Results</b>	12,857,684	4,568,847	(828,684)	16,597,846
Operating Expenses (Unallocated)				5,934,954
<b>Operating Profit</b>				10,662,892
Value Added Tax				1,583,762
Income Tax				3,277,216
<b>Net Profit for the Year</b>				5,801,914

\*\* Dealing Includes Equity and Government Securities

### Business Segment Information - 2010

Segment information is presented in respect of the Group business segments.

Description	Treasury Rs. '000	Banking Rs. '000	Dealing** Rs. '000	Total Rs. '000
<b>Revenue</b>				
Interest Income	38,051,289	9,243,166	1,865,358	49,159,813
Gains from Investment Securities & Dividends			2,194,303	2,194,303
Fee & Commission	25,986	101,351	726	128,063
Other Income	12,872	91,083	45	104,000
<b>Gross Income</b>	<b>38,090,147</b>	<b>9,435,600</b>	<b>4,060,432</b>	<b>51,586,179</b>
<b>Expenses</b>				
Interest Expenses	23,653,931	6,438,412	2,107,268	32,199,611
Provision for Loan Losses		103,677		103,677
Provision/(Reversal) for Fall in Value in Dealing Securities			(113,264)	(113,264)
	23,653,931	6,542,089	1,994,004	32,190,024
<b>Segmental Results</b>	<b>14,436,216</b>	<b>2,893,511</b>	<b>2,066,428</b>	<b>19,396,155</b>
Operating Expenses (Unallocated)				6,014,747
<b>Operating Profit</b>				<b>13,381,408</b>
Value Added Tax				3,169,536
Income Tax				4,648,545
<b>Net Profit for the Year</b>				<b>5,563,327</b>

\*\* Dealing Includes Equity and Government Securities

**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.

**Bills Sent for Collection**

A bill of exchange drawn by an exporter usually at a term, on an importer overseas and brought by the exporter to his bank with a request to collect the proceeds.

**Capital Adequacy Ratios**

The relationship between capital and risk-weighted assets as defined in the framework developed by the Bank for International Settlements (BIS) and as modified by the Central Bank of Sri Lanka to suit local requirements.

**Capital Expenditure**

Total of additions to property and equipment.

**Capital Reserves**

Reserves identified for specific purposes and considered not available for distribution.

**Cash Equivalents**

High liquid investments which are readily convertible to cash with no significant loss in value.

**Collective Agreement**

A tripartite agreement entered into among the NSB, Ministry of Finance and Trade Unions.

**Commercial Paper**

Short-term instrument issued in the open market by creditworthy entities with the standby credit facility.

**Commitments**

Credit facilities approved but not yet utilised by the clients as at the Balance Sheet date.

**Compounded Annual Growth Rate (CAGR)**

The rate at which it would have grown if it grew at an even rate compounded annually.

**Contingencies**

A condition or situation existing at Balance Sheet date where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

**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 counterparty will fail to meet its obligations in accordance with agreed terms and conditions.

**Dealing Securities**

Marketable securities that are acquired and held with the intention of reselling them in the short term.

**Debenture**

A medium-term debt instrument issued by a Corporate entity.

**Deferred Taxation**

Sum set aside for tax in the Financial Statements that will become payable in a financial year other than the current financial year.

**Derivative**

Financial contract of which the value is derived from the value of underlined assets.

**Economic Value Added**

A measure of productivity which takes into consideration cost of total invested equity.

**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.

**Foreclosed Properties**

Properties acquired in full or partial; satisfaction of debts.

**Foreign Exchange Profit**

Profit earned on foreign currency transactions arising from the difference in foreign exchange rates between the transaction/last Balance Sheet date and the settlement/Balance Sheet date.

**General Provisions**

These are provisions made on loans and advances for anticipated losses on aggregate exposures where credit losses cannot yet be determined on an individual facility basis.

**Group**

A group is a parent and all its subsidiaries.

**Guarantees**

Three party agreement involving a promise by one party (the guarantor) to fulfil the obligations of a person owing a debt if that person fails to perform.

**Impairment**

This occurs when recoverable amount of an asset is less than its carrying amount.

**Intangible Asset**

An intangible asset is an identifiable non-monetary asset without a physical substance.

**Interest Margin**

Net interest income expressed as a percentage of average interest earning assets.

**Interest Rate Swap**

An interest rate swap is a derivative in which one party exchanges a stream of interest payments for another party's stream of cash flows.

**Interest Spread**

Represents the difference between the average interest rate earned and the average interest rate paid on interest earning assets and interest bearing liabilities, respectively.

**Interest in Suspense**

Interest suspended on non-performing loans and advances.

**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 could readily be converted to cash.

**Loan Losses and Provisions**

Amounts set aside against possible losses on loans, advances and other credit facilities as a result of such facilities becoming partly or wholly uncollectible.

**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.

**Net Interest Income**

The difference between the interest income from investment portfolio and the interest paid on deposits.

**Non-Performing Loans**

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).

**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.

**Related Parties**

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly as per the Sri Lanka Accounting Standard No. 30 on 'Related Party Disclosures'.

**REPOs**

Repurchase agreements. Securities sold to lenders with the commitment to buy back on a later date at a fixed price plus interest.

**Return on Average Assets**

Profit before tax divided by average assets.

**Return on Equity (ROE)**

Net profit for the year expressed as a percentage of equity.

**Revenue Reserve**

Reserves set aside for future distribution and investment.

**Reverse REPOs**

Reverse repurchase agreements. Lending money by purchasing the securities with an agreement to sell it back at a later date at a fixed price plus interest.

**Risk-Weighted Assets**

The total risk-weighted assets of On-Balance Sheet assets calculated according to the risk classifications and used in the calculation of risk-based Capital Ratio.

**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.

**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.

**SWAP**

The simultaneous purchase of an amount of a currency for spot settlement and the sale of the same amount of the same currency for forward settlement.

**Tier I Capital**

Consists of the sum total of ordinary share capital, statutory reserve fund and general reserves.

**Tier II Capital**

Supplementary capital representing 50% of the revaluation reserve and general provisions.

**Total Capital**

The sum of Tier I and Tier II Capital.

**Treasury Bill**

A short-term debt instrument issued on auction basis by the Central Bank of Sri Lanka on behalf of the Government of Sri Lanka.

**Treasury Bond**

A long-term debt instrument issued on auction basis by the Central Bank of Sri Lanka on behalf of the Government of Sri Lanka, which carries an interest coupon.

**Value Added**

Value added wealth created by providing the services to customers, less the cost of such services. The value so added is distributed among the employees, Government by way of taxes and levies and the balance retained for expansion and growth.

**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**

210 Branches  
349 School Bank Units  
221 ATMS

**Agency Network**

648 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.

**International Membership**

Member of the World Savings Bank’s Institute (WSBI), Brussels.

International Union for Housing Finance

**Board of Directors**

P.G.S. Kariyawasam - *Chairman*

S.T. Abeygunawardena - *Working Director*

M.K.B. Dissanayake - *Director - Postmaster General*  
(Ex-Officio Member)  
(up to 25.01.12)

H. Madiwela - *Director*

R.A.P. Ranawaka - *Director*

P.A. Abeysekera - *Director*  
*Deputy Secretary to the Treasury*  
(Ex-Officio Member)

S. Shan Shanmuganathan - *Director*

D.L.P.R. Abeyaratne - *Director*  
*Post Master General (Ex-Officio Member)* (from 09.02.12)

**General Manager/CEO**

H.M. Hennayake Bandara

**Board Secretary**

Mrs. K. Gunasekara

**Board Audit Committee**

S. Shan Shanmuganathan - *Chairman*  
H. Madiwela  
R.A.P. Ranawaka

**Board Human Resources & Remuneration Committee**

P.G.S. Kariyawasam - *Chairman*  
P.A. Abeysekera  
S.T. Abeygunawardena

**Board Nomination Committee**

P.A. Abeysekera - *Chairman*  
H. Madiwela  
S.T. Abeygunawardena

**Board Integrated Risk Management Committee**

M.K.B. Dissanayake - *Chairman*  
(upto 25.01.12)  
D.L.P.R. Abeyaratne - *Chairman*  
(from 09.02.12)

S. Shan Shanmuganathan  
R.A.P. Ranawaka

**Head of Risk and Compliance**

R.M. Gunathilaka

**Auditors**

Auditor General

**Subsidiary****Name of the Company**

NSB Fund Management Co. Ltd.

**Registered Office and Head Office**

1st Floor  
‘Savings House’  
National Savings Bank  
No. 255, Galle Road,  
Colombo 03  
Sri Lanka.  
Tel: 94-11-2564601, 2467731  
Fax: 94-11-2564706  
E-mail: nsbfmc@nsb.lk  
Swift Code: NSBFLKXXXX

**Board of Directors**

P.G.S. Kariyawasam - *Chairman*  
R.A.P. Ranawaka - *Director*  
H.M. Hennayake Bandara - *Director*

**Chief Executive Officer**

N.K. Dahanayake

**Auditors**

KPMG Ford, Rhodes,  
Thornton & Co.

**Company Secretary**

Ms. Y.F. Deen









ISBN 978-955-1619-04-6



9 789551 161904 6