NATIONAL SAVINGS BANK

INTEGRATED ANNUAL REPORT

2022

STRENGTHENING OUR METTLE

NSB

5th

1972 -2022

Anniversary

Strengthening our mettle

National Savings Bank
Annual Report 2022

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Strengthening our mettle

Throughout its 50 year history, NSB has built a "portfolio" of strength and capacity that has often been tested in the "hottest forges" of adversity and challenge. Equally it has allowed the Bank and its stakeholders to enjoy the benefits of times of plenty. The Bank's inherent strengths and the exemplary attributes of the people who work with us have contributed to our performance and achievement over the years. The Bank will further develop these strengths among others, to meet the challenges that lie ahead. We're constantly... strengthening our mettle.

NSB

Contents

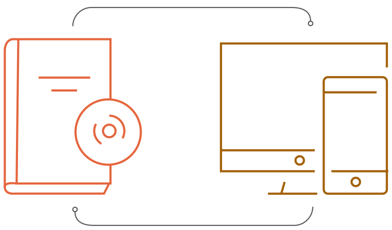
About our Integrated Report

The National Savings Bank (NSB) is pleased to present its eighth Integrated Annual Report. As the Bank completes its 50th year in service to the Nation, the Report attempts to offer a comprehensive overview of the Bank's strategy, financial performance, and its impact on the economy, society, and the environment. It highlights the Bank's progress, transformation efforts in making it FUTURE-PROOF, and commitment to delivering value and making a positive difference in the communities it serves.

The Report includes

- An in-depth understanding of the Bank’s strategy, capital management, risk management, and governance mechanisms.
- Explores how value is created for stakeholders in the short, medium, and long-term.
- Aspects such as operations, achievements, strategic objectives, product portfolio expansion, community contributions, and environmental awareness.
- A comprehensive review of corporate governance and risk management practices.
- Audited financial statements and accompanying notes that showcase the Bank’s performance and financial position as of 31 December 2022, supplemented with additional information.

Reading and navigating this Report



This Report incorporates both interactive elements and icons to enhance navigation and streamline content. The interactive elements are primarily for ease of navigation during digital access of the Report and refer to further information elsewhere inside or additional information outside. Icons are used to depict connectivity between sections of the Report. This is part of the Bank’s broader efforts to create solutions that prioritise its stakeholders’ convenience and experience.

An index of icons can be found on page 6 for reference.

Index of icons

This Report serves as a comprehensive overview of our activities in fulfilling our purpose, prioritising our strategies, and tracking our progress against financial and non-financial targets. It offers the necessary information for our capital providers to assess the opportunities, risks, and relationships that impact our ability to create and sustain value. Additionally, it highlights the advancements we have made in executing our short to medium-term strategy and evaluates our performance over the past year, which, in turn, provides indications of our progress towards our 10-year FUTURE-PROOF strategy and long-term strategy. Furthermore, the Report provides insights into our governance approach and the measures we take to safeguard against value erosion.

Our reporting frameworks and compliance

When preparing our report, we ensure compliance with a range of corporate reporting and regulatory frameworks and guidelines. These include, but are not limited to, the disclosure requirements mandated by various compliance reporting standards.

- Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka)
- <IR> Framework of the IFRS Foundation (www.theiirc.org)
- Global Reporting Initiative (GRI) Sustainability Reporting Guidelines GRI Standards (www.globalreporting.org)
- Code of Best Practice on Corporate Governance issued by CA Sri Lanka
- Sustainable Development Goals (SDGs) – The UN initiative with 17 aspirational “Global Goals”
- Directives and Guidelines of the Central Bank of Sri Lanka (CBSL)
- Regulations and Directions of the Department of Inland Revenue (IRD).
- National Savings Bank Act No. 30 of 1971 and its amendments
- Banking Act No. 30 of 1988 and its amendments

Our scope and reporting boundary

Our reporting encompasses the National Savings Bank (referred to as the “Bank”) and its wholly owned subsidiaries, namely NSB Fund Management Company Ltd. and Sri Lanka Savings Bank Ltd. Together, they form the “Group”. In accordance with the framework established in our 2014 report, financial aspects are discussed in relation to both the Bank and the Group, while non-financial aspects are primarily addressed concerning the Bank unless otherwise specified.

The reporting period covered in this Report spans 12 months, from 1 January to 31 December 2022. This timeframe aligns with the annual reporting cycle for financial and sustainability reporting. Additionally, any significant events occurring after 31 December 2022, up until the Board approval date of 27 April 2023, are also included. While there has been no substantial changes in terms of the scope and boundaries compared to previous reporting periods, any reclassified or restated comparative information is disclosed and discussed in the relevant sections of the Report.

In addition to financial reporting, the Report also includes information on non-financial performance, opportunities, risks/outcomes related to stakeholders, strategy, business model, operating context, materiality, stakeholder interests, performance, and governance. Special focus is given to the "Materiality determination process" covered on pages 27 to 31 in terms of its impact on the Bank's ability to create value over the short, medium, and long-term. Further, it covers the Bank's strategic progress in 2022, shedding light on the Bank's strategy and financial and non-financial targets for our short to medium-term (two to three years) priorities, the strategic pathways calculated to make the Bank FUTURE-PROOF and resilient against Sri Lanka's economic context (five to ten years), and our long-term vision for the Bank (10+ years).

Value creation driven by INTEGRATED THINKING

We actively navigate internal and external factors, interdependencies, and trade-offs to achieve sustainable value creation for all stakeholders in the short, medium, and long-term. Our approach is based on INTEGRATED THINKING, which connects emerging trends, the relationship between different capitals, and the potential

Our INTEGRATED THINKING framework

Vision

Mission

Operating context

The Bank considers the global operating context, including trends such as COVID-19, geopolitical events, socio-economic challenges, and emerging megatrends in the areas where it operates. They play a crucial role in informing and shaping the Bank's value creation process.

pages 26 to 69

Risks and opportunities

Scanning the operating context allows the Bank to tailor its strategy to mitigate risks and capitalise on opportunities. In this Report, the operating context and associated risks and opportunities are presented together, reflecting the Bank's process of INTEGRATED THINKING.

pages 26 to 69

Stakeholder engagement

The quality of relationships with stakeholders is measured through various mechanisms to ensure informed decision-making and enhance stakeholder engagement. The quality of our relationships with stakeholders affects our ability to fulfill our purpose.

pages 90 to 98

Materiality

The Bank identifies material themes as those that substantially impact the long-term value creation of its stakeholders. These matters are integrated with the development of the Bank's strategy to manage risks and maximise opportunities presented with them.

pages 27 to 31

Strategy and resource allocation

The Bank's strategy, driven by its embedded vision, guides strategic choices and decision-making to achieve lasting outcomes. Through five strategic objectives and a holistic approach encompassing short, medium, and long-term perspectives, the Bank aims to create sustained value for stakeholders by responsibly managing resources, relationships, and capital across various dimensions.

pages 70 to 89

Our primary UN SDGs

Management discussion and analysis

The key capitals of the Bank: financial, manufactured, human, intellectual, and natural stores value and are the inputs to the Bank's business model. They are enhanced, modified, and transformed through the business activities of the Bank.

Values

Our sustainable value creation model

The Bank's business model serves as a comprehensive framework for analysing factors that impact value creation, including the operating environment, stakeholder relationships, and resource dependency.

pages 24 to 26

Risk management and corporate governance

Risk and governance are integral aspects of the Bank's operations, ensuring effective management of potential risks and adherence to regulatory and ethical standards for sustainable and secure financial practices.

pages 169 to 236

Our secondary UN SDGs

pages 100 to 166

trade-offs involved in strategic choices. We also consider the issues that impact strategy execution and value creation. Through transparent reporting, we reflect the value created, preserved, and eroded. By understanding the interactions between these elements, we strive to deliver sustained value for all stakeholders, ensuring the interdependence and integrity of the entire process. **INTEGRATED THINKING** forms the foundation for our capital management, strategic decision-making, and the long-term creation of sustainable value for all stakeholders.

Outlook

The outlook information in this Report addresses the challenges, opportunities, and uncertainties that we anticipate in our strategic pursuit.
It explores the potential implications for our business model and future performance. Given the uncertain operating context influenced by the economic crisis, we have specifically emphasised potential uncertainties and our corresponding response, where relevant. Outlook information is scattered throughout this Report, with a particular focus on the following sections:

- Megatrends shaping the way we operate
  pages 32 to 69
- Strategy and resource allocation
  pages 70 to 89
- Management discussion and analysis
  pages 100 to 166

External assurance

This Report has been prepared in compliance with all regulatory and statutory requirements. The Financial Statements have undergone an audit by the Auditor General, and the sustainability reporting has been assured by Messrs KPMG Sri Lanka.

Forward-looking statements

This Report includes forward-looking statements concerning the future performance and prospects of NSB. These statements reflect our current judgments and expectations at the time of preparing the Report. However, it is important to note that various emerging risks, uncertainties, and other significant factors could potentially alter the outcomes from our initial expectations. These factors may have adverse effects on our business and financial performance.

Interactive PDF

NSB’s Annual Report is made available as an interactive PDF by using enhanced content navigation and hyperlinks for cross-reference, it allows the reader multiple journeys through the Report. Ultimately, it is part of the Bank’s broader efforts to create solutions that prioritise its stakeholders’ convenience and experience.

Queries

Your comments and queries on this Report are most welcome and they can be addressed to:

Deputy General Manager
(Finance, Corporate Planning and MIS),
Finance and Planning Division,
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No. 255, Galle Road,
Colombo 3.

dgm.finance@nsb.lk

About our Integrated Report

Index of navigation icons

Capitals

- Financial capital
- Manufactured capital
- Intellectual capital
- Human capital
- Social and relationship capital
- Natural capital

Stakeholders

- Shareholder/ investors
- Customers
- Employees
- Regulators and Government institutions
- Business partners
- Society and environment

Short to medium-term strategies

- Heightening customer experience
- Enhancing employee engagement
- Reinforcing risk culture
- Promoting organic growth
- Accelerating digitalisation
- Leading by example

Long-term strategies

- Customer centric
- Governing excellence
- Sustainable growth
- Transformative leadership

Material matters

- Customer service and experience
- Financial crime
- Governance and compliance
- Digital transformation
- Cyber threat and information security
- Innovation and agility
- Skills and capabilities
- Employee value proposition
- Responsible financing
- Business resilience amidst economic, socio and political uncertainty
- Financial sustainability and profitability
- Managing our carbon footprint

Other

- Page reference

Future-proof strategy

- Stakeholder centric
- Driven by purpose
- Agile and resilient
- Data-driven
- Innovative and inclusive

Integrated Report

Preamble

NSB at a Glance

The National Savings Bank (NSB) is one of Sri Lanka's savings giant with a remarkable heritage and an unwavering commitment to fostering a savings culture throughout the nation. Celebrating its 50th year of operations during the year 2022, NSB stands as a beacon of financial stability and empowerment in the country. Established in 1972 under a Parliamentary Act, NSB emerged from the merger of four esteemed savings organisations, solidifying its position as a custodian of Sri Lanka's financial legacy. With roots tracing back to the establishment of the Ceylon Savings Bank (CSB) in 1832, NSB proudly inherits over a century of savings expertise.

Recognising the importance of inclusivity, NSB was designated a Licensed Specialised Bank (LSB) in 1988, operating under the purview of the Banking Act No. 30. This strategic move aimed to encourage savings practices across all segments of society, transcending barriers of class, race, and gender.

As NSB celebrates its 50th anniversary, it remains committed to its founding principles and continues to evolve to meet the changing needs of its customers. With a over 13 million active accounts, NSB solidifies its status as the most inclusive bank in Sri Lanka.

Our vision – The most reliable and soughtafter choice for savings and investment solutions.

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

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

National Savings Bank Group

Operating companies

- National Savings Bank
- NSB Fund Management Company Ltd.
- Sri Lanka Savings Bank

Operating segments / Line of business

NSB

Branch banking
- Personal Banking (Full range of services including deposit taking, retail lending, Bank guarantee, card solutions and transactional banking)

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

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

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

NSB Fund Management
- Primary market activities
- Secondary market activities
- Settlement A/C with CBSL (Lanka Settle)
- Security A/C with CBSL (Lanka Secure)
- Trader Corporate Debt Securities
- SWIFT Connectivity
- Portfolio Management
- Cash Management

SLS Bank
- Savings
- Loans
- Leasing
- Corporate Finance
- Pawning

Corporate services including, technology and operations

Figure 1

Purposeful business and progressive culture

NSB operates with a purposeful business approach and nurtures a progressive corporate culture.

Reliable choice for savings and investments

NSB is highly reliable and sought-after for savings and investments.

By statute, 60% of deposits are invested in gilt-edged Government Securities, ensuring a secure investment.

Premier savings bank

NSB holds the esteemed position of being the country's premier savings bank.

It follows selective origination and maintains sound risk management practices, resulting in a lower non-performing loans with one of the lowest in the Industry.

Safest bank with Government guarantee

NSB is the only bank in the country that provides a 100% government guarantee on all deposits and the interests thereon, making it the safest bank in Sri Lanka.

The people's choice with 21.8 million accounts

With an impressive customer base, NSB serves 21.8 million accounts, making it the preferred choice of the people.

Support to national economic development

NSB contributes taxes, levies, fees, and dividends to the General Treasury, providing stoic support to the national economy.

The Bank funds long-term development and socio-economic projects initiated by the Government, playing a crucial role in nation-building.

Ethical banking practices and positive impact on society

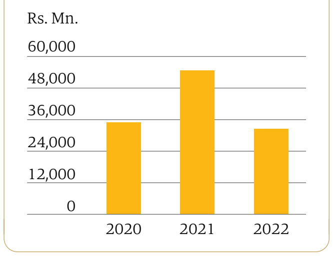
NSB conducts its business in a manner that positively impacts society, adhering to ethical and moral banking practices.

Good governance and stable organisational structure

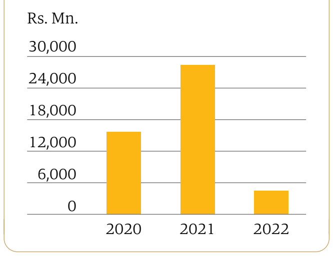
NSB upholds good governance principles and boasts a stable organisational structure led by experienced management.

Our strength and stability

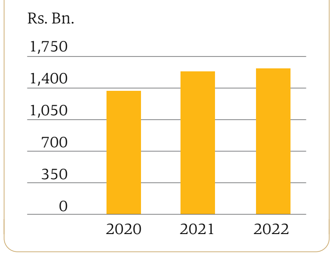
Net interest income



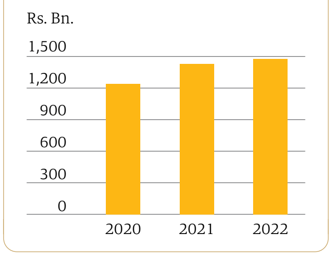
Profit before tax



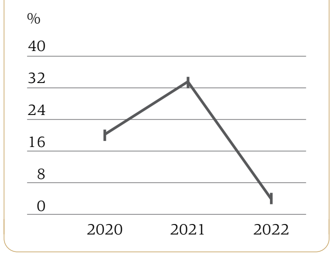
Total assets



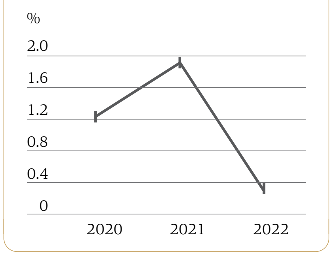
Customer deposits



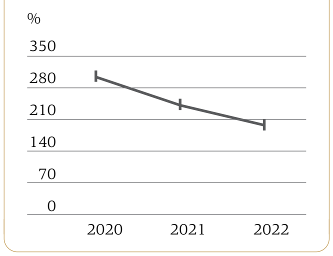
Return on equity (ROE)



Return on average assets (ROA)



All currency liquidity coverage



Basel III – total capital

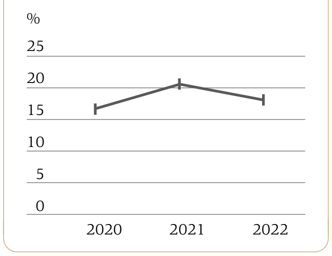


Figure 2

Milestones

1972
A Parliamentary Act facilitated the amalgamation of the four traditional savings organisations in the country into one establishment called the National Savings Bank

1979
Introduction of Savings Certificate with a draw

1981
NSB implements Mobile Banking Unit to reach the rural population

1994
The first ATM machine was established

1995
The NSB ACT was amended to facilitate business diversification

1998
Launch of "*Hapan Punchi Hapan*" product

1999
NSB opened doors to its 100th branch at Nittambuwa

Launch of "*Ithuru Mithuru*" product

2000
NSB's subsidiary NSB FMC was established

2002
Launch of "*Shree*" product

2003
NSB becomes the first Sri Lankan bank to obtain AAA(lka) rating from Fitch Ratings Lanka Ltd.

2004
International banking operations inaugurated

2008
24x7 NSB Call Centre was established

2011
NSB opened its doors to its 200th branch at Medawachchiya

2012
NSB celebrated its 40th Anniversary

2013
Issuance of the single largest Senior Note of USD 750 Mn. by a Sri Lankan bank

2014
Launch of *Buddhi* personal loan for higher education studies. Issuance of the USD 250 Mn. Senior Note

2016
Opened its 250th branch at Kopay Global Finance rated NSB as "The Safest Bank in Sri Lanka." Ventured into trade financing Issuance of NSB's first unquoted subordinated debenture valued at Rs. 6 Bn.

2017
Became the first specialised bank to reach Rupees One Trillion asset base

2018
Successfully redeemed the USD 750 Mn. Senior Note. Secured the first foreign currency term loan

2019
First Sri Lankan State Bank to receive PCI-DSS Certification. Sri Lanka Savings Bank became a fully-owned subsidiary of NSB. Surpassed the Rs. 1 Tn. deposit base Successfully redeemed the USD 250 Mn. Senior Note

2020
Successful issuance of Hybrid debt instrument (perpetual debenture)

2021
Launch of "NSB Pay" mobile App

2022
NSB celebrated its 50th Anniversary

Products and services

Savings deposits

- Ordinary Savings
- Children's Savings – *Kiriketi Hapan, Punchi Hapan, Hapan* Children's Savings Account
- Teen Savings – Neo Savings Account
- Youth Savings – I'm Savings Account
- Women Savings – *Shtree* Savings Account
- Special savings – Happy Savings Account, Smile Savings Account

Savings/Retirement plans

- NSB Pension +
- Five Years Savings
- Reality Savings Plan
- *Prarthana*
- *Prarthana* +
- *Savibala* Savings

Term deposits

- Regular Deposits – Fixed Deposits (FDs)
- Senior citizens deposits – *Gaurawa* FD Account, Senior Citizens' Special Fixed Deposit

Foreign currency products

- Personal Foreign Currency Accounts (PFCA)
- Business Foreign Currency Accounts (BFCA)
- Inward Investments Accounts (IIA)
- Foreign Currency Term Deposits
- Special Deposit Account (SDA)
- Money Changing Business

Retail lending products

- Home/Property Loans – *Ge Dora, Alankara*, Home Loans for Government Employees

Personal loans

- NSB Personal Loan
- *Buddhi* Loan
- Special Pension Loan
- *Charika* Loan
- Eco Loan
- Auto Loan
- NSB Wings
- Loans against Deposits – Speed Loans

Card services

- Shopping + ATM Card
- NSB Easy Card

Other services

- Remittances – NSB U-Trust
- POS device based savings mobilisation – NSB Reach
- Trade finance
- Guarantees
- Standing Order
- Direct Debit Facility
- Safety Deposit Locker
- Nomination
- Utility Bill Payments
- SMS Banking

Corporate lending

Digital/Electronic banking

- Digital Banking
- Quick Response Code Banking

Collection centres at schools

Customer contact centre – NSB call centre

Treasury

Treasury Bills, Treasury Bonds, Repo and Reverse Repo, Sri Lanka Development Bonds, Spot and Forward Exchange Contracts

Highlights

Table 1

As at December 31	Bank 2022	Bank 2021	Bank Change %	Group 2022	Group 2021	Group Change %
Results for the year (Rs. Bn.)						
Gross income	**174.56**	134.94	29.36	**175.00**	136.06	28.62
Profit before financial VAT and taxation	**7.76**	34.54	(77.53)	**5.74**	34.66	(83.44)
Profit before taxation (PBT)	**4.51**	28.38	(84.11)	**2.34**	28.42	(91.77)
Income tax expenses	**1.98**	6.26	(68.38)	**1.39**	6.29	(77.91)
Profit after taxation (PAT)	**2.53**	22.12	(88.56)	**0.95**	22.13	(95.71)
Position at the year end (Rs. Bn.)						
Shareholders' funds (Total equity)	**72.89**	76.01	(4.11)	**76.39**	81.45	(6.21)
Due to other customers/deposits from customers	**1,476.74**	1,428.47	3.38	**1,475.81**	1,426.72	3.44
Financial assets at amortised cost – Debt and other instruments	**919.13**	935.35	(1.73)	**927.92**	940.54	(1.34)
Loans and receivable	**553.03**	538.94	2.61	**553.05**	538.60	2.68
Total assets	**1,616.69**	1,579.10	2.38	**1,630.64**	1,605.81	1.55
Information per ordinary share (Rs.)						
Earnings (Basic)	**2.69**	23.53	(88.56)	**1.01**	23.54	(95.71)
Earnings (Diluted)	**2.69**	23.53	(88.56)	**1.01**	23.54	(95.71)
Net assets value	**77.54**	80.86	(4.11)	**81.27**	86.65	(6.21)

Ratios	2022	2021	Change (bps)	2022	2021	Change (bps)
Net interest margin (NIM) (%)	**2.03**	3.71	(168)	**2.08**	3.73	(166)
Return on average shareholders' funds (ROE) (%)	**3.40**	33.92	(3,052)	**1.20**	31.30	(3,010)
Return on average assets (ROA) (%)	**0.28**	1.93	(165)	**0.14**	1.90	(176)
Year-on-year growth in earnings (%)	**(88.56)**	118.83	(20,740)	**(95.71)**	104.52	(20,023)
Regulatory liquidity ratios (%)						
Statutory liquid assets (Domestic) – Minimum requirement 20%	**40.62**	59.63	(1,901)	**N/A**	N/A	–
Liquidity coverage ratio (Rupee) – Minimum requirement 2022 – 90%, 2021 – 100%	**195.44**	240.84	(4,540)	**N/A**	N/A	–
Liquidity coverage ratio (All currency) – Minimum requirement 2022 – 90%, 2021 – 100%	**193.49**	240.43	(4,694)	**N/A**	N/A	–
Net stable funding ratio – Minimum requirement – 100%	**180.51**	160.78	1,973	**N/A**	N/A	–
Regulatory capital requirements: Basel III						
Tier 1 – Minimum requirement (8%)	**15.78**	18.60	(282)	**17.90**	19.96	(206)
Total capital – Minimum requirement (12%)	**18.00**	20.83	(283)	**19.96**	22.00	(204)
Leverage ratio – Minimum requirement (3%)	**7.43**	8.92	(149)	**8.14**	8.95	(81)

Financial goals and achievements – Bank

Financial indicator	Goals	Achievement 2022	2021	2020	2019	2018
Net interest margin (NIM) (%)	3.15	**2.03**	3.71	2.77	2.63	2.43
Return on average assets (ROA) (%)	1.57	**0.28**	1.93	1.24	0.95	0.78
Return on average shareholders' funds (ROE) (%)	25.44	**3.40**	33.92	20.15	14.25	10.95
Growth in income (%)	12.32	**29.36**	5.80	4.61	8.96	3.62
Growth in profit for the year (PAT)	4.14	**(88.56)**	118.83	58.40	41.80	(53.68)
Growth in total assets (%)	10.78	**2.38**	15.79	17.78	11.68	2.56
Capital requirements: Basel III						
Tier 1 – Minimum requirement (8%)	Over 8%	**15.78**	18.60	13.65	13.49	13.08
Total capital – Minimum requirement (12%)	Over 12%	**18.00**	20.83	16.45	15.82	15.90

Performance indicators – Profit, People and Planet

Profit

- Interest paid to customers **Rs. 140.5 Bn.** (2021 – Rs. 76.8 Bn.)
- **Rs. 821.5 Bn.** investment in Government Securities portfolio (2021 – Rs. 834.1 Bn.)
- Paid direct and indirect taxes of **Rs. 5.2 Bn.** (2021 – Rs. 12.4 Bn.)
- **Rs. 1.5 Bn.** in infrastructure funding (2021 – Rs. 28 Bn.)

People

- Paid **Rs. 13.8 Bn.** to our **4,528** employees (2021 – Rs. 13.0 Bn. to 4,616 employees)
- **98.1%** retention ratio (2021 – 98.6%)
- Invested **Rs. 12.8 Mn.** on skills development (2021 – 11 Mn.)
- ATM/CRM **293 + 97 = 390** (2021 – 292 + 92 = 384)
- **55%** of our total employees are women (2021 – 55%)
- **3,996** Post and sub-post offices (2021 – 4,064)
- **Rs. 906.1 Mn.** spent on procurement for our **184** suppliers (2021 – Rs. 1,306 Mn. for our 351 suppliers)
- Provided **14** new job opportunities (2021 – 36)

Planet

- **Rs. 5.8 Mn.** worth of three eco loans disbursed (2021 – Rs. 3.8 Mn. worth of nine eco loans disbursed)
- Consumed **29,218 GJ** of energy (2021 – 33,539 GJ)
- **46** branches connected to net metering (2021 – 42)
- Consumed **70,430 m³** of water (2021 – 88,986 m³)
- **344,347 kWh** solar power exported to national grid in 2022 (2021 – 277,328 kWh)

Chairman's message

GRI 102-14

Since its inception in 1972, NSB has remained committed to promoting a strong savings culture that benefits the people of Sri Lanka, earning it the prestigious AAA credit rating and recognition as the largest and safest LSB by Lanka Rating Agency (Pvt) Limited driven by the 100% explicit guarantee provided by the Sri Lankan Government.

It is with great pleasure and honour that I send this message as the new Chairman of the Bank.

NSB rose to the for amidst the unprecedented challenges faced by Sri Lanka in 2022, delivering a stable performance for its shareholders and supporting its customers during turbulent times to build confidence and ensure financial security. The Bank paid over Rs. 5.0 Bn. in taxes to strengthen and reshape the economy, supporting society at large, while making progress towards achieving a low-carbon economy through sustainable financing measures.

The challenges and prospects of the Sri Lankan economy in 2022

The year under review saw Sri Lanka confront the worst economic and political crisis in its post-independence history, stemming from a combination of the COVID-19 pandemic aftermath and entrenched structural weaknesses. The country was beset by a severe forex liquidity crisis and lost access to funding from international markets following a sovereign downgrade, culminating in the announcement of external debt service suspension in April 2022. The forex crisis reverberated across all sectors of the economy, leading to fuel shortages, power outages, and a scarcity of imported raw materials and essentials among other challengers. Headline inflation was on an accelerating path reaching a year-on-year rate of 69.8% in September 2022 stemming from supply disruptions, the sharp devaluation of the Sri Lankan Rupee, and pent-up demand arising from the lagged monetary accommodation over previous years.

The Banking sector was severely challenged due to these socioeconomic pressures. A shortfall in forex liquidity in the industry and a decline in the real value of income with soaring inflation led to sizeable pressure on customer repayments and asset quality, thinning capital buffers. Growth of credit granted to the private sector substantially declined during the year along side the sharp upward adjustment of lending rates amidst aggressive monetary tightening measures undertaken by the Central Bank of Sri Lanka (CBSL) in early 2022 to stabilise inflation and exchange rate movements. The dire economic situation had a further negative impact on staff motivation, as the energy crisis made it difficult for employees to report to work, leading to increased migration and resulted in challengers employee retention.

Despite the multitude of challenges, Sri Lanka is now on its path to recovery, having reached a staff-level agreement for an Extended Fund Facility (EFF) support programme with the International Monetary Fund (IMF) in September 2022 followed by its approval in March 2023, amounting to approximately USD 3.0 Bn. for a period of 48 months. Policy measures by the Government yielded positive results with inflation decelerating to a year-on-year rate of 50.3% in March 2023 and flexibility in exchange rates was restored. Revenue-enhancing initiatives by the Government and reforms in the public sector are expected to pave the way for the country's growth prospects in the future. However, Domestic Debt Optimisation (DDO) strategies to restore public debt sustainability may pose a potential danger to the financial sector and needs to be addressed proactively by the Government to ensure financial system stability.

Our resilient performance in navigating challenges

NSB demonstrated remarkable resilience in navigating through the challenging economic climate in 2022. The Bank maintained one of the lowest Stage 3 loans to total loans (net of impairment) of the industry at 2.8%. Further, the Bank maintained healthy capital ratios during the year under review with no requirement for capital infusion. As of 31 December 2022, the Tier I Capital Ratio was at 15.78%, while the Total Capital Ratio was at 18.0%, both comfortably above regulatory minimums of 8.0% and 12.0% respectively. Despite these achievements, the Bank was challenged by limitations on competitiveness associated with Licensed Specialised Banks (LSB) and the requirements of the NSB Act to capitalise on lending opportunities and earning potential with over 60% of the deposit base being invested in Government guaranteed risk-free investments.

The gross income of the Bank grew by 29.4% year-on-year to reach Rs. 174.6 Bn. primarily supported by higher interest income from investment in debt instruments. The Bank was able to report a Profit Before Tax (PBT) of Rs. 4.5 Bn. and a Profit After Tax of (PAT) Rs. 2.5 Bn. for the year, declining by 84.1% and 88.6% respectively driven by an increase in interest expenses at an alarming level outpacing the increase in the interest income, a decrease in non-interest income, and an increase in operating expenses including the impairment provision. This resulted in a decrease in basic earnings per share from the previously reported Rs. 23.5 to Rs. 2.7 in 2022.

Total shareholder's equity of the Bank decreased by Rs. 3.1 Bn. during the year to a total of Rs. 72.9 Bn. in 2022 as a result of lower retained earnings as well as the prior year adjustment made due to the payment of 25% surcharge tax.

Nevertheless, NSB remains optimistic about its prospects and remains committed to providing a stable savings option to its customer base.

Strategy and resource allocation

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

For details, pages 70 to 89

An important stakeholder in driving economic revival

The Bank plays a crucial role in revitalising the Sri Lankan economy through various avenues. Firstly, as a responsible corporate citizen, NSB contributes significantly to State finances by paying taxes, levies, fees, and dividends to the Government. This injection of funds directly supports the Government's efforts in providing essential services and implementing development initiatives, especially during challenging times.

Secondly, NSB actively participates in Government financing by investing a significant portion of its deposits in Government Securities. This investment not only provides a stable and secure avenue for the Bank's funds but also helps the Government raise the necessary capital for funding infrastructure projects, social welfare programs, and other crucial initiatives. By investing in Government Securities, NSB aids in the economic recovery and development of the country.

Furthermore, NSB plays a vital role in driving economic growth by extending loans and financial support to various sectors, including infrastructure development projects. These investments help stimulate economic activity, create employment opportunities, and enhance the overall infrastructure of the country. By facilitating infrastructure lending, NSB contributes to the revitalisation of key sectors and drives economic progress.

Proactive approach to governance and risk management

Turbulent and challenging operating contexts require greater proactive risk management and governance best practices to support value creation and provide uninterrupted service to customers. NSB has a skilled and decisive governance body that oversees all key decisions and provides stable leadership to the Bank. Management committees such as the Asset and Liability Management Committee (ALCO), Credit Committee, Investment Committee, and Operational Risk Management Committee deliberate on matters critical to the Bank. They are supported by cautious yet enterprising risk management processes that ensure the Bank remains secure in the midst of its decisions. The Bank adopted the highest standards of governance and stringent control mechanisms to facilitate stable and sustainable growth by limiting lending to risk-elevated sectors in 2022 and maintaining strong NPL ratios over the industry.

We continue to build a strong risk management culture across the Bank by monitoring the risk appetite at respective governance levels and performing continuous assessments of the internal control environment. NSB also focuses on building cost effective data protection strategies to bolster cyber resilience.

Governance

Responsible and decisive governance enables the Bank to confidently make decisions with the backing of skilled leaders.

For details, pages 178 to 189

Risk Report

Cautious risk management positions the Bank in a secure environment when taking duly considered risks for the success of the business.

For details, pages 208 to 236

Sustainable banking practices

Sustainability is a critical concern for businesses today, with issues such as climate change, biodiversity loss, and socio-economic imbalances impacting our world. NSB's commitment to sustainability is at the forefront of the Bank's operations and is incorporated as part of its strategy. We believe that value is created through building communities, supporting inclusive finance, and ensuring environment sustainability.

Sustainability Report

Sustainability is at the core of all our efforts as it determines our continued long-term existence as a financial institution.

For details, pages 73 to 76

NSB is committed to reducing its carbon footprint by promoting digitalisation, which requires minimal natural resources. The Bank has introduced digital products and services to incentivise customers to move towards mobile and internet banking. NSB has also reduced paper usage through e-renewal letters and biodegradable promotional materials. In addition to building its digital infrastructure, the Bank has expanded its branch network by opening one new branch in strategic locations and relocating and renovating existing ones to provide a better customer experience. The Bank's efforts aim to bring faster, more convenient, and cost-effective financial services to underbanked and unbanked communities across Sri Lanka, contributing towards poverty alleviation and entrepreneurship development while also improving the Bank's financial returns.

We are committed to adopting sustainable practices that not only reduce our carbon footprint but also contribute to the economic and social development of the communities we operate in. By integrating Environmental, Social, and Governance (ESG) considerations into our business practices, we aim to mitigate risks, enhance opportunities, and drive long-term value creation for all our stakeholders.

The Bank also prioritises the concept of green loans, supporting green businesses and renewable energy solutions. In 2022 NSB granted three green loans amounting to a total of Rs. 5.8 Mn.

Our efforts towards sustainability are further strengthened by the Bank's adoption of the United Nations' Sustainability Development Goals (UN SDGs), which aligns our business practices to nurture the environment. As we continue to grow, we remain focused on promoting sustainable practices to move towards a low carbon economy and fostering long-term relationships with our stakeholders.

Transforming the banking experience through digital innovation

Our relentless pursuit to provide customers with a seamless digital experience remains a top priority as we embrace the rapid evolution of technology in the banking industry. The Board provides oversight for this initiative led by the Information Technology Steering Committee (ITSC). We are committed to investing in cutting-edge technology and digital services that cater to our customer's needs, offering market-leading solutions that enable easy access to banking services on the go. We are modernising our systems and processes, enhancing efficiency, and reducing costs while prioritising system availability and security. Our ongoing engagement in the development of national and international safety and security standards reflects our dedication to the safety and security of our customers.

We are currently in the process of implementing a new Core Banking Solution that is expected to be launched by the end of 2023. In addition, we have successfully completed the first phase of the Human Resource Information System (HRIS), which automates leave, attendance, and employee information management through a self-service module. Furthermore, we have taken initial steps towards implementing an anti-money laundering system using e-KYC blockchain technology and have developed an e-learning management system. Our mobile banking payment app and other innovative solutions bring us closer to our goal of a fully automated, secure digital platform that enhances customer convenience and accessibility while adhering to industry standards.

Looking at the future

As the year 2023 unfolds, the banking sector is still facing numerous challenges such as the implementation of the IMF’s EFF, the challengers in economic recovery, and the impact of DDO that poses risks to the financial system. However, NSB's resilience lies not only in its capacity to navigate through these challenges but also in its brand image and brand loyalty. Since its inception in 1972, NSB has remained committed to promoting a strong savings culture that benefits the people of Sri Lanka, earning it the prestigious AAA credit rating and recognition as the largest and safest LSB by Lanka Rating Agency (Pvt) Limited driven by the 100% explicit guarantee provided by the Sri Lankan Government.

As the fifth most valuable brand in Sri Lanka with a value of Rs. 30.3 Bn. in 2022, NSB is one of the most trusted brands in the country. Over the years, the Bank has adapted to changing times to remain relevant and accessible to all segments of Sri Lankan society and focused on engaging and nurturing the next generation of stakeholders who will continue to trust the Bank.

With over 50 years of experience in the banking industry and a strong foundation, NSB is committed to delivering value to its shareholders and excellent service to its customers, despite the ongoing challenges in the sector. The Bank remains steadfast in its mission to promote a strong savings culture in Sri Lanka and contribute to the Nation’s economic growth and development.

Acknowledgements

The success of NSB is largely attributed to the dedication and commitment of its employees. I express my sincere appreciation and thanks to all the stakeholders who have played a significant role in supporting the Bank’s operations. The outgoing Chairman and the Board of Directors provided sound advice and unwavering support during a challenging year, while the Corporate Management Team and staff across NSB worked tirelessly to implement all decisions with excellence. The loyal customer base of the Bank also deserves recognition for contributing to the continued stability of the Bank.

At the State level, I extend my gratitude to His Excellency the President, the Honourable Prime Minister, and the Honourable Minister of Finance for their guidance and support. I also appreciate the efforts of the Secretary to the Treasury, the Governor of Central Bank Sri Lanka, officials from relevant institutions, the Secretary to the President, the Attorney General, and the Auditor General. The Bank’s island-wide operations were also made possible with the crucial support provided by the Postmaster General and officials of the Postal Department.

Together, we will continue to work as a strong and resilient force, dedicated to securing our nation's interests for generations to come.

Dr Harsha Cabral PC
Chairman

17 May 2023

General Manager/ CEO's review

NSB's ability to weather hardships is a testament to the dedication of our workforce and responsible governance, which have established a prudent strategy and risk management framework that underpins a solid foundation.

NSB navigated a turbulent economic climate in 2022 remaining resilient and creating value to its stakeholders. With a transformative FUTURE-PROOF strategy representing long-term relevance and sustainability, we endured the challenge of striking a balance between the need for growth and support to customers drawing from our 50+ years of experience and the inherent brand reputation of a strong savings culture.

Navigating challenging times

In 2022, Sri Lanka faced a multitude of challenges that posed significant difficulties for the banking sector. Political instability, a depreciating currency, a foreign currency liquidity crisis, high inflation rates, a substantial cost of living, and an uncertain future all contributed to a landscape that saw many banks grappling with rising non-performing loans and dwindling profitability.

The Central Bank of Sri Lanka (CBSL) implemented a series of measures designed to stabilise the financial system and stimulate economic growth to overcome these headwinds. Among these were tight monetary policies that included raising policy rates, loan restructuring schemes, and liquidity management measures. However, these measures also had an impact on customers, who found it increasingly difficult to manage cashflows in the face of high-interest rates, ultimately affecting asset quality and recovery.

Furthermore, the Government's revenue-enhancing initiatives and the IMF support programme had an adverse impact on the banking sector. The implementation of Withholding Tax (WHT), Social Security Contribution Levy (SSCL), and increased corporate tax rates resulted in an unfavourable impact on the bottom line of the banking industry.

Through all this, NSB upheld its commitment to being Sri Lanka's safest bank, ensuring the security and well-being of its customers and staff, and creating value for all stakeholders. To achieve this, NSB utilised its complete range of service delivery channels, including branches, ATMs, cash deposit machines, cash recycler machines, and digital channels, to provide uninterrupted services to customers, even amidst fuel and electricity shortages.

In addition, the Bank worked closely with its customers, developing highly targeted and customised solutions to assist the most vulnerable stakeholders. To ensure the safety and well-being of its staff during this difficult time, NSB implemented several measures, including arranging special bus services, allowing late attendance and early departure from work, permitting staff to wear office attire of their choice, limiting the number of staff members reporting for duty due to transportation difficulties, and conducting meetings and discussions online whenever possible.

NSB's ability to weather hardships is a testament to the dedication of our workforce and responsible governance, which have established a prudent strategy and risk management framework that underpins a solid foundation.

We take an INTEGRATED THINKING approach at NSB, carefully balancing the macroeconomic factors with the internal context of our operations. This approach ensures that our capital inputs and outputs create value not only for the Bank and our stakeholders but also for society at large while upholding our commitment to environmental sustainability. We believe that this holistic approach is crucial for sustainable growth and long-term success, and we remain steadfast in our commitment to it.

Financial performance summary of 2022

Our financial performance for the year reflected our strength and resilience in the banking sector. The Bank recorded Rs. 32.5 Bn. of net interest income (NII), declining by 40.6% compared to a year ago, primarily due to a surge in interest expenses, which rose by 82.9% to Rs. 140.5 Bn. during the same period, driven by the sharp increase in interest rates. The Bank was compelled to raise interest rates on fixed deposits due to the prevailing high-interest rate environment, which led customers to move their existing low-rated fixed deposits to higher-rated fixed deposits. This shift resulted in a significant increase in interest expenses.

The Bank was unable to reprice the loans and advances portfolio until the end of year 2022 amidst upward movement in market interest rates, as a major portion of the loans and advances were granted at fixed rates during the lower interest rate environment. Moreover, we were required by the NSB Act to invest 60% of our deposits and interest thereon in government securities, which forced us to invest in comparatively high-yielding Treasury Bonds with longer tenors at that time compared to low-yielding Treasury Bills to earn a reasonable margin. However, the longer tenor investments made in Treasury Bonds were not repriced at the pace of deposits with the increased interest rates.

Our financial performance for the year reflected our strength and resilience in the banking sector. By the end of 2022, the Bank's asset base grew by 2.4% to reach Rs. 1.62 Tn. However, we faced challenges in repricing our loans and advances portfolio due to the upward movement in market interest rates. A significant portion of our loans were granted at fixed rates during a period of lower interest rates. Moreover, we were required by the NSB Act to invest 60% of our deposits and interest in government securities, which forced us to invest in higher-yielding Treasury Bonds with longer tenors compared to lower-yielding Treasury Bills to earn a reasonable margin. However, the longer-term investments in Treasury Bonds were not adjusted at the same pace as the increased interest rates on deposits.

During the year, our deposit base increased by Rs. 48.3 Bn. (3.4%) to reach Rs. 1.48 Tn. in 2022. In line with the CBSL policy rate hike in April 2022, deposit interest rates were raised, leading many deposit holders to prematurely close their existing fixed deposits in favour of higher rates.

Further, the prevailing high inflation environment reduced customers' ability to save, while the attractive interest rates offered for fixed deposits encouraged funds to switch from savings to fixed deposits.

Against all these odds, our interest income for 2022 reached Rs. 172.9 Bn., observing a 31.6% increase. However, with the Bank being compelled to increase interest rates on fixed deposits due to the high-interest rate environment, interest expenses rose by 82.9% to Rs. 140.5 Bn. during the period under review. As a result, our net interest income (NII) declined by 40.6% to Rs. 32.5 Bn. compared to the previous year, primarily due to the surge in interest expenses. Consequently, our net interest margin (NIM) decreased to 2.03% in 2022, compared to 3.71% reported a year earlier.

Operating expenses comprising personnel cost, depreciation and amortisation, and other overhead expenses soared to Rs. 21.2 Bn. in 2022, reflecting a rise of 11.12% due to the widespread price increases despite various cost savings strategies and initiatives.

On a positive note, the Bank's impairment charges were significantly lower compared to the industry average, where most banks made substantial provisions anticipating possible haircuts on foreign currency-denominated Government Security Instruments following the announcement made by the Government's intention to restructure its external public debt.

All things considered, 2022 witnessed a resilient performance by the Bank amidst underlying economic challenges, reporting a Profit before Tax of Rs. 4.5 Bn. and a Profit after Tax of Rs. 2.5 Bn.

Financial capital

The management of our financial capital is given serious consideration and we endeavour to ensure a strong financial position at NSB.

For details, pages 100 to 110

Business lines review

The Bank oversees key operating segments that are supported by well thought out business lines which optimise value in operations.

For details, pages 111 to 115

Segmental performance

All four segments of the Bank's main arteries – retail banking, corporate finance, international banking, and treasury – were significantly impacted by the unfavourable environmental conditions during the year.

Retail banking segment

In response to the tightening monetary policy stance indicated by the policy interest rate hike, NSB took a cautious approach towards retail lending, implementing stricter controls and screening protocols. Collateral-based lending was prioritised, and pawning loans were heavily promoted while exposure to personally guaranteed loans was reduced. Despite industry-wide impairment increases and repayment pressures faced by customers, NSB maintained a lower-than-industry average NPL ratio (indicated by net Stage 3 loans to total loans) of 2.8% for its loan portfolio.

Corporate finance segment

During the year under review, the Bank made a conscious effort to reduce lending to riskier segments, including the renewable energy sector, in order to maintain strong asset quality. However, going forward, the Bank intends to focus on new industries such as agriculture, IT, and renewable energy, which the Government is promoting, in line with the latest budget proposals. Specifically, the Bank foresees lending opportunities in the power and energy sector, particularly in combined cycle power plants and renewable energy (solar and wind), due to the Government's emphasis on clean energy.

International banking segment

The Bank was able to mobilise its foreign currency deposit base to Rs. 10.3 Bn. in 2022 against the Rs. 16.4 Mn. reported in 2021 supported by the devaluation of the Sri Lanka rupee. Despite the drying up of foreign exchange inflows into the country through banking channels, the Bank has shown its resilience by managing to receive Rs. 71.8 Bn. worth of remittances in 2022 compared to Rs. 57.1 Bn. reported in the same period last year. Consequently, the market share in the remittances increased to 5.73% as of December 2022 from 5.25% in December 2021.

Reflecting the industry trend, the volume of trade routed through the Bank was severely impacted due to the shortage of dollars in the market, the Government's initiative to curtail non-essential imports, and continued lockdown situations in the country which prevented customers from conducting trade business smoothly, thereby affecting the trade finance business to a great extent. Our attention for the coming year is focused on increasing market share by penetrating untapped markets in key growth-driving sectors.

Treasury segment

In the past year, there was a significant rise in government security rates, reaching 30%, which was the highest level observed in the country in recent times. Nevertheless, the Bank experienced some significant mark-to-market losses on treasury bills and bonds that it had invested during the low-interest-rate period.

Agreement between the IMF and the Government is expected to reduce pressure on yields in the future while improved macroeconomic fundamentals could provide a positive outlook for the equity market.

Sound asset quality with adequate capital and liquidity levels

NSB's stability is attributed to its robust risk management and responsible governance, which is particularly evident in the management of moratoria and extensions, as the Bank has prioritised long-term stability in a balanced risk approach.

In 2022, managing asset quality was a top priority, and the Bank achieved one of the lowest NPL ratios among its banking industry peers. The Board of Governors was keen on risk insights and approved boundaries to ensure the Bank's security. In line with its responsible risk appetite, the Bank minimised risk exposures made decisions within the operating environment's context and maintained appropriate liquidity buffers to manage liquidity risk during periods of stressed market conditions.

The Bank's Tier I Capital Ratio and Total Capital Ratio, as of 31 December 2022, stood at 15.78% and 18.0%, respectively, well above the regulatory minimum of 8.0% and 12.0%, respectively. The Bank's leverage ratio was 7.43%, above the regulatory minimum of 3%, despite facing volatile and restricted liquidity environments.

The Bank's resilience in maintaining sufficient liquidity to support the balance sheet's growth is indicative of its strong foundation and ability to finance future growth.

FUTURE-PROOF strategic blueprint

As we look beyond the COVID-19 pandemic followed by the socio-economic crisis in Sri Lanka, the uncertainties are continuing to stay, and banks are forced to adapt to the changing consumer behaviour. This requires our short to medium-term strategies to be sensitive to uncertainties while positioning the Bank to thrive in the long term. Through our collaborative engagement with the Board of Directors, the executive leadership has carried out considerable work to understand how the business should adapt and adjust to these changes.

In an effort to proactively address the ever-evolving socio-economic landscape and to ensure long-term sustainability, our Bank embarked on a comprehensive strategic review. This review aimed to not only keep pace with change but also anticipate future trends and challenges. The outcome of this exercise is a bold, FUTURE-PROOF strategy that goes beyond mere incremental progress and envisions transformative change over the next decade. The Board rigorously reviewed and scrutinised the vision, ensuring that it aligns with our core values and mission. At the heart of our FUTURE-PROOF strategy is our commitment to being the "banker of your need", empowering the customer to grow and thrive alongside us. With this strategic reset, we are confident in our ability to create a more inclusive, sustainable, and resilient operating context that benefits all stakeholders.

Strategy and resource allocation

Our strategic positioning is decided after prudent risk assessment, thereby ensuring the highest levels of security for the Bank.

For details, pages 70 to 89

Customer-centric approach

NSB introduced several initiatives to cater to the evolving needs and demands of its customers in light of the higher interest rate environment. One such initiative was the introduction of the *Prarthana+* savings scheme, which aimed to provide customers with higher interest rates for longer-term savings. Moreover, the Bank actively promoted the *Prarthana* savings scheme, which enabled customers to save at attractive interest rates and earn higher returns on their savings.

In addition, to offer customers a more diverse range of investment options, the Bank introduced three special fixed deposit schemes with tenures of three months, four months, and seven months. These schemes were designed to attract more deposits to the Bank and help customers earn higher returns on their investments.

Embracing digitalisation

To ensure the best digital banking experience for customers, the Bank invested significantly in enhancing its digital strategy, launching the NSB Mobile Payment App under the brand name "NSBPay App" in 2021. The app offers a range of facilities such as fund transfers to any other account at the Bank or other banks, payment of loan instalments relevant to loans obtained from the Bank, bill payments, payments using QR Code, instant connection with its call centre, and many more.

Furthermore, NSB became the first Licensed Specialised Bank (LSB) to obtain the Real-Time Gross Settlement (RTGS) facility, reducing the time taken to settlements and enabling the Bank to become a principal member of the Lanka Pay Network.

Employee engagement

As an equal opportunity employer, NSB boasts a female representation of 55% among permanent employees, with 57% of new recruits in 2022 being female. Furthermore, women hold 48% and 56% of senior and middle management positions, respectively. NSB's commitment to promoting women's leadership has been recognised by various industry bodies, including the Top 50 Professional and Career Women Awards 2022, where NSB's chairperson was named a Top Professional in the Banking Sector.

In addition, NSB has been recognised as a "Women-Friendly Workplace" for the second consecutive time by Satyn Magazine and CIMA Sri Lanka. The Bank's efforts towards creating a supportive work environment for women have been further highlighted by the recognition of NSB's Deputy General Manager (Operations) as the Most Outstanding Female in Sri Lankan Workplaces.

NSB has also implemented specific policies and mechanisms to handle workplace sexual harassment. In 2022, the Bank formed a Grievance Handling Committee to address the grievances of female employees and ensure their mental and physical well-being and safety. Female staff members can forward complaints of any discrimination or harassment they may face to the chairperson of the committee.

Sustainable value creation

To ensure the Bank's stability, we will fortify our capital base and manage costs effectively while striving to meet financial targets and create sustainable products and services that preserve our natural resources.

To achieve operational excellence and continue the creation of value for our stakeholders, we will initiate several measures in the future including establishing a learning culture with a focus on e-learning and employee development and integrate the 'Core Banking' solution with the HR and Treasury Management Systems. In addition, we will establish a digital banking unit and introduce digital products with end-to-end digital onboarding for savings and loan products.

We will also prioritise social, environmental, and governance management and increase green lending to promote a low-carbon economy.

Ultimately, we aim to be an integrated organisation that creates value for society. We believe that by linking every aspect of our business, we can remain steadfast in the face of upcoming challenges. As always, we will work with the Government and regulators to ensure the Sri Lankan economy thrives.

Acknowledgments

As I take this opportunity to express my gratitude, I feel both duty-bound and honoured to acknowledge the individuals and institutions that have assisted NSB in overcoming the challenges of the past year. Firstly, I would like to express my thanks to our customers, whose steadfast loyalty has enabled NSB to maintain its position as the safest bank in Sri Lanka. Your unwavering belief in our capabilities is truly appreciated.

I would also like to extend my gratitude to the outgoing chairperson Ms Keaslia Jayawardena and the Board of Directors for their unmatched support throughtout their tenure, the Management Team, and NSB staff, who have exhibited exceptional fortitude in devising and executing strategies to achieve our collective goals. It was their collective efforts and team spirit that steered us through this difficult period.

Moreover, I am indebted to the governing bodies that have provided unwavering support to the Bank. I extend my sincere thanks to the Hon. President who is the Minister of Finance, Hon. Prime Minister, the Secretary to the Treasury and Officials, the Governor and Officials of the Central Bank of Sri Lanka, the Attorney General, the Auditor General, and his team, the Heads of other regulatory bodies and their teams, and the Postmaster General and all Officials of the Department of Posts for their valuable contributions throughout the year.

I firmly believe that continued teamwork, both within NSB and with other state entities, will enable us to withstand any crisis and ensure that NSB remains the Bank that all Sri Lankans can rely on in the present and future.

M P A W Peiris
General Manager/CEO

17 May 2023

Navigating uncertainty: our context and strategy

Our sustainable value creation model

Global and local socio-political and economic disruptions

Stakeholders

- Shareholder/ Investors
- Customers
- Employees
- Regulators and Government institutions
- Business partners
- Society and environment

Inputs

Financial capital

A strong capital base and adequate funding to support deposits and lending activities

- Rs. 8.7 Bn. cash and cash equivalents
- Rs. 72.9 Bn. share capital and reserves
- Rs. 1.48 Tn. deposits from customers
- Rs. 44.6 Bn. long- and short-term borrowings

Manufactured capital

Digital and physical infrastructure used in the production and delivery of products and services to customers

- Rs. 14.8 Bn. property, plant, and equipment
- Rs. 0.9 Bn. capital expenditure
- Physical touchpoints
- Virtual touchpoints/Digital channels
- Digital infrastructure

Human capital

A team of highly skilled employees who are motivated and engaged with business operations

- Training and development
- Positive working environment
- Establishing solid labour relationships
- Developing critical skills and succession planning
- Managing performance and talent
- Introducing policies and procedures to improve service delivery

Social and relationship capital

Shared relationships with a range of stakeholders and within the community

- Long-term customer relationships
- Constructive employee engagement
- Positive relationships with the Government and regulators
- Proactive engagement with media and communities
- Collective operations with business partners and suppliers
- Community engagement through various initiatives

Intellectual capital

Consists of the broad knowledge and capability inherent in the Bank, being a culmination of the intangible assets of the entire capital base

- Integrated business strategy
- Best practice governance
- Agile approach to strategy setting and execution of strategic priorities
- Leveraging technology and innovation
- Corporate culture

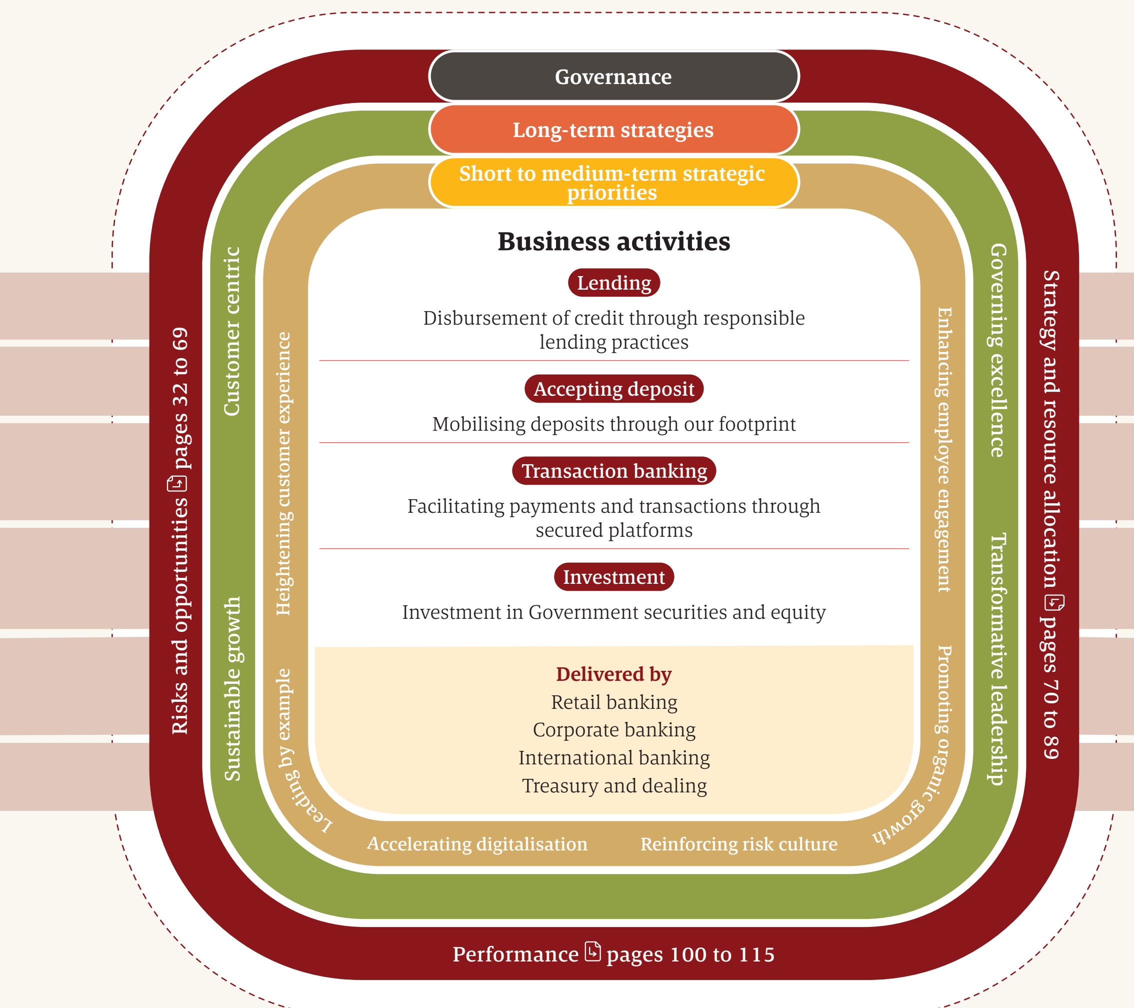
Natural capital

Our stock of natural capital and ecosystem services which include air, water, energy, and the natural environment

- Reliance on limited resources of water, air, land and minerals
- Biodiversity and ecosystems

Operating environment pages 27 to 69

Changes in demographic and the evolving world of work



Managing climate change and sustainability

Increased regulatory scrutiny

Digital disruptions and increased competition

Output

Products
(page 11)

i. Deposits
(15.5% growth YoY)
Savings deposits
Time deposits

ii. Lending products

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

Corporate lending
Direct lending to financial institutions
Loan syndication
Project lending

Services
(page 11)
Inward and outward remittances
Trade finance

Value added services
Card services
Utility bill payment
"NSBPay" App

Environmental sustainability
(pages 456 to 458)
GRI content index

Outcomes	Sustainable value creation and sharing		Impact on UN SDGs
• Rs. 7.8 Bn. Operating profit before tax • Rs. 2.5 Bn. Profit after tax • Rs. 11.4 Bn. Retained earnings • Rs. 821.5 Bn. Government securities portfolio • Rs. 5.6 Bn. Contribution to the Government	**Financial returns for:** • Bank • Shareholder • Providers of capital	**Economic value created for:** • Broader stakeholders • Sri Lankan economy	Primary UN SDGs Secondary UN SDGs
• 11,060 new internet banking customers • 293 ATMs • 97 Cash Recycling Machines (CRMs) • 3,996 Post offices and sub-post offices • ICT systems, digital platforms, and cloud services	**Value propositions through self-service channels** • Digital transformation across the value and services through convenient • Business continuity banking customers' needs • Physical and digital infrastructure reliability	• Operational efficiencies and improved productivity • Improved access to financial products chains	Primary UN SDGs Secondary UN SDGs
• Greater number of professionally skilled employees • Higher retention ratio of 98.1% • 4,528 motivated and engaged employees • 23,544 training hours • 99.2% returned after maternity leave • 55% of female employees	**Highly skilled and engaged employees who:** • Improve our ability to understand and serve our customers, driving our business performance successfully • Facilitate the effective implementation of our strategies to achieve corporate objectives and create value for our stakeholders	• Create value under the pressures of a dynamic and unpredictable environment in which rapid unexpected developments take place • Creating direct and indirect employment for Sri Lankans	Primary UN SDGs Secondary UN SDGs
• 13 million active customer accounts • 100% local employment • Rs. 5.6 Bn. contribution to the Government	• Maintain social license • Financial inclusion • Fair, transparent and ethical management systems • Fair and equitable tender process	• Exceeding customer expectations on customer experience and service delivery	Primary UN SDGs Secondary UN SDGs
• Compliance with PCI DSS certification • 24/7 Security Operations Centre (SOC) under the Information Security Division and a third party, to keep incident response capabilities in line with international standards and next generation features • Mobile Payment App • Implementation of the first phase of the Human Resources Information System (HRIS), automating leave, attendance, and employee information management • Implemented a Data Leakage Prevention (DLP) system with an automated data classification facility to cover all IT systems of the Bank • Initiated e-KYC with blockchain technology	• Strong brand position • Consistently maintained AAA credit rating • 100% Government guarantee for deposits and interest thereon • Distinctive wide range of products and services	• Financial inclusion	Primary UN SDGs Secondary UN SDGs
• 29,218 GJ of energy consumption • 70,430 m³ of water consumption • Rs. 5.8 Mn. green loans disbursed • 47 branches converted to Solar energy	• Business operations with a low-carbon footprint • Support the Government/Sri Lanka to achieve SDGs • Responsible consumption and lending	• Initiatives that are energy efficient and green • Fast-paced digitalisation	Primary UN SDGs Secondary UN SDGs

Figure 3

Our sustainable value creation model

An unprecedented socio-economic and political uncertainties

The Sri Lankan economy hit rock bottom with Easter attacks in 2019 and the COVID-19 pandemic the following year. A growing balance of payments crisis led the country to officially default on foreign debt in April 2022 amidst widespread socio-economic and political chaos.

2019 – Easter Sunday attacks and tax cuts

April

A series of bombings took place targeting churches and luxury hotels in a coordinated terrorist suicide attack. The bombings significantly impacted the tourism sector, a major source of foreign exchange for the country.

November

President Gotabaya Rajapaksa announced substantial tax reforms after winning the Presidential election. The value-added tax was reduced to 8% from 15%, and several other taxes such as the 2% nation-building tax were abolished. The slash in taxes resulted in a lowering of the Government revenue significantly.

2020 – COVID-19 pandemic

Before Sri Lanka could recover from the Easter Sunday attack aftermath and the repercussions of significant tax cuts, the COVID-19 pandemic took over the entire world. As a result, Sri Lanka's foreign remittances and tourism earnings crumbled, and the country was led to fund significant Government debt using its existing foreign reserves.

2021 – Ban on fertiliser imports

April

To deliver on the election promise of promoting organic farming, the Government banned the importation and use of chemical fertiliser.

The ban on fertiliser resulted in a decline in crop yields in critical crops such as rice and tea. This in turn created a shortage of essentials leading to higher imports and increasing pressure on the country's foreign reserves.

November

The ban was revoked amidst Island-wide farmer protests and a compensation package of USD 200 Mn. announced.

2022 – Socio-economic and political crisis

March

Sri Lanka was facing a critical lack of foreign currency and was unable to import essential goods including fuel, medicines, food items, etc.

The country faced prolonged power cuts amidst shortages of fuel and long queues to purchase essentials.

April

The country officially announced suspension of service of external debt, commencing dialogue on debt restructuring with international creditors.

May-July

The economic crisis evolved swiftly into a political crisis with people protesting on the streets leading to the resignations of the President and Government.

2023 – IMF and key reforms

The newly appointed President Ranil Wickremasinghe and the Government decided to seek assistance from the IMF and a 48-month extended arrangement under the Extended Fund Facility (EFF) of nearly USD 3 Bn. was approved in March 2023.

The reforms programme under IMF's EFF can be prioritised on the following policy measures:

Revenue-based fiscal consolidation

These reforms include making personal income tax more progressive and broadening the tax base for corporate income tax and VAT. Fiscal institutional reforms and support essential expenditure through introducing cost-recovery energy pricing. At the same time, mitigating the impact on the poor and vulnerable by raising social spending, and improving the coverage and targeting of social safety net programs.

Restoration of public debt sustainability

Restructuring of debt to ensure stable financing for Government operations.

Restoring price stability and rebuilding foreign reserves under a flexible exchange rate regime

Alleviating the burden of inflation especially on the poor through stable prices and fostering an environment for investment and growth in the country. Restoring Sri Lanka's ability to purchase essential goods from international markets via a flexible exchange rate regime.

Policies to safeguard financial system stability

Ensuring a healthy and adequately capitalised banking system and upgrading financial sector safety nets and regulatory standards.

Reducing corruption vulnerabilities

Improving fiscal transparency and public financial management, introducing a stronger anti-corruption legal framework, and conducting an in-depth governance diagnostic, supported by IMF technical assistance.

Materiality

Navigating uncertainty

The year 2022 was an extremely volatile and rather unstable year for the Sri Lankan economy. Following a series of events that jeopardised the economy starting from the Easter Attacks in 2019 and the COVID-19 pandemic in 2020, the Sri Lankan economy ultimately collapsed in 2022.

The banking industry was impacted through various dimensions, including a shortfall in liquidity, squeezing of margins, delays in customer repayments, and deterioration in asset quality. Nevertheless, having navigated the period of uncertainty with the appointment of a new Government and approval of an Extended Fund Facility (EFF) by the International Monetary Fund (IMF), the banking industry plays a crucial role in helping to reshape the economy by building customer confidence and ensuring financial security. This requires banks to refocus on understanding customer needs, review and make slight adaptations to strategy to ensure resilience, and creatively confront challenges to navigate uncertainty.

Thus, to remain resilient and sustainable in the long-term, amidst the volatile environment, facing new challenges and supporting recovery, the Bank analysed its external environment to identify matters arising from the unique economic context and other emerging trends that are relevant to the Bank and its stakeholders.

Following a materiality assessment process which determines material themes which substantially affect value creation, the identified matters have been grouped into five themes representing the megatrends the Bank considers in the operating environment.

Volatile environment and new challenges

- Unique economic context
- Emerging trends

Five megatrends

- Global and local socio-political and economic disruptions
- Changes in the demographic and the evolving world of work
- Digital disruptions and increased competition
- Increase regulatory scrutiny
- Managing for climate change and sustainability

Risks and opportunities

Risks and opportunities identified from five megatrends

Materiality

Related material matters identified under each five megatrends (refer page 30)

Materiality determination process

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

We define our material themes as the factors that substantively affect our ability to create value for our stakeholders over time. We take an INTEGRATED THINKING approach to identify matters that could influence our ability to create value in the short, medium, and long-term. These matters inform our strategy to manage risks and maximise opportunities that present themselves. Collectively, these are grouped into five themes that represent the megatrends we need to consider in our operating context.

We have continuously expanded the processes over the last few years for identifying material topics and integrating them simultaneously with the development of the Bank's strategy.

Our material themes determination process is set out below:

Review of the impact of the operating environment on our value creation

(Page 32 – Megatrends shaping the way we operate)

Review of the key decisions of the Board and subcommittees

(Page 199 – Board subcommittee reports)

Reviewed our stakeholders' interests, needs and expectations

(Page 90 – Integrated stakeholder engagement)

Other inputs

Media reviews
Peer reviews
External research publications

Reviewed risks and opportunities impacting the Bank's ability to achieve strategic objectives

(Page 32 –Megatrends that shape the way we operate)

(Page 208 – Risk review)

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

Prioritisation

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

Refer the materiality matrix found on page 30 to understand how we prioritise our material matters.

Integrate

We integrate our material matters into our strategy by contextualising them into our five strategic priorities which guide our integrated approach to strategic objectives.

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

Assess

We track our performance against the strategy using identified key performance areas (KPAs) and key performance indicators (KPIs) that are cascaded throughout the Bank to deliver on the strategic objectives.

Further, we assess the matters continuously and review in annual strategic business plan workshop to ensure that our strategy remains relevant.

Materiality matrix

We plotted identified issues in a materiality map based on the level of stakeholder considerations, the extent of the impact on the viability of our business, the relationship with stakeholders, as well as the boundary of the topic. Each material matter is categorised into three groups namely;

People Profit Planet

The relevant category is mentioned under each material matter.

In 2020, the COVID-19 pandemic rapidly introduced an array of new and elevated material topics to economic disruption, safety of our people, resilience of our operations, strength of our balance sheet, adoption of a new normal, and financial security of our customers and community. Accordingly, 12 material issues that have the potential to impact our operations and are of great importance to our stakeholders were identified for the financial year 2021.

Taking a step further in 2022, we modified our materiality study to align with emerging topics and given the challenging macro environment which had changed the operating context to a greater extent. This continues to evolve both locally and globally and will likely present new challenges and risks in the short to medium term. The Board and Management continue to actively monitor the situation and adapt our response as required to maintain our financial strength and ensure our customers and the community are supported through these challenging times.

Material matters identified in 2021	Changes in material matters in 2022
Economic disruption Business/operational resilience	These two material matters were combined, and a new materiality matter was identified as **"Business resilience amidst economic, socio and political uncertainties"**
Financial sustainability Managing market volatility	Combined and changed into **"Financial stability and profitability"**
Adapting to new normal	Removed as it is not relevant today
Health and safety	Recategorised under **"Employee value proposition"**
Skills and capabilities Employee value proposition Cyber threat and information security Digital transformation Customer service and experience Innovation and agility Financial crime	Remained the same
Legal and regulatory compliance	Removed and new material matter identified on a broader basis as **"Governance and compliance"**
Environmentally resilient	This was removed and two new material matters were identified as **"Managing our carbon footprint"** **"Responsible financing"**

Materiality

The material matters have been categorised under five megatrends identified in the operating environment. A detailed analysis of each is found later under the section titled "Megatrends shaping the way we operate".

Figure 4

Operating environment
(Five megatrends identified under the operating environment)

Global and local socio-political and economic disruptions (Political and economic factors)
- Financial stability and profitability

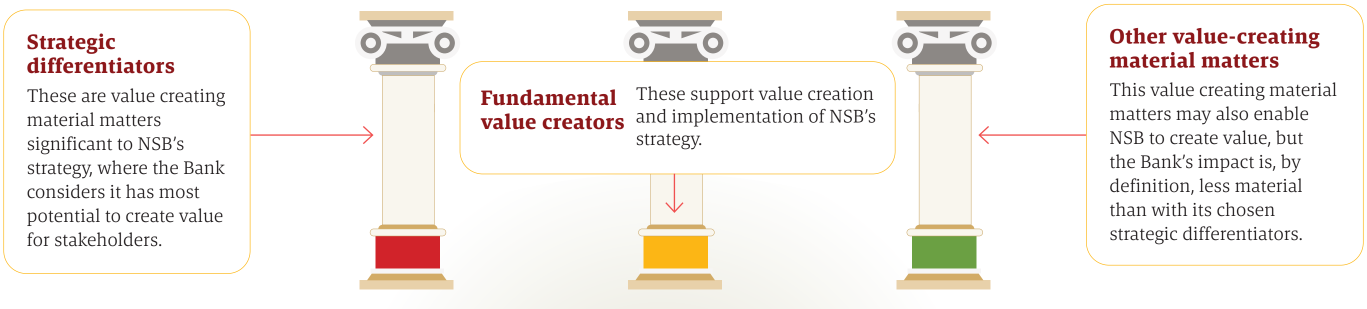
Changes in demographic and the evolving world of work (Social factors)
- Business resilience amidst economic, socio and political uncertainties
- Skills and capabilities
- Employee value proposition

Digital disruptions and increased competition (Technological factors)
- Digital transformation
- Innovation and agility
- Customer service and experience

Increased regulatory scrutiny (Regulatory factors)
- Governance and compliance
- Cyber threat and information security
- Financial crime

Managing climate change and sustainability (Ecological factors)
- Managing carbon footprint
- Responsible financing

They have also been grouped under three main pillars.



Accordingly, we have prioritised the material matters and have plotted them on a matrix, based on the level of impact to both our stakeholders and us.

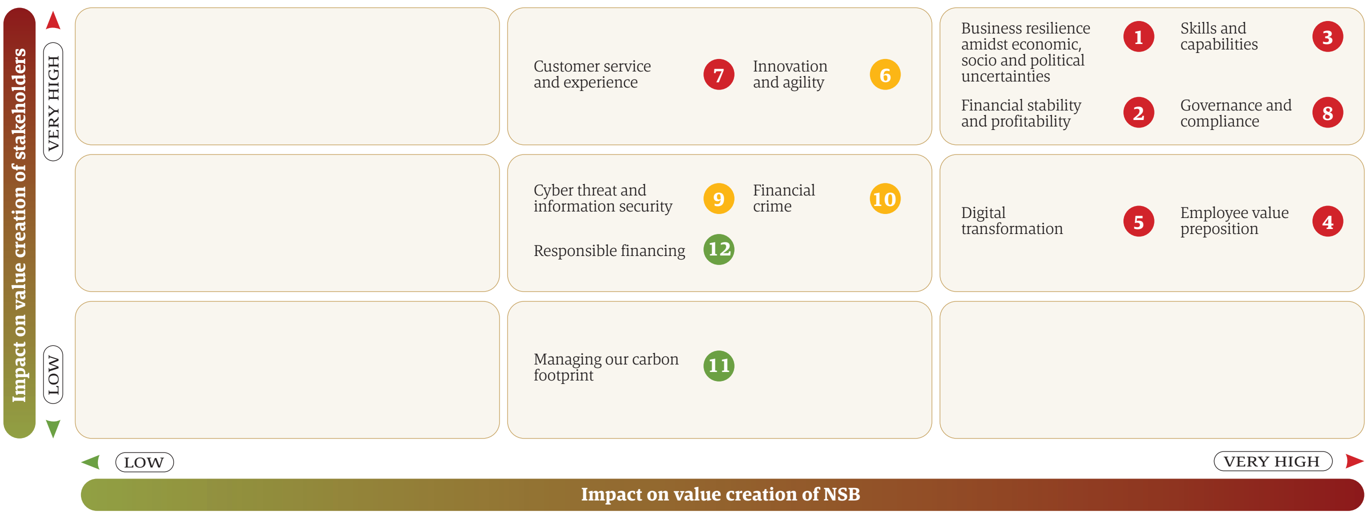


Figure 5

We have also aligned the identified material topics with the broader banking value chain activities.

Material topic	Upstream (suppliers, investors, regulatory bodies)	Bank Operations	Downstream (customers, employees, and society and environment)
Business resilience amidst economic, socio and political uncertainties	✓	✓	✓
Financial stability and profitability	✓	✓	✓
Skills and capabilities		✓	✓
Employee value proposition			✓
Digital transformation	✓	✓	✓
Innovation and agility	✓	✓	
Customer service and experience		✓	✓
Governance and compliance	✓	✓	
Cyber threat and information security	✓	✓	✓
Financial crime	✓	✓	✓
Managing our carbon footprint		✓	✓
Responsible financing	✓	✓	

Table 2

Megatrends shaping the way we operate

1 Global and local socio-political and economic disruptions

Economic growth

Global operating context

The global economy in 2022 was impacted by a series of shocks including the continuing spread of the COVID-19 pandemic, the Russia-Ukraine war and resulting food and energy crises, surging inflation, debt tightening, and climate emergency.

The growth momentum significantly weakened in the United States (US), the European Union (EU), and other developed economies in 2022, adversely impacting the rest of the global economy.

These negative impacts have slowed the pace of economic recovery, threatening several developed and developing nations with a looming economic recession in 2023.

United States of America

The USA recorded an annualised gross domestic product (GDP) growth of 5.9% in 2021; the fastest in a calendar year since 1984. Economic growth slowed to an average GDP rate of 2.1% in 2022, turning the negative growth rates in the 1H of 2022 to modest growth in the 2H of 2022. Consumer spending and corporate profit growth remained resilient in a challenging environment.

Europe

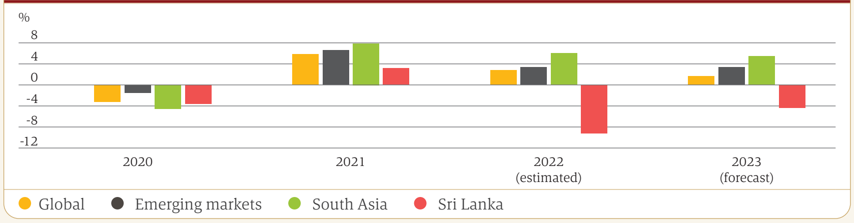
Europe is facing the risk of energy shortages whilst manufacturers and households are impacted by the surging prices. The Eurozone economy grew by 3.5% in 2022 and is expected to slow down significantly to 0.8% in 2023 due to deteriorating business and consumer confidence, rising interest rates, and lower global export demand.

China

The pace of economic expansion slowed from 8.4% in 2021 to 3.0% in 2022 due to the disruption connected to the "zero-COVID" policy, weaker global demand, and rising geopolitical uncertainty. Consumer and business sentiment remained subdued in late 2022, and China's slowdown has reduced global trade growth and international commodity prices. Furthermore, China's official manufacturing Purchasing Managers Index (PMI) improved in September 2022 to reach 50.1, indicating a pickup in activity, but weakening demand from the US and Europe would weigh on growth going forward.

China's real estate market adversely affected due to pandemic restrictions, is gradually picking up following developer restructuring driven by the additional monetary and fiscal policy easing, new vaccination targets for the elderly, and the support extended to complete unfinished real estate projects. China's economy is forecast to grow by 5.2% in 2023 and slowdown to around 4.5% in 2024.

Real GDP growth rate Graph 1



Source: World Economic Outlook Update – April 2023, International Monetary Fund

Outlook

Risks to the global economic outlook remain largely on the downside as highlighted in the World Economic Outlook (WEO) of the International Monetary Fund (IMF) in January 2023. These downside risks include the compounding contractionary impact on output with the widespread tightening of policy interest rates to rein in inflation to target levels, energy and food price shocks that may cause inflation to persist for an extended period, US dollar appreciation, and global financial tightening which could trigger widespread debt distress in both developing and emerging markets. Moreover, the worsening of China's property sector crisis could spill over to the domestic banking sector weighing heavily on Chinese economic growth. Geopolitical fragmentation amongst major trading economies could impede trade and capital flows. The frequent occurrence of extreme and catastrophic weather events also poses challenges to the global economic outlook. Accordingly, global growth is expected to fall from 3.4% in 2022 to 2.8% in 2023 and rise again to 3.0% in 2024.

(Source: World Economic Outlook, April 2023 by IMF)

Impact on the Sri Lankan economy

As Sri Lanka was grappling to recover from fragilities induced by the pandemic, the Russia-Ukraine war amplified its economic challenges, impacting its tourist revenues and causing serious energy and food security concerns due to soaring fuel prices disrupting food supply chains. The escalated foreign currency and sovereign debt distress amplified by pre-existing fiscal and external sectors imbalances caused unprecedented challenges to the financial sector.

Contraction in economic activities

In 2022, the Sri Lankan economy registered its deepest economic contraction since independence, mainly driven by the ripple effects of the unprecedented economic crisis amidst the domestic and global headwinds that reversed the post-pandemic recovery. As per the CBSL 2022 annual report, the real GDP contracted by 7.8% in 2022, compared to the growth of 3.5% in 2021.

Several factors including soaring inflation, power cuts, high-interest rates, import shortages, fuel and fertiliser shortages, and decreased demand for essential and non-essential goods and services due to the longstanding macroeconomic weaknesses,

Impact on the banking industry

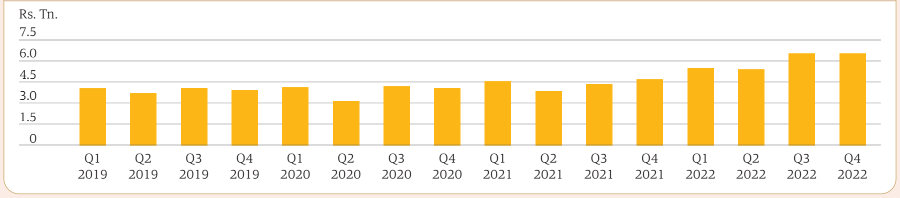
The economic contraction caused a widespread decline in household earnings, and the decrease in output of all sectors of the economy translated into job losses and declined incomes (in real terms) across the entire income distribution. The increase in poverty was widespread across diverse segments of the population. The reductions in consumption, investment, and purchasing power of the people significantly impacted the banking industry as well.

Total assets

Total assets of the banking sector expanded to Rs. 19.4 Tn., recording a growth of 15.4%, compared to Rs. 16.8 Tn. recorded in the corresponding period of 2021. The growth in assets of the banking sector is mainly due to the re-pricing of foreign currency denominated assets in rupee terms with the depreciation of the currency.

characterised by deeply entrenched twin deficits, due to persistent budget deficits and external current account deficits impeded growth in 2022.

GDP (at market prices) Graph 2



Source: Central Bank of Sri Lanka

The agriculture sector contracted by 4.6% in 2022, compared to a year earlier, reflecting the severe shortages in chemical fertiliser and other agrochemicals, increased cost of raw materials, as well as disruptions of supply networks. The industry sector contracted notably by 16.0% (YoY) primarily due to the dampened performance of the construction and manufacturing subsectors amidst severe shortages in raw materials and input cost escalations. Despite the resilient performance in the services sector during the first quarter of 2022, supported by the gradual normalisation of services sector activity following the COVID-19 pandemic, economic headwinds that intensified thereafter, hindered a further expansion in the services sector, resulting in an overall contraction of 2.0% (YoY), in 2022.

Elevation in poverty levels

In July 2020, the World Bank downgraded Sri Lanka's classification from upper-middle income status to lower-middle income status. According to World Bank estimates, the level of poverty in 2021 (measured based on the USD 3.20/day) had increased by about half a million since January 2020 mainly due to the rapid increase in the cost of living since early 2022. According to the Household Income and Expenditure Survey (Department of Census and Statistics 2022) with National Consumer Price Index (NCPI) suggests approximately 60% of total households in Sri Lanka are below the poverty line.

Outlook

With subdued demand and supply constraints continuing to impact production, the economy is expected to be challenged in 2023 and beyond. The IMF projects Sri Lanka's economy to contract by 3.0% in 2023 followed by 1.5% growth in 2024.

Medium-term growth prospects will depend on the success of ongoing reforms in fiscal consolidation, debt restructuring, and structural reforms under the review of the IMF. A significant burden will be shared among all citizens while Sri Lanka embarks on this journey toward a more stable and resilient economy.

Although the IMF programme is moving out of its previous deadlock, swifter actions seem to be imperative for Sri Lanka's economic recovery process.

Asset quality

GDP contraction has given rise to a shortfall in liquidity across the entire industry and caused sizeable pressure on customer repayments and asset quality. The rising trend of Stage 2 and Stage 3 loans, which demonstrates the asset quality of the banks, remained a concern in the banking sector's credit risk management during the year under review.

Accordingly, Non-Performing Loans (NPLs) as indicated by Stage 3 loans (including undrawn amounts) increased by 53.7% to reach Rs. 1.3 Tn. in 2022, from Rs. 835 Bn. reported in 2021. NPL ratio as indicated by the Stage 3 loans to total loans ratio rose to 11.3% in 2022 from 7.6% in 2021.

Profitability

Profitability of the banking sector hindered during the year under consideration reflecting the weak macroeconomic conditions prevailed throughout the year 2022. Profit before taxes of the Banking sector for the year ended 31 December 2022 was Rs. 192.2 Bn., representing a decline of Rs. 15.5% compared to the profits of Rs. 278.3 Bn. reported during the previous year. Profit After Tax of the banking industry was Rs. 150.2 Bn. during 2022, declining by 12.7% from Rs. 172.1 Bn. reported in 2021.

Despite the increase in net interest income by Rs. 207.7 Bn. and non-interest income by Rs. 124.1 Bn., profits decreased during the year mainly due to the increased impairment charges by Rs. 298.5 Bn. Meanwhile, the Return of Assets (ROA) and Return on Equity (ROE) of the sector decreased to 1.0 % and 10.2 % respectively, as at end 2022 from 1.4 % and 13.4%, respectively, as at end 2021.

Capital and liquidity

Despite adverse macroeconomic conditions, the banking sector as a whole maintained the Capital Adequacy Ratio above the minimum statutory requirements during 2022. As at end December 2022, the banking sector operated with a Tier 1 ratio of 12.3% and a Total Capital Ratio of 15.3%, which were well above the Basel III requirements. Similarly, liquid assets were also maintained above the minimum regulatory requirement. The Statutory Liquid Assets Ratio of DBUs was at 29.9% by 31 December 2022.

Outlook

The pace of economic recovery remains uncertain, and continue to threaten the financial system. Nonetheless, the banking industry has shown remarkable resilience in the face of adversity, and many banks have implemented innovative strategies to navigate the crisis and position themselves for future growth. The increasing trend in impaired loans is expected to increase further despite the concessions granted to borrowers.

The impact of the significant policy rate hike, economic contractions, and concerns over the possible impact of the sovereign debt restructuring, banks will be faced with escalating challenges in maintaining their capital ratios above regulatory minimum levels, and a substantial deterioration in capital buffers is anticipated. Apart from external debts, any local debt restructuring is likely to dampen the banking sector earnings going forward.

Inflation

Global operating context

The world seems to move towards a pace of accelerated inflation not seen in the last forty years. In the US, inflation jumped to 6.6% YoY in December 2022 recording the sharpest spike since 1982. In the Eurozone inflation reached 9.2% in December 2022, the highest since the advent of harmonised statistics in 1997.

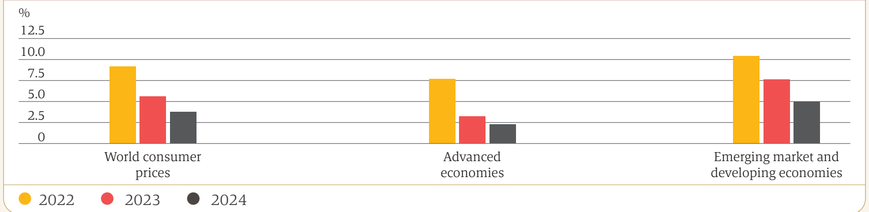
The rise in economic uncertainties and risks has impacted global growth prospects. The ongoing Russia-Ukraine war continues to increase gas prices and trigger an energy crisis in Europe. Russia is a significant energy supplier to a larger part of Europe and both Russia and Ukraine are notable agricultural exporters. Since the onset of the war in February 2022, both oil and natural gas prices became more volatile, and agricultural prices spiked temporarily mid-year. Persistently high and broader-based inflation has prompted central banks around the world to hasten interest rate hikes.

Later, Inflation has begun to slow in both developed and emerging economies. Energy prices have reduced, but core inflation remains high, and central banks are sustaining a course of policy tightening.

Energy prices diverged widely, with the sharp fall in Brent crude oil prices whilst natural gas and coal prices continued to increase during 3Q of 2022. Non-energy prices declined in 3Q of 2022 reflecting weaker global growth and the resultant decline in demand. Metal prices recorded the largest fall. With the easing of the fears of food shortages, commodity prices fell in the 3Q of 2022. However, food and fertiliser prices remain elevated due to the ongoing war between two dominant producers of wheat and fertiliser.

Furthermore, with the strengthening of the US dollar, currency depreciation in many countries resulted in higher commodity prices in domestic currency terms. As such, the exchange rate pass-through effect on inflation could be more persistent even amid easing global commodity prices, particularly in countries that face depreciation pressure.

Consumer prices Graph 3



Source: World Economic Outlook Update – April 2023, International Monetary Fund

Outlook

Inflation is expected to ease more noticeably in 2023 as the supply factors that caused the surge disappear. The IMF predicts global inflation to moderate to 7.0% in 2023 and 4.9% in 2024, which is still above pre-pandemic levels, but significantly lower than the 8.7% observed in 2022. Throughout 2023, inflation is expected to recede gradually in most economies as tightened monetary policy takes effect and slower economic growth dampens demand. Russia's invasion of Ukraine, China's persisting zero-COVID policy, labour market tightness and extreme weather conditions continue to represent upside risks to global inflation in the short and medium term. A cost-of-living crisis, coupled with higher recession risk, would be the major concern for businesses and consumers in 2023.

Impact on the banking industry

Market deposit and lending interest rates continued to adjust upwards substantially in response to monetary policy tightening measures introduced by the Central Bank of Sri Lanka (CBSL) to combat high inflation levels. The significant monetary tightening, large and persistent liquidity deficit in the domestic money market, and the disproportionate increase in yields on government securities caused market interest rates to adjust upward sharply.

Loans and advances

The tightening monetary policy stance of the led to a deceleration in year-on-year growth of loans and advances in the banking sector to 5.7% in 2022, compared to a 14.5% growth in 2021. Total loans and advances increased by Rs. 0.6 Tn. to reach Rs. 11.3 Tn. in 2022, compared to Rs. 10.7 Tn. reported in the same period of 2021, mainly due to the impact of the exchange rate depreciation on foreign currency loans.

Deposits

However, fuelled by high-interest rates, the deposit base of the banking sector grew by 18.8% and stood at Rs. 15.3 Tn. at the end of 2022 compared to Rs. 12.9 Tn. in 2021. Further funds shifted to high-cost term deposits from low-cost deposits. Time deposits which accounted for 67.9% of the banking sector recorded a robust growth of 32.2% in 2022, amounting to Rs. 10.4 Tn. by the end of the year.

Outlook

Overall, the outlook for declining inflation appears promising, with the potential to support both the financial sector and broader economic growth. Decelerating inflation may lead to a reduction in interest rates, which could stimulate growth in the loan portfolio. This could be particularly advantageous for businesses and individuals who are looking to invest in new ventures or expand their operations.

Moreover, with easing inflation, we may see an increase in the purchasing power of consumers. This could translate into greater spending capacity, as people may be more willing and able to purchase goods and services. In turn, this may lead to increased business activity and expansion, as companies seek to meet the growing demand.

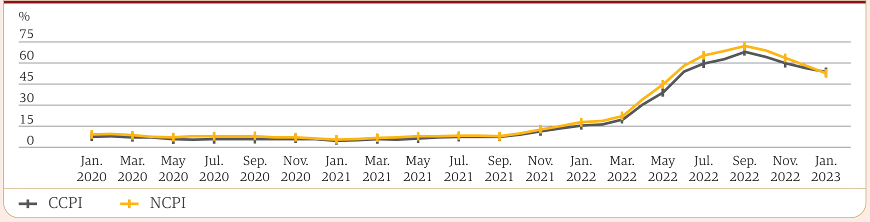
Impact on the Sri Lankan economy

During the year, inflation accelerated rapidly, reaching historically high levels owing to supply-side disruptions, administrative price adjustments, sharp depreciation of the Sri Lanka rupee, and the pent-up demand on the back of the lagged impact of large monetary accommodation amidst the COVID-19 pandemic.

Both food and non-food inflation and the upward revision of domestic fuel and gas prices and electricity tariffs accelerated inflation significantly. Reflecting the impact of higher global commodity prices and the notable pass-through of the sizeable depreciation of the rupee, import inflation spiked as well. Inflation is partly attributed to demand-driven pressures underpinned by the substantial monetary accommodation following the pandemic.

Inflation reflected signs of reversing by moderating to 69.8% YoY, in September 2022 with continued deceleration in December 2022 for the third consecutive month. Accordingly, headline inflation, as measured by the CCPI (2013=100), was 57.2%, YoY in December 2022 compared to 12.1% in the same period last year. Accordingly, inflation based on NCPI also soared to 59.2% at the end of 2022 against the 14.0% reported a year ago.

Inflation: CCPI and NCPI Graph 4



Source: Department of Census and Statistics

Outlook

Headline inflation is expected to move along a disinflationary path with a deceleration in the first half of 2023 and reach the desired levels towards the end of 2023. The downward adjustment in inflation rates is expected to continue through 2023, supported by subdued aggregate demand resulting from tight monetary and fiscal policies, expected improvements in domestic supply conditions, and the pass-through of easing global commodity prices to domestic prices, along with the favourable statistical base effect.

Monetary policy

Global operating context

The ongoing tightening of financial conditions is expected to further heighten pressure on highly indebted governments, amplifying vulnerabilities and negatively affecting investments and international trade flows

The US Federal Reserve (Fed) raised its benchmark interest rate to the highest level in 15 years, from near zero to more than 4% in 2022. The move was followed by many countries around the world. Economic growth after the pandemic triggered a rapid increase in prices, pushing the Fed to intervene to stabilise costs. Even though the rate increase encourages consumers to save more, it could trigger a severe economic slowdown leading to high unemployment.

The Fed also ended its bond-buying programme to push interest rates higher in the broader bond market, raising borrowing costs to temper the pace of economic growth.

Outlook

As the Russia-Ukraine war could further escalate, inflation continues to require tight monetary policies and China's recovery from COVID-19 disruptions remains fragile.

With policymakers continuing to normalise the policy stance to curtail inflation, there are diverse effects on all economies. Higher returns and safe haven status in advanced economies will incentivise capital outflows and reversals from emerging markets and developing economies. This will exert further depreciation pressure on those currencies while increasing inflation. External borrowing costs have risen amidst the capital outflow from emerging and frontier market economies with weaker macroeconomic fundamentals as global financial conditions become tighter. In advanced economies, financial conditions have tightened rapidly, while it is even tighter in some emerging markets, affecting mortgage payments and other interest-sensitive expenses, and limiting the spending capacities of households and firms.

On the plus side, strong labour markets and solid wage growth could bolster consumer demand, while easing supply chain disruptions could help cool inflation and limit the need for more monetary tightening.

Impact on the Sri Lankan economy

To counter the rising inflationary pressures and anchor inflation expectations, the CBSL tightened the monetary policy significantly in 2022. Underpinned by the acute liquidity deficit in the domestic money market and reflecting the faster pass-through of tight monetary policy, market interest rates rose notably.

Accordingly, since the commencement of the monetary tightening cycle in August 2021, the CBSL's key policy interest rates, Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR), have been raised by 1000 basis points with the larger adjustment taking place in April 2022. Policy interest rates were increased by 700 basis points in April 2022, to arrest the build-up of any demand-driven inflationary pressures in the economy and to provide the required impetus to stabilise the exchange rate. In line with the policy interest rates, the Statutory Reserve Ratio (SRR) was also revised upwards by 200 basis points effective from September 2021.

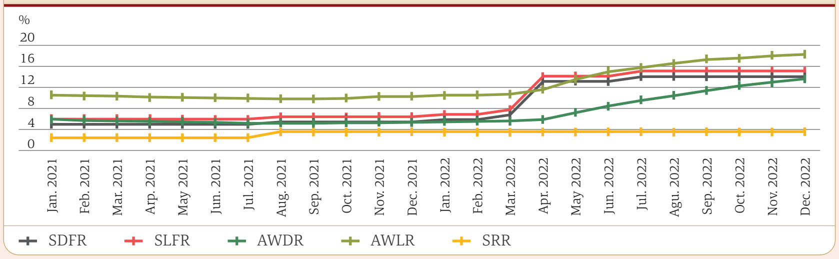
The policy rates namely, as of 31 December are as follows.

Table 3

Description	2022 %	2021 %
SDFR	14.50	5.00
SLFR	15.50	6.00
SRR	4.00	4.00

Deposit and lending rates

Graph 5



Source: Central Bank of Sri Lanka

Financial markets

The financial markets within the country faced a range of challenges due to unfavorable macroeconomic conditions. The stock market performed poorly during the period, reflecting negative market sentiment due to these unfavourable conditions. However, the domestic government securities market grew rapidly, allowing the government to fund its needs despite the loss of access to international capital markets. Yields on these government securities reached a new high due to the government's increasing dependence on domestic sources to finance their deficit, as well as existing market liquidity conditions and concerns over debt restructuring, leading to an elevated sovereign risk premium. These high yield rates on domestic government securities worsen the challenge of maintaining sustainable levels of domestic debt.

Market liquidity

Overnight liquidity remained volatile throughout the year. The CBSL injected liquidity into the system, through measures including limiting the SDF to LCBs to a maximum of five times per calendar month and limiting the availability of SLF to LCBs to 90% of the SRR on a given day. Therefore, a high level of liquidity is expected to support and stimulate the economy.

Outlook

The current excessively high interest rates are expected to decrease in the future as liquidity conditions improve in the money market and concerns over debt restructuring risks ease. As per the near-term outlook for inflation, the market interest rates may adjust downwards while maintaining reasonably tight monetary conditions until inflationary pressures are under control.

To address the issue of unhealthy competition among banking and non-banking sector institutions, the CBSL has urged them to avoid offering high-interest rates to raise deposits, which has led to excessive adjustments in all market interest rates, including lending rates. As liquidity conditions improve, it is expected that the market interest rate structure, including deposit and lending interest rates, will moderate.

Moreover, the determination of the exchange rate will become more flexible, aligning with medium to long-term equilibrium levels that encourage competitiveness. This move is expected to support economic growth in the long run.

Impact on the banking industry

The growth in credit granted and deposit base

The growth of credit granted to the private sector slowed down notably in 2022. Along with the sharp upward adjustment in the lending rates, the deceleration in the growth of credit to the private sector is greater in the current cycle of tight monetary policy, compared to the previous tightening cycles.

Licensed banks continued to mobilise deposits at high-interest rates, particularly for a short tenure, amidst dire liquidity conditions in the money market. Accordingly, deposit interest rates, particularly new deposit interest rates, increased during 2022. With competitive and higher deposit interest rates offered by licensed banks, an expansion in the outstanding stock of deposits has been observed.

Government securities market

The tight liquidity conditions as well as heightened uncertainties required the CBSL to fill the financing gap following the primary auctions of government securities. Market participants continued to demand higher returns for government securities driven by uncertainties, associated large borrowing requirements of the Government, and debt restructuring concerns. As a result, yields on government securities increased to significantly high levels, compared to the increase in policy interest rates.

The treasury bonds market experienced sparse liquidity conditions tied up with fiscal and macroeconomic developments, as primary market yields skyrocketed to historical levels, and the secondary market remained illiquid. Furthermore, with the amplification of fiscal imbalances, concerns over debt restructuring, and inflation expectations gaining momentum, investors demanded higher premia on treasury bills as well. Meanwhile, counterparty risk perception of foreign banks on domestic banks in the overnight call money market intensified and market activities declined, affecting the smooth flow of funds through the financial system, requiring banks to use standing deposit and lending facilities of the CBSL.

Outlook

Private sector credit growth which was impeded during 2022 is likely to pick up in the periods ahead, underpinned by improved economic activities coupled with the easing of excessive market interest rates.

As interest rates decline, it is likely that there will be an increase in demand for loans and advances, while the demand for deposit rates will decrease.

While a decrease in net interest margin may be a potential downside, the overall impact on earnings is likely to be positive and lead to sustainable growth.

Fiscal policy

Global operating context

In 2022, fiscal policy implementation by all major and developing economies were primarily targeted at ensuring global economic recovery from the COVID-19 pandemic. Many countries announced expansionary fiscal policies aimed at supporting businesses, households, and public health systems.

The US passed the American Rescue Plan Act in 2021, which includes direct payments to individuals, extended unemployment benefits, and funding for vaccine distribution and healthcare.

Many developing economies, particularly in Africa and Latin America, are facing significant challenges in implementing fiscal policies due to limited fiscal space and high debt levels.

The IMF has urged countries to implement targeted fiscal measures that support recovery while also ensuring long-term fiscal sustainability. This includes measures such as investment in green infrastructure and social safety nets that support job creation and economic growth.

Outlook

Overall, the success of fiscal policy implementation globally in 2023 and beyond will depend on effective policy design, targeted support for vulnerable populations, and a focus on long-term sustainability.

Developed economies:

- In developed economies, fiscal policies are expected to shift towards a more sustainable and long-term focus, with a greater emphasis on investment in green infrastructure and social safety nets.
- Countries may also need to implement measures aimed at reducing inequality and addressing the social and economic impacts of the pandemic, particularly for marginalised groups such as women, youth, and ethnic minorities.
- The implementation of such policies will need to be balanced with the need to address high levels of government debt and concerns about rising inflation.

Developing economies:

- Developing economies may need to focus on implementing structural reforms aimed at improving economic competitiveness and productivity, whilst addressing social and environmental challenges.
- Targeted investment in education and healthcare, as well as social safety nets and infrastructure development, may be crucial in supporting economic recovery and reducing inequality.
- However, the implementation of such policies will need to take into account limited fiscal space and high levels of government debt in many developing economies.

A coordinated approach between developed and developing economies will be crucial in addressing global challenges and promoting sustainable economic growth.

Impact on the banking industry

The Government implemented a Surcharge Tax on companies that have recorded a taxable income exceeding Rs. 2 Bn. for the year of assessment 2020/21. Therefore, most of the banks were likely to be liable for the Surcharge Tax based on their higher profitability. Social Security Contribution Levy of 2.5% on annual turnover exceeding Rs. 120 Mn. will be applicable to all banks that came into effect from the 1 April 2022, given the lower threshold. VAT on financial services also increased to 18% from 15% in 2022 (which cannot be passed on to customers).

Outlook

The banking sector unfortunately turned out to be one of the most impacted sectors from the Budget 2023 proposals. Implementation of WHT, Social Security Contribution Levy, and an increased corporate tax rate and VAT on Financial Services are expected to negatively impact on the banking sector's bottom line.

Furthermore, the tax adjustments would strain the balance sheets of economic agents, particularly in the household sector, which would diminish debt repayment capacities and lead to higher NPLs in the financial sector. Moreover, SOEs with weak financial positions also expose banks to elevated credit and liquidity risks while uncertainties surrounding the Government debt restructuring process are raising financial stability concerns.

Impact on the Sri Lankan economy

The persistent fiscal imbalances over a long period has resulted in unsustainable public debt levels, causing catastrophic macroeconomic consequences. Therefore, the Government embarked on a fiscal consolidation and debt restructuring path to enhance fiscal sector performance and address macro-fiscal imbalances.

Government revenue mobilisation in the 1H of 2022 improved on a YoY basis particularly supported by the Surcharge Tax, increased VAT rates, and Telecommunication Levy. Government expenditure rose, in nominal terms, in tandem with increased domestic interest rates, depreciated exchange rates, and high inflation as well as certain expenditure measures introduced in early 2022 to support public sector employees, pensioners, and low-income earners during the crisis period. Consequently, the budget deficit increased, in nominal terms, during the 1H of 2022, over the same period in 2021.

Under the macroeconomic reform programme, a strong fiscal consolidation process is to be implemented through both revenue and expenditure measures, while institutional reforms to State-owned Enterprises (SOE) are to be conducted, along with cost-reflective pricing strategies for the provisioning of utilities, among other reforms. A series of tax reforms were introduced to improve revenue collection by the Government, including the increase of the VAT, Telecommunication Levy, and corporate income tax rates and the reduction of personal income tax relief amongst others.

Subsequent to the announcement of the debt standstill in April 2022, and the escalation of the Balance of Payments (BOP) crisis to an unprecedented level, the foreign currency liquidity shortage faced by banks amplified as they were unable to roll over their foreign currency liabilities.

The budget deficit was entirely financed through domestic sources, on a net basis during the 1H of 2022, reflecting the restricted access to global capital markets amidst the debt standstill.

Outlook

The impact of fiscal policy measures introduced by the Government thus far is yet to be fully reflected in fiscal sector performance.

Debt

Global operating context

As estimated by the Institute of International Finance, global debt hit a record USD 300 Tn. or 349% leverage on GDP in June 2022 reflecting the debts owed by global governments, households, financial corporates, and nonfinancial corporates. The high debt level has increased global debt-to-GDP ratio by 30% in the last five years. This translates to USD 37,500 of average debt for each person in the world in 2022. Government debt-to-GDP leverage grew by 76%, to a total of 102%, from 2007 to 2022 (Source: S&P Global).

The external debt service payments on public and publicly guaranteed debt by the world's poorest countries surged by 35% from 2021 to over USD 62 Bn. in 2022. Debt service payments take away scarce fiscal resources from health, education, social assistance, and infrastructure investment. Payments scheduled for 2023 and 2024 are likely to remain elevated due to high-interest rates, maturing principal, and the compounding of interest on Debt Service Suspension Initiative deferrals. The increased liquidity pressures in poor countries go hand in hand with solvency challenges, causing a debt overhang. Nearly 60% of countries subject to the Joint World Bank–International Monetary Fund Debt Sustainability Framework for Low-Income Countries are at high risk of debt distress or already experiencing it (Source: International Debt 2022 by World Bank Group).

Outlook

Anticipated global recession in 2023 is rising due to the backdrop of worldwide central banks hiking interest rates in 2022, accompanied by an unparalleled surge in commodity prices. Hence, surging prices would discourage consumer spending and lead to an economic slowdown. The peril associated with global debt includes a recession that comes with a sequence of financial disasters in developing and emerging markets. This will decrease GDP growth, resulting in reduced cash reserves, and lowering their ability to repay debts, further increasing payment defaults.

When countries are unable to pay their debts, they become insolvent, which can lead to financial disruptions that cause citizens to seek safe-haven investments to avoid losses as their currency loses value. In the face of rising real estate prices, many people choose to preserve hard currency to protect the value of their money. However, if this trend continues to grow in 2023, it will increase the value of the dollar, further burden distressed countries, and hinder their growth prospects. Inability to repay debts and the accumulation of new debts can lead to public anger and resentment in developing or poor countries and may weaken the governments' policies and political stability.

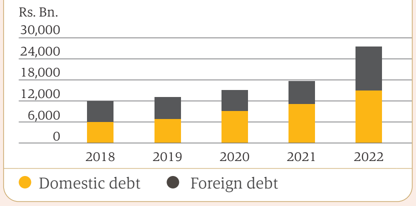
Given the gloomy outlook for the global economy, especially for developing and poor countries struggling with the complex global debt crisis, there are growing concerns that the situation may escalate into street protests and civil unrest, even leading to government collapses in some nations. Although this may trigger fears of a new wave of debt defaults, it is unlikely to cause a global financial crisis since the affected economies are relatively small compared to the global economy. Nonetheless, the ongoing crisis in these economies will persist, exacerbating economic strains that may trigger food insecurity and worsen political and social turmoil.

Impact on the Sri Lankan economy

Sri Lanka's total outstanding Government debt reached unstable levels in 2022, reflecting the impact of the sharp depreciation of the domestic currency against major foreign currencies, sizable budget deficit in nominal terms and the absorption of selected SOE debt to the Government. The government debt elevated to Rs. 27,492 Bn. (113.8% of the GDP) by end of 2022 from Rs. 17,614 Bn. (100.1% of the GDP) at the end of 2021.

At the end of 2022, total domestic debt increased by 35.9% to Rs. 15,034 Bn. (62.3% of the GDP), while foreign debt increased by 91.0% to Rs. 12,458 Bn. (51.6% of the GDP) compared to 2021.

Total outstanding debt Graph 6



Source: Central Bank of Sri Lanka

In 2022, the total debt service payments rose by 25.9% to Rs. 2,997.6 Bn. compared to 2021, due to increased debt amortisation and interest payments related to domestic debt. This increase in domestic debt service payments by 57.5% to Rs. 2,510.3 Bn. was caused by higher yields on Government securities, which exceeded the policy rate adjustment. The elevated risk premia associated with possible restructuring of domestic debt also contributed to this increase. Additionally, heightened pressure on domestic sources for deficit financing, along with limited foreign financing, led to the rise in Government Securities yields. However, foreign debt service payments declined by 38.0% to Rs. 487.4 in 2022, compared to 2021, due to the Government's suspension of selected foreign debt service payments since April 2022, according to the interim policy announcement.

Sovereign credit ratings downgrade

With the pre-emptive default of selected foreign debt service obligations, international sovereign credit rating agencies continued to downgrade the sovereign credit ratings of Sri Lanka during the first half of 2022. Standard and Poor's (S&P) Global Ratings downgraded Sri Lanka's sovereign credit rating to "CC (Negative)" from "CCC (Negative)" on 13 April 2022, and further to the lowest rating of 'SD' (Selective Default) on 25 April 2022 following the non-payment of coupons on ISBs. Fitch Ratings also downgraded the country's sovereign credit rating to "RD" (Restricted Default) from "C" on 19 May 2022. Similarly, Moody's Investor Service also downgraded Sri Lanka's sovereign credit rating to "Ca (Stable)" from "Caa2 (Stable)" on 18 April 2022.

Outlook

Sri Lankan banks' access to foreign-currency funding is constrained by the sovereign default. Any local-currency debt restructuring would elevate funding and liquidity stress, given the significance of local-currency funding. Private sector credit growth which was impeded during 2022 is likely to pick up in the periods ahead, underpinned by improved economic activities coupled with the easing of excessive market interest rates.

The government is expected to complete the restructuring of identified public debt in 2023. To achieve this, the government is currently assessing options for debt restructuring that will reduce the outstanding debt to a manageable level, while still meeting the debt sustainability targets set by the IMF through a Debt Sustainability Analysis. Through this restructuring process, it is expected that the outstanding public debt will fall to below 95.0% of GDP by 2032. Additionally, the government aims to keep the average central government gross financing needs below 13.0% of GDP between 2027 and 2032, and ensure that foreign currency debt service payments of the central government do not exceed 4.5% of GDP in any year during this period. By achieving these goals, the government hopes to improve the country's debt sustainability and promote long-term economic stability.

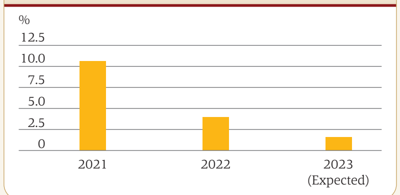
External developments

Global operating context

Global trade and US dollar movement

Global trade recorded a 2.7% growth to reach USD 32.0 Tn. in 2022 as per the Global Trade Update (March 2023) by the United Nations Conference on Trade and Development (UNCTAD), despite rising geopolitical tensions. However, deteriorating economic conditions, the lifting of zero-COVID policies, and renewed concerns about inflationary pressures have resulted in a significant trade slowdown during Q4 2022.

Global trade growth Graph 7



Source: World Trade Organisation

With the Fed moving forward with the policy tightening cycle amid the rise in the safe haven status of the US dollar, the DXY indicated a record-high level of appreciation of the US dollar. The appreciation of the US dollar presents a challenge to both advanced as well as emerging central banks. Several policymakers (including Chile, the Czech Republic, Indonesia, Japan, the Philippines, and Malaysia) have resorted to or have signalled their readiness to intervene in the foreign exchange market with the objective of limiting currency volatility and the impact on inflation from higher import prices. In response to the US dollar rate movements, asset tapering expectations of the US, and interest rate-related policies taken by the advanced economies, gold prices are on a declining trend during recent months, albeit with mild fluctuations.

Outlook

World merchandise trade volume is expected to slow down to 1.7% growth in 2023 due to ongoing geopolitical tensions and tight financial conditions. The evolution of global supply chains and the transition toward a greener world economy could also affect trade patterns in the year ahead.

In Europe, the flare-up of energy prices is limiting firms' and households' budgets, whilst, in the US, the monetary policy tightening strained the spending capacities.

The Chinese manufacturing sector continued to grapple with weak external demand coupled with the economic slowdown due to the zero-COVID policy, and related production disruptions. For many countries, rising import bills for fuel, food, and fertiliser could require rationalising spending to avert falling into debt. Therefore, global trade growth is expected to be weaker in 2023, as per the World Trade Organisation (WTO) outlook.

Although the US dollar index (DXY), strengthened for nearly two consecutive years, a steep drop was observed despite continued widening of actual and expected rate differentials. This could be due to the declining demand for the USD.

In 2023, more complex dynamics will drive the US dollar. In the immediate future, the shoring up of energy needs in Europe will continue to reduce pressure on the euro. As central banks in Europe, the UK, and Japan continue to take a more hands-on approach of their respective currency and bond markets, the pressure on domestic exchange rate could ease to a certain extent. The US dollar is likely to be stressed due to falling inflation and slower growth.

Impact on the Sri Lankan economy

Exchange rate movements

The exchange rate remained stable at Rs. 200-203 per USD in the later part of 2021 and in early 2022, with the interventions of the CBSL in the domestic foreign exchange market. However, the acute shortage in liquidity in the domestic foreign exchange market continued to exert pressures on the exchange rate, necessitating a measured adjustment that was allowed in early March 2022. Consequently, the large overshooting of the exchange rate by market forces led the Sri Lanka rupee to depreciate substantially by 41.4% against the US dollar by the end of April 2022. To mitigate the volatility driven by excessive speculation, the CBSL introduced a new exchange rate arrangement on 13 May 2022 in consultation with market players.

Accordingly, the CBSL commenced providing daily guidance to all LCBs on the degree of volatility in the spot exchange rate with an allowable two-sided variation margin, based on the weighted average spot exchange rate determined in the interbank market on a preceding day. Accordingly, from 13 May 2022 to the end of September 2022, the Sri Lanka rupee recorded only a marginal depreciation against the US dollar. Overall, the Sri Lankan rupee depreciated by 44.8% against the US dollar during the year. Reflecting the cross-currency exchange rate movements, the Sri Lanka rupee also depreciated against the pound sterling, the euro, the Japanese yen, and the Indian rupee by the end of 2022. The domestic foreign exchange market remained less active during 2022 amidst severely strained foreign exchange liquidity.

Impact on the banking industry

Without foreign exchange inflows amid lost market access, Sri Lanka continued to service its external debt until debt standstill announcement and pay for imports using official reserves and foreign assets of the banking sector.

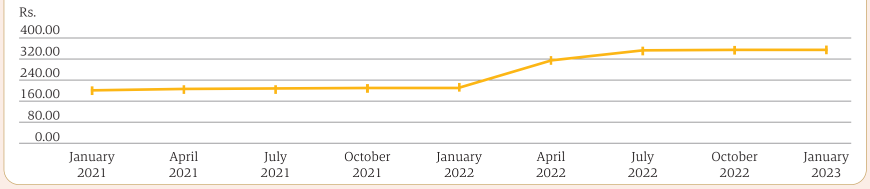
International rating agencies have continued to downgrade Sri Lanka on the back of weak macro fundamentals, shrinking foreign reserves, and a lack of clarity on policies. The country's sovereign downgrade led to a major drying up of overseas funding channels for Sri Lankan lenders. Sri Lankan banks have been forced to curtail their overseas borrowing activities over the last year. Hence, international banking units of banks witnessed difficulties in opening Letters of Credit (LCs) and handling exports and imports.

The industry has close to Rs. 4.0 Tn. invested in locally issued Government debt; much of which meets a regulatory requirement.

Outlook

Given the exposure of banks to ISBs and Sri Lanka Development Bonds (SLDBs), a haircut would have a significant impact on the sector. A resilient banking industry is key to reviving the country's economy. For this reason, it is unlikely that there would be a haircut on domestic debt but rather a reprofiling or a term extension.

USD Vs LKR (January 2021 – January 2023) Graph 8



Source: World Trade Organisation

Trade account
The pressures in the external sector morphed into an economic crisis in Sri Lanka. Higher commodity prices raised import prices expanding the trade deficit.

Export earnings surpassed USD 13.0 Bn. per annum for the first time in 2022, recording a 4.9% increase from the highest recorded in 2021 supported mainly by the favourable exchange rate and increased earnings from industrial and mineral exports. Import expenditure declined by 11.4% to USD 18.3 Bn. in 2022 as a result of the restriction of non-urgent imports and liquidity constraints that prevailed in most part of 2022 coupled with subdued demand conditions, significant depreciation of the exchange rate despite higher oil prices. Consequently, the deficit in the trade account narrowed to the lowest level since 2010 to USD 5.2 Bn. in 2022 from USD 8.1 Bn. recorded in 2021.

Workers' remittances
Workers' remittances declined by 31.0% YoY to USD 3.8 Bn. in 2022 from USD 5.5 Bn. in 2021, due to a notable recovery during the latter part of the year. Workers' remittances to the banking system remained subdued, during the first half of the year due to the large differences in exchange rates offered by the banking system and money changers. The adjustment in the exchange rate in early March 2022, which resulted in a significant overshooting and subsequent gradual alignment of the exchange rates offered by banks with those outside the banking system helped revive workers' remittances channelled through the banking system.

Tourist arrivals
A total of 719,978 tourist arrivals were recorded in 2022, compared to 194,495 arrivals in 2021, recording the highest number of tourist arrivals since 2019. India, Russia, the UK, Germany and France remained the top tourist markets in 2022. Earnings from tourism stood at USD 1.1 Bn. in 2022, compared to USD 507 Mn. in 2021.

Financial flows
Foreign investments in the Government securities market recorded a cumulative net inflow of USD 51 Mn. during 2022. Meanwhile, on a cumulative basis, the Colombo Stock Exchange (CSE), including primary and secondary market transactions, recorded a net inflow of foreign investments amounting to USD 182 Mn. during 2022.

Despite the limited inflows, outflows from the financial account remained high. Furthermore, significant external debt service payments, including the maturity of an ISB, were made in the first half of 2022 prior to the announcement of a debt standstill on 12 April 2022.

Balance of payment and gross official reserves
The overall balance of the Balance of Payment (BOP), representing the change in net international reserves recorded a notable deficit during 2022, compared to the corresponding period.

Part financing of imports of essential goods was continued by utilising gross official reserves amidst limited foreign currency inflows. Accordingly, lower inflows to the financial account, net sales to the domestic foreign exchange market by the CBSL and significantly high debt service payments resulted in a depletion of gross official reserves to USD 1.9 Bn. as of end December 2022, compared to USD 3.1 Bn. recorded at the end of 2021. This included the swap facility from the People's Bank of China, equivalent to around USD 1.4 Bn. which is subject to conditionalities on usability.

Outlook

Sri Lanka's external position could be impacted due to the sluggish growth in global trade and the uncertainties surrounding the smooth flow of foreign currency earnings through exports and remittances during the period ahead. Further, if such foreign currency liquidity risks are materialised, it could adversely impact the foreign currency liquidity position of the domestic foreign exchange market.

Impact on the banking industry

Foreign inflows
Total annual remittance inflows continued to decline indicating a diversion of remittances to curb foreign inflow channels.

Continued depreciation also led to diminished confidence in the currency and limited foreign currency inflow. Loss of market confidence has challenged attracting export earnings and remittances to Sri Lanka, particularly through formal channels, despite tighter foreign exchange controls, and mandatory repatriation and conversion rules imposed by the CBSL.

Foreign currency liquidity
In the absence of fresh capital and financial inflows, tighter foreign exchange measures were imposed, including the mandatory conversion of foreign exchange inflows (exports and remittances) and import prioritisation and rationing. Depleted net foreign assets in the banking system caused challenges in meeting the demand for foreign exchange requirement for economic activity. The resultant sporadic shortages of fuel, cooking gas, milk powder, and wheat flour caused severe socio-economic disruptions.

Furthermore, the exacerbation of the domestic foreign exchange market liquidity shortage caused depreciation pressures and necessitated allowing more flexibility in the determination of the exchange rate in early March 2022, which led to a significant depreciation of the exchange rate that resulted in a substantial adjustment in banks' balance sheets in rupee terms.

Trade finance
Trade finance business was negatively impacted due to the acute scarcity of foreign exchange (FX), restricting importers' ability to import goods. Banks witnessed a reduction in both the value and the number of transactions. As such banks facilitated imports based on the nature of the good and were forced to ration import LCs as the demand for outward payments exceeded the available stock of currency. Expectation of the increase in inward remittances through banking channels may lead to improvement in fee-based income.

Stability in foreign exchange rates can help boost trading activities by increasing the confidence of businesses and investors. Additionally, stability in exchange rates can make the country a more attractive destination for foreign investment, as it signals a lower level of risk.

Impacts on the value creation process

For banks, the ongoing uncertain economic environment would have a negative impact on earnings growth potential under a "severely adverse" scenario. Key risks include slower growth in loans and advances; particularly muted retail lending; corporates not investing and lower transactional volumes negatively impacting revenue growth; increase in non-performance loans due to rising interest rates, job losses, and corporate defaults.

Risk and opportunities

Our risks

- Distressed macroeconomic environment in the country continues to erode the profitability of loan books across the industry. The Bank may absorb some losses from lending at lower interest rates in the shorter term.
- The downgrading of the sovereign rating by both Fitch and S&P from pre-COVID-19 levels to a default status makes accessing new foreign funding nearly non-existent.
- Sizeable cost pressures and exacerbated pressures on asset quality due to higher inflation levels.
- Substantial earning pressure, as deposits get repriced at a faster pace relative to the loan book with the increase in policy rates by the CBSL to combat higher inflation levels.
- Difficulties faced by borrowers to service debts with the loan book being repriced following increased policy rates.
- Managing the pressure on net interest margins and balancing the transfer of the burden to the customer while managing customer delinquencies.
- Maintaining stability, solvency, prudent risk management, and safeguarding customers.
- Poor service delivery amidst social unrest due to weak economic environment.

Our opportunities

- Improving macroeconomic conditions such as restoring business confidence and gradually building of consumer confidence could support achieving the financial targets.
- Re-evaluating the growth prospects of our portfolio and repositioning to remain resilient within a challenging operating environment.
- Being adaptable to leverage opportunities that would open up in the future.

Short to medium-term increase in opportunities | Short to long-term increase in opportunities | Short to medium-term increase in risks | Short to long-term increase in risks | Remain same compared to 2021

Our approach to mitigate risks and capitalise on opportunities

- Monitoring and managing risk strategy and appetite based on the ongoing evaluation of global and regional developments to identify and mitigate risks as they arise.
- Using scenarios to evaluate the potential outcomes of a several external and internal factors.
- Monitoring downside risk presented by the uncertain economic outlook to effectively manage risk reduction strategies.
- Generating business development strategies and business cases to drive diversification and market development.

Governance in action

The impact of the unprecedented economic and socio-political crisis on our ability to conduct business was closely examined by the Board, in particular the risks associated with the revenue generation capacity and maintaining sufficient capital and liquidity. To address the economic impacts, the Board approved the revised Strategic Business Plan for the period of 2023 to 2025 and annual budget 2023 and will continue to oversee any subsequent amendments to the plan.

An increased number of reports allowed the Board Integrated Risk Management Committee (BIRMC) to thoroughly assess key and heightened risk areas. Furthermore, operational losses, fraud risks, management actions, and steps taken to improve associated controls were closely monitored due to the influence of the macroeconomic conditions on these risks. The Board Audit Committee evaluated the management assumptions, methods of estimation, and judgements used in the preparation of the Bank's Financial Statements.

Related material matters

Business resilience amidst economic, socio and political uncertainties

People Profit

Context/description	Geopolitics and associated volatility, complexity and ambiguity in the country's economic, social, and political climate create socially and economically disruptive conditions and significantly change the operating context, accelerating trends and highlighting structural issues of the Bank.
Why it's material	Any major economic, social, and political disruptions could result in reduced demand for our products and services, and lower spending power for our customers, affecting our profitability and cash flow generation. It propels us to safeguard our competitiveness and the reliability of the Bank through uninterrupted service, prudent risk management, and a solid capital position.
YoY increase in importance[1]	Increased
Reasons for increase	Factors such as economic contraction, high unemployment levels, currency volatility, rising liquidity pressures, increasing social unrest, high administration costs, inflation, weakening macroeconomic fundamentals, impede growth and investment, may reduce demand for lending, increase cost of doing business and the potential of customer defaults.
Management approach	• Monitoring local and global conditions, including the economy, sector-specific, regional, and global political events. • Minimising strategic, execution and business risks arising from external and internal drivers through proactive risk management strategies. • Corporate planning and budgeting provide flexibility to adjust strategies and reprioritise capital. • Positioning the core portfolio to withstand prevailing conditions, as well adapt to potential future scenarios. • Focused and selective investments aligned with strategic goals, supported by ongoing scenario planning. • Actively engage with Government, communities, and customers to support initiatives to address economic hardship. • Ensure strategic and large-scale projects are properly planned, executed, and closely monitored. • Maintaining a dynamic approach to setting the risk appetite in response to the outlook for 2023 and beyond.
Risk category[2]	Financial, operational, market, credit
Time frame[3]	Short to medium-term

[1] **YoY increase in importance:** Increased/Emerging/Stable/Reduced
[2] **Risk categories:** Financial, strategic, operational, credit, market, liquidity and reputational.
[3] **Time frame:** For each key external factor, we indicate the timeframe in which we estimate it will significantly impact NSB. For this integrated report, the short-term is the next financial year (ending 31 December 2023), the medium-term is the period to 31 December 2025, and the long-term is beyond December 2025.

Megatrends shaping the way we operate

Financial stability and profitability

Profit

Context/description	Preserving our financial strength and playing a countercyclical role during times of economic and financial turmoil.
Why it's material	Financial stability and profitability are key enablers in creating value for our stakeholders and for growing our business over the short, medium, and long-term.
YoY increase in importance[1]	Increased
Reasons for increase	• Changes in the asset prices (exchange rates, interest rates, property, and equity) over time partly due to uncertainty, adversely impacts our ability to achieve target growth and liquidity levels and could lead to diminished asset values. • Increase in the volatility of asset prices could impact the earnings capacity of the assets due to repricing risk. • Prices of investments in equity portfolio, fixed income portfolio (60% of deposits invested in Government securities) and money market portfolio have reduced with refinancing risk. • Impact on revenue generation stagnates market growth. • Increasing operational and other expenses due to increased inflationary conditions. • Elevated credit exposure due to customer payment defaults. • Less revenue diversification and refinance risks with the limitations of the NSB Act. • Credit ratings and their impact on debt financing.
Management approach	• Rigorous and conservative capital adequacy and liquidity management. • Sustainable cost-compression and operational efficiency. • Scrutinised budgeting, forecasting, and scenario analysis. • Feasibility studies of diversified revenue streams through conservative portfolio diversification. • Credit risk assessment and integrity due diligence for all investments. • New business development initiatives bridge the revenue generation deficit gap. • Continuous monitoring of customers with high credit risk exposures • Strengthening our balance sheet by having a balanced portfolio that produce returns across multiple scenarios.
Risk category[2]	Financial, operational, market, credit
Time frame[3]	Short to medium-term

[1] **YoY increase in importance:** Increased/Emerging/Stable/Reduced
[2] **Risk categories:** Financial, strategic, operational, credit, market, liquidity and reputational.
[3] **Time frame:** For each key external factor, we indicate the timeframe in which we estimate it will significantly impact NSB. For this integrated report, the short-term is the next financial year (ending 31 December 2023), the medium-term is the period to 31 December 2025, and the long-term is beyond December 2025.

Impacted short to medium-term strategic priorities

Capitals impacted

Impacted primary UN SDGs

1 No poverty; 8 Decent work and economic growth; 9 Industry, innovation and infrastructure; 11 Sustainable cities and communities; 12 Responsible consumption and production

Related stakeholders

Relevant GRI and boundary

201 Economic performance – Within and outside
202 Market presence
203 Indirect economic impacts – Outside

Impacted secondary UN SDGs

2 Zero hunger

2 Changes in the demographic and the evolving world of work

The constituents of the Sri Lankan demographic structure have been changing considerably in the recent years. Macro forces such as economic, social, and political concerns; digital transformation; evolving health and pandemic dynamics; and skills shortages continue to challenge organisations to rethink their business models and people practices.

Increasing ageing population

The proportion of the elderly population globally is increasing, with developing countries facing specific challenges due to their lower economic growth rates. Sri Lanka is a developing country with a rapidly increasing elderly population, having the highest proportion of elderly people in Southeast Asia both presently and in future projections. Sri Lanka's median age is also predicted to rise from 26.9 to 39.2 years between 2000 and 2030. Sri Lanka's population is growing older and will age more quickly than most other developing economies, shifting from a pyramid to a pillar shape, with the share of the working-age population declining, and the absolute number of working-age population also expected to drop by 2030.

The recent brain drain

In 2022, departures for foreign employment from Sri Lanka increased significantly compared to the same period in 2021 (311,056 in 2022 from 122,264 in 2021), with skilled labour, unskilled labour, and housemaid departures reporting the highest change. This trend could be attributed to the economic, social, and political crisis the country is facing. Additionally, the Sri Lankan Government rolled out a "Work Abroad" programme, allowing public servants to work abroad on unpaid leave for five years, with a condition to deposit part of their foreign earnings in a Sri Lankan bank account set up in their name. However, a dearth of relatives left behind due to an excessive outflow of skilled workers could also shrink what is sent home and negatively impact Sri Lanka's economic recovery efforts.

Other macro forces that are shaping the transformation in human capital

The fundamental shift in how people have been working for the past two years, an ongoing uncertainty and instability during unprecedented times, continue to influence the human capital agenda of organisations, particularly within financial services. Global trends are shaping workplace and workforce demands and practices as we reimagine the future world of work.

Within this already challenging context, the war on talent in the banking industry is evolving. While intelligent automation reduces headcount, it has intensified the demand for technology skills, and intense competition from technology companies has placed pressure on banks concerning recruiting and retaining critical and scarce talent.

Business operations have had to remain fluid and adaptable to meet customer expectations while supporting employee well-being and productivity. Generational differences in work expectations and shifting demographics within an uncertain and taxing context can result in higher turnover. Globally, employees have expressed a desire to quit or have quit their jobs at a record pace, disrupting businesses everywhere – with the trend now labelled the "great attrition".

Macro forces that shaping the world of work

- Consumer expectations and COVID-19 have accelerated the need for digital transformations like the increasing adoption of artificial intelligence (AI) and advanced data analytics.
- A "digital race" leads to ongoing emergence of new tech skills and technology talent shortage.
- Multiple COVID-19 variants and waves are likely to persist till 2024.
- Large social imbalances, income inequality, poverty, and high youth unemployment persist in the country.
- Sri Lankan political and economic instability and civil unrest.
- Disparity in race and gender representation in the Sri Lankan workforce persists.

Expected transformation in the human capital

- Focus on physical and mental well-being.
- Need for agile and multidisciplinary teams.
- Expectations on employers regarding social responsibility: justice, sustainability, and current issues.
- Downsizing of permanent workforce and rise of digital self-service.
- Rapid skill obsolescence requires agile talent planning and lifelong learning commitment.
- Expectation of connectivity and a purposeful and growth-oriented workforce.
- Scarcity of skills, emigration, and a demand for an elastic workforce.
- Integrated talent practices powered by data processing.
- Hybrid work model and increased diversity, equality, and inclusion efforts.

Impacts on the value creation process

The demography of society has a lasting effect on a country's economy, savings, investments, credit, and service delivery. Demographic changes affect the nature of products and services, delivery channels, and value propositions offered to customers. Attracting and retaining local talent is essential for business growth and succession planning, and the demand for scarce digital skills may affect achieving desired business models. Falling working-age populations and an ageing population can hinder a country's growth potential, leading to lower productivity, taxes, national income, growth, and savings. The increased number of retirees poses a burden on public sector pensions, which already consume almost 2% of the country's GDP, and will become fiscally unsustainable in less than a decade. Furthermore, an ageing population will increase the demand for healthcare and aged-care services, putting pressure on the country's healthcare sector, which is already facing severe economic difficulties.

Risk and opportunities

Our risks

- Acceleration of skills and academic migration makes recruitment and retention of skilled employees increasingly expensive and challenging.
- The pace of change in the workplace, coupled with social and economic distress in our society brought about by the COVID-19 pandemic, impacts employee well-being, safety, engagement, and productivity.
- Adapting to evolving customer preferences and revision of risk assessment models.

Our opportunities

- Expansion of our well-being value proposition to cater to employee needs more holistically as well as an improved support experience.
- A refreshed leadership development approach to empower leaders to lead a more virtual, dispersed workforce with new leadership capabilities.
- Ability to serve customers of all ages expanding the Bank's product portfolio.
- Enhancement of knowledge of the younger generation in banking leads to innovative products and better services.
- Investment in retaining and developing skills enable to build the NSB brand and develop the nation.

Short to medium-term increase in opportunities | Short to long-term increase in opportunities | Short to medium-term increase in risks | Short to long-term increase in risks | Remain same compared to 2021

Our approach to mitigate risks and capitalise on opportunities

- Continuous investment in skills development and leadership programmes to reskill and upskill our employees and nurture a future-fit workforce.
- Piloting opportunities to reskill and support our people ready for the workforce of the future.
- Launching virtual learning and training solutions to grow and mobilise talent internally, while ensuring a steady supply of scarce and critical skills when needed.
- Initiatives to develop the capabilities of our employees and to equip them with the skills and approaches required to lead cultural and behavioural changes throughout the Bank.
- Strive to deliver the most engaging customer experience by blending the best of technology and human interaction in a personal, instant, and easy manner.
- Implementing programmes that promote employee well-being.
- Develop insight into our customers' needs, wants and behaviours, and provide propositions to lead in chosen segments.
- Catering to different customer segments and fulfilling their needs at every stage of their lives through our extensive distribution channels and products with continuous value additions, increasing greater accessibility.

Megatrends shaping the way we operate

Governance in action

The Board being cognisant of the demographic changes, gave due consideration towards addressing changing employees as well as customer needs, and providing solutions to address those changes. The Board approved the implementation of succession planning and promotions in order to address the issues of retirement, resignations etc. With COVID-19 radically changing the way customers transact, moving to more digital channels; the Board has viewed it as being a catalyst for more long-term digital channel adoption, has given their due attention to the Bank managing this transition.

Being a state-owned institution, the Board was aware that the future purchasing decisions of customers will be impacted by the Bank's active support to the community, being transparent in all it does, and ensuring the Bank is doing good for society. The Bank was on the front line, supporting its customers through the crisis, both in their role of transmitting Government stimulus measures, offering forbearance, and donating to relief efforts. In doing so, the Board was cautious that the Bank must remain acutely aware of the reputational risk it faces where customers feel they don't get the support they need.

Related material matters

Skills and capabilities

People

Context/description	The progression of new technologies, changing macroeconomic conditions and increasing regulatory expectations increase the need for employees with new and different skill sets as well as deep banking expertise to deliver the performance expected by stakeholders.
Why it's material	Our people are critical to the success of our strategy, and an inability to attract or retain the right talent and capabilities could prevent us from delivering our long-term goals. These skills may become more difficult to attract and retain, particularly with the emergence of non-traditional technology competitors who aim to compete directly in banking.
YoY increase in importance[1]	Increased
Reasons for increase	• Risk of inadequate skills and competencies to fully respond to Fourth Industrial Revolution business models. • Long-term business sustainability. • Business and market growth. • Risk exacerbated by COVID-19 impacts on employee skills training, work methodologies and productivity.
Management approach	• We have targeted training programmes to develop our people including Senior Management. • Our talent and career approach seeks to attract and retain high calibre people by providing career opportunities that recognise people's expertise, potential and aspiration. • Initiatives to develop the capabilities of our employees and to equip them with the skills and approaches required to lead cultural and behavioural changes throughout the Bank. • We are piloting opportunities to reskill and support our people to make them ready for the workforce of the future. • Training and development initiatives aligned to employees' roles and personal development needs. • Virtual learning and training solutions.
Risk category[2]	Strategic, financial, operational, reputational
Time frame[3]	Short to long-term

[1] **YoY increase in importance:** Increased/Emerging/Stable/Reduced
[2] **Risk categories:** Financial, strategic, operational, credit, market, liquidity and reputational.
[3] **Time frame:** For each key external factor, we indicate the timeframe in which we estimate it will significantly impact NSB. For this integrated report, the short-term is the next financial year (ending 31 December 2023), the medium-term is the period to 31 December 2025, and the long-term is beyond December 2025.

Impacted short to medium-term strategic priorities

Capitals impacted

Impacted primary UN SDGs

Related stakeholders

Relevant GRI and boundary

401 Employment – Within
404 Training and education – Within

Impacted secondary UN SDGs

Employee value proposition

People

Context/description	Include risks associated with our ability to ensure an enticing employee value proposition; retaining and attracting required skills for current and future business; maintaining a high-performance culture anchored in our values and ethics; with high levels of engagement and productivity; ensuring inclusive and diversity management; managing organisational change; and ensuring good labour relations (includes labour actions or disruptions).
Why it's material	Developing a winning team functioning in a conducive environment to increase our capacity are critical for continued creation of shared value and efficient execution of our strategies to achieve our business objectives.
YoY increase in importance[1]	Increased
Reasons for increase	• Holistic approach to employee well-being from psychological, physical, spiritual, intellectual, and financial perspectives (increasing need for mental health, flexible working models, work-life balance, stress management to non-traditional forms of wellness, mindfulness, or financial-well-being). • Trend of remote work and flexible working arrangements have increased post-COVID-19 • Necessity for culture transformation journey and change management programmes.
Management approach	• We continue to invest in our value proposition by offering competitive remuneration, rewards and benefit frameworks and policies, and well-being programmes in order to foster an inclusive and diverse workforce. • We continue to review the Bank's remuneration framework to ensure that it supports our strategic objectives of employee engagement. • Workforce plan methodology to determine long-term resources and skills needs, thereby improving gender and age representation. • Strengthening our culture and remuneration frameworks to ensure employees are clear on expectations and accountabilities. • Proactive engagement with organised labour.
Risk category[2]	Strategic, operational
Time frame[3]	Short to long-term

[1] **YoY increase in importance:** Increased/Emerging/Stable/Reduced
[2] **Risk categories:** Financial, strategic, operational, credit, market, liquidity and reputational.
[3] **Time frame:** For each key external factor, we indicate the timeframe in which we estimate it will significantly impact NSB. For this integrated report, the short-term is the next financial year (ending 31 December 2023), the medium-term is the period to 31 December 2025, and the long-term is beyond December 2025.

Impacted short to medium-term strategic priorities

Capitals impacted

Impacted primary UN SDGs

Related stakeholders

Relevant GRI and boundary

- **401** Employment – Within
- **413** Local communities – Outside
- **404** Training and education – Within
- **407** Freedom of association and collective bargaining – Within
- **405** Diversity and equal opportunity – Within
- **203** Indirect economic impacts – Outside
- **403** Occupational health and safety
- **406** Non-discrimination

Impacted secondary UN SDGs

Outlook

The future of banking will rely heavily on digital transformation, as technology continues to be the driver of business growth and central to delivering excellent customer experience. Banks need to utilise platforms and data to optimise their services and understand their customers better. Faced with changing consumer expectations, banks need to embrace advanced technologies such as analytics and artificial intelligence to improve threat visibility and detect fraud effectively.

In Sri Lanka, an ageing population is expected to have long-term implications for service delivery, pensions, employment, and public finances, with the proportion of elderly projected to surpass the youth by 2050. It is important to reduce the gap in labour force participation rates between men and women, increase educational attainment, and improve productivity to mitigate the impact of demographics on growth.

3 Digital disruptions and increased competition

The world continues to become increasingly digitised. Financial institutions have been leading this change as various aspects of banking progressed quickly while creating new opportunities – from digitalisation of financial services, enhanced customer experiences, new products, and channels, to evolving organisational structures and internal processes, as well as new human capital and skills requirements, while enabling people to work remotely. The COVID-19 pandemic accelerated digital adoption to mitigate the impact of reduced mobility.

Acceleration of digitalisation

The digitalisation of financial services includes embracing and leveraging mobile technology, fintech partnerships, cloud computing, big data, advanced analytics, machine learning, blockchain technology, AI, robotics, and biometrics in the optimisation of legacy IT infrastructure and the pursuit of new revenue channels and opportunities. Banks are increasingly partnering with fintechs (and broader market participants), enabling faster delivery of new innovations. In addition, various trends including virtual video conferencing support for companies' mobile workforce through collaboration tools have accelerated how businesses operate, how people interact with technology and how work from home enablement have played out.

The shift to digital must also be understood within an environment where Sri Lanka is home to the most rapidly increasing mobile phone penetration rate globally. Digital transaction values and volumes have been increasing, benefited from the improvements in productivity and efficiency brought about by the increased mobile services.

Increasing threat of cyber risk

The global technology revolution also has a dark side, evident in the dramatic increase in financial crime as well as an increase in the number, intensity, and sophistication of high-profile cyberattacks. These attacks are usually aimed at accessing, changing, or destroying sensitive information, extorting money from individuals, or interrupting normal business processes. Banks, among others, have become attractive targets for cyberattacks because of their key role in payment and settlement systems, the volume of sensitive customer information they hold, and the potentially adverse impact of interfering with the smooth functioning of banking services.

Consumer and employee behaviour is continuously evolving in a digital world with technology enabling access to multiple devices to ensure more seamless, convenient, and secure connections. To respond to trends and evolving customer demand, we continue to invest in new products and capabilities that will further power an integrated model and deliver differentiated value, convenient banking, and access to financial solutions.

Impacts on the value creation process

Digital technology is transforming banking by providing increased access to services and payment options, but it also increases operational risk levels and competition. Banks are moving towards cost-efficient digital solutions for customer onboarding, product sales and servicing, and engaging with customers on preferred platforms and ecosystems. However, security is a top priority due to the critical role banks play in payment and settlement systems, and the heightened risk of insider threats targeting valuable information. Banks work to enhance employee understanding of risks and strengthen systems to track anomalies and proactively investigate potential threats.

Overall, the rapid evolution of the banking industry necessitates a digitally powered business model that embraces innovation, improves risk management, and optimises profitability while ensuring the protection of valuable information.

Risk and opportunities

Our risks

- Technology is removing barriers of entry, making financial services more competitive.
- Heightened fraud and scam risks with the rapid advancement of digital technology and more efficient channels of fund transfers.
- Concerns for cyberattacks increases due to the attractiveness of the volumes of sensitive data processed and stored, as well as the crucial role banks play in the functioning of payment and settlement systems.
- Increasing exposure to potential data leaks arising from third- and fourth-party suppliers.

Our opportunities

- Opportunities for NSB include continuing to enhance our customer experiences through disruptive technologies and digital adoption, thereby meeting our goal of gaining transactional volumes and revenue; and improving efficiency through technology (lower cost to serve).
- Investments in cloud related advanced analytics tools enable a deeper understanding of customer behaviour and their preferences, to curate personalised interventions, at scale and to create relevant customer engagement strategies.
- The rise in fintechs represents an opportunity to develop partnerships that grant access to capabilities to meet our customer needs while simultaneously bringing increased competition to the industry.

Short to medium-term increase in opportunities | Short to long-term increase in opportunities | Short to medium-term increase in risks | Short to long-term increase in risks | Remain same compared to 2021

Our approach to mitigate risks and capitalise on opportunities

- Continuing to build a strong risk culture across the Bank while monitoring risk appetite at respective governance processes.
- Evolving risk management while ensuring agile but responsible, accountable, and effective risk management.
- Bolstering cyber resilience in the Fourth Industrial Revolution to respond with agility to cyberattacks.
- Continuing with the focus on third parties and suppliers to continue to identify key vulnerabilities and build cost-effective and efficient data protection strategies.
- Ensuring effective operational resilience actions to adjust to future shocks and stresses.
- Performing continuous internal control environment assessment and refreshes.

Governance in action

COVID-19 has created the catalyst for NSB to consider and accelerate changes to our approach to business and sharpen our strategic focus and execution abilities to maintain our relevance. Majority of the projects approved by the Board are related to core banking implementations and digital transformation (including improvements to information security).

Deep integration with business is needed and through the course of the Board's deliberations on the short-to-medium-term strategy (accelerating digitalisation formulated since 2021), attention was given to how innovation capabilities can be invigorated to meet the pace of change required in the industry. The Board also oversaw measures throughout the Bank to combat increased cybersecurity threats that arose generally through opportunistic threat actors, increased digitisation efforts, and a shift to remote working arrangements.

Related material matters

Digital transformation

People

Context/description	Invest in digitalisation to deliver a superior customer experience by meeting their evolving needs, transforming our processes, and enhancing new skill sets of our employees for digital and data specialists in our market space. Further, emerging technologies are making it easier for non-banking organisations and technology companies to compete directly in banking.
Why it's material	• Being in sync with emerging technologies strengthens the sustainability of our Bank leading to consistent financial growth. It also enhances our service capabilities, enhances the productivity of our employees, and nurture a culture of innovation. • The emergence of new technologies is driving the digitisation and automation of processes and requires a different set of skills that may be difficult for the Bank to attract and retain. • The adoption of new technologies can be a differentiator. However, failure in digital or IT transformation projects could result in loss of business, a poorer customer experience, and reputational damage. Failure to deliver business benefits causes cost escalation, budget overruns and increased customer churn which could negatively impact our financial performance.
YoY increase in importance[1]	Increased

Megatrends shaping the way we operate

Reasons for increase	• Aging ICT infrastructure and technology (inadequate network connectivity). • Cybersecurity and slow adoption of the Fourth Industrial Revolution. • Funding constraints. • Delays in the automation of critical business processes. • Delayed commercialisation of digital solutions. • Remote working conditions and increased desire for digital connectivity during COVID-19 lockdown periods.
Management approach	• "Accelerating digital transformation" is a short-to-medium-term strategy of the Bank. We continue to invest to deliver the best digital banking experiences to our customers through new digital services, market leading technology, seamless service across channels and data driven insights. • We have invested in digital infrastructure and assets over the years to achieve a stable position in digital banking. Customer enrolment for our internet banking services continue to increase. • We are modernising and simplifying our systems and digitalising our end-to-end process to reduce risks and cost and to improve system availability and resilience. • We have developed tools and guidelines for safety and security in operations, while actively engaged in the development of national and international standards regarding same. • We monitor emerging technologies and research and test the adoption of new and innovative capabilities to maintain our technology leadership. • We track individual programmes against our clearly defined objectives and target KPIs throughout the lifecycle of our projects. The aim is to identify new threats then manage and mitigate them. • Ensure sufficient investment to continue delivering scalable digital solutions that focus on current and evolving customer needs. • Maintain focus on physical and digital operational resilience and proactively identify and mitigate risks.
Risk category[2]	Strategic, operational, reputational
Time frame[3]	Short to medium-term

[1] **YoY increase in importance:** Increased/Emerging/Stable/Reduced
[2] **Risk categories:** Financial, strategic, operational, credit, market, liquidity and reputational.
[3] **Time frame:** For each key external factor, we indicate the timeframe in which we estimate it will significantly impact NSB. For this integrated report, the short-term is the next financial year (ending 31 December 2023), the medium-term is the period to 31 December 2025, and the long-term is beyond December 2025.

Impacted short to medium-term strategic priorities

Capitals impacted

Impacted primary UN SDGs

7 Affordable and clean energy; 9 Industry, innovation and infrastructure; 11 Sustainable cities and communities; 12 Responsible consumption and production

Related stakeholders

Relevant GRI and boundary

- 203 Indirect economic impacts – Outside
- 401 Employment – Within
- 413 Local communities – Outside
- 404 Training and Education – Within
- 418 Customer privacy – Within

Impacted secondary UN SDGs

13 Climate action; 17 Partnerships for the goals

Innovation and agility

People

Context/description	Creating, developing, and implementing new products or services; processes with the aim of improving efficiency and effectiveness that enables a bank to react quickly and flexibly to a new trend or situation and to keep innovating in the process.
Why it's material	Being an innovative and agile organisation in a rapidly evolving operating context is necessary to meet the current and arising customer needs in order to remain relevant to ensure future growth.
YoY increase in importance[1]	Increased
Reasons for increase	Rapid advances in disruptive technology have the potential to disrupt traditional business models and create new markets. To stay relevant, we must adapt our operating model and respond to the changing and, at times, conflicting needs and demands of our stakeholders.
Management approach	• Adopting a self-disruptive approach by focusing on developing a culture of innovation. • Leveraging emerging and trending technologies in all facets of our business. • Enhancing our operating model with sustainable innovations such as online and virtual banking and stakeholder engagement channels. • Factoring in "big data" to analyse changing markets and behavioural trends to maintain a competitive edge. • Implementing flexible and innovative solutions that improve our resource efficiency as well as operational efficiency particularly in resource scarce and uncertainty environment. • Building and embedding a winning brand with a focus on innovative business processes and products designed to meet unique customer needs and preferences.
Risk category[2]	Strategic, operational, financial
Time frame[3]	Short to medium-term

[1] **YoY increase in importance:** Increased/Emerging/Stable/Reduced
[2] **Risk categories:** Financial, strategic, operational, credit, market, liquidity and reputational.
[3] **Time frame:** For each key external factor, we indicate the timeframe in which we estimate it will significantly impact NSB. For this integrated report, the short-term is the next financial year (ending 31 December 2023), the medium-term is the period to 31 December 2025, and the long-term is beyond December 2025.

Impacted short to medium-term strategic priorities

Capitals impacted

Impacted primary UN SDGs

4 Quality Education; 8 Decent Work and Economic Growth; 9 Industry, Innovation and Infrastructure; 11 Sustainable Cities and Communities; 12 Responsible Consumption and Production

Related stakeholders

Relevant GRI and boundary

401 Employment – Within
413 Local communities – Outside
404 Training and Education – Within

Impacted secondary UN SDGs

17 Partnerships for the Goals

Megatrends shaping the way we operate

Customer service and experience

People

Context/description	Offering a unique customer value proposition consisting of innovative and effective customer solutions, superior service quality with a strong commitment to business ethics that result in a high level of customer satisfaction and trust in the Bank.
Why it's material	Delivering excellent customer service is essential to build trust, financial strength, and stability. Poor customer service and capacity constraints result in strained customer relationships and loss of business. To retain and acquire customers and clients, we must remain relevant by offering innovative and cost-effective products and solutions.
YoY increase in importance[1]	Increased
Reasons for increase	• Increased competition from a variety of new technology platforms which aim to build alternative communication services or different touchpoints, which could potentially affect our customer relationships. • Financial constraints on customers due to the pandemic and credit rating downgrades. • Operational constraints as a result of COVID-19. • Historical customer dissatisfaction level.
Management approach	• Strive to deliver the most engaging customer experience by blending the best of technology and human interaction in a personal, instant, and easy manner. • Develop insight into our customers' needs, wants and behaviours, and provide propositions to lead in chosen segments. • Embedding a purpose led culture by focusing on driving competitive differentiation through innovative product and service offerings that enable a digital society, are inclusive for all, and have the least environmental impact. • Increased investment in digital channels, smarter capital allocation, the provision of targeted customer propositions, ambitious price plays, and/or new digital offerings, often through innovative new partnerships. • Simplifying our offer portfolios and accelerating our digital transformation, for a better customer experience.
Risk category[2]	Strategic, reputational, operational
Time frame[3]	Short to long-term

[1] **YoY increase in importance:** Increased/Emerging/Stable/Reduced
[2] **Risk categories:** Financial, strategic, operational, credit, market, liquidity and reputational.
[3] **Time frame:** For each key external factor, we indicate the timeframe in which we estimate it will significantly impact NSB. For this integrated report, the short-term is the next financial year (ending 31 December 2023), the medium-term is the period to 31 December 2025, and the long-term is beyond December 2025.

Megatrends shaping the way we operate

Impacted short to medium-term strategic priorities

Capitals impacted

Impacted primary UN SDGs

Related stakeholders

Relevant GRI and boundary

416 Customer health and safety – Outside
417 Marketing and labelling – Outside
404 Training and Education – Within
418 Customer privacy

Impacted secondary UN SDGs

Outlook

Despite the economic downturn, we anticipate that the ICT sector will continue growing, fuelled by increased demand for digital and telecommunication services on the back of evolving changing requirements of the stakeholders. We expect adoption to digital channels to grow, driven by the increase in people not willing to physically visit the branches, deeper penetration of smart mobile devices, and access to cheaper data.

The digital transformation strategy of the Bank considers emerging threats and factors. We need to deliver these transformations programmes with the correct mix of efficient systems, relevant skills, and digital expertise, in alignment with the original planned spend and business benefits. Cyber risk is constantly evolving in line with technological advances and geo-political developments.

4 Increased regulatory scrutiny

Regulatory bodies are implementing new regulations to promote responsible banking, maintain global equilibrium, and protect customers and banks from the impact of increased competition, technological change, and disruptive business models. The rapid democratisation of finance through technological advancements is leading regulators to carefully consider the relative importance of different factors, such as public access to products, financial stability, consumer protection, digital transformation, cybersecurity, climate change, payments, diversity and inclusion, and financial-sector-related regulation. Regulators are also taking a more collaborative and consultative approach, engaging with industry bodies and stakeholders both within and outside the financial sector to develop regulations at a pace that keeps up with digital change. Recent initiatives by regulators suggest that they will continue to monitor the conduct of financial institutions and increase requirements on digital management in the medium to long term.

The primary statutes and regulations that govern the banking industry in Sri Lanka

- *The Banking Act and the Monetary Law Act* are the primary statutes. The CBSL also issues directions and circulars under these statutes. The directions specify ceilings on shareholdings and specific licensing processes.
- The *Payment and Settlement Systems Act* empowers the CBSL's Payments and Settlements Division to regulate and supervise payments, clearing and settlement systems, and prescribe relevant policies.
- Banks are incorporated or registered under the *Companies Act or a Special Parliamentary Act*. The law also governs minority shareholders' interests.
- *The Foreign Exchange Act* and regulations regulate foreign currency related matters.
- *The Financial Transactions Reporting Act*, Prevention of Terrorism (Temporary Provisions) Act, Prevention of Money Laundering Act and Convention on the Suppression of Terrorist Financing Act, regulate the anti-money laundering and countering terrorist financing regime.
- *Personal Data Protection Act (PDPA), No. 9 of 2022,* is the principal legislation that deals with personal data protection in Sri Lanka.
- A cybersecurity bill is currently in the process of being finalised before it is put to the Parliament for enactment.

In 2022, the following areas took centre stage in a regulatory landscape influenced by the socio-political climate of the economy, with debates on key prudential topics, in view of the need to ensure the ability of banks to help keep the economy afloat during times of crisis.

The CBSL took steps to update some of the existing laws to be compatible with recent developments. Accordingly, amendments are being introduced to the Foreign Exchange Act, Finance Business Act, Finance Leasing Act, and Payment and Settlement Systems Act to keep the same abreast with changes in the financial sector and financial innovations. Sri Lankan banks have introduced digital facilities including online banking, payment gateways, and other cashless transacting forms. Presently, Sri Lanka's digital laws are in the formative stages.

Data protection and cybersecurity

The past couple of years have seen data privacy gain a significant degree of importance. Due to several political, social, and ethical factors, data protection now occupies a highly critical place in any country's strategic law-making related to its citizens. Hence, it is no surprise that most countries have been incredibly active in drafting data protection laws. Sri Lanka is another such country, with its Personal Data Protection Act (PDPA), No. 9 of 2022, passed on 19 March 2022. It is the principal legislation that deals with personal data protection in Sri Lanka aims to safeguard the rights of individuals and ensure consumer trust in information privacy in online transactions and information networks resulting from growth and innovation in the digital economy.

A draft for an act to provide the implementation of the National Cybersecurity Strategy (2019, "the Cybersecurity Bill") was also formulated under the National Cybersecurity Strategy (2019-2023), which is being finalised by the National Centre for Cybersecurity, also known as Sri Lanka Computer Emergency Readiness Team (CERT). The Cybersecurity Bill will provide a comprehensive framework to prevent and manage cybersecurity threats and incidents effectively and to protect critical information infrastructure.

Payments and settlements

With the increase in usage of electronic payment systems, the CBSL took measures to further promote electronic payments while minimising any potential risks related to payment and settlement systems. Moreover, measures were also taken to ensure compliance of electronic payment systems with international standards and best practices, while educating the public on new electronic payment instruments and secure usage of electronic payment instruments to protect consumers from financial frauds and scams.

Accordingly, on-site and off-site supervision were carried out to ensure the smooth functioning of the services of payment cards and mobile payment systems, by monitoring compliance with the regulations imposed on service providers of payment cards and of mobile payment systems.

There will be increased focus on faster and more cost-effective payment mechanisms both domestically and internationally, which calls for the modernisation of payments systems, increased competition, and regulation of broader participation (other than banks) to participate in the National Payment

System. Such participation and, among other things, the rendering of payment services, clearing and settlement will be subject to regulation or enhanced regulation in future.

Anti-money laundering and countering the financing of terrorism

Money laundering and financing of terrorism could pose significant and extensive adverse effects on the financial system stability as well as the entire economy of the country. Thus, the CBSL continued its functions to strengthen the Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) regime of the country by strengthening compliance, effective supervision, guidance, and improvement of awareness among stakeholders in line with international standards, while recognising and adjusting to the "new normalcy" under post-pandemic circumstances.

Surveillance on foreign exchange transactions

The CBSL took several measures to address developments in the foreign exchange market during the period under review. Several policy measures were introduced under the Foreign Exchange Act No. 12 of 2017 with the aim of facilitating the economic activities of the country while addressing the issues/concerns of various stakeholders and to further facilitate foreign exchange transactions amidst the liquidity constraints in the domestic foreign exchange market.

Rules on repatriation of export proceeds into Sri Lanka under provisions of the Monetary Law Act No. 58 of 1949 (MLA) were reissued in March 2022 to strengthen measures requiring exporters to repatriate export proceeds to Sri Lanka and to convert such proceeds after making the authorised payments, in line with several other measures introduced by the CBSL to ease the pressure on the exchange rate and to support foreign currency liquidity in the domestic foreign exchange market. Further, in view of mitigating any unfavourable effects on the exchange rate stability with possible abrupt capital outflows, the order was issued to suspend outward remittances in respect of certain capital transactions.

With the objective of curtailing imports of non-essential and non-urgent goods to preserve the stability of the exchange rate and liquidity in the domestic foreign exchange market, a 100% non-interest-bearing cash margin deposit requirement was introduced for imports under specified Harmonised System (HS) Codes, for importation under documents against acceptance (DA) and documents against payment (DP) terms as well as for importation under letters of credit (LCs).

Basel III reforms

Basel III reforms announced in December 2017, have a key objective of maintaining adequate capital to meet any losses. The banking sector has over the years built-up capital to enable banks to operate in a sound and resilient manner. These buffers have stood well to absorb unexpected losses during challenging times and has also helped banks to mobilise long term funding at reduced levels of risk-premia as well as maintain credit ratings.

However, in May 2022, Directions in line with the Banking Act were issued to licensed banks on certain regulatory requirements considering the prevailing extraordinary macroeconomic conditions, including:

- Drawdown in the Capital Conservation Buffer (CCB).
- Moving from the standardised approach to the alternative standardised approach to compute risk weighted assets for operational risk.
- Staggering the overnight mark to market losses on Government Securities denominated in SLR that are measured at fair value up to the second quarter of 2024 for the purpose of capital adequacy ratio computation until 31 December 2023, subject to conditions.
- Revised treatment on the Other Comprehensive Income (OCI) for computation of capital adequacy ratio was introduced in line with international standards (including 100% of accumulated OCI gains as per the latest available audit).
- Reducing minimum requirements for liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) from 100% to 90% up to 30 September 2022.
- Extending the deadline of enhancement of minimum capital requirement to licensed commercial banks up to 31 December 2023.
- Banking Act directions were issued restricting discretionary payments, and non-essential/non-urgent expenditures of licensed banks, while requiring licensed banks to exercise extreme prudence when incurring capital expenditure, until 31 December 2022, considering the possible adverse impact on liquidity and other KPIs of licensed banks due to the prevailing macroeconomic conditions and the importance of maintaining appropriate levels of liquidity and capital buffers.

Financial consumer protection

The CBSL continued to strengthen the financial consumer protection framework of the entities regulated by the Bank, which promotes the rights and interests of financial consumers and fairness and transparency of financial products and services offered to financial consumers.

The CBSL commenced the process of issuing new regulations/guidelines to facilitate a comprehensive financial consumer protection framework for entities regulated by the CBSL. In this regard, the first draft of the Regulations was made available for stakeholder consultations at the end of 2022. Further, with the issuance of these Regulations the CBSL is expected to commence Market Conduct Supervision by the end of 2023.

An addendum to the Banking Act Direction No. 08 of 2011 on Customer Charter of licensed banks was issued expanding the requirements to improve accessibility to banking services for customers with special needs, with a view to further strengthening financial consumer protection measures of such customers.

Sustainable finance

The CBSL having considered the importance of committing to achieving the Sustainable Development Goals (SDGs) and the need to transit towards a green, inclusive, and balanced economy in Sri Lanka, published the Road Map for Sustainable Finance in 2019. The Road map provides a broader direction to financial regulators and financial institutions to effectively manage ESG risks associated with projects they finance and promote assistance to businesses that are greener, climate-friendly, and socially inclusive.

The Sri Lankan Green Finance Taxonomy and the Road Map, requires establishing a classification and measurement system for sustainable activities as published by the CBSL on May 2022 with the view to provide a governance and risk management framework for sustainable financing activities of licensed banks.

Reliefs for individuals/ businesses affected by COVID-19 and the current economic crisis

A circular was issued by the CBSL on guidelines on the establishment of post-COVID-19 revival units in licensed banks, to identify and assist underperforming and non-performing borrowers affected by the pandemic for the purpose of reviving viable businesses with the potential of contributing to the national economic growth, thus facilitating unwinding of moratorium in a sustainable manner.

Licensed banks were required to provide appropriate concessions, for a period of six months, to borrowers whose income or businesses have been adversely affected due to the current macroeconomic conditions and (or) the COVID-19 pandemic while preventing any undue stress on the banking sector stability. These concessions are provided on a case-by-case basis based on the future repayment capacity of the individuals and viability of businesses/ projects.

New supervision method

The supervisory rating model, Banking Sustainability Rating Index (BSRI) has been implemented by the CBSL with a view to facilitating the risk-based supervision framework for banks, whilst enabling early supervisory intervention and prompt corrective action. Considering the need to protect banks from the contagion risk and to ensure the stability and the soundness of the banking sector and the financial system, consolidated supervision of banking groups has been carried out. Accordingly, a regulatory framework on consolidated supervision is being developed and provisions in this regard will also be brought into the new Banking Act.

Banks are categorised based on the Internal Supervisory Rating System to categorise them under different risk ratings and take necessary regulatory and supervisory actions to improve the positions of weaker banks. This takes into consideration quantitative measures [capital adequacy, asset quality management, earnings, and liquidity (i.e. CAMEL model components)] and qualitative measures (assessment of banks' compliance with statutory or regulatory requirements, internal controls, and the standards of corporate governance).

Impacts on the value creation process

Regulatory and reporting changes, such as Basel reforms, accounting standards, monetary and fiscal policies, financial crime regulations, and privacy laws, can affect a financial institution's ability to generate value and create compliance risks. The integration of regulatory and socio-economic factors can also impact the business model of the institution. Potential for penalties and regulatory sanctions for non-compliance to legislation and conduct are increasing, requiring a comprehensive and forward-looking approach to regulation. Key regulatory concerns such as changes in the statutory reserve requirements (SRR), interest rate fluctuations, monetary policy, fiscal policy, and caps on lending rates also affect the Bank's strategy and value-creating activities. Ultimately, the Bank needs a coordinated, comprehensive, and forward-looking approach to anticipate and respond to regulatory changes while assessing their impact on the business model and strategic priorities.

Risk and opportunities

Our risks

- Challenges arising from the increasing pace of development and complexity of regulatory change and statutory requirements.
- Failure to meet new regulatory standards and related social expectations could lead to customer and community impacts and reduced shareholder value (Ex: ESG commitments, Cyberthreat, etc.)
- Increasing financial crime evolved with the rapid advancement of digital technology and more channels of fund transfers.
- Higher capital requirements and difficulties in liquidity management.
- Increase in operating costs and implementation costs on financial institutions in line with heightened demand for compliance.
- Distorted competition with new, less-regulated players.

Our opportunities

- Continuous improvement in the Bank's governance processes and ethical framework.
- Continued identification and management of emerging risks for that affect our stakeholders.
- Provision of committed support to customers by a robust governance framework and comprehensive data analytics and systems capability.
- Ability to have greater flexibility for capital and liquidity planning
- Ability to have a strong cybersecurity strategy builds confidence among the customers

Short to medium-term increase in opportunities | Short to long-term increase in opportunities | Short to medium-term increase in risks | Short to long-term increase in risks | Remain same compared to 2021

Our approach to mitigate risks and capitalise on opportunities

- Maintain a forward-looking approach to evaluate, respond to, and monitor regulatory and statutory change.
- Engage with regulatory authorities and other stakeholders on upcoming regulatory changes to ensure the most appropriate outcomes for the banking sector and broader economy.
- Accommodating rapid change while enabling the Bank to provide more effective and secure services to our customers.
- Enhancing the compliance culture within the organisation through an intricate and comprehensive internal control framework along with other measures.
- Continue to invest in security platforms and continuously evolve controls to secure customer information, including investments in technology, data capability (including external intelligence), customer awareness campaigns and industry collaboration.
- Strengthening our compliance checks and balances and ensuring businesses work within the contours of regulation.
- Maintaining a coordinated, comprehensive, and forward-looking approach to evaluate, respond, and monitor regulatory changes through ongoing investment in people, processes, and systems across the Bank.
- Working cooperatively with regulators, government, and advocacy groups.

Governance in action

BIRMC and the Board Audit Committee (BAC) monitor current and anticipated regulatory changes within their respective mandates.

Reviews done during the year 2022 included, but were not limited to, Bank's deteriorating credit quality; statutory and economic capital compositions and levels considering regulatory requirements; stress scenarios; Basel III amendments (revising the rules for the determination of risk-weighted assets); and interest rate reforms.

Related material matters

Governance and compliance

People

Context/description	The current regulatory landscape is changing at an unprecedented rate. We have a responsibility to identify existing and emerging legislation relevant to our business and ensure that associated risks are well-understood, and controls are embedded within the Company and operating model.
Why it's material	The Bank must comply with a multitude of local and international laws and applicable industry regulations. Sound governance and compliance are central to a business's reputation and licence to operate. However, regulatory and policy developments remain a challenge across our markets, as the regulatory landscape continues to evolve at an unprecedented rate with increasingly stringent requirements.
YoY increase in importance[1]	Increased

Reasons for increase	• Rapid changes in the regulatory environment impacting costs of operations. • Increased regulatory and compliance requirements, especially given the new and/or revised legislation and regulations gazetted and implemented as a consequence of COVID-19 • The risks and consequences of non-compliance range from financial to non-financial sanctions, which may individually and/or collectively have a fundamental impact on our sustainability as a going concern. • Failure to comply with these laws and regulations could lead to reputational damage, financial penalties and/or suspension of our licence to operate. • Increasing opportunistic financial crime and cybercrime, combined with rising sophistication of criminal activity, impacting customers and the Bank.
Management approach	• Strengthen focus placed on ensuring robust governance processes and strong management of regulatory compliance across the Bank. • Strengthen a culture of sound regulatory compliance across the Bank. • Dedicated risk and compliance capacity in place to oversee compliance risk management. • Maintaining proactive relations with the Government and regulators. • Participation in Government engagement processes when invited. • Subject matter experts in legal teams and a robust policy compliance framework. • Training and awareness programmes set out our ethical culture across the organisation and assist employees to understand their role in ensuring compliance.
Risk category[2]	Operational, reputational
Time frame[3]	Short to long-term

[1] **YoY increase in importance:** Increased/Emerging/Stable/Reduced
[2] **Risk categories:** Financial, strategic, operational, credit, market, liquidity and reputational.
[3] **Time frame:** For each key external factor, we indicate the timeframe in which we estimate it will significantly impact NSB. For this integrated report, the short-term is the next financial year (ending 31 December 2023), the medium-term is the period to 31 December 2025, and the long-term is beyond December 2025.

Impacted short to medium-term strategic priorities

Capitals impacted

Impacted primary UN SDGs

Related stakeholders

Relevant GRI and boundary

404 Training and education – Within
205 Anti-corruption
206 Anti-competitive behaviour

Megatrends shaping the way we operate

Cyberthreat and information security

People

Context/description	Cybersecurity breaches and attacks, including information theft, ransomware, and malware, pose a threat to our reputation, as well as our ability to maintain operations.
Why it's material	• Cybersecurity is an increasing priority as hackers become more sophisticated, with the increasing trend of digitalisation of banking services and automation of business processes. • An external cyberattack, insider threat or supplier breach could cause service interruption to customer banking services or the loss of confidential data or compromise customer data privacy. Cyberthreats could lead to major customer, financial, reputational, and regulatory impacts across all of our markets. • Poorly maintained or managed in areas such as lending decisions, and the use of technology could create data privacy concerns or deliver incorrect results with potentially poor financial, regulatory, and reputational outcomes.
YoY increase in importance[1]	Increased
Reasons for increase	• Exponential growth of digitisation and technological transformation in financial services (evolution and development of new technologies, increasing use of digital channels, higher levels of remote working), increased sophistication, and broadened activities of cybercriminals. • Growing regulatory focus on safe practices and stringent policies within organisations to ensure that customer interest is safeguarded. • Cyberattacks have the potential to cause financial system stability.
Management approach	• We continue to strengthen our security controls. • Our cybersecurity programme focuses on enhanced detection and monitoring infrastructure, as well as security configuration and vulnerability management capabilities. • We collaborate with a range of government, community, and industry bodies to strengthen system-level resilience and to reduce the possibility of cyberattacks and the impact of fraud and scams on the community. • Focused on strengthening our data management framework across the Bank. This involves enhancing our methodology, architecture, tools, standards, and procedures across all business areas to ensure the quality and integrity of data. • Continued investment in cybersecurity awareness, prevention, and security best practices as part of our culture
Risk category[2]	Operational, reputational
Time frame[3]	Short to long-term

[1] **YoY increase in importance:** Increased/Emerging/Stable/Reduced
[2] **Risk categories:** Financial, strategic, operational, credit, market, liquidity and reputational.
[3] **Time frame:** For each key external factor, we indicate the timeframe in which we estimate it will significantly impact NSB. For this integrated report, the short-term is the next financial year (ending 31 December 2023), the medium-term is the period to 31 December 2025, and the long-term is beyond December 2025.

Megatrends shaping the way we operate

Impacted short to medium-term strategic priorities

Capitals impacted

Impacted primary UN SDGs

8 DECENT WORK AND ECONOMIC GROWTH

Related stakeholders

Relevant GRI and boundary

404 Training and education – Within
205 Anti-corruption – Within and outside
418 Customer privacy – Within

Financial crime

Social

Context/description	Banks have a critical role to play in combating financial crime (bribery, corruption, fraud, anti-money laundering, terrorist financing) and protecting the integrity of the financial system.
Why it's material	Not detecting or preventing financial crimes can have a significant impact on our customers and the community and can result in material fines and penalties for the Bank. There is currently a higher risk of financial crime because of increased opportunities through several financial support packages available, combined with an increase in the number of vulnerable people and businesses.
YoY increase in importance[1]	Increased
Reasons for increase	• Rapid changes in technological advancements. • New methods of digital crime. • Heightened fraud and security risks arising from economic pressures.
Management approach	• Enhanced financial crime policies and procedures. • Investment in new technology including enhanced transaction monitoring systems and processes aimed at the detection of financial crime. • Establishing mechanisms and processes to improve customer data integrity through core systems. • Revision of Anti-bribery and Corruption policy and standard; development of new tools and implementation of framework. • A significant increase in specialised financial crime compliance team members and enhanced financial crime compliance education and training for staff aimed at deterring and detecting financial crime.
Risk category[2]	Operational, reputational, market
Time frame[3]	Short to long-term

[1] **YoY increase in importance:** Increased/Emerging/Stable/Reduced
[2] **Risk categories:** Financial, strategic, operational, credit, market, liquidity and reputational.
[3] **Time frame:** For each key external factor, we indicate the timeframe in which we estimate it will significantly impact NSB. For this integrated report, the short-term is the next financial year (ending 31 December 2023), the medium-term is the period to 31 December 2025, and the long-term is beyond December 2025.

Impacted short to medium-term strategic priorities

Capitals impacted

Impacted primary UN SDGs

Related stakeholders

Relevant GRI and boundary

205 Anti-corruption – Within and outside
206 Anti-competitive behaviour – Within and outside
418 Customer privacy

Outlook

A new Banking Act

The new Banking Act is one of the critical pieces of legislation expected to be introduced by the CBSL. The CBSL continued drafting of the new Banking Act with the view of further strengthening and streamlining the provisions of the existing Banking Act No. 30 of 1988, and to ensure that the provisions thereof are in line with international standards. Through the proposed Act, supervisory and regulatory powers of the CBSL in relation to the banking industry will be further enhanced and a corporate governance framework will also be introduced.

Present proposals include changes to the types of banking licences issued, streamlining of approval to establish branches and other banking outlets, strengthening consumer protection, deposit insurance, governance, amalgamating both offshore banking unit and domestic banking unit operations into a single banking business, and improving resolution, enforcement, and supervisory actions. It is also noted that the proposed act will govern the banking licences and regulation of banks in the upcoming Colombo International Financial Centre within the Colombo Port City.

Microfinance and Credit Regulatory Act

The CBSL took steps to finalise a new piece of legislation titled the "Microfinance and Credit Regulatory Act". This will enhance the regulatory framework relating to licensed microfinance institutions and introduce a new regulatory framework for the money lending business of the country. The draft law aims at repealing the existing Microfinance Act No. 06 of 2016 and to establishing a Credit Regulatory Authority (CRA). Further, the new Act proposes a regulatory and supervisory framework for money lending and microfinance businesses while enhancing the legal framework for consumer protection and governance principles.

Others

Due to COVID-19, banks may overhaul some of their protocols and policies around access management, finding ways to increase flexibility without compromising security. The banking sector will move parts of its IT operations to public cloud environments. Most banks currently use their own private clouds. But in a lockdown and other similar emergency situations, these can be challenging to maintain. Cybersecurity will remain a top priority for banks in the future. Regulations on IT and security of banks may change quite significantly in the future.

Further, with a view to legally permitting licensed banks and non-bank financial institutions to offload toxic/hard-to-value assets from their balance sheets, a new law on Financial Asset Management Companies will also be introduced.

5 Managing climate change and sustainability

Climate change is a significant concern globally, and Sri Lanka, as a small island and developing nation, is highly vulnerable to its adverse effects such as extreme weather conditions resulting in natural disasters, affecting almost all economic sectors and depriving people of their livelihoods. The financial sector is also exposed to climate-related and other environmental and social risks, which need to be addressed urgently from both stakeholder and regulatory perspectives to mitigate financial and reputational risks.

Sri Lanka's commitments to combat climate change

The 2023 Global Risks Report of the World Economic Forum lists a litany of risks that threaten the livelihoods and futures of the continent's population. These risks range from ongoing economic stagnation, rapidly increasing levels of unemployment, and a general lack or failure of vital infrastructure, to growing poverty, a breakdown in social cohesion, and the potential for a divergent post-pandemic recovery to create even larger equity and inclusion gaps. However, the most pressing risk is the need to be collaborative to mitigate climate change risks in a way that protects fragile economies that are then able to create equal opportunities for people.

The Sri Lankan Ministry of Environment submitted its updated Nationally Determined Contributions (NDCs) to the United Nations Framework Convention on Climate Change (UNFCCC) in 2021. The NDCs highlight key vulnerabilities in agriculture, fisheries, livestock, health, water, biodiversity, coastal and marine, tourism, urban planning, and human settlement sectors.
Sri Lanka's Nationally Determined Contributions (NDCs) emphasise the country's commitment to addressing its vulnerability to climate change in line with its commitments to a low carbon pathway through sustainable development efforts. Sri Lanka aims to increase forest cover to 32% by 2030 and reduce greenhouse gas emissions by 14.5%, while also establishing 2030 targets to achieve 70% renewable energy in electricity generation. The plan provides a pathway for Sri Lanka to become a carbon neutral economy by 2050. As a Sri Lankan bank, the Bank recognises the importance of addressing climate-related risks and the need for collaboration to achieve a just transition that protects vulnerable economies while creating equal opportunities for all.

Regulation and commercial pressures on the Bank

Banks are facing increased regulatory and commercial pressure to protect themselves from the impact of climate change and align with global sustainability agendas. This includes formalising new rules for climate-risk management, performing stress tests, and incorporating ESG factors into investment decisions. Banks are also facing commercial pressure to develop sustainable-finance offerings and incorporate climate factors into capital allocations, loan approvals, portfolio monitoring, and reporting.

The finance sector plays a crucial role in shaping future economies, and its capital allocation decisions determine whether the transition to a sustainable economy will be accelerated. To fulfil this role responsibly, the sector needs to reduce investments in harmful industries and increase sustainable finance activity, divest from fossil fuels, make aggressive decisions aligned with responsible investment, and ensure transparent disclosure and reporting aligned with the Task Force on Climate-Related Financial Disclosures (TCFD). Financial service institutions have committed to net-zero journeys and pledged to deliver funding for climate mitigation, adaptation solutions, and sustainable development.

Impacts on the value creation process

Banks are facing credit risks due to the challenges of climate change on the sustainability of communities. Thus, banks need to adopt sustainable practices and comply with Government regulations to align with the SDGs, and failure to do so can lead to reputational risk. As a purpose-led Bank, we integrate social and environmental concerns into our value creation model and play a significant role in transitioning the country to a low carbon economy while considering social impacts. ESG risks and opportunities are essential to ensuring sustainability, and the Bank remains committed to addressing climate change in ways that are sensitive to the local socio-economic context and climate vulnerability.

Megatrends shaping the way we operate

Risk and opportunities

Our risks

- Impairing of the Bank's assets, including those held as collateral amidst more frequent and severe weather events and longer-term shifts in climate patterns.
- Negative impact on the Bank's financial performance and reputation due to insufficient climate commitments and financing or partnering with organisations that damage the environment/violate human rights.
- Increased costs and economic losses related to negative effects of climate change to the Bank and its customers.

Our opportunities

- Supporting SDGs through sustainable development finance to create an enduring competitive advantage.
- Development of investment and financing solutions to support institutional customers, corporates, and small businesses in adopting a low-carbon trajectory.
- Able to manage climate-change-related risks proactively and develop new solutions to our customers to adapt their behaviour to an economy that consumes less energy or prepare for the future environmental and social issues.
- Financial innovation in response to new economic models (sustainable agriculture in particular).
- Develop sustainable-finance offerings and to incorporate climate factors into capital allocations, loan approvals, portfolio monitoring, and reporting.

Short to medium-term increase in opportunities | Short to long-term increase in opportunities | Short to medium-term increase in risks | Short to long-term increase in risks | Remain same compared to 2021

Our approach to mitigate risks and capitalise on opportunities

- Supporting commercially viable investments, while simultaneously solving social and environmental challenges and help achieving the country's SDGs and outcomes of the 27th Conference of the Parties (COP27) Summit.
- Supporting Government initiatives and implementing budget proposals on sustainable development finance transitioning into the low carbon economy in a manner commensurate with the needs of our clients, the size of the strategic opportunities offered, and our desire to continue to leverage our competitive advantage in this area.

Strengthening our ESG policies and processes and ensuring we implement them effectively – transparently disclosing our progress.

- Strengthening our strategy, policies, processes, products, and services to manage the risks and opportunities associated with climate change.

Governance in action

In 2018, the Board approved the sustainability policies and the elevation of sustainability risk to an Environmental and Social Risk Management Framework which was reviewed and approved in 2022. The Board continues to monitor the impact of sustainability risk from the Bank's operations and takes every measure to minimise the impact on the process of value creation.

Megatrends shaping the way we operate

Related material matters

Managing our carbon footprint

Planet

Context/description	Contribute towards building a low-carbon economy by reducing our ecological footprint and protecting our planet to ensure long-term sustainable value creation of the Bank, given that Sri Lanka has been experiencing frequent and extreme weather events such as droughts, forest fires, floods and cyclones.
Why it's material	Preserving the planet and creating positive long-term outcomes for our stakeholders in our daily operations is essential for the long-term sustainability of the Bank. The interconnected and lasting impacts of climate change are placing pressure on businesses to both minimise the impact, as well as ensure future operating models will remain relevant as consumers shift behaviours to minimise their carbon impact.
YoY increase in importance[1]	Increased
Reasons for increase	• Continuing acceleration of circular economy means less energy requirements for the same level of output. • Increased tariffs and less availability of energy sources (water, fuel, electricity etc.) impact on business continuity. • Increasing likelihood of large-scale weather events shifting global actions towards strong mitigation adaption measures. • Governments' initiatives towards creating low carbon economies.
Management approach	• Managing our resources wisely focusing on minimising paper, water, and energy consumption and efficient waste management. • Aligning our objectives with the Government own goals and the SDGs. • Reducing adverse environmental impacts through green building concept with efficient use of natural resources. • Ongoing engagement to understand stakeholders' needs and concerns in investing in green technology. • Recording our greenhouse gas (GHG) emissions and will continue to track and report our carbon footprint.
Risk category[2]	Strategic, operational, reputational
Time frame[3]	Short to long-term

[1] **YoY increase in importance:** Increased/Emerging/Stable/Reduced
[2] **Risk categories:** Financial, strategic, operational, credit, market, liquidity and reputational.
[3] **Time frame:** For each key external factor, we indicate the timeframe in which we estimate it will significantly impact NSB. For this integrated report, the short-term is the next financial year (ending 31 December 2023), the medium-term is the period to 31 December 2025, and the long-term is beyond December 2025.

Responsible financing

Planet

Context/description	Providing sustainable banking and finance products and services that do not have a negative impact on the environment and society.
Why it's material	Capital allocation decisions of the finance sector determine the shape of future economies. Creation and growth of industries or projects financed by the Bank may have an impact on the environment and the community in which we operate and on everyday life. It is a key element in our customers' long-term prosperity and growth.
YoY increase in importance[1]	Increased

Megatrends shaping the way we operate

Reasons for increase	• Increasing climate ambition for 2030 and 2050 accelerating the need for a clean and circular economy. • Increasing likelihood of frequent and more extreme weather events shifting global action towards making funding available for environmentally viable projects that help mitigate climate change risks. • Policy alignment to the NDCs to support global actions.
Management approach	• Evaluating ESG risks for large industrial/infrastructural long-term projects. • Avoid funding projects that have a negative impact on the environment, health, and safety. • Providing green and sustainability linked loans and advances which drive the transition to a low carbon economy. • Developing strategic responses to climate change, by strengthening our due diligence processes, considering our range of products and services, and building internal and customer capabilities to support the transition to a low carbon economy. • Ongoing engagement to understand stakeholder needs and concerns in investing in green technology. • Aligning our objectives with the Government's own goals and the SDGs
Risk category[2]	Strategic, operational, reputational
Time frame[3]	Short to long-term

[1] **YoY increase in importance:** Increased/Emerging/Stable/Reduced
[2] **Risk categories:** Financial, strategic, operational, credit, market, liquidity and reputational.
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Impacted short to medium-term strategic priorities

Capitals impacted

Impacted primary SDGs

7 Affordable and clean energy; 11 Sustainable cities and communities; 12 Responsible consumption and production; 17 Partnerships for the goals

Related stakeholders

Relevant GRI and boundary

302 Energy – Within and outside
303 Water – Within and outside
203 Indirect economic impacts – Outside

Impacted secondary SDGs

6 Clean water and sanitation; 13 Climate action; 14 Life below water; 15 Life on land

Megatrends shaping the way we operate

Outlook

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

Industry attractiveness and competitiveness

Figure 6

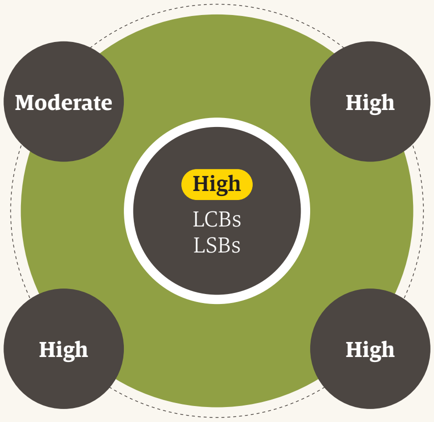
In order to remain a significant player in the banking industry of Sri Lanka, we utilised the Five Forces Analysis developed by Michael Porter. This method enables us to identify external factors that are important to our industry environment, determine the key issues facing our bank, and establish strategic priorities. Our ability to effectively address these concerns is crucial to maintaining the Bank's resilience. The intensities of the five forces in the banking industry environment are outlined below.

1 Threat from new entrants

New players

New regulations and compliance requirements

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



2 Bargaining power of customers

Existing and potential customers

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

3 Bargaining power of suppliers

Goods and service providers

Employees

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

4 Competitive rivalry

- A high number of players in the industry [24 Licensed Commercial Banks (LCBs) and 6 Licensed Specialised Banks (LSBs)]
- Intense competition among players due to lower switching cost of customers and offering of similar products and services

5 Threat of substitutes

Non-banking financial institutions

Payment facility providers

- Increasing threat from telecommunication companies and other payment providers offering efficient payment solutions (FinTech companies)
- Availability of similar products of low cost with no differentiation in pricing, quality, or features
- Depositors and lenders are highly sensitive to changes in interest rates of products offered

Strategy and resource allocation

The Bank's business strategy is built upon strong core values, reflecting the allocation of limited yet valuable resources to achieve key targets, whilst enhancing the competitive edge and creating sustainable and positive outcomes for all stakeholders.

Deriving strategies through an INTEGRATED THINKING approach

Each year, revitalising our thinking, we engage in an integrated planning process considering *where we are, where we want to go, and what we have within us* to reach our purpose, while focusing on the external operating environment that contributes towards our success. We also ensure that our decision-making process creates value for our numerous stakeholders and helps sustain ourselves in the dynamic business environment. Our planning process consists of three vital steps.

Strategy identification and development

The Bank's strategies align with its Vision, Mission, and Values. The process is well thought out and initiated with contributions from all levels of employees. Both the internal and external environments are recognised by assessing our business model, factoring in opportunities, and threats, and understanding the influence of trends in the banking sector to develop a competent business strategy. Along with these aspects and resultant risks, the Bank establishes proactive short-term, medium-term, and long-term strategies in line with its sustainable value-creation business model.

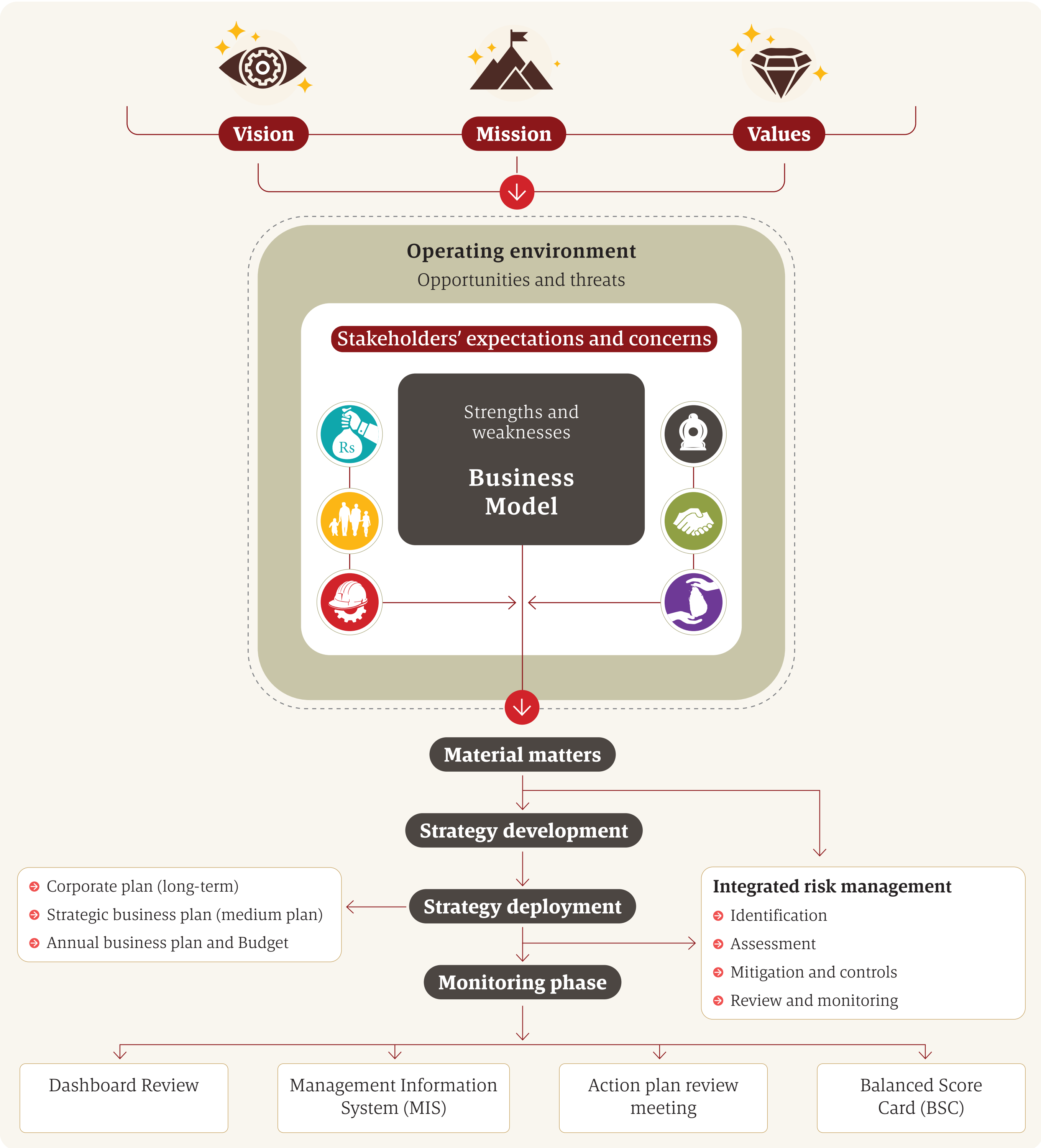
Strategy deployment and resource allocation

The business strategy is directed and approved by the Board of Directors and released down through the hierarchy to individual divisions/departments with clearly defined responsibilities and timelines. Achieving short-term targets would enable the Bank to be on the path to achieving its long-term strategies. Based on these short-term targets, the six capitals that the Bank manages and develops: financial, human, manufactured, intellectual, social and relationship, and natural are allocated resources accordingly to ensure each unit within the Bank is facilitated enough to smoothly operate towards achieving the set targets.

Continuous monitoring

Continued monitoring enables the Bank to identify and address the robustness of the strategic initiatives against the progress achieved, and test possible future scenarios. We review our monthly performance comparing actual to budgeted performances through management information/dashboards presented to the Management. On a quarterly basis, we monitor our strategic performance against the targets set out and the status of key projects. We have also defined our Key Performance Indicators (KPIs) based on the balanced scorecard to review our performance. They encompass both financial and non-financial indicators as well as quantitative and qualitative factors. Subsequently, the continuous monitoring mechanism enables us to review of strategy and business model to remain relevant and competitive.

Figure 7


Vision
Mission
Values
Operating environment
Opportunities and threats
Stakeholders' expectations and concerns
Strengths and weaknesses
Business Model
Rs
Material matters
Strategy development
Strategy deployment
Monitoring phase
Corporate plan (long-term)
Strategic business plan (medium plan)
Annual business plan and Budget
Integrated risk management
Identification
Assessment
Mitigation and controls
Review and monitoring
Dashboard Review
Management Information System (MIS)
Action plan review meeting
Balanced Score Card (BSC)

SWOT analysis

A SWOT analysis was conducted to provide insights into our internal strengths and weaknesses as well as the opportunities and threats in the external environment.

Strengths

- Deposits and interest payments are fully guaranteed by the Government
- Strong brand image – recognised as the fifth most valuable brand in Sri Lanka as per Brand Finance
- A banking legacy of 189 years
- 100% State-owned bank
- Extensive customer reach across the island exceeding 4,000 service points
- Strong employee loyalty with a higher retention rate
- AAA credit rating by Lanka Rating Agency (2023)
- Specialised in financing infrastructure projects and clean energy financing
- Collaboration with the postal network
- POS service

Weaknesses

- Limitations imposed on business expansion through the NSB Act (microfinance, lending for SME sector)
- Mandatory requirement to invest 60% of deposits in Government Securities
- Limitations to generating fee and commission-based income
- Dependence on collateral-based lending by NSB
- The primary source of funding is term deposits
- Bureaucratic processes and procedures
- The absence of a fully integrated system curtails flexibility
- Stringent guidelines slow down the adoption of new technologies
- Conservative risk culture and business policy

Opportunities

- NSB's role in executing Government's commitment to improving Sri Lanka's infrastructure
- Government's commitment to UNSDGs
- Growing focus on climate change and moving towards a green economy
- Dynamic technological advancements in banking
- Improving the financial literacy of the common man
- A growing market for foreign currency remittances due to increased migrations

Exploiting strengths to enhance opportunities

- Collaborating with infrastructure development projects of the Government with our specialised subject knowledge.
- Providing lending products in relation to promoting a green economy, and utilising specialised skills in clean energy financing.
- Using our brand name and the 100% Government guarantee to attract foreign remittances of the migrating labour force.

Diminish threats by exploiting strengths

- Extensive customer reach offering exceptional customer experience through our wide access channels.
- Service offering to customer doorstep through our POS service, in encouraging a more savings culture.
- As the entire industry faces the impact of deteriorating economic conditions and loss of faith, we market ourselves as the safest bank with 100% Government backing.

Combat weaknesses by making the most of opportunities

- Concentrate more on limited services we are allowed to carry out and specialise in such markets – mainly, penetrate the remittance market and grow fee-based income.
- Adopt technology to increase efficiency and productivity thereby minimising errors.
- Automate processes to boost savings deposits.

Threats

- Poor economic conditions and political instability lead to a loss of faith in the banking and finance sectors
- Brain drain due to deteriorating economic conditions
- Increasing interest rates resulting in a deteriorating credit culture
- Continuously decreasing household savings due to inflation
- Intense competition from commercial banks and non-banking competitors
- Tightening regulatory and supervisory framework on banking and financial services
- Disruptive technologies challenging traditional business models
- Dynamic changes in customer preferences and expectations
- Downgrading of credit rating

Eliminate weaknesses to avoid threats

- Acquire new talent with the required skills for the future of banking, such as in IT and data analytics.
- Focus on new technologies to ensure convenient and improved customer service.
- Creating flexible products to compete in the industry.

Corporate sustainability culture and business model

We believe that our success depends on how we balance our financial objectives and deliver value to society. Our core values of trust, mutual respect, integrity, and safety are geared toward contributing to building a prosperous society.

As one of the largest banks in Sri Lanka, NSB is in a position of power to create strong social change and environmental change, with our widespread reach and authority situating us as a leader in supporting sustainable enterprise. Our employees share similar sentiments and beliefs on balancing economic and social factors which result in a strong commitment towards sustainable competitive advantage, sustainable stakeholder management, and sustainable corporate culture.

Our sustainable corporate culture shapes up our Business Model

Our corporate culture of sustainability shapes up our business model through an INTEGRATED THINKING approach. In the business model, the Bank considers the interests of direct and indirect stakeholders by focusing on the triple bottom line of sustainability. We believe that balancing the three P's enables us to sustain our position as the savings giant of Sri Lanka in the long run.

Strategising sustainability principles

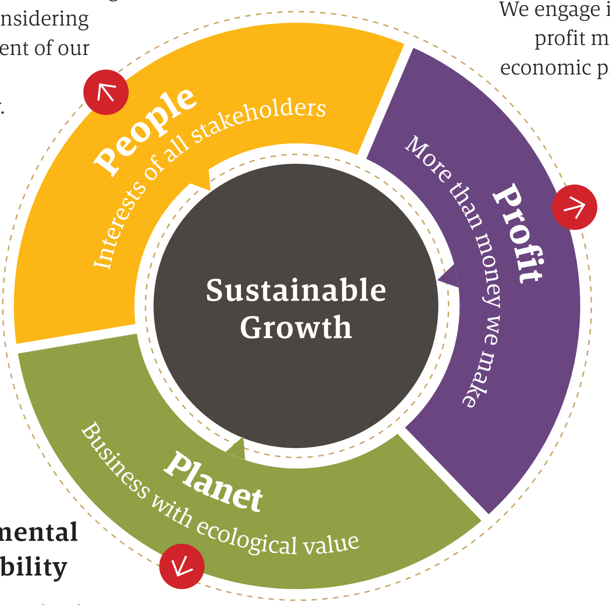
Figure 8

Building Sustainable Communities

We conduct our banking activities considering the betterment of our employees, shareholder. Customer

Supporting inclusive Finance

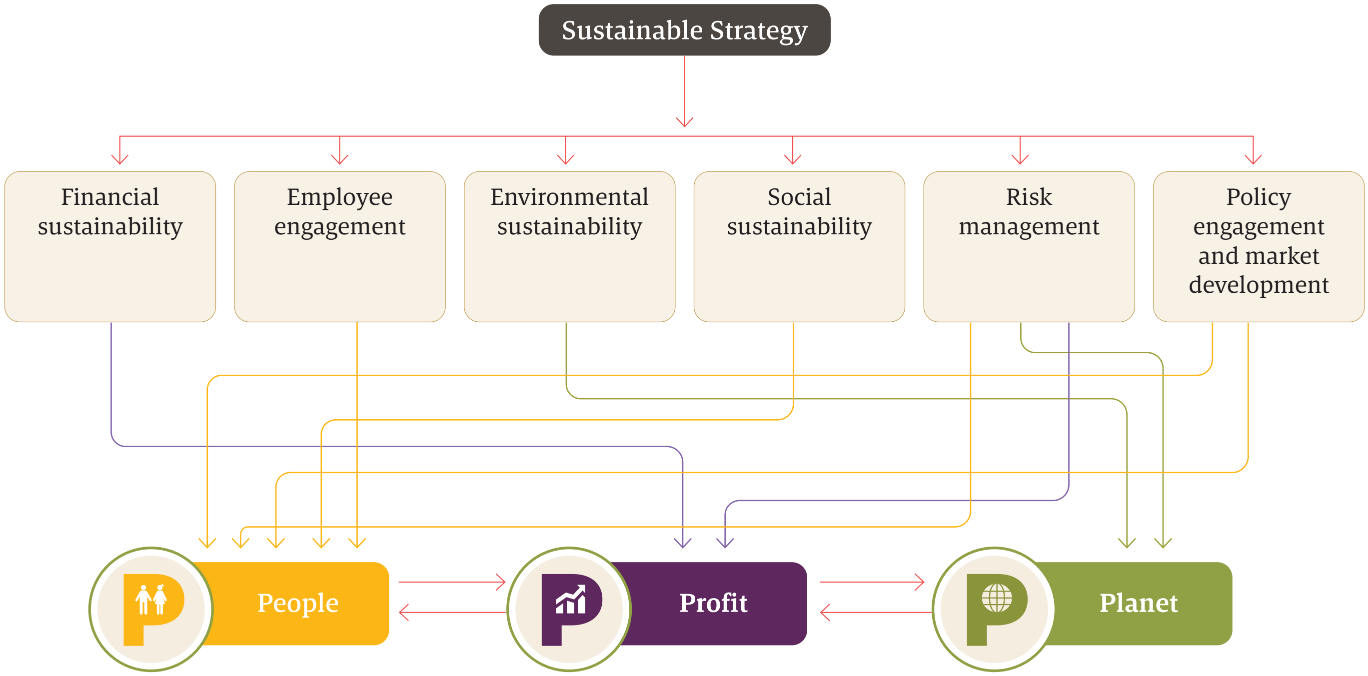
We engage in ethical profit making for economic prosperity



Environmental Sustainability

We conduct our banking activities with no expense to our environment

Figure 9



NSB continues to maintain a moderate risk profile with strong capital and liquidity buffers. We believe that financial stability backed by conscious environmental and social action, and stringent Government policies and frameworks, would pave the way in creating long-term value for our stakeholders and guaranteeing a future-ready bank.

The sustainability policies at the Bank allow the concept of sustainability to be seamlessly integrated into the business model of the Bank. The Environmental Policy, Human Rights Policy, Corporate Social Responsibility (CSR) Policy, and Environment, Social and Risk Management (ESRM) Policy provide an overall understanding of how we can embrace the social and environmental aspects in achieving our day-to-day targets.

Further, we give prominence to risk management and governance as we operate in a dynamic and highly regulated industry. We consider the most effective methods to balance our stakeholder interests when making decisions. The Bank's economic, social, and environmental (ESE) risks and impacts are shared with the Board. The Bank's decision-making process embeds these ESE issues and impacts all matters that are material to value creation, as these are incorporated into the balanced scorecard which then moves down to the performance measurement of Bank employees.

The execution of the Bank's strategy has been delegated by the Board to the General Manager/CEO who heads the Corporate Management Team and is responsible for managing the day-to-day operations of the Bank. The execution of these strategies is monitored by the Corporate Social Responsibility and Sustainability Committee (CSRSC) which maintains an ongoing dialogue with the Board and other stakeholders.

Integrating sustainability to be part of corporate strategy

At NSB, value is created and preserved through,

People

Building sustainable communities

- Supporting infrastructure development projects for the betterment of the community at large and uplifting their standard of living.
- Open dialogue with stakeholders – "resolving customer concerns" and "communicating effectively", – we maintain an open dialogue with all our stakeholders to maintain the transparency of our operations.
- Robust systems and controls – "Robust systems and processes" – Protecting the integrity of the financial system and our customers' funds through our robust system and controls which prevents fraud, corruption, and funding to illegal operations and organisations
- Equal employment opportunities –"Diversity and equal opportunity" – Providing employment that is free from discrimination, and instead is underpinned by fair labour practices and employee well-being
- Prioritising CSR Programmes – "Building thriving communities" – Prioritising CSR Programmes that support child education and skills development

Profit

Supporting inclusive finance

- Providing cost-efficient propositions – "Financial facilities for low-income earners", "Expanding our digital footprint" and "Augmenting our reach" – Providing innovative, relevant, and cost-efficient propositions to our entry level banking customers and small and medium clients
- Advocating Government-initiated loan programmes – "Supporting customers during COVID-19", "A place to call home", and "Appreciation of migrant workforce"
- Responsible procurement
- Enabling access to financial services for all segments of society through financial literacy, inclusive access and expanded financial education – "Prioritise financial inclusion" and "Expanding our digital footprint"
- Promoting self-sufficient communities – "Contributing to a sustainable world" – Promoting self-sufficient communities by financing private institutions that lend to small and medium entrepreneurs.
- Sustainable financing

Planet

Environmental sustainability

- Committing to lending and financing projects that generate renewable energy – "Sustainable financing" – Committing to lending and financing projects that generate renewable energy, and to small and medium enterprises engaged in producing green products and services. Our main focus is supporting solar energy projects by closely collaborating with the Ceylon Electricity Board (CEB)
- Employing enhanced assessment criteria for capital allocation decisions – the "ESRM Framework" on page 165 – Employing enhanced assessment criteria for capital allocation decisions, which would incorporate climate change, positive impact, and our environmental, social, and governance commitments.
- Being energy efficient – "Responsible consumption" on page 164 – Being energy efficient by installing solar energy in the buildings owned by NSB

Contribution to the United Nations Sustainable Development Goals (UN SDGs)

Our long-term goal is to increase our profitability. However, we understand that financial value is not created in isolation. We are committed to creating broader value for the societies in which we operate by embedding ESG considerations into all areas of our business and deepening our commitment to our identified UN SDGs that are set to be achieved by 2030.

We have identified primary and secondary SDGs based on their relevance to our business. Our nine primary SDGs are those most relevant to NSB's business, within the broader industry and national context. Our eight secondary SDGs are those goals that the Bank makes an indirect contribution to during its process of value creation. These secondary SDGs were also selected because they will help us achieve our primary SDGs.

Primary UN SDGs

Secondary UN SDGs

Our contribution towards the achievement of these goals is highlighted throughout this Report.

Our future strategy

Strategy means that the Bank will operate very differently tomorrow from the NSB of today.

COVID-19 was followed by the worst-ever economic crisis and has provided us with the opportunity to reset every aspect of what we do. This included reviewing our strategy with the mindset of how we can ensure our long-term relevance and sustainability while harnessing the power of NSB in contributing to a more equitable and sustainable nation.

This has paved the path to our long-term strategy; a 10-year future-proof vision, which aims to move us beyond incremental progress to transformative change. We have identified five strategic pathways that flow across all our business areas and are imperative for achieving the future-proof vision and, ultimately, our purpose – to accelerate national growth.

Our future-proof strategy

Our purpose is to accelerate national growth

Our vision is to be the most reliable and sought-after choice for your savings

We are future-proof

In this decade, we intend to be the banker of your need and grow together with you

Stakeholder centric

Being stakeholder centric can change the game as stakeholders hold the key to the environment in which the Bank operates, and the strategy builds on this differentiator by taking it to the next level.

Driven by purpose

Commitment to making a positive impact on the societies and the country as a whole, so that we are differentiated from competitors and aligned with stakeholder value expectations.

Agile and resilient

Embracing a complex and unpredictable environment by building a culture of innovation and leadership.

Data-driven

Combining big data, artificial intelligence, and capabilities to deliver stakeholder experiences with human interactions.

Innovative and inclusive

Delivering real value to all the stakeholders by thinking outside the box, being diverse, and inclusive.

Our future-proof strategy reflects our long-term customer centricity, growth sustainability, excellence in governance and transformation.

Pathway to reaching our FUTURE-PROOF strategy

- Customer centric
- Governing excellence
- Sustainable growth
- Transformative leadership

Strategy map

Long-term strategies

Customer centric

We at NSB see our customers as central to our operations, and customer outcomes determine our actions as a Bank. In our goal towards achieving status as "The Bank of Choice", superior customer experience in all customer interactions remain our topmost priority. It is customer needs that direct our resource allocation strategy, and we will continue to be a customer centric bank that appreciates our customers, nurtures customer relationships, and upholds our commitment to them.

Governing excellence

NSB is dedicated to maintaining the highest standards in corporate governance and aspires to foster a work culture of compliance and risk management. By making sure that NSB business processes and governance checks are effective, swift, vigorous, and complies with international best practice, we use governing excellence as a leveraging tool to provide strategic and competitive differentiation for NSB.

Sustainable growth

At NSB, we yearn for growth that is powerful, yet sustainable and balanced at the same time. To achieve this, we target value creation that is reliable, competitive, lucrative, and responsible. As such, we give prominence to maximising long-term value by strengthening financial solvency, consolidating our capital position, augmenting revenue channels, increasing innovation, and practising sustainability.

Heightening customer experience

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

Enhancing employee engagement

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

Reinforcing risk culture

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

Promoting organic growth

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

Short to medium-term strategic priorities

Transformative leadership

In our position as the premier state-owned specialised bank in Sri Lanka, we pride ourselves on being an exemplary leader whilst leading by example. We have set the standards for operational excellence, financial inclusion, customer service dictates, business ethics and workplace integrity. The Sri Lankan people continue to see improvement in their livelihood through our services. We strive to promote innovation in all business processes and delivery channels, consistently capitalising on emerging opportunities to ensure that the people receive maximum benefits.

Accelerating digitalisation

- Delivering digital solutions effectively
- Enhancing customer digital experience
- Simplifying and improving process and systems
- Achieving operational excellence
- Strengthening digital security
- Harnessing potential of Big data for the whole bank

Leading by example

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

Short to medium-term strategic priorities

- Technology
- Risk management
- Leadership and governance
- People and culture
- Innovation
- Process

Outcomes of strategies 2022

- 13 million active accounts
- Integrated IT systems
- Healthy balance sheet
- Growth in revenue
- Lower level of NPAs
- Higher employee retention
- 2nd largest investor in Government Securities

Our short to medium-term strategic priorities

Our short and medium-term strategies are connected to our long-term strategies. Our short to medium-term strategic objectives remain unchanged from the previous year, and we focus on accelerating their execution.

Heightening customer experience

Our customers are important than our profits

Towards our long-term strategy of customer centricity

Why

We believe that our survival depends on how intensely we care about our customers. Therefore, we focus our people and processes towards offering the best to our customers whilst dealing with their changing expectations.

How

We ensure that our employees are well trained relating to customer service and attempt to create a customer-oriented culture within the Bank. We invest in technology, infrastructure, products, and service elements to ensure that we offer a differentiated customer service.

Way forward

We intend to uplift our customer service through investing in digital infrastructure to bring in convenience and efficiency.

Material matters

Capitals employed

Primary UN SDGs

Enhancing employee engagement

Our employees are priceless to us

Towards our long-term strategy of sustainable growth and customer centricity

Why

We believe that employees who feel connected has more to offer towards the success of the Bank. Our employees who are engaged, work beyond the basic requirements of their job towards providing exclusive customer service.

How

We ensure that our employees are offered satisfactory compensation packages in terms of financial and non-financial means. We invest in training and developing their skills whilst creating opportunities for growth to build a motivated and dedicated workforce.

Way forward

Whilst continuing our efforts of training and developing the workforce, we also intend to revisit the compensation packages of our employees amidst the highly volatile economic conditions to uplift their physical and mental well-being.

Material matters

Capitals employed

Primary UN SDGs

Secondary UN SDGs

Reinforcing risk culture

We design our safety net

Towards our long-term strategy of excellence in governance

Why

We believe that a strong risk culture of understating risks in day-to-day operations enables preparedness, promotes stability, gives a competitive edge, and supports effective risk management.

How

We have clearly defined roles, responsibilities, and decision-making authority. We provide risk awareness training, share knowledge, and monitor the risk function while reporting the findings continuously to the top. We adhere to all laws, regulations, codes, and standards set by relevant authorities.

Way forward

We intend to continue complying with all requirements set out by regulators and other relevant authorities in terms of financial aspects as well as best practices for ethical and responsible business.

Material matters

Capitals employed

Primary UN SDGs

Secondary UN SDGs

Accelerating digitalisation

Networking without boundaries

Towards our long-term strategy of sustainable growth and "Transformation Journey"

Why

We believe that digitalisation enhances customer satisfaction and builds loyalty towards our brand as we focus on providing convenient, personalised, and efficient services with the use of technology.

How

We ensure that our services are steadily available anywhere, anytime to our customers through our reliable digital platforms and we promote a culture of digital thinking in the Bank.

Way forward

We intend to remain our focus on digital innovations and cybersecurity where we plan to fully implement our core banking system in 2023 and introduce an enhanced digital banking platform with added features and security to provide better customer service.

Material matters

Capitals employed

Primary UN SDGs

Secondary UN SDGs

Promoting organic growth

We create growth

Towards our long-term strategy of growth and sustainability

Why

In the current context where the banking industry is facing pressure on liquidity and profitability, we believe in expanding and increasing our profits through our own resources and internal processes.

How

We rely on our internal resources to enhance customer service as we engage in internally developing new banking products, improving the features of our existing products, and improving customer service through our bank-wide, multichannel efforts.

Way forward

We intend to minimise our operational costs, whilst considering innovative development solutions, investing in greening our buildings and implementing renewable energy solutions.

Material matters

Capitals employed

Primary UN SDGs

Leading by example

We think beyond profit

Towards our long-term strategy of sustainable growth and "Transformation Journey"

Why

We believe that the foundation to a responsible business strategy includes value creation. The value we manifest results in motivated employees, satisfied customers, and increased brand value.

How

We integrate sustainability into every area of business operations. We have cultivated a corporate culture that thinks beyond numbers and guided by a code of ethics that makes us responsible and respectful when dealing with all our stakeholders.

Way forward

We intend to continue our journey focusing on (Environmental, Social and Governance (ESG) aspects in making our strategic decisions. We are also committed to achieving the UN SDGs as a part of being a responsible corporate citizen.

Material matters

Capitals employed

Primary UN SDGs

Secondary UN SDGs

Strategy and resource allocation

Balancing strategies with capital trade-offs

Financial capital

Related short to medium-term strategic priorities

Strategies focused on creating and sustaining value

- Maintaining stable growth in net interest income and profitability.
- Ensure stronger growth in balance sheet including lending amidst challenges.
- Leveraging opportunities for investments.
- Managing the Bank's debt profile prudently.

Trade-offs

- Revenue generation to continuously and sustainably meet client needs remains a challenge amidst a non-conducive operating environment.
- Regulatory requirements to tighten risk appetite in managing lending exposures considering social and economic aspects might hinder customer growth and Bank's revenue generating capacity.

Manufactured capital

Related short to medium-term strategic priorities

Strategies focused on creating and sustaining value

- Augmenting our presence and reach through island-wide networks and model branch concept.
- Expanding our digital footprint with focus on efficient processors and sophisticated banking.
- Enhancing our operational process through integrated digital and physical infrastructure.

Trade-offs

- Digitisation and innovative solutions reduce our human capital requirement and require reconfiguration of our branches.
- Cost efficiencies arising from efficient operations are partly offset by investments in technology, regulatory changes as well as cyber resilience.

Intellectual capital

Related short to medium-term strategic priorities

Strategies focused on creating and sustaining value

- Building an organisation of repute by carrying forward the rich heritage of technical-know-how in the banking industry.
- Remain a value-driven institution based on the foundations of trust, mutual respect, integrity, and creativity engraved in corporate culture and way of banking.
- Ensure robust systems and processes are in place to leverage technology and innovation.
- Strive to adapt best practices that would enhance governance and risk controls.

Trade-offs

- Leveraging on technology and innovation would attract compliance and new regulatory requirements and risk solution to maintain the Bank's reputation.

Human capital

Related short to medium-term strategic priorities

Strategies focused on creating and sustaining value

- Attracting the best-suited talent who will integrate well with the existing team and will continuously perform to achieve the Bank's objectives.
- Nurturing and developing a winning team through rigorous training to enhance the employee skill sets to suit newer digitised operations.
- Managing our talent through providing quality-based promotions and celebrating diversity and equal opportunities.
- Retaining employees with a focus on work-life balance coupled with a commitment to health and safety.
- Communicating effectively to establish a friendly and cooperative working atmosphere to improve productivity.

Trade-offs

- Significant investments need to be made in training and development, and employee well-being to attract the best talent in the country. Conduciveness of the operating environment impacts the ability of the Bank to conduct such investments.
- While we continue to invest in skills, technology, and know-how required for future and evolving ways of working, appropriate governance measures and processes need to be in place.
- New evolved ways of working may provide health and safety but impair work-life balance.

Social and relationship capital

Related short to medium-term strategic priorities

Strategies focused on creating and sustaining value

- Building a loyal customer base through superior customer experience, efficient solutions and safety of data and privacy.
- Building strong relationships with business partners through effective communication and strategic alliances.
- Strengthening regulatory compliance through maintaining consistency in compliance and prudent risk management.
- Building thriving communities by focusing on giving back to society and prioritising financial inclusion.

Trade-offs

- Digitised solutions to provide better customer experience require additional IT development, higher maintenance costs and sophisticated IT infrastructure.
- Being consistent with continually evolving regulatory requirements may slowdown the provision of efficient customer solutions.

Natural capital

Related short to medium-term strategic priorities

Strategies focused on creating and sustaining value

- Contributing to a sustainable world through embracing the concept of green buildings and efficient resource management.
- Integrating sustainable financing in lending practices to minimise harm towards environment and society at large.

Trade-offs

- Restructuring of debts in sectors affected by climate change affects the viability of the customer's business.

Our strategy scoreboard

Strategic objective	Priorities for 2022	Key deliverables	Status	Actual		Remarks
				2022	2021	
	New product development	Introducing a new family product package.	Not achieved	–	–	Postponed due to the prevailing extraordinary economic conditions including deteriorating savings culture.
		Establish the premier banking concept by opening a fully digitalised premier banking branch.	Not achieved	–	–	Postponed due to curtailing capital expenditure requirements set out by the Ministry of Finance.
	Increase accessibility and convenience	Opening new branches.	Partially achieved	1	1	Though three new branches were targeted to be opened in 2022, it was postponed due to curtailing capital expenditure requirements set out by the Ministry of Finance.
		Installing of ATMs.		1	3	
	Enabling self-service channels and reducing customer waiting time	Commissioning CRMs.	Partially achieved	5	20	Due to curtailing capital expenditure target was not achieved 100%.
		Absorbing more customers to internet banking.	Partially achieved	11,060	27,204	• Practical difficulties in terms of reaching customers (fuel crisis/ increased transportation costs). • Expenditure on promotional activities was reduced to comply with circulars issued by the Ministry of Finance. • Branch-level efforts were focused on gaining back the deteriorating savings culture in customers.

Achieved – ✓ Partially achieved – ✓ Not achieved – ✗

Table 4

Priorities for 2023

- Maintaining our existing loyal customer base by providing convenient and efficient services, mainly with the use of digital infrastructure.
- Growing our customer base through differentiated products and excellent customer service.
- Standardising the postal network to strengthen our footprint as we have a unique hold on postal banking.

Strategy and resource allocation

Strategic objective	Priorities for 2022	Key deliverables	Status	Actual		Remarks
				2022	2021	
	Growth in core areas	Growth in deposits compared to industry (%) NSB Industry	❌	 3.4 18.8	 15.5 13.7	Increasing inflation resulting in decreasing purchasing power has affected customers' ability to save.
		Growth in lending compared to industry (%) NSB Industry	❌	 2.6 5.7	 17.7 13.5	Increasing lending rates have contracted the credit culture hence lending has decreased.
	Retaining the deposit market share	Retaining deposit market share.	❌	9.7	11.1	Due to reduction in purchasing power of customers.
	Reduction of costs	Cost to income ratio (%).	❌	63.0	33.2	Due to the higher percentage increase in cost compared to percentage increase in income.
	Increasing shareholder value	Improving shareholder returns by raising the medium-term ROE target range from 10% to 15%.	❌	3.4	33.9	Decrease in profitability due to the extraordinary increase in policy interest rates and its impact on the Bank's interest bearing liabilities.

Achieved – ✅ Partially achieved – ✔ Not achieved – ❌

Table 5

Priorities for 2023

- Investment in research activities and understanding current market trends.
- Improving the efficiency of back-office processes and reducing operational costs.
- Exploring new avenues to increase fee-based income.
- Focusing on renewable energy sources for energy requirements.

Strategy and resource allocation

Strategic objective	Priorities for 2022	Key deliverables	Status	Actual		Remark s
				2022	2021	
	Implementation of IT-related projects	Implementation of postal payment application.	Achieved	–		
		Implementation of the core banking system.	Partially achieved	–		
		Implementation of a digital banking platform and e-remittance solution.	Not achieved	–		Initial stages have been completed. Implementation is postponed due to the prevailing economic conditions.
		Implementation of data lake/warehousing and business intelligence solutions.	Partially achieved	–		Initial stages have been completed. Implementation is postponed due to the prevailing economic conditions.
		Implementing HR management system – Phase I.	Partially achieved	–		
		Implementation of asset and liability management system (ALM).	Not achieved	–		The project was postponed due to the prevailing economic conditions.

Achieved – ✓ Partially achieved – ✓ Not achieved – ✗

Table 6

Priorities for 2023

- Fully implement the core banking and other systems.
- Implementing the new digital banking platform.
- Cybersecurity to ensure the safety of customer information.

Strategic objective	Priorities for 2022	Key deliverables	Status	Actual 2022	Actual 2021	Remarks
	Enhance employee association for value addition	Obtain contributory proposals for the NSB calendar for the first time.	Achieved	–	–	
		Implement the “star branch” concept.	Not achieved	–	–	The concept paper has been submitted. The process is postponed to 2023 due to the current economic conditions.
		Motivational and attitudinal change training for branch staff.	Not achieved	–	–	Due to the curtailment of capital expenditure requirements set out by the Ministry of Finance, training on non-operational aspects has been reduced.
	Training and development	Expense on training and development (Rs. Mn.).	Achieved	12.8	11.0	
		External training from divisions and branches on banking operations and financial services.	Achieved	8.8	6.8	
		Offering overseas training programmes.	Achieved	6.0	–	
		Core banking training.	Partially achieved	15.0	15.7	The target has not been 100% achieved due to implementation delays in the core banking system.
	Increasing employee value proposition	Spent on employees (Rs. Bn.).	Achieved	13.8	13.0	
		Employee voluntary turnover (%).	Not achieved	1.0	0.2	Current negative economic conditions have resulted in many employees migrating.
		Introducing a target-based performance appraisal system to enhance productivity and motivation.	Not achieved	–	–	UAT of the Performance Management Module was completed.
	E-learning	Introducing an e-Learning portal to the staff post-implementation of the new HR system.	Partially achieved	–	–	

Achieved – ✓ Partially achieved – ✓ Not achieved – ✗

Table 7

Priorities for 2023

- Employee retention through the revisitation of compensation packages.
- Training and development to enhance skills of the workforce.
- Promoting and spearheading mental and physical well-being of employees.
- Enhance employee satisfaction and loyalty at work with further work-life balance initiatives.

Strategic objective	Priorities for 2022	Key deliverables	Status	Actual 2022	Actual 2021	Remarks
	Cybersecurity	PCI DSS certification maintenance	Achieved	–	–	
	Sustaining strong capital adequacy levels	Compliance with BASEL III CAR requirement Tier I	Achieved	15.8	18.6	Reduction of both the ratios compared to the previous year is due to the reduction in profitability.
		Compliance with BASEL III CAR requirement Total capital	Achieved	18.0	20.8	
	Zero tolerance to non-compliance	Regulatory fines or penalties (Rs. Mn)	Not achieved	0.8	–	An administrative penalty was imposed due to the Bank's failure to maintain all relevant United Nations Security Council Resolution (UNSCR) lists of designated persons and entities.
	Managing credit risk	Stage 3 loans to total loans (Net of impairment)	Not achieved	2.8	2.5	Decrease in repayments due to decrease in disposable income.

Achieved – ✓ Partially achieved – ✓ Not achieved – ✗

Table 8

Priorities for 2023

- Efforts to maintain strong capital and liquidity levels.
- Focus on financial crime compliance.
- Efforts on credit risk management, given the volatile environment.
- Implementing environmental, social, and governance policies and integrating them into business operations.

Strategic objective	Priorities for 2022	Key deliverables	Status	Actual		Remarks
				2022	2021	
	Create a positive brand image by committing to SDGs	Teacher training sessions, student-based competitions, monitoring and performance evaluation to increase the pass rate of English Language at the GCE O/L Examination in 81national schools.	✓	–	–	Due to curtailing of non-essential expenditure as directed by the Government and the CBSL.
	Uplifting local communities and supporting community-building initiatives	The proportion of spending on local suppliers (%).	✓	100	100	
	Reducing our environmental footprint in all our business operations	Energy consumption (GJ)	✓	29,218	33,539	
		Water consumption (m^3)	✓	70,430	88,986	
	Economic support	Direct and indirect taxes paid (Rs. Bn.)	✓	5.2	12.4	
		Dividends paid (Rs. Bn.)	✓	–	3.5	

Achieved – ✓ Partially achieved – ✓ Not achieved – ✗

Table 9

Priorities for 2023

- Increasing funding for CSR projects in line with Government efforts on social security, as more communities are negatively impacted with the adverse economic conditions.
- Commitment to reducing energy consumption.
- Focusing on renewable energy sources for energy needs.
- Contributing towards eco-friendly operations.

Integrated stakeholder engagement

The banking industry is a commoditised space. While products and services are our commodities, people are our business. As a result, we take a people-centric and stakeholder-inclusive approach for sustainable value creation. This means that stakeholder engagement is integrated into every phase of our value-creation process. To measure the value, we create for our stakeholders, we have identified goals for each of our key stakeholders and measure delivery on these through value-creation indicators and the quality of our relationships.

Our integrated stakeholder engagement process

Our stakeholder-centric approach to value creation is based on understanding and responding to stakeholder needs and taking action in areas where we can positively impact long-term sustainability. We align our efforts across our portfolio to focus on sustainability and build long-term partnerships with key stakeholders.

Our stakeholder engagement process encompasses the following stages:

1. Stakeholder identification
2. Key stakeholder prioritisation based on influence over our value-creation process
3. Defining methods of engagement based on stakeholder requirements and expectations
4. Establishing a monitoring mechanism to assess stakeholder relationships

We continue to evolve our stakeholder landscape to align our stakeholder goals with our FUTURE-PROOF bank strategy.

Stakeholder identification

Our actions, products, and services have a significant impact on a variety of individuals and groups, who we consider as our stakeholders. These stakeholders have the ability to affect us in turn, and their perceptions and actions can greatly influence our ability to conduct our activities and achieve our strategic goals.

We've identified the following stakeholder groups that have an impact on our operations directly or indirectly. Our aim is to consistently develop and sustain affable connections with these groups.

- Shareholder/ investors
- Customers
- Employees
- Regulators and Government institutions
- Business partners
- Society and environment

Key stakeholder prioritisation based on influence over our value-creation process

We have prioritised the stakeholders to engage with, based on how our actions will affect them and the importance of our approach in addressing their concerns. The significant impact the stakeholders have on NSB and vice versa, it is crucial to identify and communicate with them effectively. Furthermore, by connecting with our primary stakeholders, we can comprehend and balance the distribution of the value created while addressing their concerns.

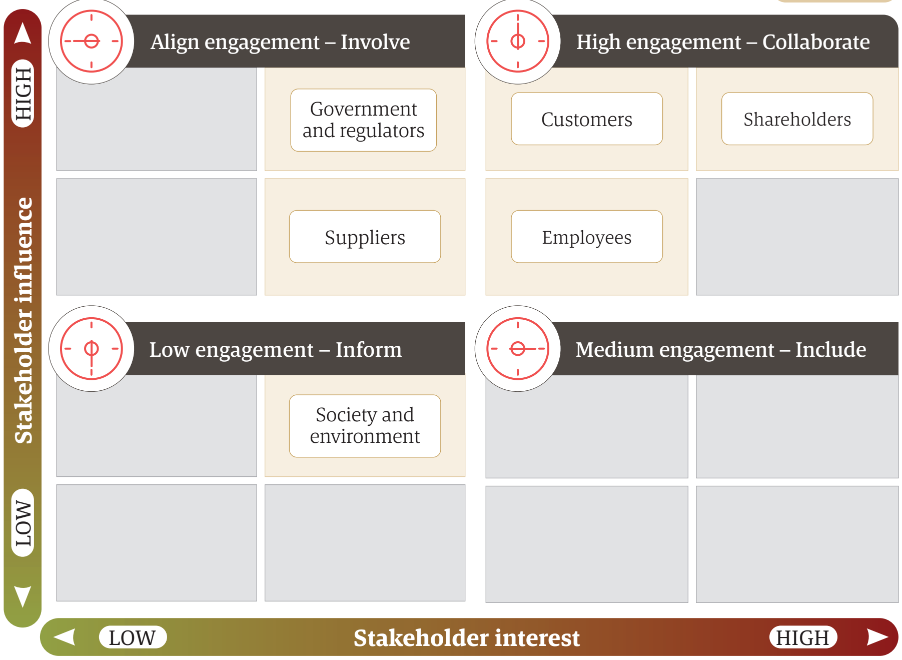
To prioritise individuals and organisations that have a vested interest in our organisation, we use the following set of criteria.

Those who are essential to the survival of the Bank

- Those associated with relevant threats and opportunities
- Those who have a moral or legal capacity to influence the behaviour of the Bank
- Those who are influential in causing others to make decisions they may not have made of their own accord
- Those whose relationships are key to the Bank

We identify our main stakeholders by using a matrix that considers their level of interest in the Bank and their ability to impact our operations. This yearly ranking is crucial because we recognise that stakeholder demands, interests, and expectations can evolve over time.

Figure 10



The value we generate for the stakeholders

The way we engage with our stakeholders and address the issues they raise impacts the quality of our relationship with them. Therefore, we have custom-made engagement plans to meet key stakeholders' individual value expectations. We are continuously assessing our existing engagement strategies against the results of the review to identify opportunities that will allow better engagement with our stakeholders and forge stronger relationships. We measure the quality of our relationships through various feedback mechanisms to make an informed assessment.

Internal quality assessment of our stakeholder relationships	Quality of relationship indicator
Strong relationship of mutual benefit	●●●●●
Good quality, mutually beneficial relationship with some room for improvement	●●●●●
Relationship established, value-generating connection, but with room for improvement	●●●●●
Relationship established but much work to be done to improve the quality of the relationship	●●●●●
No existing relationship	●●●●●

Defining methods of engagement based on stakeholder requirements and expectations

By prioritising and ranking stakeholders, the Bank can create engagement plans that fit their specific needs, including the methods, levels, modes, and frequency of engagement. We have several formal mechanisms in place to keep us connected with our stakeholder groups, and we place great importance on maintaining continuous and systematic dialogue with both our internal and external stakeholders to identify and address key issues.

Our goal is to maintain positive relationships with our stakeholders through ongoing and detailed communication. We use various channels such as face-to-face meetings, conferences, and social media platforms to discuss expectations and concerns.

We value the feedback we receive from our stakeholders, as it helps us create successful strategies for value creation.

Establishing a monitoring mechanism to assess stakeholder relationships

At NSB, it is essential to evaluate stakeholder relationships effectively to determine the most important areas for resource allocation. By doing so, we can identify material issues and ensure that we achieve our objectives sustainably. Moving forward, we aim to improve our stakeholder engagements and relationships by utilising Key Performance Indicators (KPIs) linked to value creation and relationship quality. Our goal is to measure these indicators accurately and consistently across the Bank.

Integrated stakeholder engagement

Synopsis of our key stakeholders throughout the value-creation process

Figure 11

	Upstream		Bank operations		Downstream	
	Shareholder/ Investors	**Regulators and Government institutions**	**Employees**	**Business partners**	**Customers**	**Society and environment**
Who they are	• Government of Sri Lanka • Bondholders	• Central Bank of Sri Lanka (CBSL) • Ministry of Finance (MOF) • Auditor General's Department • Inland Revenue Department • Other government and professional bodies	• Permanent employees • Employees on contract basis • Outsourced personnel • Trade unions	• Suppliers • Utility service providers • Other service providers • Exchange houses • Correspondent banks	• Individuals • Institutions • Corporates	• Citizens of Sri Lanka • The environment • Media • Opinion makers and influencers
Stakeholder goals	Sustainable growth in total returns	Provider of differentiated and relevant financial solutions	Employer of choice	Preferred business partner	Law abiding corporate citizen	Responsible corporate citizen
Tailored value propositions to deliver our goals	Delivering sustained income and capital growth by strategically allocating capital and ensuring both prudent balance sheet and proactive risk management.	Being a law-abiding corporate citizen reduces the cost of non-compliance and provides confidence to investors and the general public.	Empowering employees and promoting accountability through a focus on the total reward.	Collaborating with our business partners to provide unparalleled service, allowing us to create mutual benefit.	Leveraging on our strengths and opportunities to provide outstanding service to customers and remain relevant to their evolving needs.	Uplifting and empowering communities by partnering with them.
Quality of relationship	−	−	−	−	−	−

Quality of relationship increased compared to 2021

Quality of relationship decreased compared to 2021

Quality of relationship remains unchanged compared to 2021

Integrated stakeholder engagement

Shareholders/Investors

Why we engage

- Better satisfy investor needs by understanding their requirements and expectations of value creation.
- Grow trust in our Organisation.
- Access to finance at a cost-effective yield.

Our engagement strategy

- Communicate our value proposition as an outflow of our brand promise.
- Demonstrate delivery of our value proposition and strategy through regular reporting and targeted communications.
- Engage in understanding issues/concerns and communicate how the Bank works on addressing them.

How we engage

- Annual and interim financial statements.
- Annual integrated report.
- Corporate website.
- One-on-one meetings with representatives from the Ministry of Finance and other investors.
- Stakeholder webcasts.

Key shareholder/investor expectations	Our strategic response	Reference
• Long-term sustainable return on investment. • Importance of maintaining or enhancing existing assets to be defensive in the current economic environment. • Building confidence and delivering risk-adjusted returns. • Long-term sustainable return on investment.	• Delivery of a sustainable return on the investments through dividend payments on equity, capital and interest payments on bonds, and interest payments on loans. • Increased engagement with respective officials from the Ministry of Finance to ensure that customer requirements are fulfilled in a timely manner in terms of service accessibility, debt moratorium, credit relief schemes, etc. during the economic crisis. • Maintaining a strong balance sheet that contributes to a safe and stable banking system, instilling confidence, and protecting against downside risk.	Financial capital on pages 100 to 115

Material matters

Related capitals

Link to sustainable development goals

Primary UN SDGs

8 DECENT WORK AND ECONOMIC GROWTH

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Secondary UN SDGs

17 PARTNERSHIPS FOR THE GOALS

Understanding and measuring the value expectations of the relationship

Value-creation outcome

Value shared with shareholders/investors

Rs. 2.5 Bn. profit attributable to the shareholder	2.0% net interest margin	Total return to shareholder 3.4%	Rs. 3.6 Bn. interest paid to bondholders	AAA credit rating maintained
Requires focus	Requires focus	Requires focus	On track	On track

NSB's value expectation

Equity capital infusion	Access to debt markets	Investor confidence	Positive credit rating	Access to more equity and liquidity
Work in progress	Work in progress	On track	On track	Work in progress

On track | Work in progress | Requires focus

Customers

Why we engage

- Ensure business sustainability through continuous engagement with the Bank.
- Ensure customer retention.
- Attracting new customers and retaining existing customers.

Our engagement strategy

- Communicate brand promise and value proposition.
- Continuous improvement guaranteeing excellent service in order to promote a consistent experience.
- Relationship management, including proactive communication and engagement (including matters relating to strategy, business updates, and operational matters) and feedback mechanisms to understand the needs, issues, and concerns of customers.
- Continuous marketing and promotional activities.
- Marketing on delivery of value proposition and strategy in all our actions.

How we engage

- Personal interaction through branches and divisions.
- Operational issues communicated through various platforms, including emails, the corporate website, and phones.
- Customer satisfaction ratings obtained through surveys.
- Information on products and services is spread through promotional campaigns, the corporate website, mass media, and social media.
- Other communication channels: call centres corporate events.

Key customer expectations	Our strategic response	Reference
• Flexible and new ways of doing business. • Customers demanding a more integrated and convenient service. • Changes in the operating environment/industry and the service delivery of other banks. • Increased financial literacy of customers.	• Safeguarding deposits and investments while increasing returns. • Launching efficient channels and providing cost-effective, convenient banking options. • Offering personalised and comprehensive financial solutions by understanding the needs of our customers. • Equipping and empowering our people to deliver an exceptional customer experience every time. • Increasing digitalisation and innovation with a focus on safety. • Proactively responding to cybersecurity threats and ensuring customer privacy and security. • Maintaining the stability, security, and speed of our IT systems. • Contributing to financial inclusion through our products, delivery channels, and markets. • Increasing process efficiency and automation. • Increasing the capacity of our touchpoints and strengthening multichannel delivery.	Building a loyal customer on page 150 Augmenting our presence and reach on page 118 Expanding our digital footprint on page 119 Enhancing our operational process on page 120

Material matters

Related capitals

Link to sustainable development goals

Primary UN SDGs

8 Decent work and economic growth
12 Responsible consumption and production

Secondary UN SDGs

13 Climate action
17 Partnerships for the goals

Understanding and measuring the value expectations of the relationship

Value-creation outcome	Value shared with customers			NSB's value expectation			
	13.0 million active customer accounts	**Rs. 133.2 Bn.** interest paid to depositors	Engagement and growth on digital platforms – **9.8**% growth in internet banking	Fulfilment of customers' financial solutions/ effective financial solutions for customers	Enhanced customer experience	Customer acquisition and retention	Increase in market share
	On track	On track	On track	On track	On track	Requires focus	Requires focus

On track | Work in progress | Requires focus

Employees

Why we engage

- Employees are central to brand positioning.
- Employee engagement is vital to building a constructive, motivated, and engaged workforce.
- Ensure strategic delivery by driving business objectives.

Our engagement strategy

- Communicate employee value propositions.
- Communicate and drive business objectives to ensure delivery of business strategy and delivery on brand promise and our values.
- Understand and address concerns and improve relationships throughout the employee life cycle.

How we engage

- Extensive internal communications using multiple platforms tailored to the message (intranet, circulars, internal newsletters, staff meetings).
- Employee rewards and recognition programme.
- One-on-one interactions between employees and line managers.
- Performance evaluations and exit interviews.
- Grievance handling mechanism.
- Welfare events and activities.

Key employees' expectations	Our strategic response	Reference
- Fair and market-related remuneration. - Workplace flexibility. - Focus on mental health – provide employees with necessary resources. - Recognition and rewards for performance and personal development. - Need for two-way communication across multiple platforms. - Job security. - Freedom for collective bargaining. - Learning and development programmes. - A relationship of trust and transparency. - A non-discriminatory, and safe work environment.	- Competitive remuneration in line with collective bargaining. - Formalised induction and training programmes for new employees to become familiar with the Bank's culture and business. - Supporting and encouraging our employees to improve their skills and capabilities to remain relevant, and encouraging internal career growth. - Providing wellness programmes; offering financial, physical, and mental support during employment and post-retirement. - Providing learning and development programmes to support capacity building for future needs and employee development. - Adhering to and complying with all labour laws and upholding human rights. - Resolving issues, grievances, or conflicts effectively with mutual trust and understanding.	Human capital on pages 130 to 147

Material matters

Related capitals

Link to sustainable development goals

Primary UN SDGs

5 Gender equality; 4 Quality education; 8 Decent work and economic growth

Secondary UN SDGs

10 Reduced inequalities

Understanding and measuring the value expectations of the relationship

Value-creation outcome	Value shared with employees				NSB's value expectation			
	Rs. 13.8 Bn. paid in wages and benefits	**45%** men and **55%** women employed	Enhancing our culture by focusing on embedding the right behaviours	**22,603** hours of training	Attracting and retaining talent	An innovative and committed workforce	Productive, efficient, and competent workforce	Upholding of ethics and professionalism
	On track	On track	On track	On track	On track	On track	On track	On track

On track · Work in progress · Requires focus

Regulators and government institutions

Why we engage

- Regulators and Government institutions publish policies, legislation, and regulations that impact the cost of doing business and our ability to derive a reasonable return on investment.
- They are authorised to penalise the Bank through fines for non-compliance with legislation and regulations.
- They provide a regulatory and disclosure framework that provides confidence to investors and the public.

Our engagement strategy

- Application of a zero non-compliant strategy.
- Adopting international and local industry best practices.
- Effective compliance with regulatory requirements and regulatory changes.
- Strong capital and liquidity levels.
- Feedback on regulatory returns and inspections.

How we engage

- Complying with laws, regulations, circulars, and directives.
- One-to-one meetings and interactions with government and regulatory representatives.
- Annual and interim financial statements.
- Participating in industry and public forums.
- Responding to statutory examinations carried out by regulatory and Government institutions.
- Engagement in draft regulations and directions.
- Partnering on various social programmes.

Key regulators and Government institutions expectations	Our strategic response	Reference
• Compliance with all legal and regulatory requirements. • Opportunities for job creation and socio-economic development. • Protecting customer interests in service quality, costs, and pricing. • Sustained contribution to national tax base/revenue. • Active participation and contribution to industry and regulatory working groups. • Providing uninterrupted banking services to the public as an essential service even during the economic crisis period. • Channelling the benefits of monetary stimulus and COVID-19 relief packages announced by the Government to revitalise the economy.	• Investments in Government Securities as required by the NSB Act support the funding needs of the economy for economic and social development. • Contributing towards the Government Budgets through financial contributions such as dividends, tax, treasury fees, and special levies. • Supporting the Government's social and economic mandate through increasing access to banking products and services (e.g. financial inclusion, digital inclusion, increasing the economic and social contribution of women). • Supporting local procurement and employment, while value-adding to corporate social responsibility initiatives. • Enabling a safe and stable banking system by embracing sustainable banking practices and regulatory compliance.	Strengthening regulatory compliance on pages 157 to 158

Material matters

Related capitals

Link to sustainable development goals

Primary UN SDGs

8 Decent work and economic growth; 9 Industry, innovation and infrastructure; 11 Sustainable cities and communities; 12 Responsible consumption and production; 16 Peace, justice and strong institutions

Secondary UN SDGs

17 Partnerships for the goals

Understanding and measuring the value expectations of the relationship

Value-creation outcome

Value shared with regulators and Government institutions

Rs. 5.2 Bn.	18.0%	Zero
tax paid to the Government	Total CAR (minimum regulatory requirement – 12.0%	tolerance for non-compliance.
On track	On track	On track

NSB's value expectation

Fair regulation or policies that encourage banking business. (On track)

On track | Work in progress | Requires focus

Business partners

Why we engage

- Suppliers play a crucial role in our high-quality service delivery.
- Supplier engagement to align with the Bank's ESG strategy.

Our engagement strategy

- Transparency in business transactions.
- Proactive communication (incorporating matters relating to our brand promise, strategy, business updates, and operational matters) and feedback mechanisms to understand the needs, issues, and concerns of the business partners.
- Information sharing to improve planning and collaboration.

How we engage

- One-on-one meetings with procurement and facilities management.
- Supplier onboarding and induction programmes.
- Service level agreement management and service delivery feedback and monitoring, including compliance with the Supplier Code of Conduct.
- Training sessions on products and services.
- Ongoing site visits.

Key business partner expectations	Our strategic response	Reference
Fair and equitable treatment to all business partners. Cost savings and objective performance. Improved business partnerships management.	Continued review and improvement of supplier agreements. Awarding contracts within the minimum time period possible and ensuring timely payments. Purchasing products and services at fair terms to support local businesses.	Building strong partnerships on pages 155 and 156

Material matters

Related capitals

Link to sustainable development goals

Primary UN SDGs: 8 Decent work and economic growth; 9 Industry, innovation and infrastructure; 12 Responsible consumption and production

Secondary UN SDGs: 17 Partnerships for the goals

Understanding and measuring the value expectations of the relationship

Value-creation outcome

Value shared with business partners

Rs. 906.1 Mn. spent on local procurement (Work in progress)

Rs. 370.1 Mn. procurement from IT vendors (On track)

NSB's value expectation

Supporting local procurement and upliftment of small and medium enterprises. (On track)

On track | Work in progress | Requires focus

Society and environment

Why we engage

- Understand our community challenges and concerns to maintain mutually beneficial relationships.
- In alignment with our strategic pathway to lead by example, we strive to make a positive socio-economic impact in our communities.
- Media, opinion makers, influencers, and forums can impact our operations.

Our engagement strategy

- Communicate our value position and brand promise.
- Continuous relationship management, including proactive communication and engagement with communities.
- Ongoing environmental analysis and impact assessment of the Bank's operations.

How we engage

- Direct and indirect communication with communities through multiple platforms
  - Direct: corporate website, social media channels, advertorials, interviews, flyers, notices, annual reports, and financial statements;
  - Indirect: skills development sessions, environmental awareness sessions, social development activities.

Key society and environment expectations	Our strategic response	Reference
Opportunity to improve the lives of people in surrounding communities. Focus on measuring the impact of our initiatives.	Affordable products and services Access to banking and financial services and information. Purchasing products and services at fair terms to support local businesses. Financial support. Job creation and business opportunities. Sustainability of the Bank and business. Delivery of global and national development goals. Transparency on performance and governance. Responsible investments and banking practices. Providing financial assistance and continuous service during the COVID-19 pandemic.	Building thriving communities on pages 158 to 161 Corporate sustainability culture and business model on pages 73 to 76

Material matters

Related capitals

Link to sustainable development goals

Primary UN SDGs: 4 Quality Education; 7 Affordable and Clean Energy; 11 Sustainable Cities and Communities

Secondary UN SDGs: 3 Good Health and Well-Being; 17 Partnerships for the Goals

Understanding and measuring the value expectations of the relationship

Value-creation outcome	Value shared with society and environment		NSB's value expectation		
	18,556 m³ reduction in consumption of water	**344,347 kWh** of electricity exported to the national grid	"Good corporate citizen" status	Youth and women empowerment	Partnerships with communities
	On track	On track	On track	On track	On track

On track | Work in progress | Requires focus

Management discussion and analysis

Financial capital

Key elements of our financial capital

Our strong financial capital is the pool of funds available for deployment for sustainable value creation. At NSB, our financial capital is made up of monetary resources contributed by the General Treasury (GoSL) and funds generated via our business operations. As a whole, it covers the long-term funds available to the Bank to engage in business activities and includes equity funding, retained earnings, and debt that satisfy qualifying conditions. We see the management of our financial capital as a huge responsibility as the extent of our banking operations depends heavily on our level of financial capital.

Key inputs

- Cash and cash equivalents
- Share capital and reserves
- Deposits from customers
- Long and short-term borrowings

Key challenges

- Slowdown in growth of credit to the private Sector
- Economic crisis
- Regulatory pressures on capital
- High trade-offs between income generated from mandatory investment in Government Securities and disbursement in loans and advances
- Growing low-cost funding
- Increased taxes
- Decreased customer demand for lending

Key opportunities

- Increase in revenue due to the interest rate hikes
- Ability to achieve operational excellence
- Opportunity to find out new income generating avenues

Key outputs

Strategic performance

Interest income growth
31.6%
(2021 – 7.3%)

Interest income
Rs. 172.9 Bn.
(2021 – Rs. 131.4 Bn.)

Cost-to-income ratio
62.95% (2021 – 33.17%)

Value for shareholder

Return on equity
3.40% (2021 – 33.92%)

Dividend per share
Nil (2021 – Rs. 3.72)

Elevated risk profile

Provision coverage ratio (Stage 3): 38.9%
(2021 – 31.5%)

NPL ratio
3.98%
(2021 – 2.97%)

Growth in deposits and loans

Loans and advances growth: 2.6%
(2021 – 4.3%)

Deposits mobilised
15.8 Bn.
(2021 – Rs. 192.6 Bn.)

Strong capital and liquidity

Total CAR
18.00%
(2021 – 20.83%)

All currency LCR
193.49%
(2021 – 240.43%)

How we grow our financial capital

1. Achieving strong strategic performance by maintaining stable growth in profitability through enhancing revenue streams and optimising cost levels.
2. Ensuring balance sheet growth through lending amidst challenges, leveraging investment opportunities and managing a prudent debt profile.
3. Maintaining strong capital levels above regulatory requirements and within the Bank's risk appetite.
4. Securing adequate funding and managing liquidity levels to ensure smooth running of the Bank's operations and confidence within the financial system.

How we leverage our financial capital

Intellectual capital
The consistent improvement in financial performance over time serves to enhance the Bank's credibility and reputation in the industry. Funding initiatives to develop brand image and employee abilities create stronger intellectual capital.

Human capital
The strong financial results allow the Bank to increase wealth created for employees by way of above average salaries and benefits, thereby increasing motivation and employee satisfaction, and lowering employee turnover and investing in training and developments increases employee skills and efficiency.

Social and relationship capital
Better financial results will enable the Bank to consistently allocate resources to meet the needs of all key stakeholders. Supporting CSR activities strengthen ties between the Bank and the community, whilst investing in both physical and digital infrastructure creates strong customer ties and enable efficient supplier networks.

Natural capital
Financially supporting sustainability initiatives reduces the Bank's carbon footprint.

Manufactured capital
Investments in digital and physical infrastructure strengthens the Bank's asset base.

Potential trade-offs

- The Bank's ability to commit to capital expenditure needs to be balanced with the need for sufficient return on assets to support funding requirements.
- Effort and resources spent on improving governance and internal controls will ensure we maintain or reduce the cost of capital.

Contributions to UN SDGs

Primary UN SDGs

8 DECENT WORK AND ECONOMIC GROWTH — Investing in training and development to provide employees with education and equal opportunities that will bring about economic development and better living standards in the community

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE — Supporting innovation in products and services through funding both digital and physical infrastructure.

Secondary UN SDGs

11 SUSTAINABLE CITIES AND COMMUNITIES — Building resilient, economically sustainable communities through philanthropic development projects as well as sourcing and outsourcing opportunities

Direct economic value generated and distributed

GRI 201-1

Direct economic value generated and distributed	2022 Rs. Mn.	2021 Rs. Mn.
Direct economic value generated to:	**174,557**	134,939
Operating expenses	**12,206**	10,297
Depositors	**140,477**	76,809
Employees	**13,791**	12,970
Providers of capital	–	3,500
Government (excluding dividends)	**5,578**	12,965
Direct economic value retained	**2,504**	18,398
Direct economic value distributed	**172,053**	116,541

Table 10

Connectivity with materiality, stakeholders, and short to medium-term strategic priorities

Material matters

Related stakeholders

Short to medium-term strategic priorities

1 Strategic performance

Summarised statement of income

	Description	2022 Rs. Mn.	2021 Rs. Mn.	2020 Rs. Mn.	2022 vs. 2021 YoY Change (%)
A	Gross income	174,557.2	134,939.4	127,547.1	29.4
B	Net interest income	32,462.9	54,629.6	34,890.2	(40.6)
C	Non-interest income	1,357.2	3,293.5	4,880.5	(58.8)
	Total operating income	33,820.2	57,923.1	39,770.7	(41.6)
D	Impairment charges	4,862.2	4,304.4	4,873.8	13.0
	Net operating income	28,958.0	53,618.6	34,896.9	(46.0)
E	Operating expenses	21,195.2	19,074.9	15,465.6	11.1
	Operating profit before taxes	7,762.7	34,543.8	19,431.3	(77.5)
F	VAT on financial services	3,185.9	6,162.4	3,786.7	(48.3)
F	SSCL on financial services	67.3	–	–	–
G	Profit before income tax	4,509.6	28,381.4	15,644.6	(84.1)
F	Less: Income tax expenses	1,979.9	6,261.8	5,536.7	(68.4)
G	**Profit for the year**	**2,529.7**	**22,119.6**	**10,107.9**	**(88.6)**

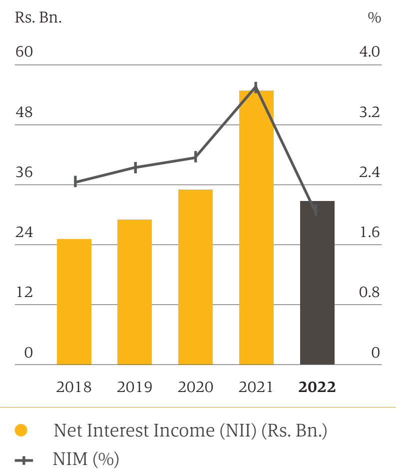
Table 11

A Gross income

The Bank's gross income comprises of interest income, net fee and commission-based income, net gain/(loss) from trading, net fair value gain/(loss) from financial instruments FVTPL, net gain/(loss) from derecognition of financial assets, and other net operating income. For the year 2022, gross income of NSB stood at Rs. 174.6 Bn. compared to Rs. 134.9 Bn. in 2021. Interest income accounted for 99.1% of the gross income of the Bank and recorded a growth of 31.6%, rising to Rs. 172.94 Bn. during the year of 2022 compared to Rs. 131.44 Bn. reported in 2021, primarily supported by the increase in interest income from investment in debt instruments and increase in interest rates in floating rated loans and advances.

B Net interest income

NII Vs NIM Graph 9

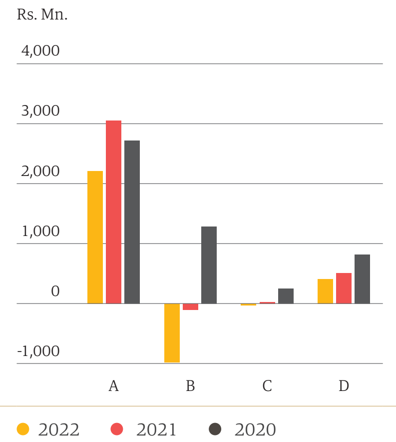


During the period under review, the Bank's net interest income (NII) amounted to Rs. 32.5 Bn, indicating a decline of 40.6% compared to the previous year's figure of Rs. 54.6 Bn. This reduction in NII was caused by an increase in interest expenses, which was in turn due to the unprecedented rise in interest rates. As a result of the high interest rates, the Bank was compelled to raise interest rates on fixed deposits, and customers took advantage of this by moving their existing low-interest fixed deposits to high-interest ones, causing interest expenses to increase by 82.9% to Rs. 140.5 Bn. in 2022.

The Bank was unable to adjust the interest rates of its loans and advances portfolio until the end of 2022, as a large portion of these loans were granted at fixed rates during a time of lower interest rates. Additionally, the Bank was required to invest 60% of its deposits in Government Securities, and due to the lower interest rate environment from 2019 to April 2022, it had to invest in Treasury Bonds with longer tenors that offered higher yields than low-yielding Treasury Bills in order to earn a reasonable margin. However, when interest rates increased, the longer-term investments made in Treasury Bonds were not adjusted at the same pace as deposits. Despite these challenges, the Bank's interest income for 2022 increased to Rs. 172.9 Bn., representing a 31.6% increase from the previous year, while interest expenses skyrocketed at 82.9%. Consequently, with the increase in interest expenses outpacing the increase in interest income, the Bank's NIM decreased to 2.03% at the end of 2022, compared to 3.71% in 2021.

C Non-interest income

Composition of non-interest income Graph 10



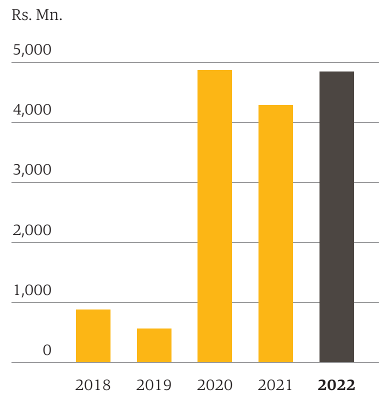
A – Fee and commission income
B – Net gains/(losses) from trading
C – Net gain/(losses) from derecognition of financial assets
D – Net other operating income

In 2022, the Bank experienced a significant decline in its net non-interest income, plummeting by 58.8% from Rs. 3.29 Bn. reported in 2021. The decline was due to several factors, including a loss of Rs. 971.43 Mn. generated from trading activities, and a significant decrease of Rs. 902.76 Mn. in net fee and commission income. The losses from de-recognition of financial assets at amortised cost of Rs. 26.2 Mn. and a Rs. 103.79 Mn. reduction in net other operating income also contributed to the significant decline in net non-interest income.

Financial capital

D Impairment charges

Impairment cost Graph 11

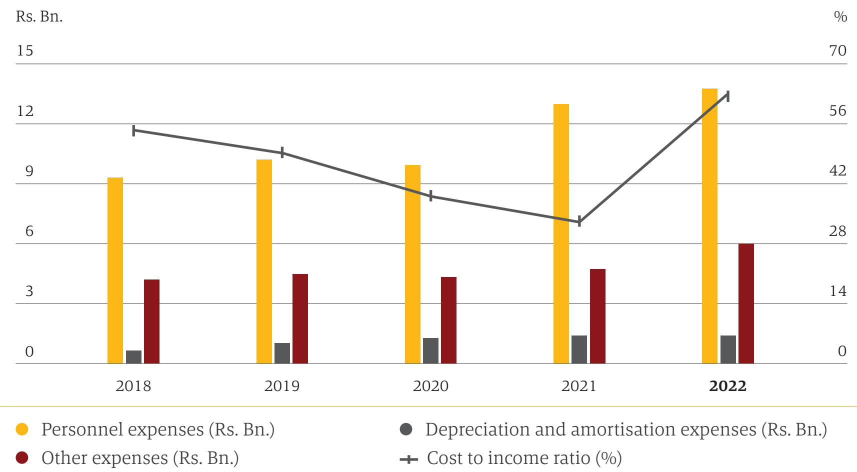


Despite a broad-based escalation in the industry average for impairment charges, with many banks making substantial provisions in anticipation of possible haircuts on foreign currency-denominated Government Security Instruments following the Government's announcement to restructure its external public debt, NSB's impairment charges during the year were maintained at moderate level. As of 31 December 2022, the Bank's total investment in foreign currency-denominated government securities amounted to Rs. 9.4 Bn., down from the Rs. 14.2 Bn. reported a year earlier. Due to the Bank's smaller portfolio of foreign currency-denominated Government security instruments compared to the industry average, its impairment costs increased only by 12.96%, reaching Rs. 4.9 Bn. for the year under review, compared to Rs. 4.3 Bn. in the comparable year, primarily due to provisioning on account of loans and advances.

The gross NPL ratio for the Bank increased to 3.98% in 2022 from 2.97% in 2021. In terms of Stage 3 loans to total loans (net of impairment) the Bank managed to maintain the ratio of 2.82% which was lower than the industry average of 6.5%. In light of the highly uncertain and volatile environment, which included factors such as the breakdown of economic fundamentals, social unrest, and political instability, the Bank has accounted for unseen risk factors in elevated-risk sectors. As a result, the Bank made additional provisions for these exposures.

E Operating expenses

Cost management Graph 12



Despite implementing cost-saving strategies and initiatives, operating expenses which consisted of personnel cost, depreciation and amortisation, and other overhead expenses increased by 11.12% to Rs. 21.2 Bn. in 2022 from Rs. 19.1 Bn. in 2021 due to the widespread price increases. Personnel expenses, which accounted for 65.06% of the operating expenses, rose by 6.32% to Rs. 13.8 Bn. from the previous year's Rs. 13 Bn. Depreciation and amortisation expenses, which made up 6.67% of operating expenses, increased by 2.08% to Rs. 1.41 Bn. from the previous year's Rs. 1.39 Bn. Other operating expenses, which include administration and establishment expenses and Directors' emoluments, went up by 26.94% to Rs. 6 Bn. in 2022. As a result, the Bank's cost to income ratio (without taxes) was significantly higher at 62.95% compared to 33.17% in 2021 due to lower operating income (before impairment), inflationary conditions, depreciation of the Sri Lankan rupee.

F Taxation

GRI 207-3

Total tax expense of the Bank for 2022 was Rs. 5.2 Bn., comprising of income taxes (Rs. 2.0 Bn.), VAT on financial services (Rs. 3.2 Bn.) and social security contribution levy (SSCL) on financial services (Rs. 67.3 Mn.). Although tax rates on VAT on financial services and income tax increased, tax expenses during the 2022 declined by 57.9% from Rs. 12.4 Bn. reported in 2021 mainly due to the lower profitability.

The total effective tax rate increased to 43.90% in 2022 from 22.06% clocked in last year, as the income tax rate increased to 30% from 24% in mid-year combined with lower operating profit as well as reversals of excess provisions from previous years.

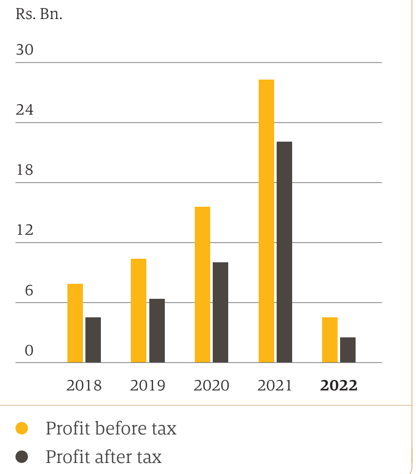
Changes in taxation rate applicable

Description	2022 %	2021 %
VAT on financial services	18	15
Social security contribution	2.5	–
Income tax rate	30	24

Table 12

G Profitability

PBT Vs PAT Graph 13



The Bank's profit before tax (PBT) in 2022 was Rs. 4.51 Bn., a significant drop of 84.1% compared to the Rs. 28.4 Bn. reported in 2021. Similarly, the profit after tax (PAT) for the year also decreased to Rs. 2.5 Bn. from the previous year's Rs. 22.1 Bn. The decrease in profits can be attributed to three main factors: a considerable increase in interest expenses outpacing the growth in interest income, a decrease in non-interest income, and an increase in operating expenses, including impairment provisions. The decline in the Bank's profitability is a result of the potential threat to effective margin management, portfolio quality, cost efficiencies, and the Bank's ability to capitalise on lending opportunities.

As a result of the decline recorded in PAT, the return on assets (ROA) deteriorated to 0.28% in 2022 against 1.93% reported as of the end of 2021. Similarly, return on equity (ROE) also worsened to 3.40% as of the end of 2022 from 33.92% reported during the last year.

2 Balance sheet growth

Summarised statement of financial position

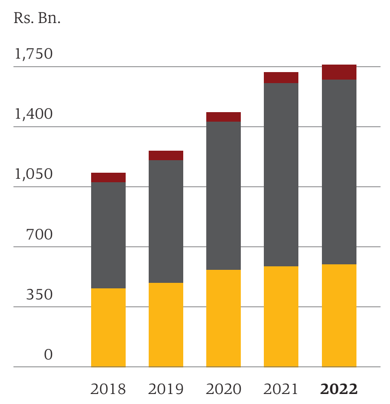
		2022 Rs. Mn.	2021 Rs. Mn.	2020 Rs. Mn.	2022 vs. 2021 YoY Change (%)
A	**Total assets of which**	1,616,686.1	1,579,097.7	1,363,808.4	
B	Loans and advances	553,027.3	538,941.8	516,795.2	2.6
C	Financial assets recognised through profit or loss measured at fair value	14,173.9	19,572.9	11,221.7	(27.6)
	Debt and other instruments	919,129.4	935,350.1	754,233.3	(1.7)
	Financial assets measured at fair value through other comprehensive income	27,662.8	13,817.6	15,271.8	100.2
	Investments in subsidiaries	7,311.0	4,811.0	4,811.0	52.0
D	Other assets	56,306.9	33,655.3	23,033.8	67.3
E	**Total liabilities of which**	1,543,793.9	1,503,085.0	1,309,394.5	2.7
F	Due to depositors	1,476,739.8	1,428,467.4	1,237,123.8	3.4
G	Due to other borrowings	16,766.0	7,719.5	8,159.6	117.2
	Debt securities issues	23,778.3	37,529.0	31,773.8	(36.6)
	Due to banks	4,086.7	7,686.6	12,862.3	(46.8)
H	**Total equity**	72,892.2	76,012.8	54,413.9	(4.1)
	Total equity and liabilities	1,616,686.1	1,579,097.7	1,363,808.4	2.4

Table 13

A Total assets

NSB achieved a significant milestone by crossing the Rs. 1.6 Tn. mark in total assets in just over 50 years, despite the overwhelming challenges faced by the national economy, and the banking sector in particular. As of the end of 2022, NSB's asset base grew nominally by 2.4% to reach Rs. 1.62 Tn. compared to Rs. 1.58 Tn. the previous year. This was primarily due to a slight increase in loans and advances, as well as investments in Government Securities, debentures, and interest receivable from the Treasury. However, this growth was lower than the 15.8% growth recorded in 2021. On the other hand, the Bank's deposit base increased by 3.4% to reach Rs. 1.48 Tn. at the end of 2022 compared to the previous year's base of Rs. 1.43 Tn.

Total assets Graph 14



B Loans and advances

The Bank's portfolio of loans and receivables, consisting primarily of housing loans, pawning, personal loans, and other loans, amounted to Rs. 553.0 Bn. in the current year, compared to Rs. 538.9 Bn. in 2021. Despite the weak economic conditions that persisted throughout the year, the Bank recorded a growth of Rs. 14.1 Bn. in loans and advances as of 2022, representing a 2.6% increase over the previous year.

Despite facing several pressures during the year, the Bank was able to maintain a highly impressive net Stage 3 loans to total loans ratio of 2.82%, which was significantly better than the industry average of 6.50%. This feat was achieved through the Bank's prudent lending approach, which focused on avoiding lending to high-risk sectors. The Bank's strong NPL Ratio can be attributed to the implementation of rigorous control measures, proactive collection and recovery strategies, and adherence to prudential provisioning policies.

The Bank's Stage 3 impairment provision coverage ratio improved by 734 basis points to reach 38.9% in 2022 from 31.5% in 2021 due to the prudent provisioning policies followed by the Bank. Furthermore, the ratio of the total impairment provisions to total non-performing loans and advances at the end of 2022 improved to 75.2% from 73.2%, in the last year.

C Investments

Investment in equity and debt securities

The Bank's investment portfolio, comprising of equity and debt instruments, experienced a marginal decline of 0.8%, reaching Rs. 961.0 Bn. by the end of 2022, as compared to the reported amount of Rs. 968.7 Bn. in 2021. The majority of the portfolio, 99.6%, comprised of debt instruments such as Government Securities, corporate debt instruments, and trust certificates, while equity securities made up the remaining portion. However, the Bank's equity portfolio declined by 18.3% to Rs. 4.3 Bn. by the end of 2022, from Rs. 5.2 Bn. in 2021. due to unfavourable conditions in the equity market.

Investment in subsidiaries

These include the investments of Rs. 4.2 Bn. in NSB Fund Management Co. Ltd as well as Rs. 3.1 Bn. invested in Sri Lanka Savings Bank (SLSB) as a fully owned subsidiary. Investment in subsidiaries increased to Rs. 7.3 Bn. at the end of 2022, growing by 52.0% compared to the Rs. 4.8 Bn. at the end of previous year due to the Rs. 2.5 Bn. additional investment made in the NSB Fund Management Co. Ltd.

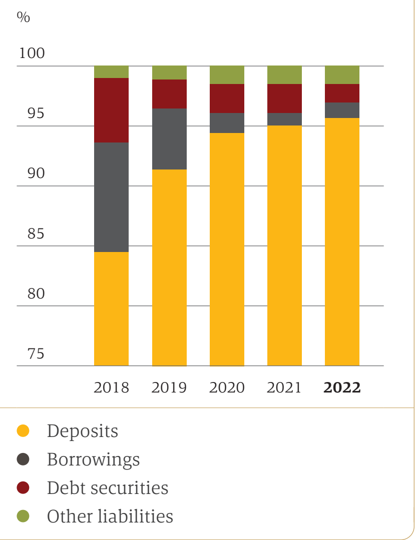
D Other assets

Other assets of the Bank increased by 67.3% mainly on accounts of increase in interest receivable from Treasury which accounts for 60.7% of the total other assets.

E Total liabilities

Total liabilities increased by 2.7% to Rs. 1.54 Tn., led by a 3.4% growth in deposits and a 117.2% increase in borrowings from other customers, amidst the 46.8% decrease in the Bank's borrowings along with 36.6% decline in debt instruments issued as a result of maturities during the year.

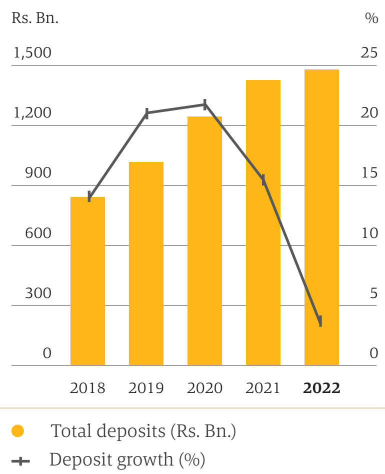
Total liabilities Graph 15



F Deposits

As of 2022, the Bank's deposit base increased by Rs. 48.3 Bn. or 3.4%, to Rs. 1.48 Tn., compared to the reported amount of Rs. 1.43 Tn. as 2021. The Bank raised deposit interest rates in line with the 700 basis point Central Bank policy rate hike in April 2022, leading many deposit holders to prematurely close their existing fixed deposits (FDs) and invest at the higher rates. Additionally, the prevailing higher inflation regime reduced customers' ability to save, while the higher interest rates offered for FDs caused funds to switch from savings to FDs. As a result, the fixed deposit base grew by 9.9% to reach Rs. 1.21 Tn., while the savings deposit base declined by 18.8% to Rs. 264.5 Bn. at the end of 2022 from Rs. 325.6 Bn. at the end of 2021.

Deposit growth Graph 16



G Debt profile

The Bank's total borrowings consist of borrowings from financial institutions, securities sold under repurchase (repo) agreements, subordinated liabilities, and issued debt securities. As of 2022, the total borrowings showed a decline of 15.7% to Rs. 44.6 Bn. compared to Rs. 52.9 Bn. as of 2021, primarily due to a decrease in borrowings from banks and debt securities issued. However, there was an increase by Rs. 9 Bn. (117.2%) in borrowings due to other borrowers.

Due to banks

The Bank's borrowing from other banks, which include overdrafts, call money borrowings, and repos, registered a significant decline of 46.8% to Rs. 4.1 Bn. in 2022 from Rs. 7.7 Bn. in 2021. This decline was due to the full settlement of foreign currency borrowings of USD 35.0 Mn. obtained from Indian Bank and Indian Overseas Bank during 2021, despite an increase in repo borrowings.

Due to other borrowers

Due to other borrowings comprising of repo borrowings excluding part of those recognised under "due to banks", soared up significantly by 117.2% to Rs. 16.8 Bn. in 2022 against Rs. 7.7 Bn. registered in the last year.

Debt securities issued

Debt securities issued by the Bank include unsecured subordinated redeemable debentures and unsecured subordinated perpetual debentures. The portfolio of debt securities issued at the end of 2022 decreased by 36.6% to Rs. 23.8 Bn. from Rs. 37.5 Bn. in the previous year due to the redemption of Rs. 13.7 Bn. worth of unsecured debentures that were issued in 2019.

Decline in other liabilities

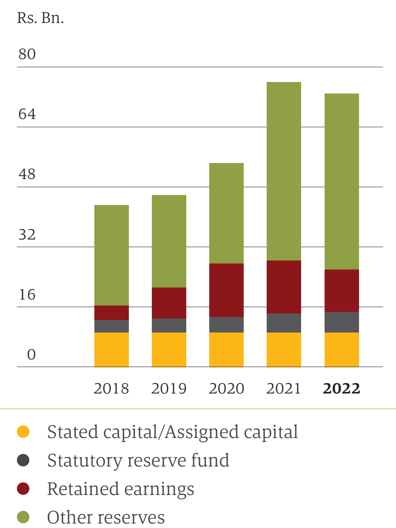
Retirement benefit obligation

Retirement benefit obligations increased by 45.4% to Rs. 12.49 Bn. at the end of December 2022 in comparison to Rs. 8.6 Bn. reported in the corresponding period last year. This was mainly due to the higher discount rate used in actuarial valuation compared to that of 2021 which led to decline in fair value of plan assets.

H Total equity

The Bank's total shareholder's equity decreased by Rs. 3.12 Bn. to reach Rs. 72.9 Bn. by the end of 2022, compared to Rs. 76.0 Bn. in the previous year. This decline was due to lower retained earnings as well as prior year adjustment made in payment of 25% surcharge tax. Retained earnings decreased to Rs. 11.4 Bn. by the end of 2022, reflecting a 17.3% decline from the Rs. 13.7 Bn. reported a year ago. The reduced profitability has led to a decrease in the basic earnings per share to Rs. 2.69 in 2022 from Rs. 23.53 in 2021.

Total equity Graph 17



3 Capital levels

Amidst all the challenges, the Bank's balance sheet remains strong with capitalisation levels well above regulatory requirements and in line with the Bank's risk appetite.

The Bank aims to enhance shareholder value through its capital management approach, which is designed to support its short-term and long-term objectives. The Bank considers various factors, including the risk profile of its operations, the expectations of rating agencies, regulatory requirements, and shareholder returns when managing its capital levels. Additionally, the Bank seeks to leverage a diverse range of capital instruments and management techniques to optimise its capital base financial efficiency and capacity to absorb losses.

Capital management objectives

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

The Bank's capital management objectives are summarised as follows:

- Maintain sufficient capital to meet minimum regulatory capital requirements
- Hold sufficient capital to support the Bank's risk appetite
- Allocate capital to businesses to support the Bank's strategic objectives
- Ensure that the Bank maintains capital in order to achieve debt rating objectives and to withstand the impact of potential stress events.

Capital adequacy ratios remain at comfortable level

Despite an exceptionally challenging operating environment, the Bank successfully maintained strong capital ratios throughout the year, without the need for additional capital infusion. All significant capital ratios remained well above the minimum regulatory requirements. As of 2022, the Tier I capital ratio and total capital ratio were 15.78% and 18.00%, respectively, exceeding the regulatory minimums of 8.0% and 12.0%. The Bank's leverage ratio at the end of 2022 was 7.43%, which was considerably above the regulatory minimum of 3%.

For more details on Bank's capital management refer Risk Review Report on page 233.

4 Funding and liquidity management

Banks play a crucial role in financial intermediation by converting short-term deposits into long-term loans. However, this process makes banks vulnerable to liquidity mismatches and exposes them to funding and market liquidity risks. To mitigate these risks, the Bank has established a robust liquidity risk management framework. The main goal of this framework is to manage funding and market liquidity risks and ensure that the Bank's operations run smoothly under normal and stressful conditions. The key objectives of this framework are to maintain financial market confidence at all times, safeguard the interests of key stakeholders, and comply with regulatory liquidity requirements.

The Bank places equal importance on funding and liquidity as well as to capital, to ensure that it has reliable sources of funding and sufficient liquidity to maintain the confidence of the public in the Bank and the financial services sector. NSB prioritises liquidity alongside generating returns for shareholders, and does not compromise on its liquidity position.

The process of managing liquidity risk involves consistent analysis and monitoring of the liquidity position by the asset-liability committee (ALCO), as well as ensuring market accessibility. To accomplish this, various analytical tools are utilised, such as regular cash flow forecasts, liquidity ratios, and maturity gap analysis. Additionally, a variety of metrics, including the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR), are employed to measure liquidity and funding risk.

The Bank maintained appropriate levels of liquidity buffers based on its evaluation of liquidity risk during periods of stressed market conditions. Despite facing volatile and restricted liquidity environments, the Bank was able to maintain sufficient liquidity to support the growth of its balance sheet, demonstrating resilience and establishing a strong foundation to finance future growth.

	Bank		
Description	2022 %	2021 %	Change (basis points)
Statutory liquid assets ratio (SLAR) – Minimum requirement 20%	**40.62**	59.63	-19.01
Rupee LCR – Minimum requirement – 100%	**195.44**	240.84	-45.40
All currency LCR – Minimum requirement – 100%	**193.49**	240.43	-46.94
NSFR– Minimum requirement – 100%	**180.51**	160.78	19.73

Table 14

Refer Risk Review Report from pages 208 to 236 for further details on liquidity risk management.

Looking beyond

In the short to medium-term, macroeconomic pressures are anticipated to be unavoidable due to the necessary policy measures in place to steer the economy towards long-term recovery. These short to medium-term policies could have an impact on economic growth in the forthcoming months. The main risks to performance in the near future are expected to be impairments on Government securities and weaker credit quality.

As we enter 2023, our priority is to maintain a responsible approach to managing our balance sheet, which will pave the way for future growth. Given the current scarcity and high cost of capital, we will continue to optimise our funding model and carefully plan our liquidity levels. We are confident that these measures will enable us to achieve a sustainable capital base and enhance our access to capital, while also lowering our cost of capital.

Outlook for 2023 and beyond

Short-term

- Reduce the interest and operating expenses.
- Focus on strengthening our balance sheet while managing risk and maintaining adequate liquidity and capital.

Medium-term

- Maintaining the financial stability and achieve the financial targets set out in the budget and strategic business plan.
- Focus on operational efficiency and service quality.

Long-term

- Invest selectively to be in line with the Central Bank Directions, in new technology, digitalisation and process efficiencies to build a FUTURE-PROOF bank, thus creating sustainable value for all stakeholders.

Contribution of our FUTURE-PROOF strategy

Providing inclusive financial solutions to achieve sustainable growth to withstand plausible and extraordinary shocks.

Review of business lines

Retail banking

The retail banking division of NSB offers a comprehensive range of products that cater to the individual needs of customers at every stage of their life, including savings accounts, term deposits, mortgages, personal loans, small business loans, and investment advice. The ultimate goal is to provide customers with an outstanding experience in every interaction and assist them in making tangible financial progress.

Operating environment

- Unfavourable economic conditions, political and social unrest
- Inflationary pressures and sharp increase in interest rates
- Supply side disruptions and restrictions on imports

Impact

- Slowed down the operating activities of the retail banking
- Sharp increase in funding costs and slowdown in credit demand impacted the margin of the retail banking segment
- Hindered people's revenue generation and spending capacity and adversely impacted the borrowers' repayment capacity leading to deterioration in asset quality

Performance and strategy

Deposits

In 2022, the Bank's deposit mobilisation activities were significantly impacted by the increase in policy interest rates from April 2022 onwards. The Bank has undertaken several initiatives to improve its liquidity position and ensure positive and maximum growth of deposit mobilisation.

- Introduced competitive rates across all term deposit products, along with a series of flexible tenor options (4 months and 7 months deposits) to enable customers to reap the benefits of the high interest rates.
- Introduction of *Prarthana+* savings and promoting *Prarthana* savings to enable customers to save at higher rates for longer terms.
- Promotion programme on U-Trust "*Sali Ethen Thegi Mehen*: to increase the foreign remittances.
- Appointed a dedicated person to address any IT issues with regard to foreign remittances, system failures, issues relevant to NSBpay app, internet transactions, exchange houses to resolve the issues in foreign remittances.
- "NSB *Senehase Dayada*" special promotional campaign launched in commemorate the 50th anniversary of the Bank focusing on *Sthree* product promotion, digital banking, green environment.
- Several cash-back promotions were introduced for NSB debit card and initiated the virtual card project aiming to become the first Bank in Sri Lanka to start issuing virtual (mobile based) payment instruments by 2023.

Retail loans

- The Bank responded to the increased interest rate by adopting a cautious approach towards retail lending, and implementing more stringent internal controls and screening protocols.
- The focus shifted towards collateral-based lending, while steps were taken to reduce exposure to loans granted on personal guarantees. The Bank also intensified its promotion of pawning loans.
- A special personal loan scheme was introduced for prospective migrant employees to cover initial expenses before departure for employment.
- A loan scheme was introduced for the purchase of computer equipment under the *"Purawara Sarisara"* National programme.
- As portfolio quality weakened due to increasing repayment pressure faced by customers, impairments sharply increased, which was an industry-wide phenomenon. However, the Bank managed to maintain the NPA ratio for retail lending at 3.6%.
- Eligible customers were granted an extension of the Central Bank mandated debt moratorium until the end of 2022 to defer their repayment obligations for those affected by macroeconomic circumstances in the country.
- To improve service quality and operational efficiency, the Bank introduced a new queue management system with new features for customer service.

Digital banking

To meet the expectations of customers who desire customised and significant experiences through user-friendly interfaces accessible on any device, at any place, and at any time, the Bank has been improving its digital services. As a part of this initiative, the Bank has added new features to our digital platform, such as pawning payments, post office deposits, housing and personal loan payments, loan against fixed deposit payments, and easy cash payments. The aim is to mobilise funds to our digital banking NSBPay app, eKYC, and internet banking. This has resulted in 13,054 new customers joining the internet banking network in 2022.

Outlook with risk and opportunities

The Government aims to maintain a tightened monetary policy stance, which is expected to lower inflation. However, the prolonged effects of inflationary pressures will likely diminish consumers' purchasing power, forcing them to rely on their savings for consumption. As a result, attracting low-cost funding may be challenging for the Bank. To mitigate this pressure, the Bank plans to increase point of sale (POS) transactions, digitally onboard existing customers, and target new customers, especially the younger generation. As economic conditions gradually improve, the Bank aims to consolidate its deposit portfolio and stabilise interest rates. The cautious lending approach adopted in 2022 is likely to persist in the near future.

The Bank will prioritise customer relationships and continue to improve its digital offerings to meet changing customer needs while distinguishing itself through exceptional customer service and convenience. Additionally, the Bank aims to expand its presence in the payment industry by seeking out new partnerships and collaborations that will enhance the banking experience for its customers.

Our priorities

- Maintaining market share while achieving the targeted growth in identified areas/products
- Managing credit quality
- Drive efficiencies by simplifying and streamlining operations and investing in digital capabilities

Focus for 2023

- Maintaining market share, but with reasonable growth in some categories
- Strong focus on net interest revenue and transactional numbers
- Conservative credit policy and focus on collections and impairments
- Delivering superior customer service through strengthened digital delivery channels
- Increased focus on acquiring new customers by pursuing cross-selling opportunities

Corporate finance

GRI 203-1

The business line of corporate finance performs a range of functions that includes corporate lending, multiple finance, loan syndication, and debt origination along with offering risk management products. Its primary focus is to provide funding sources to large corporates, banks, financial institutions, their subsidiaries, and state-owned enterprises.

- Structuring financial facilities (derivative products for the clients)
- Plays the role of agent for syndicated facilities who coordinates the settlement and transactions between the lenders and the borrower/s
- Investing in trust certificates, private placements and debentures
- Leading industry expertise in funding for infrastructure projects

As one of the largest lenders to private sector organisations, Government, state-owned-enterprises and large-scale projects, the cluster plays a vital role in driving economic activity. Financing large-scale infrastructure and mixed development projects in various sectors such as manufacturing, pharmaceuticals, and sustainable energy continued to be a key focus for us. During the year, the Bank has disbursed Rs. 1.5 Bn. of loans and advances for government infrastructure projects.

The corporate finance team collaborates with clients to anticipate their financial requirements and shares their expertise and knowledge to assist them in managing and expanding their businesses. With a vast team of relationship managers and specialists in the industry, our focus on delivering exceptional customer service and reliable advice has resulted in us being a leading player in business lending and deposits.

Operating environment

- Unfavourable economic conditions, political and social unrest
- Inflationary pressures and sharp increase in interest rates
- Supply side disruptions and restrictions on imports
- Continuation of rescheduling and restructuring plans following the extension of the Central Bank's debt moratorium scheme

Impact

- Implications of fuel shortages, logistic issues and interruptions in power supply on corporate activity
- Negatively impacted the performance of the clients, leading to difficulties in the loan repayment
- Businesses dealing with imports affected by the foreign exchange liquidity crisis (slowdown in certain sectors such as construction, tourism and agriculture)

Performance and strategy

In light of the economic strain and high interest rates, the Bank deliberately reduced lending to various sectors, including renewable energy. In order to maintain a robust asset portfolio within the high interest rate environment, the Bank exercised prudence. Nonetheless, the Bank managed its portfolio skillfully, upheld sound asset quality, and persevered in timely recoveries and analysing customers' cash flows. Through comprehension of customers' business operations, the Bank could provide tailored solutions.

Outlook with risk and opportunities

- NSB Bank recognises that managing portfolio exposures will be crucial in the face of ongoing challenges in the foreseeable future. Accordingly, for the next year, the Bank will prioritise lending to selected sectors that exhibit resilience in the current market conditions.
- In line with the latest budget proposals, the Bank will continue to focus on new industries such as agriculture, IT, and renewable energy, which the Government is facilitating. The Bank anticipates lending opportunities in the power and energy sector for combined cycle power plants and renewable energy (solar and wind) due to the Government's clean energy policy. Additionally, the Government's active promotion of local manufacturing is expected to lead lending opportunities to SMEs in apparel, agriculture, and mining.
- The Bank anticipated viable financing opportunities to materialise in 2023 with the expected implementation of the IMF bailout plan providing the stimulus needed to kick-start economic activity and boost investor confidence, leading to a more conducive environment for broad-based lending to resume.

Our priorities

- Focus on key growth sectors through commercialisation capabilities keeping an eye on high-risk exposure sector
- Managing credit quality
- Seeking out low-cost funding opportunities
- Drive efficiencies by simplifying and streamlining operations and investing in digital capabilities

Focus for 2023

- Lending for the sectors with high growth, but with low to medium risk profile
- With the present Government's policy on clean energy lending opportunities to power and energy sector for combined cycle power plants and renewable energy (solar and wind) is expected to materialise
- Lending opportunities to SMEs in apparel, agriculture and mining industry is expected with the Government actively promoting local manufacturing
- Strengthening relationship and leveraging partners to expand our footprint in Sri Lanka
- Preserving credit portfolio quality
- The division has commenced measures to archive and digitise loan files and backup all data onto portable storage devices. Further, laptops with virtual private network (VPN) licenses are also to be requested in the event that a remote working environment is required

International banking

This division offers an array of solutions in relation to foreign currency, engaging activities of foreign currency deposits (savings and fixed deposits) in USD, EUR, GBP, AUD & JPY), inward and outward remittances, foreign currency exchange, issuance of import letter of credit, handling of import bills and issuance of shipping and air freight guarantees.

Operating environment

- Unfavourable economic conditions, political and social unrest
- Foreign currency exchange liquidity crisis and measures taken to curtail the imports
- Declining foreign exchange earnings from the key source markets
- Frequent regulatory changes with regard to the foreign exchange.
- Inflationary pressures and sharp increase in interest rates

Impact

- Businesses related to import affected due to foreign exchange liquidity crisis (slowdown in certain sectors such as construction, tourism and agriculture)

Performance and strategy

During the year of 2022, the Bank has mobilised foreign current deposits of Rs. 10.5 Bn. against Rs. 0.02 Bn. reported in 2021 mainly due to rupee depreciation. Workers' remittances in 2022 via banking channels have declined to a 10-year low. However, the Bank has received Rs. 71.8 Bn. worth of remittances during the year 2022. Consequently, the market share in the remittances increased to 5.73% as of December 2022 from 5.25% in December 2021.

Like other players in the industry, the Bank was affected by the shortage of dollars in the market, which resulted in a significant decline in the volume of trade routed through the Bank. Moreover, the Government's initiative to curtail non-essential imports disrupted the trading business of many clients, which further impacted the Bank's trade finance business.

Outlook with risk and opportunities

A recovery in the economy has been moving at a slower than anticipated pace in recent months due to policy interventions and import restrictions. However, a positive sentiment prevails that the receipt of EFF funding from the IMF and increased inflows from tourism and foreign worker remittances will trigger a more significant recovery. The availability of rupee liquidity has been limited, largely due to shortfalls in state banks caused by the need to fund government expenses. As a result, interest rates have been excessively high, but this is expected to ease as liquidity conditions improve and concerns about debt restructuring subside. The aim is to achieve rate stability and prevent further pressure on the rupee.

The Bank anticipates that import-related trade finance activities will be impacted by the depreciation of the rupee and the implementation of new import restrictions as foreign currency reserves decline. As foreign currency liquidity shortages are likely to persist in the near term, the Bank aims to enhance its dollar liquidity position by expanding foreign currency deposits and remittances. This will enable the Bank to provide trade facilitation solutions to ensure the uninterrupted flow of import and export trade in and out of Sri Lanka.

Our priorities

- Market penetration and market development in key source markets for remittances

Focus for 2023

- Continued to focus on the key growth driving markets
- Increase market share by penetrating into untapped markets
- Concentrate more into export trade finance business
- Drive efficiencies by simplifying and streamlining operations and investing in digital capabilities

Treasury and dealing

Treasury and dealing plays a vital role in managing the Bank's market risks such as interest rate and liquidity risk through optimising asset and liability management. This team engages in various activities including investing in government securities, equities, foreign exchange, REPO borrowings, and reverse REPO lending. Additionally, the team raises funds through debentures and bonds based on the liquidity requirements of the Bank.

Operating environment

- Unprecedented disruption in foreign exchange, money markets and fixed income markets
- Yields of short-term Government securities continued its upward momentum albeit volatility was evident
- The Government announced a halt of external debt servicing on bilateral and commercial loans in April 2022 and approached the IMF for a bailout facility
- Inflationary pressures and sharp increase in interest rates

Impact

- Trading opportunities in Fixed Income trading was adversely affected due to lack of liquidity and market participants throughout 2022
- Investors attraction towards more liquid short-term securities given the lower yield on 1 year and longer tenor securities
- Uncertainty of Domestic Debt Optimisation and the impact of investment in fixed income securities

Performance and strategy

The Bank's portfolio of fixed income securities delivered a mixed performance in 2022. The primary market activity during the first half of the year was mainly influenced by the significant increase in policy rates by the Central Bank in April 2022. This announcement led to a sharp rise in interest rates of Treasury Bills and Treasury Bonds. The year saw an exponential increase in Government security rates to 30%, the highest the country has witnessed in recent times. However, the Bank also recorded some notable mark-to-market losses on treasury bills and treasury bonds purchased during the low interest rate period. Consequently, the Bank's net interest margin was significantly narrowed down by the impact of the interest surge.

An extension to the current Central Transaction Processing System (CTPS) has been introduced to facilitate the settlement of fund transfers/receipts between the Treasury back office and branches. This new system will allow for real-time online settlement of all internal fund transfers, resulting in improved service levels and reduced monthly accounts of funds in transits.

Outlook with risk and opportunities

- Challenges eased in accessing foreign funding given the country's risk profile
- Depleting foreign reserves, rising foreign currency debt repayment requirements, restricted market funding sources and recent adverse global developments and surging commodity prices are expected to put more pressure on yields of Government securities are expected to further reduce on the back of the agreement between the IMF and the Sri Lankan Government
- The outlook for equity markets could be positive on the improvement in the macroeconomic fundamentals

Our priorities

- Finding out new low-cost funding lines
- Drive efficiencies by simplifying and streamlining operations and investing in digital capabilities

Focus for 2023

- Optimising return on investment and strengthen asset liability management function
- Fully implementation of treasury management system
- Obtaining dealer direct participant status
- Significantly increased the capacity of our front-line branch employees by transforming the cash ecosystem and eliminating, simplifying or centralising key administrative activities

Manufactured capital

Key elements of our manufactured capital

Manufactured capital refers to all the physical and digital infrastructure that aids the strategic direction of the Bank and assists in successfully reaching customers for sustainable value creation.

Key inputs

- Property, plant, and equipment
- Capital expenditure
- Physical touchpoints
- Virtual touchpoints/digital channels
- Digital infrastructure

Key challenges

- Striking a balance between physical and digital channels
- Continuous investments and financial viability assessments of IT infrastructure and security
- External factors limiting the geographical expansions
- Resistance to new technologies by certain customer segments
- Continuous evolvement in the customer individual preferences

Key outputs

Customer touchpoints

Number of branches
262 (2021 – 261)

Number of Smart zones
97 (2021 – 92)

Number of ATMs
293 (2021 – 292)

Number of CRMs
97 (2021 – 92)

New Internet Banking
Customers: **11,060** (2021 – 27,204)

Fixed assets

Net book value of property plant and equipment
Rs. 14,756 Mn.
(2021 – Rs. 15,046 Mn.)

Investment in digital capital
Rs. 370.1 Mn.
(2021 – Rs. 534.8 Mn.)

Key opportunities

- Promoting greater financial inclusion across Sri Lanka
- Boost the agility of the NSB
- Ability to improve operational efficiency with enhanced productivity

How we grow our manufactured capital

1. Augmenting our presence and reach through island-wide networks and model branch concepts.
2. Expanding our digital footprint with a focus on efficient processors and sophisticated banking.
3. Enhancing our operational process through integrated digital and physical infrastructure.

Manufactured capital

How we leverage our manufactured capital

Intellectual capital
Brand visibility is promoted through branch expansions while digital infrastructure promotes efficiency.

Human capital
Process improvements and implementation of new systems create new job opportunities, training, and capacity expansion.

Social and relationship capital
Expansion of physical and digital infrastructure provides strong links with customers and suppliers.

Natural capital
Investment in sustainable physical and digital infrastructure reduces the carbon footprint.

Financial capital
Increased efficiency and productivity reduce overall costs.

Connectivity with materiality, stakeholders, and short to medium-term strategic priorities

Material matters

Related stakeholders

Short to medium-term strategic priorities

Potential trade-offs

- Investing in manufactured capital requires substantial financial capital investment. There are trade-offs between using financial resources on maintenance spend or expansionary capital expenditure to upgrade physical and digital infrastructure.
- In the process of increasing manufactured capital, it can cause environmental harm and negatively affect communities where we operate which deteriorates natural capital. We strive to implement the principles of responsible waste management and environmental remediation.
- Our investments to reduce the environmental footprint of existing facilities will benefit natural, intellectual, human and social and relationship capital.

Contributions to UN SDGs

Primary UN SDGs

7 AFFORDABLE AND CLEAN ENERGY
Harness solar energy for branch energy needs.

11 SUSTAINABLE CITIES AND COMMUNITIES
Providing energy-efficient, accessible physical and digital infrastructures and innovative, inclusive products and services.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION
Reduce paper consumption through the promotion of digital banking.

Secondary UN SDGs

10 REDUCED INEQUALITIES
Provide easy access to banking services by expanding the branch network among a wider community coupled with increasing Smart zones across the island.

13 CLIMATE ACTION
Implementing energy-efficient and renewable (solar) energy projects to reduce the Bank's carbon footprint.

1 Augmenting our presence and reach

Enhancing our stature in Sri Lanka's banking industry, we have expanded our geographical footprint across the island through our networks, which extend to every province and district on the Island. This enables us to reach out with our products and services to every community and every stratum of society. Our network comprises 262 branches, 8 regional offices, 3,996 post offices & sub-post offices and 390 ATMs/CRMs with Visa and Master debit card facilities. We have also collaborated with the LankaPay common ATM switch, which provides us access to a network that links over 5,800 ATMs, including Cash Deposit Machines (CDMs) and CRMs across the nation.

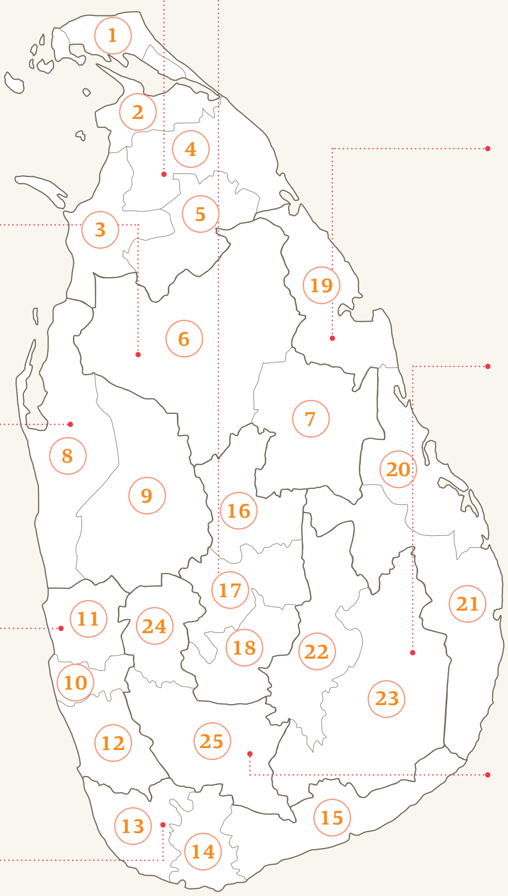
	Branches	ATMs/ CRMs	Smart Zones
Northern Province	20	28	8
1. Jaffna	14	20	6
2. Kilinochchi	1	2	1
3. Mannar	2	2	–
4. Mullaitivu	2	2	–
5. Vavunia	1	2	1

	Branches	ATMs/ CRMs	Smart Zones
North Central Province	15	19	2
6. Anuradhapura	12	16	2
7. Polonnaruwa	3	3	–

	Branches	ATMs/ CRMs	Smart Zones
North Western Province	27	38	8
8. Puttlam	8	13	4
9. Kurunegala	19	25	4

	Branches	ATMs/ CRMs	Smart Zones
Western Province	82	152	51
10. Colombo	43	89	29
11. Gampaha	27	46	17
12. Kalutara	12	17	5

	Branches	ATMs/ CRMs	Smart Zones
Southern Province	39	52	12
13. Galle	15	20	5
14. Matara	13	18	4
15. Hambantota	11	14	3



	Branches	ATMs/ CRMs	Smart Zones
Central Province	28	36	5
16. Matale	4	6	2
17. Nuwara Eliya	7	8	1
18. Kandy	17	22	2

	Branches	ATMs/ CRMs	Smart Zones
Eastern Province	17	20	2
19. Trincomalee	2	2	–
20. Ampara	8	9	1
21. Batticaloa	7	9	1

	Branches	ATMs/ CRMs	Smart Zones
Uva Province	13	18	3
22. Badulla	6	12	3
23. Monaragala	7	6	–

	Branches	ATMs/ CRMs	Smart Zones
Sabaragamuwa Province	21	27	6
24. Kegalle	10	13	3
25. Ratnapura	11	14	3

Scan to view more details on our branches and networks.
https://www.nsb.lk/about-us/our-network/

Figure 12

Given our coveted position as a State Bank, we strive to ensure that our banking services are not only widely available but are also efficient, and at the forefront of technology. We have made significant progress towards this goal in 2022, as evidenced by the following accomplishments.

Island-wide network

Branches play a crucial role in serving as physical touchpoints for customers while being a visible and tangible manifestation of our brand. Recent years have shown a marked shift in customer preference towards digital platforms for banking services. As a result, the Bank has adapted to both the in-person and digital needs of customers by installing physical touchpoints island-wide and expanding the digital infrastructure.

Our island-wide physical touchpoints play a crucial role in our value-creation process. While we focus on building our digital infrastructure, we also aim to augment our branch network by adding new branches in strategically important locations. In 2022, we opened a new branch in Polpitigama and continued to relocate, expand and renovate branches throughout the year in order to improve the customer experience and provide a pleasant and productive work environment for our employees. The branches in Kahatagasdigiliya, Ibbagamuwa, and Ingiriya were relocated to more spacious locations, and renovations were carried out on branches in Horowpathana, Yakkala, Bandarawela, Kiridiwela, Kandy, and the Head Office.

"Model Branch" concept

The "Model Branch" scheme, which was introduced in 2017, is a banking strategy aimed at delivering cutting-edge banking services to customers. Each branch, designed under the 5S standard branding and signage, features a "Smart Zone" that is furnished with ATM and CRM for digital banking. The "NSB Connect" brand is supported by Integrated Digital Media Signage (IDMS).

At the end of 2022, NSB had installed 40 Smart Zones across the Island.

Accessibility for the differently abled people

As part of our commitment to provide equal and unhindered access for all customers, the Bank has taken steps to provide access for disabled and differently abled persons in all its branches across the island. As of end of 2022, 47 of the Bank-owned branch buildings and 90% of the rented branches have been upgraded with disability access. Going forward, all new branches will be built to meet this requirement, and we aim to ensure that every NSB branch is equipped with equal access facilities in the future.

Energy-efficient buildings

We take an enlightened view of our environmental responsibilities and have implemented a number of energy-efficient projects to reduce costs, conserve energy, and lower our carbon footprint. Our focus on constructing energy-efficient buildings ensures that all new branches are built to optimise natural light and air, resulting in reduced energy consumption. As a result, we have equipped 46 branches with solar power systems, and 18% of our branch network now function on renewable energy. Our Kataragama circuit bungalow has been recognised as an energy-efficient building with minimal electricity consumption due to its efficient utilisation of natural light and air, contributing towards energy conservation. Refer page 164 for more details on our environmentally friendly initiatives.

2 Expanding our digital footprint

The current trend in customer interactions within the banking industry is moving steadily in the direction of digitalisation, as customers show increased digital sophistication when engaged in banking transactions. There has been a perceptible shift towards self-service channels that would make banking more efficient, convenient, and flexible. Employees have also found digital processes to be more efficient, resulting in higher productivity.

Toward this objective, we have invested in self-service propositions, payment, and digital solutions, and bolstered information security. Given below are our undertakings.

Secure card payments

The Bank takes its responsibility towards customer security very seriously and has made every effort to obtain innovative yet secure payment options in pursuit of the country's cashless initiative.

The Bank has/is:

- Continued in-house printing of chip-enabled EMV (Europe, Master Card, and Visa) debit cards to combat fraud.
- Bank's card portfolio is 84% EMV compatible.
- Handled debit card-related issues via the Tracking Systems which integrates the card centre, call centre, and ATM support services unit.
- Holder of the Data Security Standard PCI-DSS Certification, which is an internationally accepted cardholder data security standard, and the Bank was recertified with the certificate in 2022.

Security Operations Centre (SOC)

As for the preparedness to achieve requirements in CBSL consultation paper on Technology Risk Resilience, the Bank achieved the proposed requirements for 2022. This enhanced the Information Security Management System and will continue enhancing and maintenance of implemented controls through regular Management Committee reviews and technical reviews.

Mobile payment app

In 2021, we launched the "NSBPay App", a mobile payment app available on popular mobile application platforms such as iOS, Android, and Huawei. The app's primary goal is to enable customers to conveniently, securely, and quickly carry out their regular banking transactions. The app offers a range of features, including deposits, fund transfers to other accounts at the Bank or other banks, payment of loan installments, bill payments, QR code payments, instant connectivity to our Call Centre, and more.

Description	2022	2021
Number of cards issued during the year	161,467	291,318
Total number of cards in use as of 31 December	2,203,309	2,041,842
Total volume of transactions during the period	9,831,714	7,639,929
Total value of transactions (Rs. Mn.) during the period	26,235	18,424
Number of ATM terminals in use	293	292
Number of CRM in use	97	92
Number of Internet banking customers	123,591	112,531
Internet Banking – Total volume of transactions during the period	1,651,209	1,705,045
Internet Banking – Total value of transactions during the period (Rs. Mn.)	56.6	38.7

Table 15

Other payment solutions

In response to the CBSL's measures to promote the adoption of secure e-payments, the Bank has developed several payment solutions such as LankaPay-CEFTS, LankaPay Online Payment Platform (LPOPP), JustPay, and USD online clearing system over the years. NSB also aims to become the first bank in Sri Lanka to start issuing virtual (mobile-based) payment instruments by 2023.

3 Enhancing our operational process

Our recognition of the worldwide shift towards digitalisation has made us ensure that our physical and digital infrastructure work together seamlessly to provide the most efficient operational processes. We are constantly upgrading our systems and processes to stay ahead of the curve and respond quickly to customer needs and expectations in the digital age. The following are our initiatives in this regard.

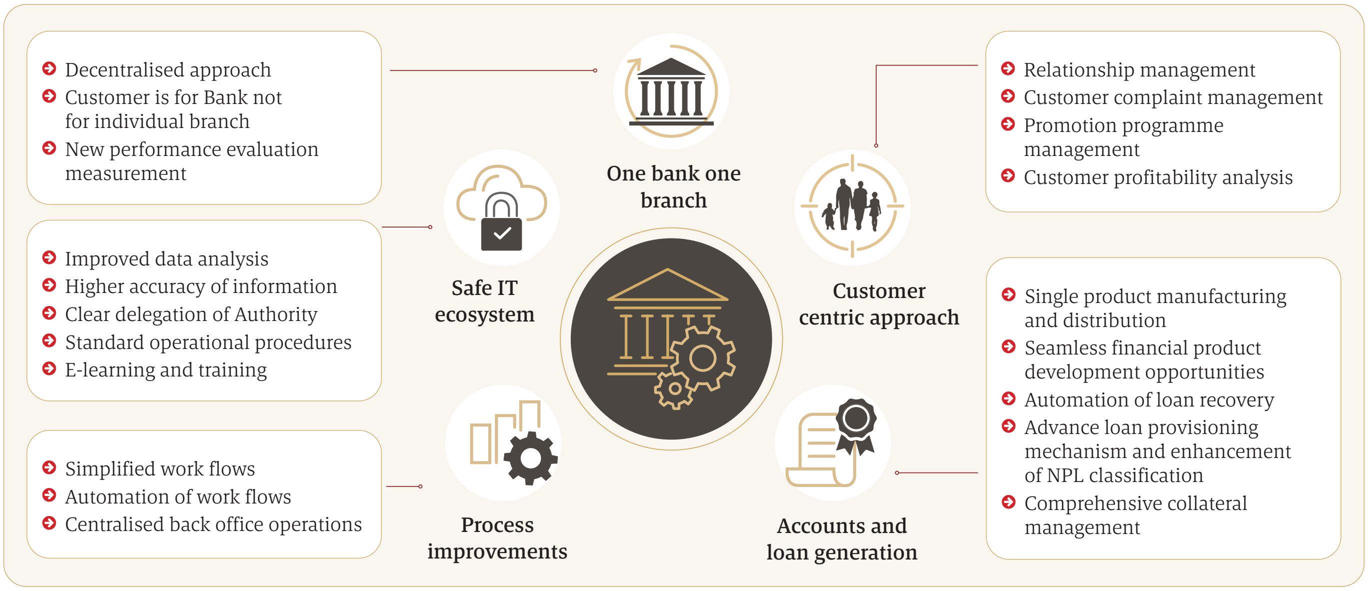


Figure 13

Integrated core banking solution

The Integrated Core Banking Solution which is to be implemented in the near future covers deposits, credits, cheques, loans, collaterals, collections, and payments all on one platform. It focuses on:

- Updating IT architecture and systems to the latest software for customer flexibility
- Digitally transforming the delivery of products and services so that it can easily adapt to changes
- Using the latest technology as a foundation for daily operations and to understand customer needs
- Digitally updating back-end operations to automated process that improves the speed, efficiency, and strength of our operations

The Core Banking Solution will result in high levels of automation and risk-free deployment when handling sophisticated integrated banking requirements. It has proven to be easy to use and provides high operational efficiency whilst complying with regulatory requirements and international best practices. This approach provides immediate benefits to both employees and customers, while also transforming the Bank into a data-driven organisation with increased productivity levels and faster time-to-market in the long run. Moreover, the integration of the Anti-Money Laundering (AML) solution, Treasury Management System (TMS), and Human Resource Management System strengthen this system, providing a holistic approach to process management.

Anti-money laundering (AML) solution

E-KYC with blockchain technology

In 2018, CBSL identified the potential benefits of blockchain technology for Sri Lanka's financial services and initiated an inter-industry study with the voluntary participation of banks as well as the IT industry. CBSL decided to pave the way for blockchain technology-based financial service solutions in Sri Lanka, developing a shared KYC solution and entering into agreements to begin developing blockchain technology-based shared Know-Your-Customer (KYC). Accordingly, the Bank has taken initial steps relating to e-KYC with blockchain technology.

The AML complements the core banking system and has enabled the following functions:

- Monitoring and tracking of transactions to prevent fraud and money laundering activities.
- Consistent lifecycle coverage for Know Your Customer (KYC) and customer due diligence.
- Ability to screen customers/ transactions against sanctions lists.
- Comply with all AML regulations.
- Improved due diligence due to system-enabled tracking and monitoring of blacklisted customers.

Human resource management system

With a view to automating human resources functions, the Bank implemented a human resources management system. This system completes the comprehensive managing process, and bolsters the efficiency of HR functions in the following manner:

- Gathers, stores, and assesses employee information.
- Manages recruitment and onboarding.
- Tracks the payroll and performance evaluation.
- Manages the administration of employee benefits.
- Maintains records of employee learning and development.
- During the year 2022, frist phase of the new HR system was implemented.

Cash@Ease system

The Cash@Ease system was introduced to streamline the cash management process of the Bank. It has allowed for greater operational efficiency in the Treasury Division and the cash management process across branches, and has enabled the following:

- Able to view daily cash positions.
- Able to request cash from the Treasury.
- Manage balances.
- Send online confirmation of transactions.
- Increased accuracy in cash management processes.
- Greater levels of efficiency and customer service.

Outlook for 2023 and beyond

Short-term

- Establishment of a separate digital banking unit and introduction of digital products and end-to-end digital onboarding for savings and loan products.
- Integrate the Core Banking Solution with the HR and Treasury Management Systems

Medium-term

- Transforming existing customer base to digital channels and expand by two-folds by the end of 2025.
- Digitalisation of the postal sector

Long-term

- Becoming a nimble and data-driven organisation.

Contribution of our FUTURE-PROOF strategy

Providing inclusive financial solutions to achieve sustainable growth to withstand plausible and extraordinary shocks.

Intellectual capital

Key elements of our intellectual capital

Intellectual capital refers to the collective knowledge and intellectual resources that form the essence of our identity and value proposition to our stakeholders. Intellectual capital encompasses a range of intangible assets including tacit knowledge, customer loyalty, brand and reputation, systems and process, business ethics, corporate values, policies, and corporate culture essential to create value for stakeholders.

Key inputs

- Integrated business strategy
- Best practice governance
- Agile approach to strategy setting and execution of strategic priorities
- Leveraging technology and innovation
- Corporate culture

Key outputs

Brand value
Rs. 30.4 Bn.
(2021 – Rs. 30.7 Bn.)

Credit rating
AAA (2021 – AAA)

Brand rating
AA (2021 – AA)

Employees with over 10 years of service
1,648 (2021 – 1,469)

Key challenges

- Ensuring business continuity in a rapidly changing operating environment
- Mutually exclusive projects due to limitation in capital allocation
- Sustaining brand value
- Cyber resilience and information security

Key opportunities

- Digitalisation
- Innovation and agility
- Improved informed decision making
- Effective stakeholder engagement and collaboration

How we grow our intellectual capital

1. Building an organisation of repute by carrying forward the rich heritage of technical know-how in the banking industry.
2. Remain a value-driven institution based on the foundations of trust, mutual respect, integrity, and creativity engraved in corporate culture and way of banking.
3. Ensure robust systems and processes are in place to leverage on technology and innovation.
4. Strive to adapt best practices that would enhance governance and risk controls.

Intellectual capital

How we leverage our intellectual capital

Manufactured capital
Enhancing infrastructure, systems, and processes results in improved business functions.

Human capital
Investments in training and development enhance the knowledge, skills, and experiences of our employees, contributing to operational excellence.

Social and relationship capital
Our values, business ethics, and risk management framework are fine-tuned through attention to detail, creating a reputation that instills confidence.

Natural capital
Our attention to sustainability initiatives is bolstered by our science-based approach, thereby instilling stakeholder confidence.

Financial capital
Increased investment in areas of brand and staff development leads to enhanced cooperate reputation and stakeholder confidence.

Connectivity with materiality, stakeholders, and short to medium-term strategic priorities

Material matters

Related stakeholders

Short to medium-term strategic priorities

Potential trade-offs

- Investing in manufactured capital requires substantial financial capital investment. There are trade-offs between using financial resources on maintenance spend or expansionary capital expenditure to upgrade physical and digital infrastructure.
- In the process of increasing manufactured capital, it can cause environmental harm and negatively affect communities where we operate which deteriorates natural capital. We strive to implement the principles of responsible waste management and environmental remediation.
- Our investments to reduce the environmental footprint of existing facilities will benefit natural, intellectual, human and social and relationship capital.

Contributions to UN SDGs

Primary UN SDGs

8 DECENT WORK AND ECONOMIC GROWTH
Identify and develop the intellectual capital of employees to increase living standards and economic growth.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
Encourage an innovation-driven culture, investing in technology and infrastructure.

16 PEACE, JUSTICE AND STRONG INSTITUTIONS
Promote ethical behaviour, good governance, and compliance across the Bank and the industry.

Secondary UN SDGs

10 REDUCED INEQUALITIES
Invest in intellectual capital to reduce inequality among employees, thereby creating more equal opportunities for success.

1 Building an organisation of repute

INTEGRATED THINKING drives our strategic priorities

We understand that value creation and preservation do not happen in isolation and that the strategic choices and decisions we make today have long-lasting consequences, which affect our management of intellectual capital and give us a differentiated competitive advantage.

The business-as-usual economic model of previous decades has been disrupted by the growing global awareness of increasing socioeconomic and environmental challenges. This has resulted in the need for organisations to reconsider their business models, taking into account the needs of broader stakeholders rather than just shareholders themselves. Bearing this in mind, our stakeholder engagement strategy acknowledges stakeholders throughout our value chain. This strategy is an essential part of our intellectual capital, and crucial for addressing the resilience of our business model in a rapidly changing context. Our rigorous and inclusive annual strategic review process considers the risks and opportunities associated with our broader operating context, and how these impact our investment decisions, leasing strategies, deployment of capital expenditure, and day-to-day operations management. These processes ensure that we implement this strategy to create value for ourselves and our stakeholders – in the present and in an increasingly uncertain future.

We track multiple measures to be accountable for our progress, and the impact we generate during our value-creation journey. These are assessed against our strategic objectives using meaningful Key Performance Indicators (KPIs).

Refer to pages 4 to 5 for a deeper understanding of our integrated approach to business.

Tacit knowledge

With 50 years of operations since 1972, we at NSB have developed a series of unique processes, styles of working, and technical expertise, which we regard as a fundamental component of our competitive advantage. Such tacit knowledge is the outcome of our rich legacy and a multitude of factors, and we consistently update our database, and share such knowledge across the board, to stay at the forefront of the banking industry.

Processes and practices matured over decades

Experienced workforce:

- Over 37% of employees with more than 10 years service
- 50% of Corporate Management with more than 15 years service
- Diverse workforce with diverse knowledge and skills:
- Different geographies, generations, and backgrounds
- High staff retention rate of 98.1%

Tacit knowledge

Enrich via

- Identify stores of tacit knowledge in each employee
- Retain employees with high tacit knowledge
- HR policies that facilitate high levels of employee engagement
- Structured training programmes
- Knowledge sharing sessions
- Mentoring and other training tools
- Internal training and induction programmes by experienced staff members

Bolstering brand image

The Bank maintained its clear focus on brand development and business delivery, despite the steps taken by the GOSL to control expenditure followed by a period of reduced spending since 2021, due to the effects of COVID-19 and the economic crisis. Despite such constraints, we persisted with our social media marketing campaigns to establish our corporate brand image and implement our goal of transforming into a purpose-driven organisation that aims to create positive impacts in the lives of our employees, customers, and the communities where we operate.

The Bank has been recognised as the 5th most valuable brand in Sri Lanka with a brand value of Rs. 30.4 Bn., down by 1% from Rs. 30.7 Bn. reported in the previous year (Brand Finance Sri Lanka 100, April 2022).

2 Values and ethics

Image and advance public relations

We consider ourselves a value-driven institution, building our operations on the foundation of trust, mutual respect, integrity, and creativity. Our corporate vision, mission, and driving force behind our actions are clearly indicated by these values, which have been refined over the past 50 years. These values have not only influenced our corporate culture, but have also played a crucial role in shaping our ethos, identity, and philosophy. Collectively, they contribute to our overarching objective of delivering financial solutions while fulfilling stakeholder expectations.

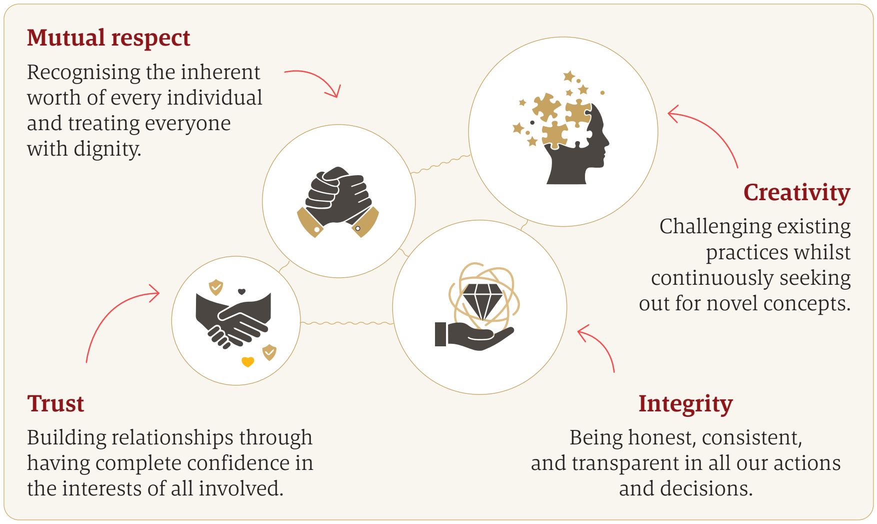


Figure 14

As much as we are driven by values, we are governed by ethics at NSB. As a premier savings bank in Sri Lanka, ethical integrity remains paramount in all our relations and transactions, and we consider our stakeholders a social responsibility. The Board establishes the standard for ethical conduct, and policies and procedures are implemented throughout the Bank to ensure that employees adhere to these prescribed standards.

At NSB, all employees are expected to uphold the highest norms in ethical behaviour in every transaction. The Bank periodically assesses internal standards, codes, and control mechanisms, as well as regulatory and compliance requirements, to ensure alignment with industry best practices and regulatory authority mandates. The Board regards risk management and compliance as critical strategic investments and aims to cultivate a risk-aware culture within the Bank.

The three lines of defense establish a strong values-based risk awareness culture, which serves as the foundation for accountability and compliance. These are consistently reinforced by enhancing corporate governance, maintaining a resilient risk management framework, and ensuring compliance.

3 Robust systems and processes

Leveraging technology and innovation

Technology and innovation are key elements of our futuristic intellectual capital and determine how the “NSB of tomorrow” is delivered to our stakeholders. The internal Information Technology Steering Committee (ITSC) leads this effort with oversight from the Board. The ITSC strives to offer ICT services and infrastructure that satisfy current and future demands while also ensuring efficient operational management. To this end, ICT governance standards and strategies are implemented across the Bank in a manner that adheres to regulatory requirements, serves Bank objectives and goals, and promotes the most relevant, secure, business-effective model and end-user experience. Our commitment to technology and innovation is evident in our short to medium-term strategic objectives, which focus on "accelerating digitalisation".

Our ICT strategic approach embraces technological innovation and reimagines the core of our business model along connectivity lines, re-envisioning how we operate and how customers experience us.

Technology-based projects

Long-term value creation is strongly influenced by technology and innovation, which we view as crucial strategic enablers that keep us relevant and agile. As such, the Bank has pursued several initiatives aimed at expanding technical capabilities, managing existing digital functions, improving systems and processes, and strengthening data security.

- Core banking system initiative – We are currently implementing the T24 Transact core banking system, which is expected to be launched in 2023. With this new system in place, the Bank will be able to develop robust front-end digital platforms and create end-to-end solutions that automate and streamline back-office processes. As part of this deployment, all IT-enabled banking services are being re-engineered to comply with industry regulatory requirements and adhere to various international standards.
- Mobile payment app – Implemented in 2021, the app is available on all leading mobile application platforms such as iOS, Android, and Huawei.
- Implementation of the first phase of the Human Resources Information System (HRIS), automating leave, attendance, and employee information management.
- PCI-DSS Certification – Adhering to industry best practices, the Bank obtained the PCI-DSS certificate back in 2019 and continues with the compliance status during the year 2022.
- Security Operations Centre (SOC) – Implemented with the support of a competent third-party service provider in 2020, the SOC has continued its service in 2022.
- Data Leakage Prevention (DLP) – The Bank implemented a DLP system with an automated data classification facility to cover all IT systems of the Bank during the year 2022.
- Initiated e-KYC with blockchain technology.

4 Striving for best practice governance and risk management

Our approach to governance and risk management forms part of our intellectual capital and supports our overall value-creation process. Upholding best practice governance is a continuous pursuit for the Bank, in order to sustain and preserve value creation as well as to prevent any erosion of value due to a breakdown of trust with our stakeholders.

To achieve sustainable value creation, we regard the building and maintaining of trust with our stakeholders as being crucial. This cannot be achieved without making governance an integral part of our business strategy. The Bank's governance structures and processes are designed to establish effective controls and promote ethical leadership. Our dedication to good governance is evident in our internal policy framework, which integrates ethics into our business practices, as well as our supplier code of conduct that mandates our suppliers to uphold good governance in their operations.

Refer Corporate governance on pages 178 to 198; and Human Capital on pages 130 to 147 for more information on how we create value through our governance processes, and training and development.

We take a proactive approach to risk management by identifying both current and potential risks. The risk management strategy is developed alongside our corporate strategy, and our risk appetite guides the type and level of risk we are willing to undertake in achieving our objectives. Our Integrated Risk Management Framework, approved by the Board, is used to manage risk, and the Board Integrated Risk Management Committee (BIRMC) carries out thorough monitoring and reporting.

Refer pages 208 to 236 for our discussion on risk management.

Awards and recognitions

In our journey towards meeting banking excellence and satisfying our customer base, we have been presented with numerous awards and accolades. We believe this to be a clear indication of our success as a Bank, and we are encouraged to continue our journey and better the Bank even further.

- Recognised as a Women-friendly Workplace by Satyn Magazine and CIMA Sri Lanka (second time in succession).
- Silver Award under the State Banks Category at the Transparency, Accountability, Governance, and Sustainability TAGS Awards 2022 organised by CA Sri Lanka.
- Grand Award winner for Infographics at the Annual Report Competition/ARC Awards 2022.

- Gold Award for Excellence in Customer Convenience and Best Common ATM Enabler at LankaPay Technovation Awards 2022.
- Best Integrated Report under the Banking & Finance Category in State-owned Enterprises/Companies sector at the Institute of Certified Management Accountants (CMA) of Sri Lanka Excellence in Integrated Reporting.

- Chief Information Officer (CIO) of the year at ICT Awards 2022 awarded to the CIO of NSB.
- Most Popular Banking & Finance website.
- Merit Award for Best Banking & Finance website.
- 5th Most Valuable Brand in Sri Lanka (brand value of Rs. 30.4 Bn.).
- NSB's Chairperson recognised as a Top Professional in the Banking Sector at the Top 50 Professional & Career Women Awards 2022.
- Most Outstanding Female in Sri Lankan Workplaces awarded to NSB Deputy General Manager (Operations).

Figure 15

Outlook for 2023 and beyond

Short-term

- Enhancing our brand equity.
- Achieve operational excellence in all aspects of what we do by accelerating digital transformation and strengthening our systems and processes.

Medium-term

- Use technology as an enabler of creating a superior customer experience.
- Build a culture of innovation and exploration through our FUTURE-PROOF strategy.

Long-term

- Utilise artificial intelligence and machine learning to gain a better insight into data within our eco-system generated through the internet of things technology.

Contribution of our FUTURE-PROOF strategy

Providing inclusive financial solutions to achieve sustainable growth to withstand plausible and extraordinary shocks.

Human capital

Key elements of our human capital

Human capital refers to the biggest asset of the Bank – people, that drive us towards our purpose by aligning with our strategic direction. It consists of knowledge, talents, skills, abilities, experience, intelligence, training, judgment, and wisdom possessed by our employees individually and collectively.

Key inputs

- Training and development
- Positive working environment
- Establishing solid labour relationships
- Developing critical skills and succession planning
- Managing performance and talent
- Introducing policies and procedures to improve service delivery

Key challenges

- Employee resignations and employees traveling overseas on no-pay leave given the negative economic situation in the country, pose a challenge to retaining talent in the Bank with a possible risk of skill gaps among employees.
- An aging workforce, coupled with a shortage of qualified talent, particularly in new trends of technology.
- A new generation workforce who is less traditional, more technologically savvy, and ambitious, makes it difficult for the Bank to connect them to its goals.
- Employees who become more qualified, multi-skilled, and talented may expect higher wages and benefits, making it more challenging for the Bank to attract top talent.
- The relentless pressure for profitability and Government policies propelling organisational change through continued mergers, acquisitions, and strategic alliances.
- Being a State Bank, union and political influences may disrupt best practices of human resource management.
- Keeping the momentum and motivation of staff is a challenge given the dire economic situation of the country and the Government's stern policies on taxes.

Key outputs

Employee engagement

Number of employees
4,528
(2021 – 4,616)

Average revenue per employee
Rs. 38.6 Mn.
(2021 – Rs. 29.2 Mn.)

Retention ratio
98.1% (2021 – 98.6%)

Employee turnover ratio
1.9% (2021 – 1.4%)

Training and development

Investments in training and development
Rs. 12.8 Mn.
(2021 – Rs. 11.0 Mn.)

Average training hours per employee
5.0
(2021 – 9.4)

Equal opportunity

Number of female employees
2,481
(2021 – 2,518)

Key opportunities

- High productivity through quality employees who are engaged and retained.
- Capacity to meet current and future needs through our diverse and experienced workforce.
- The prospect of enhancing human capabilities and productive capacity so that our people are agile, and adaptive, and remain relevant in a rapidly evolving environment and job market.
- Developing HR processes and documentation to effectively utilise time and resources.
- Enhancing employee experience and loyalty by supporting a healthy work-life balance

How we grow our human capital

1. Attracting the best-suited talent who will integrate well with the existing team and will continuously perform to achieve the Bank's objectives.
2. Nurturing and developing a winning team through rigorous training to enhance the employee skill sets to suit newer digitised operations.
3. Managing our talent through providing quality-based promotions and celebrating diversity and equal opportunities.
4. Retaining employees with a focus on work-life balance coupled with a commitment to health and safety.
5. Communicating effectively to establish a friendly and cooperative working atmosphere to improve productivity.

How we leverage our human capital

Manufactured capital
Investments in building favourable workspaces, automating HR processes, and digitising the Bank ensure employee contentment and higher performance for the Bank.

Intellectual capital
Investments in training and development enhance employee knowledge, skills, and business training that benefits the Bank.

Social and relationship capital
The provision of job opportunities creates community links that are conducive to the Bank's brand image.

Natural capital
Sustainability initiatives improve employee health and safety and promote a green-conscious culture.

Financial capital
Investments in building human capital contribute to long-term financial gain through increased productivity, efficiency, and delivery of unparalleled customer experience.

Connectivity with materiality, stakeholders, and short to medium-term strategic priorities

Material matters

Related stakeholders

Short to medium-term strategic priorities

Potential trade-offs

- Time, effort and resources invested to improve the operational environment for our people may initially divert focus from pure manufactured capacity building, but the long-term financial health of the organisation depends on a conducive environment where our people can excel and be safe.
- Providing job opportunities and recruiting new people may decrease the financial capital in the short term but increase intellectual capital and social and relationship capital in the long-term since new blood with diversities and capabilities coming to the Bank.
- Building competencies on customer service, innovation, operational excellence and corporate culture and value through training and development may decrease the financial capital initially but enhance the human, intellectual and financial capital in the long run.

Contributions to UN SDGs

Primary UN SDGs

- **1 No Poverty** – Supports economic development by providing employment opportunities.
- **4 Quality Education** – Develops skills through training and development to create new avenues of employment.
- **5 Gender Equality** – Provides opportunities that encourage more female entrants into the workforce.
- **8 Decent Work and Economic Growth** – Ensures a safe, conducive, and rewarding workplace for employees.

Secondary UN SDGs

- **2 Zero Hunger** – Improves employee quality of life by providing direct employment opportunities.
- **10 Reduced Inequalities** – Create a safe and supportive environment for more female participation in our workforce.

1 Attracting the best-suited talent

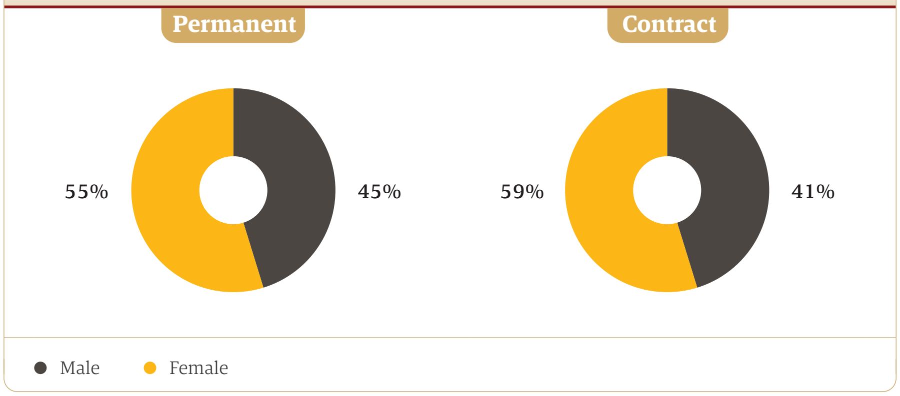
GRI 401-1

The NSB team

At NSB, we are of the firm view that our employees are a significant driving force behind the continued success and sustainability of our organisation. As of 31 December 2022, we had a workforce of 4,528, consisting of 4,489 permanent employees and 39 contract workers. In 2022, we welcomed 14 new employees, of which 8 were female. Our high retention rate of 98.1% is a testament to our effective HR policies and viable employee value proposition. Furthermore, the fact that 17% of our employees have served for over 15 years demonstrates the loyalty that our institution commands. Our total workforce stands at 4,528 (2022).

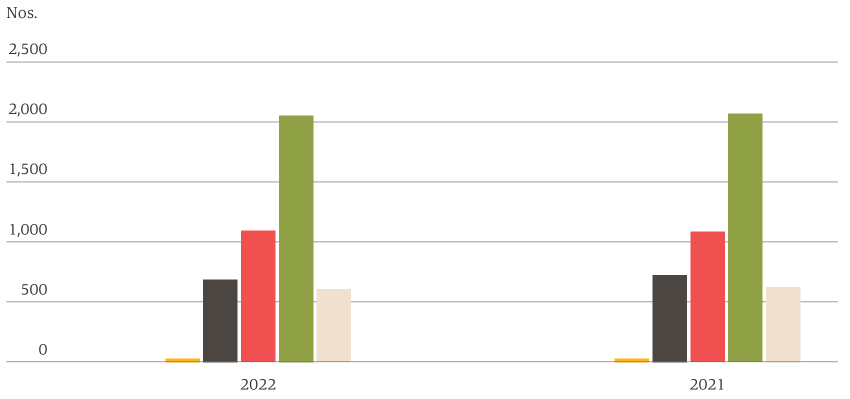
Figure 16

Employment category by gender Graph 18



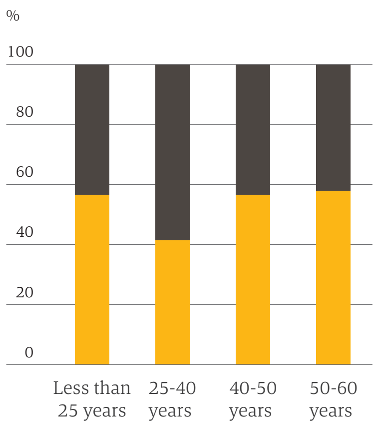
Staff grade composition

Graph 19



Age category by gender

Graph 20



Hiring the best fit

GRI 202-2, 401-1

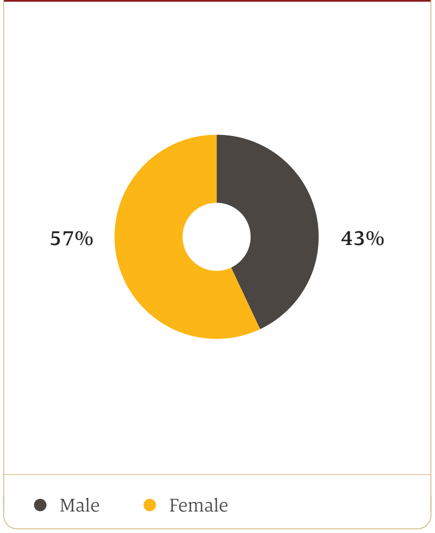
The Bank's ability to maintain its growth in the long-term hinges on its capacity to attract, retain, and cultivate capable employees. Towards this objective, the Bank has a policy of selecting the most suitable candidate based solely on qualifications, skills, and experience, without considering gender, race, religion, or any other limiting factor. During the recruitment and selection process, the Bank seeks individuals who can work harmoniously with the existing team and are highly motivated to perform and contribute to achieving the Bank's corporate objectives with dedication, enthusiasm, initiative, and professionalism. This ensures that only those who have the potential to contribute to the Bank's success, while also focusing on advancing their own careers, are recruited. As a result, both the individual and the Bank are assured of progress in a forward direction.

NSB places considerable emphasis on local recruitment and takes pride in having a Senior Management team that is 100% locally sourced. Our staff recruitment strategy focuses on bringing in individuals from diverse backgrounds that are representative of our customer base. This approach ensures that we stay relevant and effective in meeting the needs of our customers through shared experiences, as well as commonality in terms of socio-economic and cultural relevance. We strongly believe that diversity fosters a holistic perspective, leading to sound decision-making, innovative thinking, and resourcefulness.

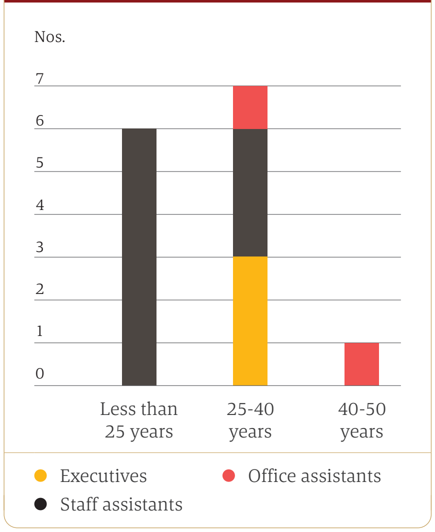
As part of our commitment to helping young people gain valuable banking experience, we awarded 42 internships in 2022, which was an increase from the previous year. These internships began with an induction programme that provided a comprehensive understanding of NSB's culture, values, ethics, operational processes, systems, and practices. Our goal is to offer opportunities for personal and professional development to the next generation of banking professionals, while also benefiting from their fresh perspectives and youthful energy.

Due to the challenging operating conditions during the year, and the need to keep costs under check, recruitment was carried out with utmost prudence. and strictly based on the compelling needs of the Bank. Despite such constraints, interviews were conducted utilising web and video conferencing facilities. As a result, we were able to recruit 14 new employees in the crucial areas of digitalisation, customer-centricity, and organisational realignment, which required candidates of the highest calibre.

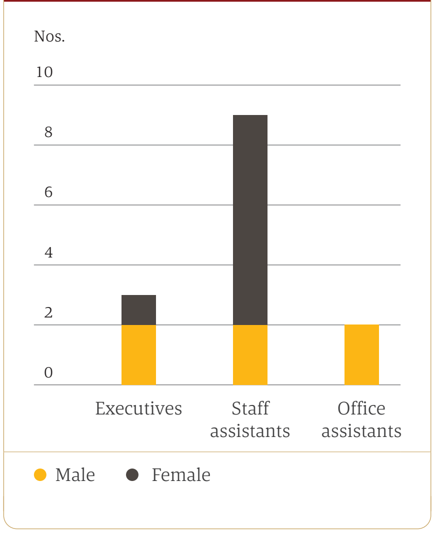
Composition of new recruits Graph 21



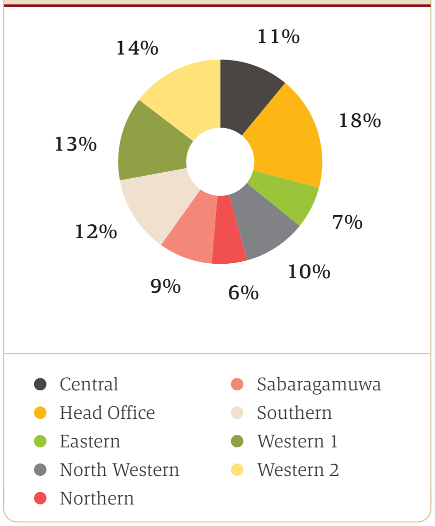
New recruits by age and grade Graph 22



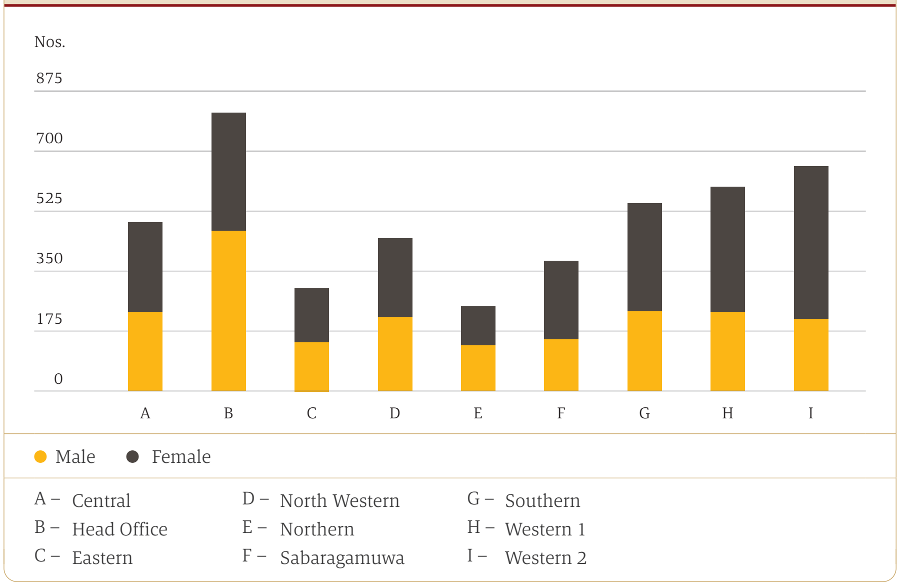
New recruits by grade and gender Graph 23



Geographical distribution of employees Graph 24



Geographical distribution of employees by gender Graph 25



2 Nurturing and developing a winning team

GRI 404-1, 404-2

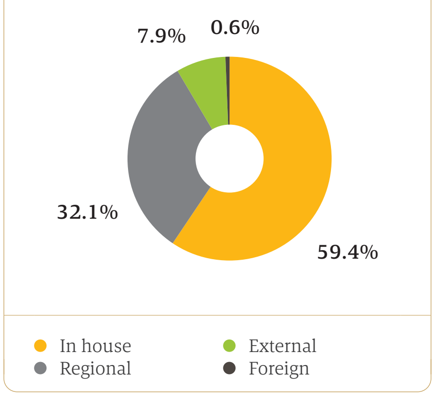
Standardising people development

A rigorous training schedule is given priority at NSB to ensure that our staff members possess the relevant and current technology as well as are professionally knowledgeable, in addition to being efficient and effective in their daily operations. We firmly believe that targeted training leads to employees who understand their job requirements and are able to handle them in the required manner. This focused approach to training also enhances performance management by ensuring that all employees have a clear understanding of their roles and responsibilities within the Bank.

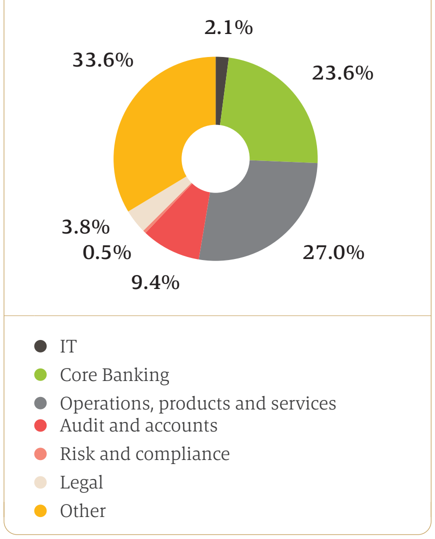
Our learning programmes have transitioned to an interactive, self-directed, and mainly digital experience that employees can access anywhere, anytime, on any suitable device, and at their own pace. Our primary goal is to reskill and upskill employees for the future of work, while also instilling a culture of lifelong learning.

In order to identify the training and development needs of our employees, we conducted a Training Needs Analysis using various methods. These methods included an annual training needs survey, interviews with team leaders, consultations with General Manager/ Chief Executive Officer and DGMs, and reviews of customer complaints, performance appraisals, and questionnaires.

Training hours by mode of training Graph 26



Training categories by training hours Graph 27



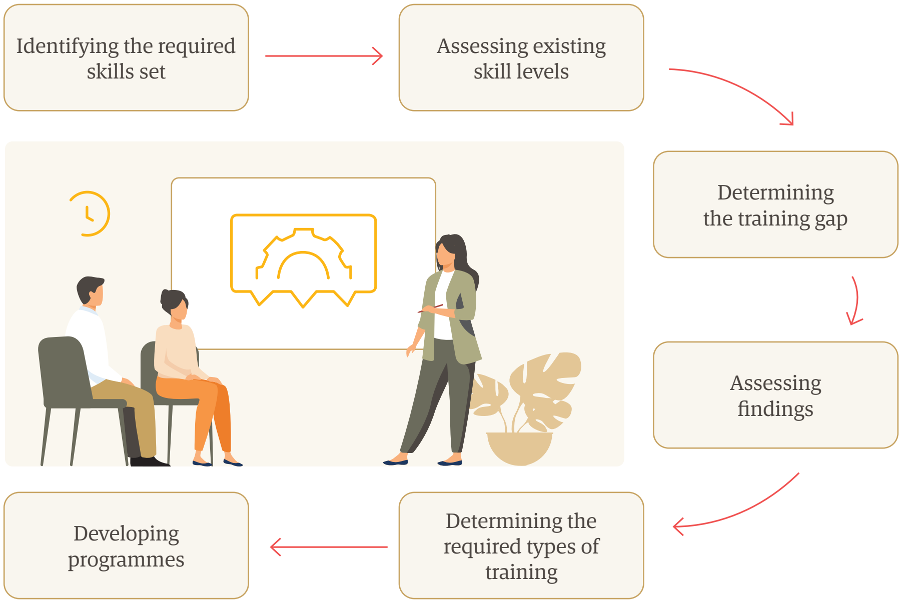


Figure 17

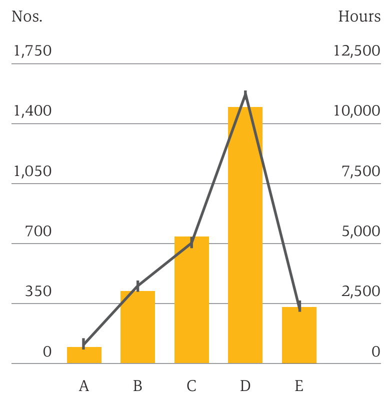
Human capital

Training categories	Number of programmes	Total hours	Total participants	Male	Female	Senior grade	Senior grade (Hrs)	Managers	Managers (Hrs)	Executives	Executive (Hrs)	Staff assistants	Staff assistants (Hrs)	Office assistants	Office assistants (Hrs)
						Grade category									
IT	7	467	35	21	14	8	109	18	273.5	9	84.5	–	–	–	–
Core banking	15	5,335	710	362	348	30	234	49	356	245	1,799	386.00	2,946.00	–	–
Operations, products and services	25	6,098.5	794	296	498	5	58	86	678.25	199	1,479.25	503.00	3,875.00	1	8.00
Audit and accounts	26	2,128.25	236	103	133	6	37.75	65	688.5	30	289.75	135.00	1,112.25	–	–
Risk and compliance	4	108.75	8	2	6	1	16.25	4	53.75	2	32.5	1.00	6.25	–	–
Legal	6	863	102	58	44	10	80	39	342	27	226.5	26.00	214.50	–	–
Other	45	7,602.75	1,208	825	383	34	234.5	165	839.5	229	1,131.25	451.00	3,130.25	329	2,267.25
Total	128	22,603	3,093	1,667	1,426	94	770	426	3,232	741	5,043	1,502	11,284	330	2,275

Table 16

Training hours by Grade

Graph 28

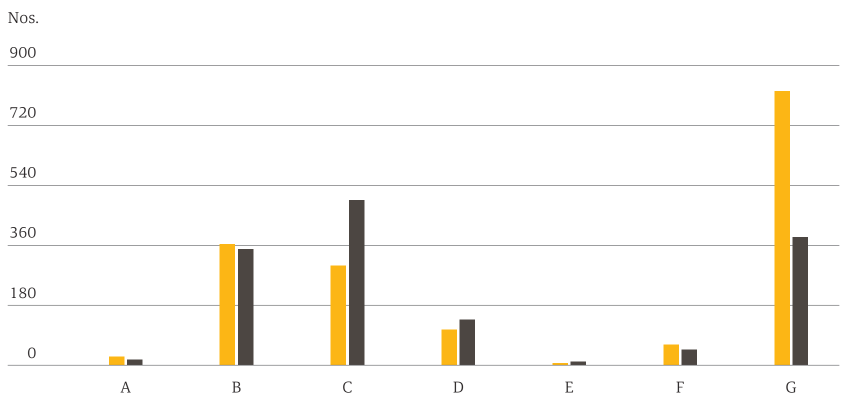


● Participant ● Hours

A – Senior grade
B – Managers
C – Executive
D – Staff assistant
E – Office assistants

Training hours by gender and training category

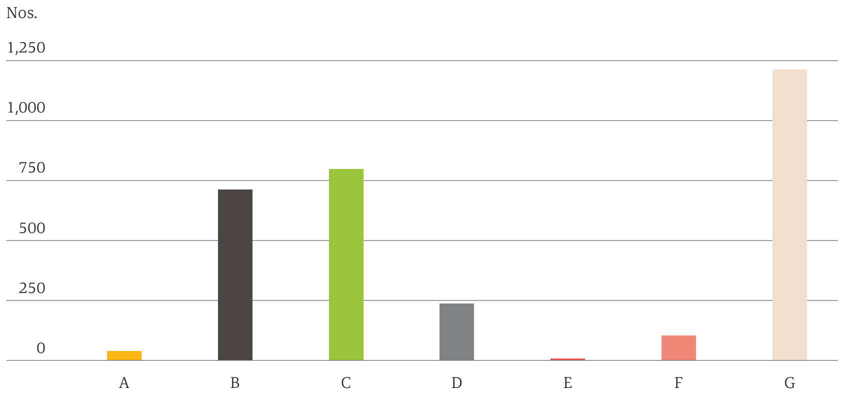
Graph 29



● Male ● Female

A – IT
B – Core banking
C – Operations, products and services
D – Audit and accounts
E – Risk and compliance
F – Legal
G – Other

Participant by training category Graph 30



A – IT
B – Core banking
C – Operations, products and services
D – Audit and accounts
E – Risk and compliance
F – Legal
G – Other

Pursuant to our commitment to supporting the professional and personal development of our employees, and helping them advance in their careers, we have made significant strides in consolidating our employee development programmes and building a high-performing workforce across the Bank. Our employees have access to a wide range of professional development opportunities, including on-the-job training, in-house and external training, local and international sponsorships, and educational incentives. NSB has adapted to the digital age by increasingly utilising digital platforms and webinars for training programmes. It is gratifying to note that both our digital and physical training programmes have been equally successful, with employees showing enthusiasm for learning, despite the change in format. Different categories of training are offered to our employees throughout their career lifecycles to develop their functional and technical expertise. Programmes such as induction, onboard training, learning through feedback, technical and leadership skill development focus on enabling new recruits to gain valuable experience and job-specific skills while enhancing the competencies of employees who have been in the Bank for a longer-term.

The Bank focused more on the Core Banking Training during the year to ensure that the employees are fully geared up and ready for implementation in the year 2023. The following actions were taken during the year to facilitate the same.

- Set up two computer labs in the steel building to facilitate core banking training and to develop infrastructure for staff training.
- NSB Core banking transformation project – Detailed time-bound training plan has been implemented during the year 2021 and continued in the year.
- The training division and the business team of the core banking project have conducted readiness training for the entire branch staff, change management training, training the trainer for identified staff from branches/divisions, motivational training for change management champions at the regional level and the user/module training for branch staff.
- During the year 5,535 training hours were spent on Core Banking with 710 participants.

In 2022, we invested over Rs. 12.8 Mn. in local training programmes, up by Rs. 1.8 Mn. allocated in the previous year. Together our employees logged 22,603 training hours in 2022 and the average number of training hours per employee was 5.0 hours.

3 Managing our talent

Efficient initiatives

In 2022, the HRD Division successfully implemented the first phase of the Human Resource Information System (HRIS), which automates leave, attendance, and employee information management through a self-service module where each employee is provided a login for personalised access. As a result, manual leave applications ended on 1 January 2023. The Bank also introduced a new transfer policy during the year to streamline staff transfers, ensuring a smooth and efficient operation while maintaining employee job satisfaction.

Quality-based promotions

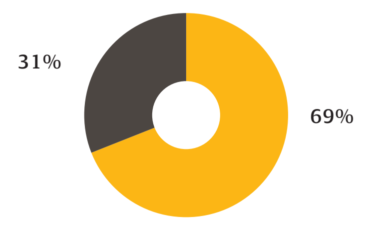
The Bank prioritises career growth and internal promotions whenever feasible. Promotions are determined through a comparative evaluation of the candidate's qualifications, capabilities, and past work performance. Only factors related to the job are taken into account when promoting employees. The Bank strives to ensure equal opportunities for all individuals in all of its employment-related processes, including promotions.

The Bank's Promotion Calendar schedules interviews for promotions to each level in its hierarchy, based on the Bank's Annual Manpower Plan. Applications will be openly called on the Bank's intranet, whenever vacancies arise in relevant grades in both banking and non-banking streams that can be filled through internal promotions. Separate circulars state the schemes of promotions for each grade in both banking and non-banking sectors. Candidates for promotion will be selected according to the schemes of promotions approved by the Board of Directors. The selection process will be in line with these schemes.

During the year 2022, the Bank recruited 14 employees as per the vacancies existing in the non-banking streams. Further, 71 internal promotions were granted as per the vacancies existing in both banking and non-banking streams. The numbers in recruitment and promotions are somewhat lower than previously seen as the Bank had to delay certain internal examinations and interviews as a measure to reduce costs to support the Government economic reform programme.

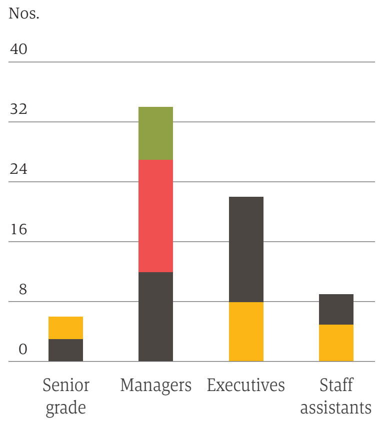
Composition of promotions

Graph 31



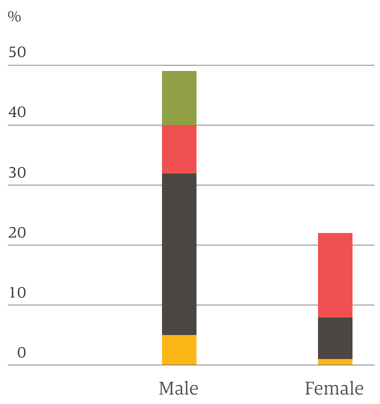
Promotions by age and grade

Graph 32



Promotions by grade and gender

Graph 33



Number of professionally qualified employees in the permanent cadre

Description	2022
Accountancy and auditing	31
Information technology	81
Legal	23
Technical	20
Others	4,334
Grand total	4,489

Table 17

Diversity and equal opportunity

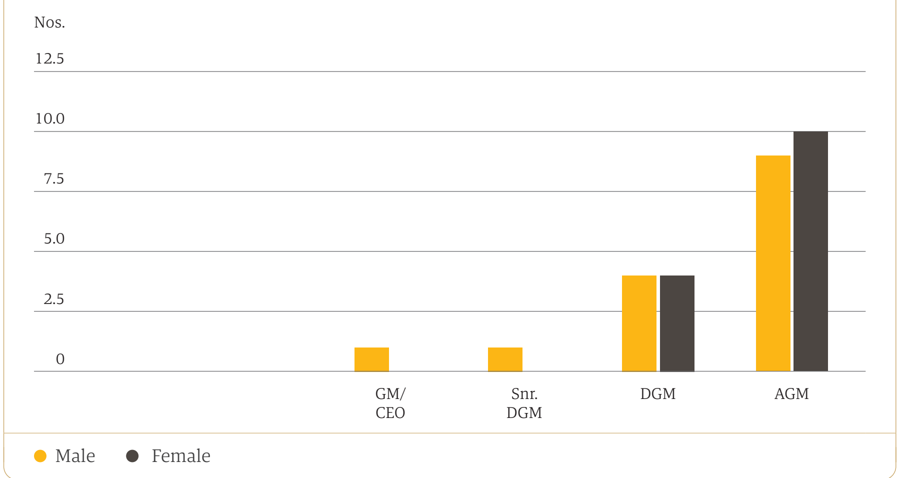
GRI 401-3, 405-1, 405-2

The Bank follows a Non-Discrimination Policy and provides fair employment opportunities to all individuals regardless of their race, religion, gender, age, marital status, national origin, or disability. The Bank is committed to strictly adhering to the following practices in accordance with this policy.:

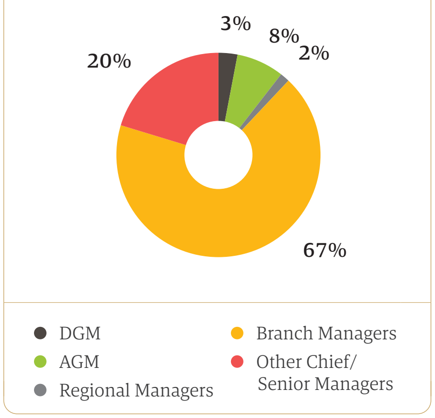
- Maintaining a workplace that is free from verbal and physical harassment.
- All job-related processes, including recruitment, hiring, compensation, benefits, transfers, training and development, educational assistance, recreational programs, and promotion, will be carried out without any form of bias, taking into consideration genuine occupational qualifications.
- While being based upon selection criteria that are job-related, employment and promotional decisions will also be made in a manner that further facilitates the principle of equal employment opportunity.
- Being an equal opportunity employer, the female representation in our team (permanent employees) amounted to 55% whilst 57% of new recruits in 2022 were female. Women represented 48% and 56% of Senior Management and Middle Management respectively.
- All female employees are eligible for 84 working days of maternity leave with full benefits while all male employees can take three days of paternity leave. In 2022, 252 female employees availed themselves of maternity leave, with 99.6% returning to work at the point of completion, while 123 male employees took paternity leave.
- All complaints on violations around the policy of equal employment opportunity are promptly investigated.

During the year 2022, there were no complaints reported on violating the policy of equal employment opportunity in the Bank.

Senior management by gender Graph 34



Women leadership Graph 35



Upholding the highest professional and ethical standards

GRI 406-1

The NSB Code of Conduct sets out the principles of personal and professional conduct expected of our people with regard to ethics, conduct, and compliance. The Code reflects our commitment to merit-based, equal employment opportunities and defines the standards we require to ensure a safe working environment free from discrimination and harassment. All new recruits are informed of their obligations and rights under the Code of Conduct upon joining the Bank.

The Bank has a Disciplinary Code of Conduct in place to guide employees on matters concerning discipline. The Code was reviewed in 2017, taking into consideration the provisions of the Government Establishments Code

Volume II, and customised to meet the Bank's requirements. The Bank adopts a "Zero tolerance" policy towards any form of corruption, bribery, and extortion practices. The Disciplinary Code stipulates formal and transparent procedures for addressing any inconsistency in individual behaviour with established standards, policies, procedures, and practices, as well as any disputes related to operations.

Performance management

GRI 404-3

The Bank follows a continuous process of assessing employee performance through its performance evaluation system. It is the Bank's policy to regularly conduct performance appraisals with all employees, which serve as a development tool to help employees achieve their full potential. In order to establish and streamline guidelines for the performance appraisal management system, the Bank has a Performance Management policy in place, aimed at achieving the following key elements:

- To identify performance gaps and improve employee performance in order to achieve the overall objectives of the Bank.
- To identify the training and development needs of individual employees as well as teams.
- To provide feedback on the performance appraisal used for increments, promotions, and reviews on remuneration packages of employees.

The Bank carries out periodic performance evaluations for employees based on their respective job levels. For this purpose, separate evaluation forms are used for Executive, Supervisory, Operational, and Minor staff. We take pride in our unbiased and transparent appraisal system, which involves yearly employee evaluations according to pre-determined criteria. Corporate Management is evaluated on Key Performance Indicators (KPI) through a balanced scorecard system. The Target-Based Performance Management System is designed to eliminate subjective biases and promote objective evaluations.

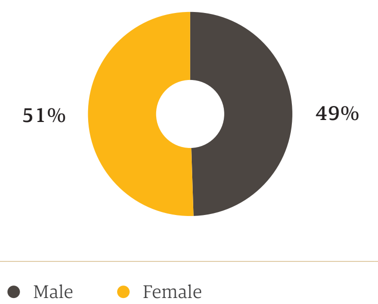
4 Retaining employees

GRI 401-1

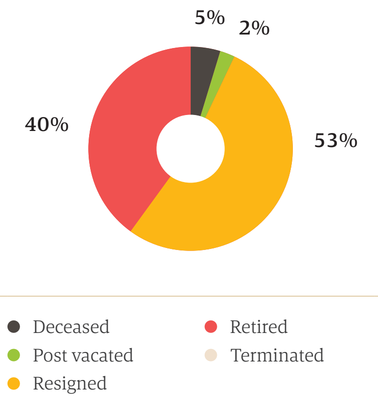
In 2022, the retention rate for permanent employees at NSB registered a marginal decline from 98.6% in 2021 to 98.1%, which can be attributed to the rise in the employee turnover ratio from 1.4% in 2021 to 1.9% in 2022. However, it should be noted that NSB maintains one of the highest retention rates and lowest employee turnover rates in the industry. In 2022, a total of 85 employees left the Bank, with 51% being male and 44% falling in the over-55 age category, resulting in retirement at the end of their service. The managerial level experienced the highest turnover rate of 36% in 2022.

These figures are a strong reflection of our highly engaging, rewarding, and stable work culture which nurtures employees. We are committed to ensuring that we retain highly skilled and motivated employees, which has led us to take a holistic approach in our employee care initiative, ensuring that their physical, social, psychological, and economic well-being is taken care of at the Bank.

Composition of turnover Graph 36

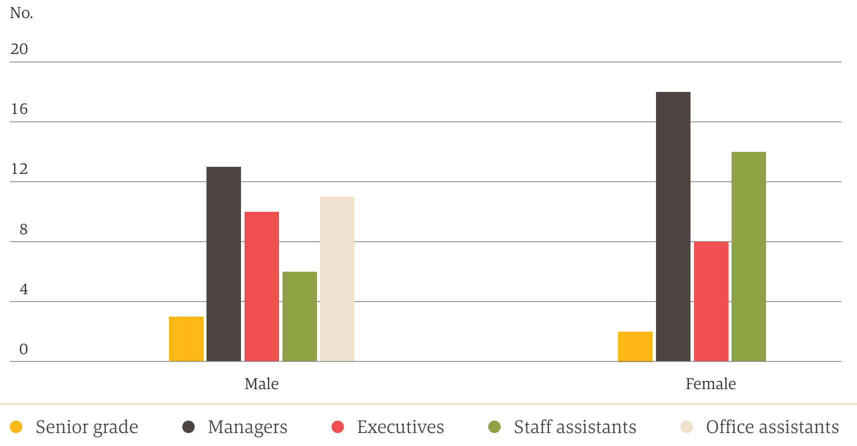


Reasons for turnover Graph 37



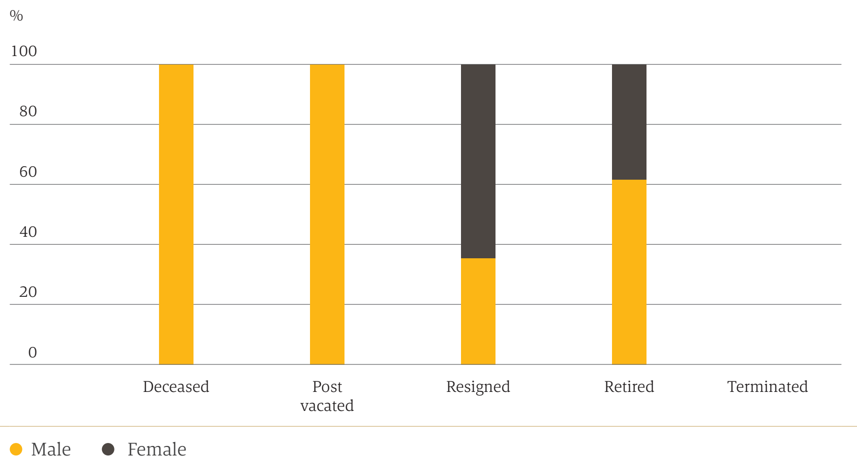
Turnover by grade and gender

Graph 38



Reasons for turnover by gender

Graph 39



Holistic focus on employees

GRI 401-2, 403-9

Employee retention remains a key priority at NSB, and we believe that promoting work-life balance and ensuring employee health and safety are crucial factors in achieving this goal. We strive to create a positive and supportive work environment that enables our employees to thrive and reach their highest potential. Towards this end, we encourage social and recreational activities that help maintain a proper work-life balance and foster good working relationships among our staff. Our social calendar includes events such as the NSB Colours Night, Vesak Bakthi Gee, Christmas Carols, and New Year Celebrations, while our fully equipped gym at the Bank's Head Office promotes physical activity. Additionally, we have taken steps to ensure that our employees are well taken care of, with initiatives that include:

- Employees have availed themselves of medical sessions with specialist consultant advice.
- All new mothers are offered flexible working arrangements with an increase of nursing times to two hours a day which is split between a morning and evening session, until the child is one year.
- An in-house Medical Centre is run by an approved leading private hospital with overall management by the Welfare Division.
- Bi-monthly visits by specialised doctors at the Medical Centre.
- Medical clinics conducted by leading private hospitals.
- Seminars/lectures organised by the Welfare Division on areas of stress management, eye care, and cardiovascular disease prevention.

- Annual felicitation ceremony recognising long-term service.
- Annual "Achievers Award Ceremony" for employees' children.
- Head Office canteen offering concessionary rates on food and beverages.
- The NSB Sports Club and accompanying in-house gym at the Head Office.
- NSB Arts Circle.
- Library facilities.
- Maintaining 15 circuit bungalows in different locations of the country for employees.
- Extended monetary assistance for day outings organised by the branches and divisions.

The Bank also provided with following facilities for the employees when the country experienced continuous power cuts and shortages of essential items and services such as fuel and medicine.

- Arranged a special bus service that connected different locations to the Head Office, so that employees could easily travel to work.
- Late attendance was not considered during the period of transport difficulties and employees were allowed to leave work early.
- Employees were permitted to wear the NSB official T-Shirt and/or any other office attire until further notice considering the prevailing transport difficulties in the country.
- Limiting the number of staff members reporting for duty due to transportation difficulties.
- Whenever possible, meetings and discussions were conducted online.

In alignment with its HR Policy Manual, the bank prioritises the health and safety of its staff by implementing all Occupational Safety and Health (OSH) stipulations in the workplace. The manual outlines the necessary actions and procedures to fulfill this commitment, as well as the responsibilities of both management and staff. Additionally, the Health Committee plays a crucial role in ensuring staff safety and health. The policy has the following specific objectives:

- Establish an occupational safety and health system at the Bank with adherence to the provisions of the National Occupational Safety and Health Policy and the Shop and Office Employees Act No.19 of 1954.
- To appoint two individuals from each Branch/Division to ensure a healthy and safe work environment in the respective Branch/Division.
- Secure the health, safety, and welfare of employees at work.
- Identify potential risks to employees at the workplace.
- Promote an office environment for employees that are adapted to their health and safety needs.

During the year 2022, only five minor accidents were reported inside the Bank's premises.

Fair and responsible remuneration and benefits

GRI 201-3, 202-1, 401-2, 405-2

The Bank's equitable and ethical compensation and benefits schemes are another crucial element in its ability to retain employees. We believe in providing a competitive, engaging, and equitable compensation structure that offers an overall attractive and competitive compensation package. The Bank ensures that all employees are remunerated fairly, based on their roles and performance within the organisation.

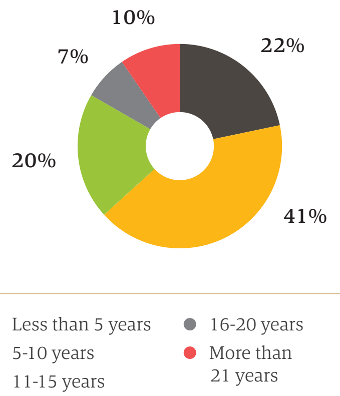
The Bank's collective agreement with trade unions outlines the Terms and Conditions that determine salaries and other financial benefits. This agreement covers employees up to the Chief Manager grade, and the salary scales are made available on the Bank's intranet to ensure transparency. The Bank periodically reviews both the salary and non-salary benefits agreements, typically every three years, in accordance with the agreed-upon rates following discussions with union representatives. It is the Bank's policy to ensure that individuals with similar roles receive comparable salaries within the same salary range, while length of service may impact salaries within that range.

Benefits represent an important part of every employee's pay. They can be defined as all the financial payments an employee receives for continuing his/her employment with the Bank. All regular full-time employees are eligible to enjoy the following financial benefits after they are confirmed in their service.

Benefits	Description
Fixed and variable cash benefits	• Competitive salary • Bonuses in April and December, subject to profit targets being achieved and Board approval • Encashment of privilege and medical leave up to a maximum of seven days at year end • Annual increment for employees with satisfactory performance in the preceding 12 months • Provision for fuel/travelling, accommodation assistance, subsistence, and duty travel • Job-specific allowance and overtime • Non-contributory pension scheme and contributory widow and orphans' scheme
Reimbursements	• Reimbursement of professional institution membership fees • Sponsorship for relevant study courses • Honoraria payment on completion of Certificate and Diploma levels in Banking and Finance at the Institute of Bankers Sri Lanka (IBSL) • Entitlement to a non-contributory pension scheme and a contributory W&OP scheme
Subsidised loan benefits	• For housing, vehicle loans, consumption and distress loans, festival advances and other subsidised loans
Medical assistance schemes Registration in the Bank's Staff Medical Assistance Scheme provides:	• Permanent and probationary employees with coverage for specialist/OPD medical charges, hospitalisation, critical illnesses, eye, and dental care • Compensation scheme of up to a maximum of Rs. 1.5 Mn. in case of physical injury and death
Retirement benefits All permanent employees are entitled to participate in a non-contributory pension scheme, with applicable terms and conditions depending on the pension scheme in place at the date of appointment. Pension fund benefits are managed with strict investment principles along with care, diligence, prudence appropriate skills and knowledge	• Pension Fund (Scheme I and Scheme II) The above scheme is fully insured, with the cost of provision of benefits under the defined benefit pension plan ascertained on the projected unit credit actuarial valuation method. The Bank's Pension Fund (Scheme I) applies to employees recruited before 1 October 1995 to which a contribution of Rs. 948 Mn. was made by the Bank in 2022 while the unfunded liability stood at Rs. 8,764.7 Mn. 12% of the employee's gross salary is contributed by the Bank to the Pension Fund (Scheme II) which is applicable to employees recruited on or after 1 October 1995. The pension Scheme II has been funded with Rs. 2,365.4 Mn. in excess as per the actuarial valuation as at 31 December 2021. • Contributory Widows/Widowers and Orphans Fund (only for Scheme II) Contributions are determined by the basic salary of employees and members are required to contribute 5% of their basic monthly salary every month. • Contributory retirement medical Scheme Monthly contribution determined by age of the employee. The Bank contributed Rs. 668.5 Mn. to this Scheme while unfunded liability stood at Rs. 3,724.2 Mn. as at the year end.

Table 18

Service years of employees Graph 40

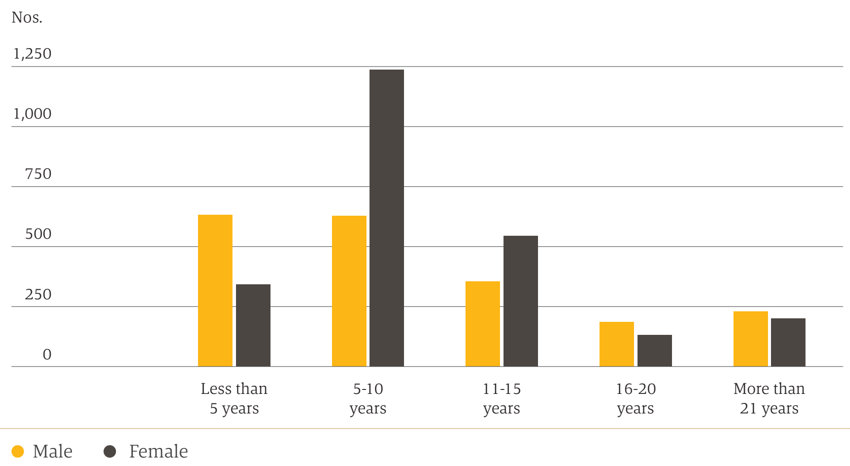


Service years by grade

Grade	Less than 5 years	5-10 years	11-15 years	16-20 years	More than 21 years
Senior Grade	3	5	5	3	13
Managers	24	173	117	113	263
Executives	21	282	498	199	98
Staff Assistant	457	1,280	278	3	45
Office Assistants	470	126	1	1	11
Grand Total	975	1,866	899	319	430

Table 19

Service years by gender Graph 41



5. Communicating effectively

Clear and timely delivery of necessary information is crucial in maintaining smooth communication channels at the Bank. Open, two-way communication between Management and employees, along with a friendly and cooperative work environment, help eliminate discrepancies, improve job satisfaction, and increase productivity. The Bank has established various channels for communication, and whenever possible, employs all three languages – English, Sinhala, and Tamil. These communication channels include:

- Webinars to facilitate live communication and open discussions between branches Island-wide set up with the help of the Training and Development Division, the HRD Division initiated the “Webinar” concept, which allows for live sessions that support open discussions and problem-solving. These sessions were successfully continued in 2022 as well providing an effective channel of communication, especially during the COVID-19 pandemic, enabling employees to be digitally connected during a time that brought about physical disconnect.

- Intranet
- Circulars
- Staff notice board
- Emails from the Management
- Formal letters from the HR Department

Relationship with unions – Freedom of association and collective bargaining

The Bank recognises the importance of maintaining positive and cordial relations with trade unions and other representative associations to ensure the Bank's long-term growth, which is mutually beneficial to both the employees as well as the Bank. The Management establishes direct and frequent communication with all employees, including both union members and non-members, to maintain a harmonious and successful relationship. Regular contact with union delegates allows for the provision of information and promotes a full understanding of the Bank's business activities and goals by their members and other representative associations, thereby fostering mutual understanding.

The Bank continues to have very healthy relationships with all trade unions operating within the Bank which include the *Jathika Sevaka Sangamaya*, Ceylon Bank Employees Union, Sri Lanka Independent Bank Employees' Union, Executive Officers' Association, *Samagi Sewaka Sangamaya* and All Ceylon Bank Employees Union.

The Bank values the freedom of association of its employees and recognises their right to collective bargaining. The agreed Terms and Conditions set out in the Collective Agreement with trade unions affect salaries and other financial benefits. The Collective Agreement for Salary and Non-Salary benefits for the period of 2021-2023 has been signed in 2021 between the Bank's management and the trade unions successfully.

Employee grievance handling mechanisms

The Bank employs two systems to address grievances: the Step Ladder System and the Open Door Policy. The former involves addressing grievances through a hierarchy, while the latter provides employees with the option of forwarding their grievances directly to an independent party nominated by the HR Committee. The Bank encourages employees to make use of the Step Ladder System whenever possible. Details of both systems are provided below.

If an employee is of the opinion that his/her grievance cannot be sorted by the Step Ladder System mentioned above, it can be directly forwarded to the HRD Division, which will follow the "Open Door Policy" outlined below.

1. Step ladder systems

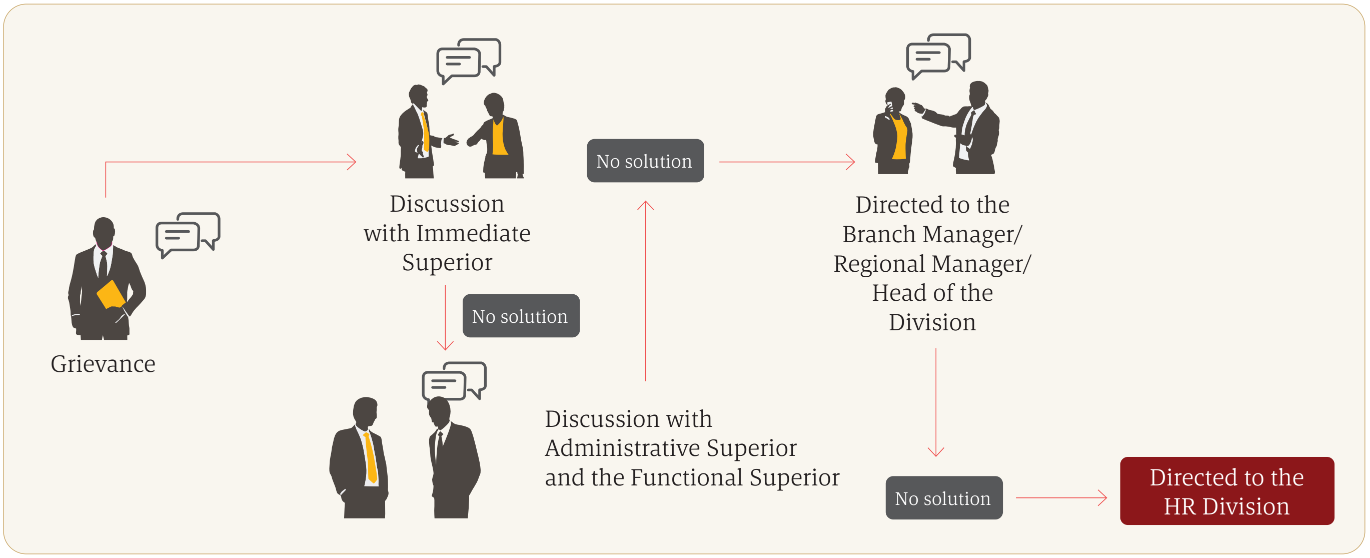


Figure 18

2. Open door policy

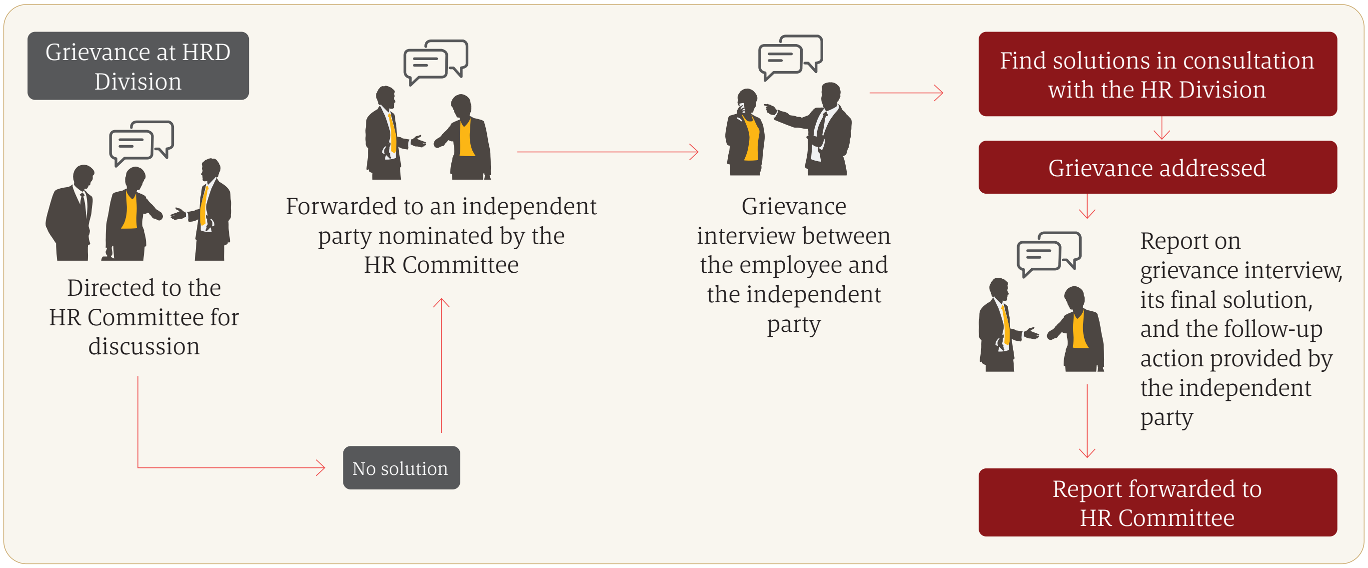


Figure 19

Specific policies and mechanisms in handling workplace sexual harassment

The Bank is committed to providing a work and learning environment free of any kind of harassment. Harassment violates an individual's fundamental rights and personal dignity. NSB considers harassment in all its forms to be a serious offense. This policy applies to all employees, including contract and outsourced personnel.

An employee who harasses or solicits favours (including sexual favours) from an unwilling subordinate in return for promotions, salary increments, transfers or any similar promise will be dealt within terms of the Disciplinary Code of the Bank.

Employees are prohibited from harassing other individuals such as all employees and stakeholders of the Bank whether or not the incidents of harassment occur on Bank's premises and whether or not the incidents occur during working hours. Vendors, visitors, customers and guests too are prohibited from harassing other individuals while on Bank's premises.

If an employee feels he/she is being harassed or discriminated as stated above and cannot discuss the matter with the appropriate Head of Division/ Branch Manager, he/she should inform the Personnel Manager in writing of the extent and nature of the harassment/discrimination and thereafter a discussion should be taken place between the employee and the Personnel Manager and appropriate action be taken.

Female grievance handling committee

A Grievance Handling Committee has been formed in 2022 specially to handle the grievances of female employees, especially to ensure mental and physical well-being and safety of female staff members of the Bank. The Committee comprises of female officers/DGMs in the Management, and is Chaired by DGM, HRD. Complaints pertaining to any discrimination or harassment that may be faced by female staff members can be forwarded to the Chairperson of the committee.

Outlook for 2023 and beyond

Short-term

- Implementation of the second phase of HR System to automate HR functions which improves the efficiency and effectiveness of the HR services.
- Create a Learning Culture with a special focus on E-learning and employee development.
- Develop a dynamic workforce at the front office to provide better customer service.

Medium-term

- Set up a target-based performance evaluation system (KPI based) which eliminates biases and improves the effectiveness of evaluations.
- Sustainable IT solutions to improve the efficiency and effectiveness of the HR functions.

Long-term

- Be the employer of choice for those wishing to pursue a banking career.
- Create a work environment that upholds the physical and mental wellbeing of our staff at every juncture

Contribution of our FUTURE-PROOF strategy

Providing inclusive financial solutions to achieve sustainable growth to withstand plausible and extraordinary shocks.

Social and relationship capital

Key elements of our social and relationship capital

Social and relationship capital in the financial sector comprises the value of relationships and networks that are created, nurtured, strengthened, and sustained between a bank and its external stakeholders, to promote stronger economic participation and foster financial inclusion across the wider community.

At NSB, we are cognisant of our greater social obligation towards building a stable financial system for Sri Lankans as a state-owned bank through meaningful engagement with key stakeholder groups, by understanding their needs and concerns and being responsive to their changing perspectives. We have formed relationships on trust, integrity, and value sharing, with a key focus on contributing towards national development. The strength of our relationships is also key to retaining our social license to operate.

Key inputs

- Continued confidence from our shareholders, investment community
- Long-term customer relationships
- Constructive employee engagement
- Positive relationships with the Government and Regulators
- Proactive engagement with media and communities
- Collaborative operations with business partners and suppliers

Key challenges

- Disruptions to business due to economic crisis
- Evolving stakeholder expectations and recognising and managing stakeholder conflict of interest
- Efficiency in allocating resources to fulfill varied stakeholder requirements
- Potential reputational damage when cordial relationships are not maintained

Key outputs

Customer acquisition

Total number of active accounts
12.98 Mn.
(2021 – 12.91 Mn.)

Number of cards in use
2,203,309
(2021 – 2,041,842)

Responsible procurement

Number of registered suppliers
184 (2021 – 351)

Contribution to society

Funding for infrastructure
1.5 Bn. (2021 – 28.0 Bn.)

Key opportunities

- Able to build in stakeholder needs into our business and deliver successful commitments
- Capacity to engage and respond to the varying concerns of stakeholders
- The prospect of creating a positive long-term impact in the community

How we grow our social and relationship capital

1. Building a loyal customer base through superior customer experience, innovative products and solutions, and safety of data and privacy.
2. Building a strong partnership with business partners through effective communication and strategic alliances.
3. Strengthening regulatory compliance by maintaining consistency in compliance and prudent risk management.
4. Building thriving communities by focusing on giving back to society and prioritising financial inclusion.

Social and relationship capital

How we leverage our social and relationship capital

Manufactured capital
Engagement and feedback from stakeholders contribute towards aligning our physical and digital infrastructure better with stakeholder needs.

Human capital
Nurturing deeper relationships with stakeholders, networks, and wider communities strengthens brand equity, which helps in attracting and retaining high-performing professionals.

Intellectual capital
Customer-centricity, regulatory best practices, responsible sourcing, and investments in the communities we operate, all contribute towards enhancing our customer loyalty, brand, and reputation.

Natural capital
Regulatory compliance coupled with social obligation contributes towards responsible utilisation and conservation of natural resources.

Financial capital
While investments directed towards building and nurturing social and relationship capital may initially deplete financial capital, the resulting brand loyalty and brand equity lead to longer-term profitability

Connectivity with materiality, stakeholders, and short to medium-term strategic priorities

Material matters

Related stakeholders

Short to medium-term strategic priorities

Contributions to UN SDGs

Primary UN SDGs

1 NO POVERTY
Reducing poverty and inequality through financial inclusion

4 QUALITY EDUCATION
Promoting education and literacy through community development projects as well as education-related financial products and solutions

11 SUSTAINABLE CITIES AND COMMUNITIES
Building resilient, economically sustainable communities through philanthropic development projects as well as sourcing and outsourcing opportunities

12 RESPONSIBLE CONSUMPTION AND PRODUCTION
Endorsing sustainable consumption and production through a rigorous procurement process

Secondary UN SDGs

10 REDUCED INEQUALITIES
Reducing poverty and inequality through financial inclusion

13 CLIMATE ACTION
Cultivating environmental awareness among internal and external stakeholders through CSR initiatives

Potential trade-offs

- Increased penetration of digital platforms requires financial capital but builds manufactured and customer capital.
- Investment on CSR projects has a negative impact on financial capital but build the community capital and intellectual capital in the longer term through a positive brand image.
- Providing customer experience and exceeding customer expectation.
- Engaging community development projects
- Complying with regulatory requirements
- Building up business partnerships

1 Building a loyal customer base – customer capital

Customer capital is considered the key source of competitive advantage of an organisation due to its significant impact on the company's financial performance. Customer capital is particularly relevant for banks since banks are relationship driven with the value of their current and future revenue dependent on the resilience of customer relationships, and their ability to retain customers in the long-term.

Our approach to customer capital

We continue to deepen our relationships with customers by adopting an omnichannel approach to deliver exemplary customer service and experience. With 262 branches, and 390 automatic teller machines, cash deposit machines and cash recycler machines (ATMs/CDMs/CRMs) spread across Sri Lanka to encourage widespread saving, with mobile and internet platforms for anytime anywhere accessibility, we provide customers with access to an extensive portfolio of useful and affordable financial products and services to meet their savings and investment needs. We facilitate customer engagement as a valuable form of feedback through communication channels with optimised response time, and utilise the latest tools to better measure and maintain high levels of satisfaction across the multigenerational customer relationships we have nurtured over the years.

Strategies to enhance value

- Enhance the digital customer service model
- Reimagine the distribution network with value creation as a priority
- Develop a truly omnichannel customer experience
- Gather and leverage contextual data for individual focus on customer journeys for targeted value creation

Value creating drivers for building a loyal customer base

- Introduce new products, services, and value-added features
- Serve a diverse, multigenerational customer base
- Provide a superior customer experience through digital transformation
- Efficiently resolve customer complaints
- Safeguard customer data and privacy
- Responsibly share information and raise customer awareness on banking practices

New products, services, and value-added features introduced in 2022

Term deposits

- 3-month, 4-month and 7-month Special Fixed Deposit Schemes
- New Senior Citizens Fixed Deposits Scheme – "NSB Senior Citizens Fixed Deposits"
- Introduction of *Prarthana+* savings and promoting *prarthana* savings to enable customers to save at higher rates for longer-terms

Loans and advances

- MoU signed with Skill Development and Training International Institute (SDTI) to grant loans for students under "*Buddhi* Higher Educational Loans"
- Loan scheme to purchase computer equipment under "*Purawara Sarisara*" national programme

Celebratory rewards

- Special promotional campaign launched to commemorate the 50th anniversary of the Bank in 2022 under "NSB *Senehase Dayada*"

Support services

- Customer forums held in Kurunegala and Anuradhapura to increase customer awareness on NSB products and solutions
- Staff forums held in Central and Southern regions to enable enhanced customer service

Multigenerational, diverse banking solutions

As our customers grow and evolve, so do their banking requirements. At NSB, we adapt rapidly to the changing needs of our customers by understanding their requirements and paying close attention to the changing priorities of each demographic. Today, NSB offers the widest range of products, services, and value-added features across all segments of society, so that our diverse customer base can find a banking solution to suit their age, gender, and lifestyle. An overview of our multigenerational products can be seen below:

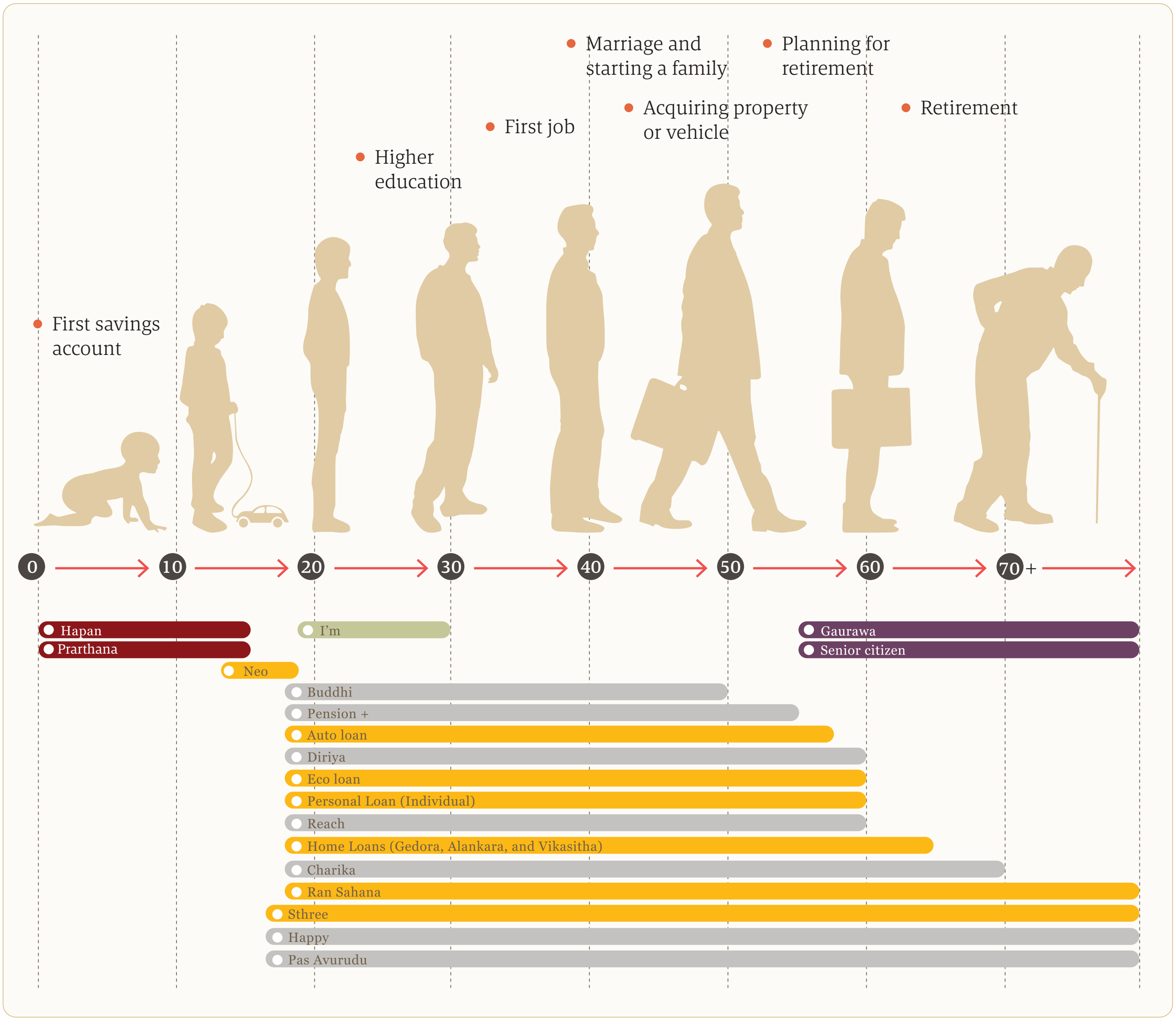


Figure 20

Empowering the migrant-worker customer base

While foreign remittances continuously and significantly kept increasing towards the end of 2022, forex inflows were still 31% down year-on-year. Despite these numbers, NSB's foreign remittances increased to Rs. 71.8 Bn. for the year in review, while increasing our market share of worker remittances to 5.73% compared to 5.25% in 2021, mainly due to currency depreciation, scrutiny over the officially authorised remittance channels and overall increase in the industry's remittances.

Serving customers with special needs

Apart from digital accessibility, NSB is committed to improving financial inclusion by extending our financial services to people with disabilities or impairments, as we continue to champion a more inclusive society that respects individual needs beyond profit. We have implemented best practices for engaging with customers who have disabilities or special needs across our branch network; 47 of existing branches in NSB-owned properties as well as 90% of existing branches in rented office spaces are equipped with disability access. All new or relocated NSB branches will be equipped with disability access and services as a mandatory requirement.

Superior customer experience through digital transformation

In order to enhance accessibility to financial solutions that nurtured healthy savings and investment habits among Sri Lankans, NSB continued its digital transformation in 2022; we integrated systems, re-engineered processes, reduced turnaround times, enhanced security, and enriched customer journeys with end-to-end automation to make banking simpler, safer, faster, and more personalised. We made progress across a number of digital initiatives during the year in review:

- The implementation of Temenos Transact (formerly known as T24) core banking system is currently in progress and expected to go live in 2023.
  - Upon completion, this core system will enable the Bank to build powerful front-end digital platforms and create efficient end-to-end solutions, where back-office processes are also automated and streamlined.
  - All IT-enabled banking services shall be re-engineered in compliance with regulatory requirements and benchmark international standards.
- "NSBPay" state-of-the-art mobile which is available on leading mobile application platforms such as iOS, Android, and Huawei.
- Pawning payment facility to NSB E-connect anytime online banking
- Implementation of the first phase of the new Human Resource Information System (HRIS), automating leave, attendance, and employee information management.

Recognitions received in demonstrating our commitment to being the primary partner of our customers

- NSB corporate website (nsb.lk) wins most popular banking and finance website and merit award for best banking and finance website at BestWeb.lk at LK Domain Registry 2022.
- National Savings Bank was awarded the Public Sector Most Outstanding ICT Achievement Award in recognition and appreciation of the effort rendered towards the introduction, nurturing and the development of its ICT environment to provide better quality services to the citizens of Sri Lanka through NSB Digital Banking initiative.
- NSB wins Gold at LankaPay Technnovation Awards 2022
  - Excellence in Customer Convenience – Gold Award
  - Best Common ATM Enabler of the Year – Gold Award

Safeguarding customer data and privacy

GRI 418-1

We are committed to nurturing trusted relationships with our customers, and in order to uphold this commitment, we utilise customer data in a safe, responsible way that is consistent not only with customer expectations but also with all relevant laws and regulations. With NSB's expanding digital ecosystem and technology footprint, we recognise the gravity of increasing cyber-crimes and continue to consider cyber threats and information security as significant material matters. To proactively manage increased cyber risks, we have further strengthened the NSB Act, Customer Charter, and our Information System Security Policy. Regular tests are conducted to assess and ensure the security of our evolving, future-ready systems. The Bank employs a dedicated Information Security Officer (ISO) to independently monitor and inform the Board of steps taken or expected with regard to cybersecurity risk management.

We introduced a number of new measures in 2022, while also continuing to ensure compliance with previously adopted data security practices during the reporting period, such as:

- Enhancing and upgrading the NSB mobile application for our growing digital banking customer base with multiple layers of security including QR code scanning for cashless transactions, and utility bill payment options secured with biometrics.
- Obtaining the Payment Card Industry Data Security Standard (PCI DSS) Certification in 2019, with continued annual compliance attestation through 2022. As for the preparedness to achieve requirements in CBSL consultation paper on Technology Risk Resilience, the Bank achieved the proposed requirements for 2022. This enhanced the Information Security Management System and will continue enhancing and maintenance of implemented controls through regular Management Committee reviews and technical reviews.
- The continued function of the centralised Security Operations Centre (SOC) established in 2020 with the support of a competent third-party service provider, staying up-to-date on the latest cyber threat intelligence, and the latest security solutions and technologies.
- Initiated E-KYC with Blockchain Technology. Digital onboarding enables to open a passbook-free account providing new customer sign up online quickly without visiting a bank branch. This process includes Know Your Customer (KYC) procedures, data collecting, identification checks, document collection and video conference with prospective customer.
- Data Leakage Prevention (DLP) – Information Security Division (ISD) with the support of the IT division implemented the DLP and data classification solution during the year 2020 to protect and secure data and comply with regulations. During the year 2022, coverage of the DLP solution was increased to include all IT systems of the Bank.
- Baseline Security Standards (BSS) which are standards for all systems in the network to avoid risking the entire network required by CBSL were implemented across the branch network. These baselines will enable the Bank to implement systems in an efficient and standardised manner.

As a result of our continued, elevated efforts to uphold our customers' trust by safeguarding their information and assets entrusted in our care in 2022, there were no complaints pertaining to the breach of customer privacy or loss of customer data, nor any fine or other sanction imposed on the Bank during the year in review.

Valuing customer feedback

We value customer feedback and strive to improve their banking experiences by listening to them and addressing their concerns along the customer journey. We ensure that all feedback received is handled effectively and fairly resolved. We maintain open channels for our customers to share their concerns with us and have implemented a robust system to address all customer complaints in an efficient manner.

Customers can forward their queries, complaints, grievances, and other remarks to the 24*7 operational NSB Call Centre – our primary mode of customer engagement. We have highly trained customer service representatives handling all queries, which are then directed to the relevant department. Customers can follow up on their queries with a reference number that is generated during the initial call. A report on customer complaints and the actions taken to resolve them is compiled every month and presented to the Management.

We have also trained our staff across our island-wide branch network to deliver a quality customer experience through the "Across the Bank" training programme, equipping them with the necessary skills to attend to customer complaints, resolve issues, and forge deep relationships with our customers. Branches are also equipped with suggestion boxes for feedback on how we can improve our operations and customer experience. Additionally, numerous digital platforms have also been made available to forward customer grievances, including our official website www.nsb.lk, official social media channels, and other digital channels such as email, skype, and web chat.

Customer engagement statistics

Number of customer complaints received

252 (2021 – 269)

Number of customer complaints resolved

194 (2021 – 228)

Average time taken to answer a call

< 30 seconds
(2021 < 30 Sec)

Number of enquiries received over the phone

378,856 (2021 – 441,569)

Number of complaints to CBSL

Nil (2021 – Nil)

Number of cards in use

2,203,309
(2021 – 2,041,842)

Responsible banking

GRI 417-2,3

We are driven by our responsibility towards fulfilling the needs of our customer base. In line with our long-term strategy, we help our customers realise their saving and investment goals, while enabling economic activities that create shared prosperity for current and future generations through the following activities:

- Offering products and services that are aligned with customer and community needs
- Dealing with feedback in an effective and prompt manner
- Building competency of our workforce to understand customers and provide quality service
- Communicating clear, relevant, and timely information on our products and services across multiple channels to make informed decisions
- Displaying all relevant data on our loan and deposit products, such as interest rates, exchange rates, lending rates via displays at branches, electronic media, and the corporate website
- All terms and conditions applicable to products and services and the complaints handling procedures are properly communicated to customers according to the Customer Charter prepared in compliance with CBSL guidelines. The Bank's complaint redress process through the Financial Ombudsman is displayed at all branches in accordance with CBSL guidelines.

Marketing and labelling

All terms and conditions applicable to products and services are clearly and concisely communicated to customers as per the NSB Customer Charter, while the Bank's complaint redress process through the Financial Ombudsman is displayed at all branches, all in accordance with CBSL guidelines.

A Public Information Officer has been appointed by NSB to ensure that all our stakeholders and the general public have the right to obtain relevant information from the Bank in compliance with the Right to Information (RTI) Act of Sri Lanka. In compliance with these regulations, all NSB advertisements carry the following information:

- Contact details of our Call Centre and corporate web address
- Credit rating of the Bank – Lanka Rating Agency (Pvt) Ltd.
- Distinct feature for NSB – 100% Government guarantee, Bank logo and the slogan

There have been zero incidents of non-compliance concerning product and service information labelling during 2022 and zero incidents of non-compliance concerning marketing communications.

2 Building strong partnerships – business partner capital

Business partner capital comprises of reciprocal relationships and alliances that add value to an organisation, and thereby contribute towards the successful delivery of products and services, as well as of their overarching strategy. In the financial services sector, business partners include correspondent banks, exchange houses, outsource service providers, and other suppliers.

Our approach to business partner capital

Business partnerships are considered pathways to growth at NSB. We are committed to maintaining sustainable relationships with our business partners, and derive mutual value through operational synergies, market access, and opportunity creation, all contributing towards building brand association, while increasing the overall profitability and credibility of the Bank. All dealings between the Bank and its partners are conducted in an ethical, fair and transparent manner, in compliance with corporate policies governing the overall process.

Strategies to enhance value

- Create new business opportunities through collaborations
- Continue transparent and sustainable procurement practices aligned with global benchmarks
- Build strategic alliances that create wider reach among untapped demographics

Value creating drivers for building strong partnerships

- Responsible procurement
- Streamlining operations through outsourcing
- Bolstering strategic alliances
- Industry memberships

Responsible procurement

GRI 204-1

Building mutually beneficial partnerships and adding value through opportunity creation has guaranteed NSB a solid reputation as a reliable partner, contributing towards deep-rooted business partnerships. This resulted in NSB building a sustainable supply chain supported by a procurement process that adheres to the highest standards of quality, service, and ethics. During the reporting period, we continued to source through our robust procurement process, which ensured NSB:

- Maximises economic value and efficiency in procurement
- Complies with relevant standards, specifications, rules, and regulations, while also ensuring all suppliers adhere to the National Procurement Guidelines set by the Government of Sri Lanka
- Provides a fair and equal opportunity for interested parties to participate in procurement
- Carries out the expeditious execution of delivery of goods and services
- Evaluates and selects suppliers in a transparent manner while retaining the confidentiality of information provided by the bidder

The policy of the Bank clearly stipulates the various procedures that need to be followed for different procurement needs. While the Supplies Division of the Bank carries out the procurements, the procurement procedures are overseen by the respective procurement committees, Technical Evaluation Committee, and Bid Opening Committee appointed by the Board of Directors, General Manager/CEO, or delegated authority. The Procurement Division is responsible for monitoring and ensuring Initial Environment Examinations (IEE), Environmental Impact Assessments (EIA), and obtaining necessary approvals from authorities when required. We have integrated economic, social, and environmental considerations into our procurement process, while the other criteria cover the quality of services or products, competitive pricing, experience and competence, financial soundness, flexibility, and capacity, and compliance with legal requirements.

The Bank's Communication Policy effectively outlines external communication protocols which apply to all business partners. We handle our dealings with all business partners in a transparent, responsible, accountable, and consistent manner.

In 2022, we continued to source 100% of our goods and services from local suppliers, spending a total of Rs. 906.1 Bn. in procurement. We carried out the annual update of our procurement plan by addressing the changing needs of the Bank in 2022.

Streamlining operations through outsourcing

GRI 302-1, 303-5

Apart from banks and other financial institutions, NSB obtains the services of outside suppliers for the purchase of fixed assets, consumable items, gift items, printing, marketing and promotional activities, maintenance and construction services, and consultancy assistance in special cases.

Financial service providers

- Banks and other financial institutions
- Correspondent banks
- Exchange houses
- Eurogiro companies

Professional services

- Auditors
- Consultancy service providers

IT-related services

- IT hardware suppliers
- Software developers and suppliers
- Network service security

Outsource service providers

- Security
- Food and drinking water
- Sanitary and cleaning services
- Transport and other
- Construction and maintenance services

Fixed assets and materials

- Vehicles
- Furniture
- Land and property
- Office equipment
- Stationery
- Other materials

Utility providers

- Energy
- Water

During the year in review, we disbursed Rs. 450.8 Mn. to our outsourced service providers comprising employees working for the Bank on contract basis. We have an Outsourcing Policy in place to provide guidelines on outsourcing and specifies the criteria to assess the need for an outsourced activity, service, process, or function, and its implementation.

Bolstering strategic alliances

Cash-back offer for NSB Neo debit cards

- In line with the 50th Golden Jubilee of NSB, cashback and discount scheme are offered to promote Point of Sale (POS) and e-commerce transactions of NSB ATM Debit cards when making domestic e-commerce transactions.

Industry memberships

Over the years, NSB has nurtured long-standing relationships with industry peers to provide financial services and intermediation more efficiently, given our role as a key player in Sri Lanka's banking industry. We hold memberships in the following organisations to resolve industry challenges and create a conducive operating environment:

- The National Chamber of Commerce
- Lanka Clear Private Limited
- Employers' Federation of Ceylon
- Society for Worldwide Interbank
- Financial Telecommunication (SWIFT)
- The Sri Lanka SWIFT User Group
- Eurogiro Global Payment Community
- The World Savings Banking Institute

3 Strengthening regulatory compliance – regulatory capital

Regulatory capital is the value of financial resources held by a bank as required by its financial regulators, in order to avoid the risks it is exposed to, absorb losses, build stakeholder confidence, restrict excessive asset growth, and provide protection to customers.

Our approach to regulatory capital

NSB is committed to following all regulatory requirements as a state-owned licensed specialised bank, and follow sound governance practices to nurture customer trust and contribute towards building a stable economy. The Bank complies to both national and international standards relating to business ethics and best practices, thereby sustainably and positively impacting Sri Lanka's economic development.

Strategies to enhance value

- Implement mechanisms to identify, assess, and respond to regulatory changes
- Strengthen operational resilience
- Improve stress testing standards
- Review impact tolerances
- Fine tune performance metrics
- Participate in industry regulatory initiatives (consultative papers)

Value creating drivers for strengthening regulatory compliance

- Consistent compliance with regulations
- Anti-money laundering, bribery and corruption
- Strong governance and prudent risk management
- Contributions to Government

GRI 205-2, 205-3, 206-1

Consistent compliance with regulations

- Adhere to the provisions of the:
  - National Savings Bank Act No. 30 of 1971 and its amendments
  - Banking Act No. 30 of 1988 and its amendments
  - Financial Transactions Reporting Act
  - Exchange Control Act and all other regulations issued by the Central Bank of Sri Lanka (CBSL)
- Maintain close relationships with:
  - The Ministry of Finance
  - The Department of Inland Revenue
  - Auditor General's Department
  - Attorney General's Department
  - Sri Lanka Accounting and Auditing Standards Monitoring Board
  - Parliament
- Submit periodic information related to the Bank's operations in compliance with the directives issued by the CBSL

Anti-money laundering, bribery, and corruption

- Identification of three principal risk areas in the age of digitisation:
  - Cybersecurity
  - Fraud prevention
  - Anti-money laundering
- Robust risk management system to protect customers from fraud
- Assist regulators to prevent cybercrime, money laundering, and funding of terrorism by identifying and reporting suspicious activities.
- Zero instances of fines or non-monitory sanctions imposed due to non-compliance with laws and regulations relating to corruption, anti-competitive behaviour, anti-trust, monopoly practices, and use of product and services during the period under review.

Strong governance and prudent risk management

- Maintain a watertight governance system and strict risk management policy
- Reinforce a risk culture as a short to medium-term strategic priority
- Practice a strong risk culture that effectively anticipates, manages, and mitigates risks arising from internal and external environments.

Contributions to the Government of Sri Lanka

- Pay and collect taxes on behalf of the Government
- Pay all relevant taxes payable on-behalf of and in respect of our employees
- Pay all applicable statutory dues to the Government and the other relevant regulatory and statutory authorities

4 Building thriving communities – community capital

GRI 203-1, 413-1

Community capital is the set of shared values and resources that local communities can draw upon for sustainable development. It is largely viewed as public goodwill with ties to philanthropy and helps nurture trust, connectivity, and reciprocity within communities to facilitate coordination and corporation for mutual benefit.

Our approach to community capital

Cognisant of our responsibility as a state-owned bank, we heavily invest in multiple verticals that seek to uplift the socio-economic status of our communities. Apart from providing underserved communities with access to financial services to meet their savings needs, we support sustainable community development by championing education, arts and culture, and social welfare among other philanthropic initiatives.

With the UN SDGs as a guideline, we devise and implement community initiatives to create a long-lasting social impact, while also supporting a wide range of external organisations based on how the initiative aligns with our purpose as well as our brand. Our contributions are given mostly as financial assistance, complemented by our sector expertise where required. The Bank continues to monitor the effectiveness and impact of its community development projects.

Strategies to enhance value

- Consider social, economic, and environmental factors for philanthropic initiatives and investments
- Encourage and incentivise employees to volunteer and initiate community projects
- Place greater focus on minorities and unbanked, underbanked and underserved groups
- Improve civic engagement within the local communities of operation

Value creating drivers to enhance community capital

- Strategic alliance to drive national development
- Supporting the national revival of arts, culture and spiritual activities for holistic development
- Cultivating environmental awareness among internal and external stakeholders
- Initiating community service projects for empowerment and/or assistance

GRI 203-1, 413-1

Programme	Objectives	Description/Progress	Investment	Beneficiaries and outcomes	Staff engagement
Forming strategic alliances to drive national development					
"English is Simple" – under the Quality Education Initiative in collaboration with the English and Foreign Languages Branch (EFLB) of the Ministry of Education (MoE) of Sri Lanka	To enhance English reading, writing, listening, and speaking skills of school students (from grades 8 – 11), to improve English Language results and performance of students at the GCE Ordinary Level examination To increase student engagement in the English Language based competitions To improve the capacity and knowledge of teachers by providing them with the necessary guidance and material to develop students to the required level of language proficiency	NSB formalised the MoU with the Ministry of Education on 11 October 2019, followed by a briefing on the project for all Educational Directors island-wide on 29 October 2019 **Progress in 2022:** An expert panel of resource personnel prepared the content for textbooks (activities, model papers and past papers) during the course of five workshops The content of textbooks and model paper book is ready to be printed Virtual copies of the book are available in the "e-*Thaksalawa*" – the national e-learning portal for general education.	Rs. 8 Mn. for 3 years	Over 40,000 students and 500 teachers across grades 8, 9,10, and 11 in 81 schools were reached Improved pass rates for the English Language at the GCE (O/L) examinations	Appointees of the Marketing Division liaise with officials of the English and Foreign Languages Branch in preparing the curriculum organising: • teacher training • sessions • setting up interactive • student sessions At the point of implementation, Branch Managers located close to selected schools will participate in providing information for the periodical evaluation of the project
Cultivating environmental awareness among internal and external stakeholders					
Participating in the National Tree Planting initiative "*Nekathata Palayak*" for the Sinhala and Tamil New Year 2022	To support national efforts to increase urban forest cover in Sri Lanka	NSB continued to showcase the Bank's commitment to making a positive environmental impact, and further reduce our carbon footprint	Rs. 3.2 Mn.*	Benefitting the general public and event participants and contributing towards national greening efforts We gained brand equity as an environmentally responsible Bank	N/A
Initiating community service projects for empowerment and/or assistance					
Distribution of free school books and school uniforms to students in the Colombo district at the *Pragna Pradeepa* Centre	To ensure inclusive and equitable quality education			N/A	N/A

Programme	Objectives	Description/Progress	Investment	Beneficiaries and outcomes	Staff engagement
Supporting the national revival of arts, culture and spiritual activities for holistic development					
Annual *Jaya Pirith* Chanting Ceremony 2022 organised by the Ministry of Defence, Sri Lanka	To invoke blessings on Sri Lanka To invoke blessings on family members of fallen war heroes, disabled war heroes and the Tri-Forces To promote spiritual and psychological wellbeing among military personnel and their families	The "*Jaya Piritha*" chanting ceremony was held with the participation of 1,000 Bhikkhus invited from across the country including Maha Nayaka and Anunayaka Theras		Sri Lankan military personnel and their families benefitted from the event We strengthened ties with the Ministry of Defence, and increased awareness of the benefits for military personnel and their families from NSB's *Savibala* Account	N/A
Annual *Duruthu* Festival 2022 of the Kelaniya Rajamaha Viharaya	To support the revival, preservation, and continuation of Sri Lanka's long-standing tradition of culture and pageantry	NSB supported the revival of a number of cultural traditions across the country following the lifting of social distancing restrictions imposed during the COVID-19 pandemic. The Bank made financial contributions and displayed NSB nameboards with religious messages within the temple premises and surrounding areas		Strengthening ties with communities and enhancing brand equity among the general public	N/A
43rd Colombo *Nawam Maha Perahera* 2022 of the Gangaramaya Temple					N/A
59th Annual *Esala Maha Perahera* 2022 of the Sri Walukarama Maha Viharaya in Kollupitiya					N/A
27th Kuliyapitiya *Duruthu Maha Perahera* 2022 of the Sri Shasanalankara Maha Viharaya					N/A
Contribution towards the erection of the standing Buddha statute at the *Sadaham Sisila* Buddhist Centre.	To support the development/conservation of Sri Lanka's religious and cultural sites			New standing buddha statue at the Buddhist Centre to benefit followers and practitioners as well as visitors to the centre	N/A
Contribution towards the construction of the Bodhigara at the Thalpitiya *Bodhi Rajamaha Viharaya* in Wadduwa				Protective fence around the Bodhi tree of the temple to benefit all followers and practitioners as well as visitors to the temple	N/A

* Total investment on cultivating environmental awareness among internal and external stakeholders, initiating community service projects for empowerment and/or assistance and supporting the national revival of arts, culture and spiritual activities for holistic development was Rs. 3.2 Mn.

Table 20

Outlook for 2023 and beyond

Short-term

- Fully automated secure digital platforms targeting increase customer convenience and reachability while conforming to industry standards with the implementation of a new Core Banking Solution, Mobile Banking Payment APP and other related state of the art solutions.

Medium-term

- Implement a fully-fledged Digital Banking Solution for customer ease of transaction.
- Provide financial inclusion for unbanked and underbanked people in the economy.
- Adopt sustainable finance practices that will achieve the selected UNSDGs.

Long-term

- Facilitate a secure and stable financial ecosystem.
- Impact the community in a positive manner.

Contribution of our FUTURE-PROOF strategy

Providing inclusive financial solutions to achieve sustainable growth to withstand plausible and extraordinary shocks.

Natural capital

GRI 201-2

Key elements of our natural capital

Natural capital refers to all renewable and non-renewable environmental resources and processes that enable an organisation's business activities, thereby supporting its ability to create value in the short, medium, and long-term. It consists of the world's stock of natural resources and ecosystems which encompass air, water, land, and all living organisms and ecosystems.

Our environmental focus area

- Climate change and resilience
- Carbon footprint
- Energy
- Water
- Waste
- Green Building
- Biodiversity

Key inputs

- Air
- Water
- Land
- Minerals
- Forests
- Biodiversity and ecosystems

Key challenges

- Creating stakeholder awareness on the importance of managing natural capital and green projects.
- Green initiatives requiring higher investments.
- Difficulties in measuring the Bank's environmental impact.
- Complexities behind lowering the Bank's carbon footprint.
- Difficulties faced by certain group of customers to maneuver digitally enabled banking functionalities.
- Natural disasters with undesirable outcomes

Key opportunities

- Able to promote green initiatives such as green products, green finance, and green buildings
- The need to maintain long-term sustainability of the Bank provides reason to reduce the environmental footprint
- Prior planning allows for lower environmental impacts of operations
- Efficient use of resources results in reduced costs and stronger financial sustainability

How we grow our natural capital

1. Contributing towards a sustainable world by embracing the concept of eco-friendly buildings and effective resource management. Upholding the principles of trust, mutual respect, integrity, and creativity as embedded in our corporate culture and approach to banking, we strive to remain a values-based institution.
2. Responsible consumption
3. Incorporating sustainable financing into our lending practices to reduce the negative impact on the environment and society as a whole.

Key outputs

Supporting a low carbon economy

Branches connected to Net Metering

46%
(2021 – 42%)

Exported to the National Grid

344,347 kWh.
(2021 – 277,328 kWh)

Responsible consumption

Per employee energy consumption

6.45 GJ
(2021 – 7.27 GJ%)

Energy consumption per branch

111.52 GJ
(2021 – 128.50 GJ)

Water consumption

70,430 m³
(2021 – 88,986 m³)

Sustainable financing

Number of eco loans granted

3
(2021 – 9)

Value of eco loans granted

Rs. 5.8 Mn.
(2021 – Rs. 3.8 Mn.)

How we leverage our natural capital

Manufactured capital
Provides the opportunity to introduce innovative new solutions to update/ replace traditional banking models. Investment in sustainable buildings and renewable energy strengthens the Bank's physical assets.

Human capital
Promoting sustainability and green consciousness creates a workforce that is, healthy and aware of the wider environment.

Social and relationship capital
Creating sustainable value chains by maintaining long-term links with suppliers.

Intellectual capital
Enhances NSB's reputation as a bank that prioritises sustainable operations. Green initiatives provide the Bank with visibility, boosting its brand image.

Financial capital
Investment in renewable energy and sustainability initiatives reduce costs in the long-term. Higher market share in green financing will help to drive revenue and profit targets in the long-term.

Connectivity with materiality, stakeholders, and short to medium-term strategic priorities

Material matters

Related stakeholders

Short to medium-term strategic priorities

Potential trade-offs

- Moving towards cleaner energy usage will result in trade-offs in the way people work and the costs associated with pursuing a more appropriate energy mix. However, long-term financial capital and social and relationship capital will improve.
- Some of our operations require natural resources and operate in pristine environments. We are guided by environmental impact assessments in our approach to developments.
- Investment on increasing natural capital has a negative impact on financial capital but build the human, intellectual and financial capital in the longer-term.
- Changes in the climate and natural disasters will deteriorate the financial capital and manufactured capital.

Contributions to UN SDGs

Primary UN SDGs

7 AFFORDABLE AND CLEAN ENERGY

Construct green buildings and solar branches to generate affordable and clean energy.

11 SUSTAINABLE CITIES AND COMMUNITIES

Promote the NSB Agroforestry programme to achieve environmentally friendly spaces.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Reduce paper consumption through increased digitalisation of banking processes.

Secondary UN SDGs

6 CLEAN WATER AND SANITATION

Promote clean water and sanitation through water conservation projects and responsible consumption.

13 CLIMATE ACTION

Practice an overall responsible approach to managing natural capital through green initiatives, digitalisation, accountable lending, and sound resource management.

1 Contributing to a sustainable world

Green buildings

Green buildings for sustainable resource management and employee well-being

NSB Bank has embraced the concept of green buildings as a way to efficiently manage energy, water, and natural resources while enhancing employee well-being and quality of life through green spaces. 18% of NSB branches now function on renewable energy. At the end of 2022, 46 solar branches were connected to Net Metering.

Prioritising energy efficiency and comfortable workspaces

All NSB Bank branches are equipped with glazed windows to optimise energy efficiency while new branches are constructed on the basis of green concepts that prioritise the use of natural light and air, resulting in pleasant workspaces. The Bank's new circuit bungalow in Kataragama was completed according to the green buildings concept, monitored by the Urban Development Authority (UDA).

Energy-efficient electrical appliances and security measures

To further reduce energy consumption, all NSB Bank branches are equipped with energy-efficient electrical appliances. The installation of lightning arresters also provides an additional layer of security to the branches.

Wastewater and sewage system for sustainable operations

The Bank has installed a wastewater and sewage system for the new building at Anuradhapura, as planned. These sustainable practices ensure that NSB Bank remains committed to reducing its environmental impact while providing comfortable and secure workspaces for its employees.

2 Responsible consumption

GRI 302-1, 303-5

Digitalisation for minimal resource usage and reduced carbon footprint

NSB Bank recognises that digitalisation is inherently capable of supporting sustainability, as it requires minimal use and wastage of natural resources, thereby reducing our carbon footprint. The Bank has implemented a wide range of digital products and services that act as incentives for our customers to move on to mobile and internet banking for business transactions. Refer page 152 for more details on our digital initiatives.

Reducing paper usage and promoting biodegradable materials

The Bank has implemented an e-renewal letter system that has led to reductions in paper usage, as opposed to printed statements. PIN numbers are now issued via SMS, further reducing the need for printed materials. NSB Bank also promotes the use of biodegradable materials in promotions, while also increasingly moving onto social media and digital platforms, aiding the Bank's efforts to reduce its environmental impact.

Energy consumption

The main sources of energy consumption at NSB Bank are electricity (through the National Grid and generated through the solar panel systems installed in a number of the Bank's branches), diesel, and petrol. The Bank is committed to responsible consumption with a view to conserving resources for future generations. We are committed to responsible consumption with a view to conserving for future generations. We have taken the following steps to meet these objectives:

- Installing inverter-operated AC units that are CFC-free helps save power consumption as well as reduces carbon emissions.
- Limiting A/C use to regular banking hours.
- Discouraging employees from working on Bank premises during holidays.
- Installing LED bulbs and CFL bulbs.
- Using LED screen computer monitors.
- Rigorously promoting recycling.
- Engaging in constant communication with employees on the importance of energy conservation.

Water consumption

NSB Bank's water consumption was 70,430 m^3 in 2022, and steps were taken to reduce this further in the coming year. The Bank has identified innovative ways to prudently use water and ensure that its employees are on board with the Bank's accepted practices.

New branches are equipped with rainwater harvesting systems as an alternative to using fresh water from surface and groundwater sources. Additionally, the Bank is committed to responsible water disposal practices. Stormwater is drained through public drainage, while wastewater is disposed of through standard soakage pits within the premises.

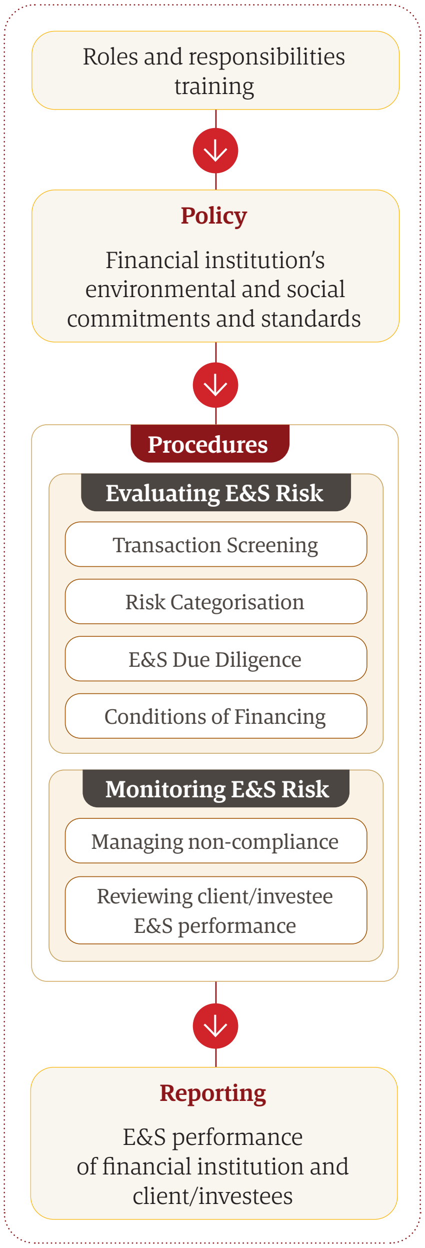
- 15.55 (Ltrs) per employee water consumption
- 268.82 (Ltrs) per branch water consumption

Waste management

The Bank recognises the importance of effective waste management in protecting biodiversity and human health. To ensure this, we have implemented a rigorous waste management system. Furthermore, we have conducted programmes to create awareness among our employees about the significance of these systems, which are outlined as follows:

- Waste segregation at all points of waste collection.
- Disposal via the relevant municipal/urban council and Central Environmental Authority (CEA) endorsed third-party recycling service providers.
- Wastepaper submitted to the Paper Corporation for recycling.
- Food and polythene waste handed to the Municipal Solid Waste Management Programme.
- Other waste material auctioned through the Supplies Division.

Our comprehensive Environmental Social Risk Management (ESRM) Policy, which outlines all environmental due diligence and governance guidelines, is presented below:



3 Sustainable financing

Our commitment to sustainability is reflected in our responsible lending practices, where we acknowledge the potential negative impact that our lending actions could have on the environment. In pursuit of long-term sustainable development, we have incorporated Environmental, Social, and Governance (ESG) considerations into our credit and risk evaluation process for lending practices. Transactions with higher ESG risks undergo further scrutiny. Our Corporate Credit Policy includes an exclusion list, which specifies activities that do not qualify for Bank lending, ensuring that we do not finance any activity with harmful environmental impacts. We require all customers to comply with local ESG-related laws and regulations and mandate borrowers to furnish an environmental impact assessment while seeking loans.

During the course of the year, we did not decline any loans or facilities based on environmental considerations. Our objective is to gradually encourage customers to adopt practices that align with higher ESG industry standards.

In addition to our stringent evaluation process, we promote the concept of green loans via the NSB Eco Loan, which supports the community-based power generation project, Soorya Bala Sangramaya. Launched in 2016, this initiative is a collaboration with the Ministry of Power and Renewable Energy, the Ceylon Electricity Board (CEB), and the Lanka Electricity Company Private Limited (LECO). Its objective is to establish smaller solar power plants on a wide variety of rooftops, including households, religious institutions, hotels, commercial establishments, and industries. This subsidised loan scheme encourages customers to switch to renewable energy, thereby reducing their carbon footprint. Depending on their electricity usage, customers can select from the Net Metering scheme, Net Accounting scheme, and Net Plus scheme.

Year	Number of loans granted	Amount granted Rs. Mn.
2019	222	193.2
2020	8	5.41
2021	9	3.80
2022	**3**	**5.78**

Table 21

Climate change impact

Our business is directly affected by extreme weather conditions. Climate change-related disasters can result in reduced production levels and, consequently, lower income levels. Additionally, such events may have a knock-on effect on the economy's overall spending, which could, in turn, impact borrowers' repayment capacity. This, in turn, could result in an increase in the non-performing loan (NPL) levels of personal housing and business loans across the banking sector.

Outlook for 2023 and beyond

Short-term

- Reduce the carbon footprint by increased use of digital technologies and reduce energy, water, and paper consumption through responsible conservation and management.
- Encourage customers to migrate to digital channels.

Medium-term

- Strengthen the Social, Environmental, and Governance management of the Bank and focus more on sustainable finance.
- Increase green lending for a low-carbon economy.

Long-term

- Create environmentally and socially responsible products and services.
- Invest in long-term ecosystem preservation projects.

Contribution of our FUTURE-PROOF strategy

Providing inclusive financial solutions to achieve sustainable growth to withstand plausible and extraordinary shocks.

Statement on corporate governance

At NSB, we believe that governance in the banking industry goes beyond simply complying with regulations. We view governance as a crucial aspect of responsible and ethical management, which affects all levels of our value-creation process. It is intertwined with our INTEGRATED THINKING approach and guides our decision-making, ensuring that we make ethical, responsible, and morally sound choices that align with our values and strategic goals, with a focus on long-term value creation. In general, governance guarantees both transparency in all interactions and accountability as an organisation.

To achieve this, NSB's governance structure is supported by strong leadership, impartial oversight, and management accountability, all based on a solid ethical foundation. The NSB mandate sets clear boundaries within which governance takes place, with the Board having the ultimate responsibility for governance, and delegating authority for strategic direction to Board Committees and Corporate Management, headed by the General Manager/CEO. The Board's main role is to oversee the Bank's affairs, ensuring that they are economically, socially, and environmentally sustainable while meeting shareholder interests.

The Board is responsible for setting and approving the Bank's strategy and operational objectives, with a focus on creating balanced value for all stakeholders. They must also ensure that ethical and effective banking operations are maintained at NSB, with a strong emphasis on qualities such as integrity, efficiency, accountability, impartiality, and openness. Compliance with industry rules, regulations, policies, and laws is a visible indication of NSB's commitment to ethical corporate citizenship.

All in all, governance at NSB is a multifaceted exercise that enables business through achieving strategic goals, securing stakeholder interests, and providing ethical and sustainable services to society at large. As such governance will continue to be a top priority for NSB.

For a detailed review of NSB's corporate governance and status of compliance, refer pages 178 to 198.

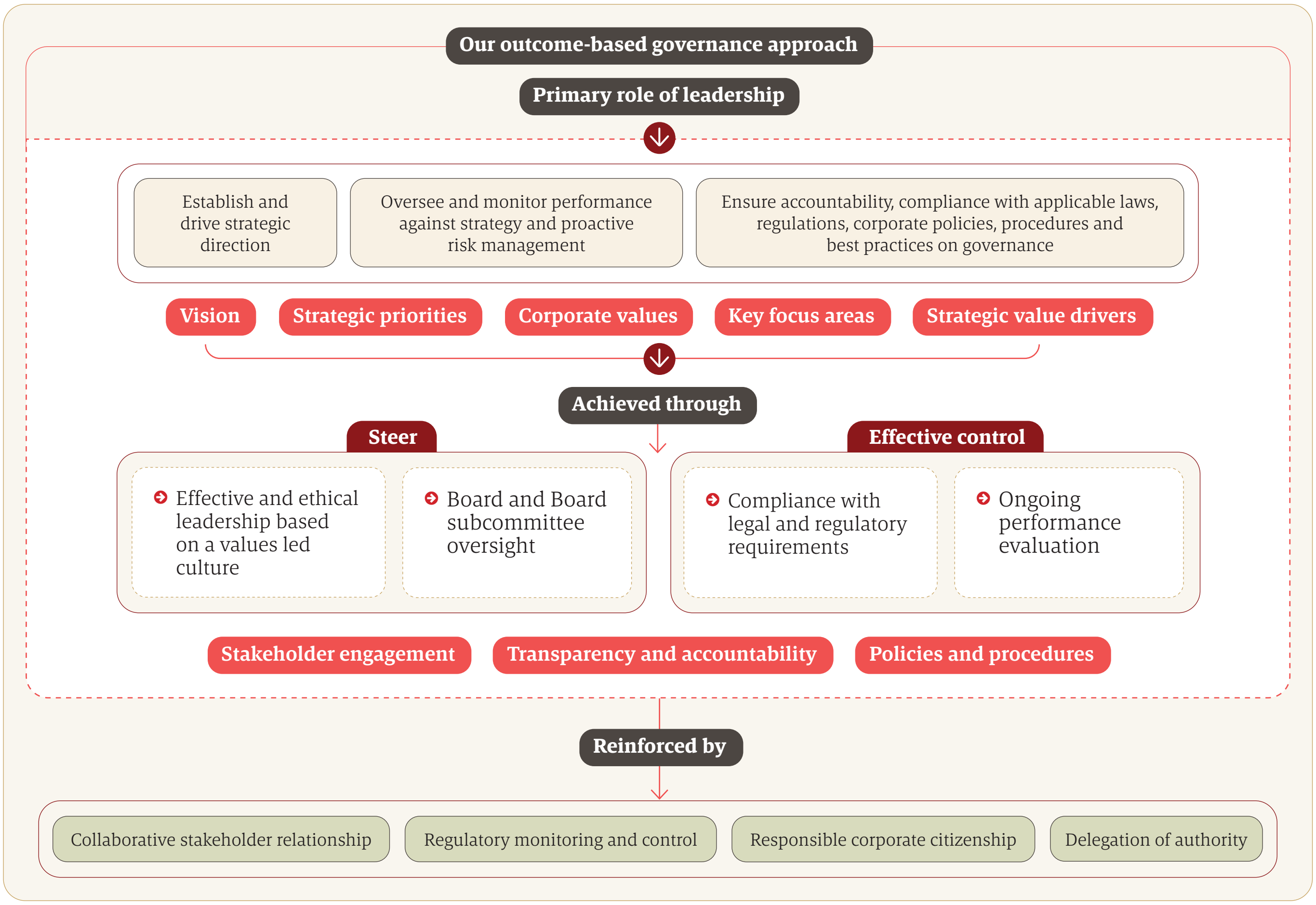


Figure 21 Our outcome-based governance approach

Statement on risk management

At NSB, we understand the value of risk management in preserving both the short and long-term sustainability of our organisation. We recognise risk management is an essential component of our corporate strategy and business model since it has a direct impact on our ability to create value over time.

Our approach to risk management encompasses NSB as well as its fully owned subsidiaries, Sri Lanka Savings Bank and NSB Fund Management, enabling a well-informed risk assessment across the Group.

Accuracy and transparency are the driving forces behind our risk management function, which assists in managing both financial and non-financial risks while protecting stakeholder interests. It is designed to identify, assess, measure, aggregate, and manage risks, as well as oversee the optimisation of capital allocations. In order to sustain our brand image, solvency, and resilience within in the industry, we ensure that the trade-off between risk and return in value creation is well-balanced, compliant with legal and regulatory requirements. We take risk management seriously and with the gravity that it warrants in the banking industry.

To ensure that our business strategy aligns with our integrated risk management strategy and risk appetite, the Board sets the risk appetite and appoints the Board Integrated Risk Management Committee (BIRMC) to assist in the efficiency and suitability of our risk management strategies. This involvement ensures that the entirety of NSB is involved in the risk management process.

Outlook

Despite the challenges of the socio-economic crisis in the country in 2022, we remain committed to bolstering our integrated risk management framework by upgrading our digital infrastructure to provide seamless support for strategic changes in business operations. This will ensure that all developments in the risk management framework of the Bank comply with both international best practices and the regulatory framework set by the CBSL.

Risk management at NSB

We have in place a robust risk management framework facilitating recognition of risk arises for timely corrective/preventive actions.

We regularly monitor our financial and operational performance against predetermined risk appetite limits, adapting our framework to address risks arising due to VUCA environment where the changes in the environment are well captured and addressed to minimise the negative impact on earnings and capital. We were able to meet our risk appetite levels of solvency indicators in 2022, except of profitability.

For further information on the Bank's risk review, refer pages 208 to 236.

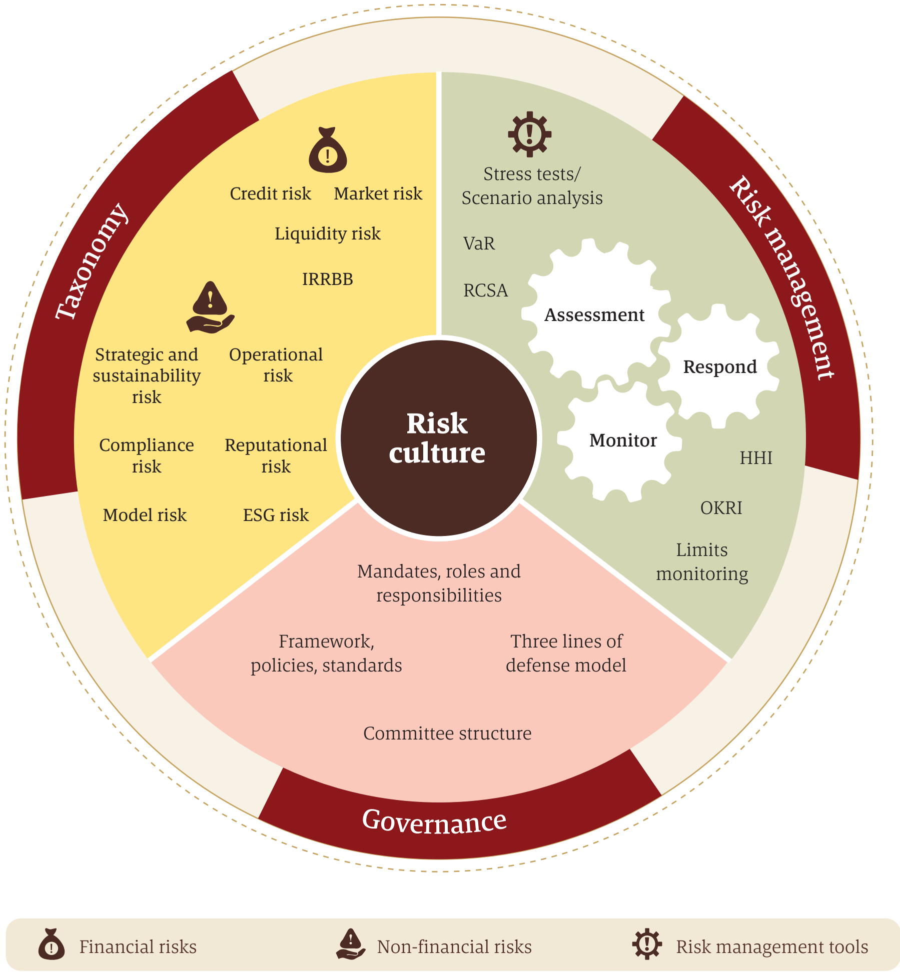


Figure 22 Risk culture

Governance

Board of Directors

Dr Harsha Cabral PC

Chairman
Independent Non-Executive Director

Date of appointment

2 May 2023

Skills and expertise

Dr Cabral is a President's Counsel in Sri Lanka with thirty-five (35) years' experience in the field of Intellectual Property Law, Company Law, Commercial Law, Commercial Arbitration, Securities Laws, International Trade Law covering both civil and criminal aspect of the said areas of the law. He has been a President's Counsel for seventeen years (17) and commands an extensive practice in the Commercial High Courts and the Supreme Courts of Sri Lanka and has sixteen (16) Attorneys-at-Law working in his Chambers. Dr Cabral holds a doctorate in Corporate Law from the University of Canberra, Australia. He was a sitting member of the International Chamber of Commerce (ICC) International Court of Arbitration in Paris for a period of six years till 2021. He is a Representative Member of the Federation of Integrated Conflict Management (FICM) as well as a Representative Member of the International Commercial Disputes Tribunal (ICDT). Dr Cabral is a Fellow of the Institute of Chartered Governance Institute (UK and Ireland).

As a member of the Advisory Commission on Company Law in Sri Lanka, Dr Cabral was one of the architects of the Companies Act No. 7 of 2007, the current Act.

Dr Cabral is a senior visiting lecturer at several Universities here and abroad, a regular speaker at public seminars and an author of several books. He has also presented several papers on Corporate Law, Intellectual Property Law, Commercial Arbitration, International Trade Law here and abroad. In addition to his active practice in courts and lecturing, he has been a counsel in many Arbitrations and has served as Sole-Arbitrator, Co-Arbitrator and Chairman in a large number of Arbitrations, domestic and international. Following are the books Dr Cabral has published.

- Corporate Law, Derivative Actions: A Comparative Approach.
- Intellectual Property Law in Sri Lanka.
- Companies Act No. 07 of 2007 and the Corporate Law of Sri Lanka.
- Duties of Company Directors and Corporate Governance in Sri Lanka.
- Law and Practice of Commercial Arbitration in Sri Lanka.
- Cabral's Arbitration Law Reports (Vol I) [1895 – 2020].
- Cabral's Intellectual Property Law Reports (Vol I) [1888 – 1995].
- Cabral's Intellectual Property Law Reports (Vol II) [1995 – 2020].
- Cabral's Company Law Reports (Vol I) [1881 – 1982].
- Cabral's Company Law Reports (Vol II) [1983 – 1993].
- Cabral's Company Law Reports (Vol III) [1994 – 2012].
- Cabral's Company Law Reports (Vol IV) [2013 – 2021].

Other current appointments

Dr Cabral is a member of the Law Commission of Sri Lanka, a member of the Intellectual Property Advisory Commission in Sri Lanka and the Chairman of the Intellectual Property Law Reform Project of the Ministry of Justice, a member of the Corporate Governance Faculty and the Corporate Governance Committee of the Institute of Chartered Accountants of Sri Lanka, and University Grants Commission (UGC) nominee on the Post Graduate Institute of Medicine (PGIM). Dr Cabral is also a Senior Advisor to the Ministry of Sports in drafting the new National Sports Law, a Senior Advisor to the Ministry of Justice on the new House of Justice Project (Chairman) and a Senior Advisor to the Ministry of Justice Commercial Law Reform.

Dr Cabral serves as the Chairman of the Tokyo Cement Group, which commands the largest market share for cement in Sri Lanka. Dr Cabral currently serves as Independent Non-Executive Director of DIMO PLC, Hayleys PLC, Alumex PLC, Tokyo Cement Company (Lanka) PLC, Tokyo Super Cement Company Lanka (Private) Limited, Tokyo Cement Power Lanka (Private) Limited, Tokyo Eastern Cement Company (Private) Limited, Tokyo Super Aggregate (Private) Limited, Tokyo Supermix (Private) Limited, World Export Centre Limited, Chevron Lubricants Lanka PLC, Ceylinco Life Insurance Co. Ltd. Dr Cabral is also a Senior Advisor to the Ministry of Sports in drafting the new National Sports Law, a Senior Advisor to the Ministry of Justice on the new House of Justice Project (Chairman) and a Senior Advisor to the Ministry of Justice on Commercial Law Reform. Darley Property Holdings (Private) Limited, CCC-ICLP International ADR Centre (Guarantee) Limited, National Olympic Committee (NOC), Ethics Committee (Chairman) and Sri Lanka Institute of Information Technology (Guarantee) Limited (SLIIT), SLIIT International (Private) Limited, Nanadiriya (Guarantee) Limited (Chairman) and he serves on several Audit Committees, Nomination Committees, Remuneration Committees, Recoveries Committees and the Related Party Transaction Committees, chairing most of them.

Previous key appointments

Dr Cabral was a former member of the Board of Investment (BOI) of Sri Lanka. He was the Founder Board Member of the Sri Lanka International Arbitration Centre and was involved in the drafting of the Arbitration Act, No. 11 of 1995, the current Act.

He was the past Chairman of LOLC Finance PLC, one of the largest Finance Companies in Sri Lanka. He was also a director of LOLC Insurance Company Limited, Commercial Leasing and Finance Limited and Richard Pieris Distributors Limited (Arpico Supermarkets). He was also the past Acting Chairman of Hatton National Bank PLC (HNB). In addition, Dr Cabral was a senior Director of the Union Bank of Sri Lanka. He was also a member of the Cabinet appointed Committee on the National Trade Policy and also a member of the Presidential Commission appointed on reformulating laws of Sri Lanka.

BAC, BHRRC

Mr Jude Nilukshan

Ex-Officio Director
Non-Independent Non-Executive Director

Date of appointment

2 March 2022

Skills and expertise

Mr Nilukshan holds a Master's Degree in International Trade & Economic Cooperation from Kyung Hee University, South Korea and a BSc Management special Degree, with a Second Class Upper Division pass from the University of Sri Jayewardenepura. He has training on Public Financial Management from various reputed local and international Institutions/Universities. He obtained a certificate of Public Administration, Certificate of General Management and Capacity Building Programme from Sri Lanka Institute of Development Administration (SLIDA).

Mr Jude Nilukshan, is a special grade officer of Sri Lanka Administrative Service, having over 20 years of experience in the public sector. During his public service he held various senior managerial positions of the General Treasury and the Office of the Cabinet of Ministers.

Other current appointments

Director General, National Budget Department, Board member, Sri Lanka Institute of Development Administration (SLIDA) and nominated to the Board of Directors of the National Film Corporation.

Previous key appointments

Senior Assistant Secretary to the office of the Cabinet of Ministers during 2015-2020. Director, Deputy Director/Assistant Director of the National Budget Department, Director/Deputy Director and Director Excise Tax of the Sri Lanka Customs. Chairman, Board of Shrama Vasana Fund. Represented the General Treasury in several key state-owned institutions including Ceylon Electricity Board (CEB), Academy of Financial Studies (MILODA), Sri Lanka Pharmaceutical Manufacturing Corporation (SPMC), National Botanical Gardens Trust Fund, Independent Television Network Ltd. (ITN), Marine Environment Protection Authority, Local Government Loan Board, Sri Lanka Youth Corps, National Building Research Organisation (NBRO) and Public Servants Mutual Provident Association (PSMPA).

BHRRC

Mr S R W M Ruwan Palitha Sathkumara

Ex-Officio Director
Independent Non-Executive Director

Date of appointment

27 March 2023

Skills and expertise

Mr Sathkumara holds a Master of Economics from the University of Kelaniya and a BSc Management (Special) Degree with a Second-Class Upper Division from the University of Sri Jayewardenepura. He holds a Diploma in Entrepreneurship Development and a Diploma in English for Professionals from Institute of Development Administration. Mr Sathkumara also holds a Higher National Diploma in Public Procurement and Contract Administration from the Sri Lanka Institute of Development Administration.

Mr Sathkumara is a special grade officer of Sri Lanka Administrative Service having over 20 years of experience in the public sector.

Other current appointments

Postmaster General, Department of Posts.

Previous key appointments

SLAS Cadet – Sri Lanka Institute of Development Administration, Assistant Commissioner of Title Registration – Land Settlement Department, Assistant Divisional Secretary – Divisional Secretariat – Ganewatta, Divisional Secretary – Divisional Secretariat Udubaddawa, Ministry Representative/Board member of Sri Lanka Rupavahini Corporation, Divisional Secretary – Divisional Secretariat – Ipalogama, Director – Department of Management Services (General Treasury), Deputy Director/Director – Sri Lanka Customs, Senior Assistant Secretary/Director (Sports Development), Additional Secretary – Ministry of Mass Media), Mantai Salt Ltd. – Board Member, Land Reforms Commission (LRC) – Commission Member, Skills Development Fund Lt. (SDFL) – Board member, Acting Chairman – Independent Television Network (ITN), Board Member – National Authority of Tobacco and Alcohol (NATA), Ministry Representative – Sri Lanka Rupavahini Corporation, Board Member – Selacine Rupavahini Institute.

BAC, BHRRC

Mr H K D Lakshman Gamini

Non-Independent
Non-Executive Director

Date of appointment

14 December 2020

Skills and experience

Mr Gamini is an experienced banker who had served People's Bank for a period exceeding three decades and retired in 2014. He had widely involved in international banking and branch banking.

Other current appointments

Director at Three Star Logistics (PVT) Limited, Director – NSB Fund Management Co. Ltd. Director – Credit Information Bureau (CRIB)

Previous key appointments

Vice Chairman of State Printing Corporation, Director of Skills Development Fund, Ministry of Skills Development and Vocational Training.

BAC

Mr Dushyanta Basnayake

Independent Non-Executive Director

Date of appointment

31 March 2023

Skills and experience

Skills and experience

Mr Basnayake is a Fellow Member of the Chartered Institute of Management Accountants (CIMA-UK) and a Chartered Global Management Accountant (CGMA). He is a Certified Member of Sri Lanka Institute of Marketing and a Fellow Member of Chartered Professional Managers (Sri Lanka). He holds a BA (Honors) in Business Administration from London Metropolitan University (UK) and holds an Executive Master of Business Administration (EMBA) from Post Graduate Institute of Management (PIM), Sri Jayewardenepura University. He also holds a Master of Laws (LLM), International Trade from the Cardiff Metropolitan University, UK.

Mr Basnayake started his career in Accountancy at Ernst & Young, one of the largest professional services networks in the world. He is a Management Consultant with extensive skills and experience over 35 years holding Executive positions in various Government Institutions and corporate sector Companies.

Other current appointments

Chairman – Ayu Ventures (Pvt) Ltd. and Medimarket (Pvt) Ltd. Director – MIDAS Secretarial Services (Pvt) Ltd., and Asian Management (Pvt) Ltd.

Previous key appointments

Managing Director – Sri Lanka Insurance Corporation, Chairman – Sinolanka Hotels and Spa (Pvt) Ltd. Director Finance – Associated Newspapers of Ceylon Ltd. Director – Galoya Planations (Pvt) Ltd. Executive Director – Apogee Group of Companies and Ceylon Newspapers (Pvt) Ltd.

Mr M P A W Peiris

General Manager/CEO

Date of appointment

12 October 2020

Skills and experience

Mr Peiris is a First Class Honours BSc Degree holder in Physical Science from the University of Colombo and a Member of the Association of Professional Bankers, the Institute of Bankers of Sri Lanka, Sri Lanka Institute of Credit Management and the Sri Lanka Institute of Training and Development.

Other current appointments

Director, NSB Fund Management Co. Ltd., Director, Institute of Bankers of Sri Lanka (IBSL), Director, Sri Lanka Banks' Association (SLBA), Director, the Financial Ombudsman, Sri Lanka (FOSL).

Previous key appointments

Mr Peiris is a professionally qualified and sound banker with a proven track record. His banking career spans over 34 years at NSB since joining the Bank as a Management Trainee in 1988. He has served in many areas of the Bank, including Branch Operations, Branch Administration, Retail Credit, International Banking, Postal Banking in the capacity of Branch Manager, Zonal Manager, Assistant General Manager, and Deputy General Manager before his appointment as the General Manager/CEO.

Ms Anupama Muhandiram

Secretary to the Board

Date of appointment

6 December 2016

Skills and experience

Ms Anupama Muhandiram, an Attorney-at-Law holds Master of Laws Degree (LLM) from Cardiff Metropolitan University of UK, Master's in Business Administration (MBA) Degree from Manipal University and Post-Attorney Diploma in Banking and Insurance Law from the Incorporated Council of Legal education of Sri Lanka. Currently she is reading for Chartered Corporate Secretaries of Sri Lanka.

Prior to her appointment as the Secretary to the Board of Directors of National Saving Bank on 6 December 2016, she has served as Assistant Secretary to the Board of Directors from November 2015 to December 2016. She has served as the Company Secretary of NSB Fund Management Co. Ltd., from 2015 to 2017. Out of 26 years experience in Banking and Finance sector, she had served more than 18 years at People's Bank as a Senior Legal Officer and an Assistant Secretary to the Board of Directors.

Ms Muhandiram is also a visiting Lecturer (Commercial Law) at the University of Sabaragamuwa, and she is the Founder Secretary of Association of Board/Company Secretaries of Banks Sri Lanka.

BAC Chairman of Board Audit Committee	BAC Member of Board Audit Committee
BHRRC Chairman of Board Human Resources and Remuneration Committee	BHRRC Member of Board Human Resources and Remuneration Committee

Corporate management

Mr M P A W Peiris
General Manager/CEO

Mr K Raveendran
Senior Deputy General Manager

Ms G V A D D Silva
DGM (Treasury)

Mr G W E Jayaweera
DGM (Audit)

Ms M N A Fernando
DGM (Human Resource Development)

Dr A K L Illesinghe
Chief Information Officer/DGM (Information Technology)

Ms M A Gomes
DGM (Operations)

Mr W M R B Weerakoon
DGM (Administration)

Ms K D Jayatilake
DGM (Legal)/Chief Legal Officer

Mr T H S Athapattu
DGM (Finance, Corporate Planning and MIS)

Executive management

Mr K M W H Karunaratne
AGM (Engineering)

Mr J H T Chandraratne
AGM (Engineering)

Mr A L A Haleem
AGM (Operations)

Ms W P U A de Silva
AGM (Corporate Finance)

Ms R A N N Wijesinghe
AGM (Operations)

Ms I K L Sasi Mahendren
Compliance Officer

Ms R P A M P Rajanayake
Chief Risk Officer

Ms C W Pathirana
AGM (Support Services)

Ms S W A Weerasinghe
AGM (Treasury)

Mr L C Senanayake
AGM (IT)

Ms M A P Muhandiram
Secretary – Board of Directors

Mr M D Suranjana
AGM (Audit)

Mr H M G P J Herath
AGM (Operations)

Mr S Sivasorupan
AGM (Postal Banking)

Mr D M C P B Dissanayake
AGM (Core – Banking and International Banking)

Ms S H A S Kumari
AGM (Recoveries)

Mr D L P Abayasinghe
CEO NSB Fund MGT CO

Chief managers

Mr D C Olaboduwa
Regional Manager (Western 1)
Regional Office (Western 1)

Ms C N Ekanayake
Regional Manager (Western 2)
Regional Office (Western 2)

Mr S B Suranga
Regional Manager (Sabaragamuwa)
Regional Office (Sabaragamuwa)

Ms J M A K Jayasinghe
Regional Manager (North Western)
Regional Office (North Western)

Mr N Baheerathan
Regional Manager (Northern)
Regional Office (Northern)

Mr H D U Susantha Kumara
Regional Manager (Southern)
Regional Office (Southern)

Mr K Sansayan
Regional Manager (Eastern)
Regional Office (Eastern)

Mr S N R Senadheera
Regional Manager (Central)
Regional Office (Central)

Mr A B C R Wijayapala
Chief Manager
Branch Management Division

Mr M V G Susil Kumara
Chief Manager (International Banking)
International Banking Division

Mr K T S S Gunawardena
Chief Manager (Security)
Security Division

Mr M W K C De Silva
Chief Manager
Superannuation Division

Mr K D K K Wijayawardane
Chief Manager
Card Centre

Mr A P R De Zoysa
Chief Manager (Information Security)
Information Technology Division

Ms S S J P S De Silva
Chief Manager (Finance)
Finance and Planning Division

Mr H S P Ranaweera
Chief Manager (Finance)
Finance and Planning Division

Mr S A A Batuwantudawa
Chief Manager
Credit Division

Ms S A M A C J S K Senarathne
Chief Manager (Legal)
Legal Division

Ms N I Gunathilake
Chief Manager
Credit Division

Ms D A V Wijewantha
Branch Manager
Kiribathgoda Branch

Ms K B N C Kumari
Chief Manager (Finance)
Finance and Planning Division

Mr M T Hussain
Chief Manager – ICT Operations
Information Technology Division

Ms M D T Perera
Chief Manager (Marketing)
Marketing Division

Ms W E C Perera
Chief Manager
Risk Management Division

Mr J L P Manjula
Chief Manager
Risk Management Division

Mr T D P Perera
Chief Manager (Personnel)
Human Resource Development Division

Ms K C Thayaananthan
Branch Manager
Jaffna Branch

Mr A M G Alahakoon Banda
Branch Manager
Gampaha Branch

Mr N D C D Kularathne
Branch Manager
Negombo Branch

Mr R T Subasinghe
Branch Manager
Homagama Branch

Mr H M G Herath
Branch Manager
Battaramulla Branch

Mr S G S P K Piyaratne
Branch Manager
Head Office Branch

Mr K V W S Dharshana
Branch Manager
Kalutara Branch

Mr H M R Pushpakumara
Branch Manager
Kuliyapitiya Branch

Ms T A D N Anuruddi
Branch Manager
Galle Branch

Mr E A R Abeysinghe
Chief Manager
Credit Division

Ms G A D Godamulla
Chief Manager
Finance and Planning Division

Mr I N S A Nanayakkara
Branch Manager
Nugegoda Branch

Mr W M M R P Perera
Branch Manager
City Branch

Mr R M C K Rajapakse
Chief Manager
(Postal Bank Administration Division)

Ms A D Dharmapriya
Chief Manager (Legal)
Kandy Branch

Mr W A U Nandana
Branch Manager
Piliyandala Branch

Mr P V R Sisira Kumara
Branch Manager
Kurunegala Branch

Mr A B Wimaladasa
Branch Manager
Maharagama Branch

Mr D G S Jayatissa
Branch Manager
Badulla Branch

Mr H L S Wijesinghe
Chief Manager (Finance)
Finance and Planning Division

Mr E A A Chandima
Chief Manager (Premises)
Premises Division

Ms B M M C K Basnayake
Chief Manager (IT)
Information Technology Division

Ms U G Mallika
Chief Manager (IT)
Information Technology Division

Mr S Thaneeswaran
Branch Manager
Wellawatta Branch

Mr B A Pemaratne
Chief Manager
Audit and Vigilance Division

Mr K H A Sunil
Branch Manager
Matara Branch

Mr U A D Aquinas
Chief Manager (Supplies)
Supplies Division

Mr H A D P Gunawardena
Chief Manager
Training Division

Ms M D A P Goonetillake
Chief Manager
IT – E-banking Unit

Ms K G Ranasinghe
Branch Manager
Panadura Branch

Mr H P T S Jayasooriya
Chief Manager
Recoveries Division

Mr H A A Saumyakantha
Chief Manager
Branch management Division

Mr I S Jayasuriya
Chief Manager
Branch Management Division

Mr N H N L Nawarathna
Chief Manager (Welfare)
Welfare Division

Corporate governance

Chairman's message

The Sri Lankan economy was battered by multiple challenges throughout 2022. The Bank faced unprecedented difficulties with the much-wanted policy rate increase by 700bps by the CBSL in April 2022.

In response, the Board heightened its focus on resilience, adaptability and sustainability to guide the Bank through a difficult and volatile macroeconomic environment, making progress on the Bank's strategy and setting ambitious new targets and addressing reputational matters.

As we look ahead, Sri Lanka is bracing it self for another difficult year with the challenges stemming from the economic crisis. The Board remains focused on good governance and stakeholder engagement. The key corporate governance activities, that the Board engaged in during the year are set out below.

Ensuring robust governance practices protect value

In times of crisis, sound governance has become of paramount importance. A reactive approach to crises can be detrimental to an organisation's long-term sustainability. However, a clearly articulated, fit for purpose governance framework that includes rigorous risk management supports informed decision-making. Our governance framework enables alignment between the management and the Board regarding the Bank's direction towards value creation. This alignment is crucial in an environment that requires swift decision-making. I strongly believe that our corporate governance framework has shown itself to be resilient and supported us well as the economic crisis unfolded. The governance framework supported agile decision-making to protect the Bank and our stakeholders from the immediate impacts and ensured that we have a strong strategic direction that guides us to be well-positioned to be a FUTURE-PROOF bank as discussed on page 76.

Bolstering Board diversity and independence

As the savings giant in the country with a strong mandate to inculcate the savings culture amongst Sri Lankans, NSB has been on a journey to enhance the Board's independence and diversity. We had a strong Board that comprises a diverse mix of skills, experience and gender. The profiles of the Board during the year 2022 are given on pages 184 to 186. The Board that held office during the year under review were able to spread the unique skills and experience of our Directors across our committees to support value creation most effectively. As the new Chairman, I was informed of the level of engagement and the quality of dialogue from the Board during the deliberations. There was robust debate on the issues, underpinned by deep mutual respect and an appreciation of the responsibility to our stakeholders borne by the members of the Board who held office during the year under review.

The new diverse Board of the Bank was appointed in 2023 with strong commercial and technical skills to appropriately deliberate, advise and make informed decisions on relevant matters; and objectively and effectively discharge its governance role and responsibilities to shareholders. (Refer pages 170 to 172 on Profile of Board of Directors).

Stakeholder engagement

The Board recognised the importance of engaging with all its stakeholders in its process of value creation. Meeting the Bank's responsibilities and duties to our shareholder and the communities we serve is central to our purpose. Further details on how the Board takes account of stakeholder interests are set out on pages 90 to 98.

Board oversight of new strategy

The Board had been deeply involved with the development of the Bank's new strategy. Further information on key Board discussions during 2022 can be found on pages 70 to 89.

Leading on culture

This year the Board played an active role in leading the development of a healthy, values-led culture. Further information on the Board's role in assessing, monitoring and providing oversight of the development of the Bank's values-led culture can be found on page 179.

Board and Board subcommittee evaluation

The Board generally carries out an annual evaluation of the Board and Board subcommittees during the year. Further information on this process can be found on page 198.

Corporate governance direction

The Bank's compliance with the Banking Act Direction No. 12 of 2007 for Licensed Specialised Banks can be found on pages 410 to 429 The Bank also voluntarily adopted the revised Code of Best Practice on Corporate Governance issued by The Institute of Chartered Accountants of Sri Lanka.

Dr Harsha Cabral PC
Chairman

17 May 2023
Colombo

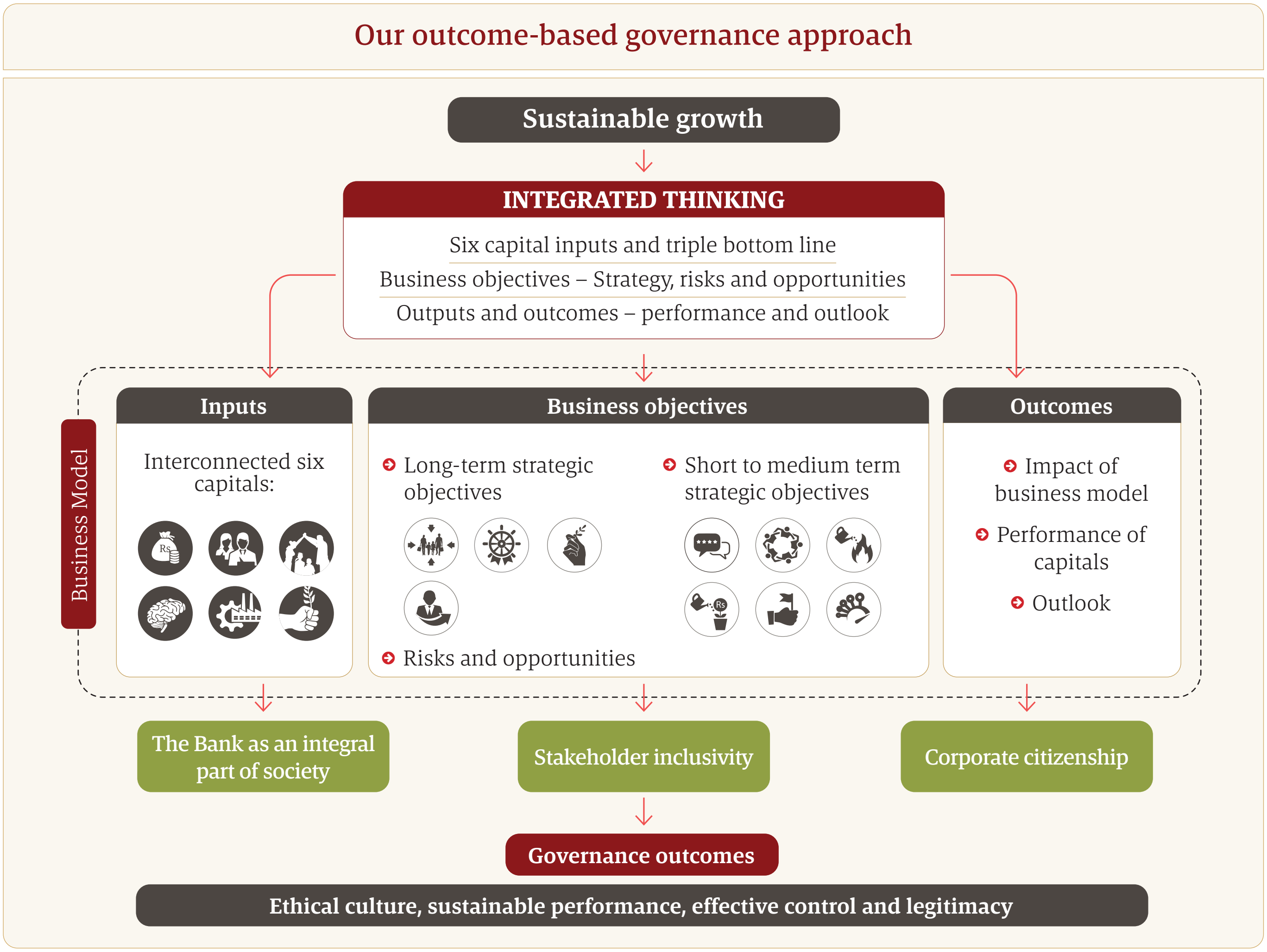


Figure 23 Our outcome-based governance approach

Our governance philosophy for sustainable value creation

INTEGRATED THINKING

NSB is committed to the highest standards of governance, ethics, and integrity which are integral elements for sustained value creation and safeguarding the interest of all stakeholders. We believe that good governance should be driven by purpose and contributes to our values through enhanced accountability, proactive risk management, sustainable growth, transparency and ethical and effective leadership. We are committed to continuously evolve our governance approach to better support the Board's oversight. It is an enabler of high-performance thought leadership that drives strategy execution and ensures we derive greater value from Board and Board Subcommittee meetings. The Board takes a multi-capital approach to governance, informed by an INTEGRATED THINKING philosophy during its oversight process. This is crucial to adapt to the complex regulatory landscape, being responsive to outperform competitors, managing disruptions and obstacles and in refining the Bank's strategic direction to ensure they are aligned with our business and stakeholder needs. Being mindful of the dynamic landscape of the factors such as economy, health, digital transformation of the financial services industry and enhanced data security requirements, we review the practices adopted to ensure that we act in best interest of the stakeholders.

Our approach to corporate governance and framework

Our approach to corporate governance promotes INTEGRATED THINKING and decision-making that balances strategic outcomes over time, to reconcile the interests of the Bank, stakeholders, and society in creating and protecting sustainable shared value. We follow a governance approach based on accountability, effective delegation, and adequate oversight to support sound decision-making. NSB's governance is strengthened by the tone at the top, the example the Board and the Corporate Management set, and the values and behaviours embraced by the employees of the Bank. The Board's role is to represent the shareholder by setting the strategic direction and instilling a culture that is reflective, risk aware and accountable to achieve stakeholder outcomes that are balanced. The Board gives high importance on overseeing the Bank's operations and ensuring that we remain well-positioned to continue supporting customers and achieving sustainable growth. The Board is conscious that a well governed Bank which has embraced best practices inspires the stakeholder confidence, lowers the cost of capitals, builds an inclusive governance framework.

Our Board-approved governance framework is embedded in all the Bank's operations and is designed to provide a clear direction for responsive decision-making and support responsible behaviour. We implement our governance framework to:

- Ensure that we engage in strategic opportunities within the Board-approved risk appetite, supporting a prudent balance of risk and return.
- Provide effective control to avoid financial loss or reputational damage due to misconduct or unethical behaviour.
- Embed the principle of doing the right business, the right way to ensure ethical business practices are embedded within and across our markets.
- Support our legitimacy as a responsible corporate citizen that enhances the resources, effective allocation of resources and relationships we rely on today for the future benefit of the Bank, our stakeholders and society.

How we govern

We are committed to the highest level of governance and strive to foster a culture that values and rewards exemplary ethical standards, personal and corporate integrity and respect for others. In our aspiration to be a responsible corporate citizen, we follow regulatory requirements, voluntary codes and internal elements of corporate governance applicable to the Bank.

Regulatory framework

- NSB Act No. 30 of 1971 and the amendments therein
- Banking Act No. 30 of 1988 and the amendments therein
- Inland Revenue Act No. 24 of 2017 and amendments therein
- Shop and Office Act No. 19 of 1954 and amendments therein
- Code of Best Practice on Corporate Governance for Public Enterprises in Sri Lanka
- Guidance for Directors of Banks on the Directors' Statement on Internal Control issued by CA Sri Lanka
- All Directions issued to Licensed Specialised Banks by the Central Bank of Sri Lanka, particularly the Banking Act Direction No. 12 of 2007 on Corporate Governance (pages 410 to 429)

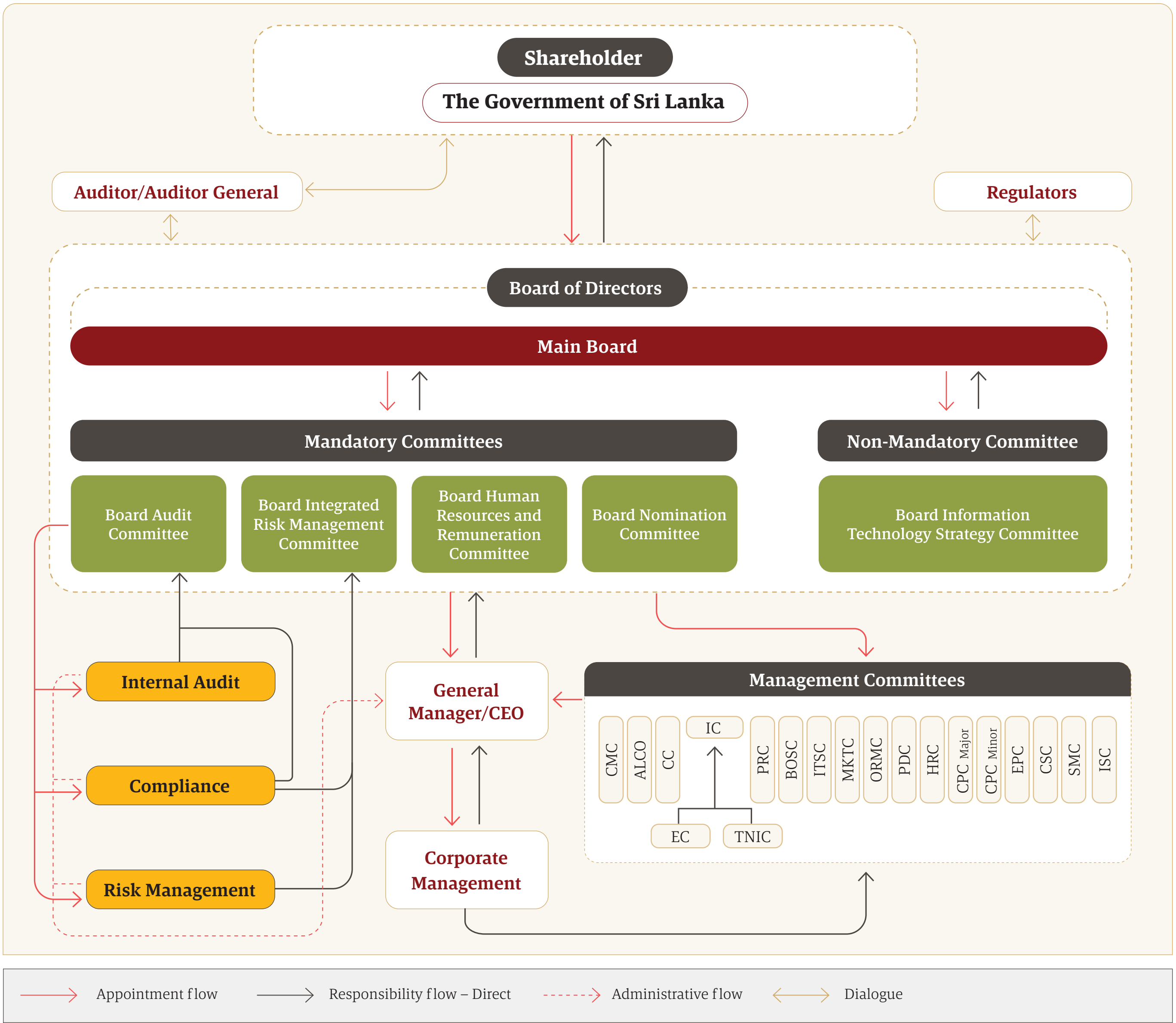
Voluntary codes relevant to the Bank

- Code of Best Practice on Corporate Governance issued by CA Sri Lanka (pages 430 to 434)

Internal elements

- Terms of Reference of Board and Board Subcommittees
- Code of Conduct for employees
- Code of Conduct for the Directors
- Board approved polices and operational procedures

Governance structure



CMC	Corporate Management Committee	**ITSC**	IT Steering Committee	**CSC**	Corporate Sustainability Committee
ALCO	Assets Liability Management Committee	**MKTC**	Marketing Committee	**SMC**	Senior Management Committee
CC	Credit Committee	**ORMC**	Operational Risk Management Committee	**ISC**	Information Security Committee
IC	Investment Committee	**PDC**	Product Development Committee		
EC	Equity Committee	**HRC**	Human Resources Committee		
TNIC	Tender and New Investment Committee	**CPC** Major	Corporate Procurement Committee – Major		
PRC	Performance Review Committee	**CPC** Minor	Corporate Procurement Committee – Minor		
BOSC	Branch Operations Steering Committee	**EPC**	Executive Procurement Committee		

Figure 24

Our governance structures are well-defined and embedded to support the Bank's ability to create and protect value in the short, medium and long-term. A well-architected governance structure and processes ensure that the Bank is well managed and controlled.

The Board of Directors provides leadership and strategic guidance to safeguard stakeholder value creation within a framework of prudent and effective controls. This makes it possible to assess and manage risks to ensure long-term sustainable development and growth. The Board has ultimate accountability and responsibility for the performance and affairs of the Bank and ensures that the Bank adheres to high standards of ethical behaviour. The Board delegates certain functions to its committees according to clearly defined mandates and decision-making rights set by the framework making the Board committee chairmen are accountable for the effective functioning of Board committees. This allows the Board to allocate sufficient attention to the matters reserved for its decision-making, while also ensuring that delegated matters receive in-depth focus.

The Board delegates the management of the day-to-day business and affairs of the Bank to the General Manager/ CEO. The Corporate Management and management committees are entrusted with the execution and delivery of the strategies approved by the Board. Strategic business lines are responsible for carrying out operations assuming risk upon agreed level.

Governance structure of the Bank is given in Figure 24 on page 181.

Board of Directors

The Board as the apex authority level sets the strategy, oversees its delivery, and establishes the culture, values and standards of the Bank. The Board ensures that the Bank manages risks effectively, monitors financial performance and reporting and ensures that appropriate and effective succession planning arrangements are in place. It provides and encourages entrepreneurial leadership across the Bank within this framework. They meaningfully contribute to leading the Bank by bringing diversity to the Board deliberations and create sustained value through constructively challenging the Management. A clear division of responsibilities of the Board ensures that no Director has unfettered power in decisions-making.

The Board is constituted as per the provisions of National Savings Bank Act No. 30 of 1971 and the amendments therein. The Board Charter details the roles and responsibilities and powers bestowed upon them. The Board holds Corporate Management accountable for the Bank's operational performance, financial performance, and internal control management systems and the Management is open and transparent with the Board, bringing all significant matters to their attention. In-depth interactions between the Board and the Corporate Management strengthen the Bank's decision-making and ensures an appropriate balance of power. These engagements take place with mutual respect and candour.

Roles, responsibilities, and powers of the Board

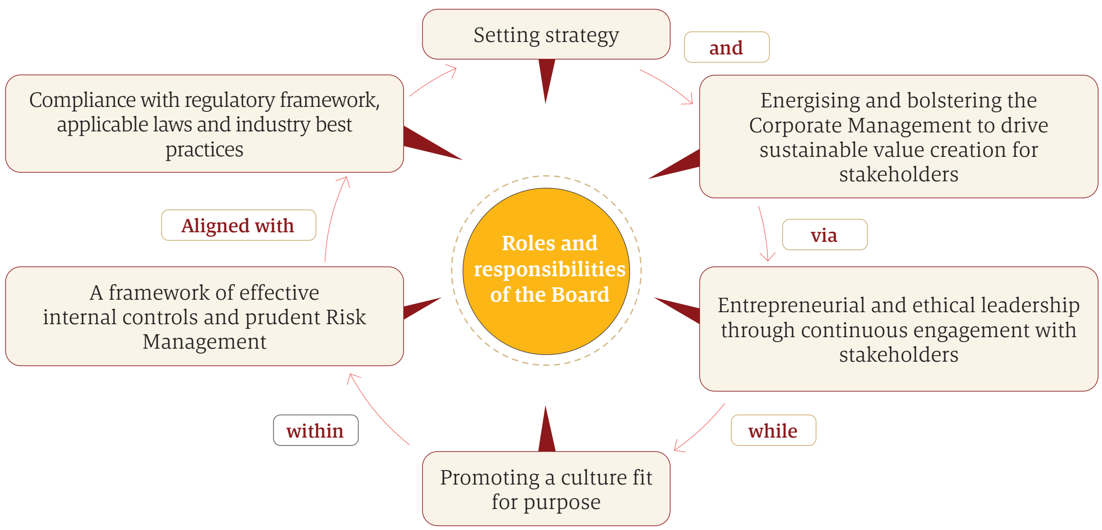


Figure 25

The roles and responsibilities and the powers reserved to the Board are given in the Board Charter as listed below.

Powers vested to the Board

- Act as the final decision-making authority with regard to any matter related to the Bank subject to restrictions made in Board Charter or any other laws/regulations in force.
- Arrive at suitable decisions on financial matters subject to provisions of the approved Procurement Manual of the Bank and other applicable laws/ regulations in force.
- Formulate policies and guidelines to govern all activities of the Bank in order to ensure that most favourable business initiatives are taken at all levels.
- Inquire into any matter pertaining to performance, management or administration of the Bank by way of calling for reports, appointment of a committee or any other suitable method as decided by the Board.

Roles and responsibilities of the Board

- Maintaining regular monitoring and supervision over overall functions of the Bank.
- Taking appropriate actions based on recommendations made by any Board subcommittee, a Director, General Manager/CEO or any other committee exercising power delegated by the Board.
- Monitoring and evaluating the performance of the organisation and Key Management Persons including General Manger/CEO.
- Appointment of General Manager/ CEO and, placements and promotions of Key Management Personnel in line with the Terms of Reference of the Board Nominations Committee (BNC) and Board Human Resources and Remunerations Committee (BHRRC).
- Engage in any other macro level matter which requires direction/ guidance from the Board of Directors.

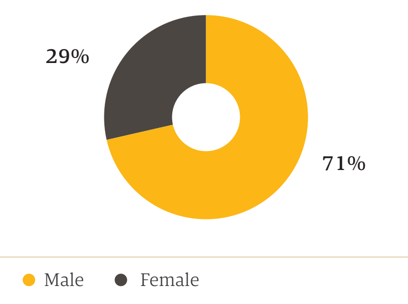
Board composition

We have a diverse Board, ranging broadly in age, gender, culture, educational background, skills, experience, and knowledge. This provides a fertile environment for discussion, debate, input, challenge, and thoughtful outcomes. The Board is committed to ensuring that we meet our governance, social and regulatory obligations taking into consideration the environment in which we operate.

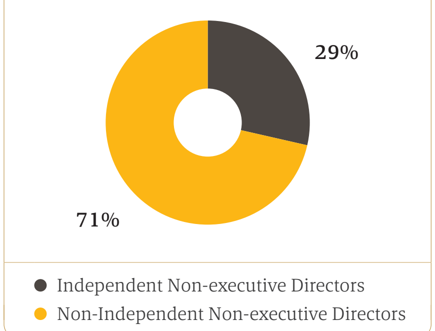
During the financial year 2022, the Board comprised of seven Non-Executive Directors who are eminent professionals of their chosen fields of expertise and skills to carry out deliberations on matters set before the Board. Two Directors were Non-Executive Independent Directors, and five Directors were Non-Executive Non-Independent Directors. The Chairman has overall responsibility for the leadership of the Board and for ensuring its effectiveness. The Board ensured that the Bank manages risk effectively, monitors financial performance and reporting and ensures that appropriate and effective internal controls and procedures are in place. It provides and encourages entrepreneurial leadership across the Bank within this framework.

Details of the Board Directors during the year 2022 are given on pages 184 to 186 details of their membership in Board subcommittees are given on page 190. The present Board comprises five Directors appointed by the subject Minister (full Board comprise seven Directors) who are experienced professionals in their chosen fields of expertise and skills to carry out deliberations on matters set before the Board. Three Directors of the present Board are Independent, Non-Executive Directors. Profiles of the present Directors including their qualifications, and the details of their membership in Board subcommittees are given on pages 170 to 172.

Gender composition Graph 42

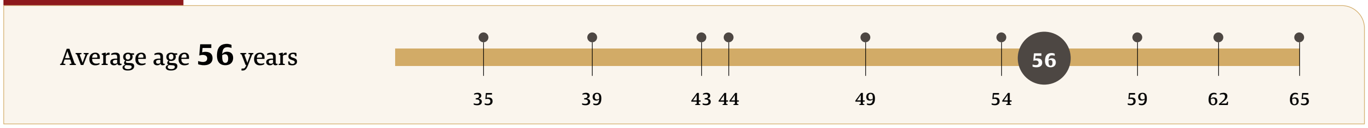


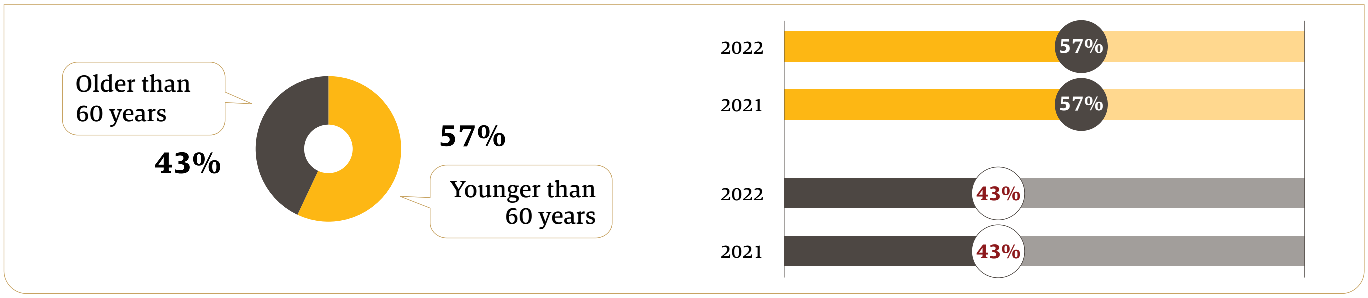
Independency of Directors Graph 43



Graph 44

Age analysis





Board of Directors for the year 2022

Ms Keasila Jayawardena

Chairperson
Non-Independent
Non-Executive Director

Tenure

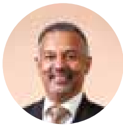
26 December 2019 – 26 December 2022

Skills and experience

- Bachelor's (Honours) and Master's degree in political Science – University of Peradeniya.
- University Lecturing in Political Science at the University of Peradeniya for 15 years.
- Eight years as a chairperson of two development banks.

Previous key appointments

- Chairperson – Kandurata Development Bank
- Chairperson – Regional Development Bank
- Provincial Council Member



Mr Eranga Jayewardene

Senior Director
Independent Non-Executive Director

Tenure

Director:
2 January 2020 – 2 January 2023

Senior Director:
15 June 2020 – 2 January 2023

Skills and experience

- Bachelor of Science Degree in Electrical Engineering – Rensselaer Polytechnic Institute, USA
- Master of Science (MSc) USA in Electrical Engineering – Stanford University
- Industry experience across local and international organisations in electrical engineering
- Published Author

Previous key appointments

- Director – Digitalisation MAS Intimates (Pvt) Ltd.
- Chief Executive Officer – Silueta (Pvt) Limited
- General Manager/Director – MAS Innovations
- General Manager in Sourcing and Supply Chain – MAS Intimates (Pvt) Ltd.
- Senior Manager in Supply Chain, Planning and Procurement – Apple Inc. Cupertino, CA, USA,
- Demand Planning Manager – Cisco Systems San Jose, – CA.
- Research Scientist – National Institute of Standards and Technology – Gaithersburg, MD, USA.

Mr U G R Ariyaratne

Ex-officio Director
Non-Independent
Non-Executive Director

Tenure

31 August 2018 – 3 January 2023

Skills and experience

- Bachelor of Commerce, Master in Sociology, Postgraduate Diploma in Regional Planning – University of Kelaniya
- Postgraduate Diploma in Education – University of Peradeniya
- Certificate of Public Administration, Certificate of General Management and Capacity Building Programme for SLAS Class I Officer – Sri Lanka Institute of Development Administration (SLIDA)
- Over 28 years of experience in the Sri Lanka Administrative Service

Previous key appointments

- District Secretary, District Secretariat – Polonnaruwa
- Additional Secretary (Social Development), Additional Secretary (Rural Development) – Ministry of Social Empowerment and Welfare
- Additional Government Printer (Administration) – Department of Government Printing
- Director General – Coconut Development Authority
- Senior Assistant Secretary (Land) – Ministry of Lands
- Executive Director/Deputy Director General (Administration and Finance)
- Mahaweli Authority of Sri Lanka
- Deputy Postmaster General (North Western Province and Central Province) – Department of Posts
- Divisional Secretary – Divisional Secretariat, Mawathagama
- Assistant/Deputy Commissioner (Kurunegala) – Department of Agrarian Services
- Secretary – Corporative Employees Commission, North Western Province
- Provincial Commissioner (North Central Province) – Department of Probation and Child Care Services
- Assistant Divisional Secretary – Divisional Secretariat, Rajanganaya, Thirappane
- Assistant Commissioner – Land, Department of Land Commissioner

Dr M K C Senanayake

Ex-Officio Director
Non-Independent
Non-Executive Director

Tenure

11 January 2020 – 28 February2022

Skills and experience

- PhD in Economics – University of New South Wales, Australia
- Master of Public Policy – Graduate School of Business Strategy, Hitotsubashi University, Japan
- Bachelor of Commerce (Special) with a Second Class (Upper Division) – University of Sri Jayewardenepura
- Advanced Diploma in Management and Administration – Sri Lanka Institute of Development Administration (SLIDA) and Sri Lanka Foundation Institute.
- Extensive years of experience in the Sri Lanka Administrative Service and an academic

Previous key appointments

- Director, Deputy Director (Acting) and Assistant Director – Department of Fiscal Policy
- Assistant Director – Department of National Planning, Ministry of Finance and Planning
- Commission member (Treasury Representative) – University Grants Commission
- Board Member – Postgraduate Institute of English, Open University of Sri Lanka, Sri Lanka Institute of Local Governance, Sri Lanka Council for Agricultural Research Policy, National Science and Technology Commission

Ms Manohari Abeyesekera

Director
Non-Independent
Non-Executive Director

Tenure

2 January 2020 – 2 January 2023

Skills and experience

- Bachelor of Science Degree in Biological Science (First Class Honours), Master of Business Administration (MBA) – University of Colombo
- Fellow Member – Chartered Institute of Management Accounts (CIMA – UK) and The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka)
- Board Leadership Programme (GSLID) – Sri Lanka Institute of Directors in partnership with International Finance Corporation (IFC)

- Postgraduate Diploma in International Relations – Bandaranaike International Diplomatic Training Institute
- Executive Education – Indian School of Business (ISB) Hyderabad, Asian Development Bank, Manila and BHF Bank, Germany
- Over 18 years of professional and leadership experience in multiple sectors and organisations

Previous key appointments

- Accountant – Long Range Planning Unit
- Head, Strategic Business Development – Hayleys PLC
- Director – HAYLEYS Group Services and Fentons Limited up to 31 October 2020

Mr M T J Perera

Non-Independent
Non-Executive Director

Tenure

21 February 2020 – 21 February 2023

Skills and experience

Served in National Savings Bank for a period exceeding four decades extensively involving in branch operations with wider spectrum of service delivery

Previous key appointments

Member of the Board – Janatha Estates Development Board (JEDB) from 2010 to 2013

Mr H K D Lakshman Gamini

Non-Independent Non-Executive Director

Tenure

14 December 2020 to date

Skills and experience

Served People's Bank for a period exceeding three decades and widely involved in international banking and branch banking

Previous key appointments

- Vice Chairman – State Printing Corporation
- Director – Skills Development Fund, Ministry of Skills Development and Vocational Training

Mr Jude Nilukshan

Ex-Officio Director
Non-Independent
Non-Executive Director

Tenure

28 February 2022 to date

Skills and experience

- Master's Degree in International Trade and Economic Cooperation – Kyung Hee University, South Korea
- BSc Management (Special) Degree, with a Second Class Upper Division – University of Sri Jayewardenepura
- Certificate of Public Administration, Certificate of General Management and Capacity Building Programme – Sri Lanka Institute of Development Administration (SLIDA)
- Special grade officer of Administrative Service Sri Lanka having over 20 years of experience in the public sector

Previous key appointments

- Senior Assistant Secretary – Office of the Cabinet of Ministers during 2015-2020.
- Director, Deputy Director/Assistant Director – National Budget Department
- Director/Deputy Director and Director Excise Tax – Sri Lanka Customs
- Chairman – Board of *Shrama Vasana* Fund
- Represented the General Treasury in several key state-owned institutions including Ceylon Electricity Board (CEB), Academy of Financial Studies (MILODA), Sri Lanka Pharmaceutical Manufacturing Corporation (SPMC), National Botanical Gardens Trust Fund, Independent Television Network Ltd. (ITN), Marine Environment Protection Authority, Local Government Loan Board, Sri Lanka Youth Corps, National Building Research Organisation (NBRO) and Public Servants Mutual Provident Association (PSMPA).

Board skills and expertise

As a financial intermediary, the Bank needs a broad range of skills to ensure the value creation in the interest of all stakeholders. The collective background of the Board members provides a balanced mix of skills, demographics, genders, experience, and tenures to enable it to fulfil its governance role and responsibilities objectively and effectively. Having the right mix of skills and expertise ensures that a Board as a united team is well equipped to guide and drive the Bank's strategy the way forward in the process of value creation. The members of the Board must have the highest levels of integrity, deep understanding of governance, appropriate technical, financial and non-financial knowledge and interpersonal skills. Our Board during the year 2022 was equipped with skills and experience specifically in the fields of banking, finance, economics, research, planning, strategy development, IT, cybersecurity, humanities, management, administration and international relations.

Profiles of the Board of Directors in the year 2022, including their qualifications and skills, other significant appointments and membership of the Board committees are given on pages 184 to 186 The skills and expertise of the present Board are given on pages 170 to 172.

Leadership

Skills and experience

Held senior leadership roles such as Chairman, Director, Chief Executive Officer or similar position in an organisation of significant size and complexity

Relevance to NSB

Setting strategy and evaluating the performance of Key Management Personnel

Financial services

Skills and experience

Experience in the financial services sector and regulations, including retail and corporate banking services and adjacent sector

Relevance to NSB

Understanding of the operational landscape, opportunities, and challenges in the sector

Financial acumen

Skills and experience

Proficiency in financial accounting and reporting and capital management and reporting

Relevance to NSB

Assessing complex financial and capital management initiatives

Corporate planning and strategy

Skills and experience

Experience in leading, developing or executing strategic planning and business objectives

Relevance to NSB

Reviewing and setting the organisational strategy and planning process

Governance

Skills and experience

Experience as a Non-Executive Director of a state bank or a listed company in Sri Lanka and/or understanding of legal and regulatory frameworks underpinning corporate governance principles

Relevance to NSB

Understanding the legal and regulatory frameworks to effectively perform the role of a Director

Risk management

Skills and experience

Experience in identifying, assessing, and monitoring systemic, existing and emerging financial and non-financial risks

Relevance to NSB

Monitoring risk appetite, assessing the overall risk profile and adapting to emerging trends

Digital and technology

Skills and experience

Experience in technology and innovation and the impact on customer experience and value creation

Relevance to NSB

Supporting the Bank's digital strategy

Enhanced customer outcomes

Skills and experience

Understanding of the changing needs of customers with a focus on improving their financial well-being and enhancing their experience

Relevance to NSB

Providing constructive challenge to ensure customer needs are met

Stakeholder engagement

Skills and experience

Experience in building and maintaining trusted and collaborative relationships with government, regulators, and community

Relevance to NSB

Ensuring an effective engagement programme with regulators and other stakeholders in place

People and culture

Skills and experience

Understanding organisational culture, succession planning, and remuneration and reward frameworks

Relevance to NSB

Overseeing the culture of the Bank and upholding to the Code of Conduct

Environment and social sustainability

Skills and experience

Understanding the potential risks and opportunities from an environmental, social and sustainability perspective

Relevance to NSB

Influencing sustainable practices, policies and decisions that support environmental and social outcomes

● Highly competency, knowledge and experience ● Practical/Direct experience

Board process

The Board meets at least once in six weeks based on an agreed meeting schedule as per the NSB Act. Additional meetings are convened based on the requirements to do so. Directors regularly attend the meetings and actively participate in the deliberations. Details of attendance during the year 2022 at Board meetings are given on page 190 The Bank has a comprehensive and continuous agenda setting and escalation process in place to ensure that the Board has the right information at the right time and in the right format to enable the Directors to make the right decisions. The Chairman leads the process, assisted by the General Manager/CEO and Secretary to the Board. The process ensures that sufficient time is being set aside for strategic discussions and business critical items. The Chairman ensures Board meetings are structured to facilitate open discussion, debate, and challenge. Board members also can request certain items to be included in the agenda for discussion and decision-making. The agenda is circulated to the Board members along with the relevant Board papers electronically prior to one week of the Board meeting by the Secretary to the Board via the BoardPac. The Directors regularly attend the meetings, physically and/or virtually and actively participate in deliberations. On exceptional situations, urgent Board papers are submitted at short notice or tabled during the meetings. Adequately detailed minutes of the meetings and the decisions made therein are maintained to access by Directors.

Conflict of interest

The National Savings Bank Act and the Corporate Governance Direction No. 12 of 2007 (Amended) codifies the fiduciary duties of Directors and does not provide to use of position and/or confidential information for personal gain or to benefit another person improperly.

Directors are required to inform the Board promptly of conflicts or potential conflicts of interest that they may have in relation to particular items of business. Where a Director has any direct or indirect personal or private business interest in a particular matter, that Director shall not take part in any deliberation or decision of the Board when the matter is considered and withdraw from such meetings while such deliberation is in progress or decision is being made.

A standard agenda item is included for members to declare whether any of them have any conflict of interest in respect of a matter on the agenda and minuted accordingly by the Secretary to the Board. Any changes in interests during the year necessitate the filing of a revised declaration of interest form.

The Board approved Related Party Transactions Policy of the Bank is established to ensure that transactions between the Bank and its related parties are based on principles of transparency and aims at preventing and providing guidance in situations of potential conflict of interests in respect of transactions involving such related parties. Any banking facilities provided to the Directors are in compliance with the authorisation given by the CBSL. During the year 2022, none of the Directors had a significant interest in any contract or arrangement entered into by the Bank or its subsidiaries other than as disclosed in Note 49.5.2 of the Financial Statements on page 361.

Board meetings

During the year 2022, there were 21 scheduled Board meetings and the details of attendance are shown on page 190. The Board meetings are held at least once in every six weeks according to the provision of NSB Act and special meetings are held when the need arises. The Board recognises the need to be adaptable and flexible to respond to changing circumstances, such as switching to virtual meetings because of the pandemic followed by the fuel crisis, and to emerging business priorities, while ensuring the continuing monitoring and oversight of core issues, such as the impact of the persisting economic crisis, implications of the Domestic Debt Optimisation (DDO) on the Bank and the possible strategies of the Bank to manage those.

In the process of value creation, to deliver against the strategies, the Board dedicated their time in providing clear directions to the Corporate Management in formulation of the Bank's 3 year Strategic Business Plan for the period of 2023 to 2025 which was consequently reviewed and approved by the Board. During the year, the Board continued to devote time on capital management, reviewed the performance and implementation of Strategic Business Plan and deliberated on matters that require further attention, risk management, compliance and corporate governance.

Composition of the Board, Board subcommittees and attendance for the year 2022

Name of the Director	Date of appointment	Age	Director status	Attended/Eligible to attend						Tenure in the Board (years)
				Board	BAC	BHRRC	BNC	BIRMC	BITSC	
Ms Keasila Jayawardena Chairperson	26 December 2019	63	NED/NID	20/21		11/11				2+
Mr Eranga Jayawardene Senior Director	2 January 2020	44	NED/ID	15/21		9/11			5/5	2+
Mr U G R Ariyaratne Ex-officio Director	31 December 2018	57	NED/ID	20/21		9/11	3/3	7/7	5/5	4
Dr M K C Senanayake Ex-officio Director (Until 28 February 2022)	11 January 2020	50	NED/NID	3/3	2/2			1/1		2+
Ms Manohari Abeyesekera Director	14 January 2020	47	NED/NID	21/21	14/14					2+
Mr M T J Perera Director	21 February 2020	66	NED/NID	20/21				7/7	5/5	2+
Mr H K D Lakshman Gamini Director	14 December 2020	68	NED/NID	19/21	14/14		3/3	6/6		1+
Mr Jude Nilukshan Ex-officio Director	28 February 2022	52	NED/NID	14/17	10/12		3/3			<1

NED – Non-Executive Director **NID** – Non-Independent Director **ID** – Independent Director

Table 22

Composition of the present Board

Name of the Director	Date of appointment	Age	Director status	Tenure in the Board (years)
Dr Harsha Cabral PC Chairman	2 May 2023	63	NED/ID	< 1
Mr Jude Nilukshan Ex-officio Director	28 February 2022	52	NED/NID	1+
Mr S R W M R P Sathkumara Ex-officio Director	27 March 2023	52	NED/ID	< 1
Mr H K D Lakshman Gamini Director	14 December 2020	68	NED/NID	1+
Mr Dushyanta Basnayake Director	31 March 2023	58	NED/ID	< 1

NED – Non-Executive Director **NID** – Non-Independent Director **ID** – Independent Director

Table 23

Board subcommittees

The Board is empowered through its Charter to delegate its powers, discretions and authorities to any committee or committees as it sees fit to ensure that delegation promotes independent judgement and assists with the balance of power and effective discharge of duties. This enables the Board to spend a greater proportion of its time on strategic, forward-looking matters. The Board committees are responsible for overseeing matters relating to their respective authorities within the remit of terms of reference which defines the roles and responsibilities of each committee and specific levels of discretion within which they can operate. The Board however continues to retain the responsibility for committee decisions. Four mandatory committees; Board Audit Committee (BAC), Board Human Resource and Remuneration Committee (BHRRC), Board Nomination Committee (BNC) and Board Integrated Risk Management Committee (BIRMC) were formed as required by the Banking Act Direction No. 12 of 2007 and Board Information Technology Strategy Committee (BITSC) was established with the objective of smooth functioning of the entire Information and Communication Technology (ICT) framework of the Bank. The Board committees report to the Board. The Secretary to the Board is also the Secretary to all subcommittees. Minutes of the meetings shall be submitted to the Board for information, review, comment and required approval. Terms of Reference, composition, roles and responsibilities, attendance of members, activities carried out during the year 2022 and the focus for 2023 and beyond under each committee are given in respective committee report on pages 199 to 207.

Management committees

In addition to the Board committees, the Bank has constituted Management committees. These have been established under a Board approved Term of Reference. The General Manager/CEO acts as the Chairman of all Management committees according to the Terms of Reference of those committees. The committees deliberate on matters which are critical to the operations of the Bank as described in the table below:

Management committee	Objective and responsibilities	Composition
Corporate Management Committee (CMC)	Oversee on matters relating to policy and strategy formulation, implementation of the policies and strategies at the operational level.	All officers serving the Bank in the capacity of Deputy General Manager and above.
Asset and Liability Management Committee (ALCO)	Maintaining the market and liquidity risk within the predetermined risk appetite level in order to optimise the return.	General Manager/CEO, Senior DGM, KMPs from the Divisions of Finance and Planning, Research and Development, International, Operations, Credit, Treasury, and Risk Management.
Credit Committee (CC)	Periodic review of the Credit Policies of the Bank, implementation of the policies and engage in maintaining a healthy credit portfolio to optimise the returns within the risk appetite of the Bank.	General Manager/CEO, Senior DGM, KMPs from the Divisions of Finance and Planning, Research and Development, Operations, Credit, Treasury, Legal and Risk Management.
Investment Committee (IC)	Periodic review of Investment Policy of the Bank and oversee on the investment activities of the Bank within overall risk appetite level of the Bank.	General Manager/CEO, Senior DGM, KMPs from the Divisions of Finance and Planning, Research and Development, International, Credit, Treasury, Legal, and Risk Management.
Performance Review Committee (PRC)	Review of financial performance, progress of ongoing activities, withdrawal activities and any other support functions of the Bank that facilitates the performance.	General Manager/CEO, Senior DGM, all DGMs, all Consultant and Heads of Divisions, all AGMs, Compliance Officer and any other Members appointed by the Committee.

Management committee	Objective and responsibilities	Composition
Branch Operations Steering Committee (BOSC)	Oversee the reinforcement of the branch operations within the delegated financial authority.	General Manager/CEO, Senior DGM, KMPs from the Divisions of Finance and Planning, Research and Development, Legal and Premises.
Information Technology Steering Committee (ITSC)	Ensuring the IT strategies are aligned with the business strategy of the Bank.	General Manager/CEO, Senior DGM, KMPs from the Divisions of Finance and Planning, Research and Development, International, Operations, Credit, Treasury, Legal, Human Resource Development, Marketing, Information Technology, Compliance and Risk Management.
Marketing Committee	Provide with marketing advice, expertise and assistance to the Board and the Corporate Management, review and direct all aspects of marketing activities of the Bank.	General Manager/CEO, Senior DGM, KMPs from the Divisions of Finance and Planning, Operations and Marketing.
Operational Risk Management Committee (ORMC)	Manage operational risk of the Bank while overseeing the implementation of the operational risk management techniques and maintain the integrity of internal controls through taking relevant measures.	General Manager/CEO, Senior DGM, KMPs from the Divisions of Research and Development, Operations, Human Resource Development, Information Technology, Support Services, Premises, Legal, Risk Management, Compliance and Information Security.
Product Development Committee (PDC)	Oversee on long-term value creation through innovative products development to face the increasing competition.	General Manager/CEO, Senior DGM, KMPs from the Divisions of Research and Development, Operations, International, Information Technology, Retail Credit, Marketing, and Planning.
Human Resource Committee (HRC)	Development of human resources in line with the Bank's strategic objectives.	General Manager/CEO, Senior DGM, KMPs from the Divisions of Finance and Planning, Human Resource Development, Credit and Legal.
Corporate Procurement Committee (Minor)	Ensuring smooth functioning of the procurement process of the Bank.	General Manager/CEO, KMPs from Finance and Planning, Operations, Representative from Ministry of Finance.
Corporate Procurement Committee (Major)	Ensuring smooth functioning of the procurement process of the Bank.	General Manager/CEO, KMPs from Finance and Planning, Operations, Representative from Ministry of Finance.
Executive Procurement Committee (EPC)	Smooth functioning of the procurement process of the Bank.	Senior DGM, DGM (Credit), Chief Manager (Finance).

Management committee	Objective and responsibilities	Composition
Corporate Sustainability Committee	Support value creation for key stakeholders by integrating ethical, social and environmental responsibility into daily business activities as defined by the corporate objectives that is linked to sustainability performance and development.	General Manager/CEO, Senior DGM and KMPs from Divisions of Credit, International Marketing Operations, Human Resource Development, Finance and Planning.
Senior Management Committee (SMC)	Scrutinise the human resource related matters.	General Manager/CEO, Senior DGM, DGM (Credit), DGM (HRD), DGM (Audit).
Information Security Committee (ISC)	Manage Information Security of the Bank and take measures to implement necessary controls and evaluate the effectiveness of such controls in order to improve the compliance status with regulatory requirements and to minimise Information Security of the Bank.	General Manager/CEO, Senior DGM, DGM (Operations), Chief Information Security Officer (CISO), KMPs from the Divisions of Information Technology, Human Resource and Security.

Table 24

Appointment, re-election and resignation of Directors

As a state-owned Bank, the appointment of Directors to the National Savings Bank is done as per the NSB Act No. 30 of 1971 and its amendments therein. Accordingly, of the 7 Directors 5 Directors are appointed by the Minister responsible for state banks while one shall be Secretary to the Treasury or his nominee and the other shall be the Postmaster General or his nominee as per the NSB Act. The Central Bank of Sri Lanka approves appointments made if the required criteria for fit and propriety are met. The maximum period a Director can serve is restricted to 9 years as per the provisions of the Banking Act Direction No. 12 of 2007 on Corporate Governance. The resignations and re-election of Directors are also done as per the NSB Act No. 30 of 1971 and its amendments therein where the Central Bank of Sri Lanka is duly informed. The details of the Directors and the changes are given on page 190.

Board induction and training

The Bank identifies Director development plays a pivotal role in enhancing Board effectiveness, enabling them to contribute fully to Board deliberations in an ever-changing business, economic, legislative and regulatory environment. Changes and precedents in innovation and in the way business is conducted requires the Board to be up-to-date with these developments, thereby significantly reducing and managing the Bank's risks while capitalising on the opportunities. A well-focused induction and training to ensure new Directors are adequately briefed and have the requisite knowledge of the Bank and its operations. This further outlines the Directors' fiduciary and statutory duties and provides guidance on all legal and governance related obligations. The Board of Directors of the Bank are provided with training and access to BoardPac Solution and the Board Manual which includes NSB Act No. 30 of 1971 and the amendments therein, Directions issued by the Central Bank of Sri Lanka, Board Charter, Board Committee Charters, other relevant statutes, circulars and other relevant documents on appointment. Directors receive informative updates and training throughout their tenor from the Secretary to the Board which assist in keeping Directors abreast of economic, regulatory and industry trends. Directors participate the training/knowhow programmes organised by the regulator or any other authority.

Access to information

Directors have unrestricted access to all information, as well as the resources required to carry out their duties and responsibilities. Access to external specialist advice is available to Directors at the Bank's expense, in terms of the NSB Act No. 30 of 1971 and the amendments therein on independent professional advice. The Directors are provided with an electronic Board paper system where the Board papers are circulated through the system allowing adequate time to Directors for the required deliberations.

Key focus areas in 2022

The challenges presented by worst ever economic crisis of the country underscored the importance of corporate governance and how the Board executes its duties and necessitated a multipronged strategic approach to value creation. The embedded practices ensured that the Board maintained its commitment to achieve high standards of corporate governance, through transparency, withstanding the challenges of striking a balance between liquidity and financial performance, effective controls, integrity and a sound ethical culture across the Bank's operations. The Board followed a pragmatic approach on the Bank's cohesive, comprehensive, and adaptable response to the pandemic, while managing business-as-usual governance requirements. Risk management, along with the opportunities to reinvent, rescale and reposition the Bank, were monitored.

The table below shows some of the key focus areas of the Board during 2022 and highlights the stakeholder groups and short to medium term strategic objectives central to those matters considered and decisions taken.

Board activities in 2022	Outcomes	Short to medium term strategic objectives	Stakeholder	2023 Governance objectives
Corporate strategy, performance, and reporting				
• Deep dive session to discuss development of the Bank's strategy and approved Strategic Business Plan 2023-2025, addressing the effects of the economic crisis, its impact on the banking industry, probable implications on the Domestic Debt Optimisation on the Bank, support customers in the crisis situation and preserve capital and liquidity, considering the Bank's sustainability within our operating environment. As the effects of the crisis is likely to remain for a considerable time, the Board will oversee any consequential amendments to the strategy and plans, and their execution. Read more on pages 70 to 89. • Approved the Revised Budget 2022 and Budget 2023 • Approved interim financial statements and annual financial statements • Deep dive on ways of arresting the liquidity crisis, impacts of the economic crisis	• A well-governed Bank that is operated for the purpose and committed for sustained value creation and delivery • Achievement of the Bank's mission and values through its strategies • Stakeholder confidence that increases contribution to the value creation			• Oversee the execution of the approved Strategic Business Plan 2023-2025 within the framework of the operating environment, while considering the uncertainties of the macroeconomic factors • Approve the Strategic Business Plan 2024-2026 • Approve the Revised Budget 2023 and Budget 2024

Board activities in 2022	Outcomes	Short to medium term strategic objectives	Stakeholder	2023 Governance objectives
Technology				
• Oversaw the technology change and digital journey that is taking place in the Bank, with the objective of ensuring the constant delivery of services, an optimised customer experience and sustainable benefits realisation	• Being agile in a tech-savvy environment			• Oversee the technology and digital journey of the Bank to ensure the steady delivery of services, a safe and secure environment, an optimised and sustainable customer experience (recognising different customer segments) and sustainable value creation, within the context of an accelerated pace of change
Customers				
• Considered customer support during the fuel crisis, providing uninterrupted services and delivery channels • Discussed the Bank's approach to customer communications	• Being customer centric to achieve strategic objectives			• Monitor and assess the Bank's progress with respect to customer centricity
Risk management				
• Risk appetite • Risk appetite metrics • Integrated risk management framework • Cybersecurity risk assessment • Control effectiveness review • Regular risk reports • Reports from the Board Integrated Risk Management Committee • Approved the 2022 Internal Capital Adequacy Assessment Process (ICAAP) Report	• Risk and compliance management practices are inculcated in the Bank that supports achieving its strategic priorities • Responsible and ethical usage of information and technology			• Oversee the Bank's approach to proactive risk management being cognisant about the macroeconomic factors of the economy

Board activities in 2022	Outcomes	Short to medium term strategic objectives	Stakeholder	2023 Governance objectives
Regulatory compliance • Considered regulatory updates	• Being in compliance with regulatory requirements			• Ensure the Bank is 100% compliant with regulatory requirements and industry best practices
Stakeholder relations • Identified material stakeholders and directed the formulation and implementation of stakeholder engagement strategies • Directed the management facilitating regular and pertinent communication with the shareholder	• Adoption of a stakeholder inclusive approach in the execution of governance roles and responsibilities • Reasonable balance between the needs and interest and expectation of stakeholder needs and the best interest of the Bank • Integration of environmental, social and governance policies and practices into the Bank's strategy in order to long-term value creation			• Oversee the stakeholder engagement process for required improvements
Corporate governance • Considered the corporate governance directions issued by the regulatory authorities and assessed the status of compliance	• Continuous improvement in the performance and effectiveness of the Board • Compliance with regulatory directions and guidelines			• Oversee the Bank's compliance with best practice governance standards

Table 25

Board's role in risk management

The Board identifies aligning risk management as an integral part of the business strategy of the Bank. Prudent oversight on risk management is deeply rooted within the Board and it has established and delegated its responsibility to the BIRMC in discharging its duties in relation to the risk management function of the Bank. Accordingly, the Bank has formulated a strong risk management framework, risk appetite limits and tolerance limits and mechanism to monitor the risk profile of the Bank. The Board monitors the risk profile of the Bank based on the reports submitted through BIRMC on a regular basis. Clarifications were sought from the Management for any deviations from the agreed risk appetite levels and required guidance was given to take mitigation actions. The risks involved in the business was considered and deeply discussed and reviewed during the deliberation on Strategic Business Plan that ensured the risk relating to long-term strategic planning process was well addressed (Refer Risk Review on pages 208 to 236 for further details).

Roles of Chairman and General Manager/CEO

In line with the NSB Act of 1971 and the amendments therein, directives of CBSL and industry best practices, the Bank ensures that the appointment and delegation to management contribute to role clarity and effective exercise of authority and responsibility. The roles of Chairman and the General Manager/CEO are separate, with their individual responsibilities clearly defined. The separation of responsibilities is designed to ensure that no single person has unfettered decision-making powers and that appropriate balances of power and authority exist.

The Chairman is a Non-Executive Director while the General Manager is a Key Management Personnel appointed by the Board who will be the Chief Executive Officer and not a Board member. The Board Charter clearly defines the roles and responsibilities of the Chairman and General Manager/CEO. Chairman is responsible for leading the Board, facilitating effective functioning of the Board, preserving order, ensuring the Board's effectiveness and highest standards of corporate governance within the Bank. Chairman sets the agenda in consultation with the General Manager/CEO and the Board Secretary. Chairman ensures that the Board receives adequate information to make informed decisions in discharging the Board's duties, effective participation of members at the Board meetings, maintains effective communication with shareholder as well as open lines of communication with Key Management Personnel.

The General Manager/CEO is responsible for designing, developing and the execution of the Bank's strategy and day-to-day management of the business within the approved risk appetite levels as entrusted by the Board of Directors. The General Manager/CEO provides the leadership to the Corporate Management Team and delegates aspects of his/her own authority, as permitted in the corporate governance framework, to members of the Corporate Management. Also chairs the Management Committees and ensures that the Board receives accurate, timely and clear information about the Bank's performance. The General Manager/CEO also ensures that good corporate governance and highest standards are applied and maintained when carrying out the affairs of the Bank.

Role of Board Secretary

The Secretary to the Board has a key role to play in ensuring that Board procedures are both followed and regularly reviewed to ensure good corporate governance within the Bank. The responsibilities of the Secretary to the Board are summarised below:

- Arrange required settings for all meetings of the Board and its subcommittees
- Maintain minutes of all meetings of the Board and its subcommittees
- Ensure regulatory and statutory compliance by the Board of Directors
- Ensure effective functioning of the Board
- Provide professional assistance to Chairman for all matters related to conducting the meetings of the Board and its subcommittees
- Provide professional advice to the Directors on relevant laws and regulations and also to ensure compliance with principles of corporate governance and other related regulatory framework
- Act as the custodian of all records, minutes and other documents related to Directors and meetings of the Board and its subcommittees
- Ensure timely circulation of Board papers to Directors and timely communication of decisions of the Board to the Management
- Make sure that the Board is well informed of the decisions made at Board subcommittees and their outcomes
- Follow-up over progress of implementation of Board's decisions by the Management, and report to the Board

The appointment and the removal of the Secretary to the Board is a matter involving the whole Board under the advice of BNC as it is a Key Management Personnel position.

Directors' remuneration and level and make up of remuneration

As per the NSB Act No. 30 of 1971 and the amendments therein, the remuneration of the Directors is determined by the relevant Minister. No Director is involved in determining his/her own remuneration. The Board Human Resource and Remuneration Committee (BHRRC) makes recommendations to the Board regarding the remuneration of the General Manager/CEO and the Key Management Personnel on the basis of salaries determined by the Collective Agreement, which is reviewed once in three years. The Bank has put in place a Board approved Remuneration Policy for Key Management Personnel. Based on the recommendations by the Committee, the Board makes recommendations to the respective Minister responsible for state banks who grants final approval in accordance with the provisions of NSB Act and amendments therein. The Board Human Resource Remuneration Committee comprise three Non-Executive Directors.

Board and Board subcommittee evaluation

The Board and the Board subcommittees annually conduct their own appraisal to ensure that the Board is discharging their duties according to the Board Charter which includes the responsibilities outlined in the Banking Act Direction No. 12 of 2007 and other applicable rules and regulations as well as best practices on corporate governance. In the process of evaluation, each Director fills a Board Performance Evaluation Form which is submitted to the Nomination Committee by the Secretary to the Board.

However, annual evaluation of the Board and the Board subcommittees have not been completed since the tenure of most of the Directors were over by the beginning of the year 2023.

Appraisal of CEO

The Board assess the performance of the General Manager/CEO with the assistance of the BHRRC on an annual basis based on the criteria according to financial and non-financial targets of the Strategic Business Plan agreed with the General Manager/CEO at the beginning of the year. Changes in the operating environment are given the due consideration when making the appraisal. The Chairman discusses with the General Manager/CEO and gives formal and informal feedback. The feedback to the appraisal by the General Manager/CEO is given due consideration prior to the approval.

Report of the Board Audit Committee

Ms Manohari Abeyesekera
Chairperson
Board Audit Committee

Composition of the Committee

In 2022

The composition of the Board Audit Committee during the year under review comprised the following Non-Executive Directors:

Name	Membership status	Eligible to attend	Attended
Ms Manohari Abeyesekera* (From 17 January 2020 to 2 January 2023)	Chairperson	14	14
Dr M K C Senanayake * (From 17 January 2020 to 27 February 2022)	Member	02	02
Mr Jude Nilukshan* (From 8 March 2022 to date)	Member	12	10
Mr H K D Lakshman Gamini* (From 8 January 2021 to date)	Member	14	14

* Non-Executive, Non-Independent Director.

Brief profiles of the members of the Board Audit Committee during the year 2022 are given on pages 184 to 186 in the Corporate Governance Report.

Regular attendees by invitation

The Superintendent of Audit, National Audit Office
Deputy General Manager (Audit)
Assistant General Manager (Audit)
Deputy General Manager (Finance, Corporate Planning and MIS) /Senior Deputy General Manager

Quorum

Minimum of two members

Secretary to the Committee

The Board Secretary functions as the Secretary to the Board Audit Committee.

In 2023

With the completion of most of the Board members' tenure, Board of Directors of the Bank was, reconstituted in 2023 with only five Directors of where the full Board comprises of seven Directors. However, these four Directors fulfill the quorum requirement for decision making. Accordingly, Board has decided to reconstitute the Board Audit Committee and the Members are as follows.

Name	Membership status
Mr Dushyantha Basnayake**	Chairman
Mr Jude Nilukshan*	Member
Mr H K D Lakshman Gamini*	Member

* Non-Executive, Non-Independent Director.
** Non-Executive, Independent Director

Charter of the Board Audit Committee

The Charter of the BAC (the Committee) approved by the Board of Directors clearly defines the Terms of Reference of the Committee. The Committee Charter was last reviewed in year 2018 by taking into consideration the new developments in the banking sector.

The Board Audit Committee of the Bank was constituted in accordance with the Banking Act Direction No. 12 of 2007 on "Corporate Governance for Licensed Specialised Banks" issued by the Central Bank of Sri Lanka under Section 3 (6) (ii) and its subsequent amendments, provision of the Public Enterprises Guidelines for Good Governance and "Code of Best Practice on Corporate Governance" issued by the Institute of Chartered Accountants of Sri Lanka.

The Committee is empowered by the Board of Directors in discharging its responsibilities and fulfilling its oversight responsibilities for:

(a) The integrity of the Bank's Financial Statements

(b) The effectiveness of the Bank's risk management function

(c) The performance of the Bank's internal audit function; and

(d) The performance of the Bank's external audit function.

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

Reporting

The Committee is directly reporting to the Board of Directors about its activities along with the minutes of the meetings. BAC provides open avenue of communication between internal audit, external audit and the Board of Directors. The Committee is of the view that Terms of Reference (TOR) of the Committee were compiled within all material aspects.

Activities in 2022

The Committee held fourteen (14) meetings during the financial year ended 31 December 2022. The Superintendent of Audit, National Audit Office as the representative of the Auditor General attended twelve (12) BAC meetings. The Senior Management including General Manager/CEO of the Bank participated the meetings by invitation on a need basis.

Reporting on financial position and performance

The Committee reviewed the Financial Statements of the Bank, in order to monitor the integrity of the Financial Statements and quarterly reports prepared for disclosure, and the significant financial reporting judgment contained therein prior to their release. The Committee focused on major judgment areas, any changes in accounting policies and practices, significant adjustments arising from the audit, the going concern assumption and compliance with relevant accounting standards and other legal requirements to evidence the Financial Statements give a true and fair view on financial position and performance of the Bank.

The Committee reviewed the 'Report on the review of Financial Statement for the year ended 2022 which was submitted along with findings by the Internal Audit Division and reviewed the draft Financial Statement submitted on quarterly basis.

Internal Capital Adequacy Assessment Process (ICAAP)

As per the Section 10 of the Banking Act Direction No. 1 of 2016 requires an independent review on the integrity, accuracy and reasonableness of the capital assessment process of the Bank. The Committee has reviewed the effectiveness of the internal control mechanism to meet the regulatory requirements on ICAAP.

Compliance with the new Banking Act Direction No. 13 and No. 14 by CBSL

The Committee reviewed the Bank's readiness and implementation of the Banking Act Direction No. 13 on Classification, Recognitions and Measurement of Credit Facilities and No. 14 on Classification, Recognitions and Measurement of Financial Assets other than Credit Facilities issued by the CBSL.

Identification of risks and control measures

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

BAC reviewed and assessed the Bank's risk management process, including the adequacy of the overall control environment and controls in areas of significant risks. Further, BAC reviewed and assesses the Bank's system of internal controls for detecting accounting and financial reporting errors and misappropriation of assets, legal violations, and non-compliance with the corporate code of conduct. In this regard, reviews the related findings and recommendations of the External and Internal Auditors, together with Management's responses.

The Directors' Statement on Internal Control and the Auditor General's Report on Internal Control are provided in pages 246 to 248. In this regard, the Committee is of the view that necessary procedures and checks are in place to provide reasonable assurance and the Bank is in compliance with the aforesaid requirements.

Internal audit and inspection

The BAC ensured that, the internal audit function is independent of the activities it audits. It reviewed the adequacy of the scope, functions and resources of the Internal Audit Division, and also was satisfied that the Division had the necessary authority to carry out its work.

The Internal Audit Division of the Bank carried out audit of Branches, Divisions and other Units as per the Annual Audit Plan. The frequency of audit was determined by the level of risk assessed. The Audit Plan was approved by the BAC for implementation. The approved audit plan for the year 2022 has been achieved by the end of 2022.

The Internal Audit Division carried 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 were carried out to provide an independent and objective report on operational and management activities.

BAC reviewed findings of regular audit examinations and information system audits carried out by the Internal Audit Division. Further, the Committee reviewed all reports submitted on internal investigations up to December 2022, report on Fraudulent Withdrawals of the Bank and reviewed the performance of senior staff members of the Audit and Vigilance Division for the year.

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

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

External audit

By statute, the Auditor General is the External Auditor of the Bank. Meetings with the External Auditor, without executive management were held at least twice during the engagement. They were also provided with the opportunities of meeting the Committee independently, to discuss and express their views on any matter of significance.

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

The Committee during the year,

- Reviewed the Report of the Auditor General that was submitted to the Parliament on the Financial Statements of the Bank for the year ended 31 December 2021, the Management Letter and the responses made thereon by the Corporate Management of the Bank and followed up the required corrective measures.
- Reviewed and discussed the significant reports submitted by the Auditor General's Department where deemed necessary actions were initiated.

Monitoring of internal controls

- Followed up mechanism for rectification of issues identified during audits
- Periodically reviewed the reports on disciplinary matters and investigations.
- Reviewed the common instances of frauds/irregularities in order to take initiatives to avoid recurrence.

Ethics and good governance

The Committee continuously reviewed and emphasised on endurance of good corporate governance practices in the Bank.

The BAC reviewed on a quarterly basis all the cases of frauds. During the quarterly review, the BAC scrutinised statistical information as well as details of each fraud, action taken thereon and issue directions on the punitive and preventive aspects of frauds, where necessary. The BAC had the right to, at any time; request a briefing regarding any preliminary investigation and findings.

Sri Lanka Accounting Standards

The Committee reviewed and revised the decisions on adoption of new and revised Sri Lanka Accounting Standards (LKASs)/ Sri Lanka Financial Reporting Standards (SLFRS) applicable to the Bank and made required recommendations therein.

Compliance

The Committee reviewed the effectiveness of the system for monitoring compliance with laws and regulations and the results of Management's investigation and follow-up (including disciplinary action) of any instances of non-compliance.

Focus for 2023 and beyond

Continue to focus on financial systems, processes, internal controls used by the Bank are responding to the complex requirements of the external and internal environment and operating effectively.

Monitoring and making required developments based on the independent reviews of the Auditor General through assessing the impacts to the Bank.

Committee evaluation

Annual evaluation of the Committee for the year 2022 has not been completed since tenure of most of the Directors were over by the beginning of the year 2023.

Ms Manohari Abeysekera
Chairperson
(who held the office during the year 2022)
Board Audit Committee

27 April 2023

Colombo

Report of the Board Human Resources and Remuneration Committee

Ms Keasila Jayawardena
Chairperson
Board Human Resources and Remuneration Committee

Composition of the Committee

In 2022

The composition of the Board Human Resources and Remuneration Committee during the year under review comprised the following Non-Executive Directors:

Name	Membership status	Eligible to attend	Attended
Ms Keasila Jayawardena* (From 17 January 2020 to 26 December 2022)	Chairperson	11	11
Mr U G R Ariyaratne ** (From 28 October 2020 to 3 January 2023)	Member	11	09
Mr Eranga Jayewardene** (From 8 March 2021 to 29 December 2022)	Member	11	09

*Non-Executive, Non-Independent Director, **Non-Executive, Independent Director

Brief profiles of the members of the Board Human Resources and Remuneration Committee (BHRRC) during the year 2022 are given on pages 184 to 186 in the Corporate Governance Report.

Regular attendees by invitation

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

The Deputy General Manager (Human Resource Development) and Senior Management of the Bank participated the meetings by invitation on a need basis.

Quorum

Minimum of two members

Secretary to the Committee

The Board Secretary functions as the Secretary to the BHRRC.

In 2023

With the completion of most of the Board members' tenure, the Board of Directors of the Bank was reconstituted in 2023 with only five Directors where the full Board comprises of seven Directors. However, these five Directors fulfill the quorum requirement for decision making). Accordingly, Board has decided to reconstitute the Board Human Resources and Remuneration Committee and the Members are as follows:

Name	Membership status
Mr S R W M R P Sathkumara**	Chairman
Mr Jude Nilukshan*	Member
Mr H K D Lakshman Gamini*	Member

* Non-Executive, Non-Independent Director

* * Non-Executive, Independent Director

Charter of the Board Human Resources and Remuneration Committee

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

Role and responsibilities of the Committee

The role and responsibilities of the Committee as per the Charter includes the followings:

- The Committee is responsible for determining the remuneration policy (salaries, allowances and other financial payments) relating to the General Manager/CEO and Key Management Personnel of the Bank other than the remunerations determined by the Collective Agreement.
- The Committee set goals and targets for General Manager/CEO and the Key Management Personnel. Further, evaluated the performance of the General Manager/CEO and Key Management Personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.
- The Committee reviewed all significant Human Resource Policies, initiatives, salary structures besides terms and conditions relating to staff at senior executive level. In this process, necessary information and recommendations were obtained from the General Manager/CEO and the Senior Management of the Bank.

Activities during the year 2022

The Committee held eleven (11) meetings during the year under review and the proceedings of the Committee meetings were regularly reported to the Board of Directors with its comments and observations. Important activities attended and carried out by the Committee during the year 2022 were as follows:

- Evaluation of Key Performance Indicators (KPI) of Key Management Personnel (KMPs) for 2021 (General Manager/CEO, Senior DGM, all DGMs and all AGMs except the officials who directly report to the Board or a Board Subcommittee)
- Reviewed the recruitment and promotion of staff based on the requirements of the Bank.
- Consideration of appeals submitted by staff on HR-related matters.
- Review of the effect of disciplinary procedures/punishment on staff promotions.
- Review of recruitment methodology.
- Recruitment of required staff to the Bank including Officer Trainees.

Focus for 2023 and beyond

- Continue to assure the Bank is maintaining the relevance of Remuneration Policy.
- Continue to focus on development of human resource strategy to inculcate an engaged employee culture
- Meeting the responsibilities of the Charter.

Committee evaluation

Annual evaluation of the Committee for the year 2022 has not been completed since tenure of most of the Directors were over by the beginning of the year 2023.

Keasila Jayawardana

Ms Keasila Jayawardena
Chairperson
(who held the office during the year 2022)

Board Human Resource and Remuneration Committee

27 April 2023
Colombo

Report of the Board Nomination Committee

Mr U G R Ariyaratne
Chairman
Board Nomination Committee

Composition of the Committee

In 2022

The composition of the Board Nomination Committee during the year under review comprised the following Non-Executive Directors:

Name	Membership status	Eligible to attend	Attended
Mr U G R Ariyaratne** (From 17 January 2020 to 3 January 2023)	Chairman	03	03
Mr Jude Nilukshan* (From 28 February 2022 to date)	Member	03	03
Mr H K D Lakshman Gamini* (From 20 July 2021 to date)	Member	03	03

*Non-Executive, Non-Independent Director, **Non-Executive, Independent Director

Brief profiles of the members of the Board Nomination Committee (BNC) during the year 2022 are given on pages 184 to 186 in the Corporate Governance Report.

Regular Attendees by Invitation

The General Manager/CEO presents required information to the Committee and attends meetings of the Committee on invitation.

Quorum

Minimum of two Members

Secretary to the Committee

The Secretary to the Board, functions as the Secretary to the BNC also.

In 2023

With the completion of most of the Board members' tenure, the Board of Directors of the Bank was reconstituted in 2023 with only five Directors where the full Board comprises of seven Directors. However, these five Directors fulfill the quorum requirement for decision making). The BNC is not reconstituted by the day the Audited Financial Statements are signed by the Auditor General due to non-reconstitution of full Board.

Charter of the Committee

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

Role and responsibilities of the Committee

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

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

Activities during the year 2022

During the year ended 31 December 2022, three Nomination Committee meetings were held.

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

- Review Schemes of Recruitment pertaining to Key Management Personals (KMP) of the Bank
- Interviews for promotion/appointment of Key Management Personnel (KMPs) (banking and non-banking streams)

Focus for 2023 and beyond

- Continuous monitoring of review on matters relating to KMPs and adherence to the compliance on regulatory requirements
- Continuous monitoring of the succession plan and the Bank's adherence.
- Review on recruitment of suitable persons to KMP positions

Committee evaluation

Annual evaluation of the Committee for the year 2022 has not been completed since tenure of most of the Directors were over by the beginning of the year 2023.

Mr U G R Ariyaratne
Chairman
(who held the office during the year 2022)
Board Nomination Committee
27 April 2023
Colombo

Report of the Board Integrated Risk Management Committee

Mr U G R Ariyaratne
Chairman
Board Integrated Risk Management Committee

Composition of the Committee

In 2022

The composition of the Board Integrated Risk Management Committee during the year under review comprised the followings:

Name	Membership status	Eligible to attend	Attended
Dr M K C Senanayake* (From 17 January 2020 to 28 February 2022)	Chairman	01	01
Mr U G R Ariyaratne** (From 8 March 2021 to 8 March 2022) (From 8 March 2022 to 3 January 2023)	 Member Chairman	 01 06	 01 06
Mr M T J Perera* (From 22 April 2020 to 21 February 2023)	Member	07	07
Mr H K D Lakshman Gamini* (From 8 March 2022 to date)	Member	06	06

*Non-Executive, Non-Independent Director, **Non-Executive, Independent Director

Brief profiles of the Board members of the Board Integrated Risk Management Committee (BIRMC) during the year 2022 are given on pages 184 to 186 in the Corporate Governance Report.

Non-Board Members

The General Manager/CEO
Chief Risk Officer

Regular attendees by invitation

The Compliance Officer of the Bank is a regular attendee on invitation. Other DGMs, AGMs, and Chief Managers are also required to be present at the meetings as and when required.

Quorum

Minimum of two members.

Secretary to the Committee

The Secretary to the Board functions as the Secretary to the BIRMC.

In 2023

With the completion of most of the Board members' tenure, the Board of Directors of the Bank was reconstituted in 2023 with only five Directors where the full Board comprises of seven Directors. However, these five Directors fulfill the quorum requirement for decision making). The BIRMC is not reconstituted by the day the Audited Financial Statements are signed by the Auditor General due to non-reconstitution of full Board.

Charter of the Committee

The BIRMC (the Committee) has been established in compliance with the Banking Act Direction No. 12 of 2007, Corporate Governance for Licensed Specialised Banks in Sri Lanka, issued by the Monetary Board of Central Bank of Sri Lanka under the power vested in the Monetary Board, in terms of the Banking Act No. 30 of 1988.

Roles and responsibilities of the Committee

- To assist the Board of Directors in fulfilling its responsibilities relating to risk management and establishing an effective risk management framework.
- To implement the Integrated Risk Management Policy and other risk-related policies approved by the Bank and periodic updating of the Bank-wide Risk Management Framework.
- Ensure that all credit, market, operational and strategic risks faced by the Bank are identified, measured, monitored, and managed adequately.
- Obtain information on all critical risk areas from responsible senior officials and make suitable recommendations to the Board within the framework of the authority and responsibility assigned to the Committee.
- Identify, review, report and recommend on risk of new operational developments and compliance related to those concerns.
- Review implementation and compliance with the Basel III directions issued by CBSL.

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

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

Activities during the year 2022

BIRMC meets on a quarterly basis however based on the needs, meetings are being fixed accordingly. During the year 2022, seven BIRMC meetings were convened.

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

Effectiveness of the risk management process is annually audited by the Internal Audit Division of the Bank.

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

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

Focus for 2023 and beyond

- Continue to focus on macro and micro environmental factors, markets, local and international risk factors.
- Continuous oversight on the implementation of risk and compliance strategy of the Bank
- Assessment of the local as well as international trends in the area of risk management.
- Continue to focus on evolving regulatory requirements according to the trends in the market and the Bank's approach to risk management and compliance

Committee evaluation

Annual evaluation of the Committee for the year 2022 has not been completed since tenure of most of the Directors were over by the beginning of the year 2023.

Mr U G R Ariyaratne
Chairman
(who held the office during the year 2022)
Board Integrated Risk Management Committee

27 April 2023
Colombo

Report of the Board Information Technology Strategy Committee

Mr Eranga Jayewardene
Chairman
Board Information Technology Strategy Committee

Composition of the Committee

In 2022

The composition of the Board Information Technology Strategy Committee during the year under review comprised the following Non-Executive Directors:

Name	Membership status	Eligible to attend	Attended
Mr Eranga Jayewardene** (10 February 2022 – 29 December 2022)	Chairman	05	05
Mr U G R Ariyaratne ** (10 February 2022 – 3 January 2023)	Member	05	05
Mr M T J Perera* (10 February 2022 – 21 February 2023)	Member	05	05

*Non-Executive, Non-Independent Director, **Non-Executive, Independent Director

Brief profiles of the members of the Board Information Technology Strategy Committee (BITSC) during the year 2022 are given on pages 184 to 186 in the Corporate Governance Report.

Regular attendees by invitation

The General Manager/CEO provide information to the Committee and attends meetings of the Committee on invitation.

DGM IT/CIO

Quorum

Minimum of two Members.

Secretary to the Committee

The Secretary to the Board, functions as the Secretary to the BITSC also.

In 2023

With the completion of most of the Board members' tenure, Board of Directors of the Bank was reconstituted in 2023 with only five Directors where the full Board comprises of seven Directors. However, these five Directors fulfill the quorum requirement for decision making). The BITSC is not reconstituted by the day the Audited Financial Statements are signed by the Auditor General due to non-reconstitution of full Board.

Charter of the Committee

The Board of Directors of the Bank has established BITSC (the Committee) in compliance with the Banking Act Direction No. 12 of 2007, Corporate Governance for Licensed Specialised Banks in Sri Lanka issued by the Monetary Board of the Central Bank of Sri Lanka under Section 76 J (1) of the Banking Act No. 30 of 1988 as amended.

The BITSC was established in order to ensure the Banks reliance over Information Technology and oversee the Bank's strategic objectives in accordance with the Information and Communication Technology (ICT).

Role and responsibilities of the Committee

- Review, improve and approve Information Technology Governance Framework of the Bank and formulate new ICT policies to address trends and challenges in the market.
- Ensure proper screening process and make necessary recommendations with regard to IT related projects and procurements to the Board of Directors. BITC is required to maintain a smooth relationship with other Board Subcommittees and ensure adequacy and effectiveness of ICT security of the Bank.

Activities attended by the Committee during the year 2022

- The Committee recommended procurement proposals pertaining to ICT projects of the Bank to the Board of Directors.
- Reviewed, improved and recommend the Charter of the BITSC to the Board for approval.
- Assessed the need of customer's data protection and ensures all necessary policies and procedures have been taken against the information security.

Focus for 2023 and beyond

- Implementation of the core-banking solution of the Bank
- Continuous focus to stay ahead of the cybersecurity related matters.
- Maintenance of IT Governance Framework as a core function of strength

Committee evaluation

Annual evaluation of the Committee for the year 2022 has not been completed since tenure of most of the Directors were over by the beginning of the year 2023.

Mr Eranga Jayewardene
Chairman
(who held the office during the year 2022)
Board Information Technology Strategy Committee

27 April 2023
Colombo

Risk review

Sri Lanka is going through a challenging period where all industries and the public at large are facing adversities. Being the backbone of the economy, banking industry is severely impacted from macroeconomic distress.

Country's inflation reported an increasing trend since the last quarter of year 2021. Continuing the trend, year 2022 started with unfavourable macroeconomic indications specially with the rising inflation. A series of flawed economic reforms like tax cuts reduced the Government revenue in the recent past caused to continue the fiscal deficit in the year 2022. Holding of USD/LKR exchange rate fixed until March 2022 worsened the country's foreign currency reserves and reported the lowest foreign currency reserves at the end of April 2022. Accordingly, country's foreign currency reserves including the proceeds from the People's Bank of China (PBoC) swap was reported as USD 1.6 Bn. at the end of April 2022.

Draining of the foreign currency reserves and downgrading of the sovereign rating by both Fitch and S&P to default status prevented the country to access foreign sources of funding. The rupee devaluated by 82.32% and the inflation peaked around 73.7% level (NCPI – September 2022) during the year 2022.

In order to curtail the inflation and stabilise the economy, Monitory Board of the Central Bank conducted a policy rate increase by 700 basis points in the month of April 2022, which was further increased by another 100 basis points in the month of July.

The growth of credit to private sector slowed down notably during the year. Negative market liquidity and policy rate revision resulted in overshooting the market rates and interest rates on Government Securities to near 30.0% levels thereby interest margins in banks were challenged. These adverse macro-economic conditions increased exposures to liquidity risk, foreign currency risk and credit default risk within the year 2022.

This Report reviews National Savings Bank's approach to manage risks in the existing stress conditions.

National Savings Bank is a licensed specialised bank incorporated under NSB Act No. 30 of 1971. The functions of the Bank are defined by the Act and the subsequent amendments, creating limitations on competitiveness. However, the deposits made with the Bank and interest thereon are guaranteed by the Government of Sri Lanka, and constitute a charge upon consolidated fund, if the assets of the Bank are insufficient to pay lawful demands made by the depositors. This made an additional security to the depositors in the 50 years history and preferred by many for their savings.

As mandated by the Act, not less than 60% of the money obtained as deposits required to be invested in financial instruments issued or guaranteed by the Government. Accordingly, as at year end the Bank maintained a 63.4% exposure in such financial instruments. This is apart from the exposures on loans and advances granted to State-Owned Enterprises.

Like the peers in the industry, the Bank also experienced pressure on liquidity, net interest margin and reduction in portfolio quality due to the extraordinary economic conditions. The Bank had to focus on solvency from a liquidity perspective, compromising the profitability in short term.

Despite the challenging risk landscape, the Bank maintained the solvency indicators i.e. capital adequacy, liquidity and leverage above the regulatory minimum requirements though the balance sheet growth was not a priority considering contracting economic context. However, it is pertinent to note that maintaining this level in medium to long-term will be challenging in unstable economic conditions.

Risk management sets a strategic approach for managing risks by defining standards, objectives, and responsibilities for all areas of the Bank. Integrated Risk Management framework is approved by the Board of Directors and adopted by the Bank supporting to inculcate a strong risk culture.

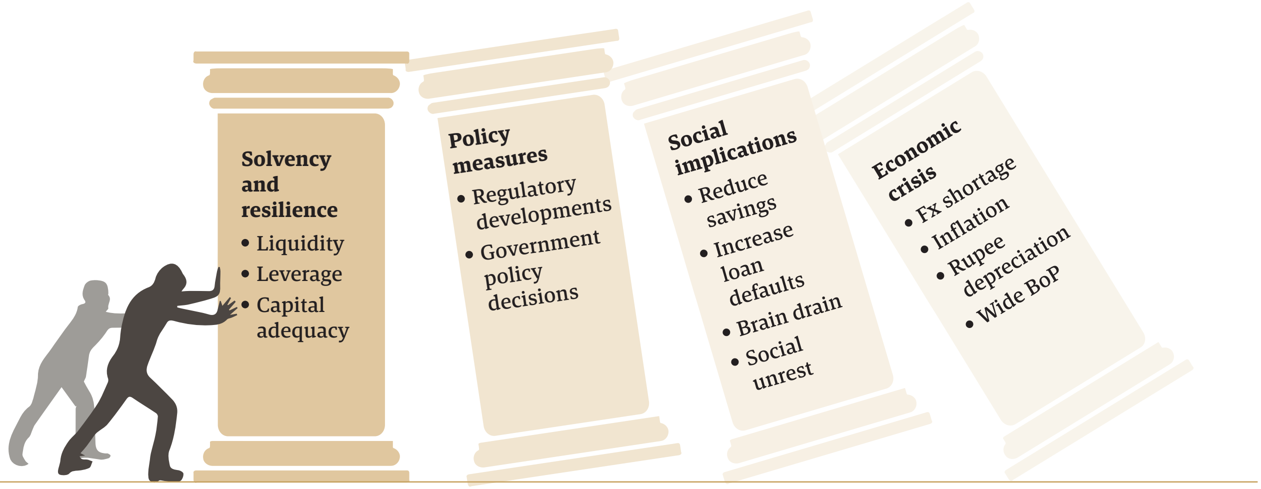


Figure 26 Challenges emerged from economic crisis

Risk management framework

Risk management framework enables appropriate development and implementation of strategies, policies and procedures to identify, assess, monitor, report and mitigate risks to ensure prudent risk management.

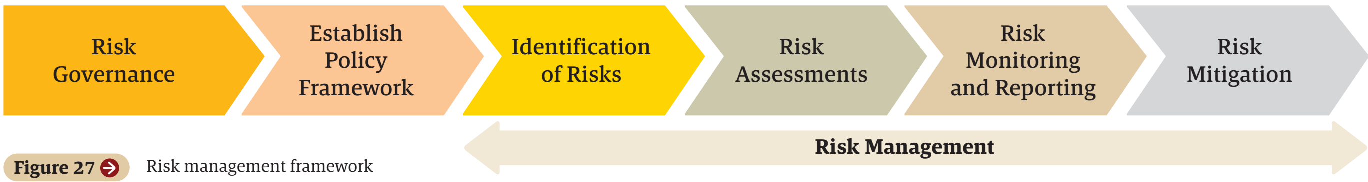


Figure 27 Risk management framework

Risk governance

The Bank is committed to ensure that risk management practices reflect a high standard of governance. This enables the Board of Directors and the Senior Management to undertake risk taking activities effectively and prudently. The Board of Directors (BOD) operates as the highest level in the governance framework.

The Board of Directors through risk oversight role, ensures that the Senior Management has established an integrated framework to manage various risk exposures and to ensure internal policies are appropriately established and complied with. All risk types, both financial and non-financial are managed and reported in accordance with the Bank's risk management framework.

There are two Board level risk management committees i.e. Board Integrated Risk Management Committee (BIRMC) and Board Audit Committee (BAC) to assist in fulfilling its risk related responsibilities and internal control procedures to ensure adequacy and effectiveness of the risk management function in the Bank.

Senior Management has taken steps to improve the rigour of governance over both financial and non-financial risks by establishing management committee framework focusing on identifying and understanding existing and emerging risks, trends and issues across all the business lines providing better insights to informed decision-making. Following is the list of management level committees that have been set up in risk governance structure.

- Credit Committee (CC)
- Asset and Liability Management Committee (ALCO)
- Operational Risk Management Committee (ORMC)
- Investment Committee (IC)
- Information Security Committee (ISC)

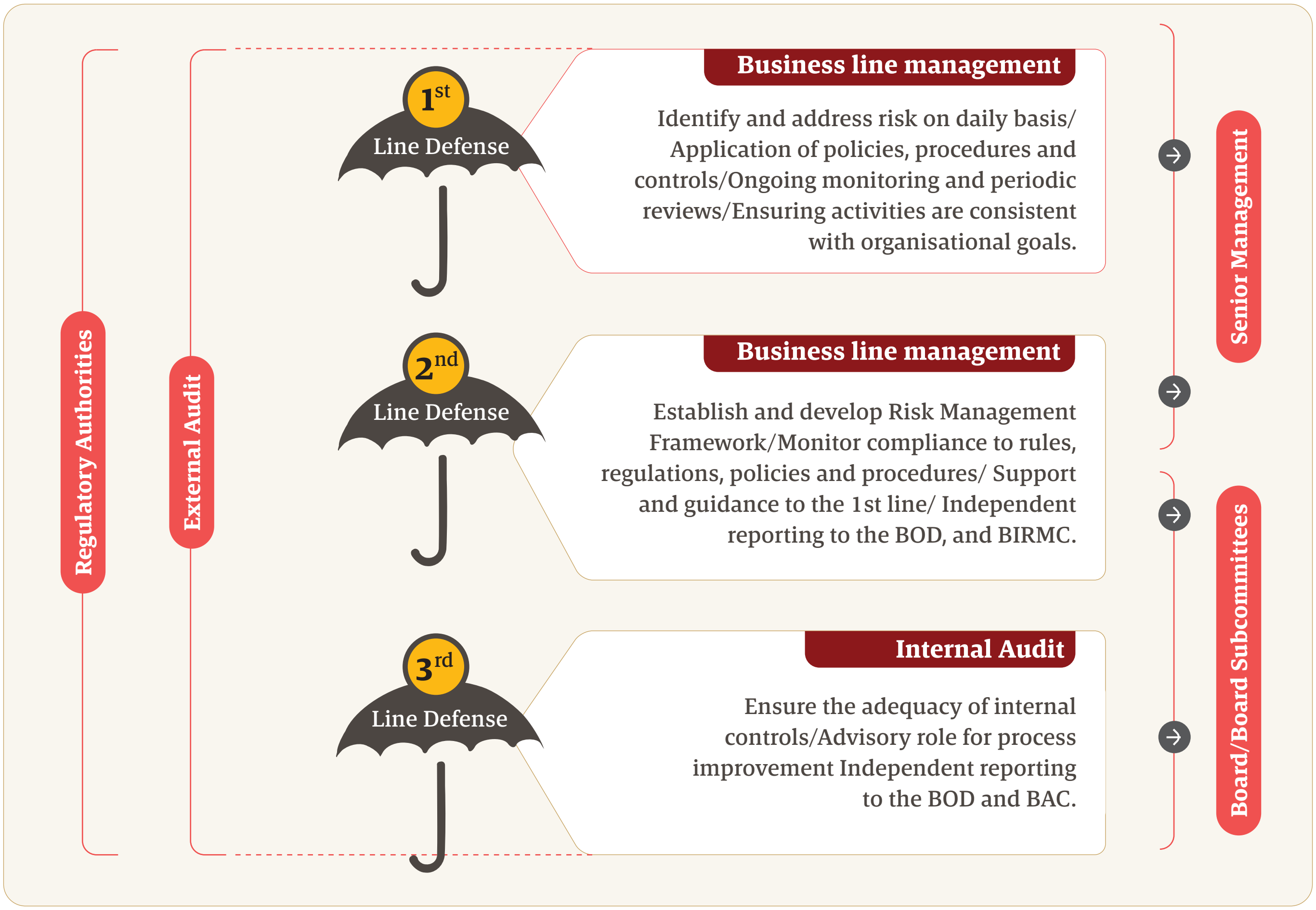


Figure 28 Lines of defense in risk management

All staff members are responsible for understanding and managing risks within the context of their individual roles and responsibilities. The "Three Lines of Defense" model sets out a clear line of defense by segregating duties.

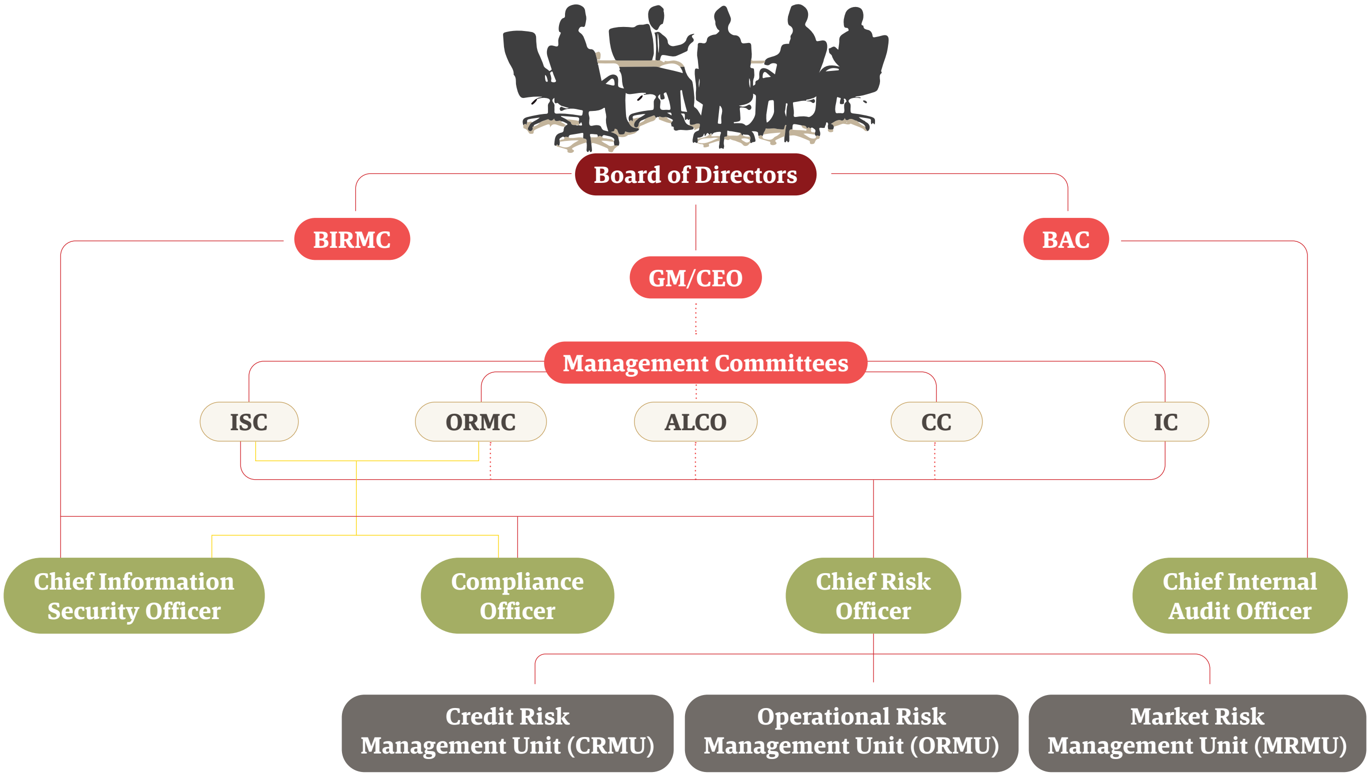


Figure 29 Risk management governance structure (functional reporting)

Policy framework

Risk management policy framework consists of the policies given in Table 26. Integrated Risk Management Policy elaborates the policy framework with separate policies to address principal risk areas, risk management approaches and disclosure requirements.

Risk appetite document and ICAAP document are policy level documents which come within the preview of integrated risk management.

Policy	Coverage
Integrated Risk Management Policy	Integrated risk management framework of the Bank.
Credit Risk Management Policy	Framework for identification, assessment, monitor, and mitigation of risks in credit.
Market and Liquidity Risk Management Policy	Framework for identification, assessment, monitor, and mitigation of market and liquidity risk.
Operational Risk Management Policy	Framework for identification, assessment, monitor, and mitigation of operational risk. The policy is supplemented by other policies such as Information System Policy (ISP), Business Continuity Management System Policy (BCMSP) etc.
Stress Testing Policy	Outlines the stress testing framework of the Bank.
Risk Management Disclosure Policy	The disclosure requirements with respect to the risk management functions.
ICAAP Management Policy	Provides the framework for conducting the Internal Capital Adequacy Assessment Process (ICAAP) of the Bank.
Model Risk Management Policy	Policy to stipulate a procedure to manage risk of models used in risk assessment, financial and regulatory reporting and decision-making.

Table 26 Risk Management Policies

Risk appetite statement

Risk appetite statement of the Bank enhances value by aligning business operations and risks. It acts as a guide to plan business activities to provide an appropriate balance of return for the risk assumed, while remaining within acceptable risk levels.

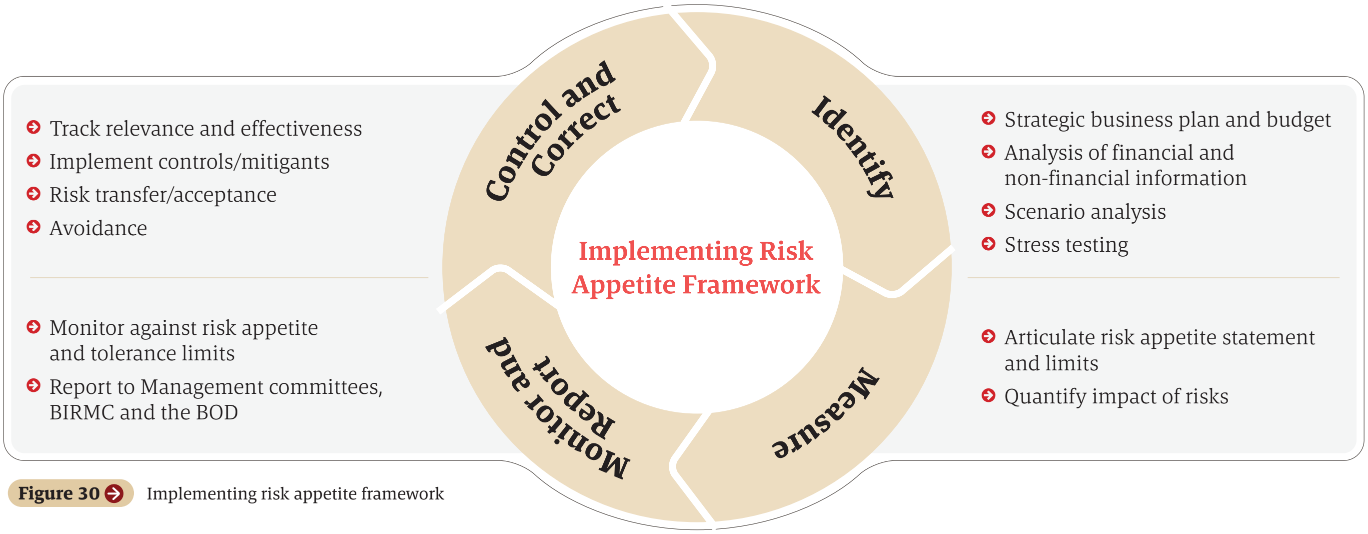


Figure 30 Implementing risk appetite framework

The Bank uses a top-down approach in setting risk appetite at corporate level using qualitative and quantitative parameters to minimise adverse impacts to values and financial position. Quantitative risk appetite at corporate level focuses mainly on capital adequacy, liquidity, profitability and other prudential requirements.

The qualitative statements mainly include risks for which the Bank has zero risk appetite. At business line level, risk appetite limits are by risk types, namely credit, equity, interest rate, forex and operational. Convergence of top-down and bottom-up approach is used at divisional and product line level to set more prudent risk appetite levels using limit structures, budgeted levels and Key Operational Risk Indicators (KORIs).

Focused area	Indicator	2022 – Actual percentage	Performance against risk appetite
Profitability	NIM	2.03	Below the maximum tolerance limit
	ROE	3.40	Below the maximum tolerance limit
	ROA	0.28	Below the maximum tolerance limit
Capital adequacy	CET 1	14.36	Within the risk appetite limit
	Tier 1	15.78	Within the risk appetite limit
	Total capital	17.99	Within the risk appetite limit
Liquidity	LCR (Rupee)	195.54	Within the risk appetite limit
	SLAR	40.62	Within the risk appetite limit
	NSFR	180.51	Within the risk appetite limit
Leverage	Leverage ratio	7.43	Within the risk appetite limit

Risk levels

- Within the risk appetite limit
- Within the maximum tolerance limit
- Below the maximum tolerance limit

Table 27 Financial indicators against risk appetite levels

For the financial year 2022, the profitability indicators depict a high-risk level. The Bank had to forgo short-term profitability objective to safeguard the solvency from a liquidity perspective in the extraordinary market and economic conditions prevailed during the year 2022.

Liquidity, capital adequacy and leverage ratios indicate low risk level.

ICAAP document

The ICAAP combines the business performance, risk management actions, and risk sensitive capital in a more rational manner to ensure the level of internal capital commensurate with the Bank's risk profile. The ICAAP comprises risk appetite, stress testing and capital planning concepts along with a sound risk management framework to capture all material risks, with the oversight responsibility of the Board of Directors through BIRMC. This process is comprehensively documented by Risk Management Division (RMD).

The ICAAP is conducted, and the document is prepared as per the Board approved ICAAP Policy which is in line with the CBSL directions on Basel III Pillar II guidelines issued to banks on the supervisory review process and international best practices. The risk assessments capture both Pillar I and Pillar II risks.

The Bank's ICAAP is governed by four principles which are fundamentals for the Bank and the regulator. Accordingly, the ICAAP is linked to capital levels and is expected to hold capital in excess of the regulatory minimum. The Bank has internal models to assess and quantify the risk profile and internal capital requirements. The risk assessments captures both Pillar I and Pillar II risks. Internal limits have been set covering the capital requirement to provide effective assessment with regard to capital adequacy.

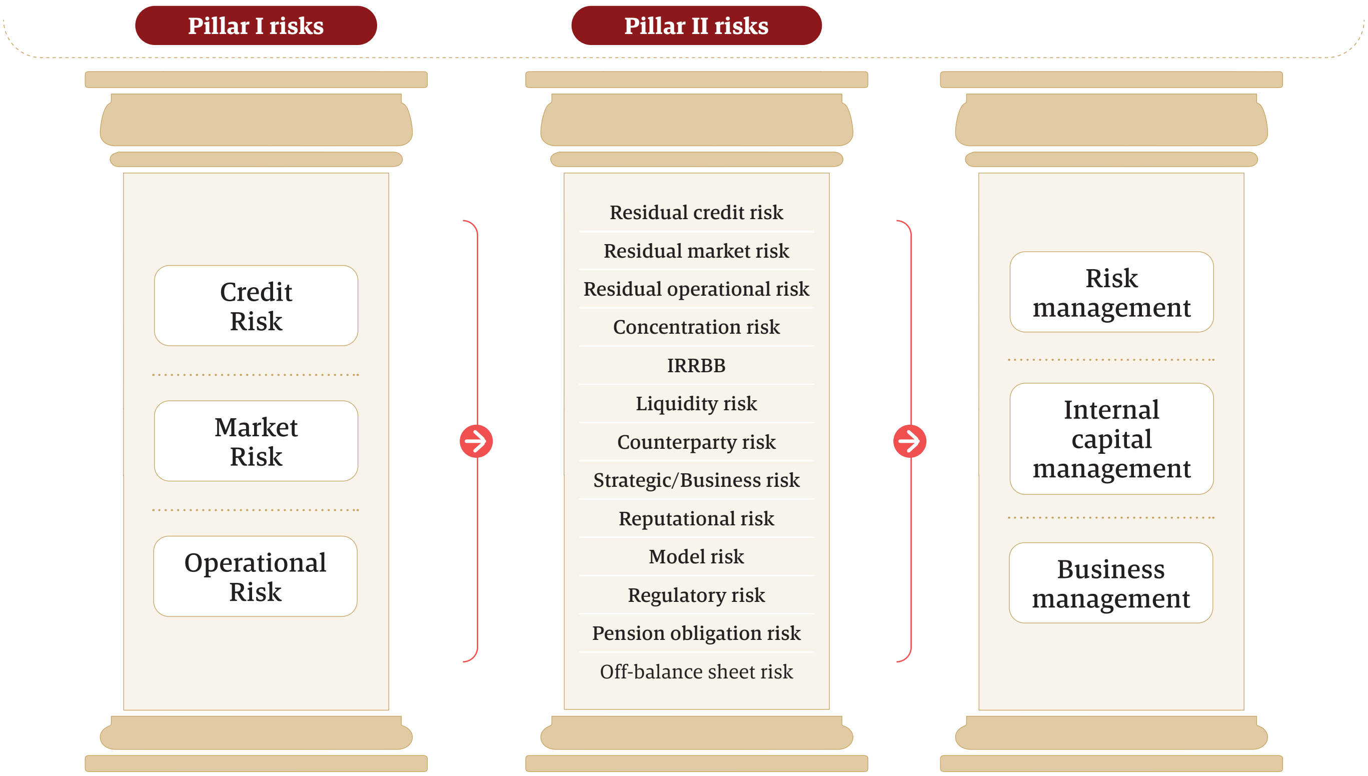


Figure 31 ICAAP Framework

Risk management

Integrated risk management is a continuous, proactive, and systematic process to understand, manage and communicate risk on a Bank-wide perspective. It consists of an ongoing assessment to identify potential risks of the Bank at every level and then communicate the results to the higher level to facilitate improved decision-making.

Risk management consist of multiple processes, models and tools which are used in the process of identification, assessment, monitoring and mitigating of risk across the Bank to support risk-based decision-making and to assess the capital adequacy and other prudential requirements stipulated by CBSL.

Bank's risk register includes information on both existing and potential risks. Risk register is periodically updated by RMD using the risk identification and assessment models. Accordingly, there are four principal risks. These principal risks are credit risk, market risk (i.e. equity, foreign currency and interest rate), operational risk and liquidity risk. Risk reports to the Management and the Board level committees discuss principal risks and all other existing and emerging risks. Details of the principal risks, systems and processes used to manage the risks along with the initiatives taken during the period under review to address those risks are discussed henceforth.

Credit risk

Credit risk refers to the potential for losses due to the failure of a borrower or counterparty to meet their financial obligations in accordance with agreed terms. These exposures are derived mainly from direct lending activities as well as commitments and contingencies.

Credit risk to the Bank mainly consists of counterparty default risk, concentration risk, and settlement risk.

Credit exposure

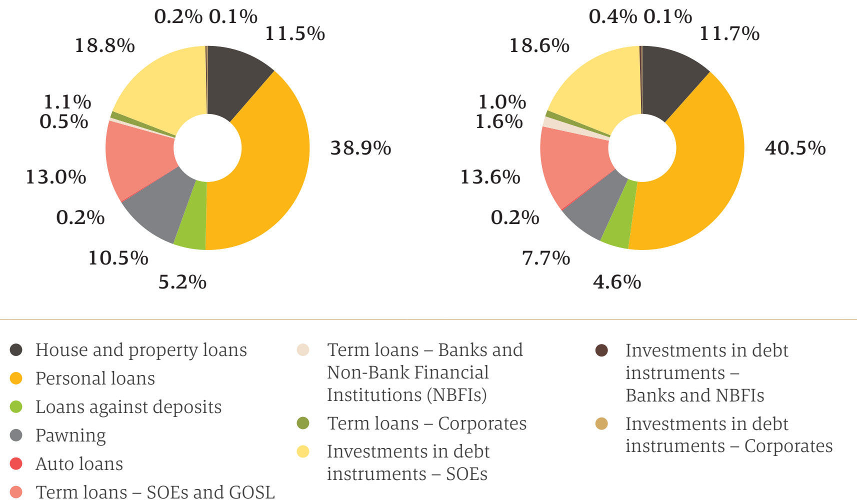
As of 31 December,	2022			2021			
	Maximum exposure (Rs. '000)			Maximum exposure (Rs. '000)			
	Gross carrying value	Credit impairment	Net exposure	Gross carrying value	Credit impairment	Net exposure	Change %
Cash and cash equivalents	8,735,208	1,139	8,734,069	7,656,263	225	7,656,038	14.08
Balances with central banks	236,480	–	236,480	–	–	–	–
Placements with banks	10,470,905	4,496	10,466,409	7,122,376	1,678	7,120,698	46.99
Derivative financial instruments	28,172	0.00	28,172	–	–	–	–
Financial assets recognised through profit or loss – measured at fair value	14,173,948	–	14,173,948	19,572,933	–	19,572,933	-27.58
Financial assets at amortised cost – loans and advances	570,255,736	17,228,415	553,027,321	550,912,009	11,970,220	538,941,789	2.61
– debt and other instruments	920,068,906	939,528	919,129,378	936,735,215	1,385,163	935,350,052	-1.73
Financial assets measured at fair value through OCI	27,662,763	–	27,662,763	13,817,594	–	13,817,594	100.2
On-balance sheet maximum exposure (Gross basis)	1,551,632,118	18,173,578	1,533,458,540	1,535,816,390	13,357,286	1,522,459,104	0.72
Off-balance sheet maximum exposure	–	–	12,898,050	–	–	11,853,668	8.81
Maximum credit exposure	–	–	1,546,356,590	–	–	1,534,312,772	0.78

Table 28 Maximum credit risk exposures

On balance sheet exposures represent 99% of the total credit risk exposure of the Bank.

Credit exposures: Product/instrument wise

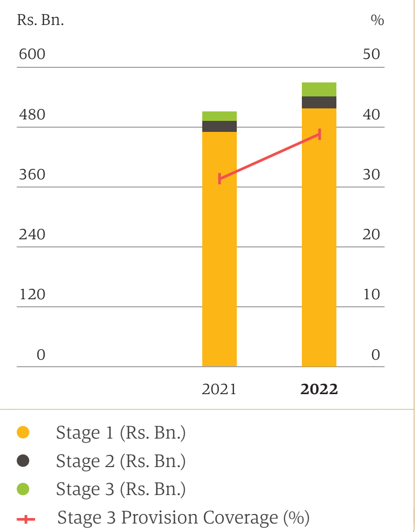
Graph 45



Retail lending products has the highest composition in the product mix, from which 58.7% comprised of personal loans. Corporate lending portfolio mainly comprised of exposures to SOEs (94.4%) given by way of loans and debt instruments which are backed by Treasury Guarantees.

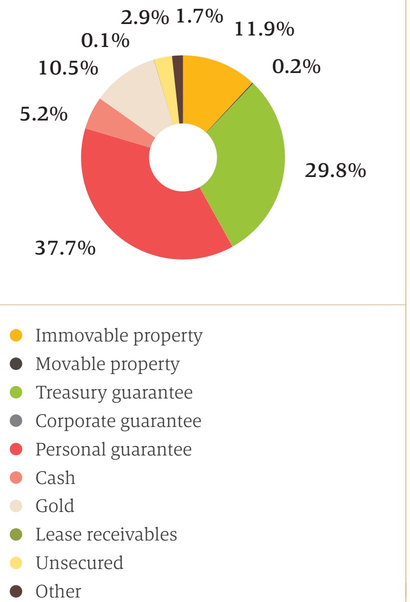
Loans and advances vs provision for impairment

Graph 46



Credit exposures: collateral wise

Graph 47



The Bank's gross loans and advances portfolio reported a growth of 3.5% during the year 2022. The growth mainly resulted from retail lending portfolio. Majority of the loans and advance and investments in debt instruments are for a tenure over 60 months.

The Bank's Stage 3 impaired loan ratio is 2.8% as of 31 December 2022 compared to 2.5% in 2021. However, it is below the industry ratio of 11.1%.

	Stage 3 loans and advances Rs. '000	Allowance for individual impairment Rs. '000	Allowance for collective impairment Rs. '000	Expected credit loss allowance Rs. '000
2021	19,998,993	585,014	5,718,914	6,303,928
2022	25,508,516	2,115,825	7,797,611	9,913,436

Table 29 Distribution of Stage 3 credit impaired loans and advances

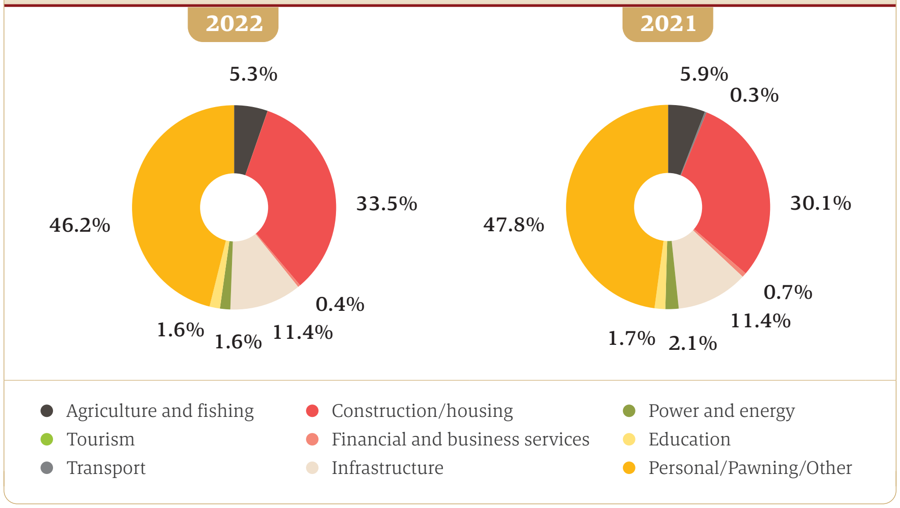
For the year 2022, the credit-impaired (Stage 3) loans and advances stood at Rs. 25.5 Bn. (Rs. 20.0 Bn. in 2021). Deterioration in the credit portfolio quality resulted an impairment charge of Rs. 5.3 Bn. (against Rs. 3.0 Bn. in 2021) increasing total credit impairment provision to Rs. 17.2 Bn. with a Stage 3 provision coverage of 38.7% as at year end against 31.5% coverage in 2021.

Concentration risk

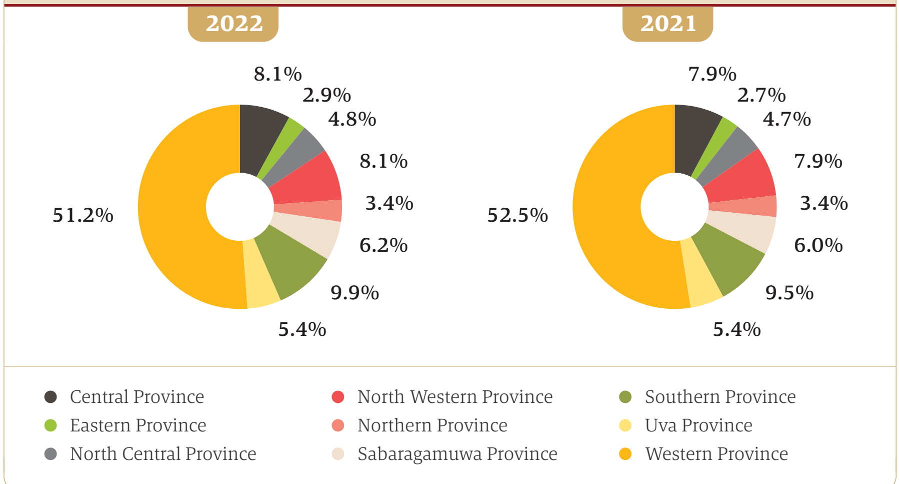
Managing the concentration risk of credit portfolios has become an important phenomenon. The Bank's risk appetite statement defines limits for concentration and monitor the credit exposures against the set limits to ensure the level of compliance. The Bank uses Herfindahl-Hirschman Index (HHI) and stress testing in monitoring concentration risk levels to identify mutual dependence between exposures which may become evident only under stressed conditions.

The Bank has a moderate risk appetite for sector concentration. High geographic concentration to the Western Province resulted due to most large loans being booked at the Credit Division.

Sector concentration Graph 48



Geographical concentration Graph 49



Cross border credit risk

Cross border exposure of the Bank arisen from deposits with foreign banks, credit facilities, and documentary credit were limited to 0.40% of the total assets.

Credit risk review

Year 2022 was challenging after the gradual recovery from COVID-19 constraints and due to multiple adverse economic conditions created from severe foreign reserve crisis, which led the Monetary Board to move towards a tightened monetary policy. As a result, interest rates were skyrocketed with increasing inflationary pressures which squeezed the purchasing power of the public.

This scenario adversely impacted the credit portfolio growth and quality. Delays in loan settlement by the retail and institutional borrowers were observed causing adversities on cash flow management and increased underperforming and non-performing exposures.

Contraction of economic activities increased sector concentration within the year as majority of the lending activities of the Bank were concentrated towards the consumption sector.

Risk component	Risk management approach	Risk level	Impact*
Credit risk	Adherence to Board approved policies and procedures Delegated authority structure for credit approval Credit evaluations with risk assessments Risk rating Monitoring against limits Collateralisation Loan Review Mechanism (LRM) Independent risk review/monitoring at transaction and portfolio level Post disbursement reviews Impairment provisioning Valuation/Revaluation and monitoring of LTV ratios Monitoring of early warning indicators, trends of non-performing advances Stress testing Training and development	High	Increase in impact
Concentration risk	Herfindahl-Hirschman Index (HHI) Limit monitoring	High	Increase in impact
Cross border credit risk	Collateralisation Limit monitoring	Low	No change

* YoY change in impact on earnings and capital

Increase in impact   No change   Decrease in impact

Table 30 Credit risk review

Credit risk management

Managing the credit risk in a prudent manner is critically important to the sustainability of the Bank as the loans and investment portfolio accounts for 43.6% of total assets and credit risk weighted assets accounts for over 81.2% of the total risk-weighted assets.

Credit risk is managed through the Board approved credit risk management framework which includes a robust risk governance structure and a comprehensive set of risk management processes.

Credit policies approved by the Board and the procedures established segregating of duties among the officers in functional areas facilitate management of credit risks at the business line level covering the three main phases of the credit process.

Loan origination

- Credit evaluation and rating
- Collateralisation
- Legal checks
- Inspection and valuation
- Credit approval under delegated authority structure

Documentation and disbursement

- Verification of documentation
  - Loan agreement
  - Terms and conditions
  - Mortgage bonds
- Insurance (Title/Fire insurance/DTA)
- Disbursement

Post disbursement management

- Loan collection monitoring
- Post disbursement monitoring
- LRM
- Revaluation of collateral (Immovable property)
- Recoveries

Figure 32 Credit risk management process

CRMU of RMD has extended the risk management process through independent risk review/monitoring at transaction level and portfolio level considering customer specific factors, internal factors and external factors such as factors specific to industries, economy, environment and society.

At transaction level rating validation and independent risk assessments are conducted on significant credit exposures. Monitoring of early warning indicators, non-performing trends, concentrations, credit portfolio reviews and stress testing and scenario analysis facilitate risk reporting and awareness for pre-emptive and correction actions to manage credit risks.

Policy framework

- Reviewed and updated credit policies of the Bank
- Reviewed risk appetite limits and credit limits

Measurement/Monitoring

- Periodical submission of credit risk profile to the BIRMC and the Board of Directors
- Periodical submission of early warning indicators and portfolio monitoring reports to CC
- Validation of impairment assessments
- Validation of internal rating assessments of corporate borrowers
- Monitoring of revaluation progress
- Stress testing and scenario analysis

Process improvements

Recommend process and control improvements based on outputs generated through:

- Risk and Control Self Assessment (RCSA)
- LRM

Figure 33 Credit risk management – Actions steps – 2022

Market risk

Market risk is the risk arising from changes in the markets to which an organisation has an exposure. Potential losses may arise from adverse movements in market variables such as interest rates, foreign exchange rates, share prices and commodity prices that adversely change the future expected cash flows, earnings and capital level. The Bank's exposures to market risk arises from the following sources:

Trading book

Traded risk is the potential for loss resulting from trading activities undertaken by the Bank in financial markets. The Bank's trading book comprises Government Securities and equity instruments.

The Bank is exposed to market risk due to holding positions in trading book. At the end of year 2022, the Bank's trading book amounted to Rs. 14.2 Bn. which accounts for 0.88% of the total assets of the Bank.

Interest rate risk: arising from changes in yield curves and credit spreads.

Equity price risk: arising from changes in the prices of equity investments.

Foreign exchange rate risk: arising from changes in currency exchange rates.

Commodity risk: The Bank has no direct exposure to commodity price risk as the Bank do not invest in commodities. However, the commodity price risk is limited to the extent of the fluctuations in gold price on the pawning advances portfolio.

Non-trading book

This is mainly comprised of Government Securities. At the end of year 2022, total investments in Government Securities amounted to Rs. 822.4 Bn., that accounts for 50.9% of the total assets of the Bank. Investments in corporate debt and other financial instruments amounted to Rs. 135.2 Bn. and accounts for 8.4% of the total assets of the Bank. From the exposure stated above 79% comprises investments in long-term instruments and bonds with over a maturity of more than one year.

The Bank has exposures in foreign currency denominated assets, liabilities, and related income and expenses.

Bank ensures maintaining open positions in compliant with internal and regulatory limits.

Mapping of market risk items in the balance sheet

As at 31 December 2022	Amount as per financial statement Rs. '000	Exposure to trading risk Rs. '000	Exposure to non-trading risk Rs. '000	Market risk type
Financial assets				
Cash and cash equivalents	8,734,069	–	8,734,069	IRR, FX
Balances with central banks	236,480	–	236,480	IRR
Placements with banks	10,466,409	–	10,466,409	IRR, FX
Derivative financial instruments	28,172	–	28,172	IRR, FX
Financial assets measured at fair value	14,173,948	14,173,948		IRR, Equity
Financial assets at amortised cost – Loans and receivables	553,027,321	–	553,027,321	IRR, FX
Financial assets at amortised cost – Debt and other instruments	919,129,377	–	919,129,377	IRR, FX
Financial assets measured at fair value through OCI	27,662,763	–	27,662,763	IRR, Equity
Total	1,533,458,539	14,173,948	1,519,284,591	
Financial liabilities				
Due to banks	4,086,731	–	4,086,731	IRR, FX
Financial liabilities at amortised cost – Due to depositors	1,476,739,818	–	1,476,739,818	IRR, FX
Financial liabilities at amortised cost – Due to other borrowers	16,766,044	–	16,766,044	IRR, FX
Lease liability	1,377,229	–	1,377,229	IRR
Debt securities issued	23,778,255	–	23,778,255	IRR
Total	1,522,748,077	–	1,522,748,077	

Table 31 Market risk exposures

Market risk review

Risk component	Risk management approach	Risk level	Impact*
Repricing risk	Monitor repricing gap limits Limits on Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL)	High	Increase in impact
Yield curve risk	Sensitivity/Stress testing with rate shocks Monitor the portfolio yield, duration and duration gap Stop loss limits	High	Increase in impact
Basis risk	Sensitivity of rate shocks on RSA/RSL gap	High	Increase in impact
FX risk	Limit monitoring Monitor exchange rate movements FX VaR Stress testing	Moderate	No change
Equity price risk	Mark-to-market FVPL and FVOCI portfolio on a daily basis Limit monitoring Equity VaR Stress testing	Moderate	No change
Commodity price risk	Monitor LTV on pawning Monitor gold prices Stress testing	Low	No change

* YoY change in impact on earnings and capital

Increase in impact | No change | Decrease in impact

Table 32 Market risk review

Changes in market variables such as increasing interest rates and depreciation of exchange rates increased the market and liquidity risks, negatively impacting the profitability, liquidity position and the capital levels of the Bank.

With the tightening of monetary policy in early March 2022, Government Securities secondary market yield curve parallelly shifted upward across all tenors compared to previous year market yields. Equity market turnover and volumes declined as the high interest rates are offered by financial institutions for deposits.

During the year, the Bank placed more effort to minimise the negative impact on the value of investment portfolio, whilst trading in equity and Government Securities. Foreign currency operations were conducted complying additional rules and regulations imposed within the year.

The Bank is exposed to interest rate risk in both trading book and banking book. Sharp increase in interest rates and secondary market yields for Treasury Bills and Bonds increased the interest rate risk of the Bank. Interest rate risk in banking book increased significantly due to wide negative maturity gaps in less than 12 months maturity buckets.

NII reported for 2022 declined compared to previous year due to increase in interest expenses by a higher phase (83%) compared to increase in interest income (32%) from rate sensitive assets and liabilities.

NIM declined to 2.03% against 3.71% reported in 2021. Further, a significant reduction was observed from an economic value perspective from an extraordinary rate shock.

USD/LKR average spot rate depreciated by 81.18% during 2022 and fluctuated in the range of Rs. 202.77 - Rs. 367.38 (Source: Bloomberg). During 2022, CBSL TT Mid-rate depreciated by 82.32% due to continuous shortages of foreign exchange in the domestic forex market. CBSL allowed greater flexibility in the exchange rate from March 2022, and it shows significant upward adjustment until April 2022. But a greater stability in the exchange rate was observed since the introduction of the new exchange rate arrangement with variation margins from May 2022.

ASPI closed at 8,489.66, drop by 31% or 3,736 index points while S&P SL 20 index declined by 1,598 index points or 38% to close at 2,635.63. Market value of the Bank's equity FVPL portfolio declined by 16% YoY to Rs. 1.96 Bn. During the year the Bank fully exit from the investments in unit trusts. The Bank secured net gain from trading of equity securities for 2022.

On the other hand, due to increase in secondary market trading yields, FVPL and FVOCI portfolios reported unrealised losses.

Portfolio type	2022 Rs. '000		2021 Rs. '000		Unrealised gain/(loss)
	Book value	Market value	Book value	Market value	Rs. '000
FVPL Portfolio	3,001,032	1,956,839	2,683,677	2,329,980	(690,496)
FVOCI Portfolio	3,230,241	2,313,822	3,230,241	2,895,358	(581,536)
Total	6,231,273	4,270,661	5,913,918	5,225,338	(1,272,032)

Table 33 Equity portfolio position

Portfolio type	2022 Rs. '000		2021 Rs. '000		Unrealised gain/(loss)
	Book value	Market value	Book value	Market value	Rs. '000
FVPL Portfolio	13,681,755	12,018,126	17,747,123	17,001,217	(917,722)
FVOCI Portfolio	25,450,281	24,370,862	11,153,812	10,725,355	(650,962)
Total	39,132,036	36,388,988	28,900,935	27,726,572	(1,568,684)

Table 34 G Sec securities portfolio position

Market risk management

The Treasury Front Office, acting as the First Line of Defence, is responsible for the effective management of both traded and non-traded market risks of the Bank within the scope of its direct responsibilities set as per the risk management framework. The Treasury Middle Office (TMO) functions as the Second Line control function, performing independent monitoring of the traded risk management practices of the First Line of Defense.

Under the IRM framework, the market risk management framework brings together all risk types exhibiting risk features common to traded risk and non-traded risk.

Prudent risk limits, adherence to internal policies, procedures and market best practices, continuous monitoring and reporting of key indicators for possible market and liquidity risks are used to early detect and manage the market risks.

Interest rate risk

IRR in trading book

IRR in trading book arises from the Bank's interest rate sensitive investments held in FVPL portfolio. The Bank's rate sensitive investment in trading and FVOCI portfolios stood at 4.6% of its total investments in Government Securities at the end of the year. Interest rate risk in trading Government Securities portfolios is assessed through monitoring M-duration against predetermined appetite limits, realised/unrealised gains/losses and capital requirement calculated based on duration of the securities held in the trading book.

Interest rate risk in banking book (IRRBB)

	<1 month	1-3 months	3-6 months	6-12 months	1-3 years	3-5 years	>5 years
RSA (Rs. Mn.)	35,739	58,701	57,798	177,287	383,463	383,904	387,698
RSL (Rs. Mn.)	196,783	571,999	349,114	333,638	33,008	29,372	7,455
Period Gap (RSA – RSL) (Rs. Mn.)	(161,044)	(513,298)	(291,316	(156,351)	350,455	354,532	380,243
Cumulative Gap (Rs. Mn.)	(161,044)	(671,342)	(965,658)	(1,122,009)	(771,554)	(417,022)	(36,779)
Actual Gap as a percentage of RSL – 2022 (%)	-81.8	-89.7	-83.4	-46.9	1,061.7	1,207.0	5,100.3
Actual Gap as a percentage of RSL – 2021 (%)	-86.8	-88.7	-84.2	-68.4	2,457.3	1,552.1	8,493.9

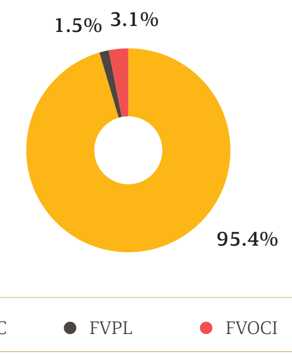
Table 35 Interest rate sensitivity gap-banking book

The Bank's exposure to interest rate risk arises as a result of the net interest income being impacted by extreme fluctuations in market interest rates. This has a potential impact on the underlying interest-earning assets, interest-bearing liabilities and off-balance sheet items. The Bank's exposure to IRR can be identified in the form of repricing risk, yield curve risk and basis risk.

Adverse interest rate movements impact on the Bank's capital and earnings. This form of IRR arises from differences in the term structure of non-tradable assets and liabilities and the interest rate indices based on which the instruments are priced. IRRBB, if not managed properly, can pose a significant adverse impact on the capital base and future earnings of the Bank.

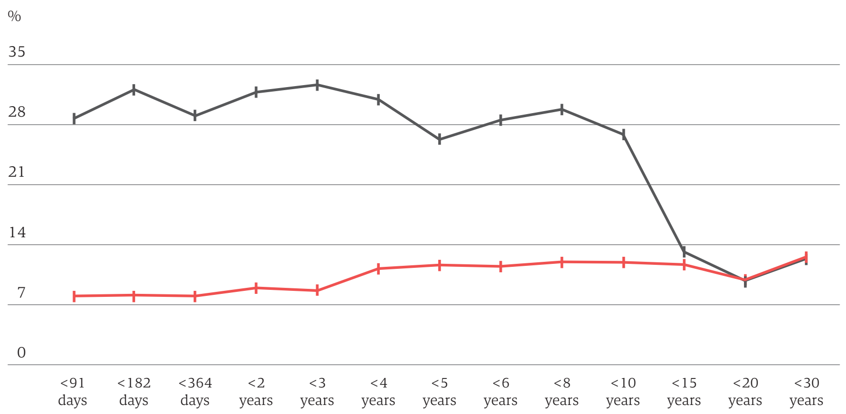
Government securities portfolio composition

Graph 50



T-Bond yield curve

Graph 51



The Bank assesses IRR primarily through an interest rate repricing gap analysis which indicated adversities to earnings and capital from the extraordinary rate shocks. Interest rate repricing gap analysis measures the difference between the amount of interest-earning assets and interest-bearing liabilities, which are repriced within defined maturity buckets. The Bank measures IRR both in the earnings perspective and economic value perspectives.

The management of IRR is crucial for the Bank since over 90% of the Bank's assets and liabilities are interest rate sensitive where Bank's NII or NIM is subject to interest rate volatilities.

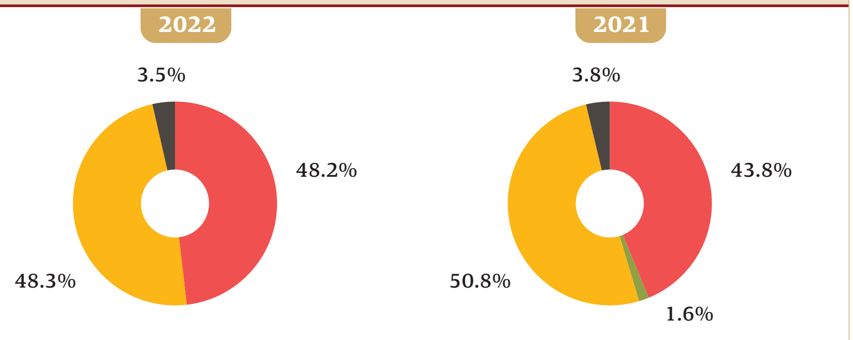
The Bank's IRR management initiatives therefore aim to minimise the mismatches in the maturities (fixed rated assets or liabilities) or to match repricing dates (floating rated assets or liabilities).

Equity price risk

Equity price risk refers to the risk of depreciating the value of investments in the equity portfolio due to stock market dynamics exposing the Bank to potential variations in income and reserves. The Bank is exposed to equity price risk from its investments in listed equity instruments. A comprehensive limit structure is in place to monitor equity transactions and portfolio risks driven from changes in market variables and trading operations.

The Bank's listed equity portfolio comprises both FVPL and FVOCI portfolios and the extent of investments in equities is determined considering risk limits framework, Investment Policy Statement (IPS) and market conditions.

Equity portfolio composition Graph 52



Foreign exchange risk

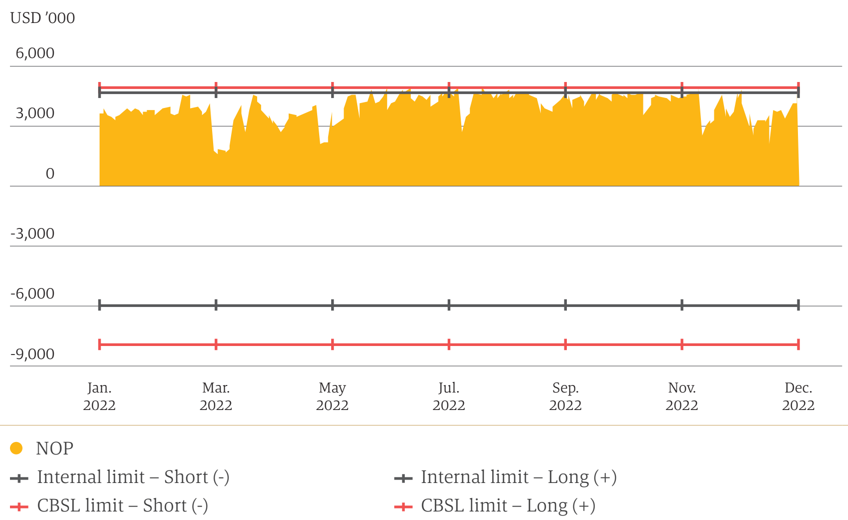
FX risk is associated with the unhedged positions in all the foreign currencies. The Bank, under Standardised Measurement Approach (SMA) allocates capital for foreign currency risk considering the Net Foreign Currency Exposure (NFCE). Net Open Position (NOP) is monitored on a daily basis against regulatory and internal alert limits to manage the FX risks. At the end of the year 2022, NFCE of the Bank was USD 2.45 Mn. which is 1.4% of the total regulatory capital of the Bank.

	<1 month	1-3 months	3-6 months	6-12 months	1-3 years	3-5 years	>5 years	2022 Total	2021 Total
USD	(10,886,636)	5,428,783	5,535,754	(10,088,051)	2,093,140	–	–	(7,917,011)	4,695,197
EUR	(1,548,311)	(276,853)	2,903,542	(545,791)	–	–	–	532,587	(163,511)
GBP	(649,935)	(274,361)	1,173,770	197,180	–	–	–	446,655	290,557
SGD	40,959	–	–	–	–	–	–	40,959	8,232
AUD	(767,874)	(980,505)	1,012,447	1,371,441	–	–	–	635,509	180,157
JPY	6,271,504	–	–	–	–	–	–	6,271,504	2,893,592
CHF	54,411	–	–	–	–	–	–	54,411	47,145
CAD	69,921	–	–	–	–	–	–	69,921	15,432
AED	40,482	–	–	–	–	–	–	40,482	7,328

Table 36 Currency-wise maturity gaps for FX operations

Daily NOP against internal and regulator limits

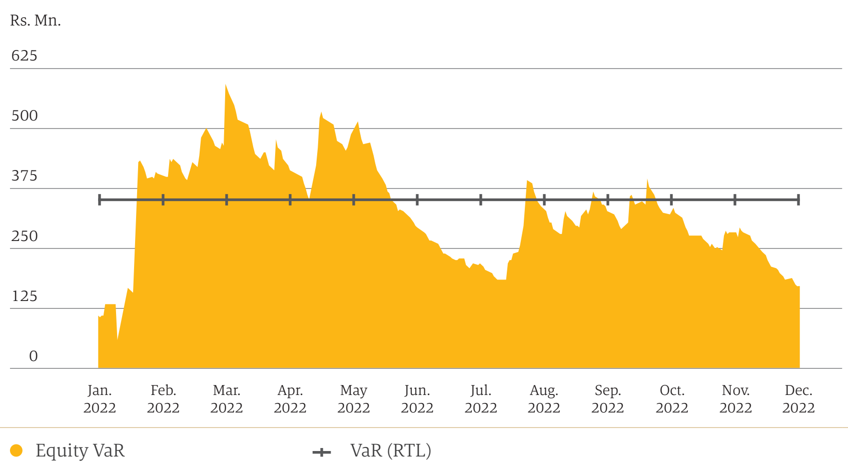
Graph 53



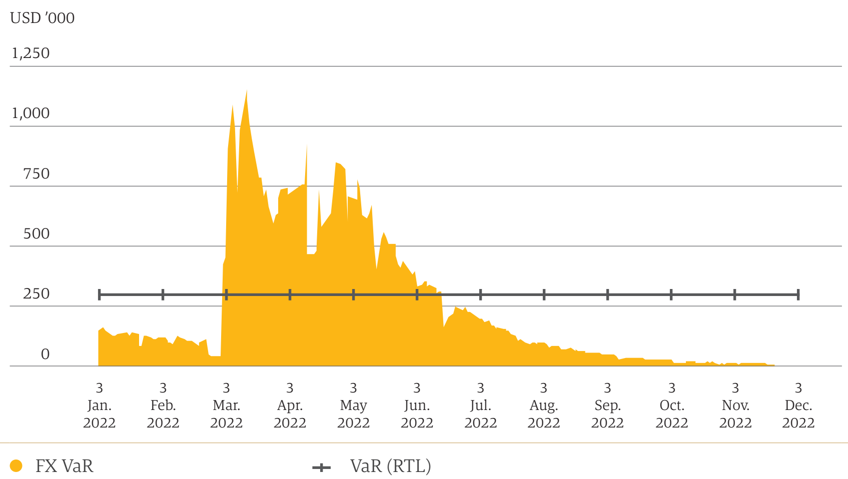
The Bank measures price volatility under market risk management function using VaR measures for equity trading book and foreign currency open position with an intention to maintain within the risk appetite.

Equity VaR

Graph 54



FX VaR Graph 55



Policy framework

- Reviewed market risk and liquidity risk management policy of the Bank
- Reviewed risk appetite limits and treasury limits
- Reviewed counterparty rating model

Monitoring

- Daily treasury middle office functions
- Periodical submission of market risk dashboards to the BIRMC and the Board of Directors
- Monitoring of investment and trading portfolios, foreign currency exposures and treasury related transactions and report to IC/ALCO.
- Stress testing and scenario analysis

Process improvements

Recommend process and control improvements based on outputs generated through:

- RCSA
- Gap analysis

Figure 34 Market risk management – Actions steps – 2022

Liquidity and funding risk

Liquidity and funding risk is the risk that the Bank may not have sufficient stable or diverse sources of funding to meet on or off-balance sheet obligations as they fall due without incurring unacceptable losses. The Bank's liquidity risk management framework requires to ensure that the Bank operates within predefined liquidity limits and remains in compliance with the Bank liquidity policies, regulatory requirements and practices.

Liquidity risk review

Overnight market liquidity level was negative throughout year 2022. After policy rates increased by 700bps in early April 2022, the negative liquidity level worsened as market interest rates hit sky highs. Banks offered higher rates to retain deposits and to match the rates with Treasury Bills as customers tend to shift to invest in financial instruments withdrawing deposits for higher yields.

Deposit mobilisation for year 2022 is significantly lower than previous year. Savings deposit mobilisation was negative while the Bank attracted and retained fixed deposits offering higher rates. Repo borrowing increased compared to the previous year due to tight liquidity position held throughout the year.

The Bank encountered significant challenges in the face of the current economic environment with the contraction in economic output, shortage in dollars, negative market liquidity, high interest rate, delays in settlements; specially in the large lending facilities to SOEs and SLDB.

The year 2022, was the hardest year in terms of the liquidity position. The Bank has no access to SDF and SLF facilities and call money market due to LSB status. The Bank wrestled hard to maintain the liquidity levels while offering higher rates for fixed deposits and market borrowing. The Bank maintained regulatory liquidity ratio but declined compared to previous year, which is supported by careful liquidity management and accommodative measures adapted by the regulator in response to the economic crisis.

Risk component	Risk management approach	Risk level	Impact
Liquidity risk	- Monitor regulatory ratios against the minimum requirements - Monitor maturity gaps in different time buckets against limits - Monitor ratios under stock approach - Liquidity contingency planning - Stress testing and scenario analysis	High	Increase in impact

* YoY change in impact on earnings and capital

Increase in impact No change Decrease in impact

Table 37 Liquidity risk review

Liquidity risk management

The main objective of the liquidity and funding risk management is to access and ensure availability of funds required to meet obligations at correct time at correct cost under both normal and stressed scenarios.

Liquidity risk of the Bank is managed by monitoring key liquidity indicators under both regulatory requirements and requirements under stock approach and flow approach. Changes in both assets and liabilities are measured compared to the funding requirements to ensure that the desired level of liquidity is maintained at each point of time and is in line with the Bank's risk appetite. Internal limits for liquidity gaps are in place and monitored on frequent basis for both rupee and major foreign currencies to ensure that the Bank's liquidity profile is managed at healthy level.

Liquidity risk is mitigated by maintaining adequate buffers in high quality liquid assets and diverse funding sources. Further, strategies/options are in place ensuring availability of sufficient liquidity buffers in accordance with the Bank's Contingency Funding Plan. In the extraordinary economic conditions, Bank ensured stringent monitoring of liquidity risks and took pre-emptive measures to minimise funding risks to the Bank.

Regulatory ratios

The Bank's regulatory liquidity indicators lowered compared to the previous year, however remained above the minimum regulatory requirements.

Ratio	2022	2021	Regulatory minimum percentage %
SLAR – DBU	**40.6**	59.6	20
LCR – Rupee	**195.5**	240.8	100
LCR – All currency	**193.5**	240.4	100
NSFR	**180.5**	160.8	100

Table 38 Regulatory liquidity ratios

Stock approach

The Bank monitors following liquidity ratios under stock approach to monitor the adequacy of funding requirements and ensure funding and liquidity risks is managed within the Bank's risk appetite.

Ratios under stock approach	2022 %	2021 %
Net loans to total assets	**34.2**	34.1
Loans to customer deposits	**38.6**	38.6
Liquid assets to short-term liabilities	**39.6**	56.4
Purchased funds to total assets	**16.9**	20.8
(Large liabilities – temporary investments) to (Earning assets – temporary investments)	**4.8**	20.7
Commitments to total loans ratio	**2.5**	1.8

Table 39 Ratios under stock approach

Flow approach

Under the flow approach, liquidity gap analysis is one of the methods used by the Bank to assess liquidity risk. Liquidity gaps are periodically monitored against limits and used for sensitivity analysis and stress testing.

High negative liquidity gaps are observed in less than one-year maturity buckets as a result of concentration of deposits in less than 12 months buckets. This became the foremost concern requiring focus on retaining and attracting funding in a highly rate sensitive market.

Monitoring of maturity gap analysis of assets and liabilities enables foreseeing adverse liquidity levels. The Bank was able to manage funding requirements during the year with minimum reliance on market repo borrowings despite the high cost.

Funding diversification by products

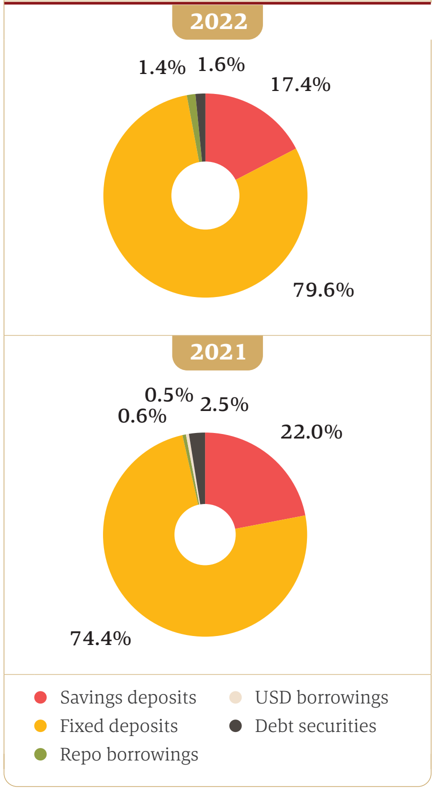
The economic crisis that emerged with the shortage in foreign currency reserves in the country soared the economy interest rates to highest ends. The Bank's deposit base grew by 3.4% YoY to reach Rs. 1.5 Tn. mainly from increase in term deposits during the year 2022.

Maturity profile of assets and liabilities

Bank	0-3 months Rs. Mn.	3-12 months Rs. Mn.	1-3 years Rs. Mn.	3-5 years Rs. Mn.	>5 years Rs. Mn.	Total Rs. Mn.
Assets with contractual maturity	117,562	249,834	417,766	406,345	425,180	1,616,686
Liabilities with contractual maturity	771,127	688,251	34,242	31,167	91,900	1,616,686
Maturity gap	(653,565)	(438,417)	383,524	375,178	333,280	–
Cumulative gap	(653,565)	(1,091,982)	(708,458)	(333,280)	–	–
Actual gap as a percentage of liabilities – 2022 (%)	-85	-64	1,120	1,204	363	–
Actual gap as a percentage of liabilities – 2021 (%)	-87	-73	2,342	1,572	410	–

Table 40 Maturity profile of assets and liabilities

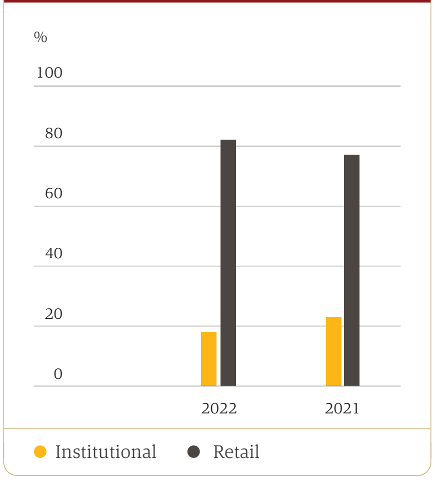
Funding diversification by product Graph 56



The Bank has access to a wider spectrum of retail deposits and institutional deposits through its branch network and counts on that as the primary source of stable funds. Access to retail deposits (i.e. Savings and FDs) through island-wide network of branches enables reducing concentration risk in funding. Funding risks are managed by ALM unit of Treasury Division as per the policies and procedures approved by the Board of Directors.

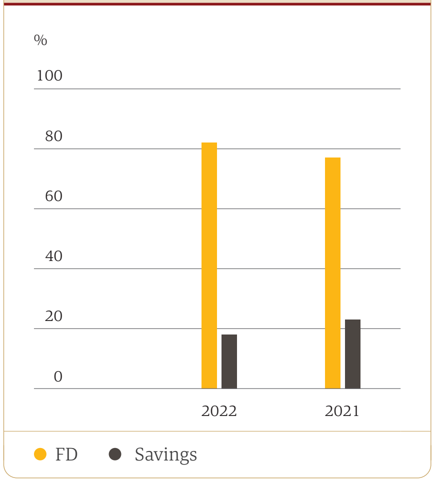
Institutional deposits Vs Retail deposits

Graph 57



FD vs Savings

Graph 58



Operational risk

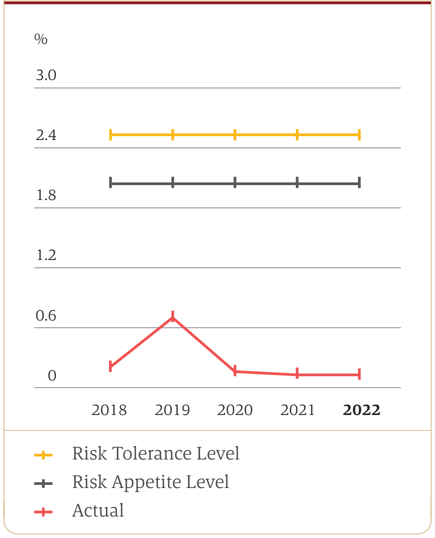
Operational risk can arise from inadequate or failed internal processes, systems and people as well as external events. Operational risk includes legal risk but excludes reputational risk and strategic risk.

Operational risk exposure

Operational risk is inherent in all banking operations. Operational losses for the financial year 2022 was 0.1% of the average audited gross income for the last three years, which is comfortably within risk appetite levels.

Actual operational losses against risk appetite and tolerance limit

Graph 59

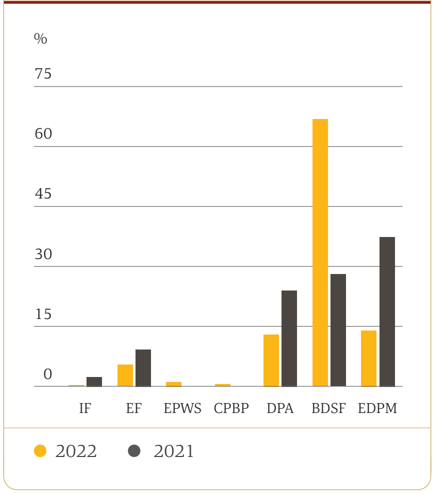


The trend line demonstrates the Bank's consistency in maintaining operational losses at minimal levels over the last five-year period. This reflects the adequacy of the governance structure, policies, internal control structures, processes and procedures in place to manage operational risk.

From the internal loss event data collected for the year 2022, highest frequency and highest severity was reported from business disruption and system failures.

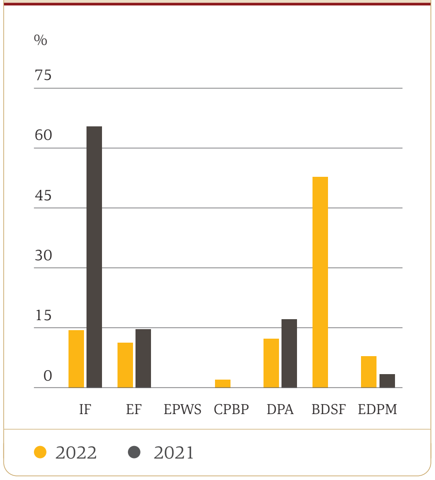
Frequency of loss event data

Graph 60



Severity of loss event data

Graph 61



IF – Internal Fraud
EF – External Fraud
EPWS – Employment Practices and Workplace Safety
CPBP – Clients, Products and Business Practices
DPA – Damage to Physical Assets
BDSF – Business Disruption and System Failures
EDPM – Execution, Delivery and Process Management

Operational risk review

Risk component	Risk management approach	Risk level	Impact*
Fraud risk	Internal controls Fraud risk management and whistle blowing process Key Operational Risk Indicators (KORIs) monitoring Loss event monitoring Risk Control Self Assessment (RCSA) ABC risk assessment	Moderate	Decrease in impact
IT risk	Internal controls Information security management system (ISMS) KORIs monitoring Incident reporting Risk Control Self Assessment (RCSA)	High	No change
Business continuity risk	Business Continuity Management System (BCMS) KORIs monitoring	High	Increase in impact
Compliance/ Regulatory risk	Compliance program and examinations KORIs monitoring Compliance risk scorecard	High	Increase in impact
Legal risk	Legal clearance on all contractual obligations KORIs monitoring	Moderate	No change

* YoY change in impact on earnings and capital

Increase in impact No change Decrease in impact

Table 41 Operational risk review

Implications of the adverse socio-economic conditions affected the banking operations in numerous ways. Cost escalations, power disruptions, fuel shortage, public unrest and increasing vulnerability to theft and frauds challenged the banking operations, requiring additional measures to ensure business continuity and to strengthen the internal control structure.

Adversities to financial and portfolio performance and the initiatives introduced by the policy makers and regulators increased both legal and regulatory risks exposure within the period.

The Bank is in the verge of a critical technological transformation by replacing the existing system from a modern core banking solution to provide superior customer experience and reap cost efficiencies. This initiative is coupled with introducing secured channels and process transformations through improved technology, digitalisation and process reengineering. Implementation phase of ongoing IT projects increased the technology and information security risk exposure of the Bank and the risks are managed through stringent project management and information security practices.

Operational risk management

Operational risk management aims to manage and control operational risk according to the Bank's risk appetite in a cost-effective manner in accordance with regulatory requirement and international best practices.

Operational risk management is an ongoing process that includes the identification, measurement, and control of operational risks in order to minimise or avoid them through timely reporting and taking corrective and preventive measures in prudent manner. The Bank's Operational Risk Management Policy approved by the Board of Directors, defines the framework for operational risk management.

Base for operational risk management is established through an appropriate internal control structure including system controls, access controls, segregation of duties, clear lines of authority and responsibility, dual checks for authorisation and verification of transactions, physical controls over assets, record keeping, reconciliations, audit trails and audit logs.

ORMU in RMD uses several techniques and processes to identify and assess operational risks within the Operational Risk Management Framework.

Collection and analysis of operational loss event data is a key component of the Bank's Operational Risk Management Framework. Consistent gathering of data improves the integrity of data analysis to derive more meaningful and effective decisions. The Bank has a documented procedure for identification and collection of internal loss data from all geographic locations to facilitate timely regulatory reporting and recognition. Further, the Bank's external loss event data base captures published information on operational loss events in similar institutions. Collected data is classified into loss event categories stated in Basel accords and used to identify the nature, root causes, severity, and the probability of occurrence. Process improvements and risk mitigation actions are recommended based on loss event data analysis.

Operational risk exposures are communicated to Senior Management through Key Operational Risk Indicators (KORIs). The Bank uses KORI matrix that covers KORIs on seven key areas i.e. audit issues, business continuity, information security, product quality, process quality, and compliance. In order to evaluate the risks, KORIs are defined with threshold limits for each area. Taking into account the status of the operational environment, these threshold limits are revised annually or more frequently.

Risk Control Self Assessment (RCSA) is a technique used by process owners to identify and evaluate risks and controls collectively with risk management team. Increasing risk owners' involvement in process and control assessments and control enhancements adds value to effectiveness of existing process in a more practical manner. RCSA aims to create a culture conducive to risk management in the Bank's day-to-day operations.

The Bank considers the analysis of customer complaints as free feedback on customer experience with the Bank. ORMU analyses customer complaints on a quarterly basis, and results are used to improve processes and reduce operational risk vulnerabilities.

Stress testing and scenario analysis is used to identify the impact from operational risk vulnerabilities to take proactive risk mitigating actions. The Bank allocates capital for operational risk using Basic Indicator Approach.

Legal risk

Legal risk is the risk of financial or reputational loss that can result from lack of awareness or misunderstanding or ambiguity or indifference to the way law and regulations apply to business, its relationships, processes, procedures and services. Legal risk is an inherent part of operational risk.

This may include losses resulting from non-enforceability of contracts due to incorrect documentation and deficiencies in drafting, which may result in fines penalties and punitive damages, or a claim being made against the Bank which may result in a liability or loss.

Legal risk management is the process of identification of underling drivers that will undermine the Bank's operations and reputation. The Legal Division of the Bank plays a pivotal role in responding efficiently and effectively to minimise the severity of legal risks. The Legal Division ensures that the Bank's business operations are conducted and contractual relationships are entered into, are in conformity with the applicable statutory framework.

The Legal Division engages in strategic management of the legal risk of the Bank and proactively engages in identifying potential legal risks and issues in collaboration with other business divisions and ensures that adequate and appropriate mitigatory measures are adopted to safeguard the Bank's interest. The Legal Division provides legal support, guidance and counsel to manage crisis situations, resolve issues pertaining to subsidiaries, facilitate recoveries and revision of internal policies and procedures taking into account the development in the law which may have a material impact on Bank's operations.

Compliance and regulatory risk

Regulatory risk is the risk that a change in laws and regulations will materially impact a security, business, sector, or market. On the other hand, compliance risk is the possibility of losses from non-adherence of current laws or regulations, internal policies or prescribed best practices. Managing compliance risk requires a systematic approach. Compliance risk leads to regulatory sanctions, financial penalties, disruptions in business, operational and reputational damages.

The compliance landscape is changing rapidly and the Bank needs to develop and integrate risk strategies, methodologies and frameworks.

Hence, relying on traditional approaches to address compliance risk is ineffective against the increasing diversity of the industry's compliance ecosystem. Therefore, the Bank embraces modern and innovative strategies for risk assessment, moved from the rule-based approach to risk-based approach together with an effective governance framework to address the compliance risk.

The Compliance Division is headed by the Compliance Officer and directly reports to the Board of Directors through the BIRMC.

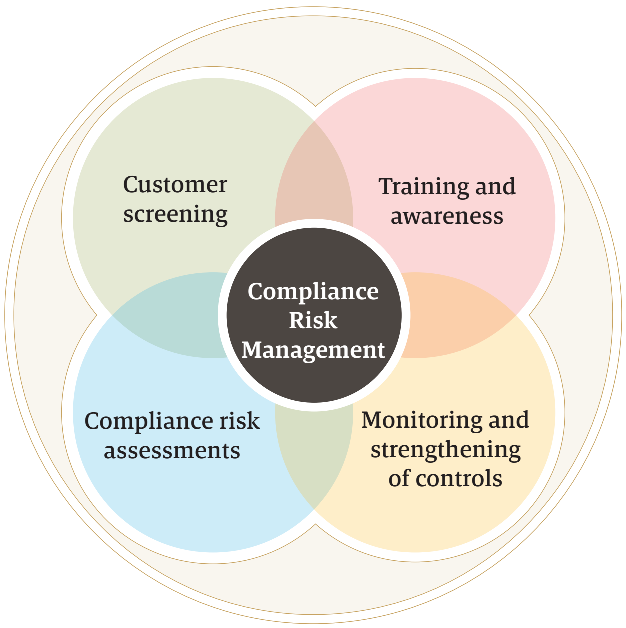


Figure 35 Compliance risk management

During the year 2022, following actions were taken to minimise the compliance and regulatory risk of the Bank:

- Report suspicious transactions to Financial Intelligence Unit to facilitate the prevention, detection, investigation and prosecution of money laundering and financing of terrorism as stipulated in the Financial Transaction Reporting Act No. 06 of 2006
- Compliance to Direction No. 12 of 2007 on corporate governance in the exercise of the powers conferred by Section 76 (J) (1) of the Banking Act No. 33 of 1988 to determine the allocation of authority and the responsibility by which the business and affairs of the Bank are carried out by its Board and Corporate Management. Thus, the Bank ensures safety and soundness to keep the financial stability and the manner in which they conduct their business.
- Ensure timely review of applicable policies and procedures
- Conduct compliance assessments on branches, divisions, and products of the Bank
- Creating awareness through training sessions
- Identify money laundering activities through automated ALM systems

Business continuity risk

Business continuity risk is probable adverse impact on organisational resilience to effectively safeguard the interests of its key stakeholders in the event of a natural or man-made disaster.

The Bank has in place a governance structure, policy documents, processes and systems for Business Continuity Management (BCM) to ensure business continues with minimum interruptions from natural, man-made or IT driven disasters.

BCP unit is assigned with the responsibilities for effective implementation, testing and monitoring of the BCM framework and to manage the disaster recovery site of the Bank. Tier III Design Certification (TCDD) awarded Data Centre is an additional strength to the business continuity infrastructure.

IT risk

IT risk poses a threat to business data, critical systems, and various business processes when an IT vulnerability is exploited.

Technology risk management intends to establish business resilience considering sensitivity of data criticality of information systems and type of information system infrastructure using feasible and standard technologies in Information and Communication Technology (ICT).

Strategic focus towards technological enhancements required to banking business is derived through Strategic Business Plan with the oversight of the Board and Senior Management. CIO regularly reviews ICT requirements to take proactive measures.

ORMU within the Operational Risk Management Policy Framework monitors the implementation of regulatory requirements and best practices, security incidents, loss events and KORIs to inform deviations to higher management and to the Board through BIRMC.

The technology risk is assessed as a part of Internal Capital Adequacy Assessment Process and RCSA is conducted to identify the process gaps and control effectiveness in IT products /channels used by the Bank.

Information Security Committee (ISC) and Information Technology Steering Committee (ITSC) are the Management level committees responsible for information security and technology resilience.

Information Security Division (ISD) headed by Chief Information Security Officer (CISO) is responsible for implementing a framework for Information Security Risk Management and carries out independent risk assessments on information systems with the assistance of expert external service providers and assessment results are used to recommend risk treatments or risk mitigants.

The Bank has continuously taken information security initiatives to improve resilience towards evolving Cyber threats. Following measures have been taken to minimise information security vulnerabilities and enhance security posture of the Bank:

- The Bank became compliant with Payment Card Industry-Data Security Standard (PCI DSS) in year 2019 and the Bank was recertified with PCI DSS for year 2022 assuring the safety of debit card holders' data.
- The Bank implemented a 24x7x365 operated Security Operations Centre (SOC) under the ISD in 2020 with the support of a competent third-party. The Bank achieved proposed regulatory requirement for 2022 and incident response capabilities are further strengthened to meet international standards.
- The Bank initiated implementation of Data Leakages Prevention (DLP) and Data Classification Solution during the year 2020 to protect and secure data and comply with regulations. During the year 2022, coverage of DLP solution was increased to include all IT systems of the Bank.
- The Bank has achieved ISO 27001:2013 certification for IT Division, Information Security Division and Card Centre.

The Bank takes steps towards achieving CBSL Direction on the "Regulatory Framework on Technical Risk Management and the Resilience of Licensed Banks" to enhance the IT and Information Security Management System.

Bribery and corruption related risks management

Accepting gifts and hospitality, payments for facilitation, political contributions, cash payments and commissions, sponsored travel and lodging, and charitable contributions in return for the service provided to internal staff, customers, service providers, or any other third party are common forms of bribery and corruption.

In order to reduce the risk to the Bank's reputation and financial losses, the Bank has zero tolerance for bribery and corruption. Accordingly, employees, Directors and third parties acting for or on behalf of the Bank and subsidiaries of the Bank are prohibited from:

- Engaging in any kind of bribe and corrupt behaviour, regardless of whether a benefit is given to or received by another person, and regardless of the value of the benefit.
- Carrying out any dishonest accounting or concealment of complete and accurate financial activity.

Risk Management Division conducts anti-bribery and corruption risk assessment annually based on the Anti-Bribery and Corruption Policy introduced in year 2020, with the aim of identifying areas vulnerable for bribery and corruption risk to strengthen internal controls.

Risk transfer

Outsourcing is an effective cost-saving and risk transfer strategy for the Bank. Outsourcing arrangements of the Bank are identified and managed by Administration Division. Outsourcing operations are conducted in accordance with Outsourcing Policy approved by Board of Directors and in compliance with the guidelines issued by the CBSL.

Due diligence tests on outsourced vendors are carried out prior to executing new agreements or renewal of existing agreements to ensure the capabilities of service providers to perform the outsourced activities as per the requirements in line with the internal policies of the Bank.

Insurance is a risk mitigating technique to transfer key insurable risks of business operations to an insurance service provider. The adequacy of the insurance policies is continuously reviewed considering the existing and emerging risks to the Bank. RMD monitors and reports the progress of insurance recovery. Insurance function is centralised within the Administration Division.

Policy framework

- Reviewed Integrated Risk management policy framework including operational risk management policy of the Bank
- Reviewed risk appetite and KORIs threshold limits

Monitoring

- Periodical submission of operational risk dashboards to the BIRMC and the Board of Directors
- Monitoring of Operational loss events and customer complaints
- Monitoring of Key Operational Risk Indicators
- Stress testing

Process improvements

Recommend process and control improvements based on outputs generated through:

- RCSA
- Root cause analysis

Figure 36 Operations risk management – Action steps – 2022

Environmental, social and governance risk

Environment and social risks are the potential negative impacts to the Bank (or perceived impacts) on natural environment or community of people. It Includes environmental aspects such as climate change and biodiversity, social aspects such as human rights and gender diversity. Governance includes policies, procedures, system of management and holding accountability through corporate governance best practices, anti-corruption, whistle blowing, grievance mechanisms, tax fairness etc.

Effective management of Environmental Social and Governance (ESG) risks is a crucial requirement to ensure greener, climate friendly, social inclusive and ethical business environment and to manage adversities. Hence, ESG risk management is incorporated to IRM framework. Governance risk is managed within the compliance risk management in IRM framework. The Bank thrives to identify and develop business activities in sustainable manner while developing innovative financial solutions to support sustainable initiatives.

Reputational risk

Reputational risk is the risk of adverse impact on brand value due to negative stakeholder perception of the Bank's activities, business practices, products, services etc. Reputational risk may directly or indirectly impact on the Bank's earnings and assets. Hence, management of reputational risk is imperative for financial institutions to maintain the public confidence in its operations.

The Bank has maintained an immaculate reputation for five decades as a premier licensed specialised state bank in Sri Lanka. A sound reputation reflects the integrity of the Bank. As a financial service provider, staff competence and customer-oriented products and services create the foundation for customer confidence.

Bank has a zero-risk appetite for reputational losses. However, reputation vulnerabilities arose with the challenges encountered as a result of adverse macroeconomic conditions. Hence, RMD closely monitors the reputational risk to timely communicate the Management for necessary risk management actions. The Bank uses various channels to communicate with the customers and other stakeholders to safeguard the reputation from adverse publicity. Marketing Division act as the guardian of the brand value and the reputation of the Bank.

A scorecard-based model is used to assess the reputational risk based on ICAAP guidelines.

Strategic risk

Strategic risk can be considered as the risk of losses arising from unsuccessful business plan or inability to implement suitable business plan, failure to respond promptly to the changes in the business environment and inadequate resource allocation causing adverse impact on earnings and capital of the Bank.

Strategic planning and budgetary process which aligns the Bank's vision, mission and the risk appetite with the Board of Directors oversight along with the monitoring of Senior Management facilitate the management of strategic risk.

The inputs from the Research Unit are incorporated in formulating business strategies for the Bank. The Bank has taken necessary steps to ensure availability of right talent, capabilities, infrastructure and technology to minimise the risk in strategy execution. To minimise the consequences of strategic risk, management reviews the progress of the strategic decisions made on a regular basis.

Financial and non-financial implications from the economic crisis, severely increased strategic risk in achieving strategic objectives. Apart from the initiatives discussed above, the Board and the Senior Management are extra vigilant to safeguard the solvency of the Bank.

A scorecard-based model is used to assess the strategic risk based on ICAAP guidelines.

Capital review

The Bank requires a strong capital position in order to satisfy regulatory capital requirements, provide financial security to its depositors/creditors, maintain leeway for future business expansion and generate adequate return to its shareholders.

Managing capital assures resilience of the Bank while generating stakeholder return. Hence, the Bank strives to manage capital more efficiently by achieving the optimum balance between performance and risk and conduct stringent monitoring of the risk weighted assets (RWA) mix and changes in the risk profile. Capital management process of the Bank is in line with the guidelines issued by the CBSL.

As per the Banking Act Directions No. 11 of 2019 on amendments to Directions on Capital Requirements under Basel III for Licensed Commercial Banks and Licensed Specialised Banks, it is required to maintain the minimum capital ratios as stated in the Table 42.

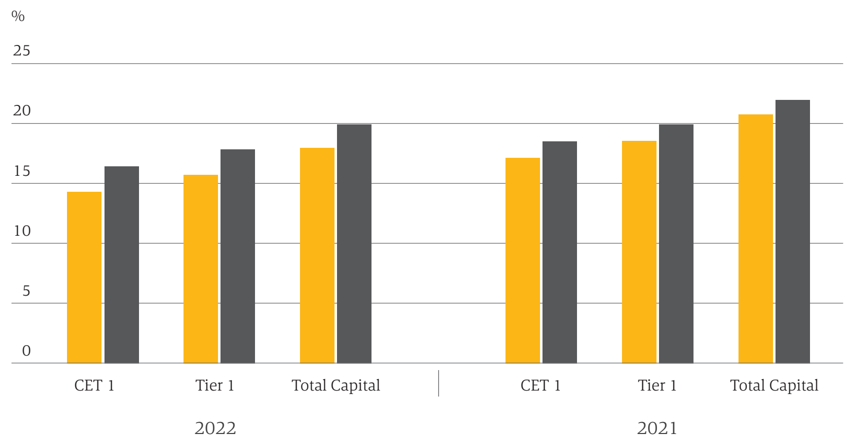
Further, CBSL from the Direction No. 04 of 2022, allowed licensed banks to drawdown the Capital Conservation Buffer (CCB) up to 2.5% subject to the conditions stipulated in the Direction No. 01 of 2016 on Capital Requirements Under Basel III for Licensed Commercial Banks and Licensed Specialised Banks, considering the prevailing extraordinary macroeconomic conditions.

The Bank managed to maintain the capital adequacy above the regulatory minimum requirement level for the year 2022. This is mainly due to the internal capital generated through profits in the year 2021. CET1 ratio position decreased during the year to 14.36% as at 31 December 2022, from 17.17% as at 31 December 2021. The Bank's Tier 1 capital ratio decreased to 15.78% as at 31 December 2022. Total capital ratio decreased to 17.99% as at 31 December 2022 against 20.83% as at 31 December 2021.

The total capital ratio for the Group is 19.96% in 2022 against 22.0% as at December 2021. As the 100% state-owned savings bank, there are limited options available to raise regulatory capital externally. Hence, retained earnings are the main source to augment the capital of the Bank.

However, contribution of retained earnings to augment the capital is Rs. 2.5 Bn. in the year 2022 against Rs. 22.1 Bn. in the year 2021.

Capital level Bank and Group Graph 62



Capital adequacy ratios

Ratios (%)	Regulatory minimum	Actual as at 31 December 2022		Actual as at 31 December 2021	
		Bank	Group	Bank	Group
CET 1	6.50	14.36	16.49	17.17	18.54
Tier 1	8.00	15.78	17.90	18.60	19.96
Total capital	12.50	17.99	19.96	20.83	22.00

Table 42 Capital adequacy ratio

The Bank intends to maintain capital in excess of regulatory minimum levels under ICAAP to cover both Pillar I and Pillar II risks and as a stress testing buffer. Stress testing is conducted on existing and projected risk areas to assess the capital requirement under stress conditions.

Stress testing

Stress testing is an integral part of ICAAP. The Bank's stress testing framework is governed by the stress testing policy approved by the Board of Directors and guidelines issued by the CBSL. The Bank's stress testing framework includes stress tests on all the material risks such as credit risk, interest rate risk in trading book and banking book, operational risk, liquidity risk, concentration risk and residual credit risk. The Bank has defined three levels of increasing adversity, i.e. minor, medium, and major (or Low, Medium and High) for stress testing purposes.

Stress testing provides an understanding on the ability of the Bank to withstand unforeseen scenarios of varying severity under adverse economic, political and physical changes in the environment in which it operates.

Sensitivity analysis is used to measure the impact of individual market factor movements on specific instruments or portfolios, including interest rates, foreign exchange rates and equity prices. The Bank mainly uses sensitivity analysis to identify the impact on trading and banking book due to adverse interest rate fluctuations and reports are submitted to ALCO, BIRMC and BOD on a periodic basis.

	FVPL Rs. '000	FVOCI Rs. '000	Total Rs. '000
Unrealised gain/(loss) for the year 2022	(917,722)	(650,959)	(1,568,681)
Change in M2M value			
100 bps increase in yield	(116,861)	(229,836)	(346,697)
200 bps increase in yield	(230,716)	(454,844)	(685,560)
100 bps decrease in yield	119,985	234,821	354,806
200 bps decrease in yield	243,198	474,775	717,973

Table 43 Sensitivity analysis – Interest rate risk in trading book – Government Securities

100bp rate shock on negative gaps		Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years	3-5 years	Over 5 years	Total
Stand-alone level	Gap (Rs. Mn.)	(161,044)	(513,298)	(291,316)	(156,351)	350,455	354,531	380,243	(36,779)
	Impact on NII (Rs. Mn.)	(1,549)	(4,289)	(1,836)	(407)				(8,080)
Consolidated level	Gap (Rs. Mn.)	(164,178)	(519,761)	(290,266)	(155,346)	351,080	359,204	382,013	(37,254)
	Impact on NII (Rs. Mn.)	(1,579)	(4,343)	(1,829)	(404)				(8,155)

Table 44 Sensitivity analysis – Assessment of yield curve risk in banking book

The results obtained from stress testing exercise are used in setting of risk appetite and risk limits, capital planning, strategic business planning and to manage the risks in critical business operations to support proactive decision-making.

Implications from the extraordinary economic conditions were stress tested to early communicate the impacts to the Senior Management, Board of Directors and the regulator through ICAAP.

Risk area	Scenario	Impact to CAR Low %	Medium %	High %
Credit risk	Credit Risk – Increase in NPLs due to an economic downturn. (Low –10%, Medium – 20%, High – 30%)	-0.38	-0.75	-1.11
Market risk	Interest Rate Risk: Increase in market yield (Low 50bps, Medium 100 bps, High 200 bps)	-0.05	-0.1	-0.19
	Equity Price Risk: Decline in Market Prices (Low 10%, Medium 20%, High 30%)	0.01	0.03	0.05
	FX Risk: Rupee appreciation against USD (long position) (Low – 10%, Medium 15%, High 20%)	-0.019	-0.005	-0.003
Operational risk	Increase in operational losses classified under Basel II loss event categories	-0.022	-0.032	-0.048

Table 45 Impact on earnings and capital

Minimum disclosure requirements – Pillar III

Minimum disclosure requirements were introduced by the CBSL within the Basel III Framework to allow the market participants to gauge the capital adequacy and risk exposures of the Bank. Refer pages 442 to 453 for minimum disclosure requirements as per Banking Act Direction No. 01 of 2016.

Financial reports

Financial calendar

Financial calendar 2022	
Publication of Interim Financial Statements for the quarter ended 31 March 2022	31 May 2022
Publication of Interim Financial Statements for the quarter ended 30 June 2022	31 August 2022
Publication of Interim Financial Statements for the quarter ended 30 September 2022	30 November 2022
Publication of Financial Statements (Unaudited) for the quarter ended 31 December 2022	31 March 2023
Publication of Financial Statements (Audited) for the year ended 31 December 2022	19 May 2023

Proposed financial calendar 2023	
Publication of Interim Financial Statements for the quarter ended 31 March 2023	31 May 2023
Publication of Interim Financial Statements for the quarter ended 30 June 20223	31 August 2023
Publication of Interim Financial Statements for the quarter ended 30 September 2023	30 November 2023
Publication of Financial Statements (Audited) for the year ended 31 December 2023	29 March 2024

Annual Report of the Board of Directors

General

The Board of Directors of the National Savings Bank have pleasure in presenting their Integrated Annual Report on the affairs of the Bank together with the Audited Financial Statements of the Bank and Consolidated Financial Statements of the Group for the year ended 31 December 2022 and the Auditor General's Report on those Financial Statements, conforming to the requirements of the National Savings Bank Act No. 30 of 1971 and the amendments therein. The Report also includes certain disclosures required to be made under the Banking Act No. 30 of 1988 and amendments thereto and the Banking Act Direction No. 12 of 2007 on Corporate Governance for Licensed Specialised Banks issued by the Central Bank of Sri Lanka (CBSL) and subsequent amendments thereto. The Annual Financial Statements were reviewed and approved by the Board of Directors on 27 April 2023.

National Savings Bank is incorporated in Sri Lanka by National Savings Bank Act No. 30 of 1971 and was granted the status of Licensed Specialised Bank in terms of Banking Act No. 30 of 1988 and the amendments thereto. The Bank is wholly owned by the Government of Sri Lanka. The Bank has been assigned AAA (Stable) long-term initial rating by the Lanka Rating Agency.

Review of business

Principal activities of the Bank

The principal activities of the Bank during the year were promotion of savings among the people of Sri Lanka, retail banking, corporate banking, trade financing, primary dealing, other treasury operations as authorised by the NSB Act No. 30 of 1971 and amendments thereto, correspondent banking and money remittance facilities, pawning, foreign currency operations and other financial services.

Vision, Mission and Values

The Bank's Vision, Mission and Values are given on page 4 of this Annual Report. All permanent employees are being abided by the Code of Conduct of the Bank and the Government Oath with the view of maintaining the highest ethical standards in achieving the Vision and Mission of the Bank.

Government guarantee

The Government of Sri Lanka guarantees the repayment of the monies deposited with the Bank together with interest thereon.

Subsidiaries of the Bank

NSB Fund Management Company Ltd. and Sri Lanka Savings Bank Limited are the Bank's two wholly owned subsidiaries. The principal activity of the NSB Fund Management Company is dealing in Government Securities as a primary dealer authorised by the Central Bank of Sri Lanka.

Sri Lanka Savings Bank's principal activities are mobilising savings and time deposits, providing loans, lease, hire purchase, pawning and other credit facilities, and settling of the deposit liabilities of defaulted Pramuka Saving and Development Bank Limited (PSDBL) with reconstruction of loan accounts of PSDBL.

Details of the transactions are given in Note 24 to the Financial Statements in page 317.

Changes to the Group structure

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

Review of business performance of the year

The overall review of financial performance of the Bank and the Group for the financial year 2022 are provided in the Chairman's Message (page 14), General Manager/CEO's Review (page 18), Management Discussion and Analysis on pages 99 to 166 and Audited Financial Statements (page 254) provide a comprehensive and a fair review on key business lines and the state of affairs of the Bank. These reports form an integral part of the Annual Report.

Branch network expansions

Due to the economic crisis prevailed in the country, capital expenditure was thoroughly monitored in compliance with the guidelines issued by the Ministry of Finance and the Central Bank of Sri Lanka. Accordingly, only one (1) branch was added to the network during the year under review. At the end of the year the Bank has 262 branches in its network. The ATMs/CRMs network was further expanded enhancing customer convenience. The Bank installed 5 CRMs and 1 ATM during the year across the island bringing out the total ATMs/CRMs to 390 excluding peer banks' ATMs through which customers of NSB can transact.

Preparation of Financial Statements

The Financial Statements are prepared in accordance with the Sri Lanka Accounting Standards (SLFRSs/LKASs) laid down by The Institute of Chartered Accountants of Sri Lanka and comply with the requirements of Banking Act No. 30 of 1988 and amendments thereto and regulatory requirements inclusive of specific disclosures. The Financial Statements of the Bank and the Group for the year ended 31 December 2022 duly certified by the Deputy General Manager (Finance, Corporate Planning and MIS) and approved and signed by the General Manager/CEO and two Directors including Acting Chairman of the Bank are given on page 254 which form an integral part of the Annual Report of the Bank.

Accounting policies and changes during the year

The Bank and the Group prepared its Financial Statements in accordance with

Sri Lanka Accounting Standards (SLFRSs/LKASs). The accounting policies adopted in preparation of Financial Statements are given on pages 264 to 280 in this report. There were no changes to the accounting policies of the Bank and the Group in the year under review.

Directors' responsibilities for financial reporting

The Directors are responsible for the preparation of the Financial Statements that will reflect a true and fair view of the state of affairs of the Bank as of 31 December 2022 and its profit for the year then ended. The Directors are of the view that the Financial Statements appearing on pages 254 to 257 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards (SLFRs/LKASs) and the Banking Act No. 30 of 1988 and its amendments, the NSB Act No. 30 of 1971 and amendments thereto. The Statement of Directors' Responsibility for Financial Reporting appearing on page 245 of this Annual Report describes in detail the Directors' Responsibilities in relation to Financial Statements, which form an integral part of the Annual Report of the Board of Directors.

Auditor's Report

The Auditor General is the Auditor of the National Savings Bank in terms of the provisions of the Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Auditor General had carried out the audit of the Financial Statements of the Bank and the Consolidated Financial Statements of the Group for the year ended 31 December 2022. Further, the Auditor General has carried out the audit of NSB Fund Management Company and Sri Lanka Savings Bank Limited. In 2022, the continuous audit was carried out throughout the year for the Bank. Issues identified in their reports were submitted to the Management regularly for prompt action. Having confirmed the accuracy of the financial reporting, the Financial Statements, together with the necessary data and information were made available to the Auditor General for examination. The Auditor General's opinion on the Financial Statements appears on page 250 of this Annual Report.

Future developments

An overview of the future developments of the Bank is given in the Chairman's Message (page 14), General Manager/CEO's Review (page 18) and Management Discussion and Analysis on pages 99 to 166 in the Integrated Annual Report 2022.

Gross income

The gross income of the Bank for 2022 was Rs. 174,557 Mn. (2021 – Rs. 134,939 Mn.) while the Group's income was Rs. 175,004 Mn. (2021 – Rs. 136,060 Mn.). Analysis of the gross income are given in Note 3 to the Financial Statements. The Bank's Gross Income accounted for 99.7% (2021 – 99.2%) of the Gross Income of the Group. The main income of the Bank and the Group is interest income that comprise 99.1% (2021 – 97.4%) and 100.4% (2021 – 98.0%) respectively.

Dividends and reserves

Results and appropriation

The profit before income tax of the Bank and the Group amounted to Rs. 4,510 Mn. and Rs. 2,340 Mn. (2021 – Rs. 28,381 Mn. and Rs. 28,425 Mn.).

The profit after tax of the Bank and the Group stood at Rs. 2,530 Mn. and Rs. 949 Mn. respectively (2021 – Rs. 22,120 Mn. and Rs. 22,131 Mn.). Details of profit relating to the Bank are given in the following table:

	2022 Rs. Mn.	2021 Rs. Mn.
Profit for the year after payment of all expenses and providing for depreciation, possible loan losses and contingencies before VAT and income tax	7,763	34,544
VAT on financial services	3,186	6,162
Social Security Contribution Levy (SSCL) on financial services	67	–
Income tax expenses	1,980	6,262
Profit for the year	2,530	22,120
Other comprehensive income for the year, net of tax	(1,223)	2,183
Total comprehensive income for the year	1,307	24,303
Appropriations:		
Transfer to statutory reserve	(51)	(1,106)
Contribution to the National Insurance Trust Fund (NITF)	(25)	(221)
Contribution to the Consolidated Fund/dividend	–	(3,500)
Transfers to reserves	(1,231)	(19,476)

Provision for taxation

As per the Inland Revenue Act No. 45 of 2022 (Amendment), certified on 19 December 2022 the standard rate of income tax increased to 30% from 24%. The increase in income tax rate to 30% in mid-year result in two tax rates being applicable for the Year 2022. The Bank computed the Income tax expense on a pro rata basis (i.e. 50% for first six months and balance 50% for second six months) for the year of assessment 2022/23.

In terms of the Social Security Contribution Levy Act No. 25 of 2022, the Bank is liable for Social Security Contribution Levy (SSCL) on financial services with effect from 1 October 2022 on the value addition attributable to financial services at the rate of 2.5%. The Bank and the Group's operations were liable for Value Added Tax on financial services at the rate of 15%.

In terms of provision of the Surcharge Tax Act No.14 of 2022, the group paid Surcharge Tax at the rate of 25% on the taxable income of the year of assessment 2020/2021 amounting to Rs. 5,524 Mn. and since this is related to the previous year, this has been adjusted as a prior year adjustment in the Financial Statement as at 31 December 2022.

The Bank and the Group provided deferred tax on all known temporary differences under the liability method in accordance with Sri Lanka Accounting Standard (LKAS) 12 – "Income Taxes". Information of Income Tax expenditure and Deferred Taxation are given in Notes 13 and 30 respectively on pages 291 and 329.

Dividends, taxes and levies/ contribution to nation

The Bank contributed Rs. 5,578 Mn. by way of taxes and levies to the Government in 2022 (2021 – Rs.16,465 Mn.). This consisted of:

	2022 Rs. Mn.	2021 Rs. Mn.
Income tax	**1,980**	6,262
Value added tax/ SSCL	**3,253**	6,162
Special fee	**320**	320
Contribution to the Consolidated Fund	**–**	3,500
Contributions to National Insurance Trust Fund	**25**	221
Total contribution to the Nation	**5,578**	16,465

Reserves

The total reserves of the Bank stood at Rs. 63,492 Mn. as of 31 December 2022 (2021 – Rs. 66,613 Mn.). The Bank's Reserves consist of:

	2022 Rs. Mn.	2021 Rs. Mn.
Statutory reserve fund	**5,225**	5,174
Revaluation reserve	**6,494**	7,050
Retained earnings	**2,874**	13,728
Other reserves	**48,899**	40,661
Total reserves	**63,492**	66,613

Information on changes of reserves is given in the Statement of Changes in Equity on page 258.

Service charges to Postmaster General (PMG)

Service charges to the PMG for 2022 amounting to Rs. 249 Mn. has been provided for on the same basis as in 2021.

Retirement benefits and obligations

The Bank maintains two Pension Funds namely: Staff Pension Fund I and Staff Pension Fund II. Further the Bank maintains a Widows'/Widowers' and Orphans Pension Fund as well as a Post-Employment Medical Scheme. Details are given in Note 38 on Retirement Benefit Obligation on pages 340 to 350 in Notes to the Financial Statements.

Property, plant and equipment and capital expenditure

The total capital expenditure incurred by the Bank on the acquisition of property, plant & equipment and Intangible Assets (Including capital work-in-progress) during the year amounted to Rs. 906 Mn. (2021 – Rs. 1,306 Mn.) and Group amounted to Rs. 912 Mn. (2021 – Rs. 1,336 Mn.), the details of which are given in Notes 26. (a) and 26. (b) to the Financial Statements on pages 320 to 324 of this Annual Report.

Value of property, plant and equipment

The total net book value of property, plant and equipment of the Bank and the Group as at the year-end 2022 was Rs. 14,756 Mn. and Rs. 15,646 Mn. respectively (2021 – Rs. 15,046 Mn. in the Bank and Rs. 15,950 Mn. in the Group). Details are given in Notes to the Financial Statements as follows:

- Note 26 to the Financial Statements: Property, Plant and Equipment on page 318
- Note 29 to the Financial Statements: Goodwill and Intangible Assets on page 327
- Note 48.1 to the Financial Statements: Capital Commitments on page 356

Stated capital and shareholding

Stated capital

The authorised share capital of the Bank is Rs. 10 Bn. which is made of One Billion ordinary shares of Rs. 10/- each. The issued share capital of the Bank as of 31 December 2022 stood at Rs. 9.4 Bn. The Secretary to the Treasury in his official capacity holds the entirety of the issued share capital. The details are given on page 352 in Notes 43 on Stated Capital/Assigned Capital and Note 46.1 on unclaimed deposit reserve on page 354.

Shareholding

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

Issue of perpetual debenture/bond

Outstanding subordinated liabilities of the Bank as of 31 December 2022 consisted of Rs. 5 Bn. unlisted, rated, unsecured, subordinated, Perpetual Debentures of Rs. 100 issued on 27 October 2020 on Private Placement eligible for Additional Tier I Capital. The details of debentures outstanding as at the date of Financial Position are given in Note 37.1 of the Financial Statements on pages 337 and 338 on subordinated liabilities.

Issue of senior debenture

Outstanding debenture of the Bank as of 31 December 2022, consisted of Rs.11.5 Bn. Unlisted, Rated, Redeemable, Senior Debentures of Rs. 100 each issued on 24 September 2021 as Private Placement and Rs. 6.3 Bn. Unlisted, Rated, Senior, Unsecured, Redeemable debenture of Rs. 100 each issued on 10 September 2019. Information on Senior Debenture is given in Note 37.2 on page 338 of this Annual Report.

Share information

The basic earnings per share and net assets value per share of the Bank 2022 were Rs. 2.69 (2021 – Rs. 23.53) and Rs. 77.54 (2021 – Rs. 80.86) respectively for the period under review. The details are given in Note 14 on basic earnings per ordinary share on page 293 and Note 50 on net assets value per ordinary share on page 364.

Donations

The programmes carried out under the Corporate Social Responsibility are detailed on pages 159 to 160 in this Annual Report.

Board of Directors

Information of the Directors held office during the year 2022

The Board of Directors who held the office during the financial year 2022 of the Bank comprised seven Directors including the Chairman and two Ex-Officio Members representing the Ministry of Finance and the Postmaster General as per the Section 11(1) of the NSB Act No. 30 of 1971 as amended by Act No. 28 of 1995. The Minister of Finance appoints the Chairman and other four Directors. The following were the Directors during the year and their brief profiles appear on pages 184 to 186 this Annual Report.

Name	Tenure	Membership status
Ms Keasila Jayawardena – Chairperson	26 December 2019 – 26 December 2022	NED/NID
Mr U G R Ariyaratne – Ex-Officio Director	31 August 2018 – 3 January 2023	NED/ID
Mr M K C Senanayake – Ex-Officio Director	11 January 2020 – 28 February 2022	NED/NID
Mr Eranga Jayawardene – Senior Director (From 15 June 2020 to 2 January 2023)	2 January 2020 – 2 January 2023	NED/ID
Ms Manohari Abeyesekera – Director	2 January 2020 – 2 January 2023	NED/NID
Mr M T J Perera – Director	21 February 2020 – 21 February 2023	NED/NID
Mr H K D Lakshman Gamini – Director	14 December 2020 to date	NED/NID
Mr Jude Nilukshan – Ex-Officio Director	28 February 2022 to date	NED/NID

NED – Non-Executive Director **NID** – Non-Independent Director **ID** – Independent Director

List of Directors of the Subsidiaries of the Bank during the year 2022

Names of the Directors of NSB Fund Management Co. Ltd. are as follows:

Mrs Keasila Jayawardena – Chairperson

Mr U G R Ariyaratne – Director

Ms Manohari Abeysekera – Director

Mr M T J Perera – Director

Mr W O Rodrigo – Director

Mr H K D Lakshman Gamini – Director

Mr P A W Peiris – Director

Mr K Raveendran – Director

Names of the Directors of Sri Lanka Savings Bank Limited are as follows:

Mrs Keasila Jayawardena – Chairperson

Mr Hemantha Gamage – Director

Mr Prasad Imbulgoda – Director

Mr M T J Perera – Director

Mr Janaka Arunashantha – Director

Mr M K P Kumara – Director

Board subcommittees

The Board of Directors while assuming the overall responsibility and accountability has appointed four mandatory Board Sub Committees namely, Board Audit Committee, Board Human Resource and Remuneration Committee, Board Nomination Committee, Board Integrated Risk Management Committee as required by the Banking Act Direction No. 12 of 2007 on "Corporate Governance for Licensed Specialised Banks in Sri Lanka" issued by the CBSL and one Non-Mandatory Committee namely, Board Strategic Marketing Committee to ensure oversight control over affairs of the Bank.

The Terms of Reference of these Board Sub Committees conform to the recommendations made by the regulator; CBSL and NSB Act as well as voluntary codes issued by the CA Sri Lanka.

The composition of Board Sub Committees as of 31 December 2022 and the details of the attendance by Directors at meetings are disclosed in page 190 and the Reports of these Sub Committee are given on pages 199 to 207.

Directors' meetings

The details of Directors' meetings which comprise of Board Meetings and Board Sub Committee Meetings and the attendance are given in the Corporate Governance Report on page 190 of the Annual report.

Directors' interests in contracts

Directors' interests in contracts with the Bank, both direct and indirect are referred to in Note 49.5.2 to the Financial Statements on page 361. These interests have been declared at the Board meetings. The Directors do not have any direct or indirect interest in other contracts or proposed contracts with the Bank.

Directors' interest in debentures issued by the Bank

There were no debentures registered in the name of any Director.

Directors' remuneration and other benefits

Details of Directors' emoluments and other benefits in respect of the Bank and the Group for the financial year 2022 are given in Note 49.5.1 to the Financial Statements on page 361.

Related party transactions

The Directors have also disclosed the transactions if any, that could be classified as related party transactions in terms of Sri Lanka Accounting Standard (LKAS) 24 – "Related Party Disclosures" which is adopted in the preparation of the Financial Statements. Those transactions disclosed by the Directors are given in Note 49.5.3 on page 361 to the Financial Statements forming part of the Annual Report of the Board of Directors.

Environmental protection

The Group and the Bank has not, to the best of their knowledge, engaged in activity, which was detrimental to the environment. Specific measures taken to protect the environment are given on pages 162 to 166.

Statutory payments

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

Events after the reporting date

No circumstances have arisen since the reporting date which would require adjustments to, or disclosure in the accounts, other than those disclosed in Note 52 to the Financial Statements in page 364.

Going concern

The Board of Directors have reviewed and satisfied that the Bank has ample resources to continue its operations in the foreseeable future. Furthermore, the Directors are not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern, such as restrictions or plan to curtail operations.

Risk management, internal controls and management information systems

Risk Review Report

The Board of Directors assumes overall responsibility for managing risk. 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 208 to 236 in Risk Management Report and Board Integrated Risk Management Report on pages 199 to 201 of this Report.

Internal controls and management information systems

The Board of Directors has ensured that the Bank has instituted and implemented an effective and comprehensive system of internal controls and management information systems in the Bank through the Board Audit Committee. 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. The Board Audit Committee Report is given in page 199 to 201 in this report.

The Board has issued a statement on the internal control mechanism of the Bank in accordance with the Direction No. 3 (8) (ii) (b) of the Banking Act Direction No. 12 of 2007 on Corporate Governance for licensed specialised banks which is given on page 410 of this report. The Board has confirmed 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 reporting purposes has been done in accordance with relevant accounting principles and regulatory requirements.

The Board has obtained an assurance form the Auditor General on Directors' Statement on Internal Control which is give in page 248 of the report.

Appointment of Auditors, their Remuneration

The Auditor General is the Auditor of National Savings Bank in terms of the provisions of Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka.

The expenses incurred in respect of audit fees and other services rendered during the accounting period are given in Note 12 to the Financial Statements on page 290.

Regulatory supervision

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.

Corporate governance

In the Management of the Bank, the Directors have placed emphasis on conforming with, the best Corporate Governance Practices and Procedures. Accordingly, the Directors have declared that:

(a) The Bank has complied with applicable laws and regulations in conducting its business and have not engaged in any activity breaching the relevant laws and regulations.

(b) They have declared all material interest in contracts involving the Bank and refrained from involving any matter which they have a material interest.

(c) The business is a going concern and the Board of Directors have reviewed the Strategic Business Plan and is satisfied that the Bank is having adequate resources to accelerate the future momentum of NSB in foreseeable future. Thus, the Financial Statements of the Bank and its subsidiary are prepared based on the going concern assumption.

(d) The Bank has disclosed in the Financial Statements on Related Party Transactions

(e) The Bank has conducted a review on internal controls which covers financial, operational and compliance controls, risk management and have obtained a reasonable assurance of their effectiveness and adherence.

Sustainability

When formulating its business strategies, the Bank has considered the sustainability aspects, the details of which are disclosed in pages 456 to 458 under GRI Index.

Human resources

The Bank continued to develop and maintain dedicated and highly motivated employees who are committed to create sustainable value through high quality service. Significant investments have been made in the development of quality of Human Capital of the Bank. The policies and procedures adopted by the Bank to upgrade Human Capital is described in the Annual Report 2022 on page 130.

Outstanding litigation

In the opinion of the Directors and the Bank's lawyers, outstanding litigation against the Bank disclosed in Note 51 to the Financial Statements in page 364 will not have a material impact on the financial position of the Bank or its future operations.

Acknowledgement of the Contents of the Report

The Board of Directors hereby acknowledge the contents of this Annual Report.

By Order of the Board,

S R W M R P Sathkumara
Chairman (Actg.)

Dhanushka Wijekoon
Secretary to the Board (Actg.)

4 May 2023
Colombo

Statement of Directors' Responsibility for Financial Reporting

The responsibility of the Directors in relation to the Financial Statements of the National Savings Bank (Bank) and Consolidated Financial Statements of the Bank and its Subsidiaries (Group) is set out in this statement.

Financial Statements

The Directors of the Bank are responsible for ensuring that the Bank and the Group keep proper books of accounts of all the transactions and prepare Financial Statements in accordance with Generally Accepted Accounting Principles, Sri Lanka Accounting Standards and Sri Lanka Financial Reporting Standards that give a true and fair view of the financial position of the Bank and the Group at the end of each financial year in compliance with the relevant statutory requirements. The Financial Statements comprise of Income Statement, Statement of Comprehensive Income, Statement of Financial Position as at 31 December 2022, Statement of Changes in Equity, Statement of Cash Flows, Significant Accounting Policies and Notes thereto.

The Financial Statements of the Bank and its Subsidiaries give a true and fair view of:

1. Financial Position of the Bank and its Subsidiaries as at 31 December 2022; and
2. Financial performance of the Bank and its Subsidiaries for the financial year ended 31 December 2022.

In preparing these Financial Statements, the Directors are required to ensure that:

1. The accounting policies adopted to prepare the Financial Statements which are depicted in page 264 were appropriate according to the existing financial reporting frame work. These policies were consistently applied and adequately disclosed.
2. Reasonable and prudent judgements have been made where necessary to ensure the proper reflection of the form and substance of transaction when preparing the Financial Statements.
3. All applicable accounting standards as relevant have been followed.

As per the provisions of the Finance Act No. 38 of 1971, the Banking Act No. 30 of 1988 and Section 7 (i) of NSB Act No. 30 of 1971, the Board of Directors is required to control and administer the affairs and the business of the Bank.

The Board of Directors ensures that the Financial Statements comply with the prescribed format issued by the Central Bank for Licensed Banks.

The Board of Directors are also responsible for ensuring that proper accounting records which correctly record and explain the Bank's financial position, with reasonable accuracy at any point of time is determined by the Bank, enabling preparation of the Financial Statements.

The Board of Directors accepts the responsibility for the integrity and objectivity of the Financial Statements presented in this Annual Report. (Financial Statements are exhibited on pages 254 to 263). The Financial Statements for the year 2022 prepared and presented in this Annual Report are consistent with the underlying books of accounts and are in conformity with the requirements of Sri Lanka Accounting Standards, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and Banking Act No. 30 of 1988 and amendments thereto.

Internal Controls

The Board of Directors has been responsible for taking reasonable measures and care to safeguard the assets of the Bank and the Group, detect frauds and other irregularities and has also instituted an effective and comprehensive system of internal controls and an effective system of monitoring its effectiveness which includes internal audit. The Directors ensure that the Financial Statements are reviewed by them directly at their regular meetings and also through the Board Audit Committee. The Directors' Statement on Internal Control Over Financial Reporting is given on page 246 of this Annual Report and Auditor General's Assurance Report on the Bank's Internal Control is given on page 248.

Audit Report

The Auditor General has been made available with all records of the Bank including the Financial Statements by the Board of Directors and provided every opportunity to undertake the inspections they considered appropriate all of which the Auditor General's Department has examined and have expressed the Auditor General's opinion which appears as reported by him on page 250 of this Annual Report.

Compliance Report

The Directors confirm that to the best of their knowledge and belief that all taxes payable by the Bank and the Group and all contributions and taxes payable on behalf of and in respect of employees of the Bank and the Group, and all other known statutory dues to the Government and the other relevant regulatory and statutory authorities which were due and payable by the Bank and the Group as at the date of Statement of Financial Position have been paid or where relevant provided for. Further, the Directors have confirmed that after considering the financial position, operating conditions and regulatory and other factors required to be addressed in the "Corporate Governance Code" issued jointly by CA Sri Lanka and the SEC, the Bank and the Group have adequate resources to continue in operation for the foreseeable future and to justify the application of the going concern basis in preparing these Financial Statements and the Board has taken all necessary measures to comply with the directives issued by the Central Bank of Sri Lanka.

By Order of the Board,

Dhanushka Wijekoon
Secretary to the Board (Actg.)

27 April 2023
Colombo

Directors' Statement on internal control over Financial Reporting

Responsibility

This report has been issued in line with the Banking Act Direction No. 12 of 2007, Section 3 (8) (ii) (b), and prepared based on principles D.1.5 of Code of Best Practice on Corporate Governance 2017 issued by CA Sri Lanka (Code) the Board of Directors presents this report on internal control.

The Board of Directors (The Board) is responsible for ensuring that an adequate and effective system of internal control is established and maintained at the National Savings Bank. However, such a system is designed to manage the Bank's significant risk areas within acceptable risk parameters, rather than eliminating the risk of failure to achieve business objectives of the Bank. Accordingly, the system of internal controls can only provide reasonable but not absolute assurance against material misstatement of management and financial information and records or against financial losses or frauds.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Bank and this process includes enhancing the system of internal controls as and when there are changes to business environment or regulatory requirements and other guidelines. The process is regularly reviewed by the Board and confirmed the compliance with the Guidance for Directors of the Bank on the Directors' Statement on Internal Controls issued by The Institute of Chartered Accountants of Sri Lanka. The Board has assessed the internal control system taking into account all main principles for the assessment of internal Control System as given in that guidance.

The Board is of the view that the system of internal controls over financial reporting is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and the preparation of Financial Statements for external purposes and is in accordance with the relevant accounting principles and regulatory requirements.

The Management assists the Board in the implementation of the Board's policies and procedures on risks and controls 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.

Key features of the process adopted in applying and reviewing the design and effectiveness of the internal control system on financial reporting

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

- The Board Sub-Committees have been established with defined scopes and functions to assist the Board in ensuring the effectiveness of the Bank's operations and that the Bank's operations are in accordance with the corporate objectives, strategies, policies and business directions that have been approved.
- 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 are taken to rectify such deficiencies. The Auditor General carries out the external audit of the Bank. The Superintendent of the Government Audit is generally invited to BAC meetings.
- The BAC reviews the internal audit function with particular emphasis on the scope of audits and quality of the same. The activities attended to by the BAC during the year 2022 are set out in the Board Audit Committee report appearing on page 199 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 Board has also established an independent Compliance Unit which ensures that Bank's activities are conducted in accordance with applicable laws, regulations and regulatory directives and any issues of non-compliance are reported to BIRMC periodically. The report on the Risk Assessment is submitted by the BIRMC to the Board periodically.

- Management level committees have also been functioning with appropriate empowerment to ensure effective management and supervision of Bank's core areas in the day-to-day business operations. The assessment covered only the process applied by the Bank and did not include the processes carried out by its Subsidiaries.

The Bank adopted the new Sri Lanka Accounting Standards Comprising LKAS and SLFRS in 2012. Since adoption of such Sri Lanka Accounting Standards, continue monitoring and progressive enhancement on processes to comply with new requirements of recognition, measurement, classification and disclosure are being made.

The comments made by the external auditors in connection with internal control system over financial reporting in previous years were reviewed during the year and appropriate steps have been taken to rectify them. The recommendations made by the external auditors in 2022 in connection with the internal control system over financial reporting will be addressed in the future.

Confirmation

Based on the above processes, the Board of Directors confirms that the financial reporting system of the Bank has been designed to provide reasonable assurance regarding their liability 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.

By Order of the Board,

S R W M R P Sathkumara
Chairman (Actg.)

Dushyanta Basnayake
Director

Jude Nilukshan
Director

27 April 2023
Colombo

Independent Assurance Report on internal control

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தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

මගේ අංකය / எனது இல. / My No. } BAN/A/NSB/IC/2022/01
ඔබේ අංකය / உமது இல. / Your No. }
දිනය / திகதி / Date } 15 May 2023

The Chairman
National Savings Bank

Independence Assurance Report of the Auditor General to the Board of Directors on the Directors' Statement on Internal Control of National Savings Bank

Introduction

This report is to provide assurance on the Directors' Statement on Internal Control over financial reporting ("Statement") of National Savings Bank included in the annual report for the year ended 31 December 2022.

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. 12 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

My Responsibility and Compliance with SLSAE 3050 (Revised)

My responsibility is 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 design and effectiveness of the Internal Control of the National Savings Bank.

I conducted my engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3050 (Revised) – Assurance Report for Banks on Directors' Statement on Internal Control, issued by The Institute of Chartered Accountants of Sri Lanka. This standard required that I plan and perform procedures to obtain limited assurance about whether management has prepared, in all material aspects, the Statement on Internal Control.

For the purpose of this engagement, I am not responsible for updating or reissuing any reports, nor have I, in the course of this engagement, performed an audit or review of the financial information.

Summary of Work Performed

I conducted my engagement to assess whether the Statement is supported by the documentation prepared by or for Directors; and appropriately reflected the process the Directors have adopted in reviewing the system of Internal Control over financial reporting of the Bank.

The procedures performed were limited primarily to inquiries of Bank personnel and the existence of documentation on a sample basis that supported the process adopted by the Board of Directors.

SLSAE 3050 (Revised) 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 (Revised) 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.

The Procedures selected depend on my judgment, having regard to my understanding of the nature of the Bank, the event or transaction in respect of which the Statement has been prepared.

I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

My Conclusion

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

W P C Wickramaratne
Auditor General

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව
இல. 306/72, பொல்தூவ வீதி, பத்தரமுல்லை, இலங்கை.
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General Manager/CEO's and, Deputy General Manager's (Finance, Corporate Planning & MIS) statement of responsibility

The Financial Statements of the National Savings Bank (the Bank) and the Consolidated Financial Statements of the Bank and its Subsidiaries (the Group) as at 31 December 2022 are prepared and presented in compliance with following:

- National Savings Bank Act No. 30 of 1971 and amendments thereto.
- Finance Act No. 38 of 1971.
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995.
- Banking Act No. 30 of 1988 and amendments thereto and Directions, Determinations and Guidelines issued by the Central Bank of Sri Lanka (CBSL) there under relating to Financial Statements formats and disclosure of information.
- Sri Lanka Financial Reporting Standards/ Sri Lanka Accounting Standards (SLFRSs/ LKASs) issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).
- Code of Best Practices on Corporate Governance 2017 issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).
- The Banking Act Direction No. 12 of 2007 on Corporate Governance issued by the CBSL.

The formats used in the preparation of the Financial Statements and disclosures made, comply with the specified formats prescribed by the CBSL which are also in compliance with the disclosure requirements of the Sri Lanka Accounting Standard 1 (LKAS 1) – "Presentation of Financial Statements" The Bank and the Group presents the financial results to its users on a quarterly basis.

The Accounting Policies used in the preparation of the Financial Statements are appropriate and are consistently applied by the Bank and the Group. The Significant Accounting Policies and estimates that involved a high degree of judgment and complexity were discussed with the Bank's External Auditors and the Board Audit Committee.

There were no changes to the Accounting Policies and methods of computation since the publication of the Annual Report for the year ended 31 December 2022. Accordingly, there was no necessity to amend comparative information to comply with the current presentation.

We confirm that to the best of our knowledge, the Financial Statements, Significant Accounting Policies and other financial information included in this Annual Report, fairly present in all material aspects of the assets, liabilities, results of the operations and the cash flows of the Bank and the Group during the year under review and given a true and fair view of the Financial Statements. We also confirm that the Bank and the Group has adequate resources to continue in operation and have applied the going concern basis in preparing these Financial Statements.

Responsibility of internal control and procedures

We are responsible for establishing, implementing and maintaining Internal Controls and Procedures of the Bank and its Subsidiaries. We ensure that effective Internal Controls and Procedures are in place ensuring material information relating to the Bank and 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 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 any fraud that involved management or other employees. The Bank's Internal Auditors also conduct periodic reviews to ensure that the established Internal Controls over Financial Reporting and Procedures are consistently followed. However, there are inherent limitations that should be recognised in weighing the assurance provided by any system of internal control and accounting.

Directors' Statement on Internal Control over Financial Reporting is provided on page 246 of this Annual Report. The Auditor General has audited the effectiveness of the Internal Controls over financial reporting adapted by the Bank and has given an unqualified opinion which is provided on page 248 of this Annual Report.

External Audit

The Financial Statements of the Bank and its Subsidiaries were audited by the Auditor General. The Auditor General's Report on the Bank's Consolidated Financial Statements is given on page 250 of this Annual Report. The Board Audit Committee, inter alia, reviewed all Internal Audit and Inspection Programmes, the efficiency of Internal Control Systems and Procedures and also reviewed the Significant Accounting Policies and their adherence to statutory and regulatory requirements, the details of which are given in the Board Audit Committee report on pages 199 to 201 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.

Confirmation

We confirm that to the best of our knowledge –

- The Bank and the Group have complied with all applicable laws and regulations and prudential requirements
- There are no material non-compliances and no material litigations that are pending against the Bank and the Group other than those disclosed in Note 51 on page 364 of the Financial Statements.
- All taxes, duties, levies and all statutory payments payable by the Bank and the Group and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Bank and the Group as at 31 December 2022 have been paid, or where relevant, provided for.

M P A W Peiris
General Manager/CEO

T H S Athapattu
Deputy General Manager
(Finance, Corporate Planning & MIS)

4 May 2023

Colombo

Auditor General's Report

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தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

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Chairman

National Savings Bank

Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the National Savings Bank and its Subsidiaries for the year ended 31 December 2022 in terms of Section 12 of the National Audit Act, No. 19 of 2018.

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the National Savings Bank (the "Bank") and the consolidated financial statements of the Bank and its Subsidiaries (the "Group") for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

In my opinion, the accompanying financial statements of the Bank and the Group give a true and fair view of the financial position of the Bank and the Group as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Other information included in the Bank's 2022 Annual Report

The other information comprises the information included in the Bank's 2022 Annual Report but does not include the financial statements and my auditor's report thereon, which is expected to be made available to me after the date of this auditor's report. Management is responsible for the other information.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated.

When I read the Bank's 2022 Annual Report, if I conclude that there are material misstatements therein, I am required to communicate that matter to those charged with governance for correction. If further material uncorrected misstatements are existed those will be included in my report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution that will be tabled in due course.

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව | இல. 306/72, பொல்துவ வீதி, பத்தரமுல்லை, இலங்கை. | No. 306/72, Polduwa Road, Battaramulla, Sri Lanka.
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1.4 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's and the Group's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Bank and the Group are required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Group.

1.5 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 and Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

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I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. Report on Other Legal and Regulatory Requirements

2.1 National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

2.1.1 I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Bank as per the requirement of section 12 (a) of the National Audit Act, No. 19 of 2018.

2.1.2 The financial statements presented is consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.

2.1.3 The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

2.2 Based on the procedures performed and evidences obtained were limited to matters that are material, nothing has come to my attention;

2.2.1 to state that any member of the governing body of the Bank has any direct or indirect interest in any contract entered into by the Bank which are out of the normal cause of business as per the requirement of section 12 (d) of the National Audit Act, No. 19 of 2018

2.2.2 to state that the Bank has not complied with any applicable written law, general and special directions issued by the governing body of the Bank as per the requirement of section 12 (f) of the National Audit Act, No. 19 of 2018

2.2.3 to state that the Bank has not performed according to its powers, functions and duties as per the requirement of section 12 (g) of the National Audit Act, No. 19 of 2018

2.2.4 to state that the resources of the Bank had not been procured and utilised economically, efficiently and effectively within the time frames and in compliance with the applicable laws as per the requirement of section 12 (h) of the National Audit Act, No. 19 of 2018

W P C Wickramaratne
Auditor General

Content of Financial Statements

Income Statement

For the year ended 31 December	Note	Page	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Bank Change %	Group 2022 Rs. '000	Group 2021 Rs. '000	Group Change %
Gross income	3	281	**174,557,152**	134,939,422	29	**175,003,990**	136,059,789	29
Interest income			**172,940,351**	131,438,283	32	**175,769,899**	133,342,449	32
Less: Interest expenses			**140,477,402**	76,808,674	83	**142,166,248**	77,560,111	83
Net interest income	4	281	**32,462,949**	54,629,609	(41)	**33,603,651**	55,782,338	(40)
Fee and commission income			**2,199,781**	3,050,649	(28)	**2,207,079**	3,058,444	(28)
Less: Fee and commission expenses			**259,570**	207,676	25	**262,004**	210,604	24
Net fee and commission income	5	284	**1,940,211**	2,842,973	(32)	**1,945,075**	2,847,840	(32)
Net gain/(loss) from trading	6	285	**(971,434)**	(96,226)	910	**(3,489,830)**	(711,612)	390
Net fair value gains/(losses) from financial instruments at fair value through profit or loss	7	285	**–**	–	–	**–**	–	–
Net gains/(losses) from derecognition of financial assets	8	286	**(26,203)**	28,269	(193)	**(26,203)**	28,269	(193)
Net other operating income	9	286	**414,656**	518,447	(20)	**543,045**	342,239	59
Total operating income			**33,820,181**	57,923,072	(42)	**32,575,739**	58,289,074	(44)
Less: Impairment charges	10	287	**4,862,198**	4,304,444	13	**4,935,391**	4,228,450	17
Net operating income			**28,957,983**	53,618,628	(46)	**27,640,348**	54,060,624	(49)
Less: Expenses								
Personnel expenses	11	288	**13,790,521**	12,970,355	6	**14,117,672**	13,229,242	7
Depreciation and amortisation expenses			**1,414,697**	1,385,835	2	**1,431,867**	1,401,623	2
Other expenses	12	290	**5,990,018**	4,718,673	27	**6,352,583**	4,771,613	33
Operating profit before VAT & SSCL on financial services			**7,762,747**	34,543,765	(78)	**5,738,226**	34,658,146	(83)
Less: Value Added Tax (VAT) on financial services			**3,185,879**	6,162,351	(48)	**3,326,549**	6,233,194	(47)
Less: Social Security Contribution Levy (SSCL) on financial services			**67,259**	–	100	**72,067**	–	100
Operating profit after VAT & SSCL on financial services			**4,509,609**	28,381,414	(84)	**2,339,610**	28,424,952	(92)
Share of profits of associates and joint ventures			**–**	–	–	**–**	–	–
Profit before income tax			**4,509,609**	28,381,414	(84)	**2,339,610**	28,424,952	(92)
Less: Income tax expenses	13	291	**1,979,942**	6,261,790	(68)	**1,390,619**	6,294,134	(78)
Profit for the year			**2,529,667**	22,119,624	(89)	**948,991**	22,130,818	(96)
Profit attributable to:								
Equity holders of the Bank			**2,529,667**	22,119,624	(89)	**948,991**	22,130,818	(96)
Non-controlling interests			**–**	–	–	**–**	–	–
Profit for the year			**2,529,667**	22,119,624	(89)	**948,991**	22,130,818	(96)
Earnings per share on profit								
Basic earnings per ordinary share (Rs.)	14	293	**2.69**	23.53	(89)	**1.01**	23.54	(96)
Diluted earnings per ordinary share (Rs.)			**2.69**	23.53	(89)	**1.01**	23.54	(96)
Profit for the year			**2,529,667**	22,119,624	(89)	**948,991**	22,130,818	(96)

The Notes to the Financial Statements disclosed on pages 264 to 408 are integral parts of these Financial Statements.

Statement of Comprehensive Income

For the year ended 31 December	Bank			Group		
	2022 Rs. '000	2021 Rs. '000	Change %	2022 Rs. '000	2021 Rs. '000	Change %
Profit for the year	2,529,667	22,119,624	(89)	948,991	22,130,818	(96)
Items that will be reclassified to income statement						
Exchange differences on translation of foreign operations	–	–	–	–	–	–
Net gains/(losses) on cash flow hedges	–	–	–	–	–	–
Net gains/(losses) on investments in debt instruments measured at fair value through other comprehensive income	–	–	–	–	–	–
Share of profits of associates and joint ventures	–	–	–	–	–	–
Debt instruments at fair value through other comprehensive income	(658,872)	(432,450)	52	(596,547)	(578,542)	3
Fair value gains/(losses) transferred to income statement on disposal of debt instrument at fair value through other comprehensive income	7,913	(28,269)	(128)	7,913	(28,269)	(128)
Deferred tax effect on above	220,995	111,863	98	220,995	111,863	98
Total items that will be reclassified to income statement	(429,964)	(348,856)	23	(367,638)	(494,948)	(26)
Items that will not be reclassified to income statement						
Change in fair value on investments in equity instruments designated at fair value through other comprehensive income	(581,536)	125,410	(564)	(643,881)	152,594	(522)
Change in fair value attributable to change in the Bank's own credit risk on financial liabilities designated at fair value through profit or loss	–	–	–	–	–	–
Re-measurement of post-employment benefit obligations	(880,529)	3,335,147	(126)	(882,050)	3,327,395	(127)
Deferred tax effect on above	1,225,071	(1,299,365)	(194)	1,225,071	(1,299,365)	(194)
Re-measurement of post employment benefit obligations (net of taxes)	344,542	2,035,782	(83)	343,021	2,028,030	(83)
Changes in revaluation surplus	–	–	–	–	–	–
Deferred tax effect on above	(555,724)	371,032	(250)	(555,724)	371,032	(250)
Changes in revaluation surplus (net of taxes)	(555,724)	371,032	(250)	(555,724)	371,032	(250)
Share of profits of associates and joint ventures	–	–	–	–	–	–
Total items that will not be reclassified to income statement	(792,718)	2,532,224	(131)	(856,584)	2,551,656	(134)
Other comprehensive income for the year, net of taxes	(1,222,682)	2,183,367	(156)	(1,224,223)	2,056,709	(160)
Total comprehensive income for the year	1,306,985	24,302,991	(95)	(275,232)	24,187,527	(101)
Attributable to:						
Equity holders of the Bank	1,306,985	24,302,991	(95)	(275,232)	24,187,527	(101)
Non-controlling interests	–	–	–	–	–	–
Total comprehensive income for the year	1,306,985	24,302,991	(95)	(275,232)	24,187,527	(101)

The Notes to the Financial Statements disclosed on pages 264 to 408 are integral parts of these Financial Statements.

Statement of Financial Position

As at 31 December	Note	Page	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Bank Change %	Group 2022 Rs. '000	Group 2021 Rs. '000	Group Change %
Assets								
Cash and cash equivalents	16	297	**8,734,069**	7,656,038	14	**8,782,807**	7,721,532	14
Balances with central banks	17	297	**236,480**	–	100	**236,696**	7	100
Placements with banks	18	298	**10,466,409**	7,120,698	47	**11,034,246**	9,323,663	18
Derivative financial instruments	19	298	**28,172**	–	100	**35,392**	–	100
Financial assets recognised through profit or loss	20	299						
– measured at fair value			**14,173,948**	19,572,933	(28)	**23,236,848**	40,392,152	(42)
– designated at fair value			**–**	–	–	**–**	–	–
Financial assets at amortised cost								
– loans and advances	21	303	**553,027,321**	538,941,789	3	**553,052,170**	538,600,866	3
– debt and other instruments	22	310	**919,129,377**	935,350,052	(2)	**927,916,442**	940,536,328	(1)
Financial assets measured at fair value through other comprehensive income	23	313	**27,662,763**	13,817,594	100	**28,252,211**	15,993,803	76.6
Investments in subsidiaries	24	317	**7,311,000**	4,811,000	52	**–**	–	–
Investments in associates and joint ventures	25	318	**–**	–	–	**–**	–	–
Property, plant and equipment	26	318	**14,755,775**	15,045,618	(2)	**15,645,732**	15,949,505	(2)
Right-of-used assets	27	324	**1,213,649**	1,205,916	1	**1,246,383**	1,244,138	0
Investment properties	28	325	**–**	–	–	**204,977**	210,577	(3)
Goodwill and intangible assets	29	327	**747,248**	816,058	(8)	**752,221**	821,420	(8)
Deferred tax assets	30	329	**2,892,984**	1,104,779	162	**3,663,879**	1,105,653	231
Other assets	31	332	**56,306,931**	33,655,272	67	**56,576,713**	33,905,753	67
Total assets			**1,616,686,128**	1,579,097,748	2	**1,630,636,718**	1,605,805,398	2
Liabilities								
Due to banks	32	333	**4,086,731**	7,686,553	(47)	**12,711,256**	10,470,191	21
Derivative financial instruments	33	334	**–**	–	–	**–**	–	–
Financial liabilities recognised through profit or loss	34	334	**–**	–	–	**–**	–	–
Financial liabilities at amortised cost	35	334						
– due to depositors			**1,476,739,818**	1,428,467,385	3	**1,475,808,557**	1,426,724,704	3
– due to debt securities holders			**–**	–	–	**–**	–	–
– due to other borrowers			**16,766,044**	7,719,532	117	**18,889,245**	27,087,920	(30)
Lease liability	36	335	**1,377,229**	1,292,139	7	**1,414,959**	1,333,623	6
Debt securities issued	37	336	**23,778,255**	37,529,017	(37)	**23,851,810**	37,618,575	(37)
Retirement benefit obligations	38	340	**12,488,912**	8,590,642	45	**12,547,851**	8,637,425	45
Current tax liabilities	39	351	**2,760,857**	4,596,190	(40)	**2,943,314**	4,914,918	(40)
Deferred tax liabilities	30	329	**–**	–	–	**4,155**	1,939	114
Other provisions	40	351	**–**	–	–	**–**	–	–
Other liabilities	41	351	**5,796,053**	7,200,032	(19)	**6,075,889**	7,566,892	(20)
Due to subsidiaries	42	351	**–**	3,500	(100)	**–**	–	–
Total liabilities			**1,543,793,899**	1,503,084,991	3	**1,554,247,037**	1,524,356,185	2

As at 31 December	Note	Page	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Bank Change %	Group 2022 Rs. '000	Group 2021 Rs. '000	Group Change %
Equity								
Stated capital/assigned capital	43	352	**9,400,000**	9,400,000	–	**9,400,000**	9,400,000	–
Statutory reserve fund	44	352	**5,224,842**	5,174,249	1	**5,281,952**	5,209,101	1
Retained earnings	45	352	**11,359,151**	13,727,801	(17)	**13,589,101**	17,918,992	(24)
Other reserves	46	353	**46,908,235**	47,710,707	(2)	**48,118,628**	48,921,120	(2)
Total shareholders' equity			**72,892,229**	76,012,757	(4)	**76,389,681**	81,449,213	(6)
Non-controlling interests	47	355	**–**	–	–	**–**	–	–
Total equity			**72,892,229**	76,012,757	(4)	**76,389,681**	81,449,213	(6)
Total equity and liabilities			**1,616,686,128**	1,579,097,748	2	**1,630,636,718**	1,605,805,398	2
Contingent liabilities and commitments	48	355	**14,416,802**	13,023,207	11	**14,617,867**	13,027,749	12
Memorandum information								
Number of employees			**4,528**			**4,616**		
Number of branches			**262**			**261**		

Note: Amounts stated are net of impairment and depreciation.

The Notes to the Financial Statements disclosed on pages 264 to 408 are integral parts of these Financial Statements.

Certification

I certify that the above Financial Statements give a true and fair view of the state of affairs of National Savings Bank and the Group as at 31 December 2022 and its profit for the year ended.

T H S Athapattu
Deputy General Manager
(Finance, Corporate Planning and MIS)

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,

S R W M R P Sathkumara
Chairman (Actg.)

Dushyanta Basnayake
Director

M P A W Peiris
General Manager/CEO

27 April 2023

Colombo
Sri Lanka

Statement of Changes in Equity

Bank

	Stated capital/ assigned capital Rs. '000	Statutory reserve fund Rs. '000	Revaluation reserve Rs. '000
Balance as at 1 January 2021	9,400,000	4,068,268	6,678,568
Profit for the year 2021	–	–	–
Other comprehensive income (net of tax)	–	–	371,032
Total comprehensive income for the year	–	–	371,032
Transactions with equity holders, recognised directly in equity			
Transfers to/from reserves during the year	–	1,105,981	–
Contribution to consolidated fund – dividend/levy	–	–	–
Contribution to national insurance trust fund	–	–	–
Transfers to unclaimed deposits reserve	–	–	–
Total transactions with equity holders	–	1,105,981	–
Balance as at 31 December 2021	9,400,000	5,174,249	7,049,600
Prior year adjustment*	–	–	–
Restated opening balance as at 1 January 2022	9,400,000	5,174,249	7,049,600
Profit for the year 2022	–	–	–
Other comprehensive income (net of tax)	–	–	(555,724)
Total comprehensive income for the year	–	–	(555,724)
Transactions with equity holders, recognised directly in equity			
Transfers to/from reserves during the year	–	50,593	–
Contribution to consolidated fund – dividend/levy	–	–	–
Contribution to national insurance trust fund	–	–	–
Transfers to unclaimed deposits reserve	–	–	–
Total transactions with equity holders	–	50,593	–
Balance as at 31 December 2022	9,400,000	5,224,842	6,493,876

*Please refer Note 53 for comparative figures.

The Notes to the Financial Statements disclosed on pages 264 to 408 are integral parts of these Financial Statements.

OCI reserve Rs. '000	Cash flow hedging reserve Rs. '000	Other reserves Rs. '000	Retained earnings Rs. '000	Total equity Rs. '000
(434,929)	–	20,302,421	14,399,572	54,413,901
–	–	–	22,119,624	22,119,624
(223,447)	–	–	2,035,782	2,183,367
(223,447)	–	–	24,155,406	24,302,991
–	–	20,000,000	(21,105,981)	–
–	–	–	(3,500,000)	(3,500,000)
–	–	–	(221,196)	(221,196)
–	–	1,017,061	–	1,017,061
–	–	21,017,061	(24,827,177)	(2,704,135)
(658,376)	–	41,319,482	13,727,801	76,012,757
–	–	–	(5,166,968)	(5,166,968)
(658,376)	–	41,319,482	8,560,833	70,845,789
–	–	–	2,529,667	2,529,667
(1,011,500)	–	–	344,542	(1,222,682)
(1,011,500)	–	–	2,874,209	1,306,985
–	–	–	(50,593)	–
–	–	–	–	–
–	–	–	(25,297)	(25,297)
–	–	764,753	–	764,753
–	–	764,753	(75,890)	739,456
(1,669,876)	–	42,084,235	11,359,152	72,892,229

Group

	Stated capital/ assigned capital Rs. '000	Statutory reserve fund Rs. '000	Revaluation reserve Rs. '000
Balance as at 1 January 2021	9,400,000	4,090,363	7,117,674
Profit for the year 2021	–	–	–
Other comprehensive income (net of tax)	–	–	371,032
Total comprehensive income for the year	–	–	371,032
Transactions with equity holders, recognised directly in equity			
Transfers to/from reserves during the year	–	1,118,738	–
Contribution to consolidated fund – dividend/levy	–	–	–
Contribution to national insurance trust fund	–	–	–
Transfers to unclaimed deposits reserve	–	–	–
Total transactions with equity holders	–	1,118,738	–
Balance as at 31 December 2021	9,400,000	5,209,101	7,488,706
Prior year adjustment*	–	–	–
Restated opening balance as at 1 January 2022	9,400,000	5,209,101	7,488,706
Profit for the year 2022	–	–	–
Other comprehensive income (net of tax)	–	–	(555,724)
Total comprehensive income for the year	–	–	(555,724)
Transactions with equity holders, recognised directly in equity			
Transfers to/from reserves during the year	–	72,851	–
Contribution to consolidated fund – dividend/levy	–	–	–
Contribution to national insurance trust fund	–	–	–
Transfers to unclaimed deposits reserve	–	–	–
Total transactions with equity holders	–	72,851	–
Balance as at 31 December 2022	9,400,000	5,281,952	6,932,981

*Please refer Note 53 for comparative figures.

The Notes to the Financial Statements disclosed on pages 264 to 408 are integral parts of these Financial Statements.

OCI reserve Rs. '000	Cash flow hedging reserve Rs. '000	Other reserves Rs. '000	Retained earnings Rs. '000	Total equity Rs. '000
(411,786)	–	21,167,980	18,601,588	59,965,822
–	–	–	22,130,818	22,130,818
(342,354)	–	–	2,028,031	2,056,709
(342,354)	–	–	24,158,849	24,187,527
–	–	20,001,512	(21,120,251)	–
–	–	–	(3,500,000)	(3,500,000)
–	–	–	(221,196)	(221,196)
–	–	1,017,061	–	1,017,061
–	–	21,018,574	(24,841,447)	(2,704,135)
(754,140)	–	42,186,553	17,918,992	81,449,213
–	–	–	(5,523,755)	(5,523,755)
(754,140)	–	42,186,553	12,395,237	75,925,458
–	–	–	948,991	948,991
(1,011,519)	–	–	343,021	(1,224,223)
(1,011,519)	–	–	1,292,012	(275,232)
–	–	–	(72,851)	–
–	–	–	–	–
–	–	–	(25,297)	(25,297)
–	–	764,753	–	764,753
–	–	764,753	(98,148)	739,456
(1,765,659)	–	42,951,306	13,589,101	76,389,681

Statement of Cash Flow

For the year ended 31 December	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
Cash flows from operating activities				
Interest receipts	**157,730,789**	132,863,575	**160,184,287**	134,736,715
Interest payments	**(106,467,959)**	(75,265,118)	**(107,964,314)**	(75,971,651)
Net commission receipts	**1,940,211**	2,842,973	**1,945,075**	2,847,840
Trading income	**604,677**	614,665	**(1,451,632)**	662,488
Payment to employees	**(15,326,878)**	(11,591,122)	**(15,627,914)**	(11,852,427)
VAT and SSCL on financial services	**(2,921,186)**	(6,355,337)	**(3,052,866)**	(6,590,152)
Receipts from other operating activities	**315,602**	237,873	**435,836**	308,147
Payment on other operating activities	**(5,955,251)**	(4,510,411)	**(6,318,723)**	(4,564,223)
Operating profit before change in operating assets and liabilities	**29,920,005**	38,837,098	**28,149,749**	39,576,736
(Increase)/decrease in operating assets				
Placements with banks	**(3,323,523)**	6,054,307	**(1,515,758)**	7,860,026
Derivative financial instrument	**(15,773)**	29,801	**(15,773)**	29,801
Financial assets at FVPL	**4,057,889**	(8,989,495)	**15,380,741**	(18,026,283)
Financial assets at amortised cost – loans and advances	**(12,868,207)**	(89,025,979)	**(13,296,497)**	(87,586,523)
Financial assets at amortised cost – debt and other instrument	**23,489,440**	(120,196,025)	**20,080,005**	(120,882,521)
Proceeds from the sale and maturity of financial investments	**–**	–	**–**	–
Other assets	**(23,508,621)**	(11,217,126)	**(23,524,364)**	(11,308,450)
	(12,168,797)	(223,344,516)	**(2,891,648)**	(229,913,950)
Increase/(decrease) in operating liabilities				
Due to bank	**(3,526,250)**	(5,107,293)	**2,309,185**	(2,793,759)
Derivative financial instrument	**–**	–	**–**	–
Financial liabilities at amortised cost – due to depositors	**16,036,697**	192,554,680	**16,626,285**	190,266,099
Financial liabilities at amortised cost – due to debt securities holders	**–**	–	**–**	–
Financial liabilities at amortised cost – due to other borrowers	**8,615,033**	(460,533)	**(8,594,251)**	7,358,686
Debt securities issued	**(13,677,000)**	11,541,000	**(13,692,321)**	11,541,000
Other liabilities	**4,355,971**	636,233	**4,240,331**	618,840
	11,804,452	199,164,087	**889,229**	206,990,866
Net cash generated from operating activities before income tax	**29,555,660**	14,656,669	**26,147,331**	16,653,652
Income tax paid	**(9,880,107)**	(2,752,838)	**(10,551,646)**	(3,043,406)
Net cash (used in)/from operating activities	**19,675,553**	11,903,831	**15,595,685**	13,610,246

For the year ended 31 December	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
Cash flows from investing activities				
Purchase of property, plant and equipment	**(558,740)**	(461,960)	**(562,353)**	(490,543)
Proceeds from the sale of property, plant and equipment	**3,045**	4,219	**14,432**	7,736
Net (increase)/decrease in finance instruments at fair value through other comprehensive income	**(14,402,860)**	909,103	**(12,850,581)**	(544,756)
Proceeds from the sale and maturity of financial investments	**–**	–	**–**	–
Net purchase of intangible assets	**(370,093)**	(459,757)	**(372,543)**	(460,828)
Net purchase/improvement to investment properties	**–**	–	**7,510**	26,500
Net cash flow from acquisition of investment in subsidiaries and associates	**(2,500,000)**	–	**–**	–
Dividends received from investment in subsidiaries and associates	**–**	250,000	**–**	–
Net cash (used in)/from investing activities	**(17,828,648)**	241,604	**(13,763,534)**	(1,461,890)
Cash flows from financing activities				
Net proceeds from the issue of ordinary share capital	**–**	–	**–**	–
Net proceeds from the issue of subordinated debt	**–**	–	**–**	–
Repayment of subordinated debt	**–**	(6,000,000)	**–**	(6,032,140)
Interest paid on subordinated debt	**(541,660)**	(1,229,984)	**(542,342)**	(1,242,812)
Contribution to consolidated fund – dividend/levy	**–**	(3,500,000)	**–**	(3,500,000)
Net cash from financial activities	**(541,660)**	(10,729,984)	**(542,342)**	(10,774,951)
Net increase/(decrease) in cash and cash equivalents	**1,305,245**	1,415,451	**1,289,808**	1,373,405
Cash and cash equivalents at the beginning of the year	**7,589,511**	6,174,060	**7,653,712**	6,280,307
Exchange difference in respect of cash and cash equivalent	**–**	–	**–**	–
Cash and cash equivalents at the end of the year	**8,894,757**	7,589,511	**8,943,521**	7,653,712
Reconciliation of cash and cash equivalents				
Cash in hand	**3,207,729**	3,687,059	**3,212,553**	3,691,618
Balances with banks	**5,524,723**	3,968,959	**5,568,637**	4,029,894
Money at call and short notice	**2,756**	245	**2,756**	245
Balances with Central Bank	**236,480**	–	**236,696**	7
Due to banks	**(76,931)**	(66,752)	**(77,121)**	(68,052)
	8,894,757	7,589,511	**8,943,521**	7,653,712

The Notes to the Financial Statements disclosed on pages 264 to 408 are integral parts of these Financial Statements.

Notes to the Financial Statements

1 Reporting Entity

1.1 Corporate Information

National Savings Bank (NSB) is a licensed specialised Bank incorporated in 1972 under the National Savings Bank Act No. 30 of 1971 and domiciled in Sri Lanka. It is a licensed specialised bank regulated under the Banking Act No. 30 of 1988 and amendments thereto. The registered office of the Bank is located at No. 255, "Savings House", Galle Road, Colombo 03, Sri Lanka.

The staff strength of the Bank as at 31 December 2022 was 4,528 (2021 – 4,616).

The Bank possesses 262 Branches, 293 ATMs, and 97 CRMs of its Service Outlets and 654 Post Offices and 3,410 Sub-Post Offices as its agency network.

1.2 Consolidated Financial Statements

The Consolidated Financial Statements for the year ended 31 December 2022 comprise the Bank (Parent) and its two fully owned Subsidiaries, NSB Fund Management Company Ltd., and Sri Lanka Savings Bank Limited.

The Bank is fully owned by the Government of Sri Lanka. The Bank is the ultimate parent of the Group. The Financial Statements of the Bank and its Subsidiaries have a common financial year which ends on 31 December. The Financial Statements of the "Bank" and the "Group" are prepared for the twelve months period ended 31 December each year to be tabled in Parliament.

1.3 Principal Activities and Nature of Operations

Bank

The principal activities of the Bank continued to be the promotion of savings among the people of Sri Lanka and profitable investment of savings so mobilised. NSB is providing wide range of solutions such as accepting deposits, corporate and retail credit, trade financing, loan to Government project, pawning, internet banking, SMS banking etc. As per the National Savings Bank Act No. 30 of 1971, the Bank is required to invest in Government Securities a minimum of 60% out of its deposits.

Subsidiaries

NSB Fund Management Company Ltd.

NSB Fund Management Company Ltd., acts as a primary dealer and engaged in dealing in Government Securities.

Sri Lanka Savings Bank Limited

The principal activities of the Bank are mobilising savings and time deposits, providing loans, lease, hire purchase, pawning and other credit facilities, and settling of the deposit liabilities of defaulted Pramuka Saving and Development Bank Limited (PSDBL) with reconstruction of loan accounts of PSDBL.

2 Accounting Policies

The accounting policies set out below have been applied consistently in all periods when presenting the Financial Statements, unless otherwise indicated. These policies of the Bank are also consistently applied by the Group where applicable and deviations if any have been disclosed accordingly.

2.1 Basis of Preparation

2.1.1 Statement of Compliance

The Consolidated Financial Statements of the Group and the separated Financial Statements of the Bank which comprise the Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and Notes to the Financial Statements have been prepared and presented in accordance with the Sri Lanka Accounting Standards (LKASs and SLFRSs) issued by the Institute of Chartered Accountants of Sri Lanka and are in compliance with the information required by the Banking Act No. 30 of 1988 and subsequent amendments thereto. These Financial Statements, except for the information in Cash Flow have been prepared following the accrual basis of accounting.

The formats used in the preparation of Financial Statements and the disclosures made therein also comply with the specified formats prescribed by the Central Bank of Sri Lanka in the Circular No. 02 of 2019 dated January 18, 2019, on "Publication of Annual and Quarterly Financial Statements and Other Disclosures by Licensed Banks" for the preparation, presentation and publication of Annual Audited Financial Statements of Licensed Banks.

2.1.2 Responsibility for Financial Statements

The Board of Directors is responsible for the preparation and presentation of the Financial Statements of the Group and the Bank as per the provisions of the National Savings Bank Act No. 30 of 1971 and amendments thereto and the Sri Lanka Accounting Standards.

The Board of Directors acknowledges their responsibility for Financial Statements as set out in the "Annual Report of the Board of Directors", "Statement of Directors' Responsibility" and the certification on the Statement of Financial Position.

These Financial Statements include the following components:

i. an Income Statement and Other Comprehensive Income providing the information on the financial performance of the Group and the Bank for the year under review. (pages 254 and 255)

ii. a Statement of Financial Position (SOFP) providing the information on the financial position of the Group and the Bank as at the year end. (pages 256 and 257)

iii. a Statement of Changes in Equity depicting all changes in shareholders' funds during the year under review of the Group and the Bank. (pages 258 and 261)

iv. a Statement of Cash Flows providing the information to the users, on the ability of the Group and the Bank to generate cash and cash equivalents and utilisation of those cash flows. (page 262)

v. Notes to the Financial Statements comprising Significant Accounting Policies and other explanatory information. (pages 281 to 408)

2.1.3 Approval of Financial Statements by the Board of Directors

The Financial Statements of the Bank and the Group for the year ended 31 December 2022 were approved on 27 April 2023, by the Board of Directors.

2.1.4 Basis of Measurement

The Consolidated Financial Statements have been prepared on a historical cost basis, except for the following material items in the Statement of Financial Position, which are measured at fair value.

(i) Financial assets measured at Fair Value through Other Comprehensive Income, (Note 23)

(ii) Derivative financial instruments, (Notes 19 and 33)

(iii) Financial assets and liabilities recognised through profit or loss, (Notes 20 and 34)

(iv) Financial assets and liabilities designated at fair value through profit or loss, (Note 20)

(v) Land and buildings which are measured at cost at the time of acquisition subsequently measured at revalued amounts, which are the fair values at the date of revaluation, (Note 26)

(vi) Investment properties are initially recognised at cost and subsequently measured at fair value, (Note 28)

(vii) Liability for employee defined benefits obligations are recognised at the present value of the defined benefit obligation less the fair value of the plan assets, (Note 38).

2.1.5 Functional and Presentation Currency

The Consolidated Financial Statements are presented in Sri Lankan Rupees (Rs.) which is the currency of the primary economic environment in which Group operates and all values are rounded to the nearest thousand Rupees, unless indicated otherwise. There was no change in the Group's presentation and functional currency during the year under review.

2.1.6 Presentation of Financial Statements

The assets and liabilities of the Bank and the Group presented in the Statement of Financial Position are grouped by their nature and listed in an order that reflects their relative liquidity and maturity pattern.

No adjustment has been made for inflationary factors affecting the Financial Statements. An analysis of maturity patterns of assets and liabilities of the Bank and the Group is presented in Note 55 on pages 398 to 401.

2.1.7 Going Concern

The Board of Directors/Management of the Bank has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the Management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the Financial Statements are prepared on the going concern basis.

2.1.8 Materiality and Aggregation

Each material class of similar items are presented separately in the Financial Statements. Items of dissimilar nature or functions are presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standard – LKAS 01 on "Presentation of Financial Statements".

2.1.9 Comparative Information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period in the Financial Statements in order to enhance the understanding of the current period's Financial Statements and to enhance the inter period comparability. The comparative information is re-classified where necessary for the better presentation and to conform to the current year's presentation. Comparative information is presented in Note 53 on page 365.

2.1.10 Rounding

The amounts in the Financial Statements have been rounded-off to the nearest rupees thousands, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard – LKAS 01 on "Presentation of Financial Statements" (LKAS 01).

2.1.11 Offsetting

Financial assets and financial liabilities are offset, and the net amount reported in the Statement of Financial Position (SOFP), only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously. Income and expenses are not offset in the Income Statement, unless required or permitted by an Accounting Standard or Interpretation (issued by the IFRS Interpretations Committee and Standard Interpretations Committee) and as specifically disclosed in the Significant Accounting Policies of the Bank.

2.1.12 Significant Accounting Judgements, Estimates and Assumptions

The preparation of Financial Statements of the Bank and the Group in conformity with Sri Lanka Accounting Standards requires the Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The significant areas of estimation, critical judgements, and assumptions in applying accounting policies that have most significant effect on the amounts recognised in the Financial Statements of the Bank and the Group are as follows:

A. Significant accounting judgement

Information about judgements made in applying Accounting Policies that have the most significant effects on the amounts recognised in these Financial Statements is included in Notes 2.1.12.1 below:

2.1.12.1 Classification of financial assets and liabilities

As per SLFRS 9, the Significant Accounting Policies of the Group provides scope for financial assets to be classified and measured into different categories, namely, at Amortised Cost, Fair Value through Other Comprehensive Income (FVOCI) and Fair Value Through Profit or Loss (FVPL) based on the following criteria:

- The entity's business model for managing the financial assets as set out in Note 2.5.1.4.1 on page 270.
- The contractual cash flow characteristics of the financial assets as set out in Note 2.5.1.4.2 on page 271.

B. Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments are included in Notes 2.1.12.2 to 2.1.12.9 below:

2.1.12.2 Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the Statement of Financial Position cannot be derived from active markets, they are determined using the valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgement is required to establish fair values.

Methodologies used for valuation of financial instruments and Fair Value Hierarchy are described in more detail in Note 56 to the Financial Statements on page 402.

2.1.12.3 Impairment losses on financial assets

The measurement of impairment losses both under SLFRS 9 and LKAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future Cash Flows and collateral values when determining impairment losses.

Accordingly, the Group reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be provided in the Income Statement. In particular, the Management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and hence actual results may differ, resulting in future changes to the impairment allowance made.

The individual impairment provision applies to financial assets evaluated individually for impairment and is based on Management's best estimate of the present value of the future cash flows that are expected to be received. In estimating these cash flows, Management makes judgements about a borrower's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable.

A collective impairment provision is established for:

- groups of homogeneous loans and advances that are not considered individually significant; and
- groups of assets that are individually significant but that were not found to be individually impaired.

As per SLFRS 9, the Group's Expected Credit Loss (ECL) calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's criteria for qualitatively assessing whether there has been a significant increase in credit risk and if so allowances for financial assets measured on a Life Time Expected Credit Loss (LTECL) basis;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various statistical formulas and the choice of inputs;
- Determination of associations between macro-economic inputs, such as GDP growth, inflation, interest rates, exchange rates and unemployment and the effect on Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD);
- Selection of forward-looking macro-economic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

2.1.12.4 Revaluation of property, plant and equipment

The freehold land and buildings of the Bank and the Group are reflected at revalued amounts. The Group engaged independent professional valuers to determine the fair value of freehold land and buildings in terms of Sri Lanka Accounting Standard (SLFRS 13) "Fair Value Measurement".

The methods and key assumptions used to determine the fair value of the freehold land and buildings are further explained in Note 2.3 to the Financial Statements.

2.1.12.5 Useful lifetime of property, plant and equipment

The Group reviews the residual values, useful lives and methods of depreciation of property, plant and equipment at each reporting date. Judgement of the Management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

2.1.12.6 Impairment of non-financial assets

The Group assess at each reporting date whether there is an indication that an asset other than deferred tax asset, may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

2.1.12.7 Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profits will be available against which such tax losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with the future tax-planning strategies.

2.1.12.8 Defined benefit obligation

The cost of the defined benefit plans and the present value of their obligations are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases.

In determining the appropriate discount rate, Management considers yield of a high-quality corporate bond similar to the remaining weighted average duration of the pension fund. If matching high quality corporate bonds are not available in the market, similar tenure risk adjusted Government bond yield has been used as the discount rate.

The mortality rate is based on publicly available mortality tables. Future salary increases, and pension increases are based on expected future inflation rates and expected future salary increase rate of the Bank.

Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

2.1.12.9 Provisions, commitments and contingencies

The Group receives legal claims against it in the normal course of business. Management makes judgements as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depend on the due process in respective legal jurisdiction.

2.1.12.10 Sri Lanka Accounting Standard (SLFRS 16) – Leases

This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of Financial Statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. This Standard supersedes the following Standard and Interpretations:

(a) LKAS 17 Leases;

(b) IFRIC 4 Determining whether an arrangement contains a Lease;

(c) SIC-15 Operating Leases – Incentives; and

(d) SIC-27 evaluating the substance of transactions involving the legal form of a lease.

Set out below are the accounting policies of the Bank upon adoption of SLFRS 16, which have been applied from the date of initial application of 1 January 2019.

2.1.12.10.1 Identifying a lease

A contract is a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Hence, at inception of a contract, the Bank assesses whether the contract is, or contains, a lease by considering following aspects:

1. Availability of identified asset
2. Bank's right to control the use of the identified asset
3. Bank's right to obtain substantially all economic benefits from use of the identified asset
4. Bank's right to direct the use of the identified asset

Accordingly, Bank identifies all the Rent Agreements (except short-term agreements, less than twelve months and low value agreements) entered by the Bank for operating a branch and for using machineries contain a lease under SLFRS 16: Leases.

2.1.12.10.2 Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date as specified in the Lease Agreement). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, and lease payments made at or before the commencement date less any lease incentives received. Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

2.1.12.10.3 Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating a lease, if the lease term reflects the Bank exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs. Calculating the present value of lease payments, the Bank uses the Treasury Bond rate (The tenure of the Treasury Bond should be identical to the lease term) at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

2.1.12.10.4 Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term. The Bank considers the leases of low value assets, if the value of the underlying asset is less than or equal to Rs. 1 Mn.

2.1.12.10.5 Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew. The Group uses hindsight in determining the lease term where the contract contains options to extend or terminate the lease. Accordingly, Group identified the lease term as the number of years based on the period covered by the Rent Agreement signed by the Group and the lessor.

2.1.12.10.6 Measurement

The Group adopted SLFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. Since the Group applies SLFRS 16 using the modified retrospective approach.

- the Group leaves comparatives as previously reported
- any difference between asset and liability recognised in opening retained earnings at transition
- measure ROU asset as if SLFRS 16 had been applied from lease commencement (but using discounting rate at date of transition)

Initial Measurement of the Right-of-use Asset and the Lease Liability

The Right-of-Use (ROU) Asset is initially measured at the present value of all the lease rentals adjusted to any advances made outstanding as at 1 January 2019. The lease liability is initially measured at the present value of the future lease rentals over the remaining lease period at commencement date.

Subsequent Measurement of the Right-of-use Asset and the Lease Liability

After the commencement date the Bank measure the ROU asset applying a cost model. The assets are amortised to the balance lease term as at 1 January 2019, using the straight-line method. The Lease liability subsequently measure by increasing with the lease interest and reducing with the lease payments.

Discount rate

The lessee has to apply the Incremental borrowing rate to discount the future rental payments. That is “The rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment”. The Group applies a single discount rate for leases with similar lease periods.

Separating Components of a Contract

The Group elects to consistently apply as a practical expedient not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

Initial Direct Costs

The Group excludes the initial direct costs from the measurement of the right-of-use asset at the date of initial application as a practical expedient.

2.2 Changes in Accounting Policies

There is no major change in accounting policies during the year 2022.

2.3 Fair Value Measurement

"Fair value" is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

The Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted pricing in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would consider in pricing a transaction.

The fair value of an asset or a liability is measured using the assumptions that market participants would use the fair value hierarchy when pricing the asset or liability, if market participants act in their economic best interest.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

A fair value measurement of a non-financial asset considers a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. External professional valuers are involved for valuation of significant assets such as land and building.

An analysis of fair value measurement of financial assets and liabilities is provided in Note 56 on pages 402 to 407.

2.4 Significant Accounting policies – General

2.4.1 Basis of Consolidation

The Financial Statements of the Bank and the Group comprise the Financial Statements of the Bank and its Subsidiaries in terms of the SLFRS 10 – "Consolidated Financial Statements" and LKAS 27 – "Consolidated and Separate Financial Statements".

2.4.1.1 Business Combinations

Business combinations are accounted for using the acquisition method when control is transferred to the Group as per Sri Lanka Accounting Standard – SLFRS 3 on "Business Combinations" (SLFRS 3). The consideration transferred in the acquisition and identifiable net assets acquired are measured at fair value. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

2.4.1.2 Non-Controlling Interests (NCI)

Details of NCI are given in Note 47 on page 355.

2.4.1.3 Subsidiaries

The Financial Statements of the subsidiary is fully consolidated from the date on which control is transferred to the Bank and continued to be consolidated until the date when such control ceases. The Control exists where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The Financial Statements of the Bank's subsidiaries for the purpose of consolidation are prepared for the same reporting period as that of National Savings Bank, using consistent accounting policies.

2.4.1.4 Loss of control

When the Group loses control over a subsidiary, it de-recognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

2.4.1.5 Associates

Details are given in the Note 25 on page 318.

2.4.1.6 Transactions eliminated on consolidation

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full in preparing the Consolidated Financial Statements. Refer Notes 49.3 and 49.4 – Transaction with subsidiary companies on pages 359 and 360 respectively.

2.4.2 Foreign Currency Transactions and Balances

All foreign currency transactions are translated into the functional currency, which is Sri Lankan Rupees, using the exchange rates prevailing at the dates on which the transactions were affected.

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

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

The Statement of Financial Position of Foreign Currency Banking Unit is translated to Sri Lankan Rupees at the middle rate of exchange ruling at the reporting date. The transactions of the Foreign Currency Banking Unit have been recorded in accordance with the above policy and the resulting gains/losses are recognised in the Income Statement.

2.5 Significant Accounting Policies – Recognition of Assets and Liabilities

Financial Instruments

SLFRS 9 – "Financial Instrument" replaces LKAS 39 for annual periods on or after 1 January 2018. The Bank elected, as a policy choice permitted under SLFRS 9, to continue to apply hedge accounting in accordance with LKAS 39.

2.5.1 Financial Instruments – Initial Recognition, Classification and Subsequent Measurement

2.5.1.1 Date of recognition

The Group initially recognises loans and advances, deposits and subordinated liabilities, etc., on the date on which they are originated. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Bank recognises balances due to depositors when funds are transferred to the Bank. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

2.5.1.2 Recognition and Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Notes 2.5.1.4.1 and 2.5.1.4.2.

Financial instruments are initially measured at their fair value (as defined in Note 56), except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank and the Group accounts for the Day 1 profit or loss, as described below:

2.5.1.3 "Day 1" profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or fair value based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a "Day 1" profit or loss). In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the Statement of Comprehensive Income when the inputs become observable, or when the instrument is derecognised the difference between transaction price and fair value is recognised in Income Statement. The "Day 1 loss" arising in the case of loans granted to employees at concessionary rates under uniformly applicable schemes is deferred and amortised using Effective Interest Rates (EIR) in "Interest Income and Personnel Expenses" over the remaining service period of the employees or tenure of the loan whichever is shorter.

2.5.1.4 Classification and Subsequent measurement of financial assets

The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost,
- Fair Value Through Other Comprehensive Income (FVOCI),
- Fair Value through Profit or Loss (FVPL)

The Bank and the Group classifies and measures its derivative and trading portfolio at FVPL as explained in Note 2.5.1.6. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

2.5.1.4.1 Business model assessment

The Bank and the Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's Key Management Personnel,
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed.
- How managers of the business are compensated, (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

The business model assessment is based on reasonably expected scenarios without taking “worst case” or “stress case” scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank’s original expectations, the Bank does not change the classification of the remaining financial assets held in that business model but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

2.5.1.4.2 Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI test)

As a second step of its classification process, the Bank assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

“Principal” for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than “deminimise” exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Refer Notes 2.5.1.4.3 to 2.5.1.4.5 below for details on different types of financial assets recognised on the Statement of Financial Position:

2.5.1.4.3 Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- Financial assets measured at amortised cost are given below:

(a) **Cash and cash equivalents**
Details of “Cash and cash equivalents” are given in Note 16 on page 297.

(b) **Balances with central banks**
Details of “Balances with central banks” are given in Note 17 on page 297.

(c) **Placement with banks**
Details of “Placement with banks” are given in Note 18 on page 298.

(d) **Financial assets at amortised cost – Loan and advances**
Details of “Loans and advances” are given in Note 21 on page 303.

(e) **Financial assets at amortised cost – Debt and other instruments**
Details of “Debt and other instruments” are given in Note 22 on page 311.

2.5.1.4.4 Financial assets measured at FVOCI

Financial assets measured at FVOCI include debt and equity instruments measured at Fair Value through Other Comprehensive Income.

Financial assets measured at FVOCI are given in Notes (a) and (b) below:

(a) **Debt instruments measured at FVOCI**
Debt instruments are measured at FVOCI if they are held within a business model whose objective is to hold for collection of contractual cash flows and for selling financial assets, where the asset’s cash flows represent payments that are solely payments of principal and interest on principal outstanding.

Details of “Debt instruments at FVOCI” are given in Note 23 on pages 313 to 316.

(b) **Equity instruments designated at FVOCI**
Upon initial recognition, the Group elects to classify irrevocably some of its equity investments held for strategic and statutory purposes as equity instruments at FVOCI. Details of “Equity instruments at FVOCI” are given in Note 23 on pages 313 to 316.

2.5.1.4.5 Financial assets measured at FVPL

As per SLFRS 9, all financial assets other than those classified at amortised cost or FVOCI are classified as measured at FVPL. Financial assets at fair value through profit or loss include financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis as they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets and financial assets designated upon initial recognition at fair value through profit or loss which are discussed in below.

(a) **Financial assets designated at fair value through profit or loss**
Financial assets designated at fair value through profit or loss are recorded in the SOFP at fair value. Changes in fair value are recorded in “Net gain or loss on financial assets and liabilities designated at fair value through profit or loss”. Interest earned is accrued in “Interest Income”, using the EIR, while dividend income is recorded in “Other operating income” when the right to receive the payment has been established.

The Group do not have any designated financial assets upon initial recognition as fair value through profit or loss as at the end of the reporting period.

2.5.1.5 Classification and Subsequent Measurement of Financial Liabilities

As per SLFRS 9, the Group classifies financial liabilities, other than financial guarantees and loan commitments into one of the following categories:

- Financial liabilities at fair value through profit or loss, and within this category as:
  - Held-for-trading; or
  - Designated at fair value through profit or loss:
- Financial liabilities measured at amortised cost.

The subsequent measurement of financial liabilities depends on their classification. SLFRS 9, largely retains the existing requirements in LKAS 39 for the classification of financial liabilities.

2.5.1.5.1 Financial liabilities at fair value through profit or loss

The Group do not have any designated financial liabilities as at fair value through profit or loss as at the end of the reporting period.

2.5.1.5.2 Financial liabilities at amortised cost

Financial liabilities issued by the Group that are not designated at FVPL are classified as financial liabilities at amortised cost under "Due to banks", "Due to depositors", "Due to debt securities holders", "due to other borrowers", or "Debt security issued" as appropriate, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument

After initial recognition, such financial liabilities are subsequently measured at amortised cost using the EIR (Effective Interest Rate) method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

The EIR amortisation is included in "Interest expense" in the Income Statement. Gains and losses too are recognised in the Income Statement when the liabilities are derecognised as well as through the EIR amortisation process.

(a) **Due to banks**
Details of "Due to banks" are given in Note 32 on page 333.

(b) **Due to depositors**
Details of "Due to depositors" are given in Note 35 on page 334.

(c) **Due to debt securities holders**
Details of "Due to debt securities holders" are given in Note 35 on page 334.

(d) **Due to other borrowers**
Details of "Due to other borrowers" are given in Note 35 on page 334.

(e) **Debt securities issued**
Details of "Debt securities issued" are given in Note 37 on page 336.

2.5.1.6 Derivative assets and liabilities

Derivative assets and liabilities are broadly classified into derivative recorded at fair value through profit or loss and derivatives held for risk management purposes.

2.5.1.6.1 Derivative recorded at fair value through profit or loss

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract (i.e., the "underlying").
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.
- It is settled at a future date.

The Bank enters into derivative transactions with various counterparties. These include interest rate swaps, credit default swaps, cross-currency swaps, forward foreign exchange contracts and foreign currencies. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. The notional amount and fair value of such derivatives are disclosed separately in Note 19. Changes in the fair value of derivatives are included in net trading income unless hedge accounting is applied. Hedge accounting disclosures are provided in Note 19 on pages 298 and 299.

2.5.1.6.2 Derivatives held for risk management purposes and hedge accounting

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets and liabilities. Derivatives held for risk management purposes are measured at fair value in the SOFP.

2.5.1.6.2.1 Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect the profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss in the same line item as the hedged item that is attributable to the hedged risk.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a central counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those are necessary for the novation, then the derivative is not considered as expired or terminated.

Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortised to profit or loss as part of the recalculated EIR of the item over its remaining life. The Group do not have any fair value hedge as at the end of the reporting period.

2.5.1.6.2.2 Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability that could affect the profit or loss, the effective portion of changes in the fair value of the derivative are recognised in OCI and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the Statement of Profit or Loss and OCI.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a central counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those are necessary for the novation, then the derivative is not considered as expired or terminated. The Group do not have any cashflow hedge as at the end of the reporting period.

2.5.1.6.3 Embedded derivatives

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative cause some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

As per SLFRS 9, Derivatives may be embedded in another contractual arrangement (a host contract). The Group treats derivatives embedded in financial liabilities and non-financial host contracts as separate derivatives if:

- The host contract is not itself carried at FVPL;
- The terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

As at the reporting date the Group do not have embedded derivatives.

2.5.1.7 Reclassification of financial assets and liabilities

As per SLFRS 9, Financial assets are not reclassified subsequent to their initial recognition, except and only in those rare circumstances when the Group changes its objective of the business model for managing such financial assets which may include the acquisition, disposal or termination of a business line.

Financial Liabilities are not reclassified as such reclassifications are not permitted by SLFRS 9.

2.5.1.7.1 Measurement of reclassification of financial assets

2.5.1.7.1.1 Reclassification of Financial Instruments at Fair value through profit or loss

- **to Fair value through other comprehensive income**
  The fair value on reclassification date becomes the new gross carrying amount. The EIR is calculated based on the new gross carrying amount. Subsequent changes in the fair value is recognised in OCI.
- **to Amortised Cost**
  The fair value on reclassification date becomes the new carrying amount. The EIR is calculated based on the new gross carrying amount.

2.5.1.7.1.2 Reclassification of Financial Instruments at "Fair value through other comprehensive income"

- **to fair value through profit or loss**
  The accumulated balance in OCI is reclassified to profit and loss on the reclassification date.
- **to amortised cost**
  The financial asset is reclassified at fair value. The cumulative balance in OCI is removed and is used to adjust fair value on the reclassification date. The adjusted amount becomes the amortised cost.

EIR determined at initial recognition and gross carrying amount are not adjusted as a result of reclassification.

2.5.1.7.1.3 Reclassification of financial instruments at "Amortised Cost"

- **to fair value through other comprehensive income**
  The asset is remeasured to fair value, with any difference recognised in OCI. EIR determined at initial recognition is not adjusted as a result of reclassification.
- **to fair value through profit or loss**
  The fair value on the reclassification date becomes the new carrying amount. The difference between amortised cost and fair value is recognised in profit and loss.

Bank and the Group do not have any reclassification of financial instrument for the reporting period.

2.5.1.8 De-recognition of financial assets and financial liabilities

2.5.1.8.1 Financial assets

The Group derecognises a financial asset (or where applicable a part thereof) when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset de-recognised) and the sum of the consideration received (including any new asset obtained less and new liability assumed) and any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

However, cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities as per SLFRS 9. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its SOFP, but retains either all or substantially all risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised.

When the Group has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on the basis that reflected the rights and obligations that the Group has retained.

2.5.1.8.2 Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

2.5.1.9 Modification of financial assets and financial liabilities

2.5.1.9.1 Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised, and a new financial asset is recognised at fair value.

As per SLFRS 9, if the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in de-recognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

2.5.1.9.2 Financial liabilities

Where an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

2.5.1.10 Offsetting of financial instruments

Financial assets and financial liabilities are offset, and the net amount reported in the SOFP if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Bank and the Group do not offset any financial instrument for the reporting period.

2.5.1.11 Amortised cost and gross carrying amount

The "amortised cost" of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the EIR method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any ECL allowance.

The "gross carrying amount of a financial asset" is the amortised cost of a financial asset before adjusting for any ECL allowance.

2.5.1.12 Fair value of financial instruments

Fair value measurement of financial instruments including the fair value hierarchy is explained in Note 2.3 and 56 on pages 269 and 402.

2.5.2 Impairment of financial assets

2.5.2.1 Individual assessment of impairment

For financial assets above a pre-determined threshold (i.e. for individually significant financial assets), if there is objective evidence that an impairment loss had been incurred, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that had not been incurred).

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure was probable. Detail of Individual assessment of impairment are given in Note 21. (d) on page 305.

2.5.2.2 Individually significant assessment and not impaired individually

Loans which are individually significant but not impaired will be assessed collectively for impairment either under Stage 1 or Stage 2 based on the criteria whether there has been significant credit deterioration since origination.

While establishing significant credit deterioration the Bank will consider the following criterias':

- Other changes in the rates or terms of an existing financial instrument that would be significantly different if the instrument was newly originated.
- Significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instrument.
- Other Information related to the borrower, such as changes in the price of a borrower's debt/equity instrument.
- An actual/expected internal credit rating downgrade for the borrower or decrease in behavioural score used to assess credit risk internally.
- Existing or forecast adverse changes in business, financial or economic condition that are expected to cause significant change in the borrower's ability to meet its obligation.
- An Actual or expected significant change in the operating results of the borrower in relating to actual/expected decline in revenue, increase in operating risk, working capital deficiency, decrease in asset quality, Increase in gearing, liquidity management problems.
- Significant increase in credit risk on other financial instruments of the same borrower.
- An Actual or expected significant adverse change in the regulatory, economic or technological environment of the borrower that result in a significant change in the borrower's ability to meet the debt obligation.

2.5.2.3 Overview of the ECL principles

From 1 January 2018, the Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as "financial instruments". Equity instruments are not subject to impairment under SLFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Bank's policies for determining if there has been a significant increase in credit risk are set out in Note 2.5.2.7 on page 276.

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Bank groups its loans into Stage 1, Stage 2 and Stage 3 as described below:

Stage 1

- When loans are first recognised, the Bank recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved, but not originally credit impaired on initial recognition and the loan has been reclassified from Stage 2.

Stage 2

- When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved, and the loan has been reclassified from Stage 3.
- Credit facilities, where contractual payments of a customer are more than 30 days past due, other than the credit facilities categorised under Stage 3 below, subject to the rebuttable presumption as stated in SLFRS 9.

Stage 3

- Credit facilities where contractual payments of a customer are more than 90 days past due, subject to the rebuttable presumption as stated in SLFRS 9.
- All restructured loans, which are restructured more than twice.
- All rescheduled loans.
- All credit facilities/customers classified as non-performing as per CBSL Directions.
- When the risk rating of a customer or an instrument has been downgraded to B+ by an external credit rating agency and/ or when there is a two-notch downgrade in the banks internal rating system.
- Credit facilities/customers in which Significant Increase in Credit Risk (refer Note 2.5.2.7).

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

2.5.2.4 The calculation of ECL

The Group calculates ECL to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanism of the ECL calculations is outlined below and the key elements are, as follows:

- **Probability of Default (PD)**
  The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- **Exposure at Default (EAD)**
  The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected draw downs on committed facilities, and accrued interest from due payments.
- **Loss Given Default (LGD)**
  The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

The maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier. Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value

The mechanics of the ECL method are summarised below:

Stage 1

- The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Group calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR.

Stage 2

- When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

Stage 3

- For loans considered credit-impaired, the Bank recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

2.5.2.5 Debt instruments measured at fair value through OCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the SOFP, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets. Bank and the group do not have any debt instrument measured at fair value through OCI subject to impairment as at reporting period.

2.5.2.6 Forward looking information

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as:

- GDP growth
- Unemployment rates
- Inflation rates
- Exchange rates
- Interest rates

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the reporting date. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

2.5.2.7 Significant increase in credit risk

The Group continuously monitors all assets subject to ECL, in order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assess whether there has been a significant increase in credit risk since initial recognition. The Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis based on the Banks historical experience and expert credit assessment and including forward looking information. Accordingly, the Group considers the significant increase in credit risk when one of the following factors/conditions are met.

- Contractual payments of the facility are past due for more than 30 days (Indication of SICR)
- A fall of 50% or more in the turnover or profit before tax of the borrowing entity when compared to the previous year for two consecutive years (Indication of SICR)
- Erosion of net-worth of the borrowing entity by more than 25% when compared to previous financial year. (Indication of SICR)

- External Credit rating of a borrowing entity has been subsequently downgraded to BB+ or below (Indication of SICR) (Subsequent downgrading of the original credit rating (at the time of granting) should be considered)
- A two-notch downgrade under internal rating (Indication of SICR)
- Credit Facility was restructured up to 2 times other than upgraded credit facility
- Delay in commencement of business operations/projects by more than two years from the originally agreed date (Could be both SICR or default criteria depending on the customer risk)
- Value of collateral is significantly reduced (more than 25%) or realisability of collateral is doubtful based on specific indication for particular property. (Property index) (Indication of SICR)
- Frequent changes in the Board of Directors and Senior Management-Based on the publicly available information (Indication of SICR)
- Direct evidence is available that the borrower is using loan proceeds for a purpose other than the purpose specified in the loan agreement
- Withdrawal of Guarantee by Guarantor without any risk mitigation action
- Significant increase (25%) in project cost from estimated cost until the completion point of project. This factor is relevant for assessment until the project is commenced.
- A one notch downgrade from current external rating excluding the rating from AAA to BBB-.
- Direct evidence is available that the borrower is subject to litigation that significantly affect the performance of the credit facility based on credible information. (Could be both SICR or default criteria depending on the customer risk)
- Significant change in the geographical location or Natural catastrophes that directly impact the performance of the credit facility where settlement of dues could be prevented. (Could be both SICR or default criteria depending on the customer risk)
- Deterioration of the macroeconomic outlook to the extent that would impair the repayment capacity of the project/ facility for which the loan was granted or to the industry in which the project is operating. This includes the impact from new regulations/Government policies which would prevent the operations to repay the debt as agreed. (could be both SICR or default criteria depending on the customer risk)
- Modification of terms resulting in concessions, including extensions, deferment of payments, waiver of covenants etc. Which have negative impact on the repayment of the facility. (Could be both SICR or default criteria depending on the customer risk)
- Unable to contact or find the borrower (Default indicator)
- Credit facilities are restructured more than 2 times other than upgraded credit facilities (Indication of credit impaired)
- Reschedule credit facilities other than upgraded credit facilities
- Contractual payments of facility are past due for more than 90 days
- The auditor has qualified the audit opinion due to going concern issues or has issued a disclaimer or adverse opinion
- Direct evidence is available that the borrower is insolvent/the liquidation action has already commenced or about to commence (Default indicator)

2.5.2.8 Definition of default and credit-impaired assets

The Group considers loans and advances to other customers be defaulted when:

- The borrower is unlikely to pay its obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- The borrower becomes 90 days past due on its contractual payments.

In addition, the Group classifies the financial investments under Stage 3 when the external credit rating assigned to the particular investment is "default".

2.5.3 Property, plant and equipment (PPE)

Details of property, plant and equipment are given in Note 26 on page 318.

2.5.3.1 Depreciation

Details of "Depreciation" are given in Note 26 on page 318.

2.5.3.2 Borrowing costs

As per the Sri Lanka Accounting Standard – LKAS 23 on "Borrowing Costs", the Group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of the asset. A qualifying asset is an asset which takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are recognised in the profit or loss in the period in which they occur. Bank and the Group do not capitalise any borrowing cost for the reporting period.

2.5.4 Intangible assets

Details of Intangible assets are given in Note 29 on page 327.

2.5.5 Impairment of non-financial assets

The Group assess at each reporting date whether there is an indication that an asset other than deferred tax asset, may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

2.5.6 Retirement benefit obligation

2.5.6.1 Defined Benefit Pension Plans

2.5.6.1.1 Staff Pension Fund – I

The Bank operates a defined benefit pension plan, for the permanent staff members who have joined the Bank prior to 1 October 1995, which requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit pension plan – I is determined using the Projected Unit Credit actuarial valuation method. Actuarial gains and losses are recognised in the Other Comprehensive Income in the period in which they arise.

The defined benefit asset or liability is calculated as the present value of the defined benefit obligation less past service costs not yet recognised and less the fair value of planned assets out of which the obligations are to be settled directly, less actuarial losses not yet recognised. The value of the defined benefit liability is borne by the Bank and recognised in the profit or loss. The value of any asset is restricted to the sum of any actuarial losses and past service cost not yet recognised and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

The latest actuarial valuation was carried out as of 31 December 2022, by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional Actuaries.

The principal financial assumptions used in the valuation as at 31 December 2022 are as follows:

Interest/Discount rate	18.00 % p.a.
Increase in cost of living allowances	8.00 % p.a.
Increase in average basic salary	15.00% p.a.

The assets of the fund are held separately from these of the Bank and are independently administrated by the Trustees as per the provisions of the Trust Deed and are subject to annual audit by Independent External Auditors. The Financial Statements of the pension I as well as the Auditor's Report are tabled and reviewed by the Board of Trustees and Board of Directors of the Bank. They are also submitted for review of the disclosure of the Bank, as the Bank has an obligation of ensuring that funding is made at optimum levels. Pension is payable monthly as long as the participant is alive.

Details of Staff pension fund I are given in Note 38 (a) 1 on pages 341 to 343.

The past service cost not funded is recognised in Other Comprehensive Income immediately upon actuarial valuation. The actuarial valuation as at 31 December 2022 indicated a past service cost deficit of Rs. 8,764.7 Mn. which has been provided in full. The details of unfunded pension liability are given in Note 38 (a) 1 on pages 341 to 343.

2.5.6.1.2 Staff Pension Fund – II

The Bank established and operated a defined benefit pension plan, for the permanent staff members who have joined the Bank on or after 1 October 1995, which requires the Bank to monthly contribute 12% of members' gross salary to a separately administered fund. The cost of providing benefits under the defined benefit pension plan is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in the Other Comprehensive Income in the period in which they arise.

The defined benefit asset or liability is calculated as the present value of the defined benefit obligation less past service costs not yet recognised and less the fair value of planned assets out of which the obligations are to be settled directly, less actuarial losses not yet recognised. The value of the defined benefit liability is borne by the Bank and recognised in the profit or loss. The value of any asset is restricted to the sum of any actuarial losses and past service cost not yet recognised and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

The latest actuarial valuation was carried out as of 31 December 2022, by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional Actuaries.

The principal financial assumptions used in the valuation as at 31 December 2022 are as follows:

Interest/Discount rate	18.00 % p.a.
Increase in cost of living allowances	8.00 % p.a.
Increase in average basic salary	8.00% p.a.

The assets of the fund are held separately from assets of the Bank and are independently administrated by the Trustees as per the provisions of the Trust Deed and are subject to annual audit by Independent External Auditors. The Financial Statements of the pension II as well as the Auditor's Report are tabled and reviewed by the Board of Trustees and Board of Directors of the Bank. They are also submitted for review of the disclosure of the Bank, as the Bank has an obligation of ensuring that funding is made at optimum levels. Pension is payable monthly as long as the participant is alive.

Details of Staff pension fund II are given in Note 38. (a) 2 on pages 343 to 346.

The past service cost not funded is recognised in Other Comprehensive Income immediately upon actuarial valuation. The actuarial valuation as at 31 December 2022 indicated a past service cost excess of Rs. 2,365.4 Mn. which has been recognised. The details of advance payment to Pension II are given in Note 38 (a) 2 on pages 343 to 346.

2.5.6.1.3 Widows'/Widowers' and Orphans' Pension Fund

Effective from 2013 December, the Bank has established a "Widows'/Widowers' and Orphans" Pension Scheme for the members of Pension scheme – II. Members of Pension Scheme II are opting for be members of the Widows'/ Widowers' and Orphans' Pension Scheme. The Bank does not contribute to the Fund while Bank's employees monthly contribute 5% of their basic salary, to the Fund.

2.5.6.2 Gratuity

With the establishment of Staff Pension Scheme II, employees who joined the Bank on or after 1 October 1995 become members of the Pension Scheme II, thus they are not entitle to the rights and privileges under Service Gratuity

Scheme. However, a minimum period of 120 months uninterrupted active service in the Bank at the time of retirement is required to be eligible for any retirement benefit under this pension scheme. Therefore, employees who retire before 10 years of service and whose services are terminated after five years other than by retirement are eligible to receive a terminal gratuity under the Payment of Gratuity Act No. 12 of 1983, at the rate of half of the gross salary applicable to the last month of the financial year, for each year of continuous service.

Probability of occurrence of such event is rare according to Management's judgement and past experiences. A gratuity provision is not maintained in the Financial Statements unless a significant liability is estimated at reporting date. Where a gratuity is paid to an employee in such event under Payment of Gratuity Act No. 12 of 1983, it is recognised as a gratuity expense in the Income Statement in the same year.

2.5.6.3 Post-employment medical benefits

The Bank has a contributory medical assistance scheme for the retired employees. The assets of the plan are held independently of the Bank's assets and administered by Boards of Trustees, representing the Management and the employees, as provided in the trust deed of the fund. The cost of providing benefits under the defined benefit pension plan is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in the Other Comprehensive Income in the period in which they arise.

The Bank contributes to the contributory medical scheme an amount determined by the Management of the Bank based on actuarial recommendation made from time to time. Accordingly, a sum of Rs. 668.5 Mn. has been provided from the profit of 2022.

The latest actuarial valuation was carried out as of 31 December 2022, by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional Actuaries. The principal financial assumptions used in the valuation as at 31 December 2022 are as follows:

Interest/Discount rate	18.00 % p.a.
Medical cost inflation rate	10.00 % p.a.

The assets of the fund are held separately from these of the Bank and are independently administrated by the Trustees as per the provisions of the Trust Deed and are subject to annual audit by Independent External Auditors. The Financial Statements of the pension II as well as the Auditor's Report are tabled and reviewed by the Board of Trustees and Board of Directors of the Bank. They are also submitted for review of the disclosure of the Bank, as the Bank has an obligation of ensuring that funding is made at optimum levels. Pension is payable monthly as long as the participant is alive.

Details of Post-employment medical benefits are given in Note 38 (a) 3 on page 347.

The past service cost not funded is recognised in Other Comprehensive Income immediately upon actuarial valuation. The actuarial valuation as at 31 December 2022 indicated a past service cost deficit of Rs. 3,724.2 Mn. which has been provided in full. The details of Unfunded Liability are given in Note 38 (a) 3 on pages 347 to 349.

2.5.6.4 Defined contribution plans

Details of defined contribution plans are given in Note 11 on page 288.

2.5.7 Other liabilities

Details of Other liabilities are given in Note 41 on page 351.

2.5.8 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expenses relating to any provision is presented in the Income Statement net of any reimbursement.

2.5.8.1 Provision for fraudulent withdrawals

The total value of fraudulent withdrawals identified as at 31 December 2022 was Rs. 58.3 Mn. And ex-gratia payment Rs. 15 Mn. received from insurance. A provision of Rs. 42.6 Mn. has been made for the balance fraudulent withdrawals as at 31 December 2022.

2.5.9 Contingent liabilities and commitments

This includes Bank guarantees, Letter of credit, undrawn credit facilities, other indirect credit facilities and capital commitment. The Bank guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Undrawn loan commitments and Letters of Credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer.

Effective from 1 January 2018, these contracts are subject to the assessment of impairment under SLFRS 09.

Details of Contingent liabilities and Commitments are given in Note 48 on page 355.

2.5.10 Earnings per share (EPS)

Details of "Basic and Diluted EPS" are given in Note 14 on page 293.

2.6 Significant accounting policies – recognition of income and expenses for financial instruments

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. Details of "income and expenses" are given in Notes 3 to 13 on pages 281 to 292.

2.6.1 Interest income and expenses

Details of "interest income and expenses" are given in Note 3 to 4 on pages 281 to 283.

2.6.2 Fee and commission income

Details of "Commission income and expenses" are given in Note 5 on page 284.

2.6.3 Net trading income

Details of "Net gains/(losses) from trading" are given in Note 6 on page 285.

2.6.4 Dividend income

Dividend income is recognised when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities. Details of "Dividend income" is given in Note 9 on page 286.

2.6.5 Rent income

Rent income is recognised in profit or loss on an accrual basis. Details of "Rent income" is given in Note 9 on page 286.

2.7 Significant accounting policies – taxation

2.7.1 Current taxation

Details of Current taxation are given in Note 13 on page 291.

2.7.2 Deferred taxation

Details of Deferred taxation are given in Notes 13 and 30 on pages 291 and 329 respectively.

2.7.3 Value added tax on financial services (VAT)

VAT on financial services is calculated in accordance with Section 25A of Value Added Tax Act No. 14 of 2002 and subsequent amendments thereto. VAT on financial services is payable at 18% on operating profit before value added tax and social security contribution levy on financial services adjusted for emoluments of employees and economic depreciation.

2.7.4 Social Security contribution levy (SSCL)

The Social Security Contribution Levy (SSCL) is imposed with effect from 1 October 2022 under the Social Security Contribution Levy Act No. 25 of 2022. The Levy shall be charged at the rate of 2.5% on the value of the article ascertained for the purpose of the Value Added Tax under Section 6 of the Value Added Tax Act No. 14 of 2002.

2.8 Statement of Cash Flows

The Statement of Cash Flows has been prepared by using the "Direct Method" of preparing cash flows in accordance with the LKAS 7. Cash and cash equivalents comprise short term, highly liquid investment that is readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalents include cash in hand, balances with banks and money at call and short notice. The Statement of Cash Flows is given on page 262.

2.9 Regulatory provisions

2.9.1 Deposit insurance scheme

The Bank calculates the insurance premium on eligible deposit base at the rate of 0.10% which is the applicable statutory rate based on capital adequacy ratio of the Bank. The Bank has remitted the applicable premium within a period of 15 days from the end of each quarter as stipulated by the Direction.

2.9.2 Crop Insurance Levy (CIL)

As per the provisions of the Section 14 of the Finance Act No. 12 of 2013, the CIL was introduced with effect from 1 April 2013 and is payable to the National Insurance Trust Fund. Currently, the CIL is payable at 1% of the profit after tax.

2.10 Events after the reporting period

Details of Events after reporting date are given in Note 52 on page 364.

2.11 Accounting standards issued but not yet effective as at reporting date

The following new accounting standards and amendments/ improvements to the existing standards were issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka). A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted; however, the Group has not early adopted these new standards/ amendments when preparing these Consolidated Financial Statements.

2.11.1 Amendment to LKAS 12

On 7 May 2021, the IASB issued Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to LKAS 12) that clarify how companies account for deferred tax on transactions such as leases and decommissioning obligations. The amendments are effective for annual periods beginning on or after 1 January 2023.

2.11.2 Amendment to LKAS 08

On 12 February 2021, the IASB issued Definition of Accounting Estimates (Amendments to: LKAS 8) to help entities to distinguish between accounting policies and accounting estimates. The amendments are effective for annual periods beginning on or after 1 January 2023.

2.11.3 Amendment to LKAS 01

On 12 February 2021, the IASB issued Disclosure of Accounting Policies (Amendments to LKAS 1 and IFRS Practice Statement 2) with amendments that are intended to help preparers in deciding which accounting policies to disclose in their Financial Statements. The amendments are effective for annual periods beginning on or after 1 January 2023.

2.11.4 Amendment to LKAS 17

On 25 June 2020, the IASB issued Amendments to IFRS 17 to address concerns and implementation challenges that were identified after IFRS 17 Insurance Contracts was published in 2017. The amendments are effective for annual periods beginning on or after 1 January 2023.

3 Gross income

Accounting policy

Gross revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The specific recognition criteria must also be met before revenue recognition is discussed under respective income notes.

For the year ended 31 December	Bank		Group	
	2022 Rs. '000	2021 Rs. '000	2022 Rs. '000	2021 Rs. '000
Interest income	172,940,351	131,438,283	175,769,899	133,342,449
Fee and commission income	2,199,781	3,050,649	2,207,079	3,058,444
Net gain/(loss) from trading	(971,434)	(96,226)	(3,489,830)	(711,612)
Net fair value gains/(losses) from financial instruments at fair value through profit or loss	–	–	–	–
Net gains/(losses) from de-recognition of financial assets	(26,203)	28,269	(26,203)	28,269
Net other operating income	414,656	518,447	543,045	342,239
Gross income	174,557,152	134,939,422	175,003,990	136,059,789

4 Net interest income

Accounting policy

Recognition of interest income and interest expenses

For all financial instruments measured at amortised cost, interest-bearing financial assets classified as fair value through other Comprehensive Income and financial instruments measured at fair value through profit or loss, interest income or expense is recorded using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, pre-payment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as interest income for financial assets and interest expense for financial liabilities. However, for a reclassified financial asset for which the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase are recognised as an adjustment to the EIR from the date of the change in estimate.

When calculating the EIR for financial instruments other than credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses (ECLs). For credit-impaired financial assets which are classified under Stage 3, a credit-adjusted EIR is calculated using estimated future cash flows including ECLs. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost.

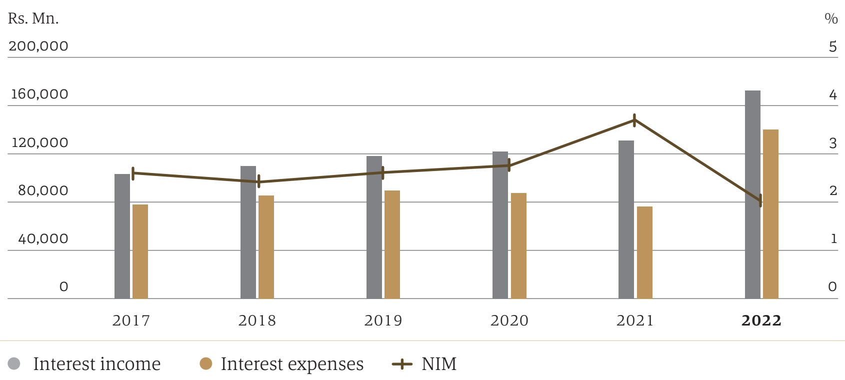
Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

4. Net interest income (contd.)

For the year ended 31 December	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
4. (a) Interest income				
Cash and cash equivalents	25,957	26,159	32,533	27,997
Balances with central banks	–	–	–	–
Placements with banks	752,884	684,522	895,121	899,308
Derivative financial instruments	–	–	–	–
Financial assets recognised through profit or loss				
– Measured at fair value	1,571,085	795,397	3,304,353	1,743,769
– Designated at fair value	–	–	–	–
Financial assets at amortised cost				
– Loans and advances	64,421,104	47,028,936	64,236,437	47,243,444
– Debt and other instruments	97,428,830	82,235,311	98,455,841	82,683,650
Financial assets measured at fair value through other comprehensive income	1,976,313	667,958	2,081,436	744,279
Others	6,764,179	–	6,764,179	–
Total interest income	172,940,351	131,438,283	175,769,899	133,342,449
4. (b) Interest expenses				
Due to banks	330,665	666,226	1,515,426	958,418
Financial liabilities recognised through profit or loss	–	–	–	–
Financial liabilities at amortised cost				
– Due to depositors	133,223,445	72,176,726	132,966,640	72,128,147
– Due to debt securities holders	–	–	–	–
– Due to other borrowers	3,317,165	305,667	4,078,055	808,862
Debt securities issued	3,606,126	3,660,055	3,606,126	3,664,684
Total interest expenses	140,477,402	76,808,674	142,166,248	77,560,111
Net interest income	32,462,949	54,629,609	33,603,651	55,782,338

Interest income vs interest expense

Graph 63



4. Net interest income (contd.)

4. (c) Net interest income from Sri Lanka Government Securities

Interest income and interest expenses on Government Securities given below have been extracted from interest income and interest expenses given in Notes 4. (a) and 4. (b) respectively and disclosed separately, as required by the Guidelines issued by the Central Bank of Sri Lanka.

	Bank		Group	
For the year ended 31 December	**2022 Rs. '000**	2021 Rs. '000	**2022 Rs. '000**	2021 Rs. '000
Interest income				
Financial assets recognised through profit or loss				
– measured at fair value	**1,571,085**	795,397	**3,304,353**	1,743,087
– designated at fair value	**–**	–	**–**	–
Financial assets at amortised cost				
– loans and advances (Securities purchased under resale agreements)	**508,637**	287,808	**458,871**	287,808
– debt and other instruments	**78,892,064**	72,524,511	**79,361,258**	72,937,934
Financial assets measured at fair value through other comprehensive income	**1,976,313**	667,958	**2,081,436**	744,279
	82,948,099	74,275,674	**85,205,917**	75,713,108
Less: Interest expenses				
Due to banks (Securities sold under repurchase agreements)	**290,708**	151,421	**1,475,469**	425,381
Due to other borrowers (Securities sold under repurchase agreements)	**3,317,165**	305,667	**4,062,797**	825,463
	3,607,873	457,088	**5,538,266**	1,250,844
Net interest income from Sri Lanka Government Securities	**79,340,226**	73,818,586	**79,667,651**	74,462,264

4. (d) Debt Moratorium and Deferment Impact to Interest Income

The Bank has given its debt moratorium and payment deferment to all of its customers other than who refused to have debt moratorium or payment deferments. The moratorium has been given at the concessionary rate of seven percent and the payments are deferred until the end of the loan period. The moratorium period has been varied from two months to six months and in a very limited scenario it has been extended to more than six months.

If the interest has been collected at the contractual rate, Bank could have earned Rs. 4,805 Mn. during the last financial year. However, at 7% concessionary rate Bank has recorded Rs. 2,585 Mn. interest income on accrued basis and agree to collect at the end of loan tenor. Therefore Bank further incurred Day one loss on interest income Rs. 1,391 Mn. on day one in 2020. In aggregate Bank incurred total loss of Rs. 3,611 Mn. due to moratorium imposed by CBSL in 2020.

During the Financial year 2022 the Bank has recognised Rs. 175.3 Mn. interest income from deferred day one loss of Rs. 1,391 Mn. and deferred day one loss was recorded as Rs. 694.2 Mn. as at 31 December 2022. It was due to timing difference and early payment of customer.

5 Net fee and commission income

Accounting policy

The Group earns fee and commission income from range of services it provides to customers which can be divided into the following two categories.

(a) Fee and commission income earned from services that are provided over a certain period of time:

Fee and commission earned for the provision of services over a period of time are accrued over that period.

(b)Fee and commission income from providing transaction services:

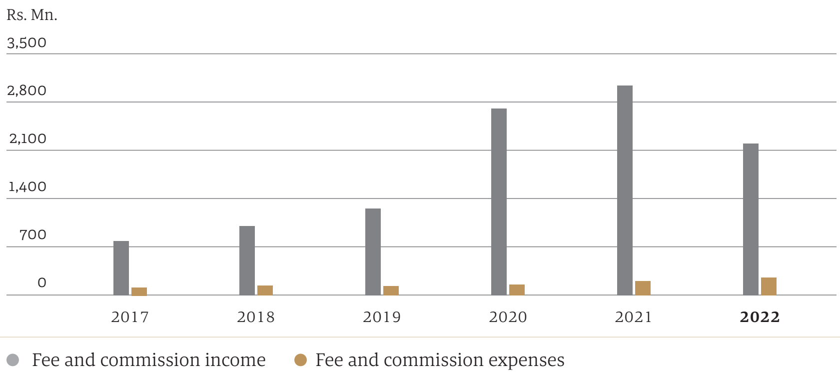
Fee and commission income arising from renegotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised as the related services are performed.

Fees and commission expenses relating to transactions and services are expensed as the services are received. Fee and commission expenses are recognised on an accrual basis.

	Bank		Group	
For the year ended 31 December	2022 Rs. '000	2021 Rs. '000	2022 Rs. '000	2021 Rs. '000
Fee and commission income	2,199,781	3,050,649	2,207,079	3,058,444
Fee and commission expenses	(259,570)	(207,676)	(262,004)	(210,604)
Net fee and commission income	1,940,211	2,842,973	1,945,075	2,847,840
Comprising				
Loans	1,137,295	2,724,154	1,137,587	2,725,326
Cards	487,671	40,121	487,671	40,121
Trade and remittances	236,527	15,284	236,527	15,284
Corporate banking	6,379	4,756	6,379	4,756
Deposits	33,694	28,840	33,694	28,840
Guarantees	25,182	11,808	25,182	11,808
Others	13,463	18,010	18,035	21,705
Net fee and commission income	1,940,211	2,842,973	1,945,075	2,847,840

Fee and commission income vs expenses

Graph 64



6 Net gain/(loss) from trading

Accounting policy

Net trading income includes all gains and losses and related dividend for "financial assets recognised through profit or loss" other than interest income and include income from foreign exchange.

Dividend income is recognised when the Group's right to receive the payment is established.

For the year ended 31 December	Bank		Group	
	2022 Rs. '000	2021 Rs. '000	**2022 Rs. '000**	2021 Rs. '000
Foreign exchange				
From other customers	**544,010**	308,036	**544,010**	308,036
Fixed income securities	**(1,046,011)**	(899,795)	**(3,571,627)**	(1,515,180)
Equity securities	**(481,831)**	485,628	**(481,831)**	485,628
Derivative financial instruments	**12,399**	9,904	**19,618**	9,904
Total	**(971,434)**	(96,226)	**(3,489,830)**	(711,612)

7 Net fair value gains/(losses) from financial instruments at fair value through profit or loss

Accounting policy

Net fair value gains/(losses) includes all unrealised gains and losses from changes in fair value of "financial assets and financial liabilities recognised through profit or loss".

For the year ended 31 December	Bank		Group	
	2022 Rs. '000	2021 Rs. '000	**2022 Rs. '000**	2021 Rs. '000
Gains on financial assets at fair value through profit or loss	**–**	–	**–**	–
Losses on financial assets at fair value through profit or loss	**–**	–	**–**	–
Gains on financial liabilities at fair value through profit or loss	**–**	–	**–**	–
Losses on financial liabilities at fair value through profit or loss	**–**	–	**–**	–
Total	**–**	–	**–**	–

8 Net gains/(losses) from de-recognition of financial assets

Accounting policy

"Net gains/(losses) from de-recognition of financial assets" comprise gains less losses related to financial assets measured at fair value through other Comprehensive Income and de-recognised asset at amortised cost.

	Bank		Group	
For the year ended 31 December	**2022 Rs. '000**	2021 Rs. '000	**2022 Rs. '000**	2021 Rs. '000
Recognised at:				
Fair value through profit or loss	–	–	–	–
Amortised cost	(18,290)	–	(18,290)	–
Fair value through other comprehensive income	(7,913)	28,269	(7,913)	28,269
Total	(26,203)	28,269	(26,203)	28,269

9 Net other operating income

Accounting policy

i. Gain/(loss) on disposal of property, plant and equipment

The gains or losses on the disposal of property, plant and equipment is determined on the difference between the carrying amount of the assets at the time of disposal and the proceeds of disposal, net of disposal costs. This is recognised in other operating income in the year in which significant risks and rewards of ownership are transferred to the buyer.

ii. Foreign exchange gain/(loss)

Foreign currency positions are revalued at each reporting date. Gains and losses arising from changes in exchange rates are included in Income Statement in the period in which they arise.

iii. Dividend income

Dividend earned from financial assets measured at fair value through other comprehensive income is recognised when the Group's right to receive the payment is established.

	Bank		Group	
For the year ended 31 December	**2022 Rs. '000**	2021 Rs. '000	**2022 Rs. '000**	2021 Rs. '000
Gain/(loss) on investment properties	–	–	1,910	17,312
Gain/(loss) on sale of property, plant and equipment	28	1,765	2,715	5,283
Gain/(loss) on revaluation of foreign exchange	98,976	(311)	98,976	(311)
Recovery of loans written off	–	–	22,390	23,891
Less: Loans written off	–	–	–	–
Dividend income	178,153	395,666	178,985	146,309
Rent income	22,704	21,350	22,751	21,415
Other income	114,796	99,977	215,318	128,341
Total	414,656	518,447	543,045	342,239

10 Impairment charges

Accounting policy

The Group recognises the changes in the impairment provisions for all financial instruments, which are assessed as per Sri Lanka Financial Reporting Standard – SLFRS 9 on "Financial Instrument". The measurement of impairment losses under SLFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The methodology adopted for impairment is explained in Note 21 (d) to the Financial Statements.

		Bank		Group	
For the year ended 31 December	Note	2022 Rs. '000	2021 Rs. '000	2022 Rs. '000	2021 Rs. '000
Impairment charge	10.1	4,816,292	4,260,652	4,878,806	4,184,658
Loan write-off/waive-off		45,906	43,792	56,585	43,792
Total		4,862,198	4,304,444	4,935,391	4,228,450

10.1 Impairment charges

		Bank		Group	
For the year ended 31 December	Note	2022 Rs. '000	2021 Rs. '000	2022 Rs. '000	2021 Rs. '000
Cash and cash equivalents					
Stage 1		914	128	914	128
Placement with banks					
Stage 1		(1,549)	(33)	(6,050)	901
Stage 2		4,367	–	4,367	–
Financial assets at amortised cost – loans and advances	21 (d)				
Stage 1		1,176,241	567,234	1,116,685	537,994
Stage 2		472,446	1,253,154	497,678	1,195,147
Stage 3		3,609,508	1,158,009	3,710,881	1,168,266
Financial assets at amortised cost – debt instruments	22.4				
Stage 1		127	(100,784)	92	(100,722)
Stage 2		(445,761)	1,382,944	(445,761)	1,382,944
Stage 3		–	–	–	–
Financial assets measured at fair value through other comprehensive income	23 (b)	–	–	–	–
Contingent liabilities and commitments	48	–	–	–	–
Investments in subsidiaries	24 (d)	–	–	–	–
Investments in associates and joint ventures	25	–	–	–	–
Property, plant and equipment	26	–	–	–	–
Investment properties	28	–	–	–	–
Others	31.1	–	–	–	–
Total		4,816,292	4,260,652	4,878,806	4,184,658

10. Impairment charges (contd.)

10.2 Impact of Management Overlay to impairment charges

Impact to ECL due to Management Overlay

Retail loans and advances of selected sectors which were initially grouped under Stage 1 moved to Stage 2. As a result, Loans and Advances amounting to Rs. 10,550 Mn. were moved from State 1 to Stage 2 and provision for impairment was increased by Rs. 1,353 Mn. for the year ended 31 December 2022.

Movement of loans and advances From Stage 1 to Stage 2

	Stage 1	Stage 2	Net impact
Exposure (Rs. '000)	(10,550,014)	10,550,014	–
Impairment provision (Rs. '000)	(153,673)	1,506,721	1,353,048

Retail loans and advances of selected sectors which were initially grouped under Stage 2 moved to Stage 3. As a result, Loans and Advances amounting to Rs. 668.9 Mn. were moved from State 2 to Stage 3 and provision for impairment was increased by Rs. 139.6 Mn. for the year ended 31 December 2022.

Movement of loans and advances from Stage 2 to Stage 3

	Stage 2	Stage 3	Net impact
Exposure (Rs. '000)	(668,930)	668,930	–
Impairment provision (Rs. '000)	(82,728)	222,358	139,630

Refer Note 21 (f) Impact of COVID-19 to Loans and Advances and ECL provision for more detail on page 308.

11 Personnel expenses

Accounting policy

i Defined contribution plans

The Group operates a defined contribution plan. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Group by the employees and is recorded as an expense under "Personnel expenses". Unpaid contributions are recorded as a liability. The Group contributes to the following defined contribution plans:

(a) Employees' Provident Fund

The Bank and employees contribute 12% and 8% respectively of the employee's monthly gross salary (excluding overtime) to the Provident Fund. The Bank's Provident Fund is an approved fund under the Employees' Provident Fund Act. The Bank guarantees 8% p.a. return to the members of the Employees' Provident Fund.

Subsidiary companies and its employees contribute 12% and 8% respectively to the Employees Provident Fund (EPF) maintained by Central Bank of Sri Lanka.

(b) Employees' Trust Fund

The Group contributes 3% of the employee's monthly gross salary (excluding overtime) to the Employees' Trust Fund maintained by the Employees Trust Fund Board.

ii Defined benefit plans

Contribution to defined benefit plans are recognised in the Income Statement based on an independent actuarial valuation carried out separately for each defined benefit plan in accordance with Sri Lanka Accounting Standard LKAS – 19 on "Employee Benefits".

11. Personnel expenses (contd.)

For the year ended 31 December	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
Salary and bonus	**9,871,817**	10,393,684	**10,158,912**	10,619,006
Contributions to defined contribution plans	**1,084,628**	930,447	**1,109,267**	952,177
Contributions to defined benefit plans [Note (11. a, b, c, d)]	**2,388,285**	1,414,649	**2,401,319**	1,423,259
Share based expenses	**–**	–	**–**	–
Others	**445,790**	231,575	**448,174**	234,800
Total	**13,790,521**	12,970,355	**14,117,672**	13,229,242

11. (a) Contribution – Staff pension fund – I

For the year ended 31 December	Note	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
Amount recognised as expense	38. (a)	**947,960**	325,985	**947,960**	325,985

An actuarial valuation was carried out as of 31 December 2022, by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional Actuaries. [Refer Note 38. (a) 1 on page 341]

11. (b) Contribution – Staff pension fund – II

For the year ended 31 December	Note	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
Amount recognised as expense	38. (a) 2	**771,784**	892,145	**772,929**	893,069

Pension scheme II has been established for the employees who joined the Bank on or after 1 October 1995. Actuarial valuation was carried out by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional Actuaries, on 31 December 2022. [Refer Note 38. (a) 2 on page 343]

11. (c) Contribution – Retired staff medical scheme

For the year ended 31 December	Note	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
Amount recognised as expense	38. (a) 3	**668,541**	196,519	**668,541**	196,519

Retired staff medical scheme has been established for the all employees of the Bank. Actuarial valuation was carried out by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional Actuaries, on 31 December 2022. (Refer Note 38. (a) 3 on page 347)

11. Personnel expenses (contd.)

11. (d) Contribution – Gratuity

For the year ended 31 December	Note	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
Amount recognised as expense	38. (a) 4	**–**	–	**11,330**	7,687

The staff members of the subsidiary companies are not entitled for pension scheme and hence they are continue to the members of Gratuity Plan as per the provision of Gratuity Act No. 12 of 1983. (Refer Note 38. (a) 4 on page 349)

12 Other expenses

Accounting policy

Other operating expenses are recognised in the Statement of Profit or Loss on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and maintaining the property, plant and equipment in a state of efficiency has been charged to the Income Statement in arriving at the profit of the year. Provisions in respect of other expenses are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Expenses of depreciation and amortisation of property, plant and equipment and intangible assets are separated from other expenses and disclosed in the face of Income Statement.

For the year ended 31 December	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
Directors' emoluments	**2,713**	2,425	**7,468**	5,977
Auditors' remunerations	**3,103**	5,976	**6,505**	8,810
Non-audit fees to auditors	**–**	–	**–**	–
Professional and legal expenses	**28,866**	22,512	**37,801**	31,585
Deposit insurance premium paid to the CBSL	**1,456,144**	1,273,321	**1,456,465**	1,273,914
Special fees paid to Treasury	**320,000**	320,000	**320,000**	320,000
Office administration and establishment expenses	**3,442,854**	2,439,372	**3,471,689**	2,466,599
Others*	**736,338**	655,067	**1,052,655**	664,728
Total	**5,990,018**	4,718,673	**6,352,583**	4,771,613

*Other expenses under the Group includes an amount of Rs. 259,957,886 which has charged by the CBSL due to failure of comply with the section 17. (d) of the circular No. 01 of 2021 on Consolidated operating instruction of market operation and section 11.2 of volume 03 of Lanka Settlement Systems Rules version 2.2 in respect of Standard Lending Facility (SLF) and Intra-day Liquidity Facility (ILF).

13 Tax expenses

Accounting policy

As per Sri Lanka Accounting Standard – LKAS 12 on "Income Taxes", tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxes. Income tax expense is recognised in Income Statement, except to the extent it relates to items recognised directly in Equity or Other Comprehensive Income (OCI).

Current taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current as well as prior years. The tax rates and tax laws used to compute the amount are those that are enacted or subsequently enacted at the reporting date. Accordingly, provision for taxation is made on the basis of the accounting profit for the year as adjusted for taxation purpose in accordance with the provision of the Inland Revenue Act No. 24 of 2017 and the amendment thereto, at the rates specified in Note 13. (a).

Deferred taxation

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

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which they can be used.

The carrying amount of a deferred tax asset is reviewed at each reporting date and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax asset are reassessed at each reporting date and are recognise to the extent that is probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply in the year when the assets are realised or the liabilities are settled, based on tax rates and tax laws that have been enacted or subsequently enacted at the reporting date.

		Bank		Group	
For the year ended 31 December	Note	2022 Rs. '000	2021 Rs. '000	2022 Rs. '000	2021 Rs. '000
Current tax expenses					
Current year		2,832,872	7,587,940	3,020,315	7,682,037
Prior year's (over)/under provision		44,934	(851,151)	35,972	(912,847)
Deferred tax expenses					
Effect of change in tax rates		–	–	–	–
Temporary differences	13.(b)	(897,864)	(555,000)	(1,665,668)	(554,914)
Prior year's (over)/under provision	13.(b)	–	80,000	–	79,858
Total		1,979,942	6,261,790	1,390,619	6,294,134
Effective tax rate (%)		43.90	22.06	59.44	22.14
Effective tax rate (excluding deferred tax) (%)		63.81	23.74	130.63	23.81

13. Tax expenses (contd.)

13. (a) Reconciliation of tax expenses

For the year ended 31 December	Bank		Group	
	2022 Rs. '000	2021 Rs. '000	2022 Rs. '000	2021 Rs. '000
Profit before tax	**4,509,609**	28,381,414	**2,339,610**	28,424,952
Income tax for the period (Accounting profit @ tax rate)	**1,196,300**	6,811,539	**1,365,134**	6,821,989
Add: Tax effect of expenses that are not deductible for tax purposes	**2,696,895**	2,932,271	**2,750,689**	3,035,202
(Less): Tax effect of expenses that are deductible for tax purposes	**931,198**	1,557,873	**966,385**	1,577,157
: Tax effect of exempt income	**129,123**	597,996	**129,123**	597,996
Tax expense for the year	**2,832,872**	7,587,940	**3,020,315**	7,682,037
Tax rate (%)	**30**	24	**30**	24

13. (b) The deferred tax (credit)/charge in the Income Statement comprises the following:

For the year ended 31 December	Bank		Group	
	2022 Rs. '000	2021 Rs. '000	2022 Rs. '000	2021 Rs. '000
Deferred tax assets	**(1,059,236)**	(383,185)	**(1,829,256)**	(384,186)
Deferred tax liabilities	**161,373**	(91,815)	**163,588**	(90,870)
Deferred tax (credit)/charge to Income Statement	**(897,864)**	(475,000)	**(1,665,668)**	(475,056)

Change of the income tax rate from 24% to 30%

As per the Inland Revenue (Amendment) Act No. 45 of 2022 , Certified on 19 December 2022 the standard rate of income tax increased to 30% from 24%. The increase in income tax rate to 30% in mid year result in two tax rates being applicable for the Year 2022. The Bank computed the Income tax expense on a pro rate basis (i.e. 50% for first six months and balance 50% for second six months) for the Year of Assessment 2022/23.

14 Earnings per share

Accounting policy

The Group presents basic and diluted Earnings per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss for the year attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any. The Bank does not have dilutive potential ordinary shares as at 31 December 2022.

	Bank		Group	
For the year ended 31 December	**2022 Rs. '000**	2021 Rs. '000	**2022 Rs. '000**	2021 Rs. '000
Net profit attributable to ordinary equity holders	**2,529,667**	22,119,624	**948,991**	22,130,818
Net profit attributable to ordinary equity holders adjusted for the effect of dilution	**2,529,667**	22,119,624	**948,991**	22,130,818
Weighted average number of ordinary shares for basic earnings per share	**940,000**	940,000	**940,000**	940,000
Effect of dilution	**–**	–	**–**	–
Weighted average number of ordinary shares adjusted for the effect of dilution	**940,000**	940,000	**940,000**	940,000
Basic earnings per ordinary share	**2.69**	23.53	**1.01**	23.54
Diluted earnings per ordinary share	**2.69**	23.53	**1.01**	23.54

14. (a) Weighted average number of ordinary shares for basic and diluted earnings per share

	Outstanding number of shares		Weight average number of shares	
For the year ended 31 December	**2022 '000**	2021 '000	**2022 '000**	2021 '000
Number of shares in issue as at 1 January	**940,000**	940,000	**940,000**	940,000
Add: Number of shares issued during the year	**–**	–	**–**	–
Number of ordinary shares basic and diluted earnings per share	**940,000**	940,000	**940,000**	940,000

15 Analysis of financial instruments by measurement basis

Accounting policy

The carrying amounts of financial instruments by category as defined in Sri Lanka Accounting Standard – SLFRS 9 on "Financial Instruments" under headings of the Statement of Financial Position are summarised below:

15. (a) Bank – 2022

	Note	AC Rs. '000	FVPL Rs. '000	FVOCI Rs. '000	Total Rs. '000
Assets					
Cash and cash equivalents	16	8,734,069	–	–	8,734,069
Balances with central banks	17	236,480	–	–	236,480
Placements with banks	18	10,466,409	–	–	10,466,409
Derivative financial instruments	19	–	28,172	–	28,172
Loans and advances	21	553,027,321	–	–	553,027,321
Debt instruments	20, 22 and 23	919,129,377	12,217,110	25,348,941	956,695,428
Equity instruments	20 and 23	–	1,956,839	2,313,822	4,270,660
Total financial assets		1,491,593,656	14,202,120	27,662,763	1,533,458,539

	Note	AC Rs. '000	FVPL Rs. '000	Total Rs. '000
Liabilities				
Due to banks	32	4,086,731	–	4,086,731
Derivative financial instruments	33	–	–	–
Financial liabilities				
– Due to depositors	35	1,476,739,818	–	1,476,739,818
– Due to debt securities holders	35	–	–	–
– Due to other borrowers	35	16,766,044	–	16,766,044
Debt securities issued	37	23,778,255	–	23,778,255
Total financial liabilities		1,521,370,848	–	1,521,370,848

AC – Financial assets/liabilities measured at amortised cost

FVPL – Financial assets/liabilities measured at fair value through profit or loss

FVOCI – Financial assets measured at fair value through other comprehensive income

15. Analysis of financial instruments by measurement basis (contd.)

15. (b) Bank – 2021

	Note	AC Rs. '000	FVPL Rs. '000	FVOCI Rs. '000	Total Rs. '000
Assets					
Cash and cash equivalents	16	7,656,038	–	–	7,656,038
Balances with central banks	17	–	–	–	–
Placements with banks	18	7,120,698	–	–	7,120,698
Derivative financial instruments	19	–	–	–	–
Loans and advances	21	538,941,789	–	–	538,941,789
Debt instruments	20, 22 and 23	935,350,052	17,242,953	10,922,236	963,515,242
Equity instruments	20 and 23	–	2,329,980	2,895,358	5,225,338
Total financial assets		1,489,068,577	19,572,933	13,817,594	1,522,459,104

	Note	AC Rs. '000	FVPL Rs. '000	Total Rs. '000
Liabilities				
Due to banks	32	7,686,553	–	7,686,553
Derivative financial instruments	33	–	–	–
Financial liabilities				
– Due to depositors	35	1,428,467,385	–	1,428,467,385
– Due to debt securities holders	35	–	–	–
– Due to other borrowers	35	7,719,532	–	7,719,532
Debt securities issued	37	37,529,017	–	37,529,017
Total financial liabilities		1,481,402,487	–	1,481,402,487

15. (c) Group – 2022

	Note	AC Rs. '000	FVPL Rs. '000	FVOCI Rs. '000	Total Rs. '000
Assets					
Cash and cash equivalents	16	8,782,807	–	–	8,782,807
Balances with central banks	17	236,696	–	–	236,696
Placements with banks	18	11,034,246	–	–	11,034,246
Derivative financial instruments	19	–	35,392	–	35,392
Loans and advances	21	553,052,170	–	–	553,052,170
Debt instruments	20, 22 and 23	927,916,442	21,280,010	25,833,465	975,029,917
Equity instruments	20 and 23	–	1,956,839	2,418,746	4,375,585
Total financial assets		1,501,022,361	23,272,241	28,252,211	1,552,546,812

15. Analysis of financial instruments by measurement basis (contd.)

15. (c) Group – 2022 (contd.)

	Note	AC Rs. '000	FVPL Rs. '000	Total Rs. '000
Liabilities				
Due to banks	32	12,711,256	–	12,711,256
Derivative financial instruments	33	–	–	–
Financial liabilities				
– Due to depositors	35	1,475,808,557	–	1,475,808,557
– Due to debt securities holders	35	–	–	–
– Due to other borrowers	35	18,889,245	–	18,889,245
Debt securities issued	37	23,851,810	–	23,851,810
Total financial liabilities		1,531,260,868	–	1,531,260,868

15. (d) Group – 2021

	Note	AC Rs. '000	FVPL Rs. '000	FVOCI Rs. '000	Total Rs. '000
Assets					
Cash and cash equivalents	16	7,721,532	–	–	7,721,532
Balances with central banks	17	7	–	–	7
Placements with banks	18	9,323,663	–	–	9,323,663
Derivative financial instruments	19	–	–	–	–
Loans and advances	21	538,600,866	–	–	538,600,866
Debt instruments	20, 22 and 23	940,536,328	38,062,172	12,931,250	991,529,750
Equity instruments	20 and 23	–	2,329,980	3,062,553	5,392,533
Total financial assets		1,496,182,396	40,392,152	15,993,803	1,552,568,350

	Note	AC Rs. '000	FVPL Rs. '000	Total Rs. '000
Liabilities				
Due to banks	32	10,470,191	–	10,470,191
Derivative financial instruments	33	–	–	–
Financial liabilities				
– Due to depositors	35	1,426,724,704	–	1,426,724,704
– Due to debt securities holders	35	–	–	–
– Due to other borrowers	35	27,087,920	–	27,087,920
Debt securities issued	37	37,618,575	–	37,618,575
Total financial liabilities		1,501,901,390	–	1,501,901,390

16 Cash and cash equivalents

Accounting policy

Cash and cash equivalents includes cash in hand, balances with banks, money at call and short notice that are subject to an insignificant risk of change in their value. They are recorded in the Financial Statements at their gross values less impairment. The Group has calculated impairment provision as per SLFRS 9 – "Financial Instrument" based on external rating of particular bank.

	Bank		Group	
As at 31 December	2022 Rs. '000	2021 Rs. '000	2022 Rs. '000	2021 Rs. '000
Cash in hand	3,207,729	3,687,059	3,212,553	3,691,618
Balances with banks	5,524,723	3,968,959	5,568,637	4,029,894
Money at call and short notice	2,756	245	2,756	245
Gross cash and cash equivalents (*)	8,735,208	7,656,263	8,783,946	7,721,757
Impairment for expected credit losses	(1,139)	(225)	(1,139)	(225)
Net cash and cash equivalents (*)	8,734,069	7,656,038	8,782,807	7,721,532

(*) Gross cash and cash equivalents are reported in the Statement of Cash Flows.

17 Balances with central banks

	Bank		Group	
As at 31 December	2022 Rs. '000	2021 Rs. '000	2022 Rs. '000	2021 Rs. '000
Non-statutory balances with central banks				
Central Bank of Sri Lanka	236,480	–	236,696	7
Total	236,480	–	236,696	7

18 Placements with banks

Accounting policy

Placement with banks include short-term deposits placed in banks that are subjected to insignificant risk of changes in fair value, and are used by the Bank and the Group in the management of its short-term commitments. They are recorded in the Financial Statements at their face values or the gross values less impairment, where appropriate. The Group has calculated impairment provision as per SLFRS 9 on "Financial Instrument" based on external rating of particular bank.

As at 31 December	Bank		Group	
	2022 Rs. '000	2021 Rs. '000	**2022 Rs. '000**	2021 Rs. '000
Placements with banks – Sri Lanka				
Sri Lankan Rupee (LKR)	**–**	–	**567,861**	2,207,489
American Dollar (USD)	**4,108,012**	3,601,110	**4,108,012**	3,601,110
EURO (EUR)	**2,024,133**	1,232,755	**2,024,133**	1,232,755
Great British Pound (GBP)	**2,100,834**	1,308,872	**2,100,834**	1,308,872
Australian Dollar (AUD)	**1,417,955**	979,639	**1,417,955**	979,639
Placements with banks – Outside Sri Lanka				
American Dollar (USD)	**819,971**	–	**819,971**	–
Gross placements with banks	**10,470,905**	7,122,376	**11,038,765**	9,329,865
Impairment for expected credit losses	**(4,496)**	(1,678)	**(4,519)**	(6,202)
Net placements with banks	**10,466,409**	7,120,698	**11,034,246**	9,323,663

19 Derivative financial instruments

Accounting policy

Derivatives are financial instruments that derive their value in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and indices. Derivatives are categorised as "trading" unless they are designated as hedging instruments. The Group uses derivatives such as interest rate swaps and forward foreign exchange contracts.

Derivatives recorded at fair value through profit or loss

Derivatives except for derivatives used as hedging instruments are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in "Net trading income".

Derivatives used as hedge instruments

The Group entered into derivative contracts to hedge against the foreign exchange rate or interest rate. These derivatives are measured at fair value. The Group adopts hedge accounting mismatch to eliminate the accounting resulting from volatility in the Financial Statements between derivatives measured at fair value and the financial asset or liability (hedge exposure) measured at cost/amortised cost, if hedge is efficient.

19. Derivative financial instruments (contd.)

Cash flow hedge

Cash flow hedge is measured at fair value at the end of each reporting period.

If a hedge of the exposure to variability in cash flow, the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in Other Comprehensive Income within "cash flow hedge" – fair value gain/(loss). Any gain or losses in fair value relating to an ineffective portion is recognised immediately in the Income Statements.

The accumulated gains and losses recognised in Other Comprehensive Income are reclassified to the Income Statement in the periods in which the hedged item will affect profit or loss. However, when the forecast transaction that is hedged result in the recognised of a non-financial assets or a non-financial liability, the gains and losses previously recognised in Other Comprehensive Income are removed from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meet the criteria for hedge accounting, any cumulative gain or loss recognised in Other Comprehensive Income at that time remains in equity until the forecast transaction is eventually recognised in the Income Statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in Other Comprehensive Income is immediately reclassified to the Income Statement.

19.1 Derivative assets

Bank and Group

As at 31 December	Note	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
Foreign currency derivatives					
Currency swaps	48.2	28,172	–	28,172	–
Others		–	–	7,220	–
Total		28,172	–	35,392	–

20 Financial assets recognised through profit or loss

Accounting policy

Financial assets are classified as financial assets recognised through profit or loss if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short-term profit or position taking and recorded to fair value. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships. Financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost or fair value through other comprehensive income as per SLFRS 9 on "Financial Instruments".

Financial assets recognised through profit or loss are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognised in "Net gain/(loss) from trading" while interest income and expenses are recorded in "Net interest income" according to the terms of the contract, or when the right to the payment has been established. Dividend income and realised gain or losses are recorded in "Net gain/(loss) from trading".

The Group evaluates its financial assets recognised through profit or loss, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and Management's intention to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets, in rare circumstances.

20. Financial assets recognised through profit or loss (contd.)

As at 31 December	Note	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
Measured at fair value					
Sri Lanka Government Securities					
Treasury Bills		6,893,662	9,421,673	8,432,736	16,343,128
Treasury Bonds		5,323,448	7,821,281	12,847,273	21,719,045
Equity securities	20. (b)	1,956,839	2,069,513	1,956,839	2,069,513
Unit trust		–	260,466	–	260,466
Subtotal		14,173,948	19,572,933	23,236,848	40,392,152
Designated at fair value		–	–	–	–
Total		14,173,948	19,572,933	23,236,848	40,392,152

20. (a) Analysis

As at 31 December	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
By collateralisation				
Pledged as collateral	–	–	7,911,556	20,622,579
Unencumbered	14,173,948	19,572,933	15,325,292	19,769,573
Total	14,173,948	19,572,933	23,236,848	40,392,152
By currency				
Sri Lankan Rupee	14,173,948	19,572,933	23,236,848	40,392,152
United States Dollar	–	–	–	–
Total	14,173,948	19,572,933	23,236,848	40,392,152

20. Financial assets recognised through profit or loss (contd.)

20. (b) Equity securities (quoted) – Bank and Group

As at 31 December	2022			2021		
	Number of shares	Cost Rs. '000	Market value Rs. '000	Number of shares	Cost Rs. '000	Market value Rs. '000
1. Banks						
Commercial Bank of Ceylon PLC	1,094,568	143,015	54,947	1,054,474	143,015	83,620
Commercial Bank of Ceylon PLC (NV)	304,939	34,889	12,594	293,166	34,889	21,108
DFCC Bank	476,165	86,002	15,237	453,088	86,002	27,185
Sampath Bank PLC	2,757,478	201,346	94,306	2,757,478	201,346	143,665
Nation Trust Bank PLC	2,427,452	141,097	112,148	2,284,901	141,097	125,670
National Development Bank PLC	793,570	52,715	25,394	745,611	52,715	51,372
Subtotal		659,064	314,626		659,064	452,620
2. Capital Goods						
Aitken Spence PLC	–	–	–	–	–	–
Access Engineering PLC	1,700,023	65,008	18,190	1,825,023	69,788	58,218
ACL Cables PLC	1,594,338	169,711	111,763	717,331	71,274	71,912
Colombo Dockyard PLC	–	–	–	774,494	172,877	61,495
Lanka Ceramic PLC	–	–	–	25,589	3,463	3,838
Hemas Holdings PLC	1,799,843	148,976	101,511	1,799,843	148,975	120,409
Hayleys PLC	1,620,493	189,954	110,194	711,159	67,966	92,451
John Keells Holdings PLC	3,194,987	458,997	432,122	3,194,987	458,997	479,248
Vallibel One PLC	1,770,273	158,256	53,285	–	–	–
Lanka Walltiles PLC	644,999	45,868	33,217	–	–	–
Kelani Cables PLC	170,000	102,000	44,158	–	–	–
Royal Ceramics Lanka PLC	950,000	66,918	26,885	–	–	–
Richard Pieris & Company PLC	149,084	2,968	3,593	1,604,084	31,939	39,460
Subtotal		1,408,656	934,918		1,025,279	927,033
3. Consumer Services						
Asian Hotels and Properties PLC	1,106,949	86,383	41,400	1,208,119	94,278	53,278
Aitken Spence Hotel Holdings PLC	–	–	–	2,035,726	182,935	86,111
John Keells Hotels PLC	1,281,205	23,925	21,140	2,011,205	37,557	29,565
Lighthouse Hotels PLC	884,007	53,757	26,520	1,175,667	71,492	41,031
The Kingsbury PLC	3,029,712	34,491	25,753	3,669,712	41,556	34,862
Jetwing Symphony PLC	1,300,000	19,500	13,520	1,300,000	19,500	16,380
Subtotal		218,056	128,333		447,318	261,227
4. Consumer Durables and Apparel						
Teejay Lanka PLC	2,054,737	84,211	65,135	2,029,737	79,646	90,120
Hela Apparel Holdings PLC	1,472,284	24,634	12,514	–	–	–
Subtotal		108,845	77,650		79,646	90,120

20. Financial assets recognised through profit or loss (contd.)

20. (b) Equity securities (quoted) – Bank and Group (contd.)

As at 31 December	2022			2021		
	Number of shares	Cost Rs. '000	Market value Rs. '000	Number of shares	Cost Rs. '000	Market value Rs. '000
5. Energy						
Lanka IOC PLC	538,630	35,957	109,207	–	–	–
Subtotal		35,957	109,207		–	–
6. Food Beverage and Tobacco						
Melstacorp PLC	1,682,757	92,277	77,743	1,356,817	71,652	76,117
Subtotal		92,277	77,743		71,652	76,117
7. Materials						
Tokyo Cement Company (Lanka) PLC	714,762	41,817	23,587	714,762	41,817	42,743
Tokyo Cement Company (Lanka) PLC (NV)	1,135,906	62,334	29,534	1,135,906	62,334	56,455
Dipped Products PLC	1,393,313	72,042	40,545	1,136,337	59,363	57,612
CIC Holdings PLC	1,005,257	88,030	85,447	–	–	–
Chevron Lubricants Lanka PLC	709,957	84,781	68,511	–	–	–
Subtotal		349,004	247,624		163,514	156,810
8. Insurance						
Janashakthi Insurance Company PLC	421,923	11,863	13,375	881,521	24,785	27,063
Subtotal		11,863	13,375		24,785	27,063
9. Telecommunication Services						
Dialog Axiata PLC	3,738,360	81,332	31,776	3,738,360	81,332	40,748
Subtotal		81,332	31,776		81,332	40,748
10. Utilities						
LVL Energy Fund PLC	3,597,704	35,977	21,586	3,597,704	35,977	37,776
Subtotal		35,977	21,586		35,977	37,776
Total		3,001,032	1,956,839		2,588,567	2,069,513

21 Financial assets at amortised cost – Loans and advances

Accounting policy

Loans and advances include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Group intends to sell immediately or in the near term and those that the Group, upon initial recognition, designates as at fair value through profit or loss
- Those that the Group, upon initial recognition, designates financial assets measured at fair value through other comprehensive income

"Loans and advances" include amounts due from banks and other customers. After initial measurement, loans and advances are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in "Interest income" in the Income Statement. The losses arising from impairment are recognised in "Impairment charge for loans and other losses" in the Income Statement.

From 1 January 2018, the Bank only measures loans and advances at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding

Details of business model and SPPI test are given in Notes 2.5.1.4.1 and 2.5.1.4.2 on page 270.

	Bank		Group	
As at 31 December	2022 Rs. '000	2021 Rs. '000	2022 Rs. '000	2021 Rs. '000
Gross loans and advances				
Stage 1*	520,349,987	508,412,070	521,035,077	507,991,511
Stage 2	24,397,234	22,500,946	23,729,649	22,608,174
Stage 3	25,508,516	19,998,993	27,038,659	21,449,544
Gross loans and advances	570,255,736	550,912,009	571,803,386	552,049,228
(Less): Accumulated impairment under:				
Stage 1	4,691,568	3,515,327	4,713,720	3,597,035
Stage 2	2,623,411	2,150,965	2,666,511	2,168,833
Stage 3	9,913,436	6,303,928	11,370,985	7,682,494
Total Impairment	17,228,415	11,970,220	18,751,216	13,448,362
Net loans and advances	553,027,321	538,941,789	553,052,170	538,600,866

* Stage 1 loans for the year 2022 includes treasury guaranteed loans of Rs. 69,212 Mn. for which impairment provision amounted to zero, as the LGD applied for such loans is zero.

21. Financial assets at amortised cost – Loans and advances (contd.)

21. (a) Analysis by product

As at 31 December	Note	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
By product					
Trade finance		–	–	–	–
Lease rental and hire purchase receivable	21.(e)	–	–	172,973	276,606
Pawning		74,389,506	52,193,260	74,389,569	52,195,389
Staff loans		14,867,179	13,348,092	15,194,108	13,641,981
Term loans					
Short-term		282,586	434,945	282,586	980,569
Long-term		477,901,737	477,330,159	478,870,726	478,545,545
Others					
Sri Lanka Government Securities		–	–	–	–
Loan to Government		2,075,000	2,075,000	2,075,000	2,075,000
Securities purchased under resale agreements		739,728	5,530,553	818,424	4,334,138
Gross total		570,255,736	550,912,009	571,803,386	552,049,228

21. (b) Analysis by currency

As at 31 December	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
By currency				
Sri Lankan Rupee	566,077,155	549,105,259	567,624,805	550,242,478
United States Dollar	4,178,581	1,806,750	4,178,581	1,806,750
Gross total	570,255,736	550,912,009	571,803,386	552,049,228

21. Financial assets at amortised cost – Loans and advances (contd.)

21. (c) Analysis by industry

As at 31 December	Bank		Group	
	2022 Rs. '000	2021 Rs. '000	**2022 Rs. '000**	2021 Rs. '000
By industry				
Agriculture and fishing	**30,380,297**	32,357,760	**30,718,456**	32,802,339
Manufacturing	**–**	–	**658,745**	754,033
Tourism	**72,525**	65,237	**125,702**	132,859
Transport	**22,537**	1,438,822	**59,644**	1,495,766
Construction/housing	**190,997,512**	165,772,167	**191,330,795**	166,260,959
Traders	**–**	–	**465,148**	540,111
New economy	**–**	–	**21,717**	36,459
Others				
Financial and business services	**2,204,933**	3,856,637	**2,204,933**	3,461,528
Infrastructure	**64,633,867**	62,602,215	**64,633,867**	62,711,714
Power and energy	**9,325,128**	11,906,155	**9,325,128**	11,906,155
Education	**9,384,292**	9,369,970	**9,384,292**	9,378,569
Personal/pawning/other	**263,234,645**	263,543,047	**262,874,959**	262,568,737
Gross total	**570,255,736**	550,912,009	**571,803,386**	552,049,228

21. (d) Movements in impairment during the year

Accounting policy

Individual assessment of impairment

For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers as well as financial assets at amortised cost – debt and other instruments), the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of a impairment provision account and the amount of the loss is recognised in the Income Statement. Interest income continues to be accrued on the carrying amount at the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of "Interest and similar income".

21. Financial assets at amortised cost – Loans and advances (contd.)

21. (d) Movements in impairment during the year (contd.)

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. If the Group has reclassified trading assets to loans and receivables, the discount rate for measuring any impairment loss is the new EIR determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increased or decreased because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the "Credit loss expense".

Collective assessment of impairment

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of expected loss experience for assets with credit risk characteristics similar to those in the Group. Expected loss experience is adjusted on the basis of current observable data to reflect the effect of current conditions on which the historical loss experience is based and to remove the effect of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Write-off of loans and advances

The Group's accounting policy for write-off under SLFRS 9 remains the same as it was under LKAS 39. Loans (and the related impairment allowance accounts) are normally written off, either partially or in entirety, when there is no realistic prospect of recovery and all possible steps have been exhausted in recovering dues. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. If a write-off is later recovered, the recovery is credited to "other operating income".

Collateral valuation

The Group uses collateral where possible to mitigate the risk on financial assets. The collateral comes in various forms such as cash, gold, Government Securities. To the extent possible, the Group uses active market data for valuing financial assets held as collaterals.

Details of impairment policy are given in Note 2.5.2 on page 274.

21. Financial assets at amortised cost – Loans and advances (contd.)

21. (d) Movements in impairment during the year (contd.)

As at 31 December	Bank		Group	
	2022 Rs. '000	2021 Rs. '000	2022 Rs. '000	2021 Rs. '000
Stage 1				
Balance as at 1 January	3,515,327	2,948,093	3,597,035	3,059,041
Charge/(Write back) to Income Statement	1,176,241	567,234	1,116,685	537,994
Write-off during the year	–	–	–	–
Other movements	–	–	–	–
Balance as at 31 December	4,691,568	3,515,327	4,713,720	3,597,035
Stage 2				
Balance as at 1 January	2,150,965	897,811	2,168,833	973,686
Charge/(Write back) to Income Statement	472,446	1,253,154	497,678	1,195,147
Write-off during the year	–	–	–	–
Other movements	–	–	–	–
Balance as at 31 December	2,623,411	2,150,965	2,666,511	2,168,833
Stage 3				
Balance as at 1 January	6,303,928	5,145,919	7,682,494	6,538,919
Charge/(Write back) to Income Statement	3,655,413	1,201,801	3,767,466	1,212,058
Write-off during the year	(45,906)	(43,792)	(56,585)	(44,593)
Other movements	–	–	(22,390)	(23,891)
Balance as at 31 December	9,913,436	6,303,928	11,370,985	7,682,494
Total impairment provision as at 31 December	17,228,415	11,970,220	18,751,216	13,448,362

21. (e) Lease and hire purchase receivables

As at 31 December	Bank		Group	
	2022 Rs. '000	2021 Rs. '000	2022 Rs. '000	2021 Rs. '000
Gross lease and hire purchased receivables	–	–	173,244	276,877
Unearned interest asset	–	–	34,158	67,669
Unearned interest liability	–	–	(34,429)	(67,940)
Net lease and hire purchased receivables	–	–	172,973	276,606

21. Financial assets at amortised cost – Loans and advances (contd.)

21. (f) Impact of COVID-19 to Loan and Advances and ECL provision

Overview

Sri Lanka's worst-ever economic crisis is seeing a shortage of foreign currency, runaway inflation, extremely high interest rates, high taxes and steep recession. Economic crisis continues to cause major disruptions to economic activities with wide-ranging impacts across many business sectors in Locally. In preparing the financial statements, we made various accounting estimates for future events based on forecasts of economic conditions which reflect expectations and assumptions as at 31 December 2022, that we believe are reasonable under the circumstances.

We continue to operate in an uncertain macroeconomic environment. Impact on estimates and assumptions as disclosed in Note 2, the preparation of the Consolidated Financial Statements in accordance with SLFRS requires management to make estimates and assumptions that affect the recognised and measured amounts of assets, liabilities, net income, comprehensive income and related disclosures. Significant estimates and assumptions are made in the areas of the valuation of financial instruments, allowance for credit losses, asset impairment, income taxes, provisions and contingent liabilities, post-employment and other long-term benefit plan assumptions. Actual results could differ from these estimates and assumptions. The economic meltdown gives rise to heightened uncertainty as it relates to accounting estimates and assumptions and increases the need to apply judgement in evaluating the economic and market environment and its impact on significant estimates. This particularly impacts estimates and assumptions relating to allowance for credit losses, valuation of financial instruments, and asset impairment.

Allowance for credit impairment

We applied judgment in the determination of the industries most impacted by the economic crisis and assessed the associated impact on risk ratings after considering the internal and external support and strength measuring both 12-month and lifetime expected credit losses. Our ECL models leverage the PD, LGD, and EAD parameters. For standardised business and government portfolios, available long-run PDs, LGDs and EADs are also converted to point-in-time parameters through the incorporation of forward-looking information for the purpose of measuring ECL under SLFRS 9.

Significant judgment is involved in determining which forward-looking information variables are relevant for portfolios and in determining the extent by which through-the-cycle parameters should be adjusted for forward-looking information to determine point-in-time parameters. While changes in the set of forward-looking information variables used to convert through-the-cycle PDs, LGDs and EADs into point-in-time parameters can either increase or decrease ECL allowances in a particular period, changes to the mapping of forward-looking information variables to particular portfolios are expected to be infrequent. However, changes in the particular forward-looking information parameters used to quantify point-in-time parameters will be frequent as our forecasts are updated on a quarterly basis. Increases in the level of pessimism in the forward-looking information variables will cause increases in ECL, while increases in the level of optimism in the forward-looking information variables will cause decreases in ECL. These increases and decreases could be significant in any particular period and will start to occur in the period where our outlook of the future changes. With respect to the lifetime of a financial instrument, the maximum period considered when measuring ECL is the maximum contractual period over which we are exposed to credit risk.

We applied judgment with respect to the degree that certain industries and portfolios would be negatively impacted by the Economic Crisis .Forecasting forward-looking information for multiple scenarios and determining the probability weighting of the scenarios as indicated above, forward-looking information is incorporated into both our assessment of whether a financial asset has experienced a SICR since its initial recognition and in our estimate of ECL.

Key forward-looking information variables include GDP growth, Inflation, Interest rate, Exchange rates and unemployment. For most of our loan portfolios, our forecast of forward-looking information variables is established from a "base case" or most likely scenario that is used internally by management for planning and forecasting purposes. In forming the base case scenario, we consider the forecasts of international organisations and monetary authorities such as the International Monetary Fund (IMF), and the Central Bank of Sri Lanka, as well as private sector economists. We then derive reasonably possible "upside case" and "downside case" scenarios using external forecasts that are above and below our base case and the application of management judgment. A probability weighting is assigned to our base case, upside case and downside case scenarios based on management judgment. In general, a worsening of our outlook on forecasted forward-looking information for each scenario, an increase in the probability of the downside case scenario occurring, or a decrease in the probability of the upside case scenario occurring will increase the estimated ECL allowance.

21. Financial assets at amortised cost – Loans and advances (contd.)

21. (f) Impact of COVID-19 to Loans and Advances and ECL provision (contd.)

In contrast, an improvement in our outlook on forecasted forward-looking information, an increase in the probability of the upside case scenario occurring, or a decrease in the probability of the downside case scenario occurring will have the opposite impact. It is not possible to meaningfully isolate the impact of changes in the various forward-looking information variables for a particular scenario because of both the interrelationship between the variables and the interrelationship between the level of pessimism inherent in a particular scenario and its probability of occurring. The forecasting of forward-looking information and the determination of scenario weightings in the Economic Crisis required a heightened application of judgment in a number of areas as our forecast reflects numerous assumptions and uncertainties regarding the impact of the Economic Crisis. The following table provides weightage used for the base case, upside case and downside case scenario forecasts for select forward-looking information variables used to estimate our ECL.

Scenario probability weighting (Bank)

As at 31 December	2022 %	2021 %
Base case	10	25
Upside case	10	15
Downside case	80	60

Use of Management overlays

Management overlays to ECL allowance estimates are adjustments which we use in circumstances where we judge that our existing inputs, assumptions and model techniques do not capture all relevant risk factors. The emergence of new macroeconomic, microeconomic or political events, along with expected changes to parameters, models or data that are not incorporated in our current parameters, internal risk rating migrations, or forward-looking information are examples of such circumstances.

Impact of the Economic Crisis to address the uncertainties inherent in the current environment, we utilised management overlays with respect to the impact that the Economic Crisis will have on the migration of certain business and Government exposures that we believe are the most susceptible to these risks and the resulting measurement of the ECL for those exposures. The mitigating impact of Government support measures was considered in the determination of these overlays to the extent not already reflected in our models. The use of management overlays requires the application of significant judgment that impacts the amount of ECL allowances recognised. Actual credit losses could differ materially from those reflected in our estimates.

All the Corporate clients were assessed individually based on their historical payment patterns, Economic Crisis impact to their sector and geographical area, expected recovery of the sector, financial strength of the entity, Government and CBSL support, and other holistic factors. Based on the assessment some borrowers were moved from stage one to stage two (SICR) and some borrowers were moved from stage two to stage three (due to expected cashflow impairment) despite of their past due status.

The portfolio level impairment assessments were carried out for the retail borrowers. The borrowers were allocated between stages based on their sector and management judgement. Based on the assessment some borrowers were moved from Stage one to Stage two (SICR) and some borrowers were moved from Stage two to Stage three (due to expected cashflow impairment) despite of their past due status.

Impact to ECL due to Management Overlay

Retail loans and advances of selected sectors which were initially group under Stage 1 moved to Stage 2. As a result, Loans and Advances amounting to Rs. 10,550 Mn. were moved from Stage 1 to Stage 2 and provision for impairment was increased by Rs. 1,353 Mn. for the year ended 31 December 2022.

21. Financial assets at amortised cost – Loans and advances (contd.)

21. (f) Impact of COVID-19 to Loans and Advances and ECL provision (contd.)

Movement of loans and advances from Stage 1 to Stage 2

	Stage 1 Rs. '000	Stage 2 Rs. '000	Net impact Rs. '000
Exposure	(10,550,014)	10,550,014	–
Impairment provision	(153,673)	1,506,721	1,353,048

Retail loans and advances of selected sectors which were initially grouped under Stage 2 moved to Stage 3. As a result, Loans and Advances amounting to Rs. 668.9 Mn. were moved from Stage 2 to Stage 3 and provision for impairment was increased by Rs. 139.6 Mn. for the year ended 31 December 2022.

Movement of loans and advances from Stage 2 to Stage 3

	Stage 2 Rs. '000	Stage 3 Rs. '000	Net impact Rs. '000
Exposure	(668,930)	668,930	–
Impairment provision	(82,728)	222,358	139,630

22 Financial assets at amortised cost – Debt and other instruments

Accounting policy

Financial assets at amortised cost – debt and other instruments are non-derivative financial assets with fixed or determinable payments and fixed maturities, for which, the Group has the intention and ability to hold to maturity. After initial measurement, financial assets at amortised cost – debt and other instruments are subsequently measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in "Interest and similar income" in the Income Statement. The losses arising from impairment of such investments are recognised in the Income Statement under "Impairment charges".

22. Financial assets at amortised cost – Debt and other instruments (contd.)

As at 31 December	Note	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
Sri Lanka Government Securities					
Treasury Bills		6,483,616	20,183,054	6,981,266	20,183,054
Treasury Bonds		768,959,383	772,929,966	776,263,184	777,131,964
Sri Lanka Development Bonds (SLDB)		9,388,730	14,165,804	9,388,730	14,165,804
Debentures (Treasury Guarantee)		132,760,669	126,305,334	132,760,669	126,305,334
Corporate debt instruments	22.1	2,476,508	2,696,232	3,462,287	3,680,708
Trust certificates	22.2	–	454,826	–	454,826
Commercial papers		–	–	6,000	6,000
Other investments		–	–	165,595	165,595
Gross total		920,068,906	936,735,215	929,027,729	942,093,284
Impairment for expected credit losses		(939,528)	(1,385,163)	(1,111,287)	(1,556,956)
Net total		919,129,377	935,350,052	927,916,442	940,536,328

22.1 Corporate Debt Instruments

As at 31 December	Bank 2022 Number of debentures	Bank 2022 Carrying value	Bank 2021 Number of debentures	Bank 2021 Carrying value
People's Leasing PLC	2,064,900	214,076	7,064,900	757,901
Commercial Leasing & Finance PLC	7,500,000	796,157	7,500,000	771,380
Hayleys PLC	7,000,000	754,787	7,000,000	724,049
Commercial Credit and Finance PLC	1,000,000	107,447	1,000,000	107,447
Nations Trust Bank PLC	3,212,800	335,455	3,212,800	335,455
Resus Energy PLC	2,500,000	268,586	–	–
Net total		2,476,508		2,696,232

22.2 Trust Certificates

As at 31 December	Bank 2022 Carrying value	Bank 2021 Carrying value	Group 2022 Carrying value	Group 2021 Carrying value
Commercial Leasing & Finance PLC	–	328,515	–	328,515
Vallibel Finance PLC	–	126,311	–	126,311
Net total	–	454,826	–	454,826

22. Financial assets at amortised cost – Debt and other instruments (contd.)

22.3 Analysis

As at 31 December	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
By collateralisation				
Pledged as collateral	**6,772,300**	8,191,410	**13,253,580**	11,632,510
Unencumbered	**913,296,606**	928,543,805	**915,774,149**	930,460,774
Gross total	**920,068,906**	936,735,215	**929,027,729**	942,093,284
By currency				
Sri Lankan Rupee	**910,680,176**	922,569,411	**919,639,000**	927,927,480
United States Dollar	**9,388,730**	14,165,804	**9,388,730**	14,165,804
Gross total	**920,068,906**	936,735,215	**929,027,729**	942,093,284

22.4 Movements in impairment during the year

As at 31 December	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
Stage 1				
Opening balance as at 1 January	**528**	101,312	**728**	101,450
Charge/(write back) to Income Statement	**127**	(100,784)	**92**	(100,722)
Write-off during the year	**–**	–	**–**	–
Other movements	**–**	–	**–**	–
Balance as at 31 December	**655**	528	**820**	728
Stage 2				
Balance as at 1 January	**1,384,634**	1,690	**1,384,634**	1,690
Charge/(write back) to Income Statement	**(445,761)**	1,382,944	**(445,761)**	1,382,944
Write-off during the year	**–**	–	**–**	–
Other movements	**–**	–	**–**	–
Balance as at 31 December	**938,873**	1,384,634	**938,873**	1,384,634
Stage 3				
Balance as at 1 January	**–**	–	**171,595**	171,595
Charge/(write back) to Income Statement	**–**	–	**–**	–
Write-off during the year	**–**	–	**–**	–
Other movements	**–**	–	**–**	–
Balance as at 31 December	**–**	–	**171,595**	171,595
Total impairment provision as at 31 December	**939,528**	1,385,163	**1,111,287**	1,556,956

23 Financial assets at fair value through other comprehensive income

Accounting policy

Financial Assets at fair value through other comprehensive income include equity and debt securities. Equity investments classified as fair value through other comprehensive income are those which are held as strategic investment. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, financial assets at fair value through other comprehensive income are subsequently measured at fair value. Financial assets at fair value through other comprehensive income can be divided into two categories as follows:

i. Equity instruments fair value through other comprehensive income

Upon initial recognition, the Group occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under LKAS 32 on "Financial Instruments: Presentation" and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Unrealised gains and losses are recognised directly in equity (Other Comprehensive Income) in the "OCI reserve". Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

Equity investments under FVOCI that do not have quoted market price and whose fair value cannot be reliably measured shall be measured at cost.

ii. Debt instruments at fair value through other comprehensive income

The Group applies the new category under SLFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets.
- The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income, ECL and reversals are recognised in profit or loss. On de-recognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

		Bank		Group	
As at 31 December	Note	2022 Rs. '000	2021 Rs. '000	2022 Rs. '000	2021 Rs. '000
Sri Lanka Government Securities	23. (c)				
Treasury Bills		8,001,757	–	8,001,757	–
Treasury Bonds		17,347,185	10,922,236	17,831,708	12,931,250
Equity securities					
Quoted equity securities	23. (d)	2,146,925	2,674,004	2,249,685	2,839,035
Unquoted equity securities	23. (e)	166,897	221,354	211,537	265,994
(Less): Impairment		–	–	(42,476)	(42,476)
Net financial assets at fair value through other comprehensive income		27,662,763	13,817,594	28,252,211	15,993,803

23. Financial assets at fair value through other comprehensive income (contd.)

23. (a) Analysis

As at 31 December	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
By collateralisation				
Pledged as collateral	–	–	387,192	1,928,959
Unencumbered	27,662,763	13,817,594	27,865,019	14,064,844
Gross total	27,662,763	13,817,594	28,252,211	15,993,803
By currency				
Sri Lankan Rupee	27,662,763	13,817,594	28,252,211	15,993,803
United States Dollar	–	–	–	–
Gross total	27,662,763	13,817,594	28,252,211	15,993,803

23. (b) Movements in impairment during the year

No impairment movement during the year.

23. (c) Sri Lanka Government Securities

	Bank					
	2022			2021		
	Face value Rs. '000	Cost of investment Rs. '000	Fair value Rs. '000	Face value Rs. '000	Cost of investment Rs. '000	Fair value Rs. '000
Sri Lanka Government Securities – Treasury Bills	8,565,000	7,445,499	8,001,757	–	–	–
Sri Lanka Government Securities – Treasury Bonds	19,374,930	17,604,776	17,347,185	10,950,000	11,342,019	10,922,236
		25,050,275	25,348,941		11,342,019	10,922,236

	Group					
	2022			2021		
	Face value Rs. '000	Cost of investment Rs. '000	Fair value Rs. '000	Face value Rs. '000	Cost of investment Rs. '000	Fair value Rs. '000
Sri Lanka Government Securities – Treasury Bills	8,565,000	7,445,499	8,001,757	–	–	–
Sri Lanka Government Securities – Treasury Bonds	20,024,051	18,106,103	17,831,708	12,927,200	13,433,931	12,931,250
		25,551,601	25,833,465		13,433,931	12,931,250

23. Financial assets at fair value through other comprehensive income (contd.)

23. (d) Quoted investments – Equity securities – Bank and Group

	Bank					
	2022			2021		
	Number of shares	Cost Rs. '000	Fair value Rs. '000	Number of shares	Cost Rs. '000	Fair value Rs. '000
Hatton National Bank PLC	12,293,280	1,730,274	969,940	12,075,700	1,730,274	1,630,220
Sri Lanka Telecom PLC	13,158,700	445,643	894,792	13,158,700	445,643	510,558
People's Leasing & Finance PLC	49,834,269	832,312	282,193	49,834,269	832,312	533,227
		3,008,229	2,146,925		3,008,229	2,674,004

	Group					
	2022			2021		
	Number of shares	Cost Rs. '000	Fair value Rs. '000	Number of shares	Cost Rs. '000	Fair value Rs. '000
Hatton National Bank PLC	12,293,280	1,730,274	969,940	12,075,700	1,730,274	1,630,220
Sri Lanka Telecom PLC	13,158,700	445,643	894,792	13,158,700	445,643	510,558
People's Leasing Company PLC	49,834,269	832,312	282,193	49,834,269	832,312	533,227
National Development Bank	17,451	1,357	558	16,397	1,283	1,130
Commercial Bank PLC	228	10	11	220	10	17
Lanka ORIX Leasing Company	200	1	80	200	1	232
Sampath Bank PLC	10,827	311	370	10,827	311	564
Watawala Plantation PLC	4,046	21	299	4,046	21	526
Trans Asia Hotel PLC	4,000	35	180	4,000	35	220
Lanka Ceramic PLC	917	24	91	917	24	138
Lanka Walltile PLC	585	2	30	585	2	73
Kelani Valley Plantations PLC	11,000	198	899	11,000	198	967
Hapugastenna Plantations PLC	100	3	5	100	3	4
Aitken Spence PLC	18,000	160	2,304	18,000	160	1,483
Pan Asia Bank PLC	10,298,499	96,012	97,836	10,298,499	96,012	159,627
Hatton Plantations PLC	4,000	30	97	4,000	30	50
		3,106,394	2,249,685		3,106,320	2,839,035

23. Financial assets at fair value through other comprehensive income (contd.)

23. (e) Unquoted investments – Equity securities

	Bank					
	2022			2021		
	Number of shares	Cost Rs. '000	Cost/fair value Rs. '000	Number of shares	Cost Rs. '000	Cost/fair value Rs. '000
Investment – Credit Information Bureau	30,450	57,364	57,364	30,450	57,364	57,364
Investment – Associated Newspapers of Ceylon Limited	20,000	127	127	20,000	127	127
Investment – Regional Development Bank (RDB)	16,452,126	164,521	109,406	16,452,126	164,521	163,863
(Less): Impairment Provision		–	–		–	–
		222,012	166,897		222,012	221,354

	Group					
	2022			2021		
	Number of shares	Cost Rs. '000	Cost/fair value Rs. '000	Number of shares	Cost Rs. '000	Cost/fair value Rs. '000
Investment – Credit Information Bureau	32,093	57,528	57,528	32,093	57,528	57,528
Investment – Associated Newspapers of Ceylon Limited	20,000	127	127	20,000	127	127
Investment – Regional Development Bank (RDB)	16,452,126	164,521	109,406	16,452,126	164,521	163,863
Investment – Sri Lanka Financial Services Bureau Ltd.	200,000	2,000	2,000	200,000	2,000	2,000
Pramuka Merchant Corporation	500,000	5,000	5,000	500,000	5,000	5,000
Prime Development & Constructions	230,000	2,300	2,300	230,000	2,300	2,300
Janashakthi Life	2,500,000	25,000	25,000	2,500,000	25,000	25,000
Janashakthi Holding	1,000,000	10,000	10,000	1,000,000	10,000	10,000
Vanik Incorporation	17,000	176	176	17,000	176	176
Gross Total		266,652	211,537		266,652	265,994
(Less): Impairment provision		–	(42,476)		–	(42,476)
Net Total		266,652	169,061		266,652	223,518

All unquoted equities in financial assets measured at fair value through other comprehensive income (except RDB) are recorded at cost, since its fair value cannot be reliably estimated. There is no active market for these investments and Group intends to hold it for the long-term. The investment in RDB shares have been fair valued using a valuation model based on observable data.

24 Investments in subsidiaries

Accounting policy

Investments in subsidiary companies are accounted at cost less allowance for impairment in Financial Statements of the Bank. The net assets of subsidiary companies are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of investment is estimated and the impairment loss is recognised to the extent of its loss in net assets.

As at 31 December		2022	2021	2022		2021	
	Note	%	%	Cost Rs. '000	Valuation* Rs. '000	Cost Rs. '000	Valuation* Rs. '000
Unquoted equity investments							
NSB Fund Management Co. Ltd. (420,000,000 ordinary shares of Rs. 10.00 each.)		**100**	100	**4,200,000**	**3,715,208**	1,700,000	3,440,451
Sri Lanka Savings Bank Limited (8,204,464 ordinary shares)		**100**	100	**3,111,000**	**7,093,243**	3,111,000	6,807,004
(Less): Impairment provision	24. (3)			**–**	**–**	–	–
Net total				**7,311,000**	**10,039,545**	4,811,000	10,247,456

* The Valuation of investments in subsidiaries have been carried out on net asset basis as at 31 December 2022 based on audited Financial Statements.

24.1 Acquisition and disposal of subsidiary

No acquisition or disposal have been occurred during the year 2022.

24.2 Interest Income and profit of acquire

No acquisition or disposal have been occurred during the year 2022.

24.3 Movements in impairment during the year

No impairment movements during the year 2022.

25 Investment in associates and joint ventures

Accounting policy

Associates are those entities in which the Group has significant influence, but not control, over the variable returns through its power over the investee. Significant influence is presumed to exist when the Group holds 20% or more of the voting power of another entity.

Investments in associates are accounted for using the equity method and are recognised initially at cost, in terms of Sri Lanka Accounting Standards – LKAS 28 on "Investments in Associates and Joint Ventures". Under the Equity Method, investments in associates are carried at cost plus post-acquisition changes in the Group's share of net assets of the associates and are reported as a separate line item in the Statement of Financial Position. The Income Statement reflects the Group's share of the results of operations of the associates. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in Equity through OCI. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in associate.

The Group discontinues the use of the Equity Method from the date that it ceases to have significant influence over an associate and accounts for such investments in accordance with the Sri Lanka Accounting Standard – SLFRS 9 on "Financial Instruments". Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

No investment in associates and joint ventures as at 31 December 2022.

26 Property, plant and equipment

Accounting policy

Basis of recognition

Property, plant and equipment are recognised if it is probable that future benefits associated with the asset will flow to the Group and cost of the asset can be reliably measured. Property, plant and equipment are initially measured at cost including costs directly attributable to the acquisition of the asset.

Basis of measurement

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and subsequent costs. The self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bring the asset to a working condition for its intended use and the cost of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Purchased software which is integral to the functionality of the related equipment is capitalised as part of computer equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Cost model

The Group applies cost model to property, plant and equipment except for freehold land and buildings and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

26. Property, plant and equipment (contd.)

Revaluation model

The Group applies the revaluation model to the entire class of freehold land and buildings. Such properties are carried at a revalued amount, being their fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Freehold land and buildings of the Group are revalued every three years or more frequently, if the fair values are substantially different from their carrying amounts to ensure that the carrying amounts do not differ materially from the fair values at the reporting date.

On revaluation of an asset, any increase in the carrying amount is recognised in Other Comprehensive Income and accumulated in equity, under revaluation reserve or used to reverse a previous revaluation decrease relating to the same asset, which was charged to Income Statement. In this circumstance, the increase is recognised as income to the extent of the previous write down. Any decrease in the carrying amount is recognised as an expense in the Income Statement or debited in the Other Comprehensive Income to the extent of any credit balance existing in the revaluation reserve in respect of that asset. The decrease recognised in Other Comprehensive Income reduces the amount accumulated in equity under revaluation reserves. Any balance remaining in the Revaluation Reserve in respect of an asset is transferred directly to Retained Earnings on retirement or disposal of the asset.

De-recognition

Property, plant and equipment are de-recognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in “Other operating income” in the Income Statement in the year the asset is de-recognised.

Capital work in progress

These are expenses of capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation. These are stated in the Statement of Financial Position at cost less any accumulated impairment losses. Capital work in progress is transferred to the relevant asset when it is in the location and condition necessary for it to be capable of operating in the manner intended by Management.

Borrowing costs

There were no capitalised borrowing costs related to the acquisition of property, plant and equipment by the Group.

Improvement to rent/leasehold building

Effective from 1 January 2017 the Bank has decided to capitalise the improvement to rent/leasehold building. The improvement will be amortised over the lease period effective from same date.

Depreciation

Depreciation is recognised in profit or loss on the straight–line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Land is not depreciated. Depreciation rates for the identified classes of assets are as follows:

Category of asset	Depreciation period
Leasehold properties, improvement to rent/leasehold	over the period of lease
Freehold buildings	20 – 50 years
Office, sundry equipment and furniture and fittings	5 – 10 years
Motor vehicles	5 years
Computer hardware	4 – 5 years
Computer software	4 – 5 years

The Group provides depreciation of an assets commencing from the date when they are available for use to the date of disposal of the asset.

26. Property, plant and equipment (contd.)

26. (a) Property, plant and equipment – Bank – 2022

	Land and buildings Rs. '000	Leasehold properties, improvement to rent/ leasehold buildings* Rs. '000	Computer hardware Rs. '000	Office sundry equipment, furniture and fittings** Rs. '000	Motor vehicle Rs. '000	Building work-in-progress Rs. '000	Total Rs. '000
Cost/fair value							
Opening balance as at 1 January 2022	12,568,468	857,321	3,492,162	2,538,770	448,748	49,341	19,954,810
Additions	34,945	13,085	287,265	149,204	–	51,500	535,998
Revaluation gain/(loss)	–	–	–	–	–	–	–
Write-off	–	–	–	–	–	–	–
Depreciation adjustment for revalued assets	–	–	–	–	–	–	–
Disposals	–	–	(63,706)	(5,186)	(1,494)	–	(70,386)
Transfers/adjustment	–	(1,670)	105,539	(138,311)	–	(37,489)	(71,932)
Closing balance as at 31 December 2022	12,603,413	868,735	3,821,259	2,544,477	447,254	63,351	20,348,490
(Less): Accumulated depreciation							
Opening balance as at 1 January 2022	96,557	249,464	2,589,236	1,546,680	392,027	–	4,873,963
Charge for the year	90,408	59,308	416,670	159,064	25,228	–	750,678
Depreciation adjustment for revalued assets	–	–	–	–	–	–	–
Disposals	–	–	(61,571)	(4,090)	(1,494)	–	(67,155)
Transfers/adjustment	–	–	–	–	–	–	–
Closing balance as at 31 December 2022	186,965	308,772	2,944,334	1,701,654	415,761	–	5,557,486
(Less): Impairment	–	–	–	–	–	35,228	35,228
Net book value as at 31 December 2022	12,416,447	559,963	876,925	842,823	31,493	28,122	14,755,775

26. Property, plant and equipment (contd.)

26. (a) Property, plant and equipment – Bank – 2021

	Land and buildings Rs. '000	Leasehold properties, improvement to rent/ leasehold buildings* Rs. '000	Computer hardware Rs. '000	Office sundry equipment, furniture and fittings** Rs. '000	Motor vehicle Rs. '000	Building work-in-progress Rs. '000	Total Rs. '000
Cost/fair value							
Opening balance as at 1 January 2021	12,427,043	784,662	3,339,213	2,440,999	454,448	176,414	19,622,780
Additions	141,425	158,321	259,418	200,743	–	49,572	809,479
Revaluation gain/(loss)	–	–	–	–	–	–	–
Depreciation adjustment for revalued assets	–	–	–	–	–	–	–
Disposals	–	–	(106,470)	(19,831)	(5,700)	–	(132,001)
Transfers/adjustment	–	(85,662)	–	(83,140)	–	(176,646)	(345,448)
Closing balance as at 31 December 2021	12,568,468	857,321	3,492,162	2,538,770	448,748	49,341	19,954,810
(Less): Accumulated depreciation							
Opening balance as at 1 January 2021	–	186,714	2,315,205	1,404,295	365,566	–	4,271,779
Charge for the year	96,557	62,750	378,555	159,637	32,161	–	729,660
Depreciation adjustment for revalued assets	–	–	–	–	–	–	–
Disposals	–	–	(104,524)	(17,252)	(5,700)	–	(127,476)
Transfers/adjustment	–	–	–	–	–	–	–
Closing balance as at 31 December 2021	96,557	249,464	2,589,236	1,546,680	392,027	–	4,873,962
(Less): Impairment	–	–	–	–	–	35,228	35,228
Net book value as at 31 December 2021	12,471,910	607,857	902,926	992,090	56,721	14,112	15,045,618

26. Property, plant and equipment (contd.)

26. (b) Property, plant and equipment – Group – 2022

	Land and buildings Rs. '000	Leasehold properties, improvement to rent/ leasehold buildings* Rs. '000	Computer hardware Rs. '000	Office sundry equipment, furniture and fittings** Rs. '000	Motor vehicle Rs. '000	Building work-in-progress Rs. '000	Total Rs. '000
Cost/fair value							
Opening balance as at 1 January 2022	13,441,880	862,397	3,555,263	2,598,533	497,893	49,341	21,005,308
Additions	34,945	13,085	290,787	149,294	–	51,500	539,610
Revaluation gain/(loss)	–	–	–	–	–	–	–
Write-off	–	–	–	–	–	–	–
Depreciation adjustment for revalued assets	–	–	–	–	–	–	–
Disposals	(8,700)	–	(63,706)	(5,186)	(3,694)	–	(81,286)
Transfer from investment properties	–	–	–	–	–	–	–
Transfers/adjustment	–	(1,670)	105,539	(138,311)	–	(37,489)	(71,932)
Closing balance as at 31 December 2022	13,468,125	873,811	3,887,883	2,604,330	494,199	63,351	21,391,701
(Less): Accumulated depreciation							
Opening balance as at 1 January 2022	102,657	249,465	2,637,132	1,599,669	431,653	–	5,020,575
Charge for the year	90,783	59,308	421,269	160,552	27,608	–	759,521
Depreciation adjustment for revalued assets	–	–	–	–	–	–	–
Disposals	–	–	(61,571)	(4,090)	(3,694)	–	(69,355)
Transfers/adjustment	–	–	–	–	–	–	–
Closing balance as at 31 December 2022	193,440	308,773	2,996,830	1,756,131	455,567	–	5,710,741
(Less): Impairment	–	–	–	–	–	35,228	35,228
Net book value as at 31 December 2022	13,274,685	565,038	891,053	848,199	38,632	28,122	15,645,732

26. Property, plant and equipment (contd.)

26. (b) Property, plant and equipment – Group – 2021

	Land and buildings Rs. '000	Leasehold properties, improvement to rent/ leasehold buildings* Rs. '000	Computer hardware Rs. '000	Office sundry equipment, furniture and fittings** Rs. '000	Motor vehicle Rs. '000	Building work in progress Rs. '000	Total Rs. '000
Cost/fair value							
Opening balance as at 1 January 2021	13,300,456	789,738	3,387,446	2,498,947	498,688	176,414	20,651,691
Additions	141,425	158,321	274,287	202,557	11,900	49,572	838,062
Revaluation gain/(loss)	–	–	–	–	–	–	–
Write off	–	–	–	–	–	–	–
Depreciation adjustment for revalued assets	–	–	–	–	–	–	–
Disposals	–	–	(106,470)	(19,831)	(12,695)	–	(138,996)
Transfer from investment properties	–	–	–	–	–	–	–
Transfers/adjustment	–	(85,662)	–	(83,140)	–	(176,646)	(345,448)
Closing balance as at 31 December 2021	13,441,880	862,397	3,555,263	2,598,533	497,893	49,341	21,005,309
(Less): Accumulated depreciation							
Opening balance as at 1 January 2021	5,724	186,715	2,360,680	1,455,700	409,807	–	4,418,626
Charge for the year	96,933	62,750	380,976	161,221	34,541	–	736,420
Depreciation adjustment for revalued assets	–	–	–	–	–	–	–
Disposals	–	–	(104,524)	(17,252)	(12,695)	–	(134,471)
Transfers/adjustment	–	–	–	–	–	–	–
Closing balance as at 31 December 2021	102,657	249,465	2,637,132	1,599,669	431,653	–	5,020,575
(Less): Impairment	–	–	–	–	–	35,228	35,228
Net book value as at 31 December 2021	13,339,223	612,932	918,131	998,864	66,240	14,113	15,949,505

* Leasehold properties, improvement to rent/leasehold buildings include working progress of improvement to rent/leasehold building amounting Rs. 363.1 Mn. as at 31 December 2022.
** Office, sundry equipment and furniture and fittings include working progress of office equipment amounting Rs. 4.6 Mn. as at 31 December 2022.

26. (c) Revaluation/fair valuation of the land and buildings

The Bank revalues its land and buildings, by professionally qualified independent valuers in every three years.

26. (d) Land and buildings of the Bank

Land and building include freehold land value of Rs. 9,044 Mn. as at 31 December 2022.

26. (e) Property, plant and equipment pledged as security for liabilities

There were no items of property, plant and equipment pledged as securities for liabilities.

26. Property, plant and equipment (contd.)

26. (f) Fully-depreciated property, plant and equipment

The initial cost of fully-depreciated property, plant and equipment, which are still in use as at reporting date are as follows:

As at 31 December	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
Computer hardware	**1,690,532**	1,579,322	**1,694,868**	1,619,617
Office equipment, furniture and fittings	**566,574**	474,734	**568,024**	508,250
Sundry equipments/motor vehicles and others	**749,044**	668,912	**749,044**	722,685
Total	**3,006,150**	2,722,969	**3,011,937**	2,850,552

27 Right-of-used assets

Accounting policy

The Group's right-of-used assets consist of the value of capitalised lease agreement held.

Basis of recognition

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date as specified in the Lease Agreement), which is the present value of lease payments to be made over the lease term.

Basis of measurement

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, and lease payments made at or before the commencement date less any lease incentives received.

Useful economic life and amortisation

Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

27. (a) Capitalised value of right-of-used assets

As at 31 December	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
Opening balance	**2,043,296**	1,751,761	**2,109,545**	1,818,010
Addition	**340,271**	305,120	**340,271**	305,120
Adjustments	**19,831**	–	**19,831**	–
Less:				
Disposal	**–**	–	**–**	–
Termination/transfers	**–**	13,585	**–**	13,585
Impairment	**–**	–	**–**	–
Closing balance	**2,403,399**	2,043,296	**2,469,647**	2,109,545

27. Right-of-used assets (contd.)

27. (b) Accumulated amortisation of right-of-used assets

	Bank		Group	
As at 31 December	2022 Rs. '000	2021 Rs. '000	2022 Rs. '000	2021 Rs. '000
Opening balance	837,380	525,578	865,407	546,485
Charge for the year	352,370	324,515	357,858	331,635
Disposal	–	–	–	–
Adjustments	–	872	–	872
Termination/transfers	–	(13,585)	–	(13,585)
Closing balance	1,189,749	837,380	1,223,265	865,407
Carrying value as at 31 December	1,213,649	1,205,916	1,246,383	1,244,138

28 Investment properties

Accounting policy

Investment on land or a building or part of a building or both, held to earn rentals or capital appreciation or both, are classified as investment property.

Cost model

Investment properties excluding Investment buildings are measured (initially) at cost (LKAS 40 Sec. 56), including transaction costs. Fair value of investment properties is measured by the Management on annual basis and is disclosed separately in Notes to the Financial Statement.

Fair value

After recognition as Investment buildings, whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciations and subsequent accumulated impairment losses. Revaluation shall be made at every three (3) years to ensure that the carrying amount does not differ materially from that, which would be determined using fair value at the end of the reporting period. Rent receivable is spread on a straight-line basis over the period of the lease. Where an incentive (such as a rent-free period) is given to a tenant, the carrying value of the investment property excludes any amount reported as a separate asset as a result of recognising rental income on this basis.

28. Investment properties (contd.)

28. (a) Fair value of investment properties

As at 31 December	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
Land				
Opening balance	–	–	201,385	227,885
Addition	–	–	–	–
Disposal	–	–	(5,600)	(26,500)
Revaluation gain	–	–	–	–
Transfer from property, plant and equipment	–	–	–	–
Transfer to property, plant and equipment	–	–	–	–
Impairment	–	–	–	–
Closing balance	–	–	195,785	201,385
Building				
Opening balance	–	–	9,192	9,192
Addition	–	–	–	–
Revaluation gain	–	–	–	–
Transfer from property, plant and equipment	–	–	–	–
Transfer to property, plant and equipment	–	–	–	–
Impairment	–	–	–	–
Closing balance	–	–	9,192	9,192

28. (b) Accumulated depreciation of investment properties

As at 31 December	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
Opening balance	–	–	–	–
Charge for the year	–	–	–	–
Transfer from property, plant and equipment	–	–	–	–
Transfer to property, plant and equipment	–	–	–	–
Closing balance	–	–	–	–
Net book value as at 31 December	–	–	204,977	210,577

Fair value gain of investment property has been recognised under other operating income.

SLSB has adopted policy to revalue investment properties by every three (3) years time, thus Investment properties are measured at fair value as per the LKAS 40 and revaluation done every three years time.

29 Goodwill and intangible assets

Accounting policy

The Group's intangible assets consist of the value of purchased computer software.

Basis of recognition

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Basis of measurement

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Useful economic life and amortisation

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

De-recognition

Intangible assets are de-recognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in "Other operating income" in the Income Statement in the year the asset is de-recognised.

The Group does not possess intangible assets with indefinite useful economic life. The estimated economic life of the Group's computer software is four to five years (20% to 25% per annum).

Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed.

Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Computer software

Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses. Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally-developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and any accumulated impairment losses.

29. Goodwill and intangible assets (contd.)

The Bank and Group do not have any intangible assets except computer software purchased which has been disclosed below:

As at 31 December	Note	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
Computer software	29.1	**725,029**	776,627	**730,001**	781,989
Software under development	29.2	**22,220**	39,431	**22,220**	39,431
Total		**747,248**	816,058	**752,221**	821,420

29.1 Computer Software

As at 31 December	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
Cost/valuation				
Opening balance	**2,414,573**	1,959,135	**2,435,016**	1,978,509
Additions during the year	**346,804**	455,438	**349,254**	456,508
Disposal during the year	**–**	–	**–**	–
Adjustments	**(86,754)**	–	**(86,754)**	–
Closing balance	**2,674,623**	2,414,573	**2,697,517**	2,435,016
Less: Accumulated amortisation				
Opening balance	**1,637,946**	1,306,285	**1,653,028**	1,319,460
Charge for the year	**311,649**	331,661	**314,488**	333,567
Disposal	**–**	–	**–**	–
Closing balance	**1,949,595**	1,637,946	**1,967,516**	1,653,028
(Less): Impairment	**–**	–	**–**	–
Net book value	**725,029**	776,627	**730,001**	781,989

29.2 Software under development

As at 31 December	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
Cost/valuation				
Opening balance	**39,431**	35,111	**39,431**	35,111
Additions during the year	**23,289**	41,144	**23,289**	41,144
Disposal during the year	**–**	–	**–**	–
Transfer/adjustment	**(40,500)**	(36,824)	**(40,500)**	(36,824)
Closing balance	**22,220**	39,431	**22,220**	39,431

29. Goodwill and intangible assets (contd.)

29.3 Fully-amortised Intangible assets

The initial cost of fully-amortised intangible assets (computer software), which are still in use as at reporting date are as follows:

As at 31 December	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
Intangible assets/computer software	1,307,357	894,846	1,309,727	894,846
Total	1,307,357	894,846	1,309,727	894,846

30 Deferred tax (assets)/liabilities

Accounting policy

Net deferred tax (asset)/liability of an entity cannot be set-off against another entity's deferred tax (asset)/liabilities as there is no legally enforceable right to set-off. Detailed on deferred tax accounting policy is given in Note 13 on page 291.

The following table shows deferred tax recorded in the Statement of Financial Position and changes recorded in the income tax expense:

As at 31 December	Note	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
Recognised under assets	30. (a)	(2,892,984)	(1,104,779)	(3,663,879)	(1,105,653)
Recognised under liabilities	30. (b)	–	–	4,155	1,939
Net deferred tax (asset)/liability	30 (c) and (d)	(2,892,984)	(1,104,779)	(3,659,724)	(1,103,714)

30. (a) Deferred tax assets

As at 31 December	Note	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
Opening balance		1,104,779	1,446,249	1,105,653	1,446,249
Convert to deferred tax liabilities		–	–	–	(126)
Charge for the year recognised in					
– Income Statement	13. (b)	897,864	554,999	1,667,883	555,858
– Prior year adjustment		–	(80,000)	–	(79,858)
– Other comprehensive income		890,342	(816,470)	890,342	(816,470)
Closing balance		2,892,984	1,104,779	3,663,879	1,105,653

30. Deferred tax assets/liabilities (contd.)

30. (b) Deferred tax liabilities

As at 31 December	Note	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
Opening balance		–	–	1,939	1,121
Convert to deferred tax assets		–	–	–	(126)
Charge for the year recognised in					
– Income Statement	13. (b)	–	–	2,215	1,086
– Prior year adjustment	13. (b)	–	–	–	(142)
– Other comprehensive income		–	–	–	–
Closing balance		–	–	4,155	1,939

30. (c) Reconciliation of net deferred tax (assets)/liabilities – Bank

As at 31 December	Statement of Financial Position 2022 Rs. '000	Statement of Financial Position 2021 Rs. '000	Profit or Loss 2022 Rs. '000	Profit or Loss 2021 Rs. '000	Other Comprehensive Income 2022 Rs. '000	Other Comprehensive Income 2021 Rs. '000
Deferred tax liability on:						
Accelerated depreciation for tax purpose	760,833	599,460	161,373	6,468	–	–
Revaluation surplus/(loss) on freehold land and building	2,778,621	2,222,897	–	–	555,724	–
Unrealised gain/(loss) on financial assets measured at fair value through other comprehensive income	–	–	–	–	–	–
Prior year adjustment	–	–	–	(98,283)	–	(1,290)
	3,539,454	2,822,357	161,373	(91,815)	555,724	(1,290)
Deferred tax asset on:						
Retirement benefit obligations	3,037,056	1,811,985	–	–	1,225,071	(800,435)
Impairment provision	3,071,556	2,012,320	1,059,236	561,468	–	–
Unrealised gain/(loss) on financial assets measured at fair value through other comprehensive income	323,826	102,830	–	–	220,995	110,573
Prior year adjustment	–	–	–	(178,283)	–	(127,898)
	6,432,438	3,927,135	1,059,236	383,185	1,446,066	(817,760)
Deferred tax effect on profit or loss and other comprehensive income for the year	–	–	897,864	475,000	890,342	(816,470)
Net deferred tax (asset)/liability	(2,892,984)	(1,104,779)	–	–	–	–

30. Deferred tax assets/liabilities (contd.)

30. (d) Reconciliation of net deferred tax (assets)/liabilities – Group

As at 31 December	Statement of Financial Position		Profit or loss		Other Comprehensive Income	
	2022 Rs. '000	2021 Rs. '000	**2022 Rs. '000**	2021 Rs. '000	**2022 Rs. '000**	2021 Rs. '000
Deferred tax liability on:						
Accelerated depreciation for tax purpose	**765,243**	601,756	**163,588**	5,468	**–**	–
Revaluation surplus/(loss) on freehold land and building	**2,778,621**	2,222,897	**–**	–	**555,724**	–
Unrealised gain/(loss) on financial assets measured at fair value through other comprehensive income	**–**	–	**–**	–	**–**	–
Prior year adjustment	**–**	–	**–**	(98,283)	**–**	(1,290)
	3,543,864	2,824,653	**163,588**	(92,815)	**555,724**	(1,290)
Deferred tax asset on:						
Retirement benefit obligations	**3,039,299**	1,813,217	**–**	(1,086)	**1,225,071**	(800,435)
Unused tax losses	**768,906**	–	**768,906**	–	**–**	–
Impairment provision	**3,071,556**	2,012,320	**1,060,350**	561,468	**–**	–
Unrealised gain/(loss) on financial assets measured at fair value through other comprehensive income	**323,826**	102,830	**–**	–	**220,995**	110,573
Prior year adjustment	**–**	–	**–**	(178,141)	**–**	(127,898)
	7,203,588	3,928,367	**1,829,256**	382,241	**1,446,066**	(817,760)
Deferred tax effect on profit or loss and other comprehensive income for the year	**–**	–	**1,665,668**	475,056	**890,342**	(816,470)
Net deferred tax (asset)/liability	**(3,659,724)**	(1,103,714)	**–**	–	**–**	–

31 Other assets

As at 31 December	Note	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
Cost					
Income tax receivable		–	–	67,401	67,401
Receivables	31.1	6,604,799	6,475,128	6,740,706	6,602,799
Receivable form treasury on interest		34,160,807	16,726,231	34,164,965	16,728,172
Deposits and prepayments		1,987,875	1,151,118	1,993,699	1,154,859
Advance payment to treasury	31.2	2,880,000	3,200,000	2,880,000	3,200,000
Advance payment made to pension II	38	2,365,392	397,716	2,365,392	397,716
Sundry debtors		29,032	18,197	29,032	18,218
Unamortised cost on staff loans (Day 1 difference)		8,026,120	5,547,869	8,026,120	5,547,869
Other assets		252,905	139,015	309,398	188,720
Total		56,306,931	33,655,272	56,576,713	33,905,753

31.1 Receivables

As at 31 December	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
Cost				
Receivables	6,729,171	6,599,500	6,885,533	6,747,645
Less: Impairment	(124,372)	(124,372)	(144,827)	(144,847)
Net receivables	6,604,799	6,475,128	6,740,706	6,602,799

31.2 Advance payment to treasury

At the request of Treasury, the Bank paid an advance of Rs. 6,000 Mn. in 2012 and Rs. 2,000 Mn. in 2013 as confirmed by the Treasury to be set-off against the profit within a period of six years starting from 2014. Effective from 1 January 2016, Treasury has agreed to set-off the balance amount of Rs. 5,333 Mn. against the profit within a period of 10 years. Thereafter Treasury has agreed to set-off the balance amount of Rs. 4,800 Mn. against the profit within a period of 15 years effective from 1 January 2017.

32 Due to banks

Accounting policy

Due to banks represents overdrafts, call money borrowings, borrowing from banks and Repos by the subsidiaries. Subsequent to initial recognition deposits are measured at their amortised cost using EIR method. Interest paid/payable on these dues are recognised in the Income Statement under interest expense. Foreign currency borrowings as at the reporting date are translated to the functional currency at the middle exchange rate of the functional currency at that date. Foreign currency differences arising on retranslation at the reporting date are recognised in profit or loss.

		Bank		Group	
As at 31 December	Note	**2022 Rs. '000**	2021 Rs. '000	**2022 Rs. '000**	2021 Rs. '000
Foreign currency borrowings	32.1	**–**	7,118,359	**–**	7,118,359
Securities sold under repurchase (Repo) agreements		**4,009,801**	501,442	**12,634,135**	3,284,979
Other facilities		**76,930**	66,752	**77,121**	66,852
Total		**4,086,731**	7,686,553	**12,711,256**	10,470,191

32.1 Foreign currency borrowings

USD 35 Mn. term loan facility – Bank

The Bank has obtained a term loan facility of USD 35 Mn. from Indian Bank and Indian Overseas Bank and Settled on 17 February 2022.

Product	**USD Term Loan Facility**
Purpose	To invest in Sri Lanka Development Bonds (SLDBs)
Security	Mortgage of USD denominated SLDBs to the lenders
Tenure	1 Year
Interest rate	06M LIBOR + 3.50 p.a. to be paid semi-annually
Capital repayment	At maturity

Name of lender	Loan value (USD Mn.)	Capital outstanding as at31.12.2021 (USD Mn.)	Date of borrowing	Date of maturity
Indian Bank	20	20	17 February 21	17 February 22
Indian Overseas Bank	15	15	17 February 21	17 February 22

33 Derivative financial instruments

The Bank and Group do not have any derivative financial instruments under the financial liabilities as at 31 December 2022.

34 Financial liabilities recognised through profit or loss

The Bank and Group do not have instruments under the financial liabilities recognised through profit or loss as at 31 December 2022.

35 Financial liabilities at amortised cost

Accounting policy

i. Due to depositors

Due to depositors include savings and term deposits. Subsequent to initial recognition deposits are measured at their amortised cost using EIR method. Interest paid/payable on deposits are recognised in the Income Statement under Interest Expense.

ii. Securities sold under repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not de-recognised from the Statement of Financial Position as the Group retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the Consolidated Statement of Financial Position as financial liability reflecting as a loan received by the Group, including accrued interest as a liability within "Securities sold under repurchase agreements", reflecting the transaction's economic substance. The difference between the sale and repurchase prices is treated as interest expenses and is accrued over the life of agreement using the EIR.

		Bank		Group	
As at 31 December	Note	2022 Rs. '000	2021 Rs. '000	2022 Rs. '000	2021 Rs. '000
Due to depositors	35.1	1,476,739,818	1,428,467,385	1,475,808,557	1,426,724,704
Due to debt securities holders		–	–	–	–
Due to other borrowers		16,766,044	7,719,532	18,889,245	27,087,920
Total		1,493,505,862	1,436,186,917	1,494,697,802	1,453,812,624

35.1 Analysis of amount due to depositors

35.1 (a) By product

	Bank		Group	
As at 31 December	2022 Rs. '000	2021 Rs. '000	2022 Rs. '000	2021 Rs. '000
Savings deposits	264,539,426	325,620,162	264,671,533	326,169,005
Fixed deposits	1,212,200,392	1,102,847,222	1,211,137,024	1,100,555,699
Total	1,476,739,818	1,428,467,385	1,475,808,557	1,426,724,704

35. Financial liabilities at amortised cost (contd.)

35.1 Analysis of amount due to depositors (contd.)

35.1 (b) By currency

As at 31 December	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
Sri Lankan Rupee	1,450,270,077	1,412,804,951	1,449,338,815	1,411,062,270
United State Dollar	20,555,276	11,864,407	20,555,276	11,864,407
Euro	2,627,795	1,600,785	2,627,795	1,600,785
Great Britain Pound	2,019,100	1,248,984	2,019,100	1,248,984
Australian Dollar	1,266,411	947,398	1,266,411	947,398
Japanese Yen	1,160	860	1,160	860
Total	**1,476,739,818**	1,428,467,385	**1,475,808,557**	1,426,724,704

36 Lease liabilities

Accounting policy

Initial measurement of lease liability

The lease liability is initially measured at the present value of the future lease rentals over the remaining lease period at commencement date.

Subsequent measurement of lease liability

The lease liability subsequently is measured by increasing the lease interest and reducing the lease payments.

Discount rate

The discount rate applied to determine the present value of future rentals is the Treasury Bond Rates for periods which are similar to lease periods published by the Central Bank. The period of the Treasury Bond is identical to lease tenure. If the Treasury Bond Rate is not available for the applicable tenure, the rate of the tenure which is lower than the lease tenure is applied.

36. (a) Lease liabilities

As at 31 December	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
Opening balance	1,292,139	1,274,713	1,333,623	1,320,877
Addition during the year	333,617	268,189	333,617	268,189
Lease interest for the year	143,696	132,433	148,185	137,339
Less: Paid during the year	(409,547)	(378,885)	(417,790)	(388,471)
Adjustment	17,325	(4,311)	17,325	(4,311)
Closing balance	**1,377,229**	1,292,139	**1,414,959**	1,333,623

36. Lease liabilities (contd.)

36. (b) Maturity analysis – Lease liabilities

As at 31 December	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
Amount payable within one year	284,277	255,704	286,979	259,413
Amount payable within one to three years	491,793	437,071	496,860	442,230
Amount payable within three to five years	360,911	277,434	368,393	283,621
Amount payable after five years	240,249	321,929	262,727	348,359
Total	**1,377,229**	1,292,139	**1,414,959**	1,333,623

37 Debt securities issued

As at 31 December	Note	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
Subordinated liabilities					
Debenture issued by the Bank	37.1	5,108,493	5,087,337	5,108,493	5,087,337
Debenture issued by other subsidiaries		–	–	73,555	89,558
		5,108,493	5,087,337	5,182,049	5,176,895
Non-subordinated liabilities	37.2				
Debenture issued by the Bank		18,669,762	32,441,680	18,669,762	32,441,680
Total		23,778,255	37,529,017	23,851,810	37,618,575
Due within 1 year		328,715	773,327	402,271	862,885
Due after 1 year		18,449,539	31,755,690	18,449,539	31,755,690
Perpetual		5,000,000	5,000,000	5,000,000	5,000,000
Total		23,778,255	37,529,017	23,851,810	37,618,575

37. Debt securities issued (contd.)

37.1 Subordinated liabilities

Accounting policy

These represent the funds borrowed by the Group for long-term funding requirements. Subsequent to initial recognition these are measured at their amortised cost using the EIR method, except where the Group designates them at fair value through profit or loss. Interest paid/payable is recognised in profit or loss.

As at 31 December	Note	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
Balance as at 1 January		5,000,000	11,000,000	5,000,000	11,000,000
Amount borrowed during the year		–	–	–	–
Repayments/redemptions during the year		–	(6,000,000)	–	(6,000,000)
Sub total		5,000,000	5,000,000	5,000,000	5,000,000
Exchange rate variance		–	–	–	–
Balance as at 31 December (before adjusting for amortised interest and transaction cost)		5,000,000	5,000,000	5,000,000	5,000,000
Unamortised transaction cost		–	–	–	–
Net effect of amortised interest payable		108,493	87,337	108,493	87,337
Amortised cost as at 31 December		5,108,493	5,087,337	5,108,493	5,087,337
Subordinated liabilities					
Floating rate subordinated liabilities	37.1.1	5,108,493	5,087,337	5,108,493	5,087,337
Total		5,108,493	5,087,337	5,108,493	5,087,337

37.1.1 Floating rate subordinated liabilities

Detail of debenture Issue

Primary objective of issuing debenture is to increase the capital of the Bank in order to enhance additional tier 1 Capital of the Bank and finance the lending activities of the Bank.

Outstanding subordinated liabilities of the Bank as at 31 December 2022 consisted of Rs. 5,000 Mn. Unlisted, Unsecured, Subordinated, Perpetual, Rated debentures of Rs. 100/- issued on 27 October 2020 as Private Placement under the provision of the NSB Act No. 30 of 1971. The debenture carry AA rating from Lanka Rating.

37. Debt securities issued (contd.)

37.1 Subordinated liabilities (contd.)

Category	Face value	Interest rate	Repayment terms	Issue date	Maturity date	Effective annual yield 2022	Effective annual yield 2021	Bank 2022	Bank 2021	Group 2022	Group 2021
	Rs. '000	%				%	%	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Issued by the Bank											
Floating rate	5,000,000	Six (06) month T Bill rate + 1.50% p.a.	Perpetual	27 October 2020	Perpetual	12.36	9.89	5,000,000	5,000,000	5,000,000	5,000,000
Interest payable								108,493	87,337	108,493	87,337
Total								5,108,493	5,087,337	5,108,493	5,087,337

* Interest payment term is semi-annual.

In the event of the winding-up of the issuer, the above liabilities would be subordinated to the claims of depositors and all other creditors of the issuer.

37.2 Non-subordinated liabilities

Accounting policy

These represent the funds borrowed by the Group for long-term funding requirements. Subsequent to initial recognition these are measured at their amortised cost using the EIR method, except where the Group designates them at fair value through profit or loss. Interest paid/payable is recognised in profit or loss.

As at 31 December	Note	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
Balance as at 1 January		31,541,000	20,000,000	31,541,000	20,000,000
Amount borrowed during the year		–	11,541,000	–	11,541,000
Repayments/redemptions during the year		(13,677,000)	–	(13,677,000)	–
Sub total		17,864,000	31,541,000	17,864,000	31,541,000
Exchange rate variance		–	–	–	–
Balance as at 31 December (before adjusting for amortised interest and transaction cost)		17,864,000	31,541,000	17,864,000	31,541,000
Unamortised transaction cost		–	–	–	–
Net effect of amortised interest payable		805,762	900,680	805,762	900,680
Amortised cost as at 31 December		18,669,762	32,441,680	18,669,762	32,441,680
Non-subordinated liabilities					
Debenture issued in 2019 (20 Bn.)	37.2.1	6,543,222	20,685,990	6,543,222	20,685,990
Debenture issued in 2021 (11.5 Bn.)	37.2.2	12,126,539	11,755,690	12,126,539	11,755,690
Total		18,669,762	32,441,680	18,669,762	32,441,680

37. Debt securities issued (contd.)

37.2 Non-subordinated liabilities (contd.)

37.2.1 Debenture issued in 2019 (20 Bn.)

Detail of debenture Issue

The objective of the issue of the Debenture is to partly finance the funding requirement of unwinding the USD/LKR Swap agreement with Central Bank of Sri Lanka. Outstanding debenture of the Bank as at 31 December 2022 consisted of Rs. 6,323 Mn. Unlisted, Rated, Senior, Unsecured, Redeemable debentures of Rs. 100/- issued on 10 September 2019 as Private Placement under the provision of the NSB Act No. 30 of 1971. NSB Fund Management Co. Ltd. is act as Trustee for the issue and carry AA+ rating from Lanka Rating.

						Effective annual yield		Bank		Group	
Category	Face value	Interest rate	Repayment terms	Issue date	Maturity date	2022	2021	2022	2021	2022	2021
	Rs. '000	%				%	%	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Issued by the Bank											
Fixed rate 3 year	13,677,000	11% p.a.	At Maturity	10 September 2019	10 September 2022	–	11.00	–	13,677,000	–	13,677,000
Fixed rate 5 year	6,323,000	11.25% p.a.	At Maturity	10 September 2019	10 September 2024	**11.57**	11.25	**6,323,000**	6,323,000	**6,323,000**	6,323,000
Interest payable								**220,222**	685,990	**220,222**	685,990
Total	20,000,000							**6,543,222**	20,685,990	**6,543,222**	20,685,990

* Interest payment term is annual.

37.2.2 Debenture Issued in 2021 (11.5 Bn.)

Detail of debenture Issue

The funds raised through the Debenture Issue will provide the necessary stable funding for five years and more and to further expand the lending portfolio of the Bank. Debenture proceeds will be disbursed in the ordinary course of business subject to all applicable regulations. Outstanding debenture of the Bank as at 31 December 2022 consisted of Rs. 11,541 Mn. Unlisted, Rated, Redeemable, Senior Debentures of Rs. 100/- issued on 23 September 2021 as Private Placement under the provision of the NSB Act No. 30 of 1971. NSB Fund Management Co. Ltd. is act as Trustee for the issue and carry AA+ rating from Lanka Rating.

						Effective annual yield		Bank		Group	
Category	Face value	Interest rate	Repayment terms	Issue date	Maturity date	2022	2021	2022	2021	2022	2021
	Rs. '000	%				%	%	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Issued by the Bank											
Fixed rate 5 year	1,016,000	8.50%	At Maturity	24 September 2021	23 September 2026	**8.68**	8.68	**1,016,000**	1,016,000	**1,016,000**	1,016,000
Floating rate 5 year	9,000,000	6 months AWPLR + 1.00%	At Maturity	24 September 2021	23 September 2026	**20.89**	6.81	**9,000,000**	9,000,000	**9,000,000**	9,000,000
Floating rate 7 year	1,525,000	6 months AWPLR + 1.00%	At Maturity	24 September 2021	22 September 2028	**20.89**	6.81	**1,525,000**	1,525,000	**1,525,000**	1,525,000
Interest payable								**585,539**	214,690	**585,539**	214,690
Total	11,541,000							**12,126,539**	11,755,690	**12,126,539**	11,755,690

* Interest payment term is annual.

38 Retirement benefit obligations

Accounting policy

The unfunded past service cost is recognised in Other Comprehensive Income immediately upon actuarial valuation.

As at 31 December	Note	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
Provision for pension scheme I	38. (a) 1	**8,764,681**	4,921,358	**8,764,681**	4,921,358
Provision for pension scheme II	38. (a) 2	–	–	–	–
Provision for retired medical assistance scheme	38. (a) 3	**3,724,231**	3,669,284	**3,724,231**	3,669,284
Provision for gratuity	38. (a) 4	–	–	**58,939**	46,783
Total		**12,488,912**	8,590,642	**12,547,851**	8,637,425

38. (a) Defined benefit plans

The Bank has two separate pension schemes established, Pension Scheme I for permanent employees joined before 1 October 1995 and Pension Scheme II for permanent employees joined on or after 1 October 1995 and a retired medical assistance scheme for retired employees.

The assets of these schemes are held independently of the Bank's assets and administered by Boards of Trustees/Managers, representing the Management and the employees, as provided in the trust deed/rules of the respective funds.

All the funds are subject to annual audits independent to the audit of the Bank, by a firm of Chartered Accountants appointed by the members and actuarial valuations are carried out at least once in every two years, as per the rules governing these funds.

A summary of retirement benefit obligations of the Bank as at 31 December 2022 are given below:

As at 31 December 2022	Pension scheme I Rs. '000	Pension scheme II* Rs. '000	Retired medical assistance scheme Rs. '000	Total Rs. '000
Present value of defined benefit obligation (PVDBO)	**(18,960,877)**	**(2,401,307)**	**(4,177,939)**	**(25,540,123)**
Fair value of plan assets	**10,196,196**	**4,766,699**	**453,708**	**15,416,603**
Net (liability) recognised in Statement of Financial Position	**(8,764,681)**	**2,365,392**	**(3,724,231)**	**(10,123,520)**

*Since net asset recognised for pension II, it was categorised under other assets in Note 31 on page 332.

A summary of retirement benefit obligations of the Bank as at 31 December 2021 are given below:

As at 31 December 2021	Pension scheme I Rs. '000	Pension scheme II Rs. '000	Retired medical assistance Rs. '000	Total Rs. '000
Present value of defined benefit obligation (PVDBO)	(18,362,021)	(4,303,504)	(4,345,781)	(27,011,305)
Fair value of plan assets	13,440,663	4,701,219	676,497	18,818,379
Net (liability) recognised in Statement of Financial Position	(4,921,358)	397,716	(3,669,284)	(8,192,927)

38. Retirement benefit obligations (contd.)

38. (a) Defined benefit plans (contd.)

38. (a) 1 National Savings Bank Employees' Pension Scheme I

Pension Scheme I

An actuarial valuation of the Pension Scheme I was carried out as at 31 December 2022 by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional Actuaries, on 31 December 2022.

Projected Unit Credit Method was used to allocate the actuarial present value of the projected benefits earned by employees to date of 31 December 2022.

	Bank		Group	
	2022 Rs. '000	2021 Rs. '000	2022 Rs. '000	2021 Rs. '000
(a) Net asset/(liability) recognised in Statement of Financial Position				
Present value of defined benefit obligation	(18,960,877)	(18,362,021)	(18,960,877)	(18,362,021)
Fair value of plan assets	10,196,196	13,440,663	10,196,196	13,440,663
Total	(8,764,681)	(4,921,358)	(8,764,681)	(4,921,358)
(b) Amount recognised in Income Statement				
Past service cost	300,204	(339,925)	300,204	(339,925)
Current service cost	81,799	69,013	81,799	69,013
Interest on obligation	2,111,632	1,806,917	2,111,632	1,806,917
Expected return on plan assets	(1,545,676)	(1,210,020)	(1,545,676)	(1,210,020)
Net benefit expense	947,960	325,985	947,960	325,985
(c) Amount recognised in Other Comprehensive Income (OCI)				
Provision adjustment	(3,324)	5,083	(3,324)	5,083
Experience (gain)/loss	5,444,669	464,316	5,444,669	464,316
(Gain)/ loss due to changes in assumptions	(5,002,563)	(4,189,720)	(5,002,563)	(4,189,720)
Actuarial (gain)/loss on plan assets	2,784,413	1,349,879	2,784,413	1,349,879
Total	3,223,195	(2,370,442)	3,223,195	(2,370,442)
(d) Changes in fair value of plan assets are as follows:				
Opening fair value of plan assets	13,440,663	15,125,251	13,440,663	15,125,251
Expected return on plan assets	1,545,676	1,210,020	1,545,676	1,210,020
Actual employer contribution	331,156	490,313	331,156	490,313
Benefits paid	(2,336,886)	(2,035,043)	(2,336,886)	(2,035,043)
Actuarial gain/(loss) on plan assets	(2,784,413)	(1,349,879)	(2,784,413)	(1,349,879)
Closing fair value of plan assets	10,196,196	13,440,663	10,196,196	13,440,663
(e) Changes in present value of defined benefit obligation are as follows:				
Opening defined benefit obligation	18,362,021	22,586,463	18,362,021	22,586,463
Interest cost	2,111,632	1,806,917	2,111,632	1,806,917
Past service cost	300,204	(339,925)	300,204	(339,925)
Current service cost	81,799	69,013	81,799	69,013
Benefits paid	(2,336,886)	(2,035,043)	(2,336,886)	(2,035,043)
(Gain)/loss due to changes in assumptions	(5,002,563)	(4,189,720)	(5,002,563)	(4,189,720)
Actuarial (gain)/loss on obligation	5,444,669	464,316	5,444,669	464,316
Closing defined benefit obligation	18,960,877	18,362,021	18,960,877	18,362,021

38. Retirement benefit obligations (contd.)

38. (a) Defined benefit plans (contd.)

38. (a) 1 National Savings Bank Employees' Pension Scheme I (contd.)

As at 31 December	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
(f) Plan assets consists of followings:				
Treasury Bonds	**5,350,293**	6,725,955	**5,350,293**	6,725,955
Treasury Bills	**372,010**	738,509	**372,010**	738,509
Fixed deposits	**1,341,909**	383,971	**1,341,909**	383,971
Securities purchased under resale agreements	**71,550**	1,497,120	**71,550**	1,497,120
Debentures	**2,314,221**	3,767,693	**2,314,221**	3,767,693
Trust certificates	**281,971**	402,656	**281,971**	402,656
Cash at Bank	**50**	2,285	**50**	2,285
Other assets/(liabilities)	**464,192**	(77,526)	**464,192**	(77,526)
Total	**10,196,196**	13,440,663	**10,196,196**	13,440,663

	Bank and Group 2022 Rs. '000	Bank and Group 2021 Rs. '000
(g) Maturity profile of defined benefit obligation – present value of expected accrued benefit payments		
Distribution of present value of defined benefit obligation in future years		
Less than one year	**2,616,030**	1,905,908
Between 1-2 years	**4,226,679**	3,339,975
Between 3-5 years	**4,735,755**	4,077,969
Between 6-10 years	**4,362,527**	4,679,075
Beyond 10 years	**3,019,886**	4,359,094
Total	**18,960,877**	18,362,021

	Pension Scheme I 2022	Pension Scheme I 2021
(h) Actuarial assumption		
Future salary increment rate (%)	**15.00**	8.00
Discount rate (%)	**18.00**	11.50
Increase in future Cost of Living Allowance (COLA) (%)	**8.00**	5.50
Mortality	**GA 1983 Mortality table**	GA 1983 Mortality table
Retirement age	**60 years**	62 years
Normal form of payment	**Monthly**	Monthly

38. Retirement benefit obligations (contd.)

38. (a) Defined benefit plans (contd.)

38. (a) 1 National Savings Bank Employees' Pension Scheme I (contd.)

(h) Actuarial assumption (contd.)

Turnover rate

Age	2022 %	2021 %
20	0.3	0.3
25	0.3	0.3
30	0.3	0.3
35	0.3	0.3
40	0.3	0.3
45	0.3	0.3
50	0.3	0.3
55	0.3	0.3
56	0.3	0.3
57	0.3	0.3
58	0.3	0.3
59	0.3	0.3

(i) Increase/decrease in the following assumptions will have an impact on the present value of defined benefit obligation as illustrated below:

	Pension Scheme I (Bank and Group)			
	2022		2021	
	1% increase	1% decrease	1% increase	1% decrease
Future salary increment rate	19,007,159	18,916,093	18,453,211	18,275,791
Discount rate	17,771,396	19,675,544	17,202,669	19,672,818

38. (a) 2 National Savings Bank Employees' Pension Scheme II

An actuarial valuation of the Pension Scheme II was carried out as at 31 December 2022 by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional Actuaries, on 31 December 2022.

Projected Unit Credit Method was used to allocate the actuarial present value of the projected benefits earned by employees to date of 31 December 2022.

	Bank		Group	
As at 31 December	2022 Rs. '000	2021 Rs. '000	2022 Rs. '000	2021 Rs. '000
(a) Net asset/(liability) recognised in Statement of Financial Position				
Present value of defined benefit obligation	(2,401,307)	(4,303,504)	(2,401,307)	(4,303,504)
Fair value of plan assets	4,766,699	4,701,219	4,766,699	4,701,219
Total	2,365,392	397,716	2,365,392	397,716

38. Retirement benefit obligations (contd.)

38. (a) Defined benefit plans (contd.)

38. (a) 2 National Savings Bank Employees' Pension Scheme II (contd.)

	Bank		Group	
	2022 Rs. '000	2021 Rs. '000	2022 Rs. '000	2021 Rs. '000
(b) Amount recognised in Income Statement				
Past service cost	363,412	473,813	363,412	473,813
Current service cost	455,254	392,324	455,254	392,324
Interest on obligation	494,903	374,951	494,903	374,951
Expected return on plan assets	(540,640)	(348,019)	(540,640)	(348,019)
FMC contribution	(1,145)	(924)	–	–
Net benefit expense	771,784	892,145	772,929	893,069
(c) Amount recognised in Other Comprehensive Income (OCI)				
Provision adjustment	(3,390)	(644)	(3,390)	(644)
Experience (gain)/loss	(152,691)	688,343	(152,691)	688,343
(Gain)/ loss due to changes in assumptions	(3,026,909)	(1,995,530)	(3,026,909)	(1,995,530)
Actuarial (gain)/loss on plan assets	1,257,400	390,406	1,257,400	390,406
Total	(1,925,591)	(917,426)	(1,925,591)	(917,426)
(d) Changes in fair value of plan assets are as follows:				
Opening fair value of plan assets	4,701,219	4,094,336	4,701,219	4,094,336
Expected return on plan assets	540,640	348,019	540,640	348,019
Actual employer contribution	818,404	690,858	818,404	690,858
Benefits paid	(36,165)	(41,587)	(36,165)	(41,587)
Actuarial gain/(loss) on plan assets	(1,257,400)	(390,406)	(1,257,400)	(390,406)
Closing fair value of plan assets	4,766,699	4,701,219	4,766,699	4,701,219
(e) Changes in present value of defined benefit obligation are as follows:				
Opening defined benefit obligation	4,303,503	4,411,190	4,303,503	4,411,190
Interest cost	494,903	374,951	494,903	374,951
Past service cost	363,412	473,813	363,412	473,813
Current service cost	455,254	392,324	455,254	392,324
Benefits paid	(36,165)	(41,587)	(36,165)	(41,587)
(Gain)/loss due to changes in assumptions	(3,026,909)	(1,995,530)	(3,026,909)	(1,995,530)
Actuarial (gain)/loss on obligation	(152,691)	688,343	(152,691)	688,343
Closing defined benefit obligation	2,401,307	4,303,503	2,401,307	4,303,503

38. Retirement benefit obligations (contd.)

38. (a) Defined benefit plans (contd.)

38. (a) 2 National Savings Bank Employees' Pension Scheme II (contd.)

As at 31 December	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
(f) Plan assets consist of followings:				
Treasury Bonds	**2,645,521**	2,970,723	**2,645,521**	2,970,723
Treasury Bills	**279,703**	397,163	**279,703**	397,163
Debentures	**573,509**	511,976	**573,509**	511,976
Fixed deposits	**725,078**	532,920	**725,078**	532,920
Trust certificates	**196,827**	193,289	**196,827**	193,289
Securities purchased under resale agreements	**53,468**	131,820	**53,468**	131,820
Savings	**959**	4,727	**959**	4,727
Other assets/(liabilities)	**291,633**	(41,400)	**291,633**	(41,400)
Total	**4,766,699**	4,701,219	**4,766,699**	4,701,219

	Bank and Group 2022 Rs. '000	Bank and Group 2021 Rs. '000
(g) Maturity profile of defined benefit obligation – present value of expected accrued benefit payments		
Distribution of present value of defined benefit obligation in future years		
Less than one year	**54,100**	34,620
Between 1-2 years	**135,055**	76,629
Between 3-5 years	**243,987**	175,891
Between 6-10 years	**514,404**	461,785
Beyond 10 years	**1,453,760**	3,554,579
Total	**2,401,307**	4,303,503

38. Retirement benefit obligations (contd.)

38. (a) Defined benefit plans (contd.)

38. (a) 2 National Savings Bank Employees' Pension Scheme II (contd.)

	Pension Scheme II 2022	Pension Scheme II 2021
(h) Actuarial assumption		
Future salary increment rate (%)	8.00	8.00
Discount rate (%)	18.00	11.50
Increase in future Cost of Living Allowance (COLA) (%)	8.00	5.50
Mortality	GA 1983 Mortality table	GA 1983 Mortality table
Retirement age	60 years	62 years
Normal form of payment	Monthly	Monthly

Turnover rate

Age	2022 %	2021 %
20	0.3	0.3
25	0.3	0.3
30	0.3	0.3
35	0.3	0.3
40	0.3	0.3
45	0.3	0.3
50	0.3	0.3
55	0.3	0.3
56	0.3	0.3
57	0.3	0.3
58	0.3	0.3
59	0.3	0.3

(i) Increase/decrease in the following assumptions will have an impact on the present value of defined benefit obligation as illustrated below:

	Pension Scheme II (Bank and the Group)			
	2022		2021	
	1% increase	1% decrease	1% increase	1% decrease
Future salary increment rate	2,564,767	2,260,938	4,902,212	3,813,165
Discount rate	2,111,026	3,753,785	3,530,257	5,310,197

38. Retirement benefit obligations (contd.)

38. (a) Defined benefit plans (contd.)

38. (a) 3 Retired medical assistance scheme for the retired employees of NSB

An actuarial valuation of the retired medical assistance scheme for the retired employees was carried out as at 31 December 2022 by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional Actuaries, on 31 December 2022.

Projected Unit Credit Method was used to allocate the actuarial present value of the projected benefits earned by employees to date of 31 December 2022.

	Bank and Group	
As at 31 December	2022 Rs. '000	2021 Rs. '000
(a) Net asset/(liability) recognised in Statement of Financial Position		
Present value of defined benefit obligation	(4,177,939)	(4,345,781)
Fair value of plan assets	453,708	676,497
Total	(3,724,231)	(3,669,284)
(b) Amount recognised in Income Statement		
Past service cost	164,251	(186,846)
Current service cost	82,322	77,575
Interest on obligation	499,765	354,532
Expected return on plan assets	(77,797)	(48,743)
Net benefit expense	668,541	196,519
(c) Amount recognised in Other Comprehensive Income (OCI)		
Experience (gain)/loss	(398,951)	(266,746)
(Gain)/loss due to changes in assumptions	(126,269)	242,455
Actuarial (gain)/loss on plan assets	125,178	(6,350)
Contribution from employees	(17,033)	(16,640)
Total	(417,075)	(47,280)
(d) Changes in fair value of plan assets are as follows:		
Opening fair value of plan assets	676,497	609,286
Expected return on plan assets	77,797	48,743
Actual employer contribution	196,519	302,320
Actual participants' contribution	17,033	16,640
Benefits paid	(388,960)	(306,841)
Actuarial gain/(loss) on plan assets	(125,178)	6,350
Closing fair value of plan assets	453,708	676,497

38. Retirement benefit obligations (contd.)

38. (a) Defined benefit plans (contd.)

38. (a) 3 Retired medical assistance scheme for the retired employees of NSB (contd.)

As at 31 December	Bank and Group 2022 Rs. '000	2021 Rs. '000
(e) Changes in present value of defined benefit obligation are as follows:		
Opening defined benefit obligation	4,345,781	4,431,651
Interest cost	499,765	354,532
Past service cost	164,251	(186,846)
Current service cost	82,322	77,575
Benefits paid	(388,960)	(306,841)
(Gain)/loss due to changes in assumptions	(126,269)	242,455
Actuarial (gain)/loss on obligation	(398,951)	(266,746)
Closing defined benefit obligation	4,177,939	4,345,781
(f) Plan assets consist of followings:		
Treasury Bonds	318,325	351,782
Treasury Bills	159,920	131,910
Fixed deposits	177,372	264,877
Securities purchased under resale agreements	4,041	10,523
Trust certificates	34,244	58,846
Debentures	108,777	171,933
Savings	49,659	231
Other payable	(398,629)	(313,605)
Total	453,708	676,497
(g) Maturity profile of defined benefit obligation – present value of expected accrued benefit payments		
Distribution of present value of defined benefit obligation in future years		
Less than one year	383,001	307,847
Between 1-2 years	680,754	562,238
Between 3-5 years	832,037	730,371
Between 6-10 years	966,246	954,005
Beyond 10 years	1,315,901	1,791,320
Total	4,177,939	4,345,781

	2022 %	2021 %
(h) Actuarial assumption		
Medical cost inflation rate	10.00	7.00
Discount rate	18.00	11.50

38. Retirement benefit obligations (contd.)

38. (a) Defined benefit plans (contd.)

38. (a) 3 Retired medical assistance scheme for the retired employees of NSB (contd.)

(i) Increase/decrease in the following assumptions will have an impact on the present value of defined benefit obligation as illustrated below:

	Bank and Group			
	2022		2021	
	1% increase	1% decrease	1% increase	1% decrease
Medical cost escalation rate	**4,584,864**	**3,828,130**	4,901,198	3,887,002
Discount rate	**3,867,383**	**4,542,214**	3,924,263	4,862,417

38. (a) 4 Gratuity plan – Bank and Group

Bank

With the establishment of Pension Scheme II, employees who joined the Bank on or after 1 October 1995 become members of the Pension Scheme II, thus are not entitled to the rights and privileges under Service Gratuity Scheme. However, where there are payments of termination gratuity before the entitlement of pension, the Bank recognises the expense on cash basis.

Group

The staff members of the subsidiary companies are not entitled for pension scheme and hence, they continue to be members of the Gratuity Plan as per the provisions of the Gratuity Act No. 12 of 1983.

	Bank		Group	
As at 31 December	**2022 Rs. '000**	2021 Rs. '000	**2022 Rs. '000**	2021 Rs. '000
(a) Net benefit expense (recognised under personal expenses)				
Current service cost	–	–	**6,227**	4,988
Interest cost on benefit obligation	–	–	**5,103**	2,699
Net benefit expense	–	–	**11,330**	7,687
(b) Provision for gratuity				
Defined benefit obligation as at 1 January	–	–	**46,783**	31,345
Interest cost	–	–	**5,103**	2,699
Current service cost	–	–	**6,227**	4,988
Benefits paid	–	–	**(1,316)**	–
Actuarial (gain)/loss on obligation (recognised in OCI)	–	–	**1,921**	7,752
Defined benefit obligation as at 31 December	–	–	**58,718**	46,783

38. Retirement benefit obligations (contd.)

38. (a) Defined benefit plans (contd.)

38. (a) 4 Gratuity plan – Bank and Group (contd.)

	FMC		SLSB	
	2022 %	2021 %	2022 %	2021 %
(c) Actuarial assumption				
Future salary increment rate	5.20	5.20	15.00	6.50
Discount rate	11.00	10.50	18.00	8.50
Mortality	–	–	A67/70	A67/70

Staff turnover rate and average future working lifetime

	FMC – 2022		
Age group	25-34	35-44	45<
Staff turnover rate – %	22	–	–
Average future working lifetime – years	24	14.2	6.5

(d) Increase/decrease in the following assumptions will have an impact on the present value of defined benefit obligation (PVDBO) as illustrated below:

Values appearing in the Financial Statements are very sensitive to the changes in financial and non-financial assumptions used. Net impact to PVDBO has been illustrated below:

	FMC			
	2022		2021	
	1% increase	1% decrease	1% increase	1% decrease
Future salary increment rate	269	(262)	260	(249)
Discount rate	(246)	257	(235)	249

Assumptions

Financial assumptions – Rate of discount, salary increment rate

Demographic assumptions – Mortality, staff turnover, disability, Retirement age

39 Current tax liabilities

As at 31 December	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
Balance as at 1 January	**4,596,190**	612,239	**4,914,918**	1,189,133
Charge for the year	**2,877,806**	6,736,789	**3,056,286**	6,769,190
Payment during the year	**(4,713,139)**	(2,752,838)	**(5,027,890)**	(3,110,806)
Transfer to tax receivable	**–**	–	**–**	67,401
Balance as at 31 December	**2,760,857**	4,596,190	**2,943,314**	4,914,918

40 Other provisions

No value to be disclosed under other provision as at 31 December 2022.

41 Other liabilities

Accounting policy

Other liabilities include provisions made in account of fees and expenses, salary-related, and other expenses. These liabilities are recorded at amounts expected to be payable at the reporting date.

As at 31 December	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
Sundry creditors	**118,629**	189,096	**119,998**	190,446
Salary-related payable	**92,393**	2,040,270	**122,071**	2,041,958
Other tax payable	**1,092,756**	764,011	**1,184,586**	764,011
Other payables	**4,492,275**	4,206,655	**4,649,234**	4,570,477
Total	**5,796,053**	7,200,032	**6,075,889**	7,566,892

42 Due to subsidiaries

As at 31 December	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
Payable to FMC	**–**	3,500	**–**	–
Total	**–**	3,500	**–**	–

Refer Note 49.3 and 49.4 – Related party transaction on pages 359 and 360.

43 Stated capital/assigned capital

As at 31 December	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
Authorised				
1 Bn. ordinary shares of Rs. 10.00 each as at 1 January	**10,000,000**	10,000,000	**10,000,000**	10,000,000
Balance as at 1 January (issued and fully paid)				
940 Mn. ordinary shares of Rs. 10.00 each	**9,400,000**	9,400,000	**9,400,000**	9,400,000
Issue of ordinary shares during the year	**–**	–	**–**	–
Total	**9,400,000**	9,400,000	**9,400,000**	9,400,000

44 Statutory reserve fund

The statutory reserve fund is maintained as per the requirements under Section 20 (1) of the Banking Act No. 30 of 1988. Accordingly, the fund is built up by allocating a sum equivalent to not less than 5% of the profit after tax, but before declaring any dividend or any profit that are transferred to elsewhere until the reserve is equal to 50% of the Bank's stated capital and thereafter sum equivalent to 2% of such profit until the amount of said reserve fund is equal to the stated capital of the Bank.

The balance in the statutory reserve fund will be used only for the purposes specified in the Section 20 (2) of the Banking Act No. 30 of 1988.

As at 31 December	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
Opening balance	**5,174,249**	4,068,268	**5,209,101**	4,090,363
Transfer during the period – 2% of profit after tax	**50,593**	1,105,981	**72,851**	1,118,738
Closing balance	**5,224,842**	5,174,249	**5,281,952**	5,209,101

45 Retained earnings

As at 31 December	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
Balance as at 1 January	**13,727,801**	14,399,572	**17,918,992**	18,601,588
Opening balance adjustment*	**(5,166,968)**	–	**(5,523,755)**	–
Restated opening balance as at 1 January	**8,560,833**	14,399,572	**12,395,236**	18,601,588
Profit for the year	**2,529,667**	22,119,624	**948,991**	22,130,818
Other comprehensive income	**344,542**	2,035,782	**343,021**	2,028,031
Transfers to other reserves (statutory/other)	**(50,593)**	(21,105,981)	**(72,851)**	(21,120,251)
Contribution to National Insurance Trust Fund	**(25,297)**	(221,196)	**(25,297)**	(221,196)
Dividend/levy	**–**	(3,500,000)	**–**	(3,500,000)
Balance as at 31 December	**11,359,151**	13,727,801	**13,589,101**	17,918,992

* Please refer Note 53 comparative figures.

46 Other reserves

	Bank 2022		
	Opening balance at 1 January 2022 Rs. '000	Movement/ transfers Rs. '000	Closing balance at 31 December 2022 Rs. '000
General reserve	37,740,879	–	37,740,879
Revaluation reserve (net of tax)	7,049,600	(555,724)	6,493,876
OCI reserve	(658,376)	(1,011,500)	(1,669,876)
Cash flow hedging reserve	–	–	–
Foreign currency translation reserve	–	–	–
Other reserves (Refer Note 46.1, 46.2)	3,578,605	764,753	4,343,358
Total	**47,710,707**	**(802,470)**	**46,908,235**

	Bank 2021		
	Opening balance at 1 January 2021 Rs. '000	Movement/ transfers Rs. '000	Closing balance at 31 December 2021 Rs. '000
General reserve	17,740,879	20,000,000	37,740,879
Revaluation reserve (net of tax)	6,678,568	371,032	7,049,600
OCI reserve	(434,929)	(223,447)	(658,376)
Cash flow hedging reserve	–	–	–
Foreign currency translation reserve	–	–	–
Other reserves (Refer Note 46.1, 46.2)	2,561,544	1,017,061	3,578,605
Total	26,546,061	21,164,647	47,710,707

	Group 2022		
	Opening balance at 1 January 2022 Rs. '000	Movement/ transfers Rs. '000	Closing balance at 31 December 2022 Rs. '000
General reserve	37,740,879	–	37,740,879
Revaluation reserve (net of tax)	7,488,706	(555,724)	6,932,982
OCI reserve	(754,140)	(1,011,519)	(1,765,659)
Cash flow hedging reserve	–	–	–
Foreign currency translation reserve	–	–	–
Other reserves (Refer Note 46.1, 46.2, 46.3)	4,445,677	764,753	5,210,429
Total	**48,921,120**	**(802,490)**	**48,118,628**

46. Other reserves (contd.)

	Group 2021		
	Opening balance at 1 January 2021 Rs. '000	Movement/ transfers Rs. '000	Closing balance at 31 December 2021 Rs. '000
General reserve	17,740,879	20,000,000	37,740,879
Revaluation reserve (net of tax)	7,117,674	371,032	7,488,706
OCI reserve	(411,786)	(342,354)	(754,140)
Cash flow hedging reserve	–	–	–
Foreign currency translation reserve	–	–	–
Other reserves (Refer Note 46.1, 46.2, 46.3)	3,427,104	1,018,572	4,445,677
Total	27,873,870	21,047,250	48,921,120

46.1 Unclaimed deposit reserve

	Bank		Group	
As at 31 December	**2022 Rs. '000**	2021 Rs. '000	**2022 Rs. '000**	2021 Rs. '000
Opening balance	**3,576,423**	2,559,362	**3,576,423**	2,559,362
Transferred to share capital	**–**	–	**–**	–
Transferred during the year	**764,754**	1,017,061	**764,754**	1,017,061
Closing balance	**4,341,177**	3,576,423	**4,341,177**	3,576,423

In terms of the Section 47 of the National Savings Bank Act No. 30 of 1971 as amended by the Section 30 of the National Savings Bank (Amendment) Act No. 28 of 1995, where an amount lain dormant in a savings or deposit account for a period of ten years, it should be transferred to, Unclaimed Deposit Reserve. Accordingly amount transferred (net) to the reserve during the year 2022, was Rs. 764.75 Mn.

46.2 Special reserve

	Bank		Group	
As at 31 December	**2022 Rs. '000**	2021 Rs. '000	**2022 Rs. '000**	2021 Rs. '000
Opening balance	**2,182**	2,183	**2,182**	2,183
Transferred during the year	**(1)**	(1)	**(1)**	(1)
Closing balance	**2,181**	2,182	**2,181**	2,182

The special reserve represents the amount transferred from the dormant accounts of customers where the aggregate of the amount dormant is less than Rs. 10.00 (Ten rupees).

The whole or such part of the monies lying to the credit of "Special Reserve" and "Unclaimed Deposit Reserve" may be capitalised and shares to the value of money capitalised may be issued in the name of Secretary to the Treasury. The entirety of the issue and fully paid share capital of Rs. 9,400 Mn. reflected in the Statement of Financial Position was issued by capitalising the Unclaimed Deposit Reserve time to time.

46. Other reserves (contd.)

46.3 Special risk reserve – (NSB Fund Management Company Limited)

As at 31 December	Bank		Group	
	2022 Rs. '000	2021 Rs. '000	2022 Rs. '000	2021 Rs. '000
Opening balance	–	–	867,071	865,558
Transferred during the year – 25% of profit after tax	–	–	–	1,512
Closing balance	–	–	867,071	867,071

In order to promote the safety, soundness and the stability of the primary dealer (PD) system and to build up PD capital base, primary dealers (PDs) are required to annually transfer a percentage of their profit after tax to a special risk reserve as follows, with effect from 1 July 2004:

I. 50% of the profit after tax annually by the PDs who maintain capital funds less than Rs. 400 Mn.

II. 25% of the profit after tax annually by the PDs who maintain capital funds in excess of Rs. 400 Mn.

Other reserves

As at 31 December	Bank		Group	
	2022 Rs. '000	2021 Rs. '000	2022 Rs. '000	2021 Rs. '000
Total other reserves	4,343,358	3,578,605	5,210,429	4,445,677

47 Non-controlling interest

Bank has two fully-owned subsidiaries. Therefore no values to be disclosed under non-controlling interest.

48 Contingent liabilities and commitments

Accounting policy

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future event or present obligation where the transfer of economic benefit is not probable or cannot be reliably measured as defined in the Sri Lanka Accounting Standard – LKAS 37 on "Provisions, Contingent Liabilities and Contingent Assets".

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. This includes finance guarantees, letters of credit, and other undrawn commitments to lend. Letters of credit and guarantees commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless its occurrence is remote.

48. Contingent liabilities and commitments (contd.)

As at 31 December	Note	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
Commitments					
Commitment for unutilised credit facilities		**6,524,496**	7,571,686	**6,179,038**	7,576,228
Other commitments indirect credit facilities		**1,298,383**	726,879	**1,298,383**	726,879
Capital commitments	48.1	**1,518,752**	1,169,539	**1,565,275**	1,169,539
Subtotal		**9,341,631**	9,468,104	**9,042,696**	9,472,645
Contingent liabilities					
Documentary credit		**452,690**	452,690	**452,690**	452,690
Bank guarantees		**3,147,791**	3,102,414	**3,147,791**	3,102,414
Other contingencies	48.2	**1,474,690**	–	**1,974,690**	–
Subtotal		**5,075,171**	3,555,104	**5,575,171**	3,555,104
Total commitment and contingencies		**14,416,802**	13,023,207	**14,617,867**	13,027,749

48.1 Capital commitments

Capital expenditure approved by the Board of Directors, for which provisions have not been made in the Financial Statements are detailed below:

As at 31 December	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
Commitments in relation to property, plant and equipment				
Approved and contracted for	**131,474**	130,273	**131,474**	130,273
Approved but not contracted for	**–**	–	**–**	–
Subtotal	**131,474**	130,273	**131,474**	130,273
Commitments in relation to intangible asset				
Approved and contracted for	**1,387,278**	1,039,266	**1,433,801**	1,039,266
Approved but not contracted for	**–**	–	**–**	–
Subtotal	**1,387,278**	1,039,266	**1,433,801**	1,039,266
Total	**1,518,752**	1,169,539	**1,565,275**	1,169,539

48. Contingent liabilities and commitments (contd.)

48.2 Other contingencies

As at 31 December	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
Derivatives				
Others	–	–	500,000	–
Forward exchange contracts				
Forward exchange sales	1,474,690	–	1,474,690	–
Total	1,474,690	–	1,974,690	–

49 Related party disclosures

Accounting policy

The Bank carried out transactions in the ordinary course of business on an arm's length basis at commercial rates with parties who are defined as related parties as per the Sri Lanka Accounting Standard – LKAS 24 on "Related Party Disclosures" i.e. Government of Sri Lanka, subsidiaries, post-employment benefit plans for the Bank's employees, Key Management Personnel (KMPs). Those transactions include lending activities, placements, off-balance sheet transactions and provision of other banking and financial services that are carried out in the ordinary course of business on an arm's length basis at commercial rates, other than, transactions that the Key Management Personnel (KMP) have availed under schemes uniformly applicable to all staff at concessionary rates. Particulars of transactions with related parties are tabulated below:

49.1 Parent and ultimate controlling party

National Savings Bank is a Government-owned bank.

49.2 Transactions with Government of Sri Lanka (Parent) and state-controlled entities

The financial dealings carried out with the Government of Sri Lanka and state-controlled entities for the year are disclosed below:

49. Related party disclosures (contd.)

49.2 Transactions with Government of Sri Lanka (Parent) and state-controlled entities (contd.)

49.2.1 Transactions which are collectively significant

	Bank		Group	
As at 31 December	**2022 Rs. '000**	2021 Rs. '000	**2022 Rs. '000**	2021 Rs. '000
Assets				
Loans to Government	**2,075,000**	2,075,000	**2,075,000**	2,075,000
Investments made on Government Securities	**822,397,780**	835,444,013	**839,746,654**	862,474,244
Investments on state and state-controlled entities	**233,393,645**	229,144,509	**231,254,543**	231,254,543
Securities purchased under resale agreements	**580,467**	1,364,760	**580,467**	1,364,760
Tax receivable	**–**	–	**67,401**	67,401
Postmaster-General's current account	**470,296**	731,353	**470,296**	731,353
Advance payment to Government	**2,880,000**	3,200,000	**2,880,000**	3,200,000
Other receivables from Government	**38,090,734**	20,471,202	**38,179,674**	20,560,141
Total	**1,099,887,921**	1,092,430,836	**1,115,254,035**	1,121,727,442
Liabilities				
Securities sold under repurchase agreements	**13,174,145**	4,743,515	**21,653,867**	13,223,236
Tax payable	**2,760,857**	4,596,190	**2,943,314**	4,914,918
Total	**15,935,003**	9,339,705	**24,597,181**	18,138,154
Commitment				
Undrawn loan commitment	**3,590,453**	6,324,138	**3,590,453**	6,324,138
Taxes paid				
Income tax	**2,877,806**	6,736,789	**3,056,286**	6,769,190
Value added tax	**3,185,879**	6,162,351	**3,326,549**	6,233,194
SSCL on financial services	**67,259**	–	**72,067**	–
Contribution to consolidated fund – dividend/levy	**–**	3,500,000	**–**	3,500,000
Total	**6,130,944**	16,399,140	**6,454,902**	16,502,384

49.2.2 Transactions which are individually significant

Since the Bank is Government owned entity and as per NSB Act, Bank should invest 60% of its deposit in Government Securities. Therefore the Bank has significant transactions with GOSL in day-to-day operation which are collectively represent on above. Individually significant transactions other than day-to-day operations are as follows:

- The Bank has received Rs. 3,112.5 Mn. worth of Treasury Bonds from Government Treasury as partial settlement of interest receivables on senior citizens.

49. Related party disclosures (contd.)

49.3 Transactions with subsidiary company (NSB Fund Management Company Limited)

The Bank has contributed Rs. 4,200 Mn. towards the share capital of the Company. The Company invested its funds in Treasury Bills, Treasury Bonds, and Repos during the year on a regular basis. All investment in Treasury Bills and Treasury Bonds of the Bank are being made through the NSB Fund Management Company Limited on which service charges/custodian fee of Rs. 12.1 Mn. has been made for the year 2022 (Rs. 42 Mn. service charges/custodian fee in 2021).

The Bank holds following balances with NSB Fund Management Company Limited, at the reporting date:

	Bank	
As at 31 December	2022 Rs. '000	2021 Rs. '000
Assets		
Securities purchased under resale agreements	–	1,206,998
Loans and advances	850,175	500,198
Other receivable	1,291	1,127
Total	851,466	1,708,323
Liabilities		
Other payable	–	3,500
Commitment		
Undrawn loan commitment	350,000	–

The above outstanding balances arose in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third-party counterparties. Particulars of income and expenses with related parties are tabulated below:

	Bank	
For the year ended 31 December	2022 Rs. '000	2021 Rs. '000
Income		
Legal fee	300	300
Interest income on loans and advances	284,204	1,185
Dividend	–	250,000
Interest income reverse repo	49,766	23,759
Total	334,270	275,244
Expenses		
Service charges/custodian fees	12,080	42,000
Real time gross settlement charges	21	167
Trustee fee	1,050	1,550
Interest expenses on repo's	–	1,505
Total	13,151	45,222

49. Related party disclosures (contd.)

49.4 Transactions with subsidiary company (Sri Lanka Savings Bank Limited)

The Sri Lanka Savings Bank Limited (SLSBL) was established in July 2006 under the Banking Act and incorporated under the provision of the Companies Act. The Sri Lanka Savings Bank commenced business on 10 March 2008 as a state-owned Licensed Specialised Bank. The Bank has acquired SLSBL as a fully-owned subsidiary by paying Rs. 3,111 Mn. on 11 October 2019. The CBSL has given special approval to acquisition as per the budget proposal of 2016.

The Bank holds following balances with Sri Lanka Savings Bank Limited at the reporting date.

	Bank	
As at 31 December	**2022 Rs. '000**	2021 Rs. '000
Liabilities		
Securities sold under repurchase agreement	–	711,225
Securities sold under repurchase agreement – Interest payables	–	5,813
Due to depositors	**1,252,274**	2,459,909
Due to depositors – Interest payables	**143,567**	47,436
Total	**1,395,841**	3,224,382

The above outstanding balances arose in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third-party counterparties. Particulars of income and expenses with related parties are tabulated below:

	Bank	
For the year ended 31 December	**2022 Rs. '000**	2021 Rs. '000
Expenses		
Interest expenses on securities sold under repurchase agreements	**25,628**	30,661
Interest expenses on due to depositors	**272,284**	83,593
Total	**297,912**	114,254

49. Related party disclosures (contd.)

49.5 Transactions with key managerial persons

49.5.1 Compensation to Key Management Personnel (KMPs)

As per the Sri Lanka Accounting Standard – LKAS 24 on "Related Party Disclosures", the KMPs include those who are having authority and responsibility for planning, directing, and controlling the activities of the Bank. Accordingly, key managerial persons include members of the Board of Directors of the Bank and key employees of the Bank holding directorships in subsidiaries, NSB Fund Management Company Ltd. and Sri Lanka Savings Bank Limited, Ex. Chairperson's, Directors' GM/CEO's and DGM's.

	Bank and Group	
For the year ended 31 December	**2022 Rs. '000**	2021 Rs. '000
Compensation to KMPs of the Bank		
Short-term employee benefit	**114,951**	116,508
Post-employment benefit	**22,463**	19,318
Total	**137,415**	135,826

In addition to the above, the Bank has also provided non-cash benefits to the KMPs in line with the approved benefit plans of the Bank.

(iii) Chairperson's, Directors' GM/CEO's and DGMM's emoluments and fees amounted to Rs. 115.0 Mn. in 2022. (Rs. 116.51 Mn. in 2021).

49.5.2 Transactions, arrangements, and agreements involving Key Management Personnel (KMPs)

	Bank and Group	
As at 31 December	**2022 Rs. '000**	2021 Rs. '000
Assets		
Loans and advances	**68,742**	67,678

49.5.3 Net accommodation granted to related parties

(Disclosure under Rule 3 (8) (ii) (e) of the Governance Direction of No. 12 of 2007 issued by the Central Bank of Sri Lanka).

	Bank	
As at 31 December	**2022 Rs. '000**	2021 Rs. '000
Key Managerial Persons		
Loans and advances	**68,742**	67,678
Total net accommodation	**68,742**	67,678
Regulatory capital	**63,346,963**	72,984,005
Net accommodation as a percentage of the Bank's regulatory capital (%)	**0.1**	0.1

49. Related party disclosures (contd.)

49.6 Transactions with post-employment benefit plans of the Bank

Transactions (SOFP) which were taken place between the Bank and post-employment benefit plans of the Bank as at the year end are summarised below:

The Bank holds following balances with post-employment benefit plans at the reporting date.

	Bank		Group	
As at 31 December	**2022 Rs. '000**	2021 Rs. '000	**2022 Rs. '000**	2021 Rs. '000
Liabilities				
National Savings Bank Employees' Provident Fund				
Due to depositors – (Fixed deposits)	**930,000**	469,785	**930,000**	469,785
Due to other borrowers (Securities purchased under resale agreements)	**171,628**	–	**171,628**	–
Debt securities issued (Debentures)	**1,250,000**	1,250,000	**1,250,000**	1,250,000
National Savings Bank Employees' Pension Scheme I				
Due to depositors – (Fixed deposits)	**700,000**	365,710	**700,000**	365,710
Due to other borrowers (Securities purchased under resale agreements)	**183,761**	1,410,361	**183,761**	1,410,361
Debt securities issued (Debentures)	**550,000**	550,000	**550,000**	550,000
National Savings Bank Employees' Pension Scheme II				
Due to depositors – (Fixed deposits)	**868,020**	508,496	**868,020**	508,496
Due to other borrowers (Securities purchased under resale agreements)	**98,669**	20,118	**98,669**	20,118
Debt securities issued (Debentures)	**500,000**	500,000	**500,000**	500,000
Medical Assistance Scheme for the Retired Employees of NSB				
Due to depositors – (Fixed deposits)	**158,910**	252,151	**158,910**	252,151
Due to other borrowers (Securities purchased under resale agreements)	**34,812**	–	**34,812**	–
Debt securities issued (Debentures)	**25,000**	25,000	**25,000**	25,000
Widows'/Widowers' and Orphans' Pension Fund				
Due to depositors – (Fixed deposits)	**56,150**	71,328	**56,150**	71,328
Due to other borrowers (Securities purchased under resale agreements)	**13,545**	–	**13,545**	–
Debt securities issued (Debentures)	**100,000**	100,000	**100,000**	100,000

49. Related party disclosures (contd.)

49.6 Transactions with post-employment benefit plans of the Bank (contd.)

Transactions (IS) which were taken place between the Bank and post-employment benefit plans of the Bank as at the year end are summarised below in view of Bank:

	Bank		Group	
For the year ended 31 December	2022 Rs. '000	2021 Rs. '000	2022 Rs. '000	2021 Rs. '000
Interest income				
National Savings Bank Employees' Provident Fund	–	2,378	–	2,378
National Savings Bank Employees' Pension Scheme I	–	277	–	277
Interest expenses				
National Savings Bank Employees' Provident Fund	228,434	103,988	228,434	103,988
National Savings Bank Employees' Pension Scheme I	89,705	321,504	89,705	321,504
National Savings Bank Employees' Pension Scheme II	49,991	73,701	49,991	73,701
Medical Assistance Scheme for the Retired Employees of NSB	25,951	21,358	25,951	21,358
Widows'/Widowers' and Orphans' Pension Fund	14,599	11,074	14,599	11,074

49.7 Due from other related parties

	Bank		Group	
As at 31 December	2022 Rs. '000	2021 Rs. '000	2022 Rs. '000	2021 Rs. '000
Securities purchased under resale agreements – Entrust Securities PLC	22,865	17,669	22,865	17,669
Receivable from Entrust Securities PLC	859,195	859,160	859,195	859,160
Impairment	(124,372)	(124,372)	(124,372)	(124,372)
Total	757,688	752,457	757,688	752,457

49.8 Due to other related parties

	Bank		Group	
As at 31 December	2022 Rs. '000	2021 Rs. '000	2022 Rs. '000	2021 Rs. '000
Other payable – Entrust Securities PLC	734,788	734,788	734,788	734,788
Total	734,788	734,788	734,788	734,788

50 Net assets value per ordinary share

As at 31 December	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
Amount used as the numerator				
Shareholders' funds	**72,892,229**	76,012,757	**76,389,681**	81,449,213
Number of ordinary share used as the denominator				
Total number of shares	**940,000**	940,000	**940,000**	940,000
Net assets value per ordinary share (Rs.)	**77.54**	80.86	**81.27**	86.65

51 Litigation against the Bank and the Group

Litigation is a common occurrence in the banking industry due to the nature of the business. The Bank has an established protocol for dealing with such legal claims. Once professional advice has been obtained on the certainty of the outcome and the amount of damages reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. The unresolved court cases against the Bank as at the year end for which adjustments to the Financial Statements have not been made due to the uncertainty of its outcome are as follows:

As at 31 December	Bank 2022 Number	Bank 2021 Number
Tribunal/Court		
Labour Tribunal	**9**	12
Industrial Court	**0**	1
Magistrate's Court	**0**	3
District Court	**43**	91
High Court/Civil Appellate High Court/Provincial High Court	**5**	4
Court of Appeal	**4**	3
Supreme Court	**3**	2

52 Events occurring after the reporting date

Accounting policy

Events occurring after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the Financial Statements are authorised for issue.

Where necessary all material events after the reporting date have been considered and appropriate adjustments/disclosures have been made in the Financial Statements as per the LKAS 10 on "Events after the Reporting Period".

53 Comparative figures

The comparative information is reclassified wherever necessary, to comply with current year's classification in order to provide better presentation.

Surcharge tax as proposed budget 2022

In terms or provision of the Surcharge Tax Act No. 14 of 2022, the group paid Surcharge Tax at the rate of 25 percent on the taxable income of the year of assessment 2020/2021 amounting to Rs. 5,524 Mn. and since this is related to the previous year, this has been adjusted as a prior year adjustment in the Financial Statement as at 31 December 2022.

54 Financial risk management

Overview

The Group is exposed to financial risk and non financial risks arising from its operations. The Group manages these risks through its Risk Management Framework, which evolves to accommodate changes in the business operating environment, best practices and regulatory requirements.

Risk management framework

Integrated Risk Management Framework of NSB encompasses policies and procedures covering various risks, mechanism to identify such risks, and effective measures to manage and mitigate risks.

Risk Management Framework of the Bank begins with the oversight of the Board of Directors. It has set up Board Integrated Risk Management Committee (BIRMC) to assist the Board of Directors in discharging its risk management responsibility. The Risk Management Division (RMD) independently reports to the Board through BIRMC. Bank's Management Committees review regular reports from respective Business Divisions and RMD, to ensure adequacy and effectiveness of Bank's risk management with meticulous focus.

The following Management Committees, are responsible for the coordination of risk matters for each of the areas of risk management with meticulous focus:

Management level risk Management Committees

- Credit Committee (CC)
- Asset and Liability Management Committee (ALCO)
- Operational Risk Management Committee (ORMC)
- Investment Committee (IC)
- Information Security Committee (ISC)

Other Management Committees

- IT Steering Committee
- Human Resource Committee (HRC)
- Branch Operation Steering Committee (BOSC)
- Performance Review Committee
- Marketing Committee
- Corporate Management Committee (CMC)

Internal Audit Division engages both regular and ad-hoc reviews of risk management controls and procedures and the findings are reported to the Board Audit Committee (BAC).

54. Financial risk management (contd.)

Material risk types

Description	Governing Policies and Key Management Committee	Key controls and mitigation strategies
Credit risk Credit risk is the potential for loss arising from the failure of a counterparty to meet their contractual obligations to the Group. The Group is primarily exposed to credit risk through: • Lending against property mortgage; • Other retail lending (Personal Guarantee); • Commercial lending; and • Large corporate (institutional) lending and markets exposures; • Large Lending for Government Institution; • Lending for companies incorporated in outside the Sri Lanka; • Pawning; • Loans against deposits	**Governing Policies** Credit Policies and Credit Risk Management Policy **Key Management Committee** Credit Committee	i. Credit Policies and Credit Risk Management Policy Framework. ii. Standardised credit evaluation using Credit Rating System (RAM). iii. Delegation of Authority for credit approval. iv. Obtain quality collateral and maintaining LTV at policy levels. v. Risk appetite Framework: Monitoring of KRIs/KPIs against risk appetite framework and reporting to BIRMC and Board. • Assets Quality limits : Retail NPA, Corporate NPA, Stage 3 Provision Cover • Portfolio Return limits: Retail Credit Return, Corporate Credit Return • Concentration limits: sector concentration, Name concentration • Off-Balance sheet commitments to total assets vi. Credit Limit Monitoring Framework: Portfolio and transaction level monitoring and reporting to CC/IC/BIRMC/Board. • Sector Exposure Limits. • Limits for risk weighted asset classes • Limits for Investments in Corporate Debt Instruments. vii. Credit Monitoring Framework: Portfolio and transaction level monitoring and reporting to CC/IC/BIRMC and Board. – Portfolio level monitoring. – Monitoring of early warning Indicators. – NPA monitoring. – Monitoring of Progress of the application of RAM system. – Stress testing and scenario Analysis. – Monitoring of revaluation progress. – Validation of Impairment assessments. – Validating internal rating assessment of corporate borrowers. – Review risk profile of the credit portfolio. viii. Loan Review Mechanism (LRM). ix. Capital allocation under Standardised Approach. x. Continuous training of credit staff at the Credit division and branch level. xi. Conducting Risk and Control Self-Assessment (RCSA) for credit process. xii. Computation of HHI and monitor against the Risk Appetite Levels.

54. Financial risk management (contd.)

Material risk types (contd.)

Description	Governing Policies and Key Management Committee	Key controls and mitigation strategies
Market risk (including equity risk) Market risk is the risk that market rates and prices will change and that this may have an adverse effect on the profitability and/or net worth of the Group. The Group is primarily exposed to market risk through: • Traded market risk; • Interest Rate Risk in the Banking Book (IRRBB); • Structural foreign exchange risk; • Non-traded equity risk.	**Governing Policies** Market Risk and Liquidity Risk Management Policy **Key Management Committee** Asset and Liability Management Committee (ALCO) Investment Committee	**Interest rate risk** i. Market Risk and Liquidity Risk Management Policy Framework. ii. Analyse the impact of interest rate movements and taking corrective actions by ALCO to minimise Impact on NIM. iii. ALCO is assigned with the responsibility to price the rate sensitive assets and liabilities. iv. ALCO assign with the responsibility to manage the rate sensitive assets and liabilities mix. v. ALCO obtain the support of ALM Unit attached to Treasury Front Office. vi. Investments and trading in Government Securities are monitored within the Limits Framework. vii. Assess the vulnerability to interest rate risk on a continuous basis using tools such as Marking to Market, Duration and Stress Testing. viii. Monitoring within the Risk Appetite and Limit Monitoring Framework and report to IC/ALCO/BIRMC/Board. **Equity risk** i. Equity risk is measured through limit monitoring equity VAR and Stress Testing. ii. Portfolio position, exposures and dealer limits and trading activities are monitored within the Limits Framework. iii. Equity VAR Id monitored against RAF iv. Dealing room voice recording are monitored daily basis to ensure sound market conduct. **Foreign exchange risk** i. Foreign currency dealing operation exposes and placements are monitored within the limits framework. ii. Foreign Exchange risk is measured using tools such as Net Open Position (NOP), Fx VaR and Stress testing and report to ALCO/BIRMC/Board

54. Financial risk management (contd.)

Material risk types (contd.)

Description	Governing Policies and Key Management Committee	Key controls and mitigation strategies
Liquidity and funding risk Liquidity risk is the combined risks of not being able to meet financial obligations as they fall due (funding liquidity risk), and that liquidity in financial markets, such as the market value for debt equity securities, may reduce significantly (market liquidity risk). The Group is exposed to liquidity risk primarily through: • The funding mismatch between the Group's loans, investments and sources of funding.	**Governing Policies** Market Risk and Liquidity Risk Management Policy **Key Management Committee** ALCO	i. Statutory requirement to maintain the investments in Government Securities (60% of deposits). ii. Cash flow management by Treasury Division. iii. Liquidity contingency planning. iv. Monitor statutory liquidity ratio such as SLAR, LCR, and NSFR against regulatory minimum requirements. v. Monitor ratios under stock approach and funding liquidity risk under liquidity risk monitoring tools as per Basel III report to ALCO/BIRMC and Board. vi. Monitor maturity gaps and sensitive gaps against Risk Limits.
Operational risk Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. The Group is exposed to operational risk primarily through: • Internal Frauds • External Frauds • Employment practices and workplace safety. • Client, products and business practices. • Damage to physical assets. • Business disruption and system failures. • Execution, Delivery and Process Management.	**Governing Policies** 1. Operational Risk Management (ORM) Policy 2. Model Risk Management Policy **Other Policies related to ORM** • Outsourcing Policy • Information Security Policy • Business Continuity Policy • Anti-Bribery and Corruption Policy **Key Management Committee** Operational Risk Management Committee (ORMC)	**Theft or fraud risk** i. Fraud risk management and whistle-blowing policies/procedures. ii. Internal control structure. iii. Daily checks/audits. iv. Key Operational Risk Indicators (KORIs) monitoring. v. Loss event data monitoring. vi. Risk Control Self-assessment (RCSA). vii. Root cause analysis. viii. Anti-Bribery and Corruption (AB&C) risk assessment. **IT disruptions and data security** i. IT strategic planning to minimise technical obsolescence and to identify process regard to automation/upgrading of systems. ii. Key information security-related implementation; • Payment Card Industry Data Security Standards (PCIDSS) • Next Generation Security Operation Center (NGSOC) • Data Leakage Prevention (DLP) iii. Disaster Recovery Planning (DRP) to avoid information loss. iv. Internal control/system access controls: Access control/ password protections etc. v. Establish system – based incident reporting. vi. Establish an Information Security Unit headed by a dedicated Chief Information Security Officer (CISO). vii. Continuous monitoring of Implementation of Information security policy, Baseline security standards (BSS) for Information security.

54. Financial risk management (contd.)

Material risk types (contd.)

Description	Governing Policies and Key Management Committee	Key controls and mitigation strategies
Operational risk (Contd.)		**Cybersecurity risk** i. Conduct vulnerability assessments and Penetration testing to take preemptive actions to minimise risk from identified vulnerabilities. ii. Improve ICT infrastructure to eliminate identified vulnerabilities and continuous monitoring of cyberspace/ external attacks through proper tools. **Legal risk** i. Provide legal clearance by legal division when entering into business and contractual obligations. ii. Handling legal proceedings effectively. **Business Continuity Management (BCM) Risk** i. Established BCM unit and governance structure is in place to ensure effective implementation of BCM.
Compliance risk Compliance risk is the risk of sanctions and financial loss the Group may suffer as a result of the Group's failure to comply with laws, regulations, rules, statements of regulatory policy, and codes of conduct applicable to its business activities. The Group is exposed to compliance risk primarily through: • Regulatory and licensing obligations, including privacy and conflicts of interest obligations; • Financial crime [Anti-Money Laundering (AML), Counter Terrorism Financing (CTF), Anti-Bribery and Corruption (AB&C), and Sanctions]; and • Poor conduct (product design and distribution, market conduct and employee misconduct).	**Governing Policies** 1. Compliance Policy 2. AML Policy 3. Related Party Transaction Policy **Key Management Committee** Operational Risk Management Committee	i. Compliance Officer directly report to BIRMC/Board ii. In-house systems/processes for AML and KYC monitoring. iii. Monitor within RAF.

54. Financial risk management (contd.)

Material risk types (contd.)

Description	Governing Policies and Key Management Committee	Key controls and mitigation strategies
Insurance risk Insurance risk is the risk of loss due to the potential for events the Group has insured against occurring more frequently or with greater severity than anticipated.	**Governing Policies** Operational risk management policy, Insurance policies obtained by the Bank 1. Bankers Indemnity Insurance Policy 2. Fire and Burglary Policy 3. Electronic Equipment Insurance Policy 4. Cyber Liability Insurance Policy 5. Electronic and Computer Crime Policy 6. Public Liability Policy 7. Vehicle Insurance Policy **Key Management Committee** Operational Risk Management Committee	i. Insurance recovery process is centralised under Administration Division and ensure the timely execution for necessary actions. ii. Policy itself set operational limits with regard to the implementation of insurance policies at branch level and Bank level. iii. Risk Management Division review insurance recovery status and reported to the Operational Risk Management Committee periodically. iv. Insurance recovery function subject to the internal audit function and prudent provisioning is assured in Financial Statements under Financial Statement Audit conducted by Internal Audit Division.
Strategic risk Strategic risk is the risk of material stakeholder value destruction or less than planned value creation. The Group is exposed to strategic risk primarily through: • Changes in the Group's external and internal operating environments (including macroeconomic conditions, competitive forces, technology, regulatory, political and social trends, customer expectations and the environment); and • Risk associated with the process for strategy development and monitoring of strategy implementation.	**Governing Policies** Integrated Risk Management Policy Strategic Business Plan **Key Management Committee** Operational Risk Management Committee Corporate Management Committee	i. Senior Management oversight. ii. Strategic Plan and Budgeting Process. iii. Establishment of Research and Development (R and D) Division to monitor general economic condition, competitor behaviour and report to support pre-emptive decision-making. iv. Monitor within RAF. v. Ensure Business Continuity Management System (BCMS).

54. Financial risk management (contd.)

Material risk types (contd.)

Broad risk categories in focus

The Bank is exposed to the following key risks from financial instruments:

54.1	**Credit risk**
54.1.1	Credit quality analysis
54.1.1.(a)	Net exposure to credit risk by class of financial assets
54.1.1.(b)	Management of the credit portfolio
54.1.1.(c)	Credit quality (past due) by classes of financial assets
54.1.1.(d)	Credit quality by classes of financial asset – stage-wise
54.1.1.(e)	Credit quality by rating of counterparty/obligor
54.1.1.(f)	Bank Guarantees, letter of credit and other undrawn commitment
54.2	**Liquidity risk**
54.2.1	Concentration of liquid assets
54.2.2	Remaining contractual period to maturity
54.2.3	Financial assets available to support future funding
54.3	**Market risk**
54.3.1	Market risk – Trading and non-trading exposure
54.3.2	Foreign exchange risk
54.3.3	Equity risk
54.3.4	Interest rate risk
54.4	**Operational risk**

54.1 Credit risk

Credit Risk is the risk of losses resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Bank which could materialise from the both On or Off Balance Sheet. The On-Balance sheet credit risk arises mainly from notional value of financial products such as retail loans, corporate loans, loans to banks and financial institutions, loans to State Owned Enterprises (SOEs) and loans to the Government. The Off-Balance sheet credit risk arises from commitments and contingencies.

Credit risk exposures of the Bank

The total credit exposure which is 35.8% of the Bank's total assets is the second major line of business (The investment in risk free securities is 52.0% of total assets). Hence the magnitude of credit risk is comparatively moderate to the Bank, albeit the fact that the Bank considers credit risk as a major type of risk.

54. Financial risk management (contd.)

54.1.1 Credit quality analysis

54.1.1 (a) Net exposure to credit risk by class of financial assets

The following tables show the maximum exposure and net exposure (fair value of any collateral held, value of risk free investments, Government guarantees and impairment provision made were deducted in arriving the net exposure) to credit risk by class of financial assets:

As at 31 December		2022		2021	
	Note	Maximum exposure to credit risk Rs. '000	Net exposure Rs. '000	Maximum exposure to credit risk Rs. '000	Net exposure Rs. '000
Bank					
Cash and cash equivalents	16	8,734,069	5,526,340	7,656,038	3,968,979
Balances with central banks	17	236,480	236,480	–	–
Placements with banks	18	10,466,409	10,466,409	7,120,698	7,120,698
Derivative financial instruments	19	28,172	28,172	–	–
Financial assets recognised through profit or loss	20				
– measured at fair value		14,173,948	1,956,839	19,572,933	2,069,513
– designated at fair value		–	–	–	–
Financial assets at amortised cost					
– loans and advances	21	553,027,321	277,276,173	538,941,789	278,473,001
– debt and other instruments	22	919,129,377	2,476,508	935,350,052	3,150,350
Financial assets measured at fair value through other comprehensive income	23	27,662,763	2,313,822	13,817,594	2,895,357
Total		1,533,458,539	300,280,742	1,522,459,104	297,677,899

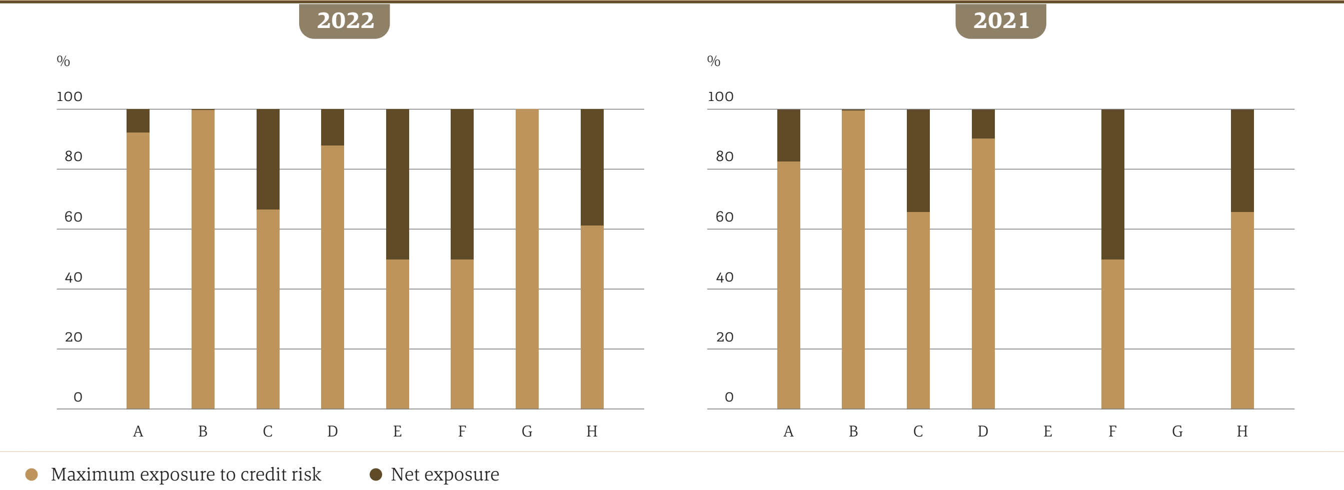
54. Financial risk management (contd.)

54.1 Credit risk (contd.)

54.1.1 Credit quality analysis (contd.)

54.1.1 (a) Net exposure to credit risk by class of financial assets (contd.)

Net exposure to credit risk – Bank Graph 65



A Financial assets measured at FVOCI
B Debt and other instruments
C Loans and advances
D Financial assets recognised through profit or loss
E Derivative financial instruments
F Placements with banks
G Balances with central banks
H Cash and cash equivalents

As at 31 December	Note	2022 Maximum exposure to credit risk Rs. '000	2022 Net exposure Rs. '000	2021 Maximum exposure to credit risk Rs. '000	2021 Net exposure Rs. '000
Group					
Cash and cash equivalents	16	8,782,807	5,570,254	7,721,532	4,029,914
Balances with central banks	17	236,696	236,696	7	7
Placements with banks	18	11,034,246	11,034,246	9,323,663	9,323,663
Derivative financial instruments	19	35,392	35,392	–	–
Financial assets recognised through profit or loss	20				
– measured at fair value		23,236,848	1,956,839	40,392,152	2,329,980
– designated at fair value		–	–	–	–
Financial assets at amortised cost					
– loans and advances	21	553,052,170	278,070,846	538,600,866	279,828,307
– debt and other instruments	22	927,916,442	3,029,698	940,536,328	3,703,512
Financial assets measured at fair value through other Comprehensive income	23	28,252,211	2,418,746	15,993,803	3,062,553
Total		1,552,546,811	302,352,715	1,552,568,350	302,277,935

54. Financial risk management (contd.)

54.1 Credit risk (contd.)

54.1.1 Credit quality analysis (contd.)

54.1.1 (b) Management of the credit portfolio

54.1.1. (b).1 Collateral and other credit enhancement

The amount and type of collateral required depends as an assessment of the credit risk of the counterparty. Guidelines are in place covering the accessibility and valuation of each type of collateral.

The main type of collateral obtained are as follows:

a. for corporate lending – Government guarantees, mortgages over immovable and movable fixed assets, inventory, corporate, and personal guarantees
b. for retail lending – mortgage over residential property, gold, cash, personal guarantees, vehicles

The Bank also obtains guarantees from parent companies for loans to their subsidiaries.

Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement.

Collateral held

Loan-to-value ratio of residential mortgage lending

The table below stratifies eligible credit exposures by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the amortised cost of the loan to the value of the collateral, which is used for the computation of Capital Adequacy Ratios. The value of the collateral for residential mortgage loan is based on the forced sale value determined by professional valuers.

As at 31 December	2022 Rs. '000	2022 Composition %	2021 Rs. '000	2021 Composition %
LTV ratio				
Less than 50%	**53,909,452**	**76.23**	54,180,362	76.78
51% – 70%	**12,564,089**	**17.77**	11,726,954	16.62
71% – 90%	**3,646,276**	**5.16**	4,199,135	5.95
91% – 100%	**329,749**	**0.47**	199,994	0.28
More than 100%*	**271,261**	**0.38**	260,292	0.37
Gross total	**70,720,826**	**100.00**	70,566,736	100.00

* LTV ratio of more than 100% has been arisen due to subsequent disbursements made to the borrower after the initial valuation of the property (the denominator).

Assets obtained by taking the possession of collaterals

In its normal course of business, the Bank engages external agents to recover funds from repossessed properties or other assets in its retail portfolio, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the balance sheet and not treated as non-current assets held for sale.

54.1.1 (b) 2 Concentration of credit risk by product and sector

By setting various concentration limits under different criteria within the established risk appetite framework (i.e. single borrower/ group, industry sectors, name, concentration limits etc.), the Bank ensures that an acceptable level of risk diversification is maintained on an ongoing basis.

54. Financial risk management (contd.)

54.1 Credit risk (contd.)

54.1.1 Credit quality analysis (contd.)

54.1.1 (b) 2 Concentration of credit risk by product and sector (contd.)

The Bank monitors the concentration of credit risk by product and sectors. An analysis of concentration risk of the Bank portfolio (Loans and advances) is given below:

Concentration by product

	Bank		Group	
As at 31 December	2022 Rs. '000	2021 Rs. '000	2022 Rs. '000	2021 Rs. '000
Loans and advances				
Lease rental and receivable	–	–	172,973	276,606
Pawning	74,389,506	52,193,260	74,389,569	52,195,389
Staff loans	14,867,179	13,348,092	15,194,108	13,641,981
Term loans				
Short-term	282,586	434,945	282,586	980,569
Long-term	477,901,737	477,330,159	478,870,726	478,545,545
Others				
Sri Lanka Government Securities	–	–	–	–
Loan to Government	2,075,000	2,075,000	2,075,000	2,075,000
Securities purchased under resale agreement	739,728	5,530,553	818,424	4,334,138
Gross total	570,255,736	550,912,009	571,803,386	552,049,228

Concentration by sector

	Bank		Group	
As at 31 December	2022 Rs. '000	2021 Rs. '000	2022 Rs. '000	2021 Rs. '000
Loans and advances				
Agriculture and fishing	30,380,297	32,357,760	30,718,456	32,802,339
Manufacturing	–	–	658,745	754,033
Tourism	72,525	65,237	125,702	132,859
Transport	22,537	1,438,822	59,644	1,495,766
Construction/housing	190,997,512	165,772,167	191,330,795	166,260,959
Traders	–	–	465,148	540,111
New economy	–	–	21,717	36,459
Others				
Financial and business services	2,204,933	3,856,637	2,204,933	3,461,528
Infrastructure	64,633,867	62,602,215	64,633,867	62,711,714
Power and energy	9,325,128	11,906,155	9,325,128	11,906,155
Education	9,384,292	9,369,970	9,384,292	9,378,569
Personal/Pawning/Other	263,234,645	263,543,047	262,874,959	262,568,737
Gross total	570,255,736	550,912,009	571,803,386	552,049,228

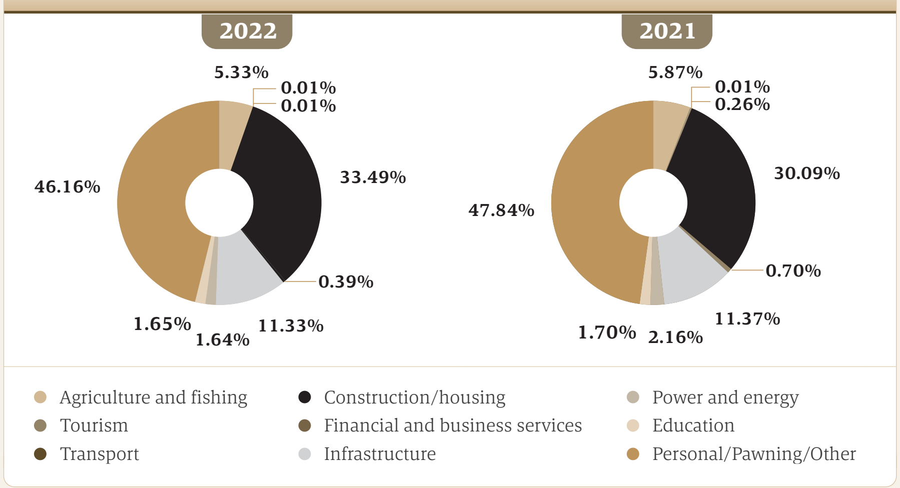
54. Financial risk management (contd.)

54.1 Credit risk (contd.)

54.1.1 Credit quality analysis (contd.)

54.1.1 (b) Management of the credit portfolio (contd.)

Sector classification of loans and advances – Bank Graph 66



54.1.1 (c) Credit quality (past due) by classes of financial assets – Bank

As at 31 December 2022	Note	Neither past due nor Individually impaired Rs. '000	Past due but not Individually impaired Rs. '000	Individually impaired Rs. '000	Total Rs. '000
Assets					
Cash and cash equivalents (gross)*	16	8,735,208	–	–	8,735,208
Balances with central banks	17	236,480	–	–	236,480
Placements with banks (gross)*	18	10,470,905	–	–	10,470,905
Derivative financial instruments	19	28,172	–	–	28,172
Financial assets recognised through profit or loss					
– measured at fair value	20	14,173,948	–	–	14,173,948
– designated at fair value		–	–	–	–
Financial assets at amortised cost					
– loans and advances (gross)*	21	478,449,718	87,365,619	4,440,399	570,255,736
– debt and other instruments (gross)*	22	920,068,906	–	–	920,068,906
Financial assets measured at fair value through other comprehensive income	23	27,662,763	–	–	27,662,763
Total		1,459,826,099	87,365,619	4,440,399	1,551,632,117

* Collectively assessed for the impairment.

54. Financial risk management (contd.)

54.1 Credit risk (contd.)

54.1.1 Credit quality analysis (contd.)

54.1.1 (c) Credit quality (past due) by classes of financial assets – Bank (contd.)

Aging analysis of past due (i.e. facilities in arrears of one day and above) but not impaired loans, by class of financial assets.

As at 31 December 2022	Past due but not impaired				
	1 to 30 days Rs. '000	31 to 60 days Rs. '000	61 to 90 days Rs. '000	More than 90 days Rs. '000	Total Rs. '000
Financial assets at amortised cost – loans and advances (gross)*	35,459,171	17,820,784	14,727,429	19,358,235	87,365,619
	41%	20%	17%	22%	100%

Facilities in arrears of one day and above considered as "past due".

As at 31 December 2021	Note	Neither past due nor Individually impaired Rs. '000	Past due but not Individually impaired Rs. '000	Individually impaired Rs. '000	Total Rs. '000
Assets					
Cash and cash equivalents (gross)*	16	7,656,263	–	–	7,656,263
Balances with central banks	17	–	–	–	–
Placements with banks (gross)*	18	7,122,376	–	–	7,122,376
Derivative financial instruments	19	–	–	–	–
Financial assets recognised through profit or loss					
– measured at fair value	20	19,572,933	–	–	19,572,933
– designated at fair value		–	–	–	–
Financial assets at amortised cost					
– loans and advances (gross)*	21	490,582,034	58,292,713	2,037,262	550,912,009
– debt and other instruments (gross)*	22	936,735,215	–	–	936,735,215
Financial assets measured at fair value through other comprehensive income	23	13,817,594	–	–	13,817,594
Total		1,475,486,415	58,292,713	2,037,262	1,535,816,390

* Collectively assessed for the impairment.

54. Financial risk management (contd.)

54.1 Credit risk (contd.)

54.1.1 Credit quality analysis (contd.)

54.1.1 (c) Credit quality (past due) by classes of financial assets – Bank (contd.)

Aging analysis of past due (i.e. facilities in arrears of one day and above) but not impaired loans, by class of financial assets.

As at 31 December 2021	Past due but not impaired				
	1 to 30 days Rs. '000	31 to 60 days Rs. '000	61 to 90 days Rs. '000	More than 90 days Rs. '000	Total Rs. '000
Financial assets at amortised cost – loans and advances (gross)*	35,621,785	5,369,083	1,484,972	15,816,872	58,292,713
	61%	9%	3%	27%	100%

Facilities in arrears of one day and above considered as "past due".

54.1.1 (d) Credit quality by classes of financial asset – stage-wise – Bank

As at 31 December 2022	Note	Amortised cost					Impairment provision				
		Not subject to ECL Rs. '000	Stage 1* Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000	As per financial position Rs. '000
Assets											
Cash and cash equivalents	16	3,268,288	5,466,920	–	–	8,735,208	1,139	–	–	1,139	8,734,069
Balances with central bank	17	236,480	–	–	–	236,480	–	–	–	–	236,480
Placements with banks	18	–	10,470,905	–	–	10,470,905	128	4,367	–	4,496	10,466,409
Derivative financial instruments	19	28,172	–	–	–	28,172	–	–	–	–	28,172
Financial assets recognised through profit or loss	20										
– measured at fair value		14,173,948	–	–	–	14,173,948	–	–	–	–	14,173,948
– designated at fair value		–	–	–	–	–	–	–	–	–	–
Financial assets at amortised cost											
– loans and advances	21	–	520,349,987	24,397,234	25,508,516	570,255,736	4,691,568	2,623,411	9,913,436	17,228,415	553,027,321
– debt and other instruments	22	775,442,999	135,237,177	9,388,730	–	920,068,906	655	938,873	–	939,528	919,129,377
Financial assets measured at fair value through other comprehensive income	23	27,662,763	–	–	–	27,662,763	–	–	–	–	27,662,763
Total		820,812,650	671,524,988	33,785,963	25,508,516	1,551,632,118	4,693,491	3,566,652	9,913,436	18,173,578	1,533,458,540

* Stage 1 loans for the year 2022 includes treasury guaranteed loans of Rs. 69,212 Mn. for which impairment provision amounted to zero, as the LGD applied for such loans is zero.

54. Financial risk management (contd.)

54.1 Credit risk (contd.)

54.1.1 Credit quality analysis (contd.)

54.1.1 (d) Credit quality by classes of financial asset – stage-wise – Bank (contd.)

As at 31 December 2021	Note	Amortised cost					Impairment provision				
		Not subject to ECL Rs. '000	Stage 1* Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000	As per financial position Rs. '000
Assets											
Cash and cash equivalents	16	3,792,012	3,864,251	–	–	7,656,263	225	–	–	225	7,656,038
Balances with central bank	17	–	–	–	–	–	–	–	–	–	–
Placements with banks	18	–	7,122,376	–	–	7,122,376	1,678	–	–	1,678	7,120,698
Derivative financial instruments	19	–	–	–	–	–	–	–	–	–	–
Financial assets recognised through profit or loss	20										
– measured at fair value		19,572,933	–	–	–	19,572,933	–	–	–	–	19,572,933
– designated at fair value		–	–	–	–	–	–	–	–	–	–
Financial assets at amortised cost											
– loans and advances	21	–	508,412,070	22,500,946	19,998,993	550,912,009	3,515,327	2,150,965	6,303,928	11,970,220	538,941,789
– debt and other instruments	22	793,113,019	128,732,343	14,889,853	–	936,735,215	529	1,384,634	–	1,385,163	935,350,052
Financial assets measured at fair value through other comprehensive income	23	13,817,594	–	–	–	13,817,594	–	–	–	–	13,817,594
Total		863,526,089	614,900,510	37,390,799	19,998,993	1,535,816,390	3,517,759	3,535,599	6,303,928	13,357,286	1,522,459,104

* Stage 1 loans for the year 2021 includes treasury guaranteed loans of Rs.74, 466.4 Mn for which impairment provision amounted to zero, as the LGD applied for such loans is zero.

54. Financial risk management (contd.)

54.1 Credit risk (contd.)

54.1.1 Credit quality analysis (contd.)

54.1.1 (e) Credit quality by rating of counter party/obligor – 2022

Ratings	Cash at Banks			Placements with Banks		
	Exposure Rs. '000	ECL Provision Rs. '000	ECL Coverage %	Exposure Rs. '000	ECL Provision Rs. '000	ECL Coverage %
AAA	186,244	1.18	0.001	–	–	–
AA+	–	–	0.000	–	–	–
AA	21,348	0.44	0.000	–	–	–
AA-	11,088	0.40	0.004	–	–	0.000
A+	1,119,165	85.92	0.008	–	–	0.000
A	3,412,639	611.68	0.018	4,469,321	767.54	0.017
A-	86,587	25.79	0.030	4,709,882	1,374.75	0.000
BBB+	487,247	244.55	0.000	–	–	–
BBB	110,398	90.02	0.082	–	–	–
BBB-	–	–	–	1,291,701	2,353.38	0.182
BB+	32,203	79.62	0.247	–	–	–
BB	–	–	–	–	–	–
BB-	–	–	–	–	–	–
B+	–	–	–	–	–	–
B	–	–	–	–	–	–
B-	–	–	–	–	–	–
CCC	–	–	–	–	–	–
CC	–	–	–	–	–	–
DDD	–	–	–	–	–	–
D	–	–	–	–	–	–
Unrated	–	–	–	–	–	–
	5,466,920	1,139.60	0.021	10,470,905	4,495.67	0.043

Note:
1. Both Individually and collectively assessed corporate loans have been considered for above rating based analysis.
2. Sovereign rating of the country has been used for cross boarder corporate loans for which rating is not available.
3. For USD denominator lending and investment , LGD is considered as 20% while PD applicable to sovereign rating is used.
4. Unless State Own Enterprises (SOE) does not have specific rating, those entities are considered as AAA rating Enterprises.
5. For treasury guaranteed loans and debentures, zero LGD was applied to calculate ECL.

Loans and advances			Debt and other instruments		
Exposure Rs. '000	ECL Provision Rs. '000	ECL Coverage %	Exposure Rs. '000	ECL Provision Rs. '000	ECL Coverage %
85,835,110	2,521.14	0.003	132,760,669	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	0.000	754,787	34.41	0.000
–	–	–	214,076	19.73	0.009
3,265,654	557.22	0.000	796,157	129.07	0.016
–	–	–	335,455	107.52	0.000
3,554,823	1,888.21	0.053	–	–	0.000
–	–	0.000	376,033	364.66	0.097
21,491	35.15	0.164	–	–	–
–	–	0.000	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	0.000	–	–	–
9,325,128	71,829.08	0.01	–	–	–
–	–	0.000	–	–	–
–	–	–	–	–	–
–	–	0.000	–	–	0.000
–	–	–	9,388,730	938,872.96	0.10
–	–	–	–	–	–
4,440,399	2,115,824.37	47.649	–	–	–
106,442,605	2,192,655.17	2.060	144,625,907	939,528.35	0.650

54. Financial risk management (contd.)

54.1 Credit risk (contd.)

54.1.1 Credit quality analysis (contd.)

54.1.1 (e) Credit quality by rating of counter party/obligor – 2021 (contd.)

Ratings	Cash at Banks			Placements with Banks		
	Exposure Rs. '000	ECL Provision Rs. '000	ECL Coverage %	Exposure Rs. '000	ECL Provision Rs. '000	ECL Coverage %
AAA	447,986	3.00	0.001	–	–	–
AA+	10,220	0.06	0.001	–	–	0.000
AA	–	–	–	–	–	–
AA-	3,119,382	167.04	0.005	3,381,608	175.51	0.005
A+	62,908	3.51	0.006	1,403,030	139.28	0.010
A	71,268	11.82	0.017	1,770,965	250.40	0.014
A-	5,622	0.56	0.010	–	–	–
BBB+	117,824	20.76	0.000	–	–	–
BBB	23,971	11.24	0.047	–	–	–
BBB-	–	–	0.000	566,773	1,112.48	0.196
BB+	5,070	7.21	0.142	–	–	–
BB	–	–	–	–	–	–
BB-	–	–	–	–	–	–
B+	–	–	–	–	–	–
B	–	–	–	–	–	–
B-	–	–	–	–	–	–
CCC	–	–	–	–	–	–
CC	–	–	–	–	–	–
DDD	–	–	–	–	–	–
D	–	–	–	–	–	–
Unrated	–	–	–	–	–	–
	3,864,251	225.19	0.006	7,122,376	1,677.67	0.024

54.1.1 (f) Bank Guarantees , Letter of Credit and Other Undrawn Commitment

Bank Guarantees

A bank guarantee is a kind of guarantee from a lending organisation. The Bank guarantee signifies that the lending institution ensures that the liabilities of a debtor are going to be met. In other words, if the debtor fails to perform the obligation, the Bank will cover it.

Group issue bank guarantee with 100% or more cash back in savings accounts or fixed deposits. Therefore Bank guarantees are not expose to credit risk and not subject to ECL.

Letter of Credits

A letter of credit, also known as a documentary credit or bankers commercial credit, or letter of undertaking, is a payment mechanism used in international trade to provide an economic guarantee from a creditworthy bank to an exporter of goods.

Group issue letter of credit with 100% or more cash back in savings accounts or fixed deposits. Therefore letter of credits are not expose to credit risk and not subject to ECL.

Loans and advances			Debt and other instruments		
Exposure Rs. '000	ECL Provision Rs. '000	ECL Coverage %	Exposure Rs. '000	ECL Provision Rs. '000	ECL Coverage %
84,103,393	94.07	0.000	126,305,334	–	–
440,809	–	0.000	–	–	–
–	–	–	–	–	–
15,950,689	498.60	0.003	–	–	–
–	–	0.000	1,481,950	252.04	0.017
–	–	–	1,435,350	261.13	0.018
–	–	0.000	–	–	–
4,846,446	3,536.19	0.073	126,311	76.75	0.061
253,311	275.73	0.109	107,447	117.95	0.110
1,634,441	3,158.06	0.193	–	–	0.000
332,000	1,101.59	0.332	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
492,796	4,097.24	0.831	–	–	0.000
–	–	–	–	–	–
1,806,750	354,502.25	19.621	–	–	–
–	–	0.000	–	–	0.000
151,756	151,756.36	100.000	14,165,804	1,384,454.71	9.773
–	–	–	–	–	–
–	–	–	–	–	–
78,755	78,755.42	100.000	–	–	–
110,091,148	597,775.53	0.543	143,622,196	1,385,162.59	0.964

54. Financial risk management (contd.)

54.1 Credit risk (contd.)

54.1.1 Credit quality analysis (contd.)

54.1.1 (f) Bank Guarantees , Letter of Credit and Other Undrawn Commitment (contd.)

Undrawn Credit Commitments

Undrawn Commitment refers to the loans that the lender has agreed to be made available to the borrower under a revolving credit facility or a delayed draw term facility that the borrower has either not drawn, or has drawn and repaid. Bank calculates ECL for undrawn credit commitment considering it as part and partial of the credit facility.

As at 31 December 2022	Note	Exposure Not subject to ECL	Stage 1	Stage 2	Stage 3	Total
Documentary Credit	48	452,690	–	–	–	452,690
Bank Guarantees	48	3,147,791	–	–	–	3,147,791
Undrawn Credit Commitments	48	–	5,801,775	370,453	352,267	6,524,496
Total		**3,600,481**	**5,801,775**	**370,453**	**352,267**	**10,124,977**

As at 31 December 2022	Note	Expected Credit Loss (ECL) Not subject to ECL	Stage 1	Stage 2	Stage 3	Total
Documentary Credit		–	–	–	–	–
Bank Guarantees		–	–	–	–	–
Undrawn Credit Commitments		–	5,918	1,604	199	7,721
Total		**–**	**5,918**	**1,604**	**199**	**7,721**

As at 31 December 2021	Note	Exposure Not subject to ECL	Stage 1	Stage 2	Stage 3	Total
Documentary Credit	48	452,690	–	–	–	452,690
Bank Guarantees	48	3,102,414	–	–	–	3,102,414
Undrawn Credit Commitments	48	–	7,549,190	18,379	4,116	7,571,686
Total		3,555,104	7,549,190	18,379	4,116	11,126,790

As at 31 December 2021	Note	Expected Credit Loss (ECL) Not subject to ECL	Stage 1	Stage 2	Stage 3	Total
Documentary Credit		–	–	–	–	–
Bank Guarantees		–	–	–	–	–
Undrawn Credit Commitments		–	7,681	2,087	1,297	11,065
Total		–	7,681	2,087	1,297	11,065

54. Financial risk management (contd.)

54.2 Liquidity risk

Liquidity risk is the Bank's inability to meet "on" or "off " balance sheet contractual and contingent financial obligations as they fall due, without incurring material losses.

54.2.1 Concentration of liquid assets

The Bank's mandatory requirement to invest 60% of its deposits in Government Securities forces the Bank to maintain a high statutory liquid assets ratio. Currently, the Bank maintains a liquidity ratio at 40.6% which is well above the statutory requirement of 20%. The investment in Government Securities represent 96.5% from the total liquid assets of the Bank.

	Bank	
As at 31 December	2022 Rs. '000	2021 Rs. '000
Liquidity assets ratio –		
Year end	40.6	59.6
30 June	43.6	68.0
Year beginning	59.6	69.1

Liquidity assets and liabilities of the Bank

	Domestic business unit	
	2022 Rs. '000	2021 Rs. '000
Total liquid assets		
Cash	1,994,246	2,259,391
Balances with licensed commercial bank	13,675,290	13,744,633
Money at call in Sri Lanka	2,756	245
Treasury Bills and securities issued or guaranteed by the Government of Sri Lanka	18,503,847	38,106,376
Goods receipts/liquid assets permitted under Extraordinary policy measures due to COVID-19	–	–
Cash item in the process of collection	150,408	162,451
Balances with banks abroad	1,610,268	297,669
Treasury Bonds	533,540,107	748,438,768
Sri Lanka development Bonds	8,612,054	13,741,338
Total liquid assets (Daily average statutory liquid assets during the month of December)	578,088,976	816,750,871
Total liability based subject to minimum liquid assets requirement	1,423,132,438	1,369,731,300
Liquidity asset ratio (%)	40.62	59.63

Details are given as per regulatory reporting.

54. Financial risk management (contd.)

54.2 Liquidity risk (contd.)

54.2.2 Remaining contractual period to maturity – Bank and the Group

Disclosures are given in the Note 55 on pages 398 to 401.

54.2.3 Financial assets available to support future funding

The table below sets out the availability of the Bank's financial assets to support future funding:

		Bank					Group				
		Encumbered		Unencumbered		Total *	Encumbered		Unencumbered		Total*
As at 31 December 2022	Note	Pledge as collateral Rs. '000	Other Rs. '000	Available as collateral Rs. '000	Other Rs. '000	Rs. '000	Pledge as collateral Rs. '000	Other Rs. '000	Available as collateral Rs. '000	Other Rs. '000	Rs. '000
Cash and cash equivalents	16	–	–	8,735,208	–	8,735,208	–	–	8,783,946	–	8,783,946
Balances with central banks	17	–	236,480	–	–	236,480	–	236,696	–		236,696
Placements with banks	18	–	–	10,470,905		10,470,905	–	–	11,038,765	–	11,038,765
Derivative financial instruments	19	–	–	–	28,172	28,172	–	–		35,392	35,392
Financial assets recognised through profit or loss	20					–					–
– measured at fair value		–	–	14,173,948	–	14,173,948	7,911,556		15,325,292	–	23,236,848
– designated at fair value		–	–	–	–	–	–	–	–	–	–
Financial assets at amortised cost											
– loans and advances	21	–	–	570,255,736	–	570,255,736	–	–	571,803,386	–	571,803,386
– debt and other instruments	22	6,772,300	–	913,296,606	–	920,068,906	13,253,580		915,774,149	–	929,027,729
Financial assets measured at fair value through other comprehensive income	23	–	–	27,662,763	–	27,662,763	387,192	–	27,865,019	–	28,252,211
Total		6,772,300	236,480	1,544,595,166	28,172	1,551,632,117	21,552,328	236,696	1,550,590,557	35,392	1,572,414,974

54. Financial risk management (contd.)

54.2 Liquidity risk (contd.)

54.2.3 Financial assets available to support future funding (contd.)

As at 31 December 2021	Note	Bank					Group				
		Encumbered		Unencumbered		Total *	Encumbered		Unencumbered		Total*
		Pledge as collateral Rs. '000	Other Rs. '000	Available as collateral Rs. '000	Other Rs. '000	Rs. '000	Pledge as collateral Rs. '000	Other Rs. '000	Available as collateral Rs. '000	Other Rs. '000	Rs. '000
Cash and cash equivalents	16	–	–	7,656,263	–	7,656,263	–	–	7,721,757	–	7,721,757
Balances with central banks	17	–	–	–	–	–	–	7	–		7
Placements with banks	18	–	–	7,122,376	–	7,122,376	–	–	9,329,865	–	9,329,865
Derivative financial instruments	19	–	–	–	–	–	–	–	–	–	–
Financial assets recognised through profit or loss	20					–					–
– measured at fair value		–	–	19,572,933	–	19,572,933	20,622,579		19,769,573	–	40,392,152
– designated at fair value		–	–	–	–	–	–	–	–	–	–
Financial assets at amortised cost											
– loans and advances	21	–	–	550,912,009	–	550,912,009	–	–	552,049,228	–	552,049,228
– debt and other instruments	22	8,191,410	–	928,543,805	–	936,735,215	11,632,510		930,460,774	–	942,093,284
Financial assets measured at fair value through other comprehensive income	23	–	–	13,817,594	–	13,817,594	1,928,959	–	14,064,844	–	15,993,803
Total		8,191,410	–	1,527,624,979	–	1,535,816,390	34,184,047	7	1,533,396,042	–	1,567,580,096

* Figures are stated before the impairment provisions.

54.3 Market risk

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

Sources of market risk to NSB

The exposure to market risk arises to National Savings Bank from the following sources:

- Treasury securities portfolio (Government Securities and other permitted fixed income securities)
- Repo and reverse repo transactions
- Bank's operations in foreign currency
- Equity investments
- Derivatives
- Rate sensitive assets liabilities mismatch

54. Financial risk management (contd.)

54.3 Market risk (contd.)

54.3.1 Market risk – trading and non-trading exposure

Following table present the assets and liabilities subject to market risk between fair value through profit or loss and other than fair value through profit or loss:

As at 31 December 2022	Note	Bank Carrying amount Rs. '000	Bank Amount exposure to trading Rs. '000	Bank Non-trading exposure Rs. '000	Group Carrying amount Rs. '000	Group Amount exposure to trading Rs. '000	Group Non-trading exposure Rs. '000
Assets subject to market risk							
Cash and cash equivalents	16	8,734,069	–	8,734,069	8,782,807	–	8,782,807
Balances with central banks	17	236,480	–	236,480	236,696	–	236,696
Placements with banks	18	10,466,409	–	10,466,409	11,034,246	–	11,034,246
Derivative financial instruments	19	28,172	–	28,172	35,392	–	35,392
Financial assets recognised through profit or loss	20						
– measured at fair value		14,173,948	14,173,948	–	23,236,848	23,236,848	–
– designated at fair value		–	–	–	–	–	–
Financial assets at amortised cost							
– loans and advances	21	553,027,321	–	553,027,321	553,052,170	–	553,052,170
– debt and other instruments	22	919,129,377	–	919,129,377	927,916,442	–	927,916,442
Financial assets measured at fair value through other comprehensive income	23	27,662,763	–	27,662,763	28,252,211	–	28,252,211
Total		1,533,458,539	14,173,948	1,519,284,591	1,552,546,811	23,236,848	1,529,309,963

* Figures are stated after the impairment provisions.

As at 31 December 2022	Note	Bank Carrying amount Rs. '000	Bank Amount exposure to trading Rs. '000	Bank Non-trading exposure Rs. '000	Group Carrying amount Rs. '000	Group Amount exposure to trading Rs. '000	Group Non-trading exposure Rs. '000
Liabilities subject to market risk							
Due to banks	32	4,086,731	–	4,086,731	12,711,256	–	12,711,256
Derivative financial instruments	33	–	–	–	–	–	–
Financial liabilities recognised through profit or loss	34	–	–	–	–	–	–
Financial liabilities at amortised cost	35						
– due to depositors		1,476,739,818	–	1,476,739,818	1,475,808,557	–	1,475,808,557
– due to debt securities holders		–	–	–	–	–	–
– due to other borrowers		16,766,044	–	16,766,044	18,889,245	–	18,889,245
Lease liability	36	1,377,229	–	1,377,229	1,414,959	–	1,414,959
Debt securities issued	37	23,778,255	–	23,778,255	23,851,810	–	23,851,810
Total		1,522,748,077	–	1,522,748,077	1,532,675,827	–	1,532,675,827

54. Financial risk management (contd.)

54.3 Market risk (contd.)

54.3.1 Market risk – trading and non-trading exposure (contd.)

As at 31 December 2021	Note	Bank Carrying amount Rs. '000	Bank Amount exposure to trading Rs. '000	Bank Non-trading exposure Rs. '000	Group Carrying amount Rs. '000	Group Amount exposure to trading Rs. '000	Group Non-trading exposure Rs. '000
Assets subject to market risk							
Cash and cash equivalents	16	7,656,038	–	7,656,038	7,721,532	–	7,721,532
Balances with central banks	17	–	–	–	7	–	7
Placements with banks	18	7,120,698	–	7,120,698	9,323,663	–	9,323,663
Derivative financial instruments	19	–	–	–	–	–	–
Financial assets recognised through profit or loss	20						
– measured at fair value		19,572,933	19,572,933	–	40,392,152	40,392,152	–
– designated at fair value		–	–	–	–	–	–
Financial assets at amortised cost							
– loans and advances	21	538,941,789	–	538,941,789	538,600,866	–	538,600,866
– debt and other instruments	22	935,350,052	–	935,350,052	940,536,328	–	940,536,328
Financial assets measured at fair value through other comprehensive income	23	13,817,594	–	13,817,594	15,993,803	–	15,993,803
Total		1,522,459,104	19,572,933	1,502,886,171	1,552,568,350	40,392,152	1,512,176,198

As at 31 December 2021	Note	Bank Carrying amount Rs. '000	Bank Amount exposure to trading Rs. '000	Bank Non-trading exposure Rs. '000	Group Carrying amount Rs. '000	Group Amount exposure to trading Rs. '000	Group Non-trading exposure Rs. '000
Liabilities subject to market risk							
Due to banks	32	7,686,553	–	7,686,553	10,470,191	–	10,470,191
Derivative financial instruments	33	–	–	–	–	–	–
Financial liabilities recognised through profit or loss	34	–	–	–	–	–	–
Financial liabilities at amortised cost	35						
– due to depositors		1,428,467,385	–	1,428,467,385	1,426,724,704	–	1,426,724,704
– due to debt securities holders		–	–	–	–	–	–
– due to other borrowers		7,719,532	–	7,719,532	27,087,920	–	27,087,920
Lease Liability	36	1,292,139	–	1,292,139	1,333,623	–	1,333,623
Debt securities issued	37	37,529,017	–	37,529,017	37,618,575	–	37,618,575
Total		1,482,694,626	–	1,482,694,626	1,503,235,012	–	1,503,235,012

* Figures are stated after the impairment provisions.

54. Financial risk management (contd.)

54.3 Market risk (contd.)

54.3.2 Foreign exchange risk

Foreign exchange rate risk arises from the movement of the rate of exchange of one currency against another, leading to an adverse impact on the Bank's earnings or capital. The Bank is exposed to foreign exchange risk that the value of a foreign currency denominated assets (financial instrument or the investment) or liabilities, may fluctuate due to changes in foreign exchange rates. This may arise in the form of transaction or transaction risk.

An impact analysis of the foreign currency Net Open Position (NOP) was carried out applying shock levels of 5%, 10% and 15%, for depreciation on the current exchange rate and the impact on the currency-wise NOP and the impact on Income Statement is shown in the tables below as at 31 December 2022:

	Bank			
	2022		2021	
	USD '000	Rs. '000	USD '000	Rs. '000
Net open position	1,288	471,592	2,259	453,560

Stress level	Effect on Income Statement Rs. '000	Revised rupee position Rs. '000	Effect on Income Statement Rs. '000	Revised rupee position Rs. '000
Shock of 5% on exchange rate (rupee depreciation)	23,580	495,172	22,678	476,238
Shock of 10% on exchange rate (rupee depreciation)	47,159	518,751	45,356	498,916
Shock of 15% on exchange rate (rupee depreciation)	70,739	542,331	68,034	521,594

	Bank			
	2022		2021	
	JPY '000	Rs. '000	JPY '000	Rs. '000
Net open position	6,222	17,174	2,736	4,761

Stress level	Effect on Income Statement Rs. '000	Revised rupee position Rs. '000	Effect on Income Statement Rs. '000	Revised rupee position Rs. '000
Shock of 5% on exchange rate (rupee depreciation)	859	18,033	238	4,999
Shock of 10% on exchange rate (rupee depreciation)	1,717	18,891	476	5,237
Shock of 15% on exchange rate (rupee depreciation)	2,576	19,750	714	5,475

54. Financial risk management (contd.)
54.3 Market risk (contd.)
54.3.2 Foreign exchange risk (contd.)

	Bank			
	2022		2021	
	GBP '000	Rs. '000	GBP '000	Rs. '000
Net open position	413	182,246	298	80,753

Stress level	Effect on Income Statement Rs. '000	Revised rupee position Rs. '000	Effect on Income Statement Rs. '000	Revised rupee position Rs. '000
Shock of 5% on exchange rate (rupee depreciation)	9,112	191,358	4,038	84,791
Shock of 10% on exchange rate (rupee depreciation)	18,225	200,471	8,075	88,828
Shock of 15% on exchange rate (rupee depreciation)	27,337	209,583	12,113	92,866

	Bank			
	2022		2021	
	EUR '000	Rs. '000	EUR '000	Rs. '000
Net open position	52	20,243	(193)	(44,148)

Stress level	Effect on Income Statement Rs. '000	Revised rupee position Rs. '000	Effect on Income Statement Rs. '000	Revised rupee position Rs. '000
Shock of 5% on exchange rate (rupee depreciation)	1,012	21,255	(2,207)	(46,355)
Shock of 10% on exchange rate (rupee depreciation)	2,024	22,267	(4,415)	(48,563)
Shock of 15% on exchange rate (rupee depreciation)	3,036	23,279	(6,622)	(50,770)

54.3.3 Equity risk

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

The investment in equity represent 0.26% of the total assets while investments in quoted and unquoted equity are 0.25% and 0.01% respectively. Hence, the Bank does not have a major exposure to equity risk. However, the adverse movements in the stock market affected the return on equity investments. The investment in unquoted companies are made due to policy decisions on market and economic development and strategic reasons.

The Bank conducts mark-to-market calculations on a monthly, quarterly and on a need basis to identify the impact due to changes in equity prices.

54. Financial risk management (contd.)

54.3 Market risk (contd.)

54.3.3 Equity risk (contd.)

Risk of investing in equity may occurred in followings ways:

Risk of investing in equity

- Share price fall
- Receiving no dividend or receiving dividend lower than expected
- Risk that a company restructure may make it less profitable

Figure 37

Equity price shock

The table below summarises the impact (both to the Income Statement and to the Statement of Comprehensive Income):

		Bank					
		2022			2021		
	Note	Financial assets recognised through profit or loss Rs. '000	Financial assets measured at FVOCI Rs. '000	Total Rs. '000	Financial assets recognised through profit or loss Rs. '000	Financial assets measured at FVOCI Rs. '000	Total Rs. '000
Market value of equity securities as at 31 December	20 and 23	1,956,839	2,146,925	4,103,763	2,329,980	2,674,004	5,003,983

Stress Level	2022			2021		
	Impact to P & L Rs. '000	Impact to OCI Rs. '000	Impact to equity Rs. '000	Impact to P&L Rs. '000	Impact to OCI Rs. '000	Impact to equity Rs. '000
Shock of 5% on equity prices (upward)	97,842	107,346	205,188	116,499	133,700	250,199
Shock of 5% on equity prices (downward)	(97,842)	(107,346)	(205,188)	(116,499)	(133,700)	(250,199)
Shock of 10% on equity prices (upward)	195,684	214,692	410,376	232,998	267,400	500,398
Shock of 10% on equity prices (downward)	(195,684)	(214,692)	(410,376)	(232,998)	(267,400)	(500,398)
Shock of 15% on equity prices (upward)	293,526	322,039	615,564	349,497	401,101	750,598
Shock of 15% on equity prices (downward)	(293,526)	(322,039)	(615,564)	(349,497)	(401,101)	(750,598)
Shock of 20% on equity prices (upward)	391,368	429,385	820,753	465,996	534,801	1,000,797
Shock of 20% on equity prices (downward)	(391,368)	(429,385)	(820,753)	(465,996)	(534,801)	(1,000,797)

* Investment in unit trust are considered for the above calculation as equity instrument.

54. Financial risk management (contd.)

54.3 Market risk (contd.)

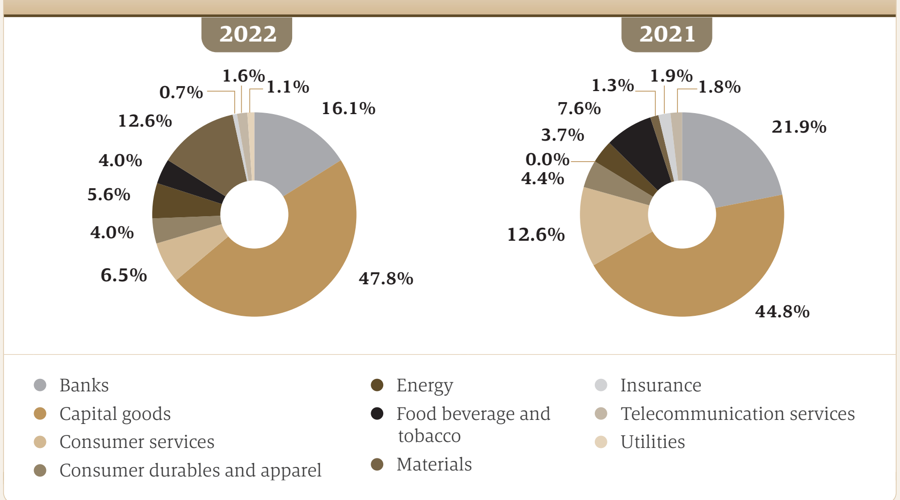
54.3.3 Equity risk (contd.)

Investment in Equity Shares by Industry – Bank

Following table presents the Bank's diversification of trading portfolio to minimise the risk associated with particular sector:

As at 31 December	2022				2021			
Industry	Cost Rs. '000	As % of total cost %	Market value Rs. '000	As % of total market value %	Cost Rs. '000	As % of total cost %	Market value Rs. '000	As % of total market value %
1. Banks	659,064	22.0	314,626	16.1	659,064	25.5	452,620	21.9
2. Capital Goods	1,408,656	46.9	934,918	47.8	1,025,279	39.6	927,033	44.8
3. Consumer Services	218,056	7.3	128,333	6.5	447,318	17.3	261,227	12.6
4. Consumer Durables and Apparel	108,845	3.6	77,650	4.0	79,646	3.1	90,120	4.4
5. Energy	35,957	1.2	109,207	5.6	–	0.0	–	0.0
6. Food Beverage and Tobacco	92,277	3.1	77,743	4.0	71,652	2.8	76,117	3.7
7. Materials	349,004	11.6	247,624	12.6	163,514	6.3	156,810	7.6
8. Insurance	11,863	0.4	13,375	0.7	24,785	1.0	27,063	1.3
9. Telecommunication Services	81,332	2.7	31,776	1.6	81,332	3.1	40,748	1.9
10. Utilities	35,977	1.2	21,586	1.1	35,977	1.4	37,776	1.8
Total	3,001,031	100	1,956,839	100	2,588,567	100	2,069,513	100

Market value of investment in equity shares by industry – Bank Graph 67



54. Financial risk management (contd.)

54.3 Market risk (contd.)

54.3.4 Interest rate risk

Interest rate risk is the risk that the net interest income will be impacted by adverse fluctuations in interest rates. This may occur in the spread between two rates, in the shape of the yield curve or in any other interest rate relationships. The Bank's major source of funding is deposits which represent 91.34% of total on balance sheet liabilities. of this, 18.33% represent savings deposits where 81.67% represent term deposits.

54.3.4.1 Exposure to interest rate risk

The management of interest rate risk against interest rate sensitive gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and financial liabilities to various interest rate scenarios.

The following table demonstrates the sensitivity of the Bank's Income Statement as at the reporting date, due to change in interest rates with all other variables held constant in less than one year maturity bucket.

Sensitivity of projected net interest income

	2022		2021	
	Parallel increase Rs. '000	Parallel decrease Rs. '000	Parallel increase Rs. '000	Parallel decrease Rs. '000
Net Interest Income (NII)				
Change in 25 bps	(1,983,897)	1,983,897	(1,967,221)	1,967,221
Change in 50 bps	(3,967,794)	3,967,794	(3,934,441)	3,934,441
Change in 100 bps	(7,935,587)	7,935,587	(7,868,882)	7,868,882

54.3.4.2 Interest rate risk – sensitivity analysis

Bank's interest rate sensitivity report as at 31 December 2022 is presented below:

	Bank			
	0-1 month Rs. '000	0-3 months Rs. '000	0-6 months Rs. '000	0-12 months Rs. '000
Interest bearing assets	39,942,282	107,401,474	169,209,595	348,464,923
Bank balances and placements	2,467,634	2,742,829	6,947,900	12,434,938
Financial assets recognised through profit or loss – measured at fair value	1,184,628	4,910,724	6,694,726	7,077,111
Financial assets at amortised cost				
– loans and advances	12,944,887	36,728,841	53,511,912	134,490,757
– debt and other instruments	20,326,979	54,969,706	91,779,458	182,600,441
Financial assets measured at fair value through other comprehensive income	3,018,155	8,049,374	10,275,599	11,861,676
Interest-bearing liabilities	196,783,185	768,782,685	1,117,896,973	1,451,534,956
Due to banks	4,086,731	4,086,731	4,086,731	4,086,731
Financial liabilities at amortised cost				
– due to depositors	181,798,819	747,344,371	1,096,350,165	1,429,767,926
– due to debt securities holders	–	–	–	–
– due to other borrowers	10,897,634	16,766,044	16,766,044	16,766,044
Debt securities issued	–	585,539	694,032	914,255
Net rate sensitive assets (liabilities)	(156,840,903)	(661,381,211)	(948,687,378)	(1,103,070,033)
Interest rate sensitivity ratio (%)	20	14	15	24

54. Financial risk management (contd.)

54.3 Market risk (contd.)

54.3.4 Interest rate risk (contd.)

54.3.4.2 Interest rate risk – sensitivity analysis (contd.)

Group's interest rate sensitivity report as at 31 December 2022 is presented below:

	Group			
	0-1 month Rs. '000	0-3 months Rs. '000	0-6 months Rs. '000	0-12 months Rs. '000
Interest bearing assets	40,695,281	109,465,873	172,871,263	352,829,918
Bank balances and placements	2,540,837	2,890,048	7,712,735	13,038,385
Financial assets recognised through profit or loss – measured at fair value	1,578,579	6,092,578	8,260,136	9,409,632
Financial assets at amortised cost – loans and advances	12,991,265	36,867,975	53,701,030	133,929,667
– debt and other instruments	20,548,898	55,513,253	92,869,119	184,537,913
Financial assets measured at fair value through other comprehensive income	3,035,703	8,102,018	10,328,243	11,914,320
Interest-bearing liabilities	200,259,136	779,210,537	1,128,488,187	1,461,057,053
Due to banks	6,961,573	12,711,256	12,711,256	12,711,256
Financial liabilities at amortised cost – due to depositors	181,906,459	747,667,289	1,096,683,774	1,428,727,076
– due to debt securities holders	–	–	–	–
– due to other borrowers	11,366,586	18,172,898	18,325,569	18,630,911
Debt securities issued	24,518	659,095	767,588	987,810
Net rate sensitive assets (liabilities)	(159,563,855)	(669,744,665)	(955,616,924)	(1,108,227,136)
Interest rate sensitivity ratio (%)	20	14	15	24

54. Financial risk management (contd.)

54.3 Market risk (contd.)

54.3.4 Interest rate risk (contd.)

54.3.4.2 Interest rate risk – sensitivity analysis (contd.)

Bank's interest rate sensitivity report as at 31 December 2021 is presented below:

	Bank			
	0-1 month Rs. '000	0-3 months Rs. '000	0-6 months Rs. '000	0-12 months Rs. '000
Interest bearing assets	35,360,821	87,600,826	130,369,531	268,496,844
Bank balances and placements	1,131,867	2,992,885	5,465,008	7,287,261
Financial assets recognised through profit or loss				
– measured at fair value	13,712	1,324,093	9,607,647	12,463,153
Financial assets at amortised cost				
– loans and advances	13,549,376	31,967,078	53,533,598	120,894,899
– debt and other instruments	20,578,683	51,152,956	61,566,394	123,307,761
Financial assets measured at fair value through Other comprehensive income	87,183	163,814	196,884	4,543,770
Interest-bearing liabilities	268,600,766	729,657,969	999,826,819	1,436,435,200
Due to banks	61,801	7,686,553	7,686,553	7,686,553
Financial liabilities at amortised cost				
– due to depositors	263,555,459	714,764,733	984,844,753	1,406,364,098
– due to debt securities holders	–	–	–	–
– due to other borrowers	4,983,505	6,991,992	6,993,485	7,719,532
Debt securities issued	–	214,690	302,027	14,665,017
Net rate sensitive assets (liabilities)	(233,239,944)	(642,057,143)	(869,457,289)	(1,167,938,356)
Interest rate sensitivity ratio (%)	13	12	13	19

54. Financial risk management (contd.)

54.3 Market risk (contd.)

54.3.4 Interest rate risk (contd.)

54.3.4.2 Interest rate risk – sensitivity analysis (contd.)

Group's interest rate sensitivity report as at 31 December 2021 is presented below:

	Group			
	0-1 month Rs. '000	0-3 months Rs. '000	0-6 months Rs. '000	0-12 months Rs. '000
Interest bearing assets	36,913,026	88,944,126	139,090,459	280,633,832
Bank balances and placements	2,066,260	3,178,718	8,848,881	9,545,179
Financial assets recognised through profit or loss				
– measured at fair value	269,867	2,092,557	13,522,480	22,670,724
Financial assets at amortised cost				
– loans and advances	13,602,140	32,125,370	53,788,208	119,633,960
– debt and other instruments	20,860,892	51,303,612	62,586,215	123,956,933
Financial assets measured at fair value through other comprehensive income	113,868	243,869	344,675	4,827,035
Interest-bearing liabilities	276,119,593	752,214,452	1,022,993,073	1,456,389,616
Due to banks	1,798,087	12,895,411	12,895,411	10,470,191
Financial liabilities at amortised cost				
– due to depositors	263,637,011	715,009,389	985,171,086	1,404,346,442
– due to debt securities holders	–	–	–	–
– due to other borrowers	10,654,643	24,005,404	24,534,990	26,818,409
Debt securities issued	29,853	304,248	391,585	14,754,575
Net rate sensitive assets (liabilities)	(239,206,567)	(663,270,326)	(883,902,614)	(1,175,755,784)
Interest rate sensitivity ratio (%)	13	12	14	19

54.4 Operational risk

The BASEL Committee on Banking Supervision defines operational risk as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events".

Operational Risk Management Framework

Bank has a conducive Operational Risk Management (ORM) framework to achieve more efficient, transparent, profitable and sustainable business operations. It comprises with well structured Governance, Policy framework and Risk management processes. The operational risk of the Bank is reported to the ERMC, BIRMC and the Board by Operational Risk Management Unit of the Risk Management Division.

55 Maturity analysis

	Bank						
	Up to 3 months Rs. '000	3-12 months Rs. '000	1-3 years Rs. '000	3-5 years Rs. '000	More than 5 years Rs. '000	**Total as at 31 December 2022 Rs. '000**	Total as at 31 December 2021 Rs. '000
Assets with contractual maturity (Interest earning asset)							
Cash and cash equivalents	1,968,529	–	–	–	–	**1,968,529**	407,442
Placements with banks	774,300	9,692,109	–	–	–	**10,466,409**	7,120,698
Financial assets recognised through profit or loss							
– measured at fair value	4,910,724	2,166,387	2,278,852	2,519,532	341,615	**12,217,109**	17,242,953
Financial assets at amortised cost							
– loans and advances	36,728,841	97,761,916	129,598,821	88,866,527	200,071,217	**553,027,321**	538,941,789
– debt and other instruments	54,969,706	127,630,735	253,864,623	295,037,293	187,627,021	**919,129,377**	935,350,052
Financial assets measured at fair value through other comprehensive income	8,049,374	3,812,302	12,087,924	958,537	440,804	**25,348,941**	10,922,236
	107,401,474	241,063,449	397,830,219	387,381,888	388,480,657	**1,522,157,688**	1,509,985,171
Other assets (Non-interest-earning assets)							
Cash and cash equivalents	6,765,540	–	–	–	–	**6,765,540**	7,248,596
Balances with central banks	236,480	–	–	–	–	**236,480**	–
Derivative financial instruments	28,172	–	–	–	–	**28,172**	–
Financial assets recognised through profit or loss							
– measured at fair value	489,210	1,467,629	–	–	–	**1,956,839**	2,329,980
Financial assets measured at fair value through other comprehensive income	–	–	–	–	2,313,822	**2,313,822**	2,895,357
Investments in subsidiaries	–	–	–	–	7,311,000	**7,311,000**	4,811,000
Property, plant and equipment	–	–	–	–	14,755,775	**14,755,775**	15,045,618
Right-of-use assets	87,178	236,548	468,457	270,202	151,264	**1,213,649**	1,205,916
Investment properties	–	–	–	–	–	**–**	–
Goodwill and intangible assets	–	–	–	–	747,248	**747,248**	816,058
Deferred tax assets	–	–	–	2,892,984	–	**2,892,984**	1,104,779
Other assets	2,553,502	7,066,099	19,466,842	15,799,898	11,420,590	**56,306,931**	33,655,272
	10,160,081	8,770,276	19,935,299	18,963,084	36,699,700	**94,528,440**	69,112,577
Total assets	117,561,555	249,833,725	417,765,519	406,344,971	425,180,357	**1,616,686,128**	1,579,097,748

	Bank						
	Up to 3 months Rs. '000	3-12 months Rs. '000	1-3 years Rs. '000	3-5 years Rs. '000	More than 5 years Rs. '000	**Total as at 31 December 2022 Rs. '000**	Total as at 31 December 2021 Rs. '000
Liabilities with contractual maturity (Interest-bearing liabilities)							
Due to banks	4,086,731	–	–	–	–	**4,086,731**	7,686,553
Financial liabilities at amortised cost							
– due to depositors	747,344,371	682,423,555	26,685,186	19,356,446	930,261	**1,476,739,818**	1,428,467,385
– due to other borrowers	16,766,044	–	–	–	–	**16,766,044**	7,719,532
Debt securities issued	585,539	328,715	6,323,000	10,016,000	6,525,000	**23,778,255**	37,529,017
	768,782,685	682,752,271	33,008,186	29,372,446	7,455,261	**1,521,370,846**	1,481,402,487
Other liabilities (Non-interest-bearing liabilities)							
Derivative financial instruments	–	–	–	–	–	**–**	–
Lease liabilities	67,931	216,346	491,793	360,911	240,249	**1,377,229**	1,292,139
Retirement benefit obligations	–	1,531,715	–	–	10,957,197	**12,488,912**	8,590,642
Current tax liabilities	–	2,760,857	–	–	–	**2,760,857**	4,596,190
Deferred tax liabilities	–	–	–	–	–	**–**	–
Other liabilities	2,276,007	989,791	741,678	1,433,850	354,727	**5,796,053**	7,200,032
Due to subsidiaries	–	–	–	–	–	**–**	3,500
Stated capital/Assigned capital	–	–	–	–	9,400,000	**9,400,000**	9,400,000
Statutory reserve fund	–	–	–	–	5,224,842	**5,224,842**	5,174,249
Retained earnings	–	–	–	–	11,359,152	**11,359,151**	13,727,801
Other reserves	–	–	–	–	46,908,235	**46,908,235**	47,710,707
	2,343,938	5,498,709	1,233,471	1,794,761	84,444,402	**95,315,282**	97,695,261
Total liabilities	771,126,623	688,250,979	34,241,657	31,167,208	91,899,662	**1,616,686,128**	1,579,097,748

*Represents the aggregate of the contractual maturities.

55. Maturity analysis (contd.)

	Group						
	Up to 3 months Rs. '000	3-12 months Rs. '000	1-3 years Rs. '000	3-5 years Rs. '000	More than 5 years Rs. '000	**Total as at 31 December 2022 Rs. '000**	Total as at 31 December 2021 Rs. '000
Assets with contractual maturity (Interest-earning asset)							
Cash and cash equivalents	2,004,139	–	–	–	–	**2,004,139**	462,395
Placements with banks	885,909	10,148,337	–	–	–	**11,034,246**	9,323,663
Financial assets recognised through profit or loss							
– measured at fair value	6,092,578	3,317,054	8,733,692	2,792,660	344,026	**21,280,009**	38,062,173
Financial assets at amortised cost							
– loans and advances	36,017,800	97,911,867	129,807,588	88,960,980	200,353,935	**553,052,170**	538,600,866
– debt and other instruments	55,635,462	128,902,451	254,573,362	299,648,807	189,156,361	**927,916,442**	940,536,328
Financial assets measured at fair value through other comprehensive income	8,102,018	3,812,302	12,087,924	1,000,898	832,323	**25,835,466**	12,933,250
	108,737,906	244,092,012	405,202,565	392,403,344	390,686,644	**1,541,122,472**	1,539,918,674
Other assets (Non-interest-earning assets)							
Cash and cash equivalents	6,778,668	–	–	–	–	**6,778,668**	7,259,136
Balances with central bank	236,696	–	–	–	–	**236,696**	7
Derivative financial instruments	35,392	–	–	–	–	**35,392**	–
Financial assets recognised through profit or loss							
– measured at fair value	489,210	1,467,629	–	–	–	**1,956,839**	2,329,980
Financial assets measured at fair value through other comprehensive income	–	–	102,925	–	2,313,822	**2,416,746**	3,060,553
Investments in subsidiaries	–	–	–	–	–	**–**	–
Property, plant and equipment	–	–	–	–	15,645,732	**15,645,732**	15,949,505
Right-of-use assets	88,310	239,584	475,828	277,469	165,191	**1,246,383**	1,244,138
Investment properties	–	–	–	–	204,977	**204,977**	210,577
Goodwill and intangible assets	–	–	1,184	–	751,038	**752,221**	821,420
Deferred tax assets	–	–	–	2,892,984	770,894	**3,663,879**	1,105,654
Other assets	2,569,903	7,269,655	19,486,729	15,819,703	11,430,723	**56,576,713**	33,905,753
	10,198,179	8,976,868	20,066,665	18,990,156	31,282,376	**89,514,246**	65,886,724
Total assets	118,936,085	253,068,880	425,269,230	411,393,500	421,969,021	**1,630,636,718**	1,605,805,398

55. Maturity analysis (contd.)

	Group						
	Up to 3 months Rs. '000	3-12 months Rs. '000	1-3 years Rs. '000	3-5 years Rs. '000	More than 5 years Rs. '000	**Total as at 31 December 2022 Rs. '000**	Total as at 31 December 2021 Rs. '000
Liabilities with contractual maturity (Interest-bearing liabilities)							
Due to banks	12,711,256	–	–	–	–	12,711,256	10,470,191
Financial liabilities at amortised cost							
– due to depositors	746,271,448	682,455,628	26,719,808	19,389,570	972,103	1,475,808,557	1,426,724,704
– due to other borrowers	18,172,898	458,013	258,334	–	–	18,889,245	27,087,920
Debt securities issued	659,095	328,715	6,323,000	10,016,000	6,525,000	23,851,810	37,618,575
	777,814,697	683,242,357	33,301,142	29,405,570	7,497,103	1,531,260,870	1,501,901,390
Other liabilities (Non-interest-bearing liabilities)							
Derivative financial instruments	–	–	–	–	–	–	–
Financial liabilities recognised through profit or loss	–	–	–	–	–	–	–
Lease liabilities	68,706	218,272	496,860	368,394	262,726	1,414,959	1,333,623
Retirement benefit obligations	–	1,531,715	–	–	11,016,135	12,547,851	8,637,425
Current tax liabilities	–	2,943,314	–	–	–	2,943,314	4,914,918
Deferred tax liabilities	–	–	4,155	–	–	4,155	1,939
Other liabilities	2,297,623	1,011,243	774,687	1,607,206	385,128	6,075,889	7,566,892
Due to subsidiaries	–	–	–	–	–	–	–
Stated capital/Assigned capital	–	–	–	–	9,400,000	9,400,000	9,400,000
Statutory reserve fund	–	–	–	–	5,281,952	5,281,952	5,209,101
Retained earnings	–	–	–	–	13,589,101	13,589,101	17,918,992
Other reserves	–	–	–	–	48,118,628	48,118,628	48,921,120
	2,366,330	5,704,545	1,275,702	1,975,600	88,053,671	99,375,848	103,904,008
Total liabilities	780,181,026	688,946,901	34,576,843	31,381,170	95,550,774	1,630,636,718	1,605,805,398

*Represents the aggregate of the contractual maturities.

56 Fair value of financial instruments

56.1 Financial instruments recorded at fair value

Accounting policy

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives

i. Forward exchange purchases

The Bank values the forward exchange purchase contracts using the quoted prices available in the market for similar contracts.

ii. Foreign currency swaps

Derivative products (Foreign currency swaps/Cash flow hedges) valued using valuation techniques incorporating various inputs such as foreign exchange spot rates and foreign exchange forward rates.

Financial assets recognised through profit or loss

i. Government Treasury Bills and Bonds

Financial assets held for trading are valued using a valuation technique consists of Government Treasury Bills and Treasury Bonds. The Bank values the securities using discounted cash flow valuation models which incorporate observable data. Observable inputs include assumptions regarding current rates of interest, broker statements and market data published by Central Bank of Sri Lanka.

ii. Equity securities

The Bank values the equity securities using the quoted prices available for the identical securities in active market.

Financial assets measured at fair value through other comprehensive income

The Bank values the quoted equity securities using the quoted prices available for the identical securities in active market.
The unquoted equity securities have been fair valued using a valuation model based on observable data.

56.2 Determination of fair value and fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1	Inputs that are quoted market prices (unadjusted) in an active market for identical instruments. When available, the Group measures the fair value of an instrument using active quoted prices or dealer price quotations, without any deduction for transaction costs. A market is regarded as active if transactions for asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
Level 2	Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: (a) quoted prices in active markets for similar instruments; (b) quoted prices for identical or similar instruments in markets that are considered to be less active; or (c) other valuation techniques in which almost all significant inputs are directly or indirectly observable from market data.
Level 3	Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices of similar instruments for which significant unobservable adjustments or assumptions are required to reflect difference between the instruments. Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, risk premiums in estimating discount rates, bond and equity prices, foreign exchange rates, expected price volatilities and corrections.

56. Fair value of financial instruments (contd.)

56.2 Determination of fair value and fair value hierarchy (contd.)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

As at 31 December 2022	Note	Bank Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
Non-financial assets					
Property, plant and equipment					
Land and buildings	26	–	–	12,416,447	12,416,447
Investment properties	28	–	–	–	–
Total non–financial assets at fair value		–	–	12,416,447	12,416,447
Financial assets					
Derivative financial instruments					
Currency swaps	19	–	–	28,172	28,172
Financial assets recognised through profit or loss	20				
Government Treasury Bills and Bonds		12,217,110	–	–	12,217,110
Equity securities		1,956,839	–	–	1,956,839
Unit Trust		–	–	–	–
Financial assets at fair value through other comprehensive income	23				
Other investments – Government Securities		25,348,942	–	–	25,348,942
Equity securities – quoted		2,146,925	–	–	2,146,925
Equity securities – unquoted		–	109,406	–	109,406
Total financial assets at fair value		41,669,814	109,406	28,172	41,807,393
Total assets at fair value		41,669,814	109,406	12,444,619	54,223,840

As at 31 December 2021	Note	Bank Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
Non-financial assets					
Property, plant and equipment					
Land and buildings	26	–	–	12,471,910	12,471,910
Investment properties	28	–	–	–	–
Total non-financial assets at fair value		–	–	12,471,910	12,471,910
Financial assets					
Derivative financial instruments	19				
Currency swaps		–	–	–	–
Financial assets recognised through profit or loss	20				
Government Treasury Bills and Bonds		17,242,954	–	–	17,242,954
Equity securities		2,069,513	–	–	2,069,513
Unit Trust		260,466	–	–	260,466
Financial assets at fair value through other comprehensive income	23				
Other investments – Government Securities		10,922,236	–	–	10,922,236
Equity securities – quoted		2,674,004	–	–	2,674,004
Equity securities – unquoted		–	163,863	–	163,863
Total financial assets at fair value		33,169,173	163,863	–	33,333,036
Total assets at fair value		33,169,173	163,863	12,471,910	45,804,946

56. Fair value of financial instruments (contd.)

56.2 Determination of fair value and fair value hierarchy (contd.)

As at 31 December 2022	Note	Group Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
Non-financial assets					
Property, plant and equipment					
Land and buildings	26	–	–	13,274,685	13,274,685
Investment properties	28	–	–	204,977	204,977
Total non-financial assets at fair value		–	–	13,479,662	13,479,662
Financial assets					
Derivative financial instruments	19				
Currency swaps		–	–	28,172	28,172
Others		–	–	7,220	7,220
Financial assets recognised through profit or loss	20				
Government Treasury Bills and Bonds		21,280,009	–	–	21,280,009
Equity securities		1,956,839	–	–	1,956,839
Unit Trust		–	–	–	–
Financial assets at fair value through other comprehensive income	23				
Other investments – Government Securities		25,833,465	–	–	25,833,465
Equity securities – quoted		2,249,685	–	–	2,249,685
Equity securities – unquoted		–	109,406	–	109,406
Total financial assets at fair value		51,319,998	109,406	35,392	51,464,796
Total assets at fair value		51,319,998	109,406	13,515,053	64,944,458

As at 31 December 2021	Note	Group Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
Non-financial assets					
Property, plant and equipment					
Land and buildings	26	–	–	13,339,223	13,339,223
Investment properties	28	–	–	210,577	210,577
Total non-financial assets at fair value		–	–	13,549,800	13,549,800
Financial assets					
Derivative financial instruments					
Currency swaps	19	–	–	–	–
Financial assets recognised through profit or loss	20				
Government Treasury Bills and Bonds		38,062,173	–	–	38,062,173
Equity securities		2,069,513	–	–	2,069,513
Unit Trust		260,466	–	–	260,466
Financial assets at fair value through other comprehensive income	23				
Other investments – Government Securities		12,931,250	–	–	12,931,250
Equity securities – quoted		2,839,035	–	–	2,839,035
Equity securities – unquoted		–	163,863	–	163,863
Total financial assets at fair value		56,162,438	163,863	–	56,326,300
Total assets at fair value		56,162,438	163,863	13,549,800	69,876,100

56. Fair value of financial instruments (contd.)

56.3 Reconciliation of movements between levels of fair value measurement hierarchy

Bank and the Group do not have movements between level of hierarchy during the year.

56.4 Level 3 fair value measurement

Property, plant and equipment (PPE)

Reconciliation from the beginning balance to the ending balance for the land and buildings in the Level 3 of the fair value hierarchy is given in Notes 26.(a) to 26.(b) on pages 320 to 322.

Reconciliation of revaluation reserve pertaining to land and buildings categorised as Level 3 in the fair value hierarchy is given in the statement of changes in equity on pages 258 to 261.

Investment properties

Reconciliation from the beginning balance to the ending balance for the investment properties in the Level 3 of the fair value hierarchy is available in Note 28 on page 325.

Derivative financial instruments

Bank and the Group use Level 3 in fair value hierarchy to calculate fair value of derivative instruments and detail of those instruments are given in the Notes 19 and 33 on pages 298 and 334.

56.5 Fair value of financial instruments

As at 31 December		Bank			
		2022		2021	
	Note	Carrying amount Rs. '000	Fair value Rs. '000	Carrying amount Rs. '000	Fair value Rs. '000
Financial assets					
Cash and cash equivalents	16	8,734,069	8,734,069	7,656,038	7,656,038
Balances with central banks	17	236,480	236,480	–	–
Placement with banks	18	10,466,409	10,466,409	7,120,698	7,120,698
Derivative financial instruments	19	28,172	28,172	–	–
Financial assets recognised through profit or loss					
– measured at fair value	20	14,173,948	14,173,948	19,572,933	19,572,933
Financial assets at amortised cost					
– loans and advances	21	553,027,321	575,700,957	538,941,789	539,346,454
– debt and other instruments	22	919,129,377	675,180,495	935,350,052	907,556,434
Financial assets measured at fair value through other comprehensive income	23	27,662,763	27,662,763	13,817,594	13,817,594
Total financial assets		1,533,458,539	1,312,183,293	1,522,459,104	1,495,070,151
Financial liabilities					
Due to banks	32	4,086,731	4,086,731	7,686,553	7,686,553
Financial liabilities at amortised cost	35				
– due to depositors		1,476,739,818	1,476,136,191	1,428,467,385	1,427,778,508
– due to debt securities holders		–	–	–	–
– due to other borrowers		16,766,044	16,766,044	7,719,532	7,719,532
Debt securities issued	37	23,778,255	23,778,255	37,529,017	38,411,518
Total financial liabilities		1,521,370,848	1,520,767,221	1,481,402,487	1,481,596,112

56. Fair value of financial instruments (contd.)

56.5 Fair value of financial instruments (contd.)

As at 31 December	Note	Group			
		2022		2021	
		Carrying amount Rs. '000	Fair value Rs. '000	Carrying amount Rs. '000	Fair value Rs. '000
Financial assets					
Cash and cash equivalents	16	**8,782,807**	**8,782,807**	7,721,532	7,721,532
Balances with central banks	17	**236,696**	**236,696**	7	7
Placement with banks	18	**11,034,246**	**11,034,246**	9,323,663	9,323,663
Derivative financial instruments	19	**35,392**	**35,392**	–	–
Financial assets recognised through profit or loss					
– measured at fair value	20	**23,236,848**	**23,236,848**	40,392,152	40,392,152
Financial assets at amortised cost					
– loans and advances	21	**553,052,170**	**575,726,903**	538,600,866	539,006,629
– debt and other instruments	22	**927,916,442**	**683,967,559**	940,536,328	912,742,709
Financial assets measured at fair value through other comprehensive income	23	**28,252,211**	**28,252,211**	15,993,803	15,993,803
Total financial assets		**1,552,546,811**	**1,331,272,663**	1,552,568,350	1,525,180,495
Financial liabilities					
Due to banks	32	**12,711,256**	**12,711,256**	10,470,191	10,470,191
Financial liabilities at amortised cost	35				
– due to depositors		**1,475,808,557**	**1,475,204,929**	1,426,724,704	1,426,035,827
– due to debt securities holders		–	–	–	–
– due to other borrowers		**18,889,245**	**18,889,245**	27,087,920	27,087,920
Debt securities issued	37	**23,851,810**	**23,851,810**	37,618,575	38,501,076
Total financial liabilities		**1,531,260,868**	**1,530,657,241**	1,501,901,389	1,502,095,014

56.6 Determination of fair value

Fair value of financial assets and liabilities not carried at fair value

The following describes the methodologies and assumptions used to determine the fair values for those financial instruments which are not recorded at fair value in the Financial Statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that have a short-term maturity (original maturities less than a year). It is assumed that the carrying amount approximate their fair values. This assumption is also applied to savings deposits without specific maturity.

Long-term deposits accepted from customers for which periodical interest is paid and loan and receivables granted to customers with a variable rate are also considered to be carried at fair value in the books.

56. Fair value of financial instruments (contd.)

56.6 Determination of fair value (contd.)

Fixed rate financial instruments

Carrying amounts are considered as fair values for short-term credit facilities. In fair valuing held-to-maturity securities, rates published by the CBSL for similar trading securities were used. Loans and receivables with fixed interest rates were fair valued using market rates at which fresh loans were granted during the fourth quarter of the reporting year. Conversely, fixed deposits with original tenure above one year and interest paid at maturity were discounted using current market rates offered to customers during the fourth quarter of the reporting year. Debt security issued with fixed interest rate were discounted using variable interest rates offered to customers during the fourth quarter of the reporting year.

Unquoted equities in financial assets

All unquoted equities in financial assets measured at fair value through other comprehensive income (except RDB) are recorded at cost, since its fair value cannot be reliably estimated. There is no active market for these investments and Group intends to hold it for the long-term. The investment in RDB shares have been fair valued using a valuation model based on observable data. Refer Note 23 (e) on page 316.

57 Capital management (as per regulatory reporting)

Objective

The Bank is required to manage its capital in order to meet the regulatory requirements and hold sufficient capital buffers to meet the strategic objectives which are aligned with the risk appetite of the Bank.

Regulatory capital

Central Bank of Sri Lanka sets and monitors regulatory capital requirement on both consolidated and solo basis. The Bank is required to comply with the provisions of the Basel III Direction in respect of regulatory capital and capital to cover any additional risk. The Basel III capital regulations were fully implemented by 1 January 2019, and will continue to be based on the three-mutually reinforcing Pillars introduced under Basel II, i.e. minimum capital requirement, supervisory review process and market discipline. Bank was considered as a Domestically Systemically Important Bank (D-SIB) until the issuance of Banking Act Direction No. 12 of 2019 on 20 December 2019 which resulted in the Bank being no longer a D-SIB.

The Bank currently uses the standardised approach for credit risk, standardised measurement method for market risk and basic indicator approach for operational risk. Basel III emphasises on increasing the quality and quantity of capital especially the core capital, through redefining the common equity capital and introducing new capital buffers such as the Capital Conservation Buffer and a Capital Surcharge on Domestically Systemically Important Bank (D-SIBs). As per the CBSL Basel III Direction, the Bank and the Group are required to maintain a minimum Tier 1 Capital Ratio of 8.5% and a minimum Total Capital Ratio of 12.5% as at the end of year 2020.

However, with the outbreak of coronavirus disease (COVID-19) under extraordinary regulatory measures taken by the Central Bank of Sri Lanka to provide flexibility to licensed banks to support business and individuals affected by the COVID-19, the Monetary Board has given permission to D-SIBs and non D-SIBs to drawdown their capital conservation buffers by 100bps and 50bps out of the total of 250bps respectively.

Accordingly, the minimum requirement was reduced by 0.5% requiring the Bank to maintain a minimum Tier I capital ratio of 8% and a minimum total capital ratio of 12% as at the end of year 2021.

Regulatory capital comprises Tier 1 capital and Tier 2 capital. The Bank and the Group have always complied with the minimum capital requirements imposed by the Central Bank of Sri Lanka.

Regulatory capital ratios

	Bank		Group	
As at 31 December	**2022**	2021	**2022**	2021
Common Equity Tier 1 capital ratio (minimum requirement – 6.5%)	**14.357**	17.171	**16.492**	18.538
Tier 1 capital ratio (minimum requirement – 8.0%)	**15.778**	18.598	**17.903**	19.960
Total capital ratio (minimum requirement – 12.0%)	**17.999**	20.828	**19.959**	22.001

58 Repurchase and reverse repurchase transactions in scripless Treasury Bonds and scripless Treasury Bills

The following additional information on repurchase and reverse repurchase transactions are disclosed as required by the Local Treasury Bills Ordinance Direction No. 1 of 2019, issued by the Central Bank of Sri Lanka (CBSL).

58.1 Carrying value of securities allocated for repurchase transactions

	Bank	
As at 31 December	**2022 Rs. '000**	2021 Rs. '000
Carrying value of securities allocated for repurchase transactions	**22,799,900**	8,191,410
Market value of securities received for reverse repurchase transactions	**771,293**	5,961,028

58.2 Haircuts for repurchase and reverse repurchase transactions

Minimum haircuts applicable for each maturity bucket as at 31 December, are given below:

	2022 Minimum haircut		2021 Minimum haircut	
As at 31 December	**Repurchase transactions %**	**Reverse repurchase transactions %**	Repurchase transactions %	Reverse repurchase transactions %
Remaining term to maturity of the eligible security				
Up to 1 year	**4**	**4**	4	4
More than 1 year and up to 3 years	**6**	**6**	6	6
More than 3 years and up to 5 years	**8**	**8**	8	8
More than 5 years and up to 8 years	**10**	**10**	10	10
More than 8 years	**12**	**12**	12	12

58.3 Penalties imposed on the Bank for non-compliance

No penalties have been imposed on the Bank for non-compliance with the above mentioned Direction No. 1 of 2019 issued by the CBSL during the years ended 31 December 2022 and 2021.

Supplementary information

Compliance with Banking Act Direction

The Banking Act Direction No. 12 of 2007 and subsequent amendments thereto on Corporate Governance for Licensed Specialised Banks in Sri Lanka issued by the Central Bank of Sri Lanka

		Level of compliance in 2022
3 (1)	**The Responsibilities of the Board**	
3 (1) (i)	The Board shall strengthen the safety and soundness of the Bank, by ensuring the following:	
	a. Approve and oversee the Bank's strategic objectives and corporate values and ensure that these are communicated throughout the Bank.	Complied with. The Bank's strategic objectives and corporate values are determined by the Board as stated in pages 78 and 126. These are incorporated in the Board approved Strategic Business Plan for the period of 2023-2025 and communicated to all levels of employees through planned meetings. The Strategic Business Plan 2022-2024 which was prepared in 2021 was rolled over covering the next three years from 2023-2025 considering the impact of economic crisis on the Bank. The corporate values are included in the Bank's web page.
	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.	Complied with. The Board provided guidance and direction for the preparation of three-year Strategic Business Plan for the period of 2023-2025 that was approved by the Board after detailed discussion with the Corporate Management. The Strategic Business Plan is aligned with the overall risk management framework, procedures and the risk appetite of the Bank. The Bank's Strategic Business Plan for 2023-2025 was approved by the Board on 9 December 2022.
	c. Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently.	Complied with. The BIRMC is entrusted with approving the Bank's risk policy, identifying principal risks, setting governance structures and implementing systems to measure, monitor and manage the principal risks. The following reports provide further insight in this regard: • Risk Review Report on pages 208 to 236. • Board Integrated Risk Management Committee Report on pages 205-206.
	d. Approve implementation of a policy of communication with all stakeholders, including depositors, borrowers, creditors, shareholders.	Complied with The Bank has a Board approved and implemented Communication Policy in place covering all stakeholders to ensure effective and timely communication.
	e. Review the adequacy and the integrity of the Bank's internal control systems and management information systems.	Complied with The BAC and BIRMC are assisting the Board which reviews the adequacy and integrity of the Bank's internal control system and management information system. The Internal Audit Division and the Government Audit reviews on the same. BIRMC reviews all policies in this regard. Those are reviewed by BAC and BIRMC and the Management responses on the same, during the year.

	Level of compliance in 2022
f. Identify and designate Key Management Personnel, as defined in the International Accounting Standards.	Complied with Key Management Personnel (KMP) are defined in the International Accounting Standards, who are in a position to significantly influence policy, direct activities and exercise control over business activities, operations and risk management. Appointment of all designated KMPs is recommended by the BNC and approved by the Board. The Bank has identified the General Manager, Senior Deputy General Managers, Deputy General Managers, Assistant General Managers and officers in allied grades as Key Management Personnel (KMP) of the Bank for corporate governance purposes as per the CBSL Direction on Corporate Governance.
g. Define the areas of authority and key responsibilities for Directors themselves and for Key Management Personnel (KMP).	Complied with Areas of authority of the Board of Directors are governed by Section 7 of NSB Act. The Board Charter prepared in accordance with the NSB Act details the areas of authority and key responsibilities of the Board of Directors. Board Human Resources and Remuneration Committee has defined the areas of authority and key responsibilities for the KMPs which are included in the job descriptions of each member of KMP.
h. Ensure that there is appropriate oversight of the affairs of the Bank by Key Management Personnel (KMP) that is consistent with Board policy.	Complied with The Board reviews the performance of the Bank against the Strategic Business Plan and receives reports from Board Subcommittees on financial reporting, internal control, risk management and other relevant matters delegated to those committees. Further, KMPs are called by the Board to explain the matters under their purview as and when necessary. The delegated authority limits of KMPs have been approved by the Board.
i. Periodically assess the effectiveness of the Board of Directors' own governance practices, including: the selection, nomination and election of Directors and Key Management Personnel; the management of conflicts of interests; and the determination of weaknesses and implementation of changes, where necessary.	Complied with Appointments to the Board are made by the shareholder, the Government of Sri Lanka through the Minister under whose purview the Bank comes in terms of the provisions of NSB Act No. 30 of 1971 and its amendments. A self-evaluation of the performance of the Board is carried out annually assessing its own governance practices. The NSB Act and Related Party Transaction Policy detail on the management of Conflict of Interest. Quarterly declarations of the Board of Directors in respect of related parties and their interests are obtained from Directors to monitor conflict, if any.
j. Ensure that the Bank has an appropriate succession plan for Key Management Personnel.	Complied A Board approved Succession Plan for the KMPs is in place.
k. Meet regularly, on a need basis, with the Key Management Personnel to review policies, establish communication lines and monitor progress towards corporate objectives.	Complied with KMPs are regularly involved in discussions at the meetings of Board and its Subcommittees on progress towards performance, strategy, policy and other matters pertaining to their area of responsibility. The Management is open and transparent with the Board, bringing all significant matters to its attention. Additionally, the KMPs make presentations on key items in the agenda under their purview and are called by the Board and its Subcommittees in relating to the material matters in there with regard to policies towards corporate objectives. Additionally, the Compliance Officer submit a monthly compliance report to Board on review of policies and Regulatory changes.

		Level of compliance in 2022
	l. Understand the regulatory environment and ensure that the Bank maintains an effective relationship with regulators.	Complied with The Directors are furnished with all the applicable regulatory requirements on appointment. The Compliance Officer brief on the regulatory developments to the Board of Directors and KMPs regularly enabling them to effectively discharge their duties.
	m. Exercise due diligence in the hiring and oversight of External Auditors.	Complied with. The Auditor General is the External Auditor of the Bank in terms of the provisions of Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka and Section 37 in NSB Act as it is a state-owned Bank. Further, the BAC is delegated to review and monitor the independence, objectivity and the effectiveness of the audit process and make recommendations to Auditor General through Superintendent of Audit of any such external auditor appointed by the Auditor General to assist the Auditor General.
3 (1) (ii)	The Board shall appoint the Chairman and the Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and the Chief Executive Officer in line with Direction 3 (5) of these Directions.	Complied with when read in conjunction with Section 3 (9) (ii) of this Direction Under the provisions of Section 11(1) of the NSB Act No. 30 of 1971 as amended by Act No. 28 of 1995 the Chairman is appointed by the Minister under whose purview the Bank falls in. Section 26 (1) of the NSB Act states that the Board shall appoint a fit and proper person to be the General Manager of the Bank who shall be the Chief Executive Officer of the Bank. Chairman and CEO's functions and responsibilities have been defined and approved by the Board. The responsibilities of Chairman and the CEO are defined and approved in line with the Section 3 (5) of this Direction which is given in the Board Charter and further explained in page 197.
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.	Complied with Regular Board meetings were held with the active participation of Directors, and the attendance at Board meetings is given on page 190 along with the number of meetings. The Bank has taken every measure to minimise obtaining the approval through circulation where it is done on an exceptional basis and such resolutions are ratified by the Board at the next Board meeting.
3 (1) (iv)	The Board shall ensure that arrangements are in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the Bank.	Complied with Notice of meeting is circulated one week prior to the meeting and Directors may submit proposals for inclusion in the agenda on discussion with the Chairman on matters relating to the business of the Bank.
3 (1) (v)	The Board procedures shall ensure that notice of at least seven days is given of a regular Board meeting to provide all Directors an opportunity to attend. For all other Board meetings, reasonable notice may be given.	Complied with Notice of meetings along with the agenda and the Board papers to be discussed are circulated seven days prior to the meeting to provide the Directors with additional time to attend on the matters through a secure E-solution except for urgent papers that may come up. Reasonable notice is given before any special meeting and consent of all Directors are obtained prior to scheduling a special meeting and submit any urgent proposals.

		Level of compliance in 2022
3 (1) (vi)	The Board procedures shall ensure that a Director, who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director.	Complied with The Directors are apprised of their attendance in accordance with the Banking Act Direction No. 12 of 2007. Details of Directors' attendance are given on page 190 No Director has been absent from two-thirds of the meetings in the immediately preceding 12 months or three consecutive meetings.
3 (1) (vii)	The Board shall appoint a company secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988.	Complied with The Secretary to the Board of National Savings Bank is an Attorney-at-Law that complies with the provisions of Section 43 of the Banking Act No. 30 of 1988 and its amendments.
3 (1) (viii)	All Directors shall have access to advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable rules and regulations are followed.	Complied with All the Directors have the full access, to obtain advices and services of the Secretary to ensure that the Board procedures are followed with and the applicable rules and regulations are complied with.
3 (1) (ix)	The Company Secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any Director.	Complied with The Secretary to the National Savings Bank maintains the minutes of the Board meetings and circulates same to all Board members through a secure E-solution. The minutes are approved at the subsequent Board meeting. Additionally, the Directors have access to the past Board papers and minutes through the same E-solution.
3 (1) (x)	Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. The minutes shall also serve as a reference for regulatory and supervisory authorities to assess the depth of deliberations at the Board meetings. Therefore, the minutes of a Board meeting shall clearly contain or refer to the following: (a) a summary of data and information used by the Board in its deliberations; (b) the matters considered by the Board; (c) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence; (d) the testimonies and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; (e) the Board's knowledge and understanding of the risks to which the Bank is exposed and an overview of the risk management measures adopted; and (f) the decisions and Board resolutions.	Complied with Minutes of the meetings are kept covering the given criteria

Compliance with Banking Act Direction

		Level of compliance in 2022
3 (1) (xi)	There shall be a procedure agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Bank's expense. The Board shall resolve to provide separate independent professional advice to Directors to assist the relevant Director or Directors to discharge his/her/their duties to the Bank.	Complied with Section 27 of the National Savings Bank Act states that the Board can seek independent professional advice as and when required in discharging its duties. The Board Charter also details that the Directors upon reasonable request can seek independent professional advice in appropriate circumstances, at the Bank's expense.
3 (1) (xii)	Directors shall avoid conflicts of interests, or the appearance of conflicts of interest, in their activities with, and commitments to, other organisations or related parties.	Complied with The Directors make declarations of their interest at appointment and when there is a change. Related Party Disclosure Policy is in place that details on the conflict of interest and the matters and actions to be taken on such situations. Directors withdraw from the meeting, abstain from participating in discussions, voicing their opinion or approving in situations where there is a conflict of interest.
3 (1) (xiii)	The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the Bank is firmly under its authority.	Complied with The Board as the apex authority responsible for oversight of the Bank's activities ensures that direction and control of the Bank is firmly under its authority. The Board Charter details the powers reserved for the Board in discharging its duties effectively.
3 (1) (xiv)	The Board shall, if it considers that the Bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of Bank Supervision of CBSL of the situation of the Bank prior to taking any decision or action.	Complied with The Bank is solvent, and no such situation has arisen during the year to challenge its solvency.
3 (1) (xv)	The Board shall ensure that the Bank is capitalised at levels as required by the Monetary Board in terms of the capital adequacy ratio and other prudential grounds.	Complied with The Board monitors capital adequacy and other prudential measures to ensure compliance with regulatory requirements, and the Bank's defined risk appetite. The Bank complies with the minimum capital adequacy requirements. Refer Basel III – Disclosures under Pillar III as per Banking Act Direction No. 01 of 2016, on pages 442 to 453.
3 (1) (xvi)	The Board shall publish in the Bank's Annual Report, an annual corporate governance report setting out the compliance with Direction No. 03 of these Directions.	Complied with This report forms part of the Corporate Governance Report of the Bank which is given from page 178 to 198.
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.	The Bank has adopted a scheme of self-assessment to be undertaken by every Director, annually which is maintained by the Secretary to the Board. However, self-assessments have not been completed for the year 2022 since tenure of most of the directors were over by the beginning of the year 2023.

		Level of compliance in 2022
3 (2)	**Board's Composition**	
3 (2) (i)	The number of Directors on the Board shall not be less than 7 and not more than 13.	Complied with As per Section 8 (1) of NSB Act the Board comprises seven Directors including the Chairman. Details of the Board during the financial year 2022 are included in pages 184 to 186 and present Board are given on pages 170 to 172 in this report.
3 (2) (ii)	a. The total period of service of a Director other than a Director who holds the position of Chief Executive Officer shall not exceed nine years.	Complied with The Board during the financial year 2022 and the present Board of the Bank have been in the office for a period less than nine years. Details of the Board during the financial year 2022 are given on pages 184 to 186 and present Board on pages 170 to 172.
	b. A Director who has completed nine years as at 1 January 2008, or who completes such term at any time prior to 31 December 2008, may continue for a further maximum period of three years commencing 1 January 2009.	Complied with The Board during the financial year 2022 and the present Board of the Bank have been in the office for a period less than nine years.
3 (2) (iii)	An employee of a bank may be appointed, elected or nominated as a Director of the Bank (hereinafter referred to as an "Executive Director") provided that the number of Executive Directors shall not exceed one third of the number of Directors of the Board. In such an event, one of the Executive Directors shall be the Chief Executive Officer of the Bank.	Complied with All Directors are Non-Executive Directors. National Savings Bank Act No. 30 of 1971 and the amendments therein does not have provisions for an Executive Director in National Savings Bank.
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.	The Board during the financial year 2022 had two Independent Directors while five Directors are Non-Independent. The present Board comprises of five Directors, of which two are Ex-officio Directors as per the NSB Act (Representative of Treasury and Post Master General) and three are appointed by the subject Minister. Two Directors of the present Board are Non-Independent while the other three Directors are Independent. The category of Directorship of the Board during the financial year is given on pages 184 to 186 and the present Board on pages 170 to 172.
3 (2) (v)	In the event an alternate Director is appointed to represent an Independent Director, the person so appointed shall also meet the criteria that apply to the Independent Director.	Not applicable No alternate Director has been appointed to represent any Independent Director, as there is no provision for an alternative Director as per NSB Act
3 (2) (vi)	Non-Executive Directors shall be persons with credible track records and/or have necessary skills and experience to bring an independent judgement to bear on issues of strategy, performance, and resources.	Complied with The Directors' profiles including the necessary information are mentioned as follows: Financial year 2022 – on pages 184 to 186. Present- on pages 170 to 172.

		Level of compliance in 2022
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.	Complied with As per the National Savings Bank Act the quorum of the Board is four which is more than one-half of the Directors and all seven Directors 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.	Complied with The independent Non-Executive Directors are expressly identified as such in all corporate communications that disclose the names of the Directors of the Bank. The composition of the Board by category of the Directors, including the names of the Chairperson, Non-Executive Directors, Independent and Non-Independent Directors of the financial year 2022 and the present Board are given on page 190.
3 (2) (ix)	There shall be a formal, considered and transparent procedure for the appointment of new Directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	Appointments of Directors are carried as per the NSB Act under Section 8 (1) (a). Accordingly, five Directors are appointed by the Minister under whose purview the Bank comes in. One Director shall be the Secretary to the Treasury, or his nominee and the other Directors shall be the Postmaster General or his nominee.
3 (2) (x)	All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first General Meeting after their appointment.	Not applicable This does not arise since the Directors are appointed by the subject Minister.
3 (2) (xi)	If a Director resigns or is removed from office, the Board shall: a. announce the Director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant Director's disagreement with the Bank, if any and	Complied with The Government of Sri Lanka, the sole shareholder of the Bank makes the appointments as well as removal of Directors through the Minister under whose purview the Bank falls in. Any resignation is also referred to the same Minister. The Central Bank of Sri Lanka are kept informed of the resignations.
	b. Issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.	The Shareholder of the Bank is the Government of Sri Lanka and the changes to five members of the Board of Directors except the Ex-Officio Directors is carried out by the Government through the subject Minister.
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.	Neither Directors nor employees of the National Savings Bank are appointed as Directors of another Bank, except for the appointment of Senior Deputy General Manager to the Regional Development Bank (RDB) as per the requirement of the Constitution of RDB, Pradeshiya Sanwardana Bank Act No. 41 of 2008 and Mr Jayantha to the Sri Lanka Savings Bank.
3 (3)	**Criteria to Assess the Fitness and Propriety of Directors**	
3 (3) (i) (a) and (b)	The age of a person who serves as a Director shall not exceed 70 years.	Complied with There are no Directors who are over 70 years of age.
3 (3) (ii)	A person shall not hold office as a Director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the Bank.	Complied with No Director holds directorships of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the Bank.

		Level of compliance in 2022
3 (3) (iii)	A Director or a Chief Executive Officer of a licensed bank operating in Sri Lanka shall not be appointed as a Director or a Chief Executive Officer of another licensed bank operating in Sri Lanka before the expiry of a period of 6 months from the date of cessation of his/her office at the licensed bank in Sri Lanka. Any variation thereto in exceptional situations such as where expertise of retiring bankers may be required when reconstituting Boards of licensed banks which need restructuring, shall be subject to the prior approval of the Monetary Board. In this regard, licensed banks shall ensure to adhere to the requirement of the cooling-off period when appointing Directors or Chief Executive Officer. If a Director is appointed to the licensed bank by an appointing authority violating these Directions, the licensed bank shall take steps to prevent such appointee from exercising any powers or enjoying any privileges or against this direction.	Complied with. This situation has not arisen during the year under review.
3 (4)	**Management Functions Delegated by the Board**	
3 (4) (i)	The Directors shall carefully study and clearly understand the delegation arrangements in place.	Complied with Delegation of authority is in place. The Board reviews and approves the delegation arrangements and ensures that the extent of delegation addresses the needs of the Bank while enabling the Board to discharge its functions effectively without any hindrances.
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.	
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.	
3 (5)	**The Chairman and Chief Executive Officer**	
3 (5) (i)	The roles of Chairman and Chief Executive Officer shall be separated and shall not be performed by the same individual.	Complied with There is a clear separation of duties between the roles of the Chairperson and the General Manager/CEO. A Board Charter is in place defining the responsibilities of the Chairperson and the General Manager/CEO.
3 (5) (ii)	The Chairman shall be a Non-Executive Director and preferably an Independent Director as well. In the case where the Chairman is not an Independent Director, the Board shall designate an Independent Director as the Senior Director with suitably documented Terms of Reference. The designation of the Senior Director shall be disclosed in the Bank's Annual Report.	Chairperson of the Bank during the financial year 2022 is a Non-Independent Non-Executive Director. Mr Eranga Jayawardena was appointed as Senior Director to comply with the Direction.

Compliance with Banking Act Direction

		Level of compliance in 2022
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	Complied with The identity of the Chairperson and the General Manager/CEO are disclosed in Annual Report on page 197. The Board is cognisant that there are no relationships of any kind of financial, business, family, any other material/relevant relationship between the Chairman and the General Manager/CEO. Also, there are no relationships among the other Board Members.
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.	Complied with The Chairperson provides leadership to the Board and ensures that the Board functions effectively in discharging its responsibilities. The Board in a timely manner discusses all key issues.
3 (5) (v)	The Chairman shall be primarily responsible for drawing up and approving the agenda for each Board meeting.	Complied with The Secretary to the Board draws up the agenda for the meetings in consultation with the Chairperson.
3 (5) (vi)	The Chairman shall ensure that all Directors are properly briefed on issues arising at Board meetings and also ensure that Directors receive adequate information in a timely manner.	Complied with The Chairperson ensures that the Board is sufficiently briefed and informed regarding the matters arising at the Board meetings. The following procedures are in place to ensure that: * Circulation of Board papers including the minutes of the previous meeting seven days prior to the Board meeting giving them sufficient time to review and call for additional information and clarification and after the meeting to follow up on issues consequent to the meeting * Clarification of matters by KMPs when required
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.	Complied with The list of functions and responsibilities of the Chairman is included in the Board Charter.
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.	Complied with The entire Board consists of Non- Executive Directors.
3 (5) (ix)	The Chairman shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	Complied with Chairman is a Non-Executive Director and she is not involved directly in executive functions to supervise KMPs or any other executive duties whatsoever.
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.	Complied with The Bank keeps effective communication with the shareholder; Government of Sri Lanka. The Ex-Officio Director appointed as per the National Savings Bank Act, acts as the channel of communication between the Board and the shareholder.
3 (5) (xi)	The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day management of the Bank's operations and business.	Complied with The day-to-day operations of the Bank have been delegated to the General Manager/CEO. The Board Charter specifically details such authorities of the General Manager/CEO.

		Level of compliance in 2022
3 (6)	**Board Appointed Committees**	
3 (6) (i)	Each bank shall have at least four Board committees as set out in Directions 3 (6) (ii), 3 (6) (iii), 3 (6) (iv) and 3 (6) (v) of these Directions. Each committee shall report directly to the Board. All committees shall appoint a secretary. The Board shall present a report of the performance on each committee, on their duties and roles at the Annual General Meeting.	Complied with The Board has established five committees with written Terms of Reference. The Board Audit Committee, Board Human Resource Remuneration Committee, Board Nomination Committee, Board Integrated Risk Management Committee are mandatory as per the Banking Act Direction No. 12 of 2017 while the Board Information Technology Strategy Committee is constituted to meet the business needs of the Bank. All the committees report directly to the Board through the committee Chairpersons. The Secretary of National Savings Bank/Secretary to the Board serves as the Secretary to all Board Subcommittees who arranges the meetings and maintain minutes, records etc. under the Supervision of the Committee Chairman. The reports of the Board Subcommittee are given on pages 199 to 207. The Government being the sole shareholder, the Annual Report of the Bank is submitted to the Parliament of Sri Lanka and to the Ministry in charge of the Bank.
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.	The Chairman of the Audit Committee during the financial year 2022 is Non-Independent Non-Executive Director and held required qualifications and experience. Profile of the Chairman of the Committee during the financial year 2022 is given on page 185. The Chairman of the present Board Audit Committee also holds required qualifications and experience. Profile of the present Chairman of the Committee is given on page 172.
	b. All members of the Committee shall be Non-Executive Directors.	Complied with. All the Directors of the Bank are Non-Executive Directors, hence all members in the committee are Non-Executive Directors.
	c. The Committee shall make recommendations on matters in connection with: (i) the appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes; (ii) the implementation of the Central Bank guidelines issued to Auditors from time to time; (iii) the application of the relevant accounting standards; and (iv) the service period, audit fee and any resignation or dismissal of the Auditor; provided that the engagement of the Audit partner shall not exceed five years, and that the particular audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.	Complied with * As per the Terms of Reference, the Board Audit Committee makes the following recommendations among others: * Implementation of Central Bank guidelines issued to Auditors from time to time The application of relevant accounting standards Since the Auditor General is the External Auditor of the Bank as per the statutes. Hence, the Committee has no role to play in the engagement of the External Auditor.

		Level of compliance in 2022
	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.	Complied with Since the Auditor General is the External Auditor, the independence and objectivity are maintained and guaranteed by the Constitution of Sri Lanka. 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 Applicable The Auditor General is the External Auditor of the Bank. However, as per the Board Audit Committee Charter, the Committee ensures that in the event the Auditor General appoints another External Auditor of assistance, it does not impair that firm's independence, objectivity or effectiveness. For the audit of the year 2022, the Auditor General has obtained the consultation of Messrs Ernst & Young.
	f. The Committee shall, before the audit commences, discuss and finalise with the External Auditors the nature and scope of the audit.	Not Applicable The scope and the extent of audit have been determined by the Auditor General as the External Auditor.
	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 judgements contained therein. In reviewing the Bank's Annual Report and accounts and quarterly reports before submission to the Board, the Committee shall focus particularly on: (i) major judgemental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) the compliance with relevant accounting standards and other legal requirements.	Complied with The Board Audit Committee has reviewed the quarterly Financial Statements and Annual Report of the Bank prepared for the disclosure purposes as and when ready for the publication. The Internal Audit Division submits a separate review report on the Financial Statements on each instance including the deviation in major judgemental areas, change in accounting policies etc., in the review report to the attention of Board Audit Committee. The BAC makes recommendation to the Board on the above based on the requirement to do so.
	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.	Complied with The BAC discusses issues, problems and reservations arising from the interim and final audits. The representative of the Auditor General was present at the Committee meetings throughout.
	i. The Committee shall review the External Auditor's management letter and the Management's response thereto.	Complied with The Board Audit Committee reviews the External Auditor's Report issued under the Sections 14 (2) (c) and 13 (7) (a) of the Finance Act annually and the Management response thereon.

		Level of compliance in 2022
	j. The Committee shall take the following steps with regard to the internal audit function of the Bank:	
	i. Review the adequacy of the scope, functions and resources of the Internal Audit Department, and satisfy itself that the Department has the necessary authority to carry out its work;	Complied with The Annual Audit Plan for the year 2022 prepared by the Internal Audit Division was submitted to the BAC was approved which includes the scope, functions, and resource requirements relating to the Plan.
	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;	Complied with The Committee reviews the internal audit plan and the results of the internal audit procedures and ensures that appropriate actions are taken for improvements.
	iii. Review any appraisal or assessment of the performance of the Head and senior staff members of the Internal Audit Department;	Complied with Performance appraisal of Chief Internal Auditor/Deputy General Manager (Audit) and the work process and results of the internal audit function are generally evaluated by the Audit Committee. Performance evaluation of senior staff is carried out according to the Board approved evaluation process by the Chief Internal Auditor/Deputy General Manager (Audit) and is tabled before the Audit Committee. The evaluation for the financial year 2022 was carried out.
	iv. Recommend any appointment or termination of the Head, senior staff members and outsourced service providers to the internal audit function;	Not Applicable No such situation has arisen during the year.
	v. Ensure that the Committee is appraised of resignations of senior staff members of the Internal Audit Department; including the Chief Internal Auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;	Not applicable No such situation has arisen during the year.
	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;	Complied with According to the governance structure of the Bank, Deputy General Manager (Audit) reports directly to the Board through BAC and is independent of any operations of the Bank.
	k. The Committee shall consider the major findings of internal investigations and Management's responses thereto;	Complied with The Board Audit Committee has reviewed major findings and Management responses thereto. It also ensures that the recommendations of such investigations were implemented.
	l. The Chief Finance Officer, the Chief Internal Auditor and a representative of the External Auditors may normally attend meetings. The Committee has had at least two meetings with the External Auditors without the Executive Directors being present.	Complied with 14 meetings were held during the year 2022 and the representative of Auditor General's Office has attended 12 meetings. The General Manager/CEO, Senior Deputy General Manager, Deputy General Manager (Audit), Deputy General Manager (Finance, Corporate Planning, and MIS) normally attends the meetings. Apart from the above meetings, Board Audit Committee (BAC) had three Independent meetings with External Auditor (Superintendent of National Audit Office) without General Manager/CEO and Internal Auditor of the Bank.

		Level of compliance in 2022
	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.	Complied with According to the Board Audit Charter, the Committee has been empowered with: • Explicit authority to investigate into any matter within its Terms of Reference • The resources which it needs to do so • Full access to information and • Authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary. Refer BAC report on pages 199 to 201.
	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	Complied with The BAC has scheduled regular meetings. Additional meetings are scheduled when required. The Committee met 14 times during the year. Members of the BAC are served with due notice of issues to be discussed and conclusions in discharging its duties and responsibilities are recorded in the minutes of the meetings maintained by the Secretary to the BAC/Secretary to the Board of National Savings Bank.
	o. The Board shall disclose in an informative way: i details of the activities of the Audit Committee; ii the number of Audit Committee meetings held in the year; and iii details of attendance of each individual Director at such meetings.	Complied with The Report of the BAC on pages 199 to 201 disclose the following: i. Details of the activities of the Audit Committee ii. The number of BAC meetings held during the year 2022 iii. Details of attendance of each individual Director at such meetings
	p. The Secretary of the Committee is the Company Secretary or the Head of the internal audit function and shall record and keep detailed minutes of the Committee meetings	Complied with The Secretary to the Board of National Savings Bank acts as Secretary to the BAC and detailed minutes are maintained.
	q. The Committee shall review arrangements by which employees of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the Committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the Bank's relations with the External Auditor.	Complied with The Bank has a Board approved Fraud Risk Management and Whistle-blowing Policy in place which covers these aspects. Significant findings are reported to the BAC for appropriate follow-up actions. The BAC is the key representative body for overseeing the Bank's relations with the External Auditor.
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.	Complied with. Remuneration of the Directors is decided by the subject Minister as per the Section 10 of the NSB Act No. 30 of 1971 and the amendments therein. The remuneration of the General Manager/CEO and KMPs is determined by the BHRRC based on the collective agreement and approved by the Board of the Bank.

		Level of compliance in 2022
	b. The Committee shall set goals and targets for the Directors, CEO, and the Key Management Personnel.	Complied with. All the Directors of the Bank are Non-Executive Directors of whom five are appointed by the subject Ministry and the other two being Ex-Officio Directors according to the Section 8 of the NSB Act No. 30 of 1971 and the amendments therein. Therefore, specific goals and targets are not set for them. Goals and targets for the General Manager/CEO and the KMPs are set based on the Strategic Business Plan which are detailed in the Action Plan. These are linked to Key Performance Indicators of KMPs.
	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.	Annually, the criteria for evaluations of the performance of the General Manager/CEO and Key Management Personnel against the set targets and goals were submitted to the Committee during the first quarter of the proceeding year. However, this has not been completed as the tenure of most of the Directors were over by the beginning of the year 2023.
	d. The CEO shall be present at all meetings of the Committee, except when matters relating to the CEO are being discussed.	Complied with The General Manager/CEO attends all meetings of the Committee, except when matters relating to the General Manager/CEO are being discussed.
3 (6) (iv)	The following rules shall apply in relation to the Nomination Committee:	
	a. The Committee shall implement a procedure to select/appoint new Directors, CEO, and Key Management Personnel.	The five Directors are appointed by the subject Minister while the other two directors being the Ex-officio Directors as per the NSB Act. According to the Section 11, the Minster shall nominate one of the Directors of the Board to be its Chairman. As per the Section 26, the Board shall appoint a fit and proper person to be the General Manager of the Bank who shall be the Chief Executive Officer of the Bank. Appointment of KMPs is compiled with. Board of Directors appoints KMPs with the recommendation of Board Nomination Committee.
	b. The Committee shall consider and recommend (or not recommend) the re-election of current Directors.	Not applicable Five Directors are appointed by the Minister while two Directors are Ex-Officio as per the NSB Act.
	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.	Complied with The General Manager/CEO is appointed based on the accepted procedure with the approval of Board of Directors as per the NSB Act No. 30 of 1971 and the amendments therein. The Board approved promotion scheme is available which stipulates the attributes required to be eligible to or promoted to other key management positions.
	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.	Complied with Signed affidavit and declarations of Directors, and General Manager/CEO are obtained by the Board Secretary and the same are obtained from the KMPs by the Human Resource Development Division and forwarded to the Central Bank for assessing the fitness and propriety at the time of appointment.

		Level of compliance in 2022
	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.	Complied with Appointment of the Chairman, Directors and the CEO are carried out according to the NSB Act No. 30 of 1971 and the amendments therein. A Board approved Succession Plan for the KMPs is in place. Appointments of KMPs are made by the Board of Directors according to the Succession Plan based on the recommendations of BNC.
	f. The Committee shall be chaired by an Independent Director. The CEO may be present at meetings by invitation.	Complied with The Committee is chaired by an Independent Non-Executive Director.
3 (6) (v)	The Board 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, i.e. credit, market, liquidity, operational and strategic risks. The Committee shall work with Key Management Personnel very closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.	Complied with The Committee comprises of three Non-Executive Directors, General Manager/CEO and the Chief Risk Officer who is responsible for supervising broad risk categories, i.e credit, market, liquidity, operational and strategic risks. Compliance Officer participate at all Committee meetings by invitation. Any other KMP and staff are invited based on the requirement. The Committee works closely with KMPs within the framework of authority and responsibility assigned.
	b. The Committee shall assess all risks, i.e. credit, market, liquidity, operational, and strategic, risks to the Bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a bank basis and group basis.	Complied with The Board has approved the policies on Credit Risk Management, Market and Liquidity Risk Management, Operational Risk Management on the recommendation of the BIRMC that provides the framework for assessment and management of risks. The Risk Management Division submits monthly reports on risk indicators both on a bank basis and group basis based on the pre-defined risk appetite levels which are reviewed by the Committee.
	c. The Committee shall 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.	Complied with The Committee reviews reports of management levels committees such as the Credit Committee, Investment Committee and the Asset and Liability Management Committee (ALCO) to assess the adequacy and effectiveness in addressing specific risks and to ensure those risks are managed within quantitative and qualitative risk limits as specified by the risk appetite level of the Bank which reviewed on a regular basis. The adequacy and effectiveness of all management level committees are reviewed by the BIRMC on an annual basis.
	d. The Committee shall take prompt corrective action to mitigate the effects of specific risks.	Complied with The Committee takes prompt corrective actions to mitigate the effects of specific risks in situations where such risks are beyond prudent levels decided by the Board on recommendations of the Committee based on the regulatory and policy level requirements.
	e. The Committee shall meet at least quarterly to assess all aspects of risk management including updated Business Continuity Plans (BCP).	Complied with During the year, the Committee had seven meetings. Details of meetings and attendance are given on page 205.

		Level of compliance in 2022
	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.	Complied with The Bank has established a disciplinary action procedure to address such issues. No necessities have arisen during the year.
	g. The Committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.	Complied with The detailed minutes of the meetings are submitted to the next immediate Board meeting along with the recommendations and the Risk Management Reports.
	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.	Complied with The compliance function has been established to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on areas of business operations. This function is headed by a dedicated Compliance Officer (CO). CO submits reports periodically to the BIRMC/BAC/Board.
3 (7)	**Related Party Transactions**	
3 (7) (i)	The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the Bank with any person.	Complied with The Board approved Related Party Transactions Policy is in place covering related parties, their transactions and restrictions on offering more favourable treatment to related parties in order to avoid any conflict of interest by the Board of Directors. Directors are requested to declare their related party transactions individually. These transactions are monitored through an automated system.
3 (7) (ii)	The type of transaction with related parties that shall be covered by this Direction.	Complied with The Related Party Transactions Policy approved by the Board, covers the following transactions: (a) The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation; (b) The creation of any liabilities of the Bank in the form of deposits, borrowings and investments; (c) The provision of any services of a financial or non-financial nature to the Bank or received from the Bank; (d) The creation or maintenance of reporting lines and information flows between the Bank and any related parties, which may lead to sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties. Information in this regard is disclosed in Note 49.5 on "Related Party Disclosures" on page 361.

		Level of compliance in 2022
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.	Complied with The Bank's Related Party Transactions Policy forbids transactions, which would grant related parties more favourable treatment than that accorded to other customers. These include the following: (a) Granting of "total net accommodation" to related parties, exceeding a prescribed percentage of the Bank's regulatory capital; (b) Charging of a lower rate of interest than the Bank's best lending rate or paying more than the Bank's deposit rate for a comparable transaction with an unrelated comparable counterparty; (c) Providing of preferential treatment, such as favourable terms, covering trade losses and/or waiving fees commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties; (d) Providing services to or receiving services from a related party without an evaluation procedure; (e) Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions. The Bank has implemented a Board approved process to monitor related party transactions which is monitored by the Compliance Division and compliance status is indicated in the monthly Compliance Report submitted to the Board. Further, any non-compliance brought to the notice of the Board would be addressed by the Board. Transactions (if any) carried out with related parties in the normal course of business are disclosed in Note 49.5 to the Financial Statements "Related Party Disclosures" on page 361.
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.	Complied with No such instances were recorded
3 (7) (v)	a. Where any accommodation has been granted by a bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a Director of the Bank, steps shall be taken by the Bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a Director.	Complied with The Secretary to the Board obtains declarations from all the Directors prior to the appointment as a Director and they are requested to declare any further transactions.

		Level of compliance in 2022
	b. Where such security is not provided by the period as provided in Direction 3 (7) (v) (a) above, the Bank shall take steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such Director, whichever is earlier.	Complied with The Compliance Division monitored the processes with this regulation. And a quarterly report is submitted to the Board.
	c. Any Director who fails to comply with the above sub-directions shall be deemed to have vacated the office of Director and the Bank shall disclose such fact to the public.	
	d. This sub-direction, however, shall not apply to a Director who at the time of the grant of the accommodation was an employee of the Bank and the accommodation was granted under a scheme applicable to all employees of such bank.	
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.	Complied with No favourable treatment/accommodation provided to employees of the Bank other than staff benefits. Employees of the Bank are informed through circular instructions to refrain from granting favourable treatments to other employees or close relations.
3 (7) (vii)	No accommodation granted by a bank under Direction 3 (7) (v) and 3 (7) (vi) above, nor any part of such accommodation, nor any interest due thereon shall be remitted without the prior approval of the Monetary Board and any remission without such approval shall be void and of no effect.	Complied with No such instances were recorded.
3 (8)	**Disclosures**	
3 (8) (i)	The Board shall ensure that: a. Annual audited Financial Statements and quarterly Financial Statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that,	Complied with
	b. Such statements are published in the newspapers in an abridged form, in Sinhala, Tamil, and English.	Complied with
3 (8) (ii)	The Board shall ensure that the following minimum disclosures are made in the Annual Report: a. A statement to the effect that the annual audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied with Disclosure on the compliance with applicable accounting standards and regulatory requirements, in preparation of the annual audited Financial Statements have been made on the "Statement of Directors' Responsibility for Financial Reporting" on page 245 and "General Manager's/CEO's and Deputy General Manager's (Finance, Corporate Planning and MIS) Statement of Responsibility" on page 249.

		Level of compliance in 2022
	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.	Complied with The Annual Report includes the following reports where the Board confirms that the financial reporting system 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 relevant accounting principles and regulatory requirements. Annual Report of the Board of Directors on pages 239 to 244. Statement of Directors' Responsibility for Financial Reporting on page 245. Directors' Statement on Internal Control over Financial Reporting on pages 246 and 247.
	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 31 December 2008.	Complied with The Bank has obtained a certificate on the effectiveness of Internal Controls over Financial Reporting, which is disclosed on page 248.
	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.	Complied with Profiles of the Directors who held office during the financial year 2022 are given on Pages 184 to 186. Profiles of the Present Directors are given on Pages 170 to 172. Refer Note 49.5 to the Financial Statements on page 361. Refer Note 49.5 to the Financial Statements on page 361.
	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.	Complied with The net accommodations granted as a percentage of Bank's regulatory capital are given in Note 49.5.3 to the Financial Statements on page 361.
	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.	Complied with Details are given in Note 49.5.1 to the Financial Statements on page 361.
	g. The External Auditor's certification of the compliance with these Directions in the annual corporate governance reports	Complied with The Bank has obtained a certificate from the Auditor General on the level of compliance with the Corporate Governance Direction No. 12 of 2007. All findings of the Auditor have been incorporated in this Corporate Governance Report.
	h. A report setting out details of the compliance with prudential requirements, regulations, laws, internal controls and measures taken to rectify any material non-compliance.	Complied with The Statement of Directors' Responsibility for Financial Reporting on page 245 clearly sets out the details regarding compliance with prudential requirements, regulations, laws and internal controls.

		Level of compliance in 2022
	i. A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision of CBSL if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns.	Complied with
3 (9)	**Transitional and other general provisions**	
3 (9) (i)	Compliance with this Direction shall commence from 1 January 2008 onwards and all licensed commercial banks shall fully comply with the provisions of this Direction by or before 1 January 2009 except where extended compliance dates have been specifically provided for in this Direction.	Complied with The Bank has complied with the applicable transitional provisions.
3 (9) (ii)	In respect of the banks that have been incorporated by specific statutes in Sri Lanka, the Boards as specified in such statutes shall continue to function in terms of the provisions of the respective statutes, provided they take steps to comply with all provisions of this Direction that are not inconsistent with the provisions of the respective statutes.	Complied with. NSB takes all possible measures to comply with all applicable provisions of this Direction that are not inconsistent with the provisions of NSB Act No. 30 of 1971 and its amendments, the enabling enactment. Any instances of non-compliance and where NSB has continued to function in terms of the provisions of the statutes applicable to it has been specifically mentioned above against the relevant sections.
3 (9) (iii)	This Direction shall apply to the branches of the foreign banks operating in Sri Lanka to the extent that it is not inconsistent with the regulations and laws applicable in such bank's country of incorporation. The branch of a foreign bank shall also publish its parent bank's Annual Corporate Governance Report together with its Annual Report and accounts of the branch operations in Sri Lanka.	Not applicable
3 (9) (iv)	In the event of a conflict between any of the provisions of this Direction and the Articles of Association (or Internal Rules) pertaining to any bank, the provisions of this Direction shall prevail. However, if the Articles of Association of an individual bank set a more stringent standard than that specified in this Direction, such provisions in the Articles of Association may be followed.	Not applicable

Compliance with the code of best practice on Corporate Governance issued by CA Sri Lanka

Code reference	Principles
A	**Directors**
A.1	**The Board** The Board of National Savings Bank comprises seven (07) Non-Executive Directors including the Chairman which is laid down in the National Savings Bank Act No. 30 of 1971 and the amendments therein. Five Directors of the Bank are appointed by the Minister as per the NSB Act and the two Ex-officio Directors; one shall be the Secretary to the Treasury or his nominee and the other shall be the Postmaster General or his nominee. The Board headed by the Chairman is the apex decision-making body of the Bank. During the year the Board consisted of seven (07) Directors who are eminent professionals to direct and lead the Bank with effective controls. Details of the Directors during the year 2022 are given on pages 170 to 172.
A.1.1	**Regular meetings** The Board has met regularly during the year by adhering to the statute which stipulates the Board shall meet as often to the Chairman may deem necessary provided that, a meeting of the Board shall be held once at least in every six weeks. During the year, the Board has convened 21 meetings. Complying with the respective Charters, the Board Subcommittees met regularly during the year. The regularity of the Board meetings and the structure and process of submitting information had been agreed to and documented by the Board. Details of Board meetings and Subcommittee meetings are given on pages 189 and 191.
A.1.2	**Roles and Responsibilities of the Board** The Board Charter details the responsibilities entrusted to the Board and given on page 183. The Board charter was last reviewed in the year 2022. The Board is assisted by the secretary to the Board.
A.1.3	**The Board act in accordance with the laws of the country** The Board has an approved procedure in place to ensure that the Bank is in compliance with related laws, CBSL Directions and Guidelines and international best practices with regard to the operations. This includes procedures where by the Board can require the Bank to obtain independent professional advice and the expenses thereon are borne by the Bank.
A.1.4	**Access to advice and services of the Secretary and appointment or removal of the Secretary to the Board** All the Directors have the ability to obtain advices and services of the Secretary to the Board who is responsible for ensuring that the Board procedures are followed with and the applicable rules and regulations are complied with. The appointment and the removal of the Secretary to the Board is a matter involving the whole Board under the advice of BNC as it is a Key Management Personnel position. Refer page 197 on "Role of Board Secretary" for further details on the role of the Company of Secretary.
A.1.5	**Independent judgement** The Board of Directors of the Bank are experts in their fields and bring independent judgment in discharging their duties and responsibilities on matters relating to strategy, performance, resource allocation, risk management, compliance and standards of business conduct.
A.1.6	**Dedicate adequate time and effort to matters of the Board and the Company** Board meetings and Board Subcommittee meetings are scheduled well in advance and the relevant papers are generally circulated one week prior to the meeting through electronic means to ensure that the Directors are having sufficient time to review the papers and call for additional information and clarification, and after a meeting to follow up on issues consequent to the meeting. Given that, in exceptional situations there is a provision to circulate the papers closer to the meeting. This is supplemented by giving sufficient time to be familiarise with business operations, risks and controls.
A.1.7	**Calls for resolutions** As per the NSB Act, Chairman shall upon written requisition from any two Directors, call a special meeting of the Board where they feel it is in the best interest of the Bank to do so. In case of a special meeting, notice should be given to all Directors prior to four days of the meeting.

Code reference	Principles
A.1.8	**Training of Directors** The Board of Directors of the Bank gets adequate training on appointment. Refer page 193 for details.
A.2	**Division of responsibilities of Chairman and Chief Executive Officer (CEO)** The positions of the Chairman and the Chief Executive Officer have been separated in line with the best practices in order to maintain the balance of power and authority which is clearly defined in the Board Charter. Chairman of the Bank is a Non-Executive Director while CEO is not a member of the Board.
A.3	**Chairman's role** The Chairman provides a leadership role in order to preserve good governance and facilitates the effective functioning of the Board. Chairman is responsible for maintaining open lines of communication with KMPs and contributes on strategic and operational matters. The agenda of the meeting is developed in consultation with General Manager/CEO, Directors and the Secretary to the Board, taking into consideration the matters relating to strategy, performance, resource allocation, risk management, and compliance. Sufficiently detailed information of matters included in agenda is provided to Directors in a timely manner. All Directors are made aware of their duties and responsibilities and Board Subcommittee Structures. All Directors are encouraged to make an effective contribution and obtain information necessary to discuss matters on the agenda and arrive at an informed decision. The views of Directors on issues under considerations are ascertained and recorded in minutes.
A.4	**Financial acumen** The Board possesses the required financial acumen and knowledge to offer guidance on matters relating to finance where some of the Directors being professionally qualified in fields of finance/accounting and/or having Senior Management positions and/or directorships.
A.5	**Board balance** The Board of the Bank comprises seven Non-Executive Directors appointed as per the NSB Act. The Board of Directors annually submit a signed and dated deceleration of their independence/non-independence.
A.6	**Provision of timely information** The Management provides appropriate and timely information to the Board generally, seven days prior to the Board meetings or Board Subcommittee meetings to discharge their duties and responsibilities effectively. Chairman ensures that the Board is adequately briefed on the matters discussed and the KMPs are requested to be present during the meetings to be present where deemed necessary. Any Director who is unable to attend a meeting is updated on proceedings through formally documented minutes of the meeting, prior to the next meeting which are discussed at the same. The agenda of the meetings and papers required, are generally circulated prior to seven days and the minutes of the previous meeting are generally circulated at least two weeks after the meeting.
A.7	**Appointments to the Board** As a state-owned Bank, five Directors are appointed by the Minister in charge under whose purview the Bank comes in while two Directors are Ex-officio according to the NSB Act. The Bank has complied with the required regulatory requirements relating to appointment of new Directors. Refer Section Corporate Governance on page 193 for details.
A.8	**Re-appointment** As per the NSB Act, the term of a Directors is three years unless otherwise he vacates office early by death, resignation or removal of holding office. Refer Section Corporate Governance on page 193 for the details of Appointment and Re-election of Directors.
A.9	**Appraisal of Board performance** The Board annually assess their own performance to ensure that the Board is discharging their responsibilities satisfactorily. The evaluation process requires each Director to fill a Board Performance Evaluation Form. The responses are gathered and submitted to the Board Nomination Committee which will be submitted to the Board post review of Board Nomination Committee. However, Annual evaluations of the Board subcommittees have not been completed since the tenure of most of the Directors were over by the beginning of the year 2023.

Compliance with the code of best practice on Corporate Governance issued by CA Sri Lanka

Code reference	Principles
A.10	**Disclosure of information in respect of Directors in the Annual Report**
	The information specified in the Code with regard to Directors are disclosed in this Annual Report as follows.
	Name, qualifications, expertise, material business interest and brief profiles are given on pages 170 to 172.
	Details of whether a Director is Executive, Non-Executive and/or Independent, Non-Independent are given on page 190.
	Related party transactions are given on Note 49.5 to the Financial Statements on page 361.
	Membership of Board Subcommittees and attendance at Board and Board Subcommittee are given on pages page 190.
A.11	**Appraisal of Chief Executive Officer (CEO)/General Manager**
	Performance of the General Manager/CEO is assessed annually based on the financial and non-financial target given in the strategic business plan with the assistance of BHRRC. The final report is submitted to the Board.
B	**Directors' remuneration**
B.1	In accordance with the NSB Act and its amendments therein, the Directors' remuneration is decided by the relevant Minister.
	No Director is involved in deciding his/her own remuneration. Refer section "Directors' remuneration and level and make up of remuneration" on page 198 and Report of the BHRRC on pages 202 and 203.
B.2	**Level and make up of remuneration**
	As a state-owned Bank, the level and make up of remuneration is determined by the subject Minister according to the NSB Act. Refer section "Directors' remuneration and level and make up of remuneration" on page 198.
B.3	**Disclosure of remuneration**
	Section on "Directors' remuneration and level and make up of remuneration" on page 198.
	Details of Directors' total remuneration – Refer Note 49.5 to the Financial Statements on page 361 Members of the BHRRC and their Report – Refer pages 202 and 203.
C	**Relations with shareholder**
C.1	**Constructive use of AGM and conduct of General Meetings**
	As a state-owned Bank, NSB is conducting regular meetings with the subject Ministry. A representative of the Government (an officer from the Ministry of Finance) is in the Board representing the shareholder. The Annual Report is placed before the parliament of Sri Lanka and is open to question by the parliament.
C.2	**Communication with shareholder**
	The communication policy sets out the channels of communication with the shareholder. This includes web/e-responses, press releases etc. The issues and concerns of the shareholder (Government of Sri Lanka) are discussed with participation of the Government representative at the Board meeting. Issues that require further attention are elevated to the Ministry or higher officials as the necessity may be.
C.3	**Disclosure of major and material transactions**
	There were no "Major transactions" that would have materially affected the Bank's or the Group's net assets base, nor any material related party transactions except those disclosed in:
	Annual Report of Board of Directors on pages 239 to 244 and Note 49.5 to the Financial Statements on page 361.

Code reference	Principles
D	**Accountability and audit**
D.1	**Financial and business reporting (Annual Report)** This Annual Report presents a balanced and understandable review of the Bank's financial position, performance, business model, governance structure, risk management, internal controls and challenges, opportunities and prospects. The Bank has taken all measures to ensure Annual Report including the financial statements as well as interim financial statements which are reviewed by BAC prior to publication are giving a true and fair view and has been prepared in accordance with the relevant laws and regulations. The Annual Report contains following disclosures which are required by the Code: • Management Discussion and Analysis – refer pages 100 to 166. • Annual Report of the Board of Directors – refer pages 239 to 244. • Statement of Directors' Responsibility for Financial Reporting – refer on page 245. • Directors' Statement on Internal Controls – refer pages 246 and 247. • General Manager/CEO's and Deputy General Manager's (Finance, Corporate Planning & MIS) Statement of Responsibility – refer on page 249. • Related Party Transactions – refer Note 49 on related party disclosures on pages 357 to 363. The net assets value of the Bank is disclosed in Note 50 to the Financial Statements on page 364.
D.2	**Bank's existing processes on Risk management and internal controls** The Board is responsible for determining the risk appetite in achieving its strategic objectives, formulating and implementing appropriate processes of risk management and sound system of internal control to safeguard shareholder's investments and the assets of the Bank. The BIRMC assist the Board in discharging its duties with regard to risk management while BAC assist in discharging the Board's duties relating to processed and effectiveness of risk management and internal control. The summary of responsibilities of respective Committees are given under each Subcommittee Report. The Committees are formulated according to the Banking Act No. 12 of 2007 on Corporate Governance, Code of Best Practice on Corporate Governance issued by The Institute of Chartered Accountants of Sri Lanka and the Bank's policies. The BIRMC is supported by the Risk Management Division and Risk Review Report on pages 208 to 236 and Report of the BIRMC on pages 205 to 206 include a comprehensive report on how the Bank is managing the risk.
D.3	**Audit Committee** The BAC comprises three Non-Executive Directors. A summary of the scope of the BAC as per the Terms of Reference are given in the Report of BAC on pages 199 to 201 in the Annual Report. The Terms of Reference is prepared in accordance with the Code. Review of the Internal Controls are done by the Internal Audit Division and reports are regularly reported to the BAC. The external assurance on effectiveness of Internal Controls was obtained from the External Auditor, which is Auditor General and produced on page 248 in this Annual Report.
D.4	**Related Party Transactions Review Committee** The Bank has a Board approved related party transactions policy in place which covers related parties, their transactions and restrictions on offering non-favourable treatment to related parties in order to avoid conflict of interest of Board of Directors. The Report on the related party transactions with Key Managerial persons are given on page 361 in Note 49.5.2 of this Annual Report.
D.5	**Code of business conduct and ethics** The Bank has Code of Business Conduct and Ethics that is internally developed and approved by the Board which applies to all employees of the Bank including KMPs and a separate code of conduct for the Directors. All officers of the Bank are required to furnish an annual asset liability declaration to the Human Resource Development Division. All the Directors furnish their annual assets and liability declaration to the relevant Ministry. The Bank has set applicable policies and procedures to identify and deal with any possible infringements. The Bank has put in place a Procurement Guidelines to ensure transparent procurement practices are applied.

Compliance with the code of best practice on Corporate Governance issued by CA Sri Lanka

Code reference	Principles
D.6	**Corporate governance disclosures** The Directors are required to disclose the extent to which the Bank adheres to established principles and practices of good corporate governance. The following reports includes the Bank's compliance with the good governance principles and practices. The Corporate Governance Report from pages 178 to 198. Compliance with the Code of Best Practice on Corporate Governance issued by The Institute of Chartered Accountants of Sri Lanka on pages 430 to 434.
E and F	**Shareholder and other investors** The Bank is incorporated under an Act of Parliament, the NSB Act and the Government of Sri Lanka is the sole shareholder. The Bank is having regular and structured dialogue with the GOSL based on the mutual understanding of objectives through the subject Ministry as and when required.
G	**Internet of things and cybersecurity** The Bank is certified under the globally accepted, de-facto standard, Payment Card Industry Data Security Standard (PCI DSS), focusing on ensuring confidentiality, integrity and availability of data/ information. Therefore, the Bank's ISMS is established adhering to the rigorous management, physical and technical controls pertaining to information security as well as the requirements stipulated in the Baseline Security Standard mandated by the CBSL, for protecting information systems of the Bank from cyber threats. The Bank has appointed a Chief Information Security Officer (CISO) reporting to the General Manager/CEO to provide direction to the Bank's overall information security function. The Management-level body responsible for the information security of the Bank that is chaired by the General Manager/CEO is the Information Security Committee (ISC) which reports to the Board of Directors through the BIRMC, entrusted with oversight responsibilities for information and cyber risk management. The Bank has in place a comprehensive, Board approved Information Security Policy (ISP) which defines all the security requirements to be fulfilled by employees, partners and other external parties as per the ISMS Framework. The ISP which is primarily aligned to the ISO/IEC 27001:2013 Standard includes policies for the areas covering organisation of information security, physical and logical access control, asset management, operations and communication security, HR security, supplier relationships, information security incident management, business continuity management, etc. Network security management controls and information transfer policies and procedures have been defined in the ISP to ensure protection of information/ supporting information processing facilities in the Bank's network/s and to maintain the security of information transferred within the organisation and with external entities. The Bank conducts technical security assessments such as vulnerability assessments, penetration tests, application security assessments, configuration assessments, etc periodically (monthly, quarterly, bi-annually and annually) as per the Bank's policies and compliance requirements (e.g.: PCI DSS, CBSL), in order to gauge the cyber risk profile of the Bank. The ISMS is independently validated on an annual basis by Qualified Security Assessors of the PCI Council. Performance of the ISMS and any deviations, information security incidents, results of internal and external information security audits, information security roadmap/ progress of cybersecurity projects as well as the information security risk profile of the Bank is regularly reported to the ISC, and the BIRMC is kept updated periodically through risk indicators and other reports.
H **H.1**	**Environment, Society and Governance (ESG)** **ESG Reporting** Sustainability business approach involves a holistic approach to value creation while embracing opportunities and managing risk. In its sustainability approach to the business, the Bank considers economic, social, and environmental values created through its strategy in the short, medium and long-term. The sustainability reporting requires the Bank to recognise, measure and disclose and be accountable to internal and external stakeholders. Information required by the Code is given in the following sections of the Annual Report: • Management Discussion and Analysis – refer pages 100 to 166 • Corporate Governance – refer pages 178 to 198 • Stakeholders – refer pages 90 to 98 • Materiality – refer pages 27 to 31 • This Annual Report has been in accordance with IIRC Framework, and the GRI guidelines.

Other Disclosure requirements as required by CBSL

Disclosure requirements under the prescribed format issued by the Central Bank of Sri Lanka for preparation of Annual Financial Statements of licensed specialised banks.

	Disclosure requirements	Description	Page number/s
1.	**Information about the significance of financial instruments for financial position and performance**		
1.1	**Statement of financial position**		
1.1.1	Disclosures on categories of financial assets and financial liabilities.	Notes to the Financial Statements: Note 15 – Analysis of financial instruments by measurement basis	294
1.1.2	**Other disclosures**		
	i. Special disclosures about financial assets and financial liabilities designated to be measured at fair value through profit or loss, including disclosures about credit risk and market risk, changes in fair values attributable to these risks and the methods of measurement.	Significant accounting policies: Note 2.5.1.4.5 Financial assets measured at FVPL Note 2.5.1.5.1 Financial liabilities at fair value through profit or loss	271 272
	ii. Reclassifications of financial instruments from one category to another.	Significant accounting policies: Note 2.5.1.7 Reclassification of financial assets and liabilities	273
	iii. Information about financial assets pledged as collateral and about financial or non-financial assets held as collateral.	Notes to the Financial Statements: Note 22 – Financial assets at amortised cost – Debt and other instruments	310
	iv. Reconciliation of the allowance account for credit losses by class of financial assets.	Note 16 – Cash and cash equivalent Note 18 – Placement with banks Note 21 (d) – Movements in impairment during the year Note 22 (4) – Movement in impairment during the year	297 298 305 312
	v. Information about compound financial instruments with multiple embedded derivatives.	The Bank does not have financial instruments with multiple embedded derivatives	
	vi. Breaches of terms of loan agreements.	None	
1.2	**Statement of comprehensive income**		
1.2.1	Disclosures on items of income, expense, gains and losses	Notes to the Financial Statements: Notes 3-13 to the Financial Statements	281-292
1.2.2	**Other disclosures**		
	i. Total interest income and total interest expense for those financial instruments that are not measured at fair value through profit and loss.	Notes to the Financial Statements: Note 4 – Net interest income	281
	ii. Fee income and expense.	Notes to the Financial Statements: Note 5 – Net fee and commission income	284
	iii. Amount of impairment losses by class of financial assets.	Notes to the Financial Statements: Note 10 – Impairment charges	287
	iv. Interest income on impaired financial assets.	Notes to the Financial Statements: Note 4 (a) interest income	282

Other Disclosure requirements as required by CBSL

	Disclosure requirements	Description	Page number/s
1.3	**Other disclosures**		
1.3.1	Accounting policies for financial instruments.	Note 2.5.1 – Financial instruments – initial recognition, classification and subsequent measurement	270
1.3.2	Information on financial liabilities designated at FVPL.	The Bank/Group has not designated any financial liability at FVPL. Notes to the Financial Statements: Note 2.5.1.5.1 – Financial liabilities at fair value through profit or loss	272
1.3.3	**Investments in equity instruments designated at FVOCI**		
	i. Details of equity instruments that have been designated as at FVOCI and the reasons for the designation.	Notes to the Financial Statements: Note 23 – Financial assets at fair value through other comprehensive income	313
	ii. Fair value of each investment at the reporting date.	Notes to the Financial Statements: Note 23 (d) – Quoted investments – Equity securities – Bank and Group Note 23 (e) – Unquoted investments – Equity securities	315 316
	iii. Dividends recognised during the period, separately for investments de-recognised during the reporting period and those held at the reporting date.	Notes to the Financial Statements: Note 9 – Net other operating income	286
	iv. Transfer cumulative gain or loss within equity during the period and the reasons for those transfers.	Income Statement, Statement of Other Comprehensive Income and Statement of Changes in Equity	254-255 258-261
	v. If investments in equity instruments measured at FVOCI are de-recognised during the reporting period: – reasons for disposing of the investments – fair value of the investments at the date of de-recognition – the cumulative gain or loss on disposal	Income Statement, Statement of Other Comprehensive Income and Statement of Changes in Equity	254-255 258-261
1.3.4	**Reclassification of financial assets**		
	i. For all reclassifications of financial assets in the current or previous reporting period: – date of reclassification – detailed explanation of the change in the business model and a qualitative description of its effect on the financial statements – the amount reclassified into and out of each category	Note 2.5.1.7 – Reclassification of financial assets and liabilities During the period the Bank did not reclassify financial assets	273
	ii. For reclassifications from FVTPL to amortised cost or FVOCI: – the effective interest rate (EIR) determined on the date of reclassification – the interest revenue recognised	During the period, the Bank has not classified financial instruments from FVPL to amortised cost or FVOCI	

	Disclosure requirements	Description	Page number/s
	iii. For reclassifications from FVOCI to amortised cost, or from FVTPL to amortised cost or FVOCI: – The fair value of the financial assets at the reporting date – The fair value gain or loss that would have been recognised in profit or loss or OCI during the reporting period if the financial assets had not been reclassified.	Note 2.5.1.7 – Reclassification of financial assets and liabilities During the period, the Bank has not classified financial instruments from FVOCI to amortised cost, or from FVPL to amortised cost or FVOCI	273
1.3.5	Information on hedge accounting	Notes to the Financial Statements: Note 2.5.1.6.2 – Derivative is held for risk management purposes and hedge accounting Note 19 – Derivative financial instruments	 272 298
1.3.6	Information about the fair values of each class of financial asset and financial liability, along with: i. Comparable carrying amounts.	Notes to the Financial Statements: Note 56.5 – Fair value of financial instruments	 405
	ii. Description of how fair value was determined.	Notes to the Financial Statements: Note 2.1.12.2 – Fair value of financial instruments Note 2.3 – Fair value measurement Note 56.2 – Determination of fair value and fair value hierarchy	 266 269 402
	iii. The level of inputs used in determining fair value.	Notes to the Financial Statements: Note 56.2 – Determination of fair value and fair value hierarchy	 402
	iv. a. Reconciliations of movements between levels of fair value measurement hierarchy. b. Additional disclosures for financial instruments that fair value is determined using level 3 inputs.	No movements between levels of fair value hierarchy during the year Note 56.3 – Reconciliation of movements between levels of fair value measurement hierarchy	 405
	v. Information if fair value cannot be reliably measured.	Notes to the Financial Statements: Note 23 (e) – Unquoted investments – equity securities Note 56.2 – Determination of fair value and fair value hierarchy	 316 402
2	**Information about the nature and extent of risks arising from financial instruments**		
2.1	**Qualitative disclosures**		
2.1.1	Risk exposures for each type of financial instrument.	Notes to the Financial Statements: Note 54 – Financial risk management Risk review report	 365 208-236

Other Disclosure requirements as required by CBSL

	Disclosure requirements	Description	Page number/s
2.1.2	Management's objectives, policies, and processes for managing those risks.	Notes to the Financial Statements: Note 54 – financial risk management Risk review report	365 208-236
2.1.3	Changes from the prior period.	No major policy changes during the period under review	
2.2	**Quantitative disclosures**		
2.2.1	Summary of quantitative data about exposure to each risk at the reporting date.	Notes to the Financial Statements: Note 54 – Financial risk management Risk review report	365 208-236
2.2.2	Disclosures about credit risk, liquidity risk, market risk, operational risk, interest rate risk and how these risks are managed. i. Credit risk (a) Maximum amount of exposure (before deducting the value of collateral), description of collateral, information about credit quality of financial assets that are neither past due nor impaired and information about credit quality of financial assets.	Notes to the Financial Statements: Note 54.1.1 – Credit quality analysis	372
	(b) For financial assets that are past due or impaired, disclosures on age, factors considered in determining as impaired and the description of collateral on each class of financial asset.	Notes to the Financial Statements: Note 54.1.1 – Credit quality analysis	372
	(c) Information about collateral or other credit enhancements obtained or called.	Notes to the Financial Statements: Note 54.1.1. (b) – Management of the credit portfolio	374
	(d) Credit risk management practices: – CRM practices and how they relate to the recognition and measurement ECL, including the methods, assumptions and information used to measure ECL.	Notes to the Financial Statements: Note 2.5.2.3 – Overview of the ECL principles Note 10 – Impairment charges	275 287
	– Quantitative and qualitative information to evaluate the amounts in the Financial Statements arising from ECL, including changes and the reasons for those changes.	Note 10 – Impairment charges	287
	– How the Bank determines whether the credit risk of financial instruments has increased significantly since initial recognition	Note 2.5.2.7 – Significant increase in credit risk	276
	– The Bank's definitions of default for different financial instruments, including the reasons for selecting those definitions.	Note 2.5.2.8 – Definition of default and credit impaired assets	277
	– How instruments are grouped if ECL are measured on a collective basis. – How the Bank determines that financial assets are credit-impaired.	Note 10 – Impairment charges Note 2.5.2 – Impairment of financial assets	287 274
	– The Bank's write-off policy, including the indicators that there is no reasonable expectation of recovery.	Note 21 (d) – Movements in impairment during the year	305
	– How the modification requirements have been applied.	Note 2.5.1.9 – Modification of financial assets and financial liabilities	274

Disclosure requirements	Description	Page number/s
(e) ECL calculations: – Basis of the inputs, assumptions and the estimation techniques used when estimating ECL.	Note 2.5.2.4 – The calculation of ECL	276
– How forward-looking information has been incorporated into the determination of ECL.	Note 2.5.2.6 – Forward looking information	276
– Changes in estimation techniques or significant assumptions made during the reporting period.	Note 2.2 – Changes in accounting policies	269
(f) Amounts arising from ECL: – Reconciliation for each class of financial instrument of the opening balance to the closing balance of the impairment loss allowance.	Note 16 – Cash and cash equivalent Note18 – Placement with banks Note 21 (d) – Movements in impairment during the year	297 298 305
– Explain the reasons for changes in the loss allowances in the reconciliation.	Note 22 (4) – Movement in impairment during the year	312
(g) Collateral: – Bank's maximum exposure to credit risk at the reporting date	Notes to the Financial Statements: Note 54.1.1 (a) – Net exposure to Credit risk by class of financial assets	372
– Description of collateral held as security and other credit enhancements	Note 54.1.1 (b) – Management of the credit portfolio	374
(h) Written-off assets	Notes to the Financial Statements: Note 21 (d) – Movements in impairment during the year	305
i. Pillar III disclosures of the Banking Act Directions No. 1 of 2016 on Capital requirements under Basel III for Licensed Banks	Risk review report	208-236
ii. Liquidity risk (a) A maturity analysis of financial liabilities.	Notes to the Financial Statements: Note 55 – Maturity analysis	398
(b) Description of approach to risk management.	Notes to the Financial Statements: Note 54 – Financial risk management Risk review report	365 208-236
(c) Pillar III disclosures of the Banking Act Direction No. 1 of 2016 on capital requirements under Basel III for Licensed Banks.	Risk review report	208-236
iii. Market risk (a) A sensitivity analysis of each type of market risk to which the Bank exposed.	Notes to the Financial Statements: Note 54.3 – Market risk Risk review report	387 208-236
(b) Additional information, if the sensitivity analysis is not representative of the Bank's risk exposure.	Risk review report	208-236

Other Disclosure requirements as required by CBSL

	Disclosure requirements	Description	Page number/s
	(c) Pillar III disclosures of the Banking Act Direction No. 1 of 2016 on capital requirements under Basel III for Licensed Banks.	Risk review report	208–236
	iv. Operational risk Pillar III disclosures of the Banking Act Direction No. 1 of 2016 on capital requirements under Basel III for Licensed Banks	Risk review report	208–236
	v. Equity risk in the banking book (a) Qualitative disclosures:		
	• Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons.	Notes to the Financial Statements: Note 23 – Financial assets at fair value through other comprehensive income	313
	• Discussion of important policies covering the valuation and accounting of equity holdings in the banking book.	Notes to the Financial Statements: Note 23 – Financial assets at fair value through other comprehensive income	313
	(b) Quantitative disclosures: • Value disclosed in the statement of financial position of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value.	Notes to the Financial Statements: Note 20 – Financial assets recognised at through profit or loss Note 23 – Financial assets at fair value through other comprehensive income	299 313 285
	• The types and nature of investments • The cumulative realised gains/(losses) arising from sales and liquidations in the reporting period.	Notes to the Financial Statements: Note 6 – Net Gain/(loss) from trading Note 8 – Net Gain/(loss) from derecognition of financial assets	286
	vi. Interest rate risk in the banking book (a) Qualitative disclosures: • Nature of interest rate risk in the banking book (IRRBB) and key assumptions	Notes to the Financial Statements: Note 54 – Financial risk management Risk review report	365 208–236
	(b) Quantitative disclosures: • The increase/(decline) in earnings or economic value (or relevant measure used by Management) for upward and downward rate shocks according to Management's method for measuring IRRBB, broken down by currency (as relevant).	Risk review report	208–236
2.2.3	Information on concentrations of risk	Notes to the Financial Statements: Note 54 Financial risk management Risk review report	365 208–236

	Disclosure requirements	Description	Page number/s
3.	**Other disclosures**		
3.1	**Capital structure**		
	i. Qualitative disclosures		
	Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of innovative, complex or hybrid capital instruments.	Basel III Disclosures as per schedule III of Banking Act Direction No. 1 of 2016 Risk review report	442–453 208–236
	ii. Quantitative disclosures (a) The amount of Tier 1 capital, with separate disclosure of – Paid-up share capital/common stock Reserves Non-controlling interests in the equity of subsidiaries Innovative instruments Other capital instruments Deductions from Tier 1 capital	Basel III Disclosures as per schedule III of Banking Act Direction No. 1 of 2016	442–453
	(b) The total amount of Tier 2 and Tier 3 capital		
	(c) Other deductions from capital		
	(d) Total eligible capital		
3.1.2	**Capital adequacy**		
	i. Qualitative disclosures		
	A summary discussion of the Bank's approach to assessing the adequacy of its capital to support current and future activities.	Risk review report	208–236
	ii. Quantitative disclosures		
	(a) Capital requirements for credit risk, market risk and operational risk.	Risk review report	208–236
	(b) Total and Tier 1 capital ratio.	Risk review report	208–236

Basel III disclosures as per schedule III of Banking Act Direction No. 1 of 2016

Basel III – Minimum Disclosure Requirements under Pillar III

Key Regulatory Ratios – Capital and Liquidity

	Bank		Group	
As at 31 December Item	**2022**	2021	**2022**	2021
Regulatory capital (Rs. '000)				
Common equity Tier 1	**50,531,185**	60,170,042	**58,439,854**	65,194,032
Tier 1 capital	**55,531,185**	65,170,042	**63,477,364**	70,194,032
Total capital	**63,346,963**	72,984,005	**70,727,946**	77,370,432
Regulatory capital ratios (%)			–	–
Common equity Tier 1 capital ratio (minimum requirement: 6.5%)	14.357	17.171	16.492	18.538
Tier 1 capital ratio (minimum requirement: 8.0%)	15.778	18.598	17.903	19.960
Total capital ratio (minimum requirement: 12.0%)	17.999	20.828	19.959	22.001
Leverage ratio (minimum requirement: 3%)	7.425	8.92	8.140	8.952
Regulatory liquidity			–	–
Statutory liquid assets (Rs. '000)	**578,088,976**	816,750,871	**N/A**	N/A
Statutory liquid assets ratio (minimum requirement – 20%)	–	–	–	–
Domestic banking unit (%)	**40.62**	59.63	**N/A**	N/A
Off-shore banking unit (%)	–	–	–	–
Liquidity coverage ratio (%) – rupee (minimum requirement – 2022 – 90%, 2021 – 100%)	**195.54**	240.84	**N/A**	N/A
Liquidity coverage ratio (%) – all currency (minimum requirement – 2022 – 90%, 2021 – 100%)	**193.59**	240.43	**N/A**	N/A
Net stable funding ratio (NSFR) (%) – (minimum requirement – 2022 – 90%, 2021 – 100%)	**180.51**	160.78	**N/A**	N/A

Basel III Disclosures as per Schedule III of Banking Act Direction No. 1 of 2016

Basel III – Computation of Capital Ratios

As at 31 December	Bank		Group	
Item	**2022 Rs. '000**	2021 Rs. '000	**2022 Rs. '000**	2021 Rs. '000
Common equity Tier 1 (CET1) Capital after adjustments	**50,531,185**	60,170,042	**58,439,854**	65,194,032
Total common equity Tier 1 (CET1) capital	**62,054,991**	65,384,549	**63,477,365**	69,514,833
Equity capital (stated capital)/assigned capital	**9,400,000**	9,400,000	**9,400,000**	9,400,000
Reserve fund	**5,224,842**	5,174,249	**5,281,952**	5,209,101
Published retained earnings/(accumulated retained losses)	**6,008,140**	8,376,790	**7,469,197**	12,567,994
Published accumulated other comprehensive income (OCI)	**(1,669,876)**	(658,376)	**(1,765,661)**	(754,142)
General and other disclosed reserves	**43,091,885**	43,091,885	**43,091,877**	43,091,877
Unpublished current year's profit/(losses) and gains reflected in OCI	**–**	–	**–**	–
Ordinary shares issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	**–**	–	**–**	–
Total adjustments to CET1 capital	**11,523,806**	5,214,505	**5,037,511**	4,320,799
Goodwill (net)	**–**	–	**–**	–
Intangible assets (net)	**747,248**	816,058	**752,221**	821,420
Revaluation losses of property, plant and equipment	**32,902**	32,902	**32,902**	32,902
Deferred tax assets (net)	**2,892,984**	1,104,779	**2,894,972**	1,105,653
Cash flow hedge reserve	**–**	–	**–**	–
Gains on sale related securitisation transactions	**–**	–	**–**	–
Investments in the capital of banking and financial institutions where the Bank does not own more than 10 percent of the issued ordinary share capital of the entity	**1,112,367**	2,173,342	**1,357,416**	2,360,824
Significant investments in the capital of financial institutions where the Bank owns more than 10 percent of the issued ordinary share capital of the entity	**6,738,305**	1,087,425	**–**	–
Additional Tier 1 (AT1) capital after adjustments	**5,000,000**	5,000,000	**5,000,000**	5,000,000
Total Additional Tier 1 (AT1) capital	**5,000,000**	5,000,000	**5,000,000**	5,000,000
Qualifying additional Tier 1 capital instruments	**5,000,000**	5,000,000	**5,000,000**	5,000,000
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	**–**	–	**–**	–
Total adjustments to AT1 Capital	**–**	–	**–**	–
Investment in own shares	**–**	–	**–**	–
Tier 2 capital after adjustments	**7,815,778**	7,813,965	**7,288,092**	7,176,402
Total Tier 2 capital	**7,815,778**	7,813,964	**7,819,473**	7,744,905
Qualifying Tier 2 capital instruments	**–**	–	**–**	–
Revaluation gains	**4,243,803**	4,243,803	**4,243,803**	4,243,803
Loan loss provisions	**3,571,975**	3,570,160	**3,575,670**	3,501,102
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	**–**	–	**–**	–
Total adjustments to Tier 2 capital	**–**	–	**531,381**	568,504

Basel III Disclosures as per Schedule III of Banking Act Direction No. 1 of 2016

As at 31 December Item	Bank 2022 Rs. '000	Bank 2021 Rs. '000	Group 2022 Rs. '000	Group 2021 Rs. '000
Investment in own shares	**–**	–	**–**	–
Investments in the capital of financial institutions and where the Bank does not own more than 10 percent of the issued capital carrying voting rights of the issuing entity	**–**	–	**531,381**	568,504
CET 1 capital	**50,531,185**	60,170,042	**58,439,854**	65,194,032
Total Tier 1 capital	**55,531,185**	65,170,042	**63,439,854**	70,194,032
Total capital	**63,346,963**	72,984,005	**70,727,946**	77,370,432
Total risk weighted assets (RWA)	**351,954,628**	350,409,554	**354,357,340**	351,672,286
RWAs for credit risk	**285,757,970**	285,612,837	**286,053,591**	280,088,118
RWAs for market risk	**11,242,508**	10,720,942	**13,012,300**	16,125,350
RWAs for operational risk	**54,954,150**	54,075,775	**55,291,450**	55,458,817
CET I Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer and Surcharge on D-SIBs(%)	**14.357**	17.171	**16.492**	18.538
of which: capital conservation buffer (%)	**2.000**	2.000	**2.000**	2.000
of which: countercyclical buffer (%)	**0.000**	0.000	**0.000**	0.000
of which: capital surcharge on D-SIBs (%)	**0.000**	0.000	**0.000**	0.000
Total Tier 1 capital ratio (%)	**15.778**	18.598	**17.903**	19.960
Total capital ratio (including capital conservation buffer, Countercyclical capital buffer and surcharge on D-SIBs) (%)	**17.999**	20.828	**19.959**	22.001
of which: capital conservation buffer (%)	**2.000**	2.000	**2.000**	2.000
of which: countercyclical buffer (%)	**0.000**	0.000	**0.000**	0.000
of which: capital surcharge on D-SIBs (%)	**0.000**	0.000	**0.000**	0.000

The difference arises between the retained earnings balance in Basel III Capital Adequacy Computation and the financial reporting are due to the following:

(1) The Bank's practice was to transfer the current year retained earnings to the General Reserve until end of 2015 and it was changed to maintain part of the current year retained earnings to a separately maintained Retained Earnings Reserve with effect from 31 December 2016. Therefore one of the differences between the retained earnings balance in the financial reporting and the Basel III Capital Adequacy Computation is the accumulated actuarial loss of Rs. 5.351 Bn. on Retirement Benefit Plan which has been adjusted to the General Reserve prior to 2016.

Basel III Disclosures as per Schedule III of Banking Act Direction No. 1 of 2016

Computation of Leverage Ratio

As at 31 December Item	Bank **2022** **Rs. '000**	 2021 Rs. '000	Group **2022** **Rs. '000**	 2021 Rs. '000
Tier 1 capital	**55,531,185**	65,170,042	**63,439,855**	70,194,032
Total exposures	**747,916,275**	730,295,777	**779,339,904**	784,126,364
On-balance sheet items (excluding derivatives, and securities financing transactions, but including collateral)	**729,875,036**	711,305,160	**743,808,308**	741,607,140
Derivative exposures	**60,087**	–	**70,194**	–
Securities financing transaction exposures	**23,538,929**	14,253,906	**34,524,795**	37,780,243
Other off-balance sheet exposures	**5,933,129**	4,736,710	**5,941,217**	4,738,981
Basel III leverage ratio (%) (Tier 1/total exposure)	**7.42%**	8.92%	**8.14%**	8.95%

Basel III – Computation of Liquidity Coverage Ratio (Bank) – All Currencies

As at 31 December Item	2022 **Total unweighted value Rs. '000**	 **Total weighted value Rs. '000**	2021 Total unweighted value Rs. '000	 Total weighted value Rs. '000
Total stock of high-quality liquid assets (HQLA)	**560,865,001**	**559,128,186**	787,006,884	785,559,135
Total adjusted Level 1A assets	**559,137,772**	**559,137,772**	783,972,676	783,972,676
Level 1 assets	**557,391,372**	**557,391,372**	784,111,386	784,111,386
Total adjusted Level 2A assets	**–**	**–**	–	–
Level 2A assets	**–**	**–**	–	–
Total adjusted Level 2B assets	**3,473,629**	**1,736,814**	2,895,498	1,447,749
Level 2B assets	**3,473,629**	**1,736,814**	2,895,498	1,447,749
Total cash outflows	**1,483,215,394**	**301,166,630**	1,465,591,676	342,758,032
Deposits	**1,174,723,061**	**117,472,306**	1,085,163,072	108,516,307
Unsecured wholesale funding	**279,963,300**	**180,014,686**	355,165,322	224,569,932
Secured funding transactions	**14,529,768**	**–**	4,957,181	–
Undrawn portion of committed (Irrevocable) facilities and other contingent funding obligations	**13,384,008**	**3,064,381**	13,351,156	2,716,849
Additional requirements	**615,257**	**615,257**	6,954,945	6,954,945
Total cash inflows	**24,225,947**	**12,347,005**	29,945,556	16,029,594
Maturing secured lending transactions backed by collateral	**5,246,374**	**4,507,345**	8,735,872	3,224,142
Committed facilities	**–**	**–**	–	–
Other inflows by counterparty which are maturing within 30 days	**13,159,177**	**7,835,640**	17,153,970	12,804,048
Operational deposits	**5,812,357**	**–**	4,052,906	–
Other cash inflows	**8,038**	**4,019**	2,807	1,404
Liquidity Coverage Ratio (%) (stock of high quality liquid assets/total net cash outflow over the next 30 calendar days)*100	**–**	**193.59**	–	240.43

Basel III Computation of Net Stable Funding Ratio (NSFR)

As at 31 December Item	2022 Rs. '000	2021 Rs. '000
Total available stable funding	**1,127,944,641**	994,037,088
Required stable funding – On balance sheet assets	**624,406,071**	617,732,815
Required stable funding – Off balance sheet items	**473,176**	512,223
Total required stable funding	**624,879,247**	618,245,038
Net stable funding ratio (NSFR) (%)	**180.51**	160.78

Main Features of Regulatory Capital Instruments

Description of the capital instrument	
Issuer	National Savings Bank
Unique identifier	
Governing law(s) of the instrument	Sri Lanka
Original date of issuance	27 October 2020
Par value of instrument	100
Perpetual or dated	Perpetual
Original maturity date	–
Amount recognised in regulatory capital (Rs. '000)	5,000,000
Accounting classification (equity/liability)	Liability
Issuer call subject to prior supervisory approval	
Optional call date, contingent call dates and redemption amount (Rs. '000)	N/A
Subsequent call dates	N/A
Coupons/dividends	
Fixed or floating dividend/coupon	Floating/Fixed
Coupon rate and any related index	Six (06) months treasury bill rate +1.50%/9.25% (Fixed)
Non-cumulative or cumulative	Non-Cumulative
Convertible or non-convertible	
If convertible, conversion trigger(s)	N/A
If convertible, fully or partially	N/A
If convertible, mandatory or optional	N/A
If convertible, conversion rate	N/A

Summary discussion on adequacy/meeting current and future capital requirements

For summary discussion on adequacy/meeting current and future capital requirements, refer Risk Review Report on pages 208 to 236.

Credit Risk under Standardised Approach (Bank)

Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects

As at 31 December 2022	Exposures before credit conversion factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA density	
Item	On-balance sheet amount Rs. '000	Off-balance sheet amount Rs. '000	On-balance sheet amount Rs. '000	Off-balance sheet amount Rs. '000	RWA Rs. '000	RWA density (*) %
Claims on Central Government and CBSL	835,844,733	3,238,955	835,105,704	1,619,478	1,689,971	0.2
Claims on foreign sovereigns and their central banks	–	–	–	–	–	–
Claims on public sector entities	211,639,747	351,497	3,590,117	–	5,178,008	144.2
Claims on official entities and multilateral development banks	–	–	–	–	–	–
Claims on banks exposures	17,475,391	3,824,690	17,475,391	1,204,494	8,382,146	44.9
Claims on financial institutions	1,722,845	–	1,722,845	–	1,608,813	93.4
Claims on corporates	4,288,183	–	4,288,183	–	2,521,468	58.8
Retail claims	362,335,868	3,147,791	326,940,462	–	190,313,071	58.2
Claims secured by residential property	83,542,389	584,043	83,542,389	292,021	29,549,269	35.2
Claims secured by commercial real estate	–	0	–	–	–	–
Non-performing assets (NPAs)	12,211,676	0	12,211,676	–	11,373,047	93.1
Higher risk categories	572,695	0	572,695	–	1,431,739	250.0
Cash items and other assets	34,136,309	2,817,135	34,136,309	2,817,135	33,710,441	91.2
Total	1,563,769,835	13,964,112	1,319,585,770	5,933,129	285,757,973	21.6

Note: (*) RWA Density - Total RWA/Exposures post CCF and CRM.

Credit Risk under Standardised Approach (Group)

Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects

As at 31 December 2022	Exposures before credit conversion factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA density	
Item	On-balance sheet amount Rs. '000	Off-balance sheet amount Rs. '000	On-balance sheet amount Rs. '000	Off-balance sheet amount Rs. '000	RWA Rs. '000	RWA density (*) %
Claims on Central Government and CBSL	843,792,497	3,246,175	842,974,772	1,626,697	1,689,971	0.2
Claims on foreign sovereigns and their central banks	–	–	–	–	–	–
Claims on public sector entities	211,639,911	351,497	3,590,282	–	5,178,171	144.2
Claims on official entities and multilateral development banks	–	–	–	–	–	–
Claims on banks exposures	18,173,633	3,824,690	18,173,633	1,204,494	8,677,509	44.8
Claims on financial institutions	1,123,573	–	1,123,573	–	884,114	78.7
Claims on corporates	4,425,626	–	4,425,626	–	2,658,911	60.1
Retail claims	362,792,033	3,147,991	327,390,142	100	190,662,190	58.2
Claims secured by residential property	83,809,958	585,580	83,809,958	292,790	29,817,607	35.5
Claims secured by commercial real estate	–	0	–	–	–	–
Non-performing assets (NPAs)	12,284,269	0	12,284,269	–	11,443,385	93.2
Higher risk categories	–	0	–	–	–	–
Cash items and other assets	35,472,365	2,817,135	35,472,365	2,817,135	35,041,674	91.5
Total	1,573,513,866	13,973,068	1,329,244,620	5,941,217	286,053,591	21.4

Note: (*) RWA Density - Total RWA/Exposures post CCF and CRM.

Credit Risk under Standardised Approach: Exposures by Asset Classes and Risk Weights (Bank)

As at 31 December 2022 Description	(Post CCF and CRM)								
Risk weight / Asset classes	0% Rs. '000	20% Rs. '000	35% Rs. '000	50% Rs. '000	75% Rs. '000	100% Rs. '000	150% Rs. '000	>150% Rs. '000	Total credit exposures amount Rs. '000
Claims on Central Government and CBSL	828,275,325	8,449,857	–	–	–	–	–	–	836,725,182
Claims on foreign sovereigns and their central banks	–	–	–	–	–	–	–	–	–
Claims on public sector entities	–	–	–	–	–	414,337	3,175,780	–	3,590,117
Claims on official entities and multilateral development banks	–	–	–	–	–	–	–	–	–
Claims on banks exposures	–	5,142,983	–	12,366,705	–	1,170,197	–	–	18,679,885
Claims on financial institutions	–	–	–	228,065	–	1,494,780	–	–	1,722,845
Claims on corporates	–	–		3,533,430		754,752	–	–	4,288,182
Retail claims	73,521,830	–	––		252,422,245	996,387	–	–	326,940,462
Claims secured by residential property	–	–	83,515,601	–	–	318,809	–	–	83,834,410
Claims secured by commercial real estate	–	–	–	–	–	–	–	–	–
Non-performing assets (NPAs)	–	–	–	2,478,242	–	8,932,450	800,984	–	12,211,676
Higher risk categories	–	–	–	–	–	–	–	572,695	572,695
Cash items and other assets	3,199,884	53,898	–	–	–	33,699,662	–	–	36,953,444
Total	904,997,038	13,646,738	83,515,601	18,606,441	252,422,245	47,781,374	3,976,765	572,695	1,325,518,898

Basel III Disclosures as per Schedule III of Banking Act Direction No. 1 of 2016

Credit Risk under Standardised Approach: Exposures by Asset Classes and Risk Weights (Group)

As at 31 December 2022 Description	(Post CCF and CRM)								
Risk weight / Asset classes	0% Rs. '000	20% Rs. '000	35% Rs. '000	50% Rs. '000	75% Rs. '000	100% Rs. '000	150% Rs. '000	>150% Rs. '000	Total credit exposures amount Rs. '000
Claims on Central Government and CBSL	836,151,612	8,449,857	–	–	–	–	–	–	844,601,469
Claims on foreign sovereigns and their central banks	–	–	–	–	–	–	–	–	–
Claims on public sector entities	–	–		–	–	414,501	3,175,780	–	3,590,281
Claims on official entities and multilateral development banks	–	–	–	–	–	–	–	–	–
Claims on banks exposures	–	5,321,980	–	12,885,951	–	1,170,197	–	–	19,378,128
Claims on financial institutions	–	–	–	478,918	–	644,655	–	–	1,123,573
Claims on corporates	–	–	–	3,533,430	–	892,196	–	–	4,425,626
Retail claims	73,521,830	–	–	–	252,824,892	1,043,521	–	–	327,390,243
Claims secured by residential property	–	–	83,515,601	–	–	587,146	–	–	84,102,747
Claims secured by commercial real estate	–	–	–	–	–	–	–	–	–
Non-performing assets (NPAs)	–	–	–	2,492,556	–	8,980,925	810,788	–	12,284,269
Higher risk categories	–	–	–	–	–	–	–	–	–
Cash items and other assets	3,204,708	53,898	–	–	–	35,030,894	–	–	38,289,500
Total	912,878,150	13,825,735	83,515,601	19,390,855	252,824,892	48,764,035	3,986,568	–	1,335,185,836

Market Risk under Standardised Measurement Method

As at 31 December Item	Bank RWA Amount 2022 Rs. '000	Group RWA Amount 2022 Rs. '000
(a) RWA for interest rate risk	4,709,699	6,773,188
General interest rate risk	4,709,699	6,773,188
(i) Net long or short position	4,709,699	6,773,188
(ii) Horizontal disallowance	–	–
(iii) Vertical disallowance	–	–
(iv) Options	–	–
Specific interest rate risk	–	–
(b) RWA for equity	5,634,696	5,340,997
(I) General equity risk	3,069,790	2,903,590
(Ii) Specific equity risk	2,564,907	2,437,406
(c) RWA for Foreign Exchange and Gold	898,105	898,105
Capital charge for market risk [(a)+(b)+(c)] *CAR	1,349,101	1,561,476

Operational Risk under Basic Indicator Approach

Bank

Capital charge	Capital charge factor %	Gross income as at 31 December 2022 1st year Rs. '000	2nd year Rs. '000	3rd year Rs. '000	Rs. '000
The basic indicator approach	15	39,683,315	58,100,714	34,105,925	–
Capital charge	–	–	–	–	6,594,498
Risk weighted amount for operational risk	–	–	–	–	54,954,150

Group

Capital charge	Capital charge factor %	Gross income as at 31 December 2022 1st year Rs. '000	2nd year Rs. '000	3rd year Rs. '000	Rs. '000
The basic indicator approach	15	41,372,127	58,466,126	32,861,230	–
Capital charge	–	–	–	–	6,634,974
Risk weighted amount for operational risk	–	–	–	–	55,291,450

Differences between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories

Bank

As at 31 December 2022	a	b	c	d	e
Item	Carrying values as reported in Published Financial Statements Rs. '000	Carrying values under Scope of Regulatory Reporting Rs. '000	Subject to Credit Risk Framework Rs. '000	Subject to Market Risk Framework Rs. '000	Not subject to Capital Requirements or subject to Deduction from Capital Rs. '000
Assets	1,616,686,129	1,616,686,129	1,320,633,290	40,701,194	255,351,645
Cash and cash equivalents	8,734,069	8,734,069	8,719,562	14,507	–
Balances with Central Bank	236,480	236,480	236,480	–	–
Placements with banks	10,466,409	10,466,409	10,466,409	–	–
Derivative financial instruments	28,172	28,172	–	–	28,172
Financial assets recognised through profit or loss measured at fair value/other financial assets held for trading	14,173,948	14,173,948	–	13,954,486	219,463
Financial assets designated at fair value through profit or loss	–	–	–	–	–
Financial assets at amortised cost:	–	–	–	–	–
– **Loans and advances**	–	–	–	–	–
– Loans and receivables to banks	1,785,865	1,785,865	1,169,645	–	616,220
– Loans and receivables to other customers	551,241,457	551,241,457	308,025,109	–	243,216,348
– **Debt and other instruments/financial Investments held to maturity**	919,129,377	919,129,377	919,129,377	–	–
Financial assets measured at fair value through OCI/financial investments available for sale	27,662,763	27,662,763	37,657	26,732,201	892,904
Investments in subsidiaries	7,311,000	7,311,000	572,695	–	6,738,305
Investments in associates and joint ventures	–	–	–	–	–
Property, plant and equipment	14,755,775	14,755,775	14,755,775	–	–
Investment properties	–	–	–	–	–
Intangible assets	747,248	747,248	–	–	747,248
Deferred tax assets	2,892,984	2,892,984	–	–	2,892,984
Other assets	57,520,580	57,520,580	57,520,580	–	–

Differences between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories (Contd.)

Bank (Contd.)

As at 31 December 2022	a	b	c	d	e
Item	Carrying values as reported in Published Financial Statements Rs. '000	Carrying values under Scope of Regulatory Reporting Rs. '000	Subject to Credit Risk Framework Rs. '000	Subject to Market Risk Framework Rs. '000	Not subject to Capital Requirements or subject to Deduction from Capital Rs. '000
Liabilities	1,543,793,899	1,543,793,899	–	–	–
Due to banks	4,086,731	4,086,731	–	–	–
Derivative financial instruments	–	–	–	–	–
Financial liabilities recognised through profit	–	–	–	–	–
Financial liabilities at amortised cost:	–	–	–	–	–
– Due to depositors	1,476,739,818	1,476,739,818	–	–	–
– Due to debt securities holders	–	–	–	–	–
– Due to other borrowers	16,766,044	16,766,044	–	–	–
Debt securities issued	18,669,762	18,669,762	–	–	–
Retirement benefit obligations	12,488,912	12,488,912	–	–	–
Current tax liabilities	2,760,857	2,760,857	–	–	–
Deferred tax liabilities	–	–	–	–	–
Other provisions	–	–	–	–	–
Other liabilities	7,173,283	7,173,283	–	–	–
Due to subsidiaries	–	–	–	–	–
Subordinated term debt	5,108,493	5,108,493	–	–	–
Off-balance sheet liabilities	14,416,802	14,416,802	10,816,321	–	3,600,481
Guarantees	3,147,791	3,147,791	–	–	3,147,791
Performance bonds	–	–	–	–	–
Letters of credit	452,690	452,690	–	–	452,690
Other contingent items	1,474,690	1,474,690	1,474,690	–	–
Undrawn loan commitments	6,524,496	6,524,496	6,524,496	–	–
Other commitments	2,817,135	2,817,135	2,817,135	–	–
Shareholders' equity	9,400,000	9,400,000	–	–	–
Equity capital (stated capital)/assigned capital	–	–	–	–	–
of which amount eligible for CET 1	9,400,000	9,400,000	–	–	–
of which amount eligible for AT 1	–	–	–	–	–
Retained earnings	11,359,151	11,359,151	–	–	–
Accumulated other comprehensive income	–	–	–	–	–
Other reserves	52,133,078	52,183,078	–	–	–
Total shareholders' equity	72,892,229	72,892,229	–	–	–

Bank's Risk Management Approach and Risk Management Related to Key Risk Exposures

Bank's Risk Management Approach and Risk Management Related to Key Risk Exposures are explained in Risk Management Report on pages 208 to 236.

D-SIB assessment exercise – 2022

(As per the Banking Act Direction No. 10 of 2019)	Group Rs. Mn.
Size indicator	
Section 1 – Total exposures	
Total exposures measure	1,664,546
Interconnectedness indicators	
Section 2 – Intra-financial system assets	
a. Funds deposited with or lent to other financial institutions (including unused portion of committed lines extended)	21,787
(i)Funds deposited	18,261
(ii) Lending	3,526
b. Holdings of securities issued by other financial institutions	3,349
c. Net positive current exposure of securities financing transactions (SFTs) with other financial institutions	647
d. Over-the-counter (OTC) derivatives with other financial institutions that have a net positive mark to market value	28
Intra-financial system assets	25,811
Section 3 – Intra-financial system liabilities	
a. Funds deposited by or borrowed from other financial institutions (including unused portion of committed lines obtained)	5,317
(i)Funds deposited	5,240
(ii) Borrowings	77
b. Net negative current exposure of securities financing transactions with other financial institutions	45
c. Over-the-counter derivatives with other financial institutions that have a net negative mark to market value	–
Intra-financial system liabilities	5,362
Section 4 – Securities outstanding	
Securities outstanding	22,938
Substitutability/Financial institution infrastructure indicators	
Section 5 – Payments made in the reporting year (excluding intragroup payments)	
Payments activity	182,120
Section 6 – Assets Under custody	
Assets under custody	–
Section 7 – Underwritten transaction	
Underwritten transaction	–
Section 8 – Trading volume	
Trading Volume (Number of shares)	22,502,569

(As per the Banking Act Direction No. 10 of 2019)	Group Rs. Mn.
Complexity indicators	
Section 9 – Notional amount of over-the-counter (OTC) Derivatives	
OTC derivatives	1,475
Section 10 – Level 2 assets	
Level 2 assets	3,478
Section 11 – Trading and available-for-sale (AFS) securities	
Trading and available for sale (AFS) securities	51,524
a. debt instruments	47,113
b. equity instruments	4,376
c. derivatives	35
Section 12 – Cross-jurisdictional liabilities	
Foreign liabilities (excluding derivatives and intragroup liabilities)	1,675
Cross-jurisdictional liabilities	
Section 13 – Cross-jurisdictional claims	
Foreign claims (excluding derivatives and intragroup claims)	4,110
Cross-jurisdictional claims	

GRI content index in Accordance with Core Criteria

Statement of use

National Savings Bank has reported the information cited in this GRI content index for the period 1 January 2022 to 31 December 2022 with reference to the GRI Standards.

GRI 1 used

GRI 1: Foundation 2021

GRI Standard	Disclosure		Location/Explanation
GRI 2: General Disclosures 2021	2-1	Organisational details	8
	2-2	Entities included in the organisation's sustainability reporting	4
	2-3	Reporting period, frequency and contact point	4-5
	2-4	Restatements of information	3-4
	2-5	External assurance	459
	2-6	Activities, value chain and other business relationships	24
	2-7	Employees	130-147
	2-8	Workers who are not employees	132
	2-9	Governance structure and composition	181
	2-10	Nomination and selection of the highest governance body	193
	2-11	Chair of the highest governance body	181
	2-12	Role of the highest governance body in overseeing The management of impacts	194
	2-13	Delegation of responsibility for managing impacts	181
	2-14	Role of the highest governance body in sustainability reporting	74
	2-15	Conflicts of interest	189 and 197
	2-16	Communication of critical concerns	194-196
	2-17	Collective knowledge of the highest governance body	170-172, 184-186
	2-18	Evaluation of the performance of the highest governance body	198
	2-19	Remuneration policies	142,198
	2-20	Process to determine remuneration	198
	2-21	Annual total compensation ratio	288-290
	2-22	Statement on sustainable development strategy	73-76
	2-23	Policy commitments	139
	2-24	Embedding policy commitments	139
	2-25	Processes to remediate negative impacts	139-140
	2-26	Mechanisms for seeking advice and raising concerns	139-140
	2-27	Compliance with laws and regulations	144-146
	2-28	Membership associations	156
	2-29	Approach to stakeholder engagement	90-98
	2-30	Collective bargaining agreements	145
GRI 3: Material Topics 2021	3-1	Process to determine material topics	27
	3-2	List of material topics	29
	3-3	Management of material topics	27-69

GRI Standard	Disclosure		Location/Explanation
GRI 201: Economic Performance 2016	201-1	Direct economic value generated and distributed	102
	201-2	Financial implications and other risks and opportunities due to climate change	162-166
	201-3	Defined benefit plan obligations and other retirement plans	142-143, 277-279, 340-350
GRI 202: Market Presence 2016	202-1	Ratios of standard entry level wage by gender compared to local minimum wage	142
	202-2	Proportion of senior management hired from the local community	133
GRI 203: Indirect Economic Impacts 2016	203-1	Infrastructure investments and services supported	112
GRI 204: Procurement Practices 2016	204-1	Proportion of spending on local suppliers	155
GRI 205: Anti-corruption 2016	205-2	Communication and training about anti-corruption policies and procedures	157
	205-3	Confirmed incidents of corruption and actions taken	157
GRI 206: Anti-competitive Behaviour 2016	206-1	Legal actions for anti-competitive behaviour, anti-trust and monopoly practices	157
GRI 207: Tax 2019	207-1	Approach to tax	280, 291-292
	207-2	Tax governance, control, and risk management	280, 291-292
	207-3	Stakeholder engagement and management of concerns related to tax	105, 280, 291-292
GRI 302: Energy 2016	302-1	Energy consumption within the organisation	164
GRI 303: Water and Effluents 2018	303-5	Water consumption	164
GRI 401: Employment 2016	401-1	New employee hires and employee turnover	132,133, 140
	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	141, 142
	401-3	Parental leave	139, 140

GRI Standard	Disclosure		Location/Explanation
GRI 403: Occupational Health and Safety 2018	403-9	Work-related injuries	141
GRI 404: Training and Education 2016	404-1	Average hours of training per year per employee	135
	404-2	Programs for upgrading employee skills and transition assistance programs	135
	404-3	Percentage of employees receiving regular performance and career development reviews	140
GRI 405: Diversity and Equal Opportunity 2016	405-1	Diversity of governance bodies and employees	139, 183
	405-2	Ratio of basic salary and remuneration of women to men	139, 142
GRI 406: Non-discrimination 2016	406-1	Incidents of discrimination and corrective actions taken	139
GRI 413: Local Communities 2016	413-1	Operations with local community engagement, impact assessments, and development programs	159
GRI 417: Marketing and Labelling 2016	417-2	Incidents of non-compliance concerning product and service information and labelling	154
	417-3	Incidents of non-compliance concerning marketing communications	154
GRI 418: Customer Privacy 2016	418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	152

Independent Assurance Report

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Independent Assurance Report to National Savings Bank

We have been engaged by the Directors of National Savings Bank ("the Bank") to provide reasonable assurance and limited assurance in respect of the Sustainability Indicators as identified below for the year ended 31 December 2022. The Sustainability Indicators are included in the National Savings Bank Integrated Annual Report for the year ended 31 December 2022 (the "Report").

The Reasonable Assurance Sustainability Indicators covered by our reasonable assurance engagement are:

Assured Sustainability Indicators as per the statutory Financial Statements (Audited) for the year ended 31 December 2022, dated 27 April and the Audit Report dated 3 May 2023 thereon	Integrated Annual Report page
Highlights	12

The Limited Assurance Sustainability Indicators covered by our limited assurance engagement are:

Limited Assurance Sustainability Indicators	Integrated Annual Report page
Economic, Social and Environment Indicators	13
Information provided on following	
Financial capital	100 to 110
Manufactured capital	116 to 122
Intellectual capital	123 to 129
Human capital	130 to 147
Social and relationship capital	148 to 161
Natural capital	162 to 166

Our conclusions

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusions.

Reasonable Assurance Sustainability Indicators

In our opinion, in all material respects, the Reasonable Assurance Sustainability Indicators, as defined above, for the year ended 31 December 2022, in all material respects, has been prepared and presented by the management of National Savings Bank in accordance with the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines.

Limited Assurance Sustainability Indicators

Based on the evidence we obtained from the assurance procedures performed, as described below we are not aware of any material misstatements that causes us to believe that the Limited Assurance Sustainability Indicators, as defined above, for the year ended 31 December 2022, have not in all material respects, been prepared and presented by the management of National Savings Bank in accordance with the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines.

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Management's Responsibility

Management is responsible for the preparation and presentation of the Reasonable Assurance Sustainability Indicators and the Limited Assurance Sustainability Indicators in accordance with the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines.

These responsibilities include establishing such internal controls as management determines are necessary to enable the preparation of the Reasonable Assurance Sustainability Indicators and the Limited Assurance Sustainability Indicators that are free from material misstatement whether due to fraud or error.

Management is responsible for preventing and detecting fraud and for identifying and ensuring that the Bank complies with laws and regulations applicable to its activities.

Management is also responsible for ensuring that staff involved with the preparation and presentation of the description and Report are properly trained, information systems are properly updated and that any changes in reporting encompass all significant business units.

Our responsibility

Our responsibility is to express a reasonable assurance conclusion on the Bank's preparation and presentation of the Reasonable Assurance Sustainability Indicators and a limited assurance conclusion on the preparation and presentation of the Limited Assurance Sustainability Indicators included in the Report, as defined above.

We conducted our assurance engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information (SLSAE 3000) issued by The Institute of Chartered Accountants of Sri Lanka.

We have complied with the independence and other ethical requirements of the Code of Ethics issued by The Institute of Chartered Accountants of Sri Lanka.

SLSAE 3000 requires that we plan and perform the engagement to obtain reasonable assurance about whether the Reasonable Assurance Sustainability Indicators are free from material misstatement and limited assurance about whether the Limited Assurance Sustainability Indicators are free from material misstatement.

Our firm applies Sri Lanka Standard on Quality Management (SLSQM) 1, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reasonable assurance over Reasonable Assurance Sustainability Indicators

The procedures selected in our reasonable assurance engagement depend on our judgment, including the assessment of the risks of material misstatement of the Reasonable Assurance Sustainability Indicators whether due to fraud or error.

In making those risk assessments, we have considered internal control relevant to the preparation and presentation of the Reasonable Assurance Sustainability Indicators in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of the Bank's internal control over the preparation and presentation of the Report.

Our engagement also included assessing the appropriateness of the Reasonable Assurance Sustainability Indicators, the suitability of the criteria, being the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines, used by the Bank in preparing and presenting the Reasonable Assurance Sustainability Indicators within the Report, obtaining an understanding of the compilation of the financial and non-financial information to the sources from which it was obtained, evaluating the reasonableness of estimates made by the Bank, and re-computation of the calculations of the Reasonable Assurance Sustainability Indicators.

Limited assurance on the Assured Sustainability Indicators

Our limited assurance engagement on the Limited Assurance Sustainability Indicators consisted of making enquiries, primarily of persons responsible for the preparation of the Limited Assurance Sustainability Indicators, and applying analytical and other procedures, as appropriate. These procedures included:

- interviews with Senior Management and relevant staff at corporate and selected site level concerning sustainability strategy and policies for material issues, and the implementation of these across the business;
- enquiries of Management to gain an understanding of the Bank's processes for determining material issues for the Bank's key stakeholder groups;
- enquiries of relevant staff at corporate and selected site level responsible for the preparation of the Limited Assurance Sustainability Indicators;

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- enquiries about the design and implementation of the systems and methods used to collect and report the Limited Assurance Sustainability Indicators, including the aggregation of the reported information;
- comparing the Limited Assurance Sustainability Indicators to relevant underlying sources on a sample basis to determine whether all the relevant information has been appropriately included in the Report;
- reading the Limited Assurance Sustainability Indicators presented in the Report to determine whether they are in line with our overall knowledge of, and experience with, the sustainability performance of the Bank;
- reading the remainder of the Report to determine whether there are any material misstatements of fact or material inconsistencies based on our understanding obtained as part of our assurance engagement.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement, and consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Accordingly, we do not express a reasonable assurance conclusion on the Limited Assurance Sustainability Indicators.

Purpose of our report

In accordance with the terms of our engagement, this assurance report has been prepared for the Bank for the purpose of assisting the Directors in determining whether the Bank's Reasonable and Limited Assurance Sustainability Indicators are prepared and presented in accordance with the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines and for no other purpose or in any other context.

Restriction of use of our report

This report has been prepared for the Directors of National Savings Bank for the purpose of providing an assurance conclusion on the Reasonable Assurance Sustainability Indicators and the Limited Assurance Sustainability Indicators included in the National Savings Bank Integrated Annual Report for the year ended 31 December 2022 and may not be suitable for another purpose. We disclaim any assumption of responsibility for any reliance on this report, to any person other than the Directors of National Savings Bank, or for any other purpose than that for which it was prepared.

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CHARTERED ACCOUNTANTS
Colombo

17 May 2023

Income Statement in US Dollars

For the year ended 31 December	Bank 2022 USD '000	Bank 2021 USD '000	Bank Change %	Group 2022 USD '000	Group 2021 USD '000	Group Change %
Gross income	**476,922**	672,176	(29)	**478,143**	677,757	(29)
Interest income	**472,505**	654,736	(28)	**480,236**	664,221	(28)
Less: Interest expenses	**383,810**	382,609	0	**388,424**	386,352	1
Net interest income	**88,695**	272,127	(67)	**91,811**	277,869	(67)
Fee and commission income	**6,010**	15,196	(60)	**6,030**	15,235	(60)
Less: Fee and commission expenses	**709**	1,035	(31)	**716**	1,049	(32)
Net fee and commission income	**5,301**	14,161	(63)	**5,314**	14,186	(63)
Net gain/(loss) from trading	**(2,654)**	(479)	454	**(9,535)**	(3,545)	169
Net fair value gains/(losses) from financial instruments at fair value through profit or loss	**–**	–	–	**–**	–	–
Net gains/(losses) from de-recognition of financial assets	**(72)**	141	(151)	**(72)**	141	(151)
Net other operating income	**1,133**	2,583	(56)	**1,484**	1,705	(13)
Total operating income	**92,403**	288,533	(68)	**89,003**	290,357	(69)
Less: Impairment charges	**13,284**	21,442	(38)	**13,484**	21,063	(36)
Net operating income	**79,119**	267,091	(70)	**75,519**	269,294	(72)
Less: Expenses						
Personnel expenses	**37,678**	64,609	(42)	**38,572**	65,899	(41)
Depreciation and amortisation expenses	**3,865**	6,903	(44)	**3,912**	6,982	(44)
Other expenses	**16,366**	23,505	(30)	**17,356**	23,769	(27)
Operating profit before VAT and SSCL on financial services	**21,209**	172,074	(88)	**15,678**	172,644	(91)
Less: Value Added Tax (VAT) on financial services	**8,704**	30,697	(72)	**9,089**	31,050	(71)
Social Security Contribution Levy (SSCL) on financial services	**184**	–	100	**197**	–	100
Operating profit after VAT and SSCL on financial services	**12,321**	141,377	(91)	**6,393**	141,594	(95)
Share of profits of associates and joint ventures	**–**	–	–	**–**	–	–
Profit before income tax	**12,321**	141,377	(91)	**6,393**	141,594	(95)
Less: Income tax expenses	**5,410**	31,192	(83)	**3,799**	31,353	(88)
Profit for the year	**6,912**	110,185	(94)	**2,593**	110,241	(98)
Profit attributable to:						
Equity holders of the Bank	**6,912**	110,185	(94)	**2,593**	110,241	(98)
Non-controlling interests	**–**	–	–	**–**	–	–
Profit for the year	**6,912**	110,185	(94)	**2,593**	110,241	(98)
Earnings per share on profit						
Basic earnings per ordinary share (USD)	**0.01**	0.12	(94)	**0.00**	0.12	(98)
Diluted earnings per ordinary share (USD)	**0.01**	0.12	(94)	**0.00**	0.12	(98)
Profit for the year	**6,912**	110,185	(94)	**2,593**	110,241	(98)

Statement of Comprehensive Income in US Dollars

For the year ended 31 December	Bank 2022 USD '000	Bank 2021 USD '000	Bank Change %	Group 2022 USD '000	Group 2021 USD '000	Group Change %
Profit for the year	**6,912**	110,185	(94)	**2,593**	110,241	(98)
Items that will be reclassified to income statement						
Exchange differences on translation of foreign operations	**–**	–	–	**–**	–	–
Net gains/(losses) on cash flow hedges	**–**	–	–	**–**	–	–
Net gains/(losses) on investments in debt instruments measured at fair value through other comprehensive income	**–**	–	–	**–**	–	–
Share of profits of associates and joint ventures	**–**	–	–	**–**	–	–
Debt instruments at fair value through other comprehensive income	**(1,800)**	(2,154)	(16)	**(1,630)**	(2,882)	(43)
Fair value gains/(losses) transferred to income statement on disposal of debt instrument at fair value through other comprehensive income	**22**	(141)	(115)	**22**	(141)	(115)
Deferred tax effect on above	**604**	557	8	**604**	557	8
Total items that will be reclassified to income statement	**(1,175)**	(1,738)	(32)	**(1,004)**	(2,465)	(59)
Items that will not be reclassified to income statement						
Change in fair value on investments in equity instruments designated at fair value through other comprehensive income	**(1,589)**	625	(354)	**(1,759)**	760	(331)
Change in fair value attributable to change in the Bank's own credit risk on financial liabilities designated at fair value through profit or loss	**–**	–	–	**–**	–	–
Re-measurement of post-employment benefit obligations	**(2,406)**	16,613	(114)	**(2,410)**	16,575	(115)
Deferred tax effect on above	**3,347**	(6,473)	(152)	**3,347**	(6,473)	(152)
Re-measurement of post-employment benefit obligations (net of taxes)	**941**	10,140	(91)	**937**	10,102	(91)
Changes in revaluation surplus	**–**	–	–	**–**	–	–
Deferred tax effect on above	**(1,518)**	1,848	(182)	**(1,518)**	1,848	(182)
Changes in revaluation surplus (net of taxes)	**(1,518)**	1,848	(182)	**(1,518)**	1,848	(182)
Share of profits of associates and joint ventures	**–**	–	–	**–**	–	–
Total items that will not be reclassified to income statement	**(2,166)**	12,614	(117)	**(2,340)**	12,711	(118)
Other comprehensive income for the year, net of taxes	**(3,341)**	10,876	(131)	**(3,345)**	10,245	(133)
Total comprehensive income for the year	**3,571**	121,061	(97)	**(752)**	120,486	(101)
Attributable to:						
Equity holders of the Bank	**3,571**	121,061	(97)	**(752)**	120,486	(101)
Non-controlling interests	**–**	–	–	**–**	–	–
Total comprehensive income for the year	**3,571**	121,061	(97)	**(752)**	120,486	(101)
US Dollars conversion rate (Rs.)	**366.0075**	200.7500		**366.0075**	200.7500	

Statement of Financial Position in US Dollars

As at 31 December	Bank 2022 USD '000	Bank 2021 USD '000	Bank Change %	Group 2022 USD '000	Group 2021 USD '000	Group Change %
Assets						
Cash and cash equivalents	**23,863**	38,137	(37)	**23,996**	38,463	(38)
Balances with central banks	**646**	–	100	**647**	0	100
Placements with banks	**28,596**	35,470	(19)	**30,148**	46,444	(35)
Derivative financial instruments	**77**	–	100	**97**	–	100
Financial assets recognised through profit or loss						
– measured at fair value	**38,726**	97,499	(60)	**63,487**	201,206	(68)
– designated at fair value	**–**	–	–	**–**	–	–
Financial assets at amortised cost						
– loans and advances	**1,510,973**	2,684,642	(44)	**1,511,041**	2,682,943	(44)
– debt and other instruments	**2,511,231**	4,659,278	(46)	**2,535,239**	4,685,112	(46)
Financial assets measured at fair value through other comprehensive income	**75,580**	68,830	10	**77,190**	79,670	(3)
Investments in subsidiaries	**19,975**	23,965	(17)	**–**	–	–
Investments in associates and joint ventures	**–**	–	–	**–**	–	–
Property, plant and equipment	**40,316**	74,947	(46)	**42,747**	79,450	(46)
Right-of-used assets	**3,316**	6,007	(45)	**3,405**	6,197	(45)
Investment properties	**–**	–	–	**560**	1,049	(47)
Goodwill and intangible assets	**2,042**	4,065	(50)	**2,055**	4,092	(50)
Deferred tax assets	**7,904**	5,503	44	**10,010**	5,508	82
Other assets	**153,841**	167,648	(8)	**154,578**	168,895	(8)
Total assets	**4,417,085**	7,865,991	(44)	**4,455,200**	7,999,031	(44)
Liabilities						
Due to banks	**11,166**	38,289	(71)	**34,729**	52,155	(33)
Derivative financial instruments	**–**	–	–	**–**	–	–
Financial liabilities recognised through profit or loss	**–**	–	–	**–**	–	–
Financial liabilities at amortised cost						
– due to depositors	**4,034,726**	7,115,653	(43)	**4,032,181**	7,106,973	(43)
– due to debt securities holders	**–**	–	–	**–**	–	–
– due to other borrowers	**45,808**	38,453	19	**51,609**	134,934	(62)
Lease Liability	**3,763**	6,437	(42)	**3,866**	6,643	(42)
Debt securities issued	**64,967**	186,944	(65)	**65,168**	187,390	(65)
Retirement benefit obligations	**34,122**	42,793	(20)	**34,283**	43,026	(20)
Current tax liabilities	**7,543**	22,895	(67)	**8,042**	24,483	(67)
Deferred tax liabilities	**–**	–	–	**11**	10	14
Other provisions	**–**	–	–	**–**	–	–
Other liabilities	**15,836**	35,866	(56)	**16,600**	37,693	(56)
Due to subsidiaries	**–**	17	(100)	**–**	–	–
Total liabilities	**4,217,930**	7,487,347	(44)	**4,246,490**	7,593,307	(44)
Equity						
Stated capital/assigned capital	**25,683**	46,824	(45)	**25,683**	46,824	(45)
Statutory reserve fund	**14,275**	25,775	(45)	**14,431**	25,948	(44)
Retained earnings	**31,035**	68,383	(55)	**37,128**	89,260	(58)
Other reserves	**128,162**	237,662	(46)	**131,469**	243,692	(46)
Total shareholders' equity	**199,155**	378,644	(47)	**208,711**	405,724	(49)
Non-controlling interests	**–**	–	–	**–**	–	–
Total equity	**199,155**	378,644	(47)	**208,711**	405,724	(49)
Total equity and liabilities	**4,417,085**	7,865,991	(44)	**4,455,200**	7,999,031	(44)
Contingent liabilities and commitments	**39,389**	64,873	(39)	**39,939**	64,895	(38)
US Dollars conversion rate (Rs.)	**366.0075**	200.7500		**366.0075**	200.7500	

Statistical indicators 2013-2022

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Operating results (Rs. Mn.)										
Gross income	**174,557**	134,939	127,547	121,929	111,902	107,996	87,399	79,282	77,890	65,573
Interest income	**172,940**	131,438	122,512	118,730	110,507	103,579	86,390	78,128	74,023	64,248
Interest expenses	**140,477**	76,809	87,622	89,898	85,622	78,445	60,923	51,146	52,642	54,141
Net interest income	**32,463**	54,630	34,890	28,832	24,885	25,134	25,467	26,983	21,380	10,107
Other income	**1,357**	3,293	4,881	3,067	1,254	4,308	872	1,043	3,798	1,292
Operating expenses, impairment and VAT	**29,311**	29,542	24,126	21,438	18,197	15,307	13,036	14,991	14,706	9,120
Profit before tax	**4,510**	28,381	15,645	10,462	7,941	14,135	13,303	13,034	10,472	2,279
Income tax	**1,980**	6,262	5,537	4,080	3,441	4,419	3,805	4,361	3,606	1,095
Profit after tax	**2,530**	22,120	10,108	6,381	4,500	9,716	9,498	8,672	6,867	1,184
Contribution to the Government	**5,578**	16,465	10,745	11,665	7,536	13,440	19,251	11,016	11,043	4,731
Dividends paid	**–**	3,500	1,000	2,000	500	5,111	12,026	2,800	4,000	3,000
Assets (Rs. Mn.)										
Cash and short-term funds	**8,971**	7,656	6,492	5,377	3,435	3,850	4,620	3,240	1,927	1,546
Loans and advances	**553,027**	538,942	516,795	454,395	422,895	375,704	323,811	271,751	222,696	166,420
Investments	**978,772**	980,672	798,811	647,760	565,841	593,333	554,235	549,743	534,485	465,766
Property, plant and equipment	**16,717**	17,068	17,230	15,237	13,466	12,396	7,277	7,025	5,594	5,692
Other assets	**59,200**	34,760	24,480	35,198	31,209	25,696	21,761	16,320	14,764	14,943
Total	**1,616,686**	1,579,098	1,363,808	1,157,967	1,036,846	1,010,977	911,704	848,079	779,466	654,368
Liabilities and shareholders' funds (Rs. Mn.)										
Total deposits	**1,476,740**	1,428,467	1,237,124	1,016,574	839,574	737,213	657,280	595,776	554,060	501,890
Repo/borrowings/subordinated liabilities	**44,631**	52,935	52,796	82,940	144,313	224,143	213,162	207,101	191,192	120,561
Deferred taxation	**–**	0	0	482	582	507	416	504	270	143
Other liabilities	**22,423**	21,683	19,475	12,045	9,280	10,019	8,600	12,274	10,684	9,557
Shareholders' funds	**72,892**	76,013	54,414	45,925	43,095	39,096	32,246	32,424	23,260	22,217
Total	**1,616,686**	1,579,098	1,363,808	1,157,967	1,036,846	1,010,977	911,704	848,079	779,466	654,368
Performance ratios (%)										
Income growth	**29.36**	5.80	4.61	8.96	3.62	23.57	10.24	1.79	18.78	23.95
Interest margin	**2.03**	3.71	2.77	2.63	2.43	2.61	2.89	3.32	2.98	1.74
NIM/gross income	**18.60**	40.48	27.35	23.65	22.24	23.27	29.14	34.03	27.45	15.41
Personnel cost/gross income	**7.90**	9.61	7.81	8.33	8.28	6.38	7.13	7.46	6.16	6.42
Overheads (excluding VAT and provision)/ gross income	**12.29**	14.29	12.25	12.96	12.72	10.33	11.99	13.28	11.89	10.85
Profit before tax/gross income	**2.58**	21.03	12.27	8.58	7.10	13.09	15.22	16.44	13.44	3.48
Contribution to the GOSL/gross income	**3.20**	12.20	8.42	9.57	6.73	12.44	22.03	13.89	14.18	7.22
Cost to deposits	**1.70**	1.91	1.72	2.26	2.22	2.10	2.12	2.25	2.14	1.61
Cost to income with financial taxes	**72.50**	43.77	48.61	65.57	66.47	49.58	50.13	46.07	44.76	67.71
Cost to income without financial taxes	**62.95**	33.17	39.12	49.35	54.18	37.75	39.59	37.41	36.69	62.24
Effective taxation rate	**67.41**	35.97	47.98	59.25	59.72	44.89	40.99	43.94	45.10	59.22
Return on average shareholders' funds (ROE)	**3.40**	33.92	20.15	14.34	10.95	27.24	29.37	31.15	30.20	5.15
Return on average assets (ROA)	**0.28**	1.93	1.24	0.95	0.78	1.47	1.51	1.60	1.46	0.39
NPL (Gross)	**3.99**	2.97	2.79	1.57	1.44	1.34	1.55	3.46	7.61	6.54
NPL (Net)	**0.99**	1.70	2.12	1.17	1.22	1.22	1.47	3.35	7.56	6.66
Provision coverage – IFRS	**74.95**	73.52	61.88	59.06	62.68	54.73	36.14	34.07	24.12	20.05
Net Stage 3 loans to total loans	**2.82**	2.54	2.28	1.48	1.05	0.99	–	–	–	–
Impaired loans (Stage 3)	**4.61**	3.71	3.28	2.01	1.51	1.39	–	–	–	–
Stage 3 provision coverage	**38.86**	31.52	30.38	26.20	30.66	28.41	–	–	–	–

Statistical Indicators 2013-2022

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Assets and liabilities related ratios (%)										
Assets growth	**2.38**	**15.79**	17.78	11.68	2.56	10.89	7.50	8.80	19.12	28.61
Loans growth	**2.61**	**4.29**	13.73	7.45	12.56	16.03	19.16	22.03	33.82	2.43
Deposits growth	**3.38**	**15.47**	21.70	21.08	13.88	12.16	10.32	7.53	10.39	9.67
Government securities to deposits – Bank	**64.76**	**67.38**	62.65	60.89	60.94	62.40	66.68	73.92	69.51	78.92
Loans to deposits	**37.45**	**37.73**	41.77	44.70	50.37	50.96	49.27	45.61	40.19	33.16
Deposits as a percentage of assets	**91.34**	**90.46**	90.71	87.79	80.97	72.92	72.09	70.25	71.08	76.70
Liquidity ratios (%)										
Liquid assets ratio	**40.62**	**59.63**	69.10	60.20	54.88	73.44	72.56	81.08	91.50	92.74
Rupee liquidity coverage ratio (Minimum 90%)	**195.44**	**240.84**	311.02	278.12	245.06	377.57	379.26	441.19	–	–
All currency liquidity coverage ratio (Minimum 90%)	**193.49**	**240.43**	307.22	276.64	321.29	376.18	393.96	445.88	–	–
Net stable funding ratio (Minimum 90%)	**180.51**	**160.78**	168.54	175.18	146.67	–	–	–	–	–
Capital and related ratios (%)										
Capital adequacy – Tier I (Minimum 5%)		**–**	–	–	–	–	12.53	17.90	20.46	18.50
Capital adequacy – Tier II (Minimum 10%)		**–**	–	–	–	–	14.68	16.40	18.98	16.72
Basel III – Tier I (Minimum 8%)	**15.78**	**18.60**	13.65	13.49	13.08	11.93	11.31	–	–	–
Basel III – Total Capital (Minimum 12%)	**18.00**	**20.83**	16.45	15.82	15.90	15.31	13.86	–	–	–
Leverage Ratio– Minimum requirement (3%)	**7.43**	**8.93**	6.64	5.76	4.76	–	–	–	–	–
Employee statistics and ratios (%)										
Number of employees	**4,528**	**4,616**	4,641	4,715	4,512	4,470	4,384	3,636	3,358	2,943
Profit per employee (Rs. '000)	**996**	**6,148**	3,371	2,219	1,760	3,162	3,034	3,585	3,119	774
Deposit per employee (Rs. '000)	**326,135**	**309,460**	266,564	215,604	186,076	164,925	149,927	163,855	164,997	170,537
Other information (Nos.)										
Number of branches	**262**	**261**	259	256	255	253	250	245	236	229
Post offices/sub post offices	**3,996**	**4,064**	4,063	4,063	4,062	4,062	4,061	4,063	4,063	4,063
Number of active accounts (Mn.)	**13.0**	**12.9**	12.6	12.2	11.8	11.4	10.8	10.5	10.2	9.9

Analysis of deposits

	2022 Rs. Mn.	2021 Rs. Mn.	2020 Rs. Mn.	2019 Rs. Mn.	2018 Rs. Mn.	2017 Rs. Mn.	2016 Rs. Mn.	2015 Rs. Mn.	2014 Rs. Mn.	2013 Rs. Mn.
Local currency deposits										
Savings	**257,569**	320,887	275,839	215,010	194,946	185,201	173,583	160,814	139,384	113,165
Time	**1,192,621**	1,091,918	945,650	789,540	633,632	542,647	475,220	427,588	408,309	379,969
	1,450,190	1,412,805	1,221,489	1,004,549	828,579	727,849	648,803	588,402	547,692	493,134
Growth %	**2.6%**	15.7%	21.6%	21.2%	13.8%	12.2%	10.3%	7.4%	11.1%	9.1%
Foreign currency deposits										
Savings	**6,970**	4,733	4,194	3,541	3,376	2,990	2,764	2,568	2,215	2,101
Time	**19,580**	10,930	11,441	8,484	7,620	6,373	5,714	4,806	4,153	6,654
	26,550	15,662	15,635	12,025	10,996	9,364	8,478	7,373	6,368	8,755
Growth %	**69.5%**	0.2%	30.0%	9.4%	17.4%	10.5%	15.0%	15.8%	-27.3%	54.2%
Total deposits	**1,476,740**	1,428,467	1,237,124	1,016,574	839,574	737,213	657,280	595,776	554,060	501,890
Growth %	**3.4%**	15.5%	21.7%	21.1%	13.9%	12.2%	10.3%	7.5%	10.4%	9.7%

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Republic of Korea
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Glossary of financial and banking terms

A

Actuarial Assumptions
An entity's unbiased and mutually compatible best estimates of the demographic and financial variable that will determine the ultimate cost of providing post-employment benefits.

Accounting policies
The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

Accrual basis
Recognising the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalent.

Actuarial gain/Loss
Gain or loss arising from the difference between estimates and actual experience in an entity's pension plan.

Amortisation
The systematic allocation of the depreciable amount of an intangible asset over its useful life.

Amortised cost
The amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and minus any reduction for impairment or uncollectability.

Available-for-sale financial assets
Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for sale or are not classified as loans and receivables, held to-maturity investments or financial assets at fair value through profit or loss.

B

Basel III
Basel III is the global voluntary regulatory framework issued by the Basel Committee on Banking Supervision (BCBS) on Bank Capital Adequacy and Liquidity.

Basis point (BP)
One hundredth of a percentage point (0.01 per cent); 100 basis points is 1 percentage point. Used in quoting movements in interest rates or yields on securities.

Business model assessment
Business model assessment is carried out as the first step of the financial assets classification process. Business model refers to how an entity manages its financial assets in order to generate cash flows. It is determined at a level that reflects how groups of financial assets are managed rather than at an instrument level. SLFRS 9 identifies three types of business models: "hold to collect", "hold to collect and sell" and "other". In order to determine the business model, it is necessary to understand the objectives of each business model. An entity would need to consider all relevant information including, for example, how business performance is reported to the entity's Key Management personnel and how Managers of the business are compensated.

C

Capital adequacy ratio
The percentage of risk-adjusted assets supported by capital as defined under the framework of risk-based capital standards developed by the Bank for International Settlements (BIS) and as modified to suit local requirements by the Central Bank of Sri Lanka.

Capital conservation buffer (CCB)
It is designed to ensure that banks build up capital buffers outside periods of stress which can be drawn down as losses are incurred. Should a bank's capital levels fall within the capital conservation buffer range, capital distributions will be constrained by the regulators.

Capital expenditure
Total of additions to property, plant, and equipment.

Capital gain (capital profit)
The gain on the disposal of an asset calculated by deducting the cost of the asset from the proceeds received on its disposal.

Capital reserves
Capital reserves consist of revaluation reserves arising from revaluation of properties owned by the Bank and Reserve Fund set aside for specific purposes defined under the Banking Act No. 30 of 1988 and shall not be reduced or impaired without the approval of the Monetary Board.

Carrying value
Value of an asset or a liability as per books of the Organisation before adjusting for fair value

Cash Generating Unit (CGU)
The smallest group of assets that independently generates cash flow and the cash flow is largely independent of the cash flows generated by other assets.

Cash equivalents
Short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Collective agreement
A tripartite agreement entered into among the NSB, Ministry of Finance and Trade Unions.

Collectively assessed loan impairment provisions
Also known as portfolio impairment provisions. Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses that has been incurred but has not yet been identified at the reporting date. Loans (housing, personal, auto loans etc.) are assessed on a portfolio basis

Commitments
Credit facilities approved but not yet utilised by the clients as at the reporting date.

Concentration risk
Risk arisen from uneven distribution of counterparty and portfolio exposures to business sector or geographic region.

Contingencies
A condition or situation, the ultimate outcome of which (gain or loss) will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

Corporate governance
The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the Management and the direction of entity, the supervision of executive actions and accountability to owners and others.

Cost/income ratio
Operating expenses excluding impairment provision and provisioning for fall in value in dealing securities as a percentage of net income.

Cost method
A method of accounting whereby the investment is recorded at cost. The Income Statement reflects income from the investment only to the extent that the investor receives distributions from accumulated net profits of the investee arising subsequent to the date of acquisition.

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.

Currency SWAPs
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.

Customer deposits
Money deposited by account holders. Such funds are recorded as liabilities.

Credit risk mitigation
A technique to reduce the credit risk associated with an exposure by application of credit risk mitigants such as collateral, guarantee and credit protection.

D

Debt Restructuring/ Rescheduling
This is when the terms and provisions of outstanding debt agreements are changed. This is often done in order to improve cash flow and the ability of the borrower to repay the debt. It can involve altering the repayment schedules as well as debt or interest charge reduction.

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.

Depreciation
The systematic allocation of the depreciable amount of an asset over its useful life.

Derecognition
Removal of previously recognised financial assets or financial liability from an entity's statement of financial position.

Delinquency
A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. Loans and advances are considered to be delinquent when consecutive payments are missed. Also known as "Arrears".

Derivative
A derivative is a financial instrument or other contract, the value of which changes in response to some underlying variable (e.g., an interest rate).

Documentary letters of credit (LCs)
Written undertakings by a bank on behalf of its customers, authorising a third party to draw on the Bank up to a stipulated amount under specific terms and conditions. Such undertakings are established for the purpose of facilitating international trade.

Domestic Systemically Important Banks (D-SIBs)
Systemically Important Banks (SIBs) are perceived as banks that are "Too Big to Fail". D-SIBs are critical for the uninterrupted availability of essential banking services to the country's real economy even during crisis. The CBSL has designated LCBs with total assets equal to or greater than Rs. 500 Bn. as D-SIBs.

Discount Rate
A rate used to place a current value on future cash flows. It is needed to reflect the fact that money has a time value.

E

Earnings per ordinary share (EPS)
Profit attributable to ordinary shareholders divided by the number of ordinary shares in issue.

Economic value added (EVA)
A measure of productivity which takes into consideration cost of total invested equity.

Effective income tax rate
Provision for taxation divided by the profit before taxation.

Effective interest rate (EIR)
Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate a shorter period to the net carrying amount of the financial asset or financial liability.

Equity instrument
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all its liabilities.

Equity method
The equity method is a method of accounting whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

Equity risk
Risk of depreciating equity investments due to stock market dynamics.

Exposure at default (EAD)
EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest and expected drawdowns of committed facilities.

Expected credit losses (ECLs)
CL approach is the loan loss impairment method under SLFRS 9 on "Financial Instruments". ECLs are the discounted product of the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). ECL measurements are unbiased and are determined by evaluating a range of possible outcomes.

Exchange gain/loss
Profit earned on foreign currency transactions arising from the difference in foreign exchange rates between the transaction/ last reporting date and the settlement/ reporting date. Also arises from trading in foreign currencies.

F

Fair value
The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Financial asset
Financial asset is any asset that is cash, an equity instrument of another entity or a contractual right to receive cash or another financial asset from another entity.

Financial assets measured at amortised cost
A financial asset is measured at amortised cost if the asset is held within a business model whose objective is to hold assets to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at fair value through other comprehensive income (FVOCI)
FVOCI include debt and equity instruments measured at fair value through other comprehensive income. A debt instrument is measured at FVOCI, if it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Equity investments may be irrevocably classified as FVOCI when they meet the definition of Equity under LKAS 32 Financial Instruments: Presentation and are not held for trading.

Financial assets measured at fair value through profit or loss (FVPL)
All financial assets other than those classified at amortised cost or FVOCI are classified as measured at FVPL. These are held for trading or managed, and their performance is evaluated on a fair value basis as they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Financial instrument
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial liability
A contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity.

Foreclosed properties
Properties acquired in full or partial, satisfaction of debts.

Foreign currency risk
Risk exists in transaction other than the local currency. Adverse movements in foreign exchange rates may decline the value of assets/liabilities held in terms of foreign currency.

Foreign exchange contract
Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

G

General provisions
These are provisions made on loans and advances for anticipated losses on aggregate exposures where credit losses cannot yet be determined on an individual facility basis.

Group
A group is a parent and all its subsidiaries.

Guarantees
Three party agreement involving a promise by one party (the guarantor) to fulfil the obligations of a person owing a debt if that person fails to perform.

Global Reporting Initiatives (GRI)
The GRI is an international independent standards organisation that helps businesses, governments and other organisations to understand and communicate their impacts on issues such as climate change, human rights and corruption. GRI promotes sustainability reporting as a way for organisations to become more sustainable and contribute to sustainable development.

Going concern
The Financial Statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to liquidate or curtail materially or the scale of its operations.

Goodwill
An asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised.

H

Hedging
A strategy under which transactions are effected with the aim of providing cover against the risk of unfavourable price movements (interest rates and prices of commodities etc.).

Held-to-maturity investments (HTM)
Non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

Held-for-trading (HFT)
Debt and equity investments that are purchased with the intent of selling them within a short period of time (usually less than one year).

High quality liquid assets (HQLA)
HQLA are assets that can be easily and immediately converted into cash at little or no loss of value, that can be readily sold or used as collateral to obtain funds in a range of stress scenarios and are unencumbered, without legal, regulatory or operational impediments. These include, for example, cash and claims on central governments and central banks.

I

ICCAP
Process by which the Bank ensures additional capital is provided for banking risks other than those covered in Pillar.

Impairment
This occurs when recoverable amount of an asset is less than its carrying amount.

Impaired assets portfolio
Impaired assets portfolio is the total of the individually significant impaired loans and individually insignificant loans which are overdue above 180 days.

Impairment allowances
Impairment allowances are provisions held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred loss. An impairment allowance may either be identified or

unidentified as individual (specific) or collective (portfolio) impairment allowance.

Impairment charge/(reversal)
The difference between the carrying value of an asset and the sum of discounted future cash flows generating from the same asset.

Impaired loans
Impaired loans are loans where the Group does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

Individually assessed impairment
Exposure to loss is assessed on all individually significant accounts and all other accounts that do not qualify for collective assessment.

Intangible asset
An asset that is not physical in nature. Corporate intellectual property (items such as patents, trademarks, copyrights, business methodologies), goodwill software and brand recognition are all common intangible assets in today's marketplace.

Interest in suspense
Interest suspended on non-performing loans and advances.

Interest Margin
Net interest income expressed as a percentage of average interest earning assets.

Interest rate risk
The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Interest spread
The represents the difference between the average interest rate earned and the average interest rate paid on interest earning assets and interest-bearing liabilities, respectively. variables such as interest rates, exchange rates, credit spreads and other asset prices.

Investment properties
Investment property is property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use or sale.

Investment securities
Securities acquired and held for yield or capital growth purposes and are usually held-for maturity.

Interest rate SWAP
An agreement between two parties (known as counter parties) where one stream of future interest payments is exchanged for another stream of future interest payments based on a specified principal amount.

K

Key Managerial Personnel (KMP)
Key managerial personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

L

Leverage ratio
A measure that is the ratio of tier 1 capital to total exposures. This supplementary measure to the risk-based capital requirements is intended to constrain the build-up of excess leverage in the banking sector.

Liquid assets
Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, bills of exchange and Treasury Bills.

Liquid assets ratio
Assets that are held in cash or in a form that can be converted to cash readily (as prescribed by the Central Bank of Sri Lanka) divided by the total liabilities including contingent liabilities.

Lifetime expected credit losses (LTECL)
Assets that are held in cash or in a form that can be converted to cash readily (as prescribed by the Central Bank of Sri Lanka) divided by the total liabilities including contingent liabilities.

Liquidity coverage ratio – LCR
Ratio of stock of high-quality liquid assets available to total net cash outflows over next 30 calendar days. LCR is expected to improve the banking sector's ability to absorb shocks arising from financial and economic stress, thus, reducing the risk of spillover from the financial sector to the real economy.

Liquidity risk
The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Loans and advances
Conventional loan assets that are unquoted (originated or acquired).

Loss given default (LGD)
LGD is the percentage of an exposure that a lender expects to loose in the event of obligor default.

Loan-to-value ratio (LTV)
The loan-to-value (LTV) ratio is a financial term used by lenders to express the ratio of a loan to the value of an asset purchased. The term is commonly used to represent the ratio of the first mortgage lien as a percentage of the total appraised value of real property. The LTV ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower.

M

Market risk
This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

Materiality
The relative significance of a transaction or an event, the omission or misstatement of which could influence the decisions of users of Financial Statements.

N

Net interest income (NII)
The difference between the amount a bank earns on assets such as loans and securities and the amount it pays on liabilities such as deposits, refinance funds and inter-bank borrowings.

Net interest margin (NIM)
The margin is expressed as net interest income divided by average interest earning assets.

Non-performing loans (NPL)
The loans which are in default for more than three months.

NOSTRO accounts
A bank account held in foreign country by a domestic bank, denominated in the currency of that country. Nostro accounts are used to facilitate the settlement of foreign exchange trade transactions.

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).

Net stable funding ratio (NSFR)
Measures the amount of longer term, stable sources of funding employed by a bank relative to the liquidity profiles of the

assets funded and the potential for contingent calls on funding liquidity arising from off-balance sheet commitments and obligations.

Non-controlling interest/ minority interest
A loan or a receivable placed on cash basis (Interest income is only recognised when cash is received) because, in the opinion of management, there is reasonable doubt regarding the collectability of principal or interest.

O

Off-balance sheet transactions
Transactions that are not recognised as assets or liabilities in the Statement of Financial Position, but which give rise to contingencies and commitments.

Operational risk
This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events including legal risk.

Open credit exposure ratio
Total net non-performing loans and advances expressed as a percentage of regulatory capital base.

P

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.

Probability of default (PD)
PD is an internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation.

Projected Unit Credit Method (PUC)
An actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. Inclusion of a degree of caution in the exercise of judgement needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated, and liabilities or expenses are not understated.

R

Return on average assets (ROA)
Profit after tax expressed as a percentage of the average assets.

Return on average equity (ROE)
Net profit attributable to owners expressed as a percentage of average ordinary shareholders' equity.

Related parties
Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

Related party transaction (RPT)
RPT is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

REPOs
Repurchase agreements. Securities sold to lenders with the commitment to buy back on a later date at a fixed price plus interest.

Reverse repurchase agreement
Transaction involving the purchase of securities by a bank or a dealer and resale back to the seller at a future date at a specified price.

Revenue reserve
Reserves set aside for future distribution and investment.

Risk-weighted assets
The sum of assets as per the Statement of Financial Position and the credit equivalent of assets that are not on the Statement of Financial Position multiplied by the relevant risk weighting factors.

Rupee loan
Rupee securities issued by the Central Bank of Sri Lanka on behalf of the Government of Sri Lanka.

Remittances
A remittance is a transfer of money by a foreign worker to an individual in his or her home country.

S

Shareholders' funds
A capital reserve created as per the provisions of the Banking Act No. 30 of 1988.

Significant increase in credit risk (SICR)
According to SLFRS 9, an entity should assess whether the risk of default on a financial instrument has increased significantly since initial recognition. The assessment should consider reasonable and supportable information that is relevant and available without undue cost or effort. There is a rebuttable presumption in the Standard that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.

SPPI Test
Solely Payments of Principal and Interest Test (SPPI) is carried out as the second step of the classification process. "Principal" is defined as the fair value of the financial asset at initial recognition and may change due to repayments of principal or amortisation of the premium or discount. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding. If a financial asset passes the SPPI test, then it will either be classified at amortized cost if the "hold to collect" business model test is met, or at Fair Value Through Other Comprehensive Income (FVOCI) if the "hold to collect and sell" business model test is met. If a financial asset fails, the SPPI test it must be classified at Fair Value Through Profit or Loss (FVPL) in its entirety.

Statutory reserve fund
A capital reserve created as per the provisions of the Banking Act No. 30 of 1988.

Subordinated liabilities
Liabilities that rank after the claims of other creditors of the issuer in the event of insolvency or liquidation.

Stress test
Integrated test that shows to varying degrees whether the Bank can withstand unforeseen scenarios of varying severity.

Subsidiary
An entity that is controlled by another entity.

Substance over form
The consideration that the accounting treatment and the presentation in Financial Statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

Swaps (currency)
The simultaneous purchase of an amount of a currency for spot settlement and the sale of the same amount of the same currency for forward settlement. Alternatively, a simultaneous spot sale and forward purchase of a currency.

T

Tier 1 capital

A component of regulatory capital, comprising common equity Tier 1 and additional Tier 1 capital. Core measure of financial strength of the Bank representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

Tier 2 capital

Tier 2 capital represents revaluation gains, general provisions and other capital instruments which combine certain characteristics of equity and debt such as subordinated term debts.

Total capital

Total Capital is summation of the Tier 1 and the Tier 2 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.

Twelve-month expected credit losses (12-Month ECL)

The portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12-months after the reporting date.

U

Unit trust

An undertaking formed to invest in securities under the terms of a trust deed.

Useful life

Useful life is the period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity.

V

Value added

Value added is the wealth created by providing banking services less the cost of providing such services. The value added is allocated among the employees, the providers of capital, to government by way of taxes and retained for expansion and growth.

Value at risk ("VaR")

A measure of the loss that could occur on risk positions as a result of adverse movements in market risk factors (e.g., rates, prices, volatilities) over a specified time horizon and to a given level of confidence.

Y

Yield to maturity (YTM)

Discount rate at which the present value of future cash flows would equal the security's current price.

Corporate information

Name of the Bank

National Savings Bank

Legal Form

A Government-owned bank incorporated in Sri Lanka by the National Savings Bank Act No. 30 of 1971 and was granted the status of the Licensed Specialised Bank in terms of the Banking Act No. 30 of 1988.

Registered Office and Head Office

"Savings House",
No. 255, Galle Road, Colombo 03,
Sri Lanka.
Tel: +94 11 257 3008-15
Fax: +94 11 257 3178
Customer Care Hotline: +94 11 237 9379
Short Code: 1972
E-mail: nsbgen@nsb.lk
Website: http://www.nsb.lk
Swift Code: NSBALKLX
Bank Code: 7719
Tax Payer Identification Number (TIN): 409046266

Service Outlets

262 Branches
390 ATMs/CRMs

Agency Network

653 Post Offices and 3,343 Sub-Post Offices throughout the Island.

Local Ratings

AAA (Stable) Credit rating by the Lanka Rating Agency (LRA)

Board of Directors

Dr Harsha Cabral – Chairman

Jude Nilukshan – Director (Ex Officio)

S R W M R P Sathkumara – Director (Ex Officio)

H K D Lakshman Gamini – Director

Dushyantha Basnayake – Director

General Manager/CEO

Mr M P A W Peiris

Board Secretary

Ms Anupama Muhandiram

Board Audit Committee (BAC)

Mr Dushyantha Basnayake (Chairman)

Dr Jude Nilukshan

Mr H K D Lakshman Gamini

Board Integrated Risk Management Committee (BIRMC) *

Board Human Resource and Remuneration Committee (BHRRC)

Ms S R W M R P Sathkumara (Chairman)

Mr Jude Nilukshan

Mr H K D Lakshman Gamini

Board Nomination Committee (BNC)*

Compliance Officer

Ms I K L Sasi Mahendran

Public Information Officer

(As per the Right to Information Act No.12 of 2016)
Mr Chandana Dissanayake

Auditors

Auditor General

Accounting year

31 December

Subsidiaries of National Savings Bank
Name of the Company

NSB Fund Management Co. Ltd.

Registered Office and Head Office

No. 400, Galle Road,
Colombo 03, Sri Lanka.

Tel: +94 11 242 5010-12, +94 11 256 5957
Fax: +94 11 256 4706, +94 11 257 4387

E-mail: nsbfmc@nsb.lk

Website: http://www.nsb.lk/fund-management

Swift Code: NSBFLKLXXXX

Tax Payer Identification Number (TIN): 134008512

Chief Executive Officer

D L P Abayasinghe

Auditors

Auditor General

Company Secretary

Ms Farzana Aniff

Name of the Company

Sri Lanka Savings Bank Limited

Registered Office and Head Office

No. 265, Ward Place, Colombo 07

Tel.: +94 11 267 4700/1/2/3, 269 1721-2

Fax: +94 11 267 4705/6

E-mail: info@slsbl.lk

Tax Payer Identification Number (TIN): 134013370

General Manager/CEO

Mr M A Sujith Fernando

Auditors

Auditor General

Company Secretary

Ms D R N U Peramuna

*The Board of Directors of the Bank was reconstituted in 2023 with only five Directors that would fulfill the quorum requirement for decision making with the completion of tenure of most of the Board members. The full Board comprises seven Directors and two Directors are yet to be appointed. The Board Nomination Committee (BNC) and the Board Integrated Risk Management Committee (BIRMC) are not reconstituted by the date Financial Statements are signed by the Auditor General.

Notes

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This Integrated Annual Report is GHG-neutral

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