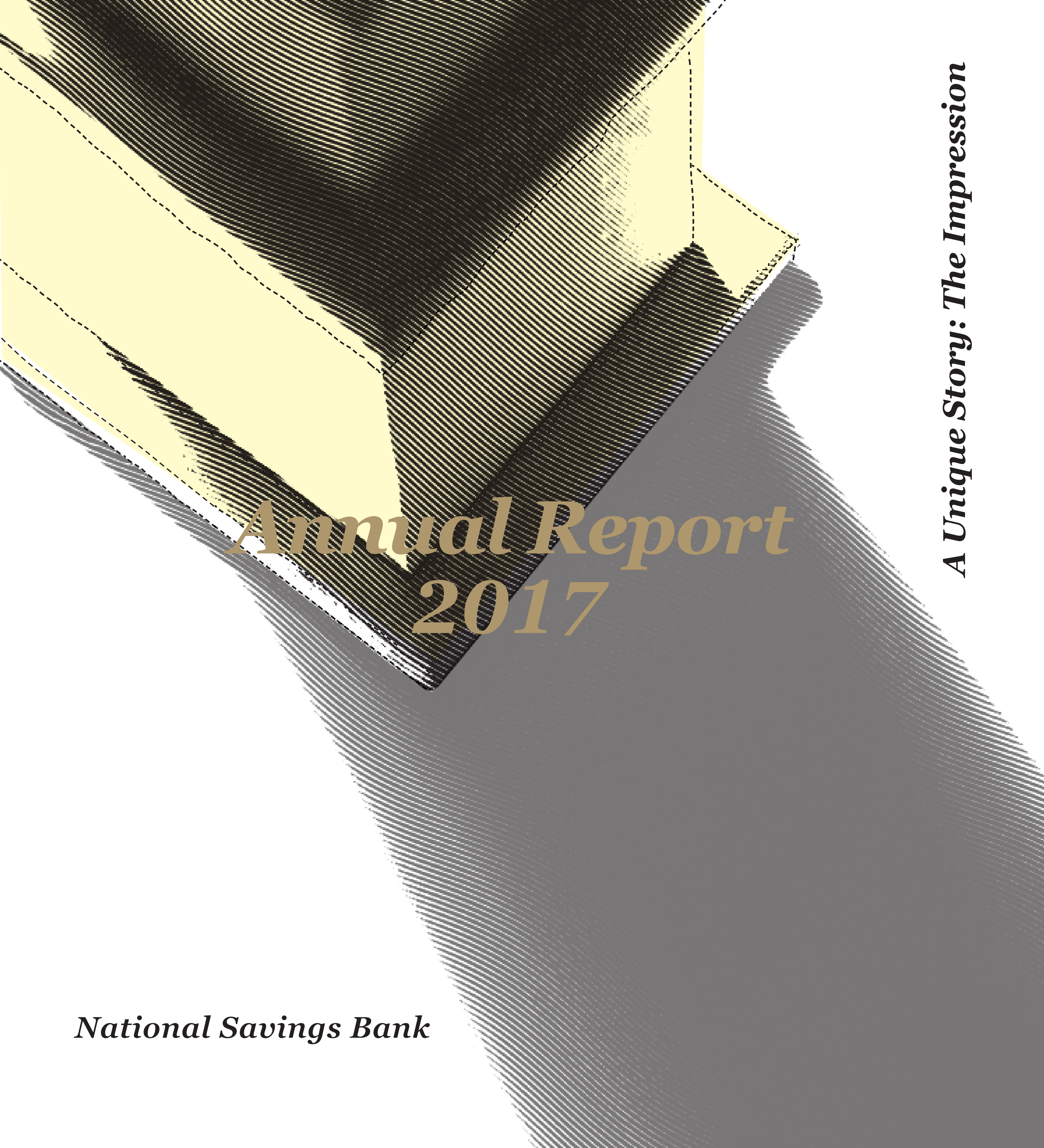

A Unique Story: The Impression

Annual Report 2017

National Savings Bank

A Unique Story: The Impression

Annual Report
2017

NATIONAL SAVINGS BANK

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Vision

To be the most reliable and sought-after choice for your savings.

Mission

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

Values

In conducting business we will respond decisively to resonate trust, mutual respect, integrity, and creativity.

Annual Report – 2017

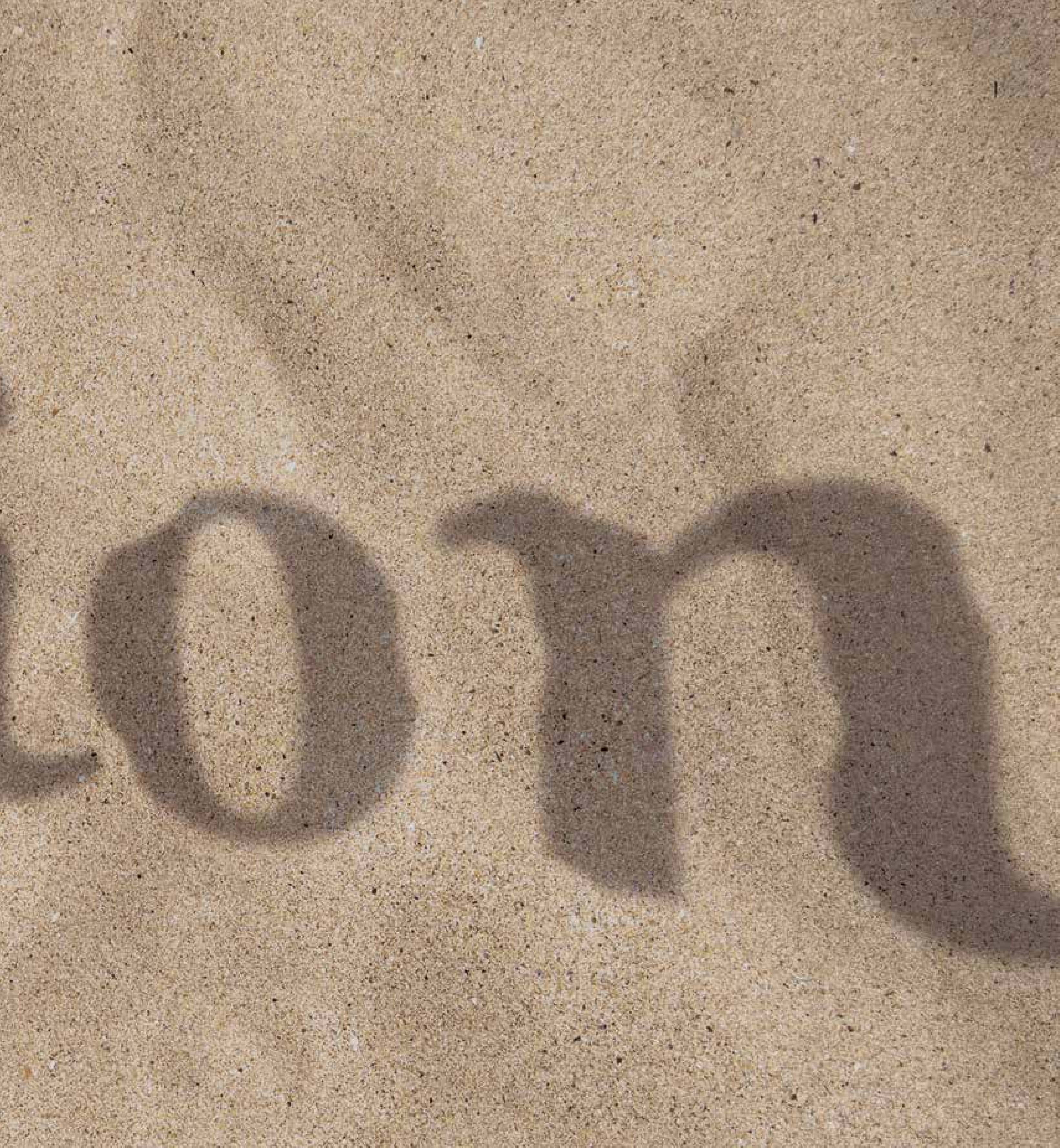
A Unique Story: The Impression

National Savings Bank

Produced by:
Smart Media The Annual Report Company

ISBN 978-955-1619-13-8

A Unique Story:



Prologue

The National Savings Bank was established on the founding principle of financial inclusion in 1972 when a Parliamentary Act amalgamated the four traditional savings organisations in the country into one establishment. As a result, the moment our unique story began, we inherited a savings legacy of over a century old.

As the largest licensed specialised bank in the country, we undertake a unique mandate to foster a savings culture in all Sri Lankans irrespective of class, gender, or status. The 19.9 million accounts attest to our claim of being the Bank for all segments of society.

Since our inception, NSB has acted as a pillar of strength to the Nation. The pillar on the cover embodies our Mission, Vision, and Values, the stability and rootedness as a premier financial institution, and our commitment to empower the Nation to achieve financial security.

Brick by brick our pillar has grown to provide shade to the whole Nation. Thus, as we celebrate our 45th Anniversary, we reflect on the impression we have made on Sri Lanka, the financial sector, and more importantly, we reflect on all the lives we have touched throughout our unique history.

Our unique story is written by the people for the people. With that thought, we offer you A Unique Story: The Impression.

NSB's Unique History

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.

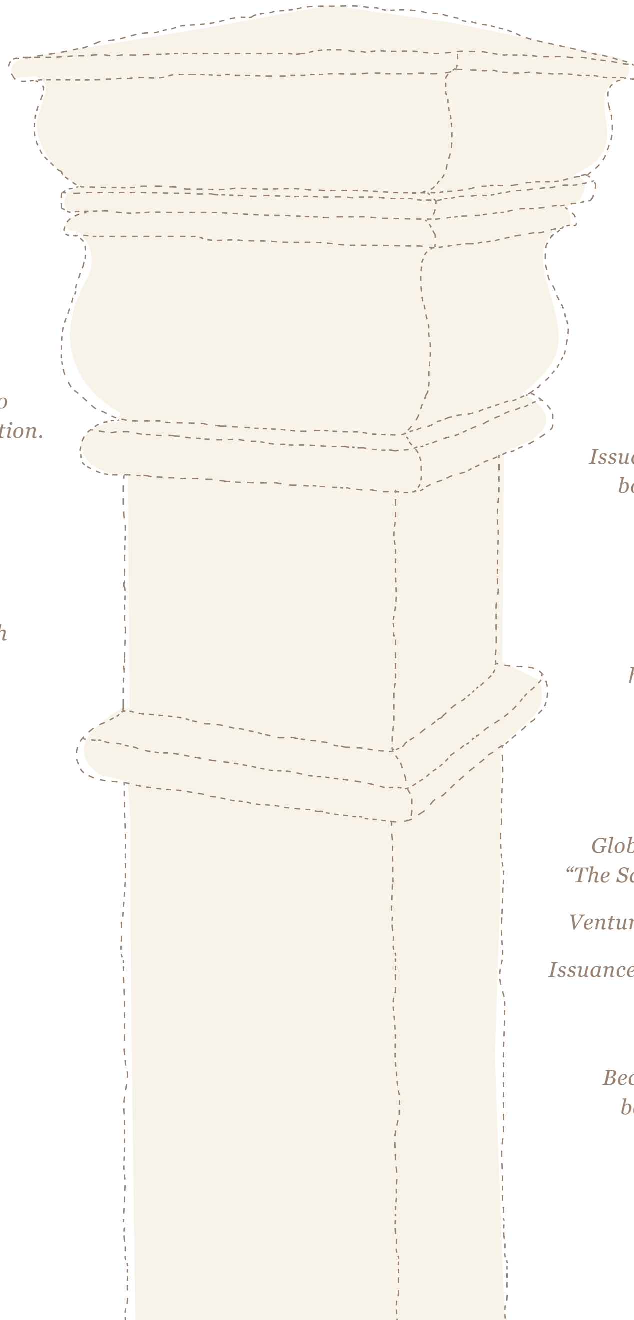
1999 NSB opened doors to its 100th Branch at Nittambuwa.

Launch of Ithuru Mithuru product.

2000 NSB's subsidiary NSB FMC is established.

2002 Launch of Sthree 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 celebrates its 40th Anniversary.

2013 Issuance of the single largest bond of USD 750 Mn. by a Sri Lankan Bank.

2014 Launch of Buddhi personal loan for higher education studies.

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 debenture valued at Rs. 6 Bn.

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

GRI 102-1

About NSB's Annual Report 2017

This is National Savings Bank's fourth integrated Annual Report for the calendar year of 2017. This Report constitutes of financial and non-financial information providing insight into economic, social, ecological, and corporate governance consequences. This year's report follows a similar reporting format to the past report, Annual Report 2016: A Unique Story: The Sequel. This Report is a clear, comprehensive presentation of the relationships between individual and interdependent aspects that are fundamental to NSB's business.

How to read A Unique Story: The Impression

A Unique Story: The Impression takes the form of a story. It follows NSB's unique story since its inception in 1972. The first part of the Report is titled the "Prologue" which introduces the Report. The second part titled "The 2017 Story" provides information on how the Bank fared in the year under review, how the Bank achieved its core objectives, how NSB is gearing up to meet future challenges, and how NSB has created an impression on the Nation and its people. This section is followed by "NSB's Unique Business Model" which outlines the Bank's role and its use of resources to create value. It also outlines the Bank's Stakeholder engagement process, materiality, and the strategic direction. The section titled Governance outlines corporate governance, followed by the Financial Statements.

This Annual Report is produced in print and PDF versions. The latter is available on our website – *www.nsb.lk*

Sustainability

The principles of sustainability are embedded in the Bank's strategy and form the basis of its business in value creation and capital formation. The Bank evaluates the social, economical, and ecological impressions it makes and takes actions to mitigate any negative impacts on the society and environment where it operates. Sustainability is thus seamlessly integrated with financial reporting and a separate sustainability review does not appear in this Report.

GRI 102-10, 45, 46

Report boundary and materiality

The overall boundary of this Annual Report comprises the National Savings Bank and its fully-owned Subsidiary, NSB Fund Management Company Ltd., duly identified as the "Bank" individually and "Group" collectively. Consistent with the framework adopted in the 2014 report, key financial aspects are discussed in the context of the Bank as well as the Group, while non-financial aspects are discussed in the context of the Bank unless stated otherwise. This Report focuses on aspects that are material or important. It is an assessment based on the extent to which these factors may substantively affect the Bank's ability to create value over the short, medium and long term. The materiality determination process is discussed under the section titled Materiality Matters, Risks and opportunities on page 52.

GRI 102-12, 48, 49, 50, 51, 52, 54

Compliance

The Bank's Annual Report 2017 covers the 12-month period from 1 January to 31 December 2017, and is consistent with the usual annual reporting cycle for financial and sustainability reporting. NSB has followed the GRI guidelines in formulating its past Annual Reports. For sustainability reporting, we have transitioned to the recently published Global Reporting Initiative (GRI) Standards and this report has been prepared in accordance with the GRI Standards; core options. Being an integral part of the Bank's overall business, it is subject to the Bank's existing internal and external control and assurance systems. There are no significant changes from previous reporting periods in the scope and aspect boundaries. The most recent previous Annual Report, dated 28 March 2017, covered the 12-month period ended 31 December 2016. Comparative financial information, if reclassified or restated, has been disclosed and explained in the relevant sections.

The primary statutes that govern the activities of the Bank are the National Savings Bank Act No. 30 of 1971 and its amendments, Banking Act No. 30 of 1988 and its amendments, Directives and Guidelines of the Central Bank of Sri Lanka (CBSL), and Regulations and Directions of the Department of Inland Revenue (IRD). The financial information contained in this report, as in the past, is in compliance with all applicable laws, regulations and standards and is declared in the several reports and statements that appear under the section on Financial Reports commencing on page 239. This integrated Annual Report draws on concepts, principles, and guidance given in the following, where applicable:

- Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).
- The International Integrated Reporting Council (IIRC) Framework

  [*www.theiirc.org*]
- Code of Best Practice on Corporate Governance issued by the CA Sri Lanka.
- Smart Integrated Reporting Methodology™

  [*www.smart.lk*]
- Global Reporting Initiative (GRI) Sustainability Reporting Guidelines GRI Standards

  [www.globalreporting.org]

External assurance

The Bank has complied with all the regulatory and statutory requirements in producing the Annual Report. The Financial Statements were audited by the Government Audit while the assurance on sustainability reporting was provided by Messrs KPMG Sri Lanka.

GRI 102-53

Queries

We welcome your comments or inquiries on this Report, which could be addressed to the Finance and Planning Division at National Savings Bank, No. 255, Galle Road, Colombo 3 (email: *nsbgen@nsb.lk*).

The 2017 Story

The 2017 Story was filled with landmark achievements making NSB's impression felt in all domains. NSB celebrated its 45th anniversary in style by notably reaching Rupees One Trillion in asset base and recoding the highest ever PBT of Rs. 14 Bn. and highest ever PAT of Rs. 9.6 Bn. Further, 2017 saw NSB achieving the NPL ratio of 1.3% which is amongst the lowest in the banking industry average.

The Chairman in his message, while celebrating the stellar performance of NSB in 2017, reflect on the effect of "disruptive" technologies on the sector as a whole. He emphasises the importance of being *au courant* of the new financial ecosystem that is being created through digitalisation of the sector. Further, the Chairman reiterates that in order for NSB to stay relevant, the Bank has to stay connected and engaged, physically and virtually, with its stakeholders by offering new and better financial products and services suited to every customer's needs and expectations.

The General Manager/CEO in his review outlines that these significant milestones attest to the robustness of the pragmatic strategic direction pursued by the Bank and that they were achieved by navigating in a highly competitive environment with developments in the fiscal and monetary policy. In 2017, NSB became the only local bank to receive "AAA (lka)" by Fitch Ratings Lanka Ltd. for the 15th consecutive year and NSB was ranked as the 5th most valuable brand in Sri Lanka by Brand Finance.

The 2017 Story captures how NSB's unique story unfolded within the year: the nature and scope of the Bank's business operations, strategic direction, and key moments of growth and evolution. It also contains financial and non-financial highlights of the Bank in the year, transparent financial information, and all other pertinent information to the main stakeholders of the Bank. It also outlines the Bank's preparedness to meet challenges and offers a glimpse into the future.

This is the 2017 Story of A Unique Story: The Impression...

Highlights

GRI 102-7

Financial Highlights

For the year ended 31 December	Bank 2017	Bank 2016	Bank Change %	Group 2017	Group 2016	Group Change %
Results for the year (Rs. Mn.)						
Gross income	**107,817**	87,399	23.36	**108,056**	88,039	22.74
Profit before financial VAT and taxation	**17,522**	16,094	8.87	**17,236**	16,209	6.34
Profit before taxation (PBT)	**14,029**	13,303	5.46	**13,645**	13,397	1.85
Income tax expenses	**4,419**	3,805	16.14	**4,595**	3,835	19.82
Profit after taxation (PAT)	**9,610**	9,498	1.18	**9,050**	9,562	(5.36)
Position at the year end (Rs. Mn.)						
Shareholders' funds (total equity)	**40,222**	32,246	24.73	**41,266**	33,787	22.14
Due to other customers/deposits from customers	**737,213**	657,280	12.16	**737,213**	657,280	12.16
Financial investment – held to maturity	**544,273**	505,824	7.60	**547,924**	507,625	7.94
Gross loans and receivable	**390,323**	325,543	19.90	**389,036**	324,744	19.80
Total assets	**1,012,103**	911,704	11.01	**1,018,795**	921,603	10.55
Information per ordinary share (Rs.)						
Earnings (basic)	**15.50**	29.68	(47.78)	**14.60**	29.88	(51.14)
Earnings (diluted)	**15.50**	29.68	(47.78)	**14.60**	29.88	(51.14)
Net assets value	**60.03**	52.01	15.43	**61.59**	54.49	13.02
Ratios						
Net interest margin (NIM) (%)	**2.59**	2.89	(10.38)	**2.60**	2.89	(10.38)
Return on average shareholders' funds (ROE) (%)	**26.52**	29.37	(9.70)	**24.12**	28.21	(14.51)
Return on average assets (ROA) (%)	**1.46**	1.51	(3.42)	**1.41**	1.51	(6.67)
Year on year growth in earnings (%)	**1.18**	9.52	(87.64)	**(5.36)**	8.27	(164.79)
Statutory ratios						
Liquid assets (%) – minimum requirement 20%	**73.44**	72.56	1.21	**N/A**	N/A	–
Liquidity coverage ratio (%) minimum requirement 80% – 2017 (70% – 2016)	**376.18**	393.96	(4.51)	**N/A**	N/A	–
Capital requirements: Basel III						
Basel III – Tier – 1– minimum requirement 7.75%	**11.93**	11.31	5.48	**12.65**	12.03	5.15
Basel III – total capital – minimum requirement 11.75%	**15.31**	13.86	10.46	**16.00**	14.54	10.04

Financial goals and achievements – Bank

Financial indicator	Goals 2017	Achievement 2017	2016	2015	2014	2013
Net interest margin (NIM) (%)	2.66	**2.59**	2.89	3.32	2.98	1.74
Return on average assets (ROA) (%)	1.35	**1.46**	1.51	1.51	1.46	0.39
Return on average shareholders' funds (ROE) (%)	27.67	**26.52**	29.37	29.37	30.20	5.15
Growth in income (%)	23.72	**23.36**	10.24	10.24	18.78	23.95
Growth in profit for the year (PAT)	11.06	**1.18**	9.52	9.52	479.98	(68.54)
Growth in total assets (%)	11.23	**11.01**	7.50	7.50	19.12	28.61
Capital requirements: Basel III						
Basel III - Tier - 1– minimum requirement 7.75%	Over 7.75%	**11.93**	11.31	N/A	N/A	N/A
Basel III - total capital– minimum requirement 11.75%	Over 11.75%	**15.31**	13.86	N/A	N/A	N/A

GRI 102-7

Non-Financial Highlights

Financial Capital

Rs. 107,817 Mn.
Direct economic value generated

Rs. 4,623 Mn.
Business partners

Rs. 78,445 Mn.
Depositors

Rs. 13,442 Mn.
Government

Rs. 6,887 Mn.
Employees

Rs. 20.0 Mn.
Community

Rs. 4,400 Mn.
Direct economic value retained

Rs. 103,417 Mn.
Direct economic value distributed

Intellectual Capital

USD 168 Mn.
Brand value

5th most valuable brand
Brand Finance ranking

Rs. 319 Mn.
Investment in software

B+ Stable from S&P Global

B+ Stable from Fitch Ratings
Global ratings

AAA (lka) from Fitch Ratings Lanka Ltd.
National rating

Manufactured Capital

253 branches

9 regional offices

4,062 post offices

4,000 ATMs through LankaPay

33 exchange houses

14 correspondent banks

International relationships

Human Capital

4,470

Total workforce

216

Total recruitments

6:5

Gender ratio (male:female) at all levels

Rs. 34.4 Mn.

Total investment in training

96.7%

Retention rate

Social and Relationship Capital

19.9 million
Total no. of accounts

Rs. 78,445 Mn.
Interest paid to customers

Rs. 20 Mn.
Total investment in CSR projects

225,950
No. of enquiries received over the phone

147
No. of suppliers

Natural Capital

Rs. 1.7 Mn.
Investment in NSB Agroforestry

25,000
No. of plants distributed through NSB Agroforestry

902
No. of Eco Loans disbursed

Rs. 686 Mn.
Total amount of Eco Loans disbursed

3.5 million
No. paper use reduced from 2016

27,614 Gigajoules
Energy consumption

Our Protagonists

GRI 102-14

Chairman's Message

The year 2017 was yet another captivating chapter in NSB's unique story that has evolved for the past 45 years. Our 2017 story was filled with landmark achievements creating an impression in all domains, notably reaching the Rupees One Trillion mark in our asset base, the first specialised bank to do so, and recording our highest profit after tax of Rs. 9.6 Bn. These felicitous results, that script another compelling chapter in our unique story which began in 1972, exhibit our exemplary governance and commitment to global best practices. Equipped with a triennial business plan (2017-2019) which charts our course for the coming three years, NSB is primed to face the future.

Making an impression on the Nation

NSB's unique story goes beyond the readership of our 20 million accounts to touch the lives of each and every Sri Lankan. Being a State-owned bank, we are firmly rooted in the National economy and we serve the Nation in our unique way. In 2017 alone, NSB contributed Rs. 13.4 Bn. to the Government through taxes, levies, and dividends, which the Government mobilised to create value through economic and social projects. NSB and our customers participate in nation building and help to maintain stability and sustainability of the financial system.

Staying relevant in a "disruptive" setting

As we celebrate our achievements of 2017, we are cognisant of the world that transforms at an increased pace through "sustaining" and "disruptive" technologies. NSB, as a specialised, State-owned bank, being *au courant* or staying relevant is quintessential. A new financial ecosystem is being created through digitalisation of the sector. We realise that to stay relevant, we have to stay connected and engaged, physically and virtually, with our main stakeholders by offering new and better financial products and services suited to every customer's needs and expectations.

NSB iSaver

NSB's unique, innovative product, iSaver, is a prime example of NSB's strategy for capitalising on the potential efficiencies, cost-savings, and new marketing opportunities in this new financial landscape. NSB's flagship digital product, iSaver complements NSB's objective of fostering a savings culture among Sri Lankans. NSB partnered with SLT Mobitel to create a convenient, accessible, and innovative method of saving money. NSB iSaver encourages our customers to save money anytime, anywhere using 16,000+ mCash retailers spread across the country.

NSB's Model Branch

NSB's Model Branch concept under the brand name NSB Connect is another example of NSB's strategic drive to create a positive impression and to stay relevant in the highly competitive financial ecosystem. The Model Branch concept was launched in 2017 at the Boralesgamuwa branch with a bespoke "Smart Zone" for digital banking. This concept will be implemented in 50 branches across the island in 2018.

The playing field

Sri Lankan economy witnessed a growth of 3.1% in 2017, below the estimated growth due to affects of natural disasters. Despite monetary policy tightening to ease inflationary pressures in the first half of 2017, credit growth remained strong, supporting private consumption and investment. Sri Lanka is expected to sustain macroeconomic stability and support potential growth over the medium term through the adoption of reforms proposed by World Bank and IMF programmes. Accounting for 5.7% of the GDP, the Sri Lankan banking sector plays a critical role in financial intermediation, financial inclusion, and facilitating economic growth. Overall, the sector witnessed growth in profitability, deposit base, and maintained a healthy liquid assets ratio.

The full implementation of Basel III framework will be effective from January 2019. This will strengthen the resilience of banks, and may lead to consolidation in the sector. Furthermore, the adoption of SLFRS 9 standards proposed by CA Sri Lanka from 2018 onwards will increase the impairment provision of banks.

NSB's higher standards of corporate governance, which foster a culture of risk management and compliance, allowed the Bank to take necessary measures to understand the evolving frameworks. NSB continues to comply with Basel III capital adequacy and liquidity requirements, among others, to prepare for implementation within the stipulated time period.

Our financial impression

NSB's financial impression, as mentioned above, is marked with several impressive financial milestones achieved during the year. In the year 2017 we reached gross NPL ratio of 1.3% which is amongst the lowest in the banking sector average, which demonstrates NSB's excellent asset quality. The impact of the substantial increase in interest cost and the resulting drop in the net interest margin was offset by a substantial increase in business volumes. Consequently, the interest income surpassed Rs. 100 Bn. Another financial highlight was the improvement of NSB's total Capital adequacy ratio to 15.3%, which is among the highest in the State-banking sector.

As the only State-guaranteed bank, NSB offers 100% security to its customers' deposits and interest therein making NSB the safest place for saving. Reflecting the Bank's stability and reliability, Fitch Ratings Lanka Limited reaffirmed the Bank at AAA (lka) for the 15th consecutive year. I am also happy to announce that Brand Finance ranked NSB as the 5th most valuable brand in Sri Lanka. These accolades are a testament to NSB's sound governance and robust strategic direction and they attest to the impression we have made on Sri Lanka's financial sphere. We will not rest our efforts to stay relevant, connected, and engaged and continue to deliver value to our stakeholders in the future.

NSB's impression on the global stage

As the turbulent global economic climate subside, the world economy strengthened in 2017 to reach a growth rate of 3%, the highest growth since 2011. The cyclical recovery in global economy is expected to be sustained over the next several years and will even accelerate in Emerging Markets and Developing Economies (EMDEs), reaching 4.5% in 2018 and an average of 4.7% in 2019/20, due to a rebound in commodity exports.

With a view of diversification, NSB's imprint is taken offshore through international banking and trading services. At present, NSB possesses an extensive network of international banking relationships built over the years with prominent international financial bodies such as the Arab National Bank, Saudi Arabia Exchange Company, and DBS Bank, Singapore. In 2017, NSB's inward remittances experienced a mammoth 33% growth compared to 2016 amounting to Rs. 26 Bn. and the foreign currency deposit base was at Rs. 9.4 Bn. as at 31 December 2017. Trade finance business thrived by opening Rs. 221 Mn. worth of Letters of Credit for the year. We will continue to penetrate into prominent international markets for inward and outward remittances to expand our international business and overseas networks in the future.

Towards making an impression on sustainability

The principles of sustainability are embedded in our strategy and form the basis of our business and everything we do. We evaluate the social, economical, and ecological impressions we make and take action to mitigate any negative impacts on the society and environment where we operate. Last year, we promoted the proliferation of renewable energy islandwide and adopted green banking initiatives like NSB Eco Loans. While continuing to support those initiatives, in 2017, we took another step to reduce our carbon footprint through our NSB Agroforestry project. The project was initiated to celebrate the 93rd World Thrift Day. Through NSB Agroforestry, we plan to distribute a million plants by 2020. This year alone, we distributed 25,000 plants islandwide.

Moreover, we have pledged to support the UN Sustainable Development Goals (SDGs), as we continue to address SDGs that directly relate to our business and our operations. For the first time in the history of NSB, we have obtained an Independent Assurance Report for non-financial reporting. Our commitment and ongoing efforts to the SDGs is outlined within our Annual Report (refer to page 146). We recognise that these global challenges require effective, multi-stakeholder collaboration at a local, national, and international level and we call on all our stakeholders to join us in our efforts.

Glimpsing into tomorrow

While NSB's unique story is 45 years old, we possess a financial heritage of over 180 years. Throughout our illustrious history, we have remained relevant and we will continue to do so. Our strategic objectives are geared towards engaging and connecting with all our stakeholders. In our goal to diversify our business, we will seek opportunities for sustainable growth, streamline our internal processes, and bolster our product offering. We will focus on improving our digital footprint by investing in state-of-the-art ICT infrastructure. In conclusion, we will continue to deliver value to our stakeholders in a diverse, inclusive, and transparent manner.

Expressing appreciation

I would like to thank first and foremost our dedicated, loyal team of employees led by the General Manager and the Management Team. The exceptional performance of the year is due to their commitment and loyalty to the Bank. My gratitude is extended to the esteemed colleagues in the Director Board for their guidance, our customers, and other stakeholders whose contribution we appreciate. To the Postmaster General, and all officials of the Postal Department, I would like to extend my deep appreciation for the vital assistance you provide to NSB across the island. In conclusion, I would like to thank the Hon. Minister of Public Enterprise Development, Hon. State Minister of Public Enterprise Development, Secretary to the Ministry of Public Enterprise Development and the officials, the Hon. Minister of Finance and Mass Media, the Hon. Deputy Minister of Finance and Mass Media, the Hon. State Minister of Finance, the Secretary to the Treasury and the officials, the Governor and officials of the Central Bank of Sri Lanka, the Attorney General, the Auditor General and his team and heads of other regulatory bodies and their teams for their continued support and guidance.

Aswin De Silva
Chairman
12 March 2018

General Manager/ CEO's Review

In 2017, NSB celebrated its 45th anniversary by recording an exceptional financial performance and organic growth in all core business areas. These significant milestones were achieved by navigating in a highly competitive environment with developments in the fiscal and monetary policies. They attest to the robustness of the pragmatic strategic direction pursued by the Bank. Not withstanding market challenges, NSB will continue to hold true to its unique mandate to foster a savings culture in Sri Lanka.

A historic performance

The Bank created history within its relatively short period of 45 years in operation to reach a stellar landmark figure in asset base of Rupees One Trillion as at 31 December 2017. The 11.0% growth in assets was primarily aided by the 12.2% growth of NSB's deposit base to reach Rs. 737.2 Bn., a net increase of Rs. 79.9 Bn. from 2016. The Bank's loans and advances portfolio in both retail and corporate sectors too recorded a phenomenal 19.8% growth to reach Rs. 388.0 Bn.

In another historic achievement, NSB recorded its highest ever PBT of Rs. 14.0 Bn., a growth of 5.5%, and the highest ever PAT of Rs. 9.6 Bn. The significant growth in business volumes coupled with a gain of Rs. 1.1 Bn. from trading in Government Securities, demonstrating our strong presence in the Government Securities market, contributed to this performance. Furthermore, NSB has consistently recorded a PBT of over Rs. 13.0 Bn. in the past three years.

Non-interest income comprising fee and commission income, net gain from trading, financial investments, and other operating income contributed to record an impressive growth of 337.8% to touch Rs. 4.4 Bn. as opposed to Rs. 1.0 Bn. reported during 2016. The impact of the substantial increase in interest cost and the resulting drop in the net interest margin was offset by a substantial increase in business volumes. Consequently, the interest income stood at Rs. 103.4 Bn.

Making history once more, the gross NPL ratio decreased to 1.3%, one of the lowest in the banking industry average, compared to 1.6% in 2016. The improvement in the NPL ratio was supported by substantial growth in the loans and advances and demonstrates sound management of the Bank's credit portfolio, excellent asset quality, and the prudent approach to risk management of the Bank. The Bank's total capital adequacy ratio stands at an impressive 15.3%, among the highest in the State-banking sector.

Expanding the virtual and physical footprint

With a financial heritage of over 180 years, NSB has successfully weathered many disruptive shifts in the industry. NSB recognises that rapid digitalisation of the banking sector worldwide with the proliferation of mobile, online, and digital banking services has not made traditional branch banking obsolete. Rather than letting technology "disrupt" our operations we have taken steps to innovate and evolve our existing branch network while delivering competitive digital services to meet the changing needs and expectations. We have witnessed that our strategic responses over the past years have contributed to deliver a better customer experience in the physical as well as the virtual domains serving customers from all segments of society.

NSB expanded its wide-ranging reach to 253 branches. Our extensive, islandwide customer touchpoints include 4,062 post offices. Further, with the introduction of the innovative digital product NSB iSaver in partnership with SLT Mobitel, our customers can save money using 16,000+ mCash retailers across the country. The "Model Branch" concept, under the brand name "NSB Connect", launched in 2017, will be implemented across 50 branches islandwide in 2018.

In 2017, the Bank's regional operational structure was revamped where all branches were consolidated into nine regions during the year. Moreover, the branches initiated customer forums and regional level progress review meetings to appraise the performance and customer satisfaction of branches in 2017.

Advancing the learning culture

We have consistently recognised that continual learning is critical to our continued success. I am proud to say that we have created a learning culture within NSB through our annual training programmes, our knowledge sharing, and our intellectual capital with its accumulated wisdom and experience. Our team of dedicated, highly-skilled, loyal employees, many with over 10 years of service, have embraced the prevalent learning culture at NSB to become business leaders and provide better value to our stakeholders.

In 2017, over Rs. 34.4 Mn. was invested in 252 training programmes which included foreign and local training initiatives, logging a massive 45,347 training hours. The average number of training hours per employee stood at 12 hours and the participation ratio stood at 88%. There were 14 overseas training programmes for 53 participants from NSB. We will continue to invest in training programmes to maintain our unique learning culture.

Towards women's empowerment

We recognise that empowerment of women, who constitute more than half the population of Sri Lanka, will provide impetus in Sri Lanka's journey to achieve middle-income status. NSB has taken a holistic approach to empower women through specialised products and enabling the women within our workforce. We can boast of a very healthy male to female ratio of 6:5 at all levels with a 58% of women in our total workforce. We are an equal opportunity employer that does not discriminate on the grounds of gender.

In 2017, our flagship product *Sthree*, aimed at promoting financial freedom in Sri Lankan women, was revamped and relaunched. The relaunch is part of NSB's theme in 2017 to promote and mobilise savings deposits. A brand ambassador was appointed and the product was relaunched with new benefits. We will continue our efforts to assist in women's empowerment through diverse means.

Glimpsing into tomorrow

Our strategy towards diversification have led to spurred activity in the international front to boost our presence in the international markets. We are poised to take advantage of the myriad opportunities resulting from the steady growth in international markets in 2017. We plan to enter the European, Canadian, and United Kingdom markets to attract more remittances from the Sri Lankan expatriates. We hope to improve the market share of remittances which has shown exorbitant growth over the past three years.

We will also focus expanding our savings products portfolio and continue to provide Master Card and Visa chip debit cards (EMV) where our customers can experience enhanced security in their transactions worldwide. We have also laid the preliminary ground work for the acquisition of Sri Lanka Savings Bank (SLSB) in 2017. The due diligence studies related to the acquisition are completed and actions were initiated for its finalisation.

Following our triennial business plan 2017-2019, we will expand our footprint as a retail bank. Continuing our digital initiatives and improving ICT infrastructure will be top priority in 2018 through innovative products like iSaver and NSB Reach. In our unique way, we will conflate traditional, familiar banking with the latest digital products and services to provide a superior experience to our customers that hail from all segments of Sri Lankan society.

Expressing appreciation

In closing, I would like to extend my appreciation to those who played an instrumental role in making our 2017 story unique. I would like to express my gratitude to the Chairman, the Board of Directors, and my Management Team for their continued support and exemplary governance. I also extend my gratitude to Hon. Minister of Public Enterprise Development, Hon. State Minister of Public Enterprise Development, Secretary to the Ministry of Public Enterprise Development and the Officials, Hon. Minister of Finance and Mass Media, the Hon. Deputy Minister of Finance and Mass Media, the Hon. State Minister of Finance, Secretary to the Treasury and the Officials, the Governor and Officials of the Central Bank of Sri Lanka, the Postmaster General and his Staff, the Attorney General, the Auditor General and his team, Heads of other regulatory bodies, and their teams.

Our 2017 success story would not be possible without the dedication and loyalty of the NSB team, the trust and confidence of our customers, and the support of our stakeholders. Thank you all for making 2017 another gripping chapter of our unique story.

S D N Perera
General Manager/CEO
12 March 2018

NSB's Unique Business Model

NSB's unique mandate to foster a savings culture, serve and contribute to the Nation, and cater to all segments of the Sri Lankan society, form the founding pillars of the Bank's unique Business Model.

Our Business Model provides an overview of the Bank's value creation process guided by our Vision, Mission, Values, and our strategic pillars. The operating environment reflects the context in which we operate, the local and international economies, and the trends in the industry as a whole. This section will also include the threats, opportunities, and future outlook of the industry.

In "Stakeholders", we outline stakeholder groups which have a substantial impact on our ability to create value and the methods we use to engage with them. This will also include how stakeholders impact our business activities and how the Bank created value for them in 2017.

Assessment of our Business Model, operating environment, along with proactive stakeholder engagement shaped our material issues and aspects that add or distract value. These along with resultant risk and opportunities from material matters lead to the formation of the Bank's strategy. "Our strategy" outlines NSB's business plan and the Bank's strategic direction.

Key resources and relationships (inputs)

Input from Organisation

Financial Capital

Refer to pages 73 to 89

Manufactured Capital

Refer to pages 100 to 105

Intellectual Capital

Refer to pages 92 to 99

Input from Society

Human Capital

Refer to pages 108 to 121

Social and Relationship Capital

Refer to pages 124 to 139

Natural Capital

Refer to pages 142 to 145

Value creation

Corporate Governance

Risk Management and Compliance

Financial and non-financial performance (outputs)		Value created for stakeholders (outcomes)
Economic	Profit after tax – Rs. 9.6 Bn. Asset base – 1.01 Tn. Interest paid – Rs. 78.4 Bn. Loans disbursed – 187.3 Bn. Contributed to the Government: Rs. 13.4 Bn.	
	Branches – 253 Postal network – 4,062 ATMs – 286 ICT investment – Rs. 712.4 Mn.	
Social	Employee benefits – Refer to page 114 Promotions granted – 824 Employee strength – 4,470 Recruitments – 216 Investment in training – Rs. 34.4 Mn. Training hours – 45,347 Retention rate – 96.7%	
	Brand value – USD 168 Mn. Brand ranking – 5th most valuable brand Fitch Ratings Lanka (lka) – AAA (lka) S&P Global Ratings – B+ stable Fitch Ratings – B+ stable	
Environment	Number of accounts – 19.9 million Community development investment – Rs. 20.4 Mn. Contribution to the society – Refer to page 135	
	Plants distributed – 25,000 Investment – Rs. 1.8 Mn. Eco loans granted – 902 Value of Eco loans – Rs. 686 Mn.	

Value created for stakeholders (outcomes)

Shareholder

Financial stability
Contribution to the Nation

Customers

Expanded business viability
Enhanced accessibility and convenience
Financial inclusion
Efficient customer service
Extensive product portfolio
Digital product offering

Employees

Greater level of employee engagement
Safe working environment
Generating local employment
Employee satisfaction and loyalty

Regulators and Government institutions

Community development
An exemplary culture of compliance

Suppliers and service providers

Building good relationships with suppliers

Society and environment

Mitigating the negative impact of our business on the environment
Energy efficiency
Responsible corporate citizen
Drive towards renewable energy
Supporting to increase the domestic and national savings

Our strategic drivers

Our Business Model (Page 34)

Operating environment (Page 37)

Stakeholder engagement (Page 48)

Material matters, risks, and opportunities

(Page 52)

- Volatile and uncertain socio-economic environment
- Increased regulatory environment, governance, risk management, and emerging regulations
- Scarce and evolving skill requirements
- Remain competitive in the industry and maintain sustainable performance
- Rapid technology developments
- Changing customer requirements

Delivering value (Page 50)

Strategic pillars (Page 63)

- Customer-focused
- Sustainable performance
- Operationally excellent
- Inspired, dynamic team
- Responsible and Socially-committed
- Optimised capital management
- Prudent risk and compliance culture

Our Vision, Mission, and Values (Page 3)

Operating environment

Operating environment is the sum of all external and internal factors that influence the Bank. NSB is conscious that the socio-economic, and political trends in the world and in Sri Lanka impacts the Bank's strategic decisions and financial performance. The following section outlines the micro and macro environmental trends in 2017.

Global economy

As the global financial crisis subsides, the world economy strengthened in 2017. The global economic growth rate reached 3% recording a highest growth rate since 2011. The world economic growth is expected to remain steady for the coming years. The global output is estimated to have grown by 3.7% in 2017. The global growth forecast have been revised upward to 3.9%. The revision reflects increased global growth momentum and the expected impact of the recently approved US tax policy changes.

The improved growth is due to spurred activity in several developed economies with the US growth up by 2.3% in 2017 given stronger than expected activity in capital spending, a turnaround in inventories, and strengthening external demand. While growth accelerated in all major economies, the improvement was markedly stronger than expected in the Euro Area with 2.4%. Another notable developed economy growth was recorded in Japan with an estimated 1.7% growth in 2017. The growth was supported by increased domestic demand, recovery in consumer spending, as well as the implementation of a fiscal stimulus package.

In 2017, East and South Asia accounted for nearly half of global growth, with China alone contributing about one-third with 6.8%. The end of recessions in Argentina, Brazil, Nigeria, and the Russian Federation also contributed to the rise in the rate of global growth between 2016 and 2017. The upturn has been supported by a rebound in world trade and an improvement in investment conditions.

Outlook

The improved global economic situation provides an opportunity for countries to focus policy towards longer-term issues such as low carbon economic growth, reducing inequalities, economic diversification, and eliminating deep-rooted barriers that hinder development. The challenge is to channel this growth into a sustained acceleration in productive investment to support medium-term prospects.

Emerging and developing Asia will grow at around 6.5% over 2018-19. Growth is expected to moderate gradually in China. India's growth is expected to rise in 2018-19. Conversely, growth in Emerging Markets and Developing Economies (EMDEs) is expected to accelerate, reaching 4.5% in 2018 and an average of 4.7% in 2019-20. Advanced economies are expected to maintain the same growth level as in 2017, with an expected pick-up in growth across advanced economies such as the United States, France, and Japan.

Risks to the outlook remain tilted to the downside. Financial market volatility has been unusually low and asset prices have become highly valued, suggesting the risk of sudden market adjustments. Increased trade protectionism and rising geopolitical tensions could weigh on sentiment and disrupt the recovery. Over the longer term, a sharper-than expected slowdown in potential output growth could reduce the resilience of the global economy to adverse shocks and damage prospects for gains in living standards and poverty reduction.

Sri Lankan economy

Sri Lanka grew by 3.1% in 2017, below the June forecast, as a result of disruptions from droughts and floods. Despite monetary policy tightening to ease inflationary pressures in the first half of 2017, credit growth remained strong, supporting private consumption and investment.

The services sector contributed 55.8% of growth which stretched by 3.2% from 2016, particularly by telecommunication, financial services, human health, insurance and wholesale, and retail trade. Industrial activities with the share of 27.2% had a positive impact by recording a modest growth of 3.9% underpinned by construction, mining and quarrying, and manufacturing sectors. The agriculture sector, however, has contracted by 0.8% mainly due to unfavourable weather conditions, severe drought, as well as heavy rainfall prevailing in the country for last two years which consequently curtailed economic growth. The Sri Lankan Rupee depreciated against the US Dollar by 2% at the end of the December 2017 on the ground of foreign outflaws owing to increased import expenditure, debt service payments and a reduction in foreign investments in Government Securities.

Inflation

Headline inflation based on NCPI (National Consumer Price Index) closed at 7.3% in 2017, albeit tight monetary policy and slowdown of credit growth fuelled by increased food prices and imported commodities. The scope of VAT broadened to remove exemptions on selected private health-related items. The rate was raised from 11% to 15% which came into effect from November 2016, which was fully felt during 2017.

Monetary policy

Sri Lanka is pursuing a 3-year reform programme with IMF support under the Extended Fund Facility (EFF) since June 2016. Macro stabilisation and two major tax reforms were the key outcomes of the first half of the programme. Accordingly, the monetary policy was tightened by the CBSL to control inflation as well as monetary pressures and credit aggregates. Policy interest was raised by 25 basis points in March 2017 which resulted in increasing the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) to 7.25 % and 8.75%, respectively. Eventually, market interest rates moved upwards combined with deposit and lending rates of commercial banks during the first half of the year. Reversing this trend, short-term rates adjusted downwards reflecting liquidity improvements in the domestic money market during the second half of the year. Yield on Treasury bills in the primary market escalated during first quarter of 2017 associated with increased demand for funds from the Government.

External sector

The country's cumulative export earnings during 2017 recorded an all time high of USD 11.4 Bn., up 10.2% from 2016 and surpassed the previous best of USD 11.1 Bn. achieved in 2014. This was primarily driven by tea, petroleum products, garments, spices, and seafood. Restoration of the GSP+ facility together with removal of the ban on exports of fisheries products to the European markets paved the way to improve export earnings of the country. Import expenditure for the year accelerated by 9.4% to USD 20.98 Bn. reporting historically highest values on account of higher imports of fuel, rice, gold and base metals led the country's trade deficit to widen to USD 9.62 Bn. against the USD 8.87 Bn. stood in the corresponding period of 2016. Workers' remittances, being the key source of foreign exchange income, continued to deteriorate by 1.1% to USD 7.2 Bn. due to slow pace of external economic recovery in several advanced economies and emerging markets and adverse geopolitical conditions in the Middle East countries.

Fiscal policy

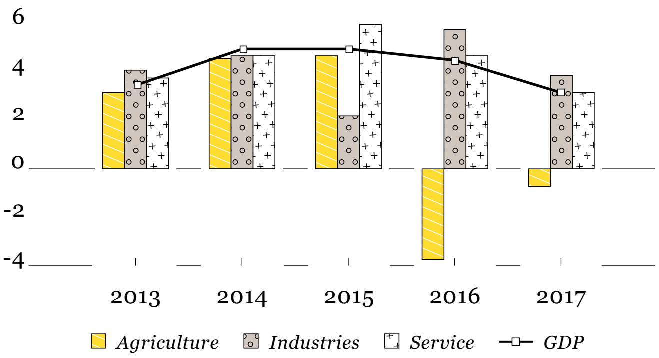
Revenue as a percentage of GDP reduced to 13.8% in 2017 from 14.2% recorded in the previous year due to a reduction in non-tax revenue 1.2% of GDP from 1.9% in 2016. Total expenditure and net lending declined to 19.3% of GDP from 19.6% stood in the corresponding period of 2016 owing to reduction in recurrent expenditure.
As a result, the budget deficit increased marginally to 5.5% of GDP from 5.4% in the same period last year.

Public debt

At 79.3% of GDP, Sri Lanka's public debt is high compared to its regional peers. Moreover, the debt portfolio has deteriorated in several indicators; especially, in relation to external debt. The country's transition towards upper middle-income status has led to more commercial borrowing terms and increased the cost and risk.

Annual GDP growth

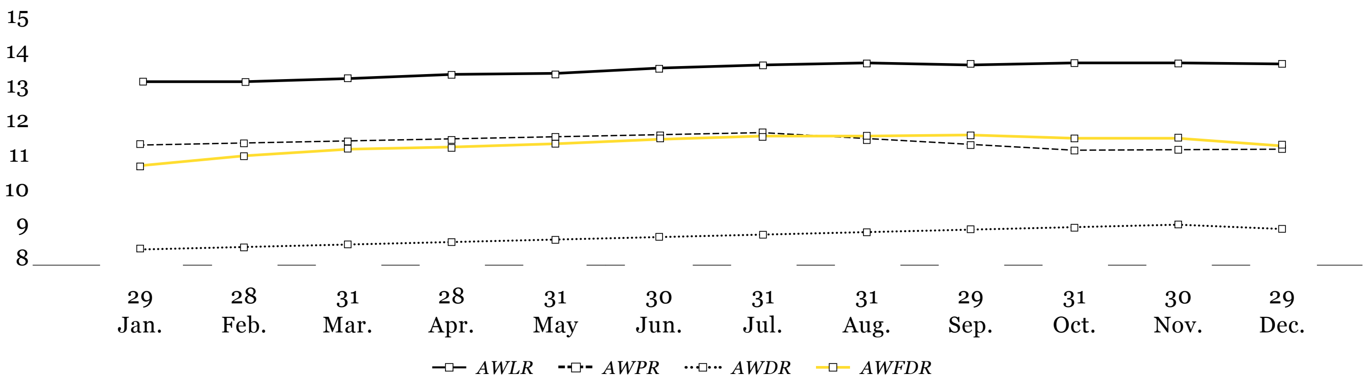
[%]



Annual GDP Growth	2017	2016
Agriculture	-0.8	-3.8
Industries	3.9	5.8
Services	3.2	4.7
GDP	3.1	4.5

Commercial banks lending and deposit rates 2017

[%]



Outlook

The International Monetary Fund (IMF) sees the stabilising of Sri Lanka's economy in 2018 with GDP growth expected to reach about 5%. Growth in the region excluding India is expected to remain stable at an average 5.9% a year, as domestic demand remains robust and exports recover.

Sri Lanka's economic reform agenda, supported by the World Bank and IMF programmes, is expected to sustain macroeconomic stability and support potential growth over the medium term. Public debt is expected to decline amid ongoing fiscal consolidation, which will open fiscal space and enable the country to allocate public spending towards human capital investments that support potential growth.

The Foreign Exchange Act replaced by the Government focuses on further liberalisation of exchange rate flexibility and better management of exchange reserves which could result in attracting more Foreign Direct Investment (FDI) and encourage the free flow of capital. The Inland Revenue Act passed in October 2017 with the objective of reducing the fiscal deficit and simplifying tax compliance could mobilise additional revenue that could support growth-enhancing spending, including infrastructure investment.

Further, Government's policy reforms towards fiscal consolidation, changes to the Foreign Direct Investment Policy to attract investors, formulating cohesive export strategy, and improving international relations are expected to place a significant impact on long-term economic development and country's growth potential.

The Sri Lankan banking industry

Sri Lanka's banking sector consists of 13 local and 12 international licensed commercial banks (LCB) and seven licensed specialised banks (LSB). These institutions have been classified as large, medium, and small banks based on their asset base, with the top 6 banks (assets over Rs. 500 Bn.) holding a dominant share of assets, loans and advances, and deposits. Sri Lanka's financial services sector accounts for 5.7% of the GDP and plays a critical role through financial intermediation in facilitating economic growth. With the Government's regional development agenda, the banking sector is expected to play an important role in enhancing financial inclusion, and providing access to affordable financial solutions across the country.

Growth

Total assets of the banking sector grew 13.77% to Rs. 10.3 Tn. at the end of 2017 underpinned by expansion of credit and investment portfolios, compared to 10.8% growth recorded in 2016. Total loan and advances, which is the largest asset base of the banking sector widened by 16.2% boosted by large disbursements towards transport, trading, tourism, and manufacturing sectors amidst the higher market interest rates.

Profitability

The banking sector reported a profit (after tax) of Rs. 138.9 Bn. during 2017, which is an increase of 19.2% when compared with the corresponding period of 2016. Strong net interest income coupled with significant capital gains and better cost efficiencies were the key contributory factors to this impressive performance. The sector's Return on Assets (ROA) and Return on Equity (ROE) closed at 2.0% and 17.6% respectively.

Asset quality

The NPL ratio dropped to 2.5% at the end of December 2017 against 2.6% clocked in 2016, triggered by recovery measures adopted by banks and higher growth in the credit portfolio despite the NPLs increasing by Rs. 18.4 Bn. to Rs. 160.7 Bn.

Funding position

Deposits, which were the main source of funding, represented 71.9% of the total assets of the banking sector. Total deposit base of the sector expanded by 17.5% to achieve Rs. 7.4 Tn. at the end of the 2017 driven by the term deposits prevailed in the upward interest trajectory. Sector borrowings declined 5.3% to Rs. 1.6 Tn. during the year owing to drop in rupee borrowings following the CBSL announcement to raise policy rates by the 25 bps.

Capitalisation

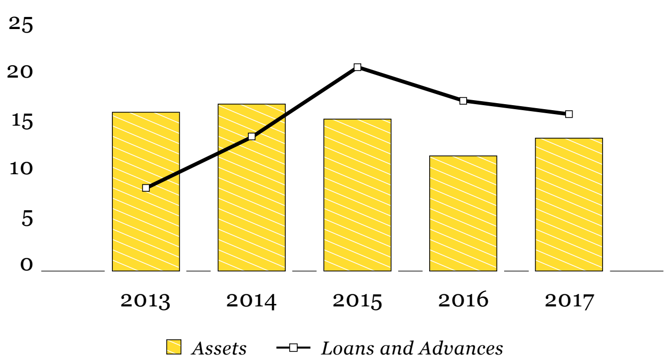
The pressure on banking sector to have a higher percentage of quality capital has increased with implementation of new Basel III direction. The banking sector was able to maintain sufficient capital levels in order to absorb any adverse shocks throughout the year, though it fell due to credit expansion. The Tier 1 Risk Weighted Capital Adequacy Ratio (RWCAR) and overall RWCAR clocked in 12.4% and 15.2% respectively in comparison to 12.6% and 15.6% recorded in the corresponding period in 2016.

Liquidity

Liquidity position of the sector continued to maintain at healthy level and Statutory Liquid Assets Ratio (SLAR) were maintained at 27.2% well above the minimum requirement of 20%, whilst the ratio of liquid assets to total assets registered at 28.3%.

Assets and loans growth

[%]



Deposits and borrowings growth

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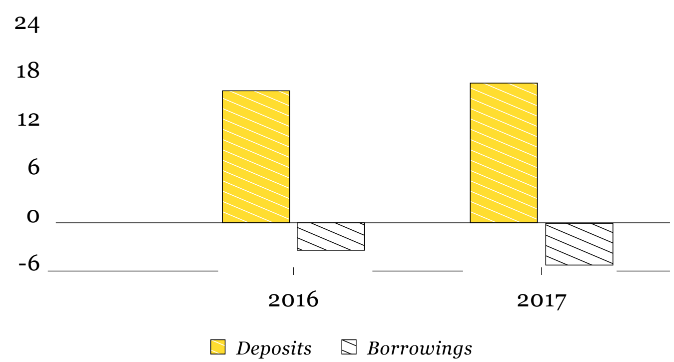

Outlook

The CBSL intends to strengthen the regulatory and supervisory framework to ensure the soundness of banks and protect the customers through the following policy reforms and guidelines. Greater regulatory requirements would increase the cost of banking and lead to a slowdown in loan growth.

CBSL Road Map 2018: Key initiatives

- CA Sri Lanka has issued the Sri Lanka Accounting Standard – SLFRS 9 (Financial Instruments), which would be effective from 1 January 2018. Adoption of the "expected loss model" in place of the "incurred loss model" for impairment testing upon implementation of SLFRS 9 is expected to substantially increase the impairment provision of banks.

- Upon full implementation of Basel III, the minimum total capital adequacy ratio for Domestic Systemically Important Banks (DSIBs) will be 14% from January 2019. Banks will come under pressure with the proposed increase in minimum capital requirements. CBSL with a view to ensuring a stronger and dynamic banking sector has increased the minimum capital requirements for Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs). Enhancing minimum capital requirement will support the implementation of Basel III framework in Sri Lanka to strengthen the resilience of banks, and may lead to consolidation in the banking sector. Accordingly, commencing 31 December 2020 the minimum capital requirement for existing banks will be as follows:

Minimum capital requirements for existing banks

Bank type	Minimum capital requirement Rs. Bn.
Domestic LCBs	20.0
Domestic LSBs	7.5

- The new Inland Revenue Tax is introduced with the view to enhance direct tax. Removal of most of the tax concessions currently available, combined with removal of notional tax credit on Government Securities and introduction of 0.02% Debt Repayment Levy are expected to significantly increase tax liability of banks.

- Introduction of new foreign exchange management framework for further relaxation of capital transactions of the economy.

- CBSL is to develop Anti-money Laundering and Countering the Financing of Terrorism with the view to strengthening the financial intelligence environment.

- Introduction of an effective Flexible Inflation Targeting (FIT) framework to preserve price stability of the economy by targeting inflation rang of 4-6 %.

- Directions have already been issued on financial derivative transaction to streamline the risk management process and foreign currency borrowing limits based on the total assets of a bank replacing the previous direction involving assets of Domestic Banking Unit (DBU) only.

- Adoption and implementation of measures to strengthen the payment and settlement infrastructure and to facilitate the transition to a less-cash dependent society.

- Government's commitment to reform State-Owned Enterprises (SOEs) in order to reduce future financial losses of key SOEs which will have a positive impact on the balance sheets of both the Government and state banks.

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Stakeholders

Our stakeholder engagement process

Being a diversified, responsible financial service provider, deep relationships with our stakeholders are important to us. By achieving sustainable growth that creates long-term value for our stakeholders, we are committed to make a difference in the lives of our stakeholders and to the community in which we operate.

Our long-term business strategies are aligned with the interests of our stakeholders to create sustainable value. Productive stakeholder engagement builds lasting relationships and enabling better service and a better stakeholder experience. Stakeholder feedback gathered through dialogue, collaboration, and other methods (listed below), helps us fulfil their expectations while assessing the socio-environmental, and governance risks and opportunities across our business.

Our stakeholder engagement process involves three stages:

1 *Identification of stakeholders*

2 *Prioritising and identifying key stakeholders*

3 *Methods of engagement*

Identification of stakeholders

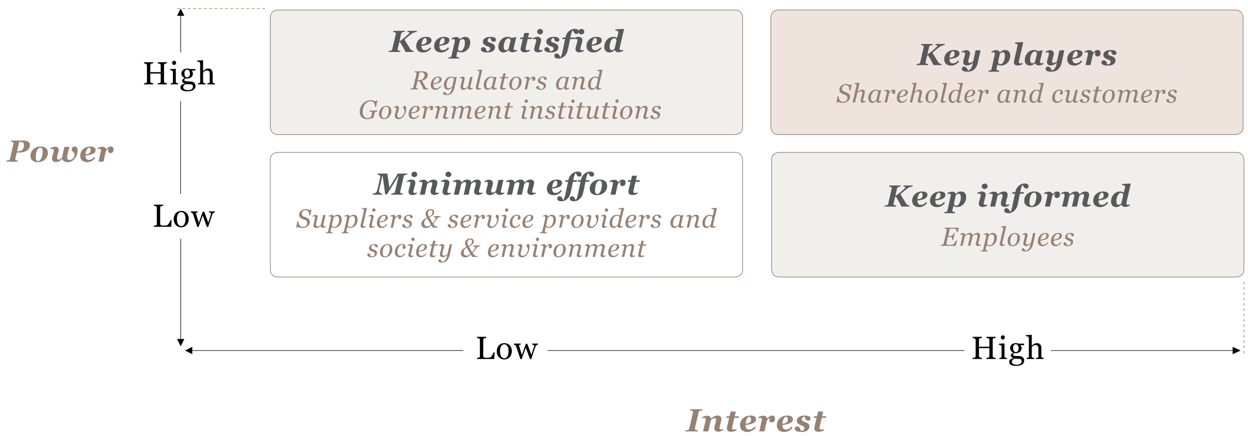
There are diverse individuals and organisations that have a stake in NSB. Our stakeholders are those individuals or groups we influence through our activities, products, and services who in turn has an interest in our operations, strategy, conduct, and business activities. We have identified the following six broad stakeholder groups with whom we consistently strive to build and maintain relationships:

Shareholder	Customers	Employees	Regulators and Government institutions	Suppliers and service providers	Society and environment

GRI 102-42

Prioritising and identifying key stakeholders

We have prioritised our stakeholders based on their relevance to the Bank's issues. We continuously monitor our stakeholders' needs and expectations to create value for them as well as to balance the conflicting priorities of our stakeholders. We identify our key stakeholders by mapping them using the Mendelows matrix.



Methods of engagement

Stakeholder engagement is a core component of our business, our strategy, our annual reporting process, and our activities islandwide. Our engagements range from meetings with local, regional, and national groups to ongoing dialogues with our customers and suppliers. Actively listening to our various stakeholders, engaging in an open dialogue with them and responding to their views and concerns are very important for us.

A summary of the key issues for each of our stakeholder groups, and a table depicting an outline of our stakeholder engagement in 2017 is provided below:

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Stakeholder engagement	Stakeholders
Customers	*Individuals* *Institutions* *Corporates* *Entrepreneurs*
Employees	*Permanent employees* *Employees on contract basis* *Outsourced personnel* *Trade unions*
Shareholder	*GOSL represented by Ministry of Finance*
Suppliers and service providers	*Suppliers* *Utility service providers* *Other service providers*
Regulators and Government institutions	*CBSL* *Ministry of Public Enterprises Development (MPED)* *IRD* *Auditor Generals Department* *Other Government and professional organisations*
Society and environment	*Society at large* *Pressure Groups* *Media*

Method of engagement	As required	Regularly	Periodically	Annually	Quarterly	Monthly	Once in 3 years	As issued	Continuously	Needs and expectations
One to one meetings	●									*Excellent customer service, convenient access across the country, less complexity and improved flexibility, innovative financial services/ solutions, value for money banking, responsible banking services, confidentiality, integrity and accountability, security for their investments, ambience touch points.*
Customer access points	●									
Call centre	●									
Corporate events	●									
Corporate website	●									
Customer awareness programmes		●								
CSR activities	●									
Promotional campaigns			●							
Print and electronic media	●									
Social medias		●								
Formal meetings			●							*Competitive remuneration, career development and advancement, effective performance management, equal opportunities, safe, positive, and inspiring work environment, work life balance, collective bargaining, recognition and reward, grievance handling mechanism, continuous training opportunities to grow as a person and professional, job security, succession planning.*
Informal/Ad hoc meetings	●									
Review meetings	●									
Performance appraisals			●							
Internal newsletter					●					
Operational circulars and guidelines	●									
Training programmes		●								
Intranet		●								
Welfare events and activities		●								
Negotiations on collective agreements							●			
Annual Report				●						*Sustainable performance, sustainable future growth strategy, investment in Government Securities and projects, corporate governance, risk management, comply with rules and regulations, contribution to the Government.*
Financial statements					●					
Corporate website		●								
Media releases and press conferences	●									
Procurement plan				●						*Delivery of contractual obligations, timely payment, transparency in procurement practices, responsible procurement sourcing, future business prospects, integrity and responsibility, long-term partnership, ease of transaction, sustainable business relationships.*
Procurement process	●									
Meetings with suppliers/service providers	●									
Site inspections	●									
Tender notices	●									
Product demonstrations	●									
Publication of information/notices	●									
Directives and circulars										*Performance of the Bank, compliance with all legal and regulatory requirements, active participation and contribution to industry and regulatory working groups, being a responsible tax payer, corporate governance practices, risk management, sustainable business practices.*
Financial statements						●		●		
Statutory examination			●							
Regulatory reporting	●									
Interviews and meetings with representatives of regulators	●									
Industry forums and meetings	●									
On-site surveillance	●									
Delivery channels									●	*Social responsibility activities, employment opportunities, financial resilience, community development, ethical business practices.*
Corporate website									●	
Call centre									●	
Press releases, conferences and media campaigns	●									
Sponsorships	●									
Public relation activities	●									
Funding government infrastructure projects	●									
CSR projects	●									

Creating value for our stakeholders

NSB is part of a socio-economic ecosystem and we recognise that we are dependent on robust relationships with our stakeholders. We appreciate the role of the stakeholders and are committed to nurturing impactful relationships that deliver mutual benefits.

Stakeholder	Why do they matter	How we create value		
Customers	Customers are at the centre of our business and customer focus provides the basis to achieve a profitable and sustainable business. Customers provide the source of funds that allow us to fund lending activities.	Safeguarding deposits and investments while growing returns.	Rolling out more efficient channels and providing cheaper, more convenient banking options.	Developing innovative solutions that meet our customers' specific needs.
Employees	Skills, experience, and activities that our employees carry out drive the day to day operations of our business. How our people think and feel about work are directly connected with customer satisfaction levels.	Employing people in the community in which we operate.	Offering attractive remuneration and reward for the value they added. Skills training and development initiatives. Motivating and inspiring our work force.	
Shareholder	Government of Sri Lanka as the sole shareholder expects the Bank to be a major contributor for financial stability and resilience of the economy.	Contributing meaningfully to government budgets through our own corporate taxes, staff paying PAYE taxes, and participation in Government Securities investments.	Generating sustainable financial returns (while respecting environmental limits), enabled by growing revenues. Managing risks and managing our expenses wisely, while optimising our cost base.	Maintaining a strong balance sheet which contributes to a safe and stable banking system that instils confidence and protects against downside risk.
Regulators and Government institutions	They provide the licence to operate the Banking business.	Embracing sustainable banking practices and regulatory compliance that enable a safe and stable banking system.	Comply with regulartory requirements to mitigate against systemic risk. Ensuring customer confidence in the Bank and reducing potential for reputational risk.	Providing timely and detailed regulatory updates and disclosures.
Suppliers and service providers	They provide the equipments and expertise support services needed to develop and maintain our operations. Impact on our ability to provide products and services cost effectively.	Maintaining healthy mutual beneficial relationship with suppliers and service providers.	Having Regular direct communication with major suppliers. Awarding the contract within the minimum time period possible and making the payments promptly.	
Society and environment	Social relevance is fundamental to our survival and success,and underpins our purpose and vision. Ensures continued viability of the business into the long term. We aim to contribute positively to the communities and environment in which we operate.	Facilitating transactions that are the backbone of economic value exchange.	Stable and permanent jobs created helps to improve the development of society and enhance the standard of living.	Introducing products and services to promote energy efficiency and environment conservation.

How we created value in 2017			Outlook 2018 & Beyond	
Extended Rs. 187.3 Bn. in new loans. We paid Rs. 60.2 Bn. interest to our deposit holders. We increased branch outlets to 253, making branch engagements more convenient	and consistent, while providing Internet banking, and cash-accepting ATMs. Launched iSaver innovative solution that address the needs of our customers and enabling financial inclusion by providing access to	affordable products. Reduced payment delays through CEFTs. Increased customer touch points through Lanka Pay connectivity.	We are committed to deliver great customer experiences with simpler, convenient and efficient service, innovative products, and competitively priced products through our customer-centric strategy.	We aim to improve customer satisfaction and experience by building our capabilities in advanced analytics, user experience design, effective campaign management and a more aggressive marketing and commercialisation approach.
Created 216 new permanent and contract employment opportunities. Paid Rs. 6.9 Bn. to employees in terms of salaries and other benefits, representing 6.4% of total value distribution.	Invested Rs. 34.4 Mn. in training and development programmes. Female representation in the workforce increased to 58%. Young generation who are below than 30 will make up of	38%, which positions us well for the digital transformation that we have embarked on.	Our focus is to consistently improve employee experience and enhance the effectiveness of our employee engagement through our inspired dynamic team strategy.	
We contributed Rs. 8.3 Bn. to the Government in terms of taxes and levy, 7.7% of total value distribution. In addition, the Government received Rs. 5.1 Bn. in the form of dividend.	Posted strong financial results – Profit before Tax grew by 5%. Total assets surpassed Rupees One Trillion. Cost to income ratio declined to 38%.		A strong and profitable business enables continued investment in our staff and operations, which in turn creates value for our customers and society at large.	We continue to engage in generating sustainable performance through embedding risk and compliance culture strategy.
Maintained Fitch Rating Lanka AAA (lka) rating for the 15th consecutive year. Made Rs. 7.9 Bn. tax contribution Invested more than 60% in Government Securities to support funding needs of the Government.	We have adopted a zero-tolerance approach towards compliance risk. We complied with or made progress on all key aspects of Basel III requirements, with a Tier 1 ratio of 11.93% above the CBSL requirements of 7.75%	and well above our target With regard to the Liquidity Coverage Ratio we have achieved 376.18% above the 2017 CBSL minimum (All currency) requirement target of 80% and remain well on track to achieve 100% NSFR compliance by 2018	We will implement the myriad of regulatory and compliance requirements on time.	We strive to engage with government and regulatory bodies in a proactive and transparent manner through proactive capital management and risk and compliance strategy.
We paid Rs. 295 Mn. to our utility providers including providers of Electricity, water and Telecommunication. 100% of suppliers are local.			We will continue to keep a collaborative relationship with the suppliers as a responsible organisation striving for excellence through being a responsible and socially committed Bank.	
Recorded over Rs. 19.14 Mn. of infrastructure financing commitment. 6,486 of homes financed by us. Loan product was introduced which enabled the customers to add solar panels to their homes	to reduce their electricity bills and energy conservation and 902 renewable energy loans were granted. Rs. 20.4 Mn. worth of investment allocated to programmes and projects to support community development.	Refer to page 135 to see our detailed community development projects and beneficiaries. Under the NSB Agroforestry project we distributed 25,000 plants islandwide.	Corporate citizenship commits us to using our resources responsibly as inputs to our business model and balances our needs with those of society.	We will continue to focus on improving sustainability practices through our responsible and socially committed bank strategy.

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Materiality matters, risks, and opportunities

This section delineates NBS's management approach framework where the Bank navigates through the socio-economic, and environmental impact and outlines process of determining and discussing the material aspects of the Bank.

In our integrated approach to doing business, we see materiality as a tool. Our material matters represent the issues that have the most impact on our ability to create value in the short, medium, and long term. Evolving stakeholders' concerns and emerging new trends and developments determine material matters.

We consider an issue to be material if it has the potential to substantially impact our commercial viability, our social relevance, and our relationship with stakeholders. Our process of identifying and determining material issues includes an analysis of our Business Model (page 34), our operating environment (page 37), stakeholder engagement (page 48), as well as issues that stem from our risk management process (page 201).

Internal information

- *Issues that received the most attention of the Board and the Management during the year*
  - *Management Committee reports*
  - *Board Committee reports*
- *Research analysis done by the Research and Development Division on market conditions and sentiments*
- *Internal Audit reports*
- *Employee workshops*

External information

- *Reports and publications from regulatory bodies*
- *Issues raised in parliamentary and Government speeches, statements, and policy documents.*
- *Reports and articles by industry analysts and Rating agencies*
- *Media coverage*
- *Global and regional development concerns*

Determination of material issues

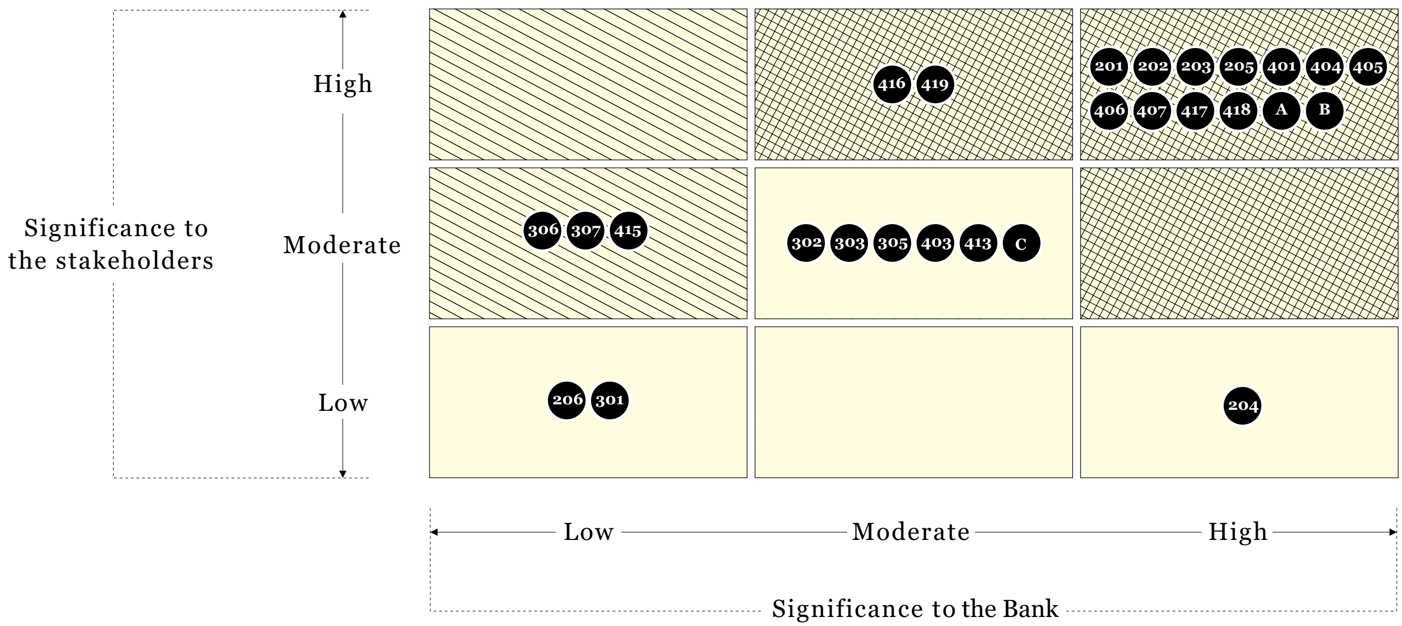
Prioritising material aspects through the mapping process

This materiality matrix shows the most relevant concerns for NSB that we identified in the materiality study, prioritised according to the level of importance for the business and for stakeholders as well as their strongest interconnections. How the identified Bank's material aspects correspond to the topics prescribed by GRI standards as well as non-GRI standards are mapped and presented below:

GRI 102-47

GRI Topic	Significance to Bank's operations	Boundary	Materiality To the Bank	 To the stakeholders
GRI 200: Economic				
201 Economic performance	High	Internal	High	High
202 Market presence	High	Internal	High	High
203 Indirect economic impacts	High	Community	High	High
204 Procurement practices	Low	Internal	High	Low
205 Anti-corruption	High	Internal	High	High
206 Anti-competitive behaviour	Low	Community	Low	Low
GRI 300: Environmental				
301 Materials	Low	Internal	Low	Low
302 Energy	Moderate	Internal	Moderate	Moderate
303 Water	Moderate	Internal	Moderate	Moderate
305 Emissions	Low	Internal	Moderate	Moderate
306 Effluents and waste	Moderate	Environment	Low	Moderate
307 Environmental compliance	Low	Environment	Low	Moderate
GRI 400: Social				
401 Employment	High	Internal	High	High
403 Occupational health and safety	Moderate	Internal	Moderate	Moderate
404 Training and education	High	Internal	High	High
405 Diversity and equal opportunity	High	Internal	High	High
406 Non-discrimination	High	Internal	High	High
407 Freedom of association and collective bargaining	High	Internal	High	High
413 Local communities	Moderate	Community	Moderate	Moderate
415 Public policy	Low	Community	Low	Moderate
416 Customer health and safety	Moderate	Customers	Moderate	High

GRI Topic	Significance to Bank's operations	Boundary	Materiality To the Bank	To the stakeholders
417 Marketing and labelling	High	Internal/ Customers	High	High
418 Customer privacy	High	Customers	High	High
419 Socio-economic compliance	Moderate	Community/ Environment	Moderate	High
Other topics				
A Risk management and business continuity	High	Internal	High	High
B Digitalisation and channel optimisation	High	Internal/ Customers	High	High
C CSR Activities	Moderate	External	Moderate	Moderate



We have clustered these material aspects into following six material issues to improve the connectivity to the other sections of the Report:

1 — Volatile and uncertain socio-economic environment

2 — Increased regulatory environment, governance and risk management, and new emerging regulations

3 — Scarce and evolving skill requirements

4 — Remain competitive in the industry and maintain sustainable performance

5 — Rapid technology developments

6 — Changing customer requirements

We address them by evaluating their impact and coming up with strategies to mitigate those with the potential to disrupt value creation as well as management interventions to capitalise offered opportunity for greater value creation.

The following is a detailed outline of the Bank's current material issues, together with risk and opportunities emanated from material issues, their potential impacts on value creation, and our strategic responses. Our strategic responses depend on the severity of impact and likelihood of occurrence of the risks and opportunities we face.

Volatile and uncertain socio-economic environment

Macroeconomic factors impact our ability to sustain business and achieve market commitments. The volatile nature of global and local economies on inflation, interest rate, and exchange rate have a significant impact on our operations. Sri Lankan economy continues to face headwinds: pressure on the rupee, escalating imported inflation, and a possible further sovereign rating downgrade. Consumers remain burdened by high levels of debt, diminishing levels of disposable income, escalating energy prices, and rising inflation.

Risks and opportunities		Impact on value creation	Strategic response
Risks	Slowdown in GDP growth, increase in inflation along with volatility in interest and exchange rates may increase business risks.	Slower GDP affects consumer spending, credit demand, and public and private sector investment which influence retail lending and corporate lending activities. A slower GDP growth along with increase in inflation affects the disposable income and savings ability of the public leads to lower deposit mobilisation. Higher inflation causes the cost pressures and increases the operating expenses of the Bank. Negatively affects on earnings growth potential and capital generation while increasing the risk of higher cost of funding and NPLs.	Continue to respond to changes in leading indicators of macro economic conditions with definitive steps to mitigate risks and unlock opportunities. Adequate pricing mechanism to attract appropriate deposit type and mix. Prudent risk management approaches and remain profitable with our risk appetite framework in the right market segments. Using market intelligence related to businesses and industry trends.
Opportunities	Improving revenue generation capacity in rising interest rate scenario. Increased infrastructure projects carried out by government.	Higher interest rates on loans and advances positively impact in our revenue generated through interest income. Expanding the Corporate lending portfolio by contributing towards financing infrastructure projects.	Maintain and strengthening capital and liquidity level in excess of regulatory requirements to absorb economic downturns. A dedicated and committed approach to responsible lending. Customer centric service to understand our customer's requirements and identify and manage risks.
Stakeholders involved		Regulators and Government institutions, customers, society and environment.	
Strategic focus areas		Customer, growth, operations, risk, and compliance.	

Increased regulatory environment, governance and risk management, and emerging regulations

Regulation of the financial services industry, though essential, has become more and more rigorous. Governance of all industry-related risks is essential along with adherence to regulations to protect both the industry and the customers. A rapidly changing regulatory landscape in the industry may impact the speed and ability of financial service providers to react to changes. This may be accompanied by increased costs or added difficulty in doing business. Liquidity is highly competitive in the financial services industry due to regulatory requirements and demand for higher returns by investors.

Global regulatory frameworks are becoming far more principles-based and outcomes-driven, requiring banks to ensure that every decision they take is appropriate to individual customer interests, while maintaining the stability and integrity of financial markets. We support regulatory reform that contributes to stable financial systems and that facilitates inclusive economic growth in Sri Lanka.

Risks and opportunities		Impact on value creation	Strategic response
Risks	Significant accounting and regulatory developments including: – Basel III implementation – IFRS 9 implementation – Inland Revenue Act – Foreign Exchange Act may affect Bank's existing business model	Regulatory requirements impact revenue, costs, and shape the Bank's balance sheet. (Increase in provisioning levels, compress the margins.) Higher compliance costs, non-compliance with regulations resulting in penalties and reputational risk. Requirement to comply decreases the investment and time for technology and innovation. Volatility in impairments resulting from IFRS 9 application and implementation will lead to an increase in provisioning level and an expected increase in cost of risk over the medium to long term.	Maintain a coordinated, comprehensive, and timely approach to identify, assess, and respond to regulatory changes. Understand evolving frameworks and plan, manage, and report promptly and appropriately. Comply with relevant regulation and legislation by review and revamp internal models and processes in readiness for implementation in the stipulated time period. Implemented an anti-corruption, anti-money laundering, and anti-terrorist financing programme to prevent the giving and receiving bribes and other corrupt acts.
Opportunities	Increased focus on customer protection and corporate conduct enabling the Bank to sustain stronger balance sheet during economic downtimes and recessions and well positioned for growth as economy grows.	Efficient governance structures which lead to better management, greater efficiencies, and, in some areas, reduced risk.	
Stakeholders involved		Regulators and Government institutions and customers.	
Strategic focus areas		Customer, growth, operations, risk, compliance, and reputation.	

Scarce and evolving skill requirements

Employees are integral to our business and the primary link in our high-touch customer service model. Banking and financial services continue to evolve and become more complex. Providing excellent service, driving balance sheet growth while managing complex risk increases shareholder value and remaining liquid and solvent requires the highest level of skilled, customer focused, and analytical employees.

Our employees are vital in allowing us to provide products and services in line with our strategy. Having the right people at the right places, with the right training and skill sets, is essential to our success and innovation. If our people are not managed well, we run the risk of negatively impacting customer satisfaction, which would reduce our competitive edge in the market. There is a significant increase of specialised skills in Sri Lanka, which has resulted in high levels of competition for recruiting the most qualified people, especially in the banking and financial services industry.

We must ensure that our people are empowered and recognised for embodying our values and for delivering on our strategic objectives. We provide our people with the opportunity to realise their full potential, and to develop the skills and adaptability needed to thrive in a rapidly changing world.

	Risks and opportunities	Impact on value creation	Strategic response
Risks	Intense competition in the labour market when acquiring specialised skills and emigration of highly skilled people. Transformation of people and bridging the skills gap. Demand for future required sources and current employee skills set due to evolving technological developments . Work-life balance.	Continuous investment on the training and development programmes to transform the people and bridging skills gap. Cost pressure due to recruiting highly skilled employees on specialised areas and ongoing trainings. Unskilled and skills gap negatively impact the customer experience and satisfaction.	Responsible recruitment and remuneration policy to attract and retain skills and talent. Driving a performance culture: Fair and transparent performance management linked with personal development programmes. New ways of working and tailor-made employee learning and development programmes. Proactive talent and succession planning.
Opportunities	Able to attract the best skills with right attitude. Transform our people into an innovative and techsavy.	Increasing expectation on the employee experiences and value propositions.	Diverse and equipped workforce to execute our strategies and nurture talent allow us to be speedy and agile in responding to changes in our volatile socio-economic environment.
Stakeholders involved		Employees, customers, and suppliers and service providers.	
Strategic focus areas		Customer, people, growth, operations, risk and compliance, and reputation.	

Remain competitive in the industry and maintain sustainable performance

Remaining profitable and growing our business requires the loyalty and support of our stakeholders. Being the largest specialised bank set up to foster a savings culture amongst Sri Lankans, the Bank’s sustainability is dependent upon the economic value addition to the country. Value is measured differently for each of our stakeholders, and this necessitates an understanding of their key concerns and preferences to provide an outcome that is mutually beneficial.

The financial services industry continuously experiences innovation in doing business, primarily driven by regulatory and technology changes to customer needs and preferences. Increased regulatory requirements to new entrants reduce the number of new entrants to the industry, however, the competition from Non-Banking Financial Institutions (NBFIs) has increased as they tend to provide alternative solutions.

The banking sector has been transformed by the digital age. The expectations that are placed on banks by customers have increased significantly. Customers are empowered to select the most effective options for their needs.

Risks and opportunities		Impact on value creation	Strategic response
Risks	Increased competition. Loss of market share. Weak business volumes. Managing the cost base. Digital competition.	Competition erodes revenues and profitability. Increase in the cost base compress the margins. Increase customer acquisition and retention cost.	Continuous focus on cross selling of products and services and new product development. Disciplined and careful management of cost base, proper pricing mechanism for funding, and investment mix. Transit from branch-centric model to cheaper self-service, multi channel model. Sustain revenue generation capacity while creating new revenue streams and cost efficiencies. Bolster brand reputation.
Opportunities	Diversifying income streams. Force companies to innovate to remain relevant and competent.	Reducing the over dependency on investment in Government Securities and increase the fee-based income. Allow us to be customer centric.	
Stakeholders involved		Regulators and Government institutions, customers and employees.	
Strategic focus areas		Customer, growth, operations, and reputation.	

Rapid technology developments

The technological revolution sweeping through the financial services industry is causing profound disruption. To prove our relevance in an increasingly digital world, we are actively embracing disruption and innovation, and working with innovation partners to deliver better value for our customers. We strive to find ways that make financial services more cost-effective, convenient, and relevant.

Over the past couple of years we have made investments in modernising our IT platforms, replacing our ageing systems. It has also strengthened our resilience against cybercrime and improved integration across our business units.

Risks and opportunities		Impact on value creation	Strategic response
Risks	Changing customer behaviour due to rise in disruptive technologies such as cloud computing, big data, advanced analytics, machine learning, block chain technology, artificial intelligence, and bio metrics. Threat of confidentiality and cyber security. The increasing value of information. Disintermediation, non-traditional competitors are distributing financial products and try to capture market share.	Compelled to innovate or adapt new technologies to remain and relevant in a competitive industry. High capital investments for digital technology and security systems. Complexity of managing technology, information and cyberrisks is increasing. Breaches in the security systems could involve in operational disruptions, security breaches, and loss of reputation.	Improving digital communication channels and optimising the digital customer experience. Automate and digitalise internal processes. Continue to invest in technology platforms, processes, and controls. Strengthening IT infrastructure.
Opportunities	Improving efficiency Faster delivery of services at lower cost New trends in digitalisation	Decline in overall cost base by shifting to customer-centric delivery channels. Ability to create new revenue streams. Ability to understand customers' requirements and respond efficiently and effectively. Strengthening our cyber security gives confidence to customers.	
Stakeholders involved		Regulators and Government institutions, customers, employees, suppliers and service providers.	
Strategic focus areas		Customer, growth, operations, risk and compliance, reputation, and people.	

Changing customer requirements

We aspire to build long-term, fulfilling relationships with our customers by understanding and responding to their needs effectively and efficiently. We strive to continually improve the customer experience at our branches, on mobile and online banking platforms. Our culture, underpinned by our values, aims to ensure that our customers are treated fairly at all times and that their best interests are placed first in every decision we take.

Risks and opportunities		Impact on value creation	Strategic response
Risks	Customers awareness on various bank offerings, quality of service, and pricing lead to reducing loyalty and increased customer switching. Increasing customer expectation.	Increase the customer acquisition and retention cost. Higher investment in innovation and digitalisation. Self-service platforms are changing the nature of customer relationships and business model. Boosting lending for consumption.	Build long-term relationships by understanding and effectively responding to their needs. Continually improve the customer experience at branches and on mobile and online banking platforms. Training in advisory and make advisory is a key differentiator. Transition to multi channel customer-centric model. Strengthen our sustainability footprint focusing on responsible lending, financial inclusion and SDGs. Acting ethically to maintain trust of the customers.
Opportunities	Greater need for advice. Making positive impact on society and the environment.	Increase the confidence of the society which is looking to deal with sustainable business. Increase customer loyalty through value propositions based on segmentation and financial advice.	
Stakeholders involved		Regulators and Government institutions, customers and employees.	
Strategic focus areas		Customer, growth, operations, risk and compliance, and reputation	

Our strategy

Our strategy is designed to ensure a sustainable business which creates value in the short, medium, and long term. It is firmly anchored to our vision of being "the most reliable and sought after choice for your savings". Equipped with a new triennial business plan (2017-2019), the Bank has identified key strategies to focus on. In developing the strategic plan, a company-wide, inclusive approach was taken with the participation of staff and Management at different levels. It involved in-depth discussions with all members of the corporate management, highly interactive residential workshops with employees across all the staff categories, and an intensive research where staff had the opportunity to provide their proposals, views, and suggestions.

NSB's strategy can be divided into two sections: long term and short to medium term:

Long-term strategies

The Bank identified five long-term strategies to be implemented through our corporate business plan. They are: Become a digitalised bank, driven by people, diversification, innovation, and strength and sustainability.

Become a digitalised bank

The banking industry is going through radical changes and digitalisation is the foundation of the next phase of growth in the banking and financial services industry. NSB sees technology as an essential core competency and a key differentiator to drive future growth. Customers' evolving demands coupled with changes in social and demographic structures and economic outlook put pressure on the Bank to invest in digitalisation. The Bank will adopt end-to-end innovation integrating digitalisation from a front to back manner by modernising core processes in back office systems and developing front office platforms. The Bank formulates a holistic digitisation strategy encompassing clear strategies that address customer-centric, multidimensional delivery channel and modernising products and services to allow increased digital delivery and marketing supported by an agile, efficient IT infrastructure.

Driven by people

People who share our values and feel a personal responsibility for the success of the Bank are fundamental to the achievement of our vision. The Bank needs to ensure that all the employees poses right skills and attitude to adopt the present as well as future requirements, as agility and constant change will become the norm at the present context in the industry. The essence of the digital transformation will be laid on agility, flexibility, autonomy and innovation. It creates an environment of openness, opportunity and trust and allows being adaptive and responsive to change. The digitalisation of processes, deployments of digital solutions, strategic cultural shifts, moving to more customer centric and integrated approach have a transformational impact on behaviour and skills of the people. Hence, the Bank is committed to preparing people for change, promoting culture of service excellence, embedding risk and compliance culture, and training and developing to grow and succeed throughout their careers.

Diversification

The Bank aims to diversify its business spectrum with the view to enhance new investments and opportunities aligned with its vision to become the most reliable and sought after choice for the savings. As a National Budget proposal, NSB will focus on the acquisition of the Sri Lanka Savings Bank (SLSB), which it believes gives it diversified and growing exposure to the Sri Lanka banking and general services industries by reaching untapped market segments with new segments of financial services. Further, the Bank looks into new avenues of revenue in the present competitive operating environment through the contribution from traditional banking services as well as non-banking services by introducing innovative products and services to the market with the view to boost the bottom line

Innovation

Innovation has become one of the drivers of growth, performance, and valuation of any organisation given the disruptions caused by digital technology and globalisation. The Bank will develop innovative solutions to its customers by enabling innovation in business processes, delivery channels, value chains, and business models to take advantage of emerging opportunities. The Bank will create an environment that nurture innovation. This will contribute to the customer experience, financial inclusion, and make a positive impact on society.

Strength and sustainability

Strong capital and liquidity buffers are key drivers of financial stability. NSB will continue to focus on building a strong and sustainable bank which creates long-term value for stakeholders by increasing capital strength and developing a sound liquidity position. Nevertheless, we believe that sustainability will be generated not only by organic growth but also through improved efficiencies. We are striving to grow within our prudent risk appetite and our legislative act, maintaining our legacy. We intend to increase market share in our key business lines, acquiring higher business volumes leveraging widespread foot print of branches and continuing expansion of network and digital channels while strengthening our risk and compliance culture.

Short to medium-term strategy

To fulfil our strategic objectives, we have built following key strategic pillars in our strategy formulation process:

Customer-focused:

We continue to support our customers by understanding their requirements through offering products, services, and excellent customer experience which will make NSB the Bank of choice.

Inspired, dynamic team:

Engaged employees lead to engaged customers. We are committed to invest in our employees who set us apart from the competition.

Sustainable performance:

We focus on increasing business volumes, relating to retail lending and attracting sustainable deposits.

Responsible and socially-committed:

As a specialised Bank with deep social roots, we have embedded our contribution to the SDGs in our community development projects.

Prudent risk and compliance culture:

We are committed to instil a prudent approach to risk management to keep the Bank safe.

Operationally excellent:

We continue to simplify and standardise our operations and internal processes to deliver a superior customer and employee experience.

Optimised capital management:

We continued to improve the fundamentals by increasing our capital strength and building a robust liquidity position.

Resource allocation

Resource allocation is the most critical means of translating corporate strategy into action. NSB allocates prudently the myriad resources the Bank possess in the form of capitals: financial, intellectual, manufactured, human, social and relationship, and natural to create sustainable value for our stakeholders. Our strategy is geared to achieving equitable resource allocation across all capitals.

In the implementation of our strategy, NSB takes a macro view of the intrinsic trade-offs in the allocation of the scare financial and non-financial resources which will affect returns.

Customer-focused

Key initiatives 2017

Expansion of customer touch points.

Providing greater convenience.

Launch of new products.

Providing value-added services.

Achievements in 2017

Refer: Manufactured capital. Page 102

Customer capital. Pages 126 to 131

Outlook 2018

Refer: Financial capital. Page 86

Manufactured capital. Page 105

Social and relationship capital. Page 139

Sustainable performance

Key initiatives 2017

Enhance revenue generation capacity.

Achieving growth in earnings.

Broadening the deposit base and loan portfolio.

Identifying Opportunities for acquisition and organic growth.

Transforming loss-making branches to profit-making status.

Achievements in 2017

Refer: GM/CEO's Review. Page 30

Financial capital. Pages 73-89

Outlook 2018

Refer: Financial capital. Pages 86 to 89

Operationally excellent

Key initiatives 2017

Enhance efficiencies and reduce cost to income ratio.

ICT investment to improve operations.

Invest in our people, systems, and process to provide better service and be competitive.

Improving credit quality.

Achievements in 2017

Refer: Financial capital. Pages 77 and 82

Intellectual capital. Pages 96 to 99

Outlook 2018

Refer: Manufactured capital. Page 105

Intellectual capital. Page 99

Financial capital. Page 88

Inspired, dynamic team

Key initiatives 2017

Building a performance-driven culture.

Encourage employees to participate in strategy and business planning process.

Foster training in critical professional and leadership skills.

Wide range of continuous development programmes.

Encouraging employees to complete professional exams.

Improving employee wellbeing by offering benefits and extra-curricular activities.

Achievements in 2017

Refer Human capital. Pages 112 to 118

Outlook 2018

Refer Human capital. Page 121

Responsible and socially-committed

Key initiatives 2017

Exemplary corporate responsibility practices through supporting the community, and the environment.

Proactively engage with key stakeholders.

Building stakeholder trust.

Achievements in 2017

Refer:
Financial capital. Page 80

Social and relationship capital. Pages 135 to 139

Natural capital. Page 143 to 145

Outlook 2018

Refer:
Social and relationship capital. Page 139

Natural capital. Page 145

Optimised capital management

Key initiatives 2017

Management of capital by anticipating and adapting to new regulatory requirements.

Improvement of asset base.

Reduce non-performing assets.

Achievements in 2017

Refer:
Financial capital. Pages 77, 82 and 84

Risk management report. Pages 236 to 238

Outlook 2018

Refer:
Chairman's message. Page 23

Risk management report. Page 237

Prudent risk and compliance culture

Key initiatives 2017

Implementation and strengthening of sound asset and liability management process.

Actively evaluating and mitigating risk, and maintaining effective governance systems.

Regulatory awareness initiatives and compulsory compliance training.

Achievements in 2017

Refer:
Financial capital. Page 84

Human capital. Page 119

Social and relationship capital. Page 125

Risk management report. Pages 201 to 238

Outlook 2018

Refer:
Stakeholders. Pages 51

Financial capital. Pages 88 to 89.

Refer to Risk management. Page 237

The Bank strives to strike a balance in this process which may result in trade-offs. Prudent resource allocation and management lead to improvements in sustainable growth.

Resources	How we manage our resources	Reference
Employees	We grew our workforce to support strategic initiatives and meet business needs. Enhanced skills through training.	Refer to Human capital. Page 108
Customer relationships	We enhance our customers' loyalty by understanding their needs and improving their experience with us. We leveraged technology to scale up our customer base in an efficient manner.	Refer to Customer capital. Page 126
Technology	Our investments in technology ensure our IT platforms support our expansion in the business. From this year, our spending has shifted from strengthening the core IT infrastructure to building up our digital channels to enhance customer experience.	Refer to Manufactured capital. Page 103 Refer to Intellectual capital. Page 96
Society and other relationships	We built up our relationships underpinned by our legitimacy, reputation and the trust.	Refer to Social and relationship capital. Page 124
Infrastructure	We optimised our branch footprint to enhance reach and transformed branches from service channels to sales outlets. Increased our cash withdrawal points and upgraded existing ATMs focused on the user experience and reduced downtime.	Refer to Manufactured capital. Page 102
Natural resources	We strive to reduce our environmental foot print by undertaking green building initiatives. Green banking initiatives are introduced.	Refer to Natural capital. Page 142
Financial capital	Another year of recorded earnings created distributable financial value. We retained profits to strengthen our financial soundness resulting an increase in Basel III CAR.	Refer to Financial capital. Page 73
Deposit base	Despite intense competition, we grew our customer deposits.	Refer to Financial capital. Page 83

Managing capital requirements

NSB takes an active, consistent, and forward-looking approach in the management of the capitals. Below are the primary trade-offs related to each capital in 2017.

Financial capital

Organic financial capital growth and the improvement of operational efficiencies have resulted in the expansion of all the capitals. However, the Bank's requirement to maintain a minimum capital level will result in a decrease of investments to our ICT systems, banking channels, and other activities.

Manufactured capital

The expansion of our reach and customer touchpoints islandwide has resulted in a reduction of capitals. The Bank sees this as a necessary investments that bolster our business and lead to financial returns in the future. The Bank has taken prudent measures to mitigate any negative impact on the environment through eco-friendly, sustainable practices and improving and updating the existing infrastructure.

Intellectual capital

Investments in intellectual capital leads to improvements in operational excellence, the internal systems, and processes of the Bank. The Bank's investments in the ICT infrastructure has had a positive impact on the manufactured and intellectual capitals but a negative impact on the financial capital.

Human capital

Recruitments, promotions, health benefits, and initiatives to improve employee wellbeing have positively impacted human and social and relationship capitals and negatively affected financial capital. Investments in training the Bank's employees has resulted in a growth of intellectual capital.

Social and relationship capital

Investment in the society and environment through ongoing CSR projects has strengthened social and relationship and natural capitals and reduced our financial capital in the short term. These initiatives will lead to economic and environmental sustainability.

Natural capital

The expansion of our operations in the manufactured capital adversely impact natural capital. The Bank has taken measures to mitigate the negative impact of its operations on the environment by adopting key initiatives like the use of renewable resources, efficient energy management, paper-less communications, green buildings, installation of solar panels, and more.

Towards a bold, new digital world...

NSB is *au courant* of the new financial ecosystem created through digitalisation of the sector. We realise that to stay relevant, to reduce the digital gap, and to make a lasting impression, we have to stay connected and engaged with our stakeholders, physically as well as virtually.

Management Discussion and Analysis

Financial Capital

Financial capital is essentially a pool of funds used to create value through conversion into other forms of capital. This capital is raised through financing (equity and debt), and operations (Deposits). Funds so generated are in turn utilised for operations and capital investment projects, to create sustainable returns within the approved risk appetite and to meet regulatory minimum requirements.

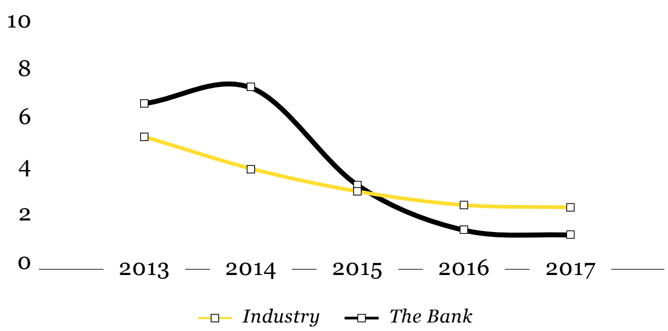
Overview

The year 2017 was a momentous year for the National Savings Bank, with the Bank ending the year with a stellar financial performance recording its highest ever PBT of Rs. 14.0 Bn. and PAT at Rs. 9.6 Bn. The Bank witnessed an all round growth in core business areas. A significant growth in business volumes coupled with a gain of Rs. 1.1 Bn. from trading in Government Securities contributed to this performance. Other factors such as the implementation of sound marketing plans, investments on strengthening the brand, and prudent management of risk facilitated these achievements. The impact of the substantial increase in interest cost and the resulting drop in the net interest margin was offset by a substantial increase in business volumes. Consequently, the interest income stood at Rs. 103.4 Bn.

NSB also became the first licenced specialised bank to amass an asset base of Rupees One Trillion. which is another significant landmark. Demonstrating the sound management of its credit portfolio, and excellent asset quality, the gross NPL ratio decreased to 1.3%, one of the lowest in the banking sector average. Growing share in remittances business bears testimony to the confidence placed in it by Sri Lankan expatriates.

NPL ratio (gross) Bank vs Industry

[%]



Year	Bank %	Industry %
2013	7.0	5.6
2014	7.6	4.2
2015	3.5	3.2
2016	1.6	2.6
2017	**1.3**	**2.5**

Analysis of Income Statement

Income statement summary

Item	2017	2016	Increase/ (decrease) Rs. Mn.	Growth %
Interest Income	**103,400**	86,390	17,010	19.69
Interest Expense	**78,445**	60,923	17,522	28.76
Non Interest Income	**4,417**	1,009	3,408	337,80
Operating Expenses	**11,047**	10,344	703	6.80
Impairment Charges	**693**	(100)	793	(795.37)
Profit before Tax	**14,029**	13,303	726	5.46
Taxation	**7,913**	6,596	1,317	19.96
Profit after Tax	**9,610**	9,498	112	1.18

GRI 201-1

Direct economic value generated and distributed

	2017 Rs. Mn.	2016 Rs. Mn.
Direct Economic Value Generated to:	**107,817**	87,399
Operating Expenses	**4,643**	3,613
Depositors	**78,445**	60,923
Employees	**6,887**	6,235
Providers of Capital	**5,111**	12,026
Government except dividends	**8,331**	7,225
Direct Economic Value Retained	**4,400**	(2,623)
Direct Economic Value Distributed	**103,417**	90,022

Net interest income

Gross income of the Bank grew by 23.4% to Rs. 107.8 Bn. underpinned by strong growth of interest income which represented 95.9% of the total income, improved by 19.7% to reach Rs. 103.4 Bn. compared to Rs. 86.4 Bn. recorded in the previous year. This is mainly driven by broad-based growth in loans and advances portfolio and interest income on Government Securities.

With a notable increase of 33.9%, interest income generated from loans and advances recorded Rs. 43.8 Bn. against the Rs. 32.7 Bn. recorded in 2016. Interest income from Sri Lanka Government Securities continues to be the largest contributor to the Bank's interest income with a share of 56.9%, recording a growth of 11.0% to achieve Rs. 58.9 Bn. from Rs. 53.1 Bn. in 2016.

Interest expense have increased by 28.8% to Rs. 78.4 Bn. against the Rs. 60.9 Bn. reported in the last year. This, could be mainly attributable to the increase of 35.6% in interest expenses due to other customers which amounted to Rs. 60.2 Bn. There was a tangible increase in interest expenses in 2017 due to upward trajectory of interest rates along with upward re-pricing of short-term deposits.

Increasing interest expense well above the increase in interest income on loans and advances and HTM investments in Government Securities adversely impacted the net interest income and squeezed Net interest margin. Consequently, Bank's net interest income which accounted for 85.3% of the total operating income, dropped marginally by 2.0% to Rs. 25.0 Bn. in 2017 from Rs. 25.5 Bn. in 2016 and NIM also declined to 2.6% from the 2.9% registered last year.

Non-interest income

Non-interest income accounted for 4.1% of the Gross Income comprising fee and commission income, net gain/loss from trading financial investments, and other operating income. The remarkable progress recorded in the all aforesaid components enabled the Bank to deliver the impressive growth of 337.8% in non-interest income to touch Rs. 4.4 Bn. as opposed to Rs. 1.0 Bn. reported during 2016.

Fee and commission income has expanded by 20.4% to Rs. 783.8 Mn. mainly driven by fees and commission earned from loans which grew by 23.3% to Rs. 675.4 Mn. during the year.

With a 352.4% of growth, net gains from trading portfolios amounted to Rs. 1.2 Bn. against the loss of Rs. 39.3 Mn. the year before, benefited from mark to market gain from interest rates.

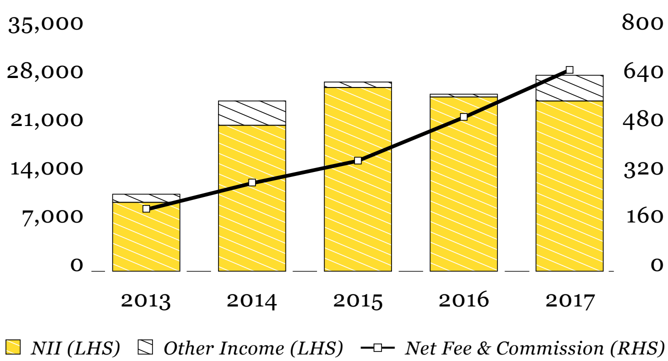
Other operating income too accelerated by 381.5% to Rs. 1.7 Bn. against the Rs. 357.3 Mn. reported in the previous year stemming from the gain arising from changes in exchange rates coupled with dividend earned from available-for-sale financial investments and dividends from subsidiary.

Total operating income

Subsequently, improvements in fee and commission income coupled with net gain from trading income and other operating income albeit the slid in Net Interest Income were the main contributory factors for the growth of Total Operating Income which increased by 11.1% to Rs. 29.3 Bn. up from Rs. 26.3 Bn. in 2016. The relative contribution from the non-interest income to total operating income too improved during the period under review due to realised and unrealised gains derived from equities and interest rate-related instruments.

Total operating income

[Rs. Mn.]



	2013 Rs. Mn.	2014 Rs. Mn.	2015 Rs. Mn.	2016 Rs. Mn.	2017 Rs. Mn.
NII	10,107	21,380	26,983	25,467	**24,955**
Other Income	1,097	3,512	678	359	**3,634**
Net Fee & Commission	195	286	364	513	**674**

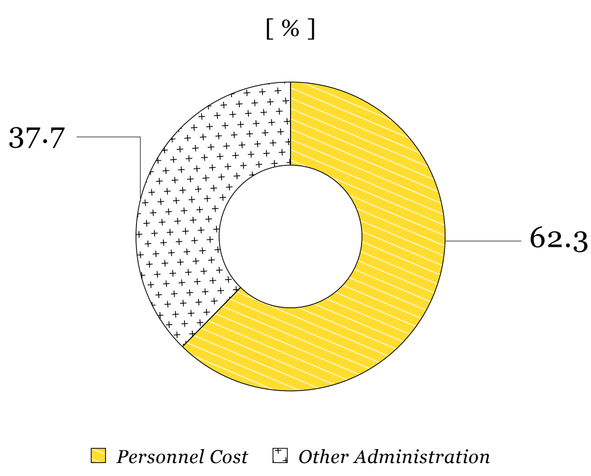
Impairment charges

Impairment provision increased by Rs. 792.9 Mn. consequent to the growth in the lending portfolio partly set-off by the improvement in asset quality resulting from proactive risk management approach applied. This improved the provision cover of the Bank enabling it to have a buffer for unexpected losses.

Operating expenses

Operating expenses witnessed an increase of 6.8% to stand at Rs. 11.0 Bn. against the Rs. 10.3 Bn. recorded in the previous year. The growth in the operating expenses was mainly fuelled by increase in the personnel costs which rose by 10.4% compared to the previous year as a result of new recruitments as well as absorption of the outsourced employees into the permanent cadre in order to resolve long standing grievances and to maintain industrial peace. However, it is noteworthy to mention that growth in operating expenses was maintained below the country's average inflation rate of 7.3% as well as within the acceptable level of budgetary expectation. The Bank prudently managed its expenses arriving at an impressive Cost to Income Ratio excluding VAT of 38.0% against the 39.6% in 2016 and well below those of industry peers.

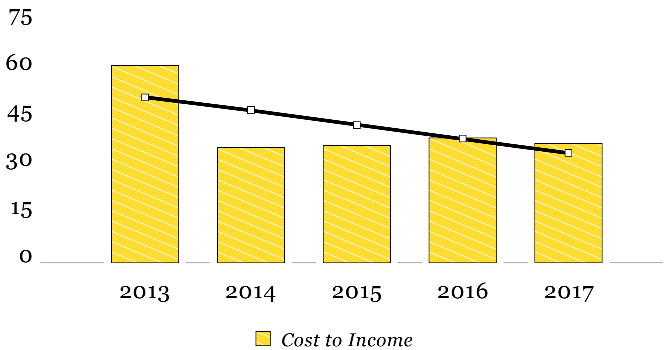
Composition of operating expenses



Expense	2017		2016		Growth
	Rs. Mn.	%	Rs. Mn.	%	%
Personal Cost	**6,887**	**62.3**	6,235	60.3	10.45
Other Administration	**4,161**	**37.7**	4,109	39.7	1.26
	11,047	**100.0**	10,344	100.0	6.80

Cost to income ratio

[%]



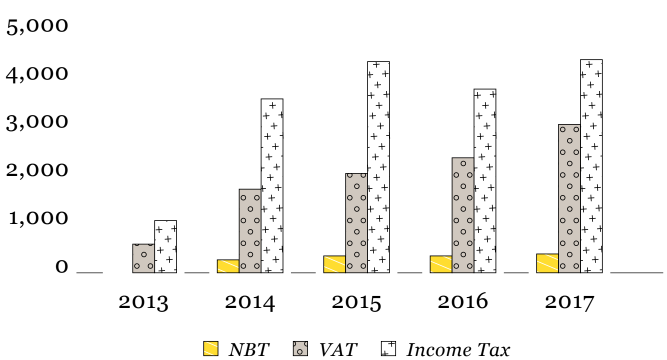
Year	Cost to Income %
2013	62.2
2014	36.7
2015	37.4
2016	39.7
2017	**38.0**

Taxation

The Bank's contribution to the Government in the form of direct and indirect taxes increased by 19.9% to Rs. 7.9 Bn. during 2017 from Rs. 6.6 Bn. previous year. This encompasses Income Tax of Rs. 4.4 Bn. and VAT and NBT on financial services of Rs. 3.5 Bn. The VAT and NBT on financial services grew to Rs. 3.5 Bn. during the year from Rs. 2.8 Bn., recording an increase of 25.2%. This could be mainly attributable to the increase in VAT on financial services from 11% to 15% effective from November 2016 where the full impact was felt in 2017. The income tax for the year too increased by 16.1% to Rs. 4.4 Bn. against Rs. 3.8 Bn. reported the year before, owing to the VAT and NBT on financial services being disallowed for tax purposes.

Taxation

[Rs. Mn.]



Year	VAT Rs. Mn.	NBT Rs. Mn.	Income Tax Rs. Mn.
2013	624	-	1,095
2014	1,745	291	3,606
2015	2,062	375	4,361
2016	2,406	386	3,805
2017	**3,083**	**411**	**4,419**

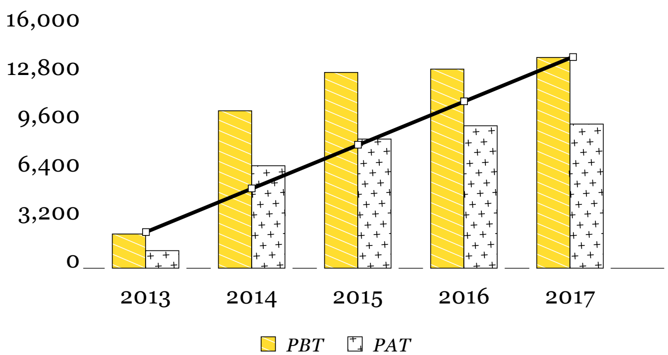
Profitability

This year, the Bank imprinted its highest ever PBT in its history of Rs. 14.0 Bn., growing by 5.5% from Rs. 13.3 Bn. in 2016. Notwithstanding the improvement in PBT, Profit after Tax grew only marginally by 1.2% from Rs. 9.5 Bn. to Rs. 9.6 Bn. in 2017, despite being limited by higher percentage of income taxes. Growth in interest income resulted from expansion in loans and advances portfolio combined with the increase of the non-interest income allowed the Bank to impress with the highest profit record amidst a drop in the net interest margin and an increase in impairment charge and taxes.

Return on Assets maintained at same level of 1.5% consequent to asset growth of 11.0%. The return on equity ratio closed at 26.5% lower than the 29.4% reported in previous year mainly as a result of surplus on revaluation of property, plant and equipment amounting to Rs. 4.5 Bn.

Profit before taxation and profit after taxation

[Rs. Mn.]



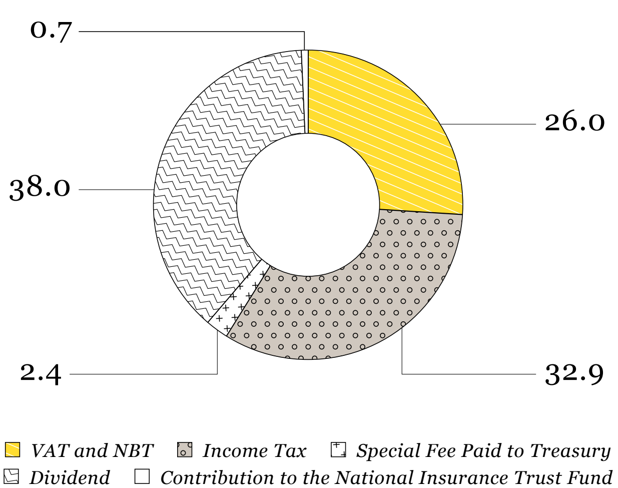
Year	PBT Rs. Mn.	PAT Rs. Mn.
2013	2,279	1,184
2014	10,472	6,867
2015	13,034	8,672
2016	13,303	9,498
2017	**14,029**	**9,610**

Contribution to the Nation

As the Nation's Savings Bank, the Bank continues its contribution towards the Nation's development by means of special fee, dividend to the treasury, levy, and contribution to the National Insurance Trust Fund in addition to the taxes. The Bank's contribution to Government during the year 2017 amounted to Rs. 13.4 Bn. against the Rs. 19.2 Bn. reported in the previous year. During the year the Bank has paid a significant dividend amount of Rs. 5.1 Bn. to its sole shareholder, the Government of Sri Lanka, 57.5% down from Rs. 12.0 Bn. paid in 2016 consequent to the decision to retain profit for sustainable growth.

Contribution to the Nation

[%]



Year	2017 Rs. Mn.
VAT and NBT	**3,494**
Income Tax	**4,419**
Special fee paid to Treasury	**320**
Dividend	**5,111**
Contribution to the National Insurance Trust Fund	**96**
Total	**13,440**

Analysis of financial position

Asset

Financial position summary

	2017 Rs. Mn.	2016 Rs. Mn.	2017 %	2016 %
Total Asset	**1,012,103**	911,704	**100**	100
Financial Investment – Held to Maturity	**544,273**	505,824	**53.78**	55.48
Loan and Receivable to other Customer	**360,310**	291,977	**35.60**	32.03
Loan and Receivable to Bank	**27,715**	31,834	**2.74**	3.49
Other Financial Asset Held for Trading	**6,472**	20,291	**0.64**	2.23

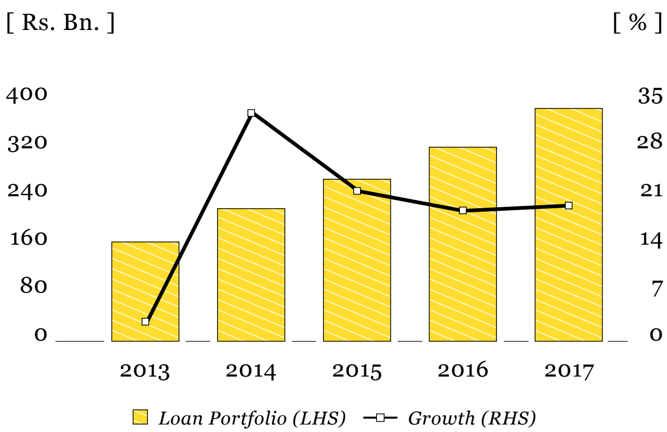
The Bank crossed the Rupees One Trillion landmark to reach Rs. 1.0 Tn. in assets at the end of this year, surging 11.0% from Rs. 911.7 Bn. as at 31 December. NSB became the first licensed specialised bank to achieve the Rupees One Trillion asset base and the first Sri Lankan bank to get Rupees One Trillion asset base within a relatively short period since its incorporation 45 years ago. Reflecting robustness of the focus on core business activities, the interest earning loan portfolio and financial investments accounted for more than 95% of the total asset base.

The Bank's loans and investments portfolio increased by Rs. 92.1 Bn. during 2017, with a growth rate of 10.5%, mainly contributed by loans and advances which increased by Rs. 64.2 Bn. and accounted for 69.7% of the total increase in loans and investments. However, this increase was achieved despite the Rs. 14.3 Bn. negative growth in Trading and AFS portfolios which were disposed for the purpose of realising capital gains. This was evident by the slid in Government Securities to Deposits ratio from 66.4% in 2016 to 62.1% at the end of year 2017.

Loans and receivables

The asset composition was relatively unchanged in comparison to last year where financial investments held to maturity dominated the asset base with a share of 53.8% followed by loans and receivables representing 38.3% of the total asset base. Strong growth in loans and advances to other customers bolstered by 23.4% to reach Rs. 360.3 Bn. in comparison to previous year of Rs. 292.0 Bn. backed by increased credit demand from the Corporate credit as well as Retail credit lines of personal loans, loans against deposits, and pawning advances enabled the Bank to improve the market share in terms of total net loans and advances from 5.7% in 2016 to 5.9% by the year end. The loans and receivables portfolio was diversified across several industry sectors concentrating on infrastructure, construction, housing, and educational sectors.

Loans growth



Year	Loan Portfolio Rs. Bn.	Growth %
2013	166	2.4
2014	223	33.8
2015	272	22.0
2016	324	19.2
2017	**388**	**19.8**

Investments

Held-to-maturity financial investments marginally up by 7.6% amounted to Rs. 544.3 Bn. against Rs. 505.8 Bn. reported in the year before. However, disposal of investments due to diversification towards high yield generating loans and advances and limiting the exposure to market volatility enabled the financial assets held for trading to take a plunge of 68.1% to reach Rs. 6.5 Bn. against the Rs. 20.3 Bn. in 2016. Further, AFS portfolios also decreased by Rs. 0.5 Bn. as a result of disposals made during the year realising capital gains.

Asset quality

The Bank is well below the industry ratios of 2.5% and 1.3% for the gross and net NPLs, respectively supported by substantial growth in the loans and advances together with conservative risk approach of the Bank. Provision cover improved to 46.0% compared to 36.1% registered in the last year.

Accordingly, gross NPL and net NPL ratios improved to 1.3% and 1.2% as at 31 December 2017, compared to 1.6% and 1.5%, respectively reported in 2016.

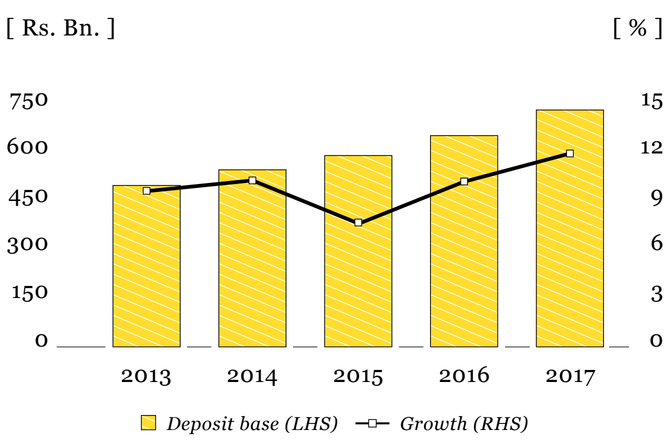
Liabilities

Total liabilities at end 2017 increased to Rs. 971.9 Bn., recording a growth of 10.5% compared to Rs. 879.5 Bn. recorded in the last year, led by expansion in customer deposits. The funding composition remained relatively unchanged with the total assets base largely funded by customer deposits with a share of 72.8%, while the rest of the assets are funded mainly by borrowings.

Deposits

The Bank's deposit base recorded its highest mobilisation when the total base increased by Rs. 79.9 Bn. to Rs. 737.2 Bn. in 2017, a 12.2% growth over the previous year base of Rs. 657.3 Bn. Robust growth of 14.2% registered in fixed deposits amounted to Rs. 549.0 Bn. in comparison with 6.7% rise in savings deposits to Rs. 188.2 Bn. compelled the Time deposits in the deposit mix to increase from 73.2% in 2016 to 74.5% during the period under review. These funds were mainly utilised for disbursing loans rather than investment in Government Securities, thereby bringing down the Government Securities to deposit ratio from 66.4% to 62.1% at the end of year 2017 which is a remarkable achievement. This resulted in enhanced loans to deposit ratio of 47.0% against the 44.1% recorded the year before.

Deposit growth



Year	Deposit base Rs. Bn.	Growth %
2013	502	9.7
2014	554	10.4
2015	596	7.5
2016	657	10.3
2017	**737**	**12.2**

Borrowings

Followed by customer deposits, borrowings accounted for 22.2% of the funding sources. Key contributors to the borrowings included international bonds, subordinated debentures issued, and securities sold under repurchase (REPO) agreements, recording a marginal growth of 5.2% to reach Rs. 224.1 Bn. from Rs. 213.2 Bn. in 2016. This growth was primarily driven by the REPO borrowings which increased by 13.2% to Rs. 61.3 Bn. against the Rs. 54.1 Bn. in 2016.

Capital

Shareholders' funds of Rs. 40.2 Bn. increased from Rs. 32.2 Bn. with an increase of 24.7% growth which was backed by Rs. 500 Mn. capitalisation of unclaimed deposit reserve combined with surplus of revaluation reserve and other reserves of Rs. 4.5 Bn. and Rs. 7.0 Bn. respectively. Equity was utilised to fund only 4.0% of the total assets as at the current year end, growing from 3.5% registered as at December 2016.

The CBSL introduced BASEL III to the Sri Lankan banking industry with effect from 1 July 2017. The full implementation would take place in three phases over a period of 18 months, completing by 1 January 2019, at which point the Bank would need to maintain its Tier 1 Capital Adequacy Ratio (CAR) at 10% and its total CAR at 14%. The Tier 1 and Tier 2 capital adequacy ratios of the Bank clocked at 11.9% and 15.3% respectively at the end of 2017 which remained well above the regulatory minimum limits of 7.75% for Tier 1 and 11.75% for Tier 1 and 2.

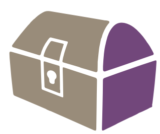
In relation to the Statutory Liquidity Ratio, the Bank stood at 73.4%, also well above the regulatory minimum requirement of 20%. In accordance with Basel III, the Liquidity Coverage Ratio (LCR) which explains the availability of the high quality liquid assets at the disposal of the Bank amounted at 376.2% as at the end of the 2017, well above the statutory minimum of 80%. The Bank was "healthy" based on availability of stable funding as per the definitions prescribed by the CBSL. The Net Stable Funding Ratio (NSFR) stood at 135% as at 31 December 2017 against the minimum requirement of 100%.

Review of key business lines

Through our diversified and sustainable business model, we offer smart financial products and full-fledged services to our customers from all segments of society. Diversification of associated operations, services, and products along segmented business lines have enabled us to provide for our customers with varied needs. Proper management of our core business areas lead to better performance and the increase of capital. We are also cognisant of the fact that failure of our core business lines will lead to material loss of revenue, profit, and value. Through astute governance and shrewd risk management we are able to sustain and strengthen the Bank's leading position in all the key business areas. Our key business lines are:

Branch banking

International banking and trade services



Treasury

Corporate credit

Branch banking: *Making our presence felt islandwide*

With the rapid adoption of virtual banking, self-service, and the digitalisation of the banking sector, more and more customers are moving to online-based, Internet or mobile banking to complete most of their daily banking transactions. While NSB's strategy is aligned with the digital transformation, we still focus on the impression that we make on our customers.

Our customers come from all segments of society and some still prefer traditional banking. While we are prepared to meet the digital future, we still believe that face-to-face customer interaction yields better results, especially for sales-oriented advice and complex transactions that are not suitable for self-service.

Our branch network is 253 strong and NSB branch banking offers a broad range of products and services. Our deposit products encompass a range of savings deposits as well as term deposits. Our retail lending portfolio includes Personal Loans, Educational Loans, Housing Loans, Auto Loans, Loans against Deposits, and Pawning.

The key strategic goals for 2017 were to increase the low-cost deposits and optimal usage of funds, to improve operational efficiency and to increase our footprint through the multi channel strategy. Please refer to the Operating environment section on page 39 for an overview of the socio-political constraints and economic policy challenges faced by branch banking in 2017.

What we did in 2017

There were several key initiatives that were implemented throughout the year to improve and streamline branch banking. These include the revamping of the existing regional systems under nine regions to strengthen the regional offices.

The "Model Branch" concept with a designated smart zone for digital banking was introduced in 2017.

Green banking initiatives including Eco Loans and the switch towards renewable energy in the branches were implemented within the year.

Several new retail product innovations were initiated and promoted through the branch network: NSB reach+ , NSB iSaver, NSB Eco Loan, and Sonduru Piyasa Housing Loan.

Our performance in 2017

The Bank has mobilised Rs. 75 Bn. during the period under review, the highest amount of deposits recorded in its history. The deposit base reached Rs. 737 Bn. with a growth rate of 12.2%. The main contributor for this significant achievement was the Rs. 62.6 Bn. increase in time deposits with a growth of 13.5% driven largely by institutional deposits while savings mobilisation was increased to Rs. 12.8 Bn. recording a growth of 7.3%.

Amidst the tight liquidity in the market followed by CBSL's measures, retail lending portfolio achieved 20.0% growth to reach a Rs. 213.8 Bn., primarily driven by the personal lending which increased by 37.3% over the last year. The pawning portfolio accelerated by 15.0% reversing the negative growth witnessed in 2016. Demand for long-term fixed deposits has surged by 24.8% in a rising interest rate environment.

A look into the future

Our multi-brand and multi-channel approach will continue to enhance customer experience and provide more transparent products. The Model Branch concept and Green Banking initiatives will be further expanded while certain products and services will be relaunched during the year. New measures will be implemented to evaluate the customer service experience with a view to improve the quality of service. These are some of the initiatives that branch banking will venture into in 2018 to provide a high-standard, diversified, customer experience.

International banking: *Making a global impression*

Our International Banking Division (IBD) can boast of an extensive network of international banking relationships and we cater to the needs of offshore as well as onshore clientele and financial institutions. The steady growth in international markets in 2017 has placed NSB's IBD in a unique position to take advantage of the myriad opportunities abroad. NSB provides Personal/Diplomatic and Business foreign currency savings and fixed deposit accounts facilities, inward/outward remittance services, and trade financing. We also offer Letter of Credits, Shipping Guarantees, Import Bills under LC, and Import Bills on collection basis.

Our strategic priorities for 2017 included the strengthening of delivery channels, amplification of business, development of trade finance facilities, and to make our customers aware and promote, through various national and international marketing campaigns.

Please refer to the Operating environment section on page 37 for an overview of the geopolitical constraints and global economic challenges to international banking in 2017.

What we did in 2017

We continued from where we left off last year to establish new and maintain existing relationships with Arab National Bank, Saudi Arabia (Exchange Company), and DBS Bank, Singapore (Correspondent Bank) in the expansion of our remittance arm. We partnered with overseas Sri Lankan missions and other such organisations to promote our remittance services to Sri Lankan expatriates through several marketing campaigns and organising cultural programmes. Such programmes were carried out in Sri Lanka as well. There were also training programmes for potential migrant workers that was conducted at the Sri Lankan Foreign Employment Bureau. We have established correspondence with Bank of Tokyo, Japan in order to expand the trade finance business and to penetrate remittances business in Japan.

Our performance in 2017

Since the establishment of IBD in 2004 we have managed to secure a 2.4% market share of remittances compared to the 1.8% recorded in 2016. The Bank's foreign deposit base was 9.4 Bn. as at 31 December 2017. The IBD also recorded a 33% growth in foreign remittance to reach Rs. 26.0 Bn. trade finance business thrived in its first year of operations by recording Rs. 221.0 Mn. Letter of Credit value for the year. Outward remittance made through NSB channels were Rs. 340.0 Mn.

A look into the future

We will continue to expand our global reach through our IBD operations to enhance global business relationships as well as business volumes. In 2018, we will further develop and promote our remittance services through selected post offices to increase customer convenience. We also hope to penetrate markets in prominent countries for inward remittances (LKR/FC) and outward remittances. The present international network of IBD will be further expanded. Trade services will be made accessible through arrangements with Government institutions, trade unions, and automobile dealers.

Treasury: *Maintaining financial security*

The Treasury plays a pivotal role in maintaining financial security and stability of our business. Operating in a highly competitive environment, a strong Treasury framework ensures the maximising of financial and business opportunities. Our Treasury is managed through the use of best practices and efficient internal controls and processes in compliance with regulatory requirements. The Treasury at NSB performs a centralised function and is responsible for prudential management of interest rate, liquidity, foreign exchange, and equity risks. The Treasury actively participates in the money market, investing in Government Securities and Equities, and use of derivative instruments such as spot and forward contracts.

Treasury division's principal strategic priority was to balance profitability, risk, and growth. We also set out to reduce Government Securities to Deposit ratio whilst maintaining the regulatory requirement with the objective of increasing high-yield investments. Please refer to the Operating environment section on page 40 for information about the changes in the Government's fiscal policy, the introduction of the Foreign Exchange Act and its effects to Treasury activities, and other relevant information.

What we did in 2017

During the year, the Treasury enhanced the liquidity positions of branches by building new relationships with commercial banks to facilitate maximum utilisation of cash and bank balances to meet its obligations by managing inflows and outflows of funds. We also optimised our operations in Reverse Repurchase transactions by coordinating with new corporate customers and banks. We are happy to report that many corporate funds, public enterprise funds, and bank funds invested with the Treasury during 2017. Treasury functions of the bank have been strengthened by setting up a separate ALM unit.

Our performance in 2017

In 2017, we recorded our highest-ever capital gain of Rs. 1,083.8 Mn. from trading activities of Government Securities which contributed to the Bank's highest ever PAT of Rs. 9.6 Bn. Interest income from Government Securities stood at Rs. 58.9 Bn., a growth of 11.0% from 2016, contributing to 56.9% share of the total interest income of the Bank.

A look into the future

We will implement a new Treasury Management System (TMS) in 2018 to further streamline Treasury activities and to achieve operational excellence. The TMS will also contribute to strengthening the Asset-Liability Management (ALM) process of the Bank. We also hope to restrict the equity portfolio through purchasing and diversification. We will also introduce a new branch Cash Management System to better systematise cash management.

Corporate credit: *Fulfilling corporate financial needs*

At NSB, we understand the financial needs of corporates, the Corporate Credit Division of NSB delivers superior service for all corporate requirements. Our officers possess an integrated approach to relationship management, and an in depth understanding of the sectors our corporate customers operate in to provide better value through structured financial solutions. The Division supports investors by providing funds for large-scale projects through project financing and loan syndication.

The Division is responsible for investing in trust certificates, private placement, and debenture issues. Our main aims in 2017 were to function as a lead manager in projects and to enhance our corporate lending portfolio.

What we did in 2017

There was a growing need for project lending and financing within the local economy which was spurred by the Government's drive to promote large-scale infrastructure projects which facilitated NSB's Corporate Credit Division. We contributed to the loan syndication of Stage III of Sethsiripaya building by committing Rs. 8 Bn. We continued our funding of housing loans to condominiums. We also took part in the funding of the Central Expressway Project by committing Rs. 17 Bn. Further, committed to fund the rehabilitation of existing highways under the Swiss Challenge Scheme.

Our performance in 2017

During the year we recorded an impressive growth of 20.2%, Rs. 28.3 Bn. in the corporate lending portfolio. This growth was mainly due to the disbursement of funds to Government infrastructure projects. The Non-SOE loans increased considerably by Rs. 7.6 Bn. resulting from arranged loan syndication for the biggest takeover bid of the country where Hayleys PLC acquired Singer (Sri Lanka). NSB granted Rs. 4.0 Bn. to the conglomerate to facilitate the acquisition. Lending to banks declined by 14.6% due to the excess liquidity prevailing in the market which increased the repayment capacity of the banks.

A look into the future

The Corporate Credit Division will further diversify its operations to reach new customers and continue to provide financial support to the Government infrastructure projects. In 2018, new credit lines will be introduced and will also strengthen the risk-based pricing policy.

A lasting impression on the Nation...

NSB's unique story goes beyond the readership of our 19.9 million accounts to touch the lives of each and every Sri Lankan. We are firmly rooted in the National economy and we serve the Nation in our unique way.

Intellectual Capital

USD 168 Mn. *Brand value*	**5th most valuable brand** *Brand finance ranking*	**AAA (lka)** *National rating from Fitch Ratings Lanka Ltd.*
B+ stable *Global ratings from S&P Global*	**B+ stable** *from Fitch Ratings*	**100% Government guarantee** *on deposits and interest therein*
17.5% *Employees with experience over 15 years*	**258** *Employees completing 25-35 years of service*	**972** *Graduates at the Bank*

Intellectual capital refers to one of the most important sources of business advantage - the knowledge within the Bank of how to create value for customers. It is largely intangible in nature and covers a broad spectrum of non-financial aspects which are a direct result of exemplary governance. It includes components such as institutionalised knowledge, customer confidence, brand and reputation, internal systems, softwares and internal ethical standards policies, and the corporate culture that the Bank uses to create value.

The “unique” NSB brand

NSB has become a household name for all Sri Lankans since our inception in 1972. Every year our brand is strengthened by numerous accolades that are bestowed upon NSB. In 2017, we became the only Sri Lankan bank to receive “AAA (lka)” from Fitch Ratings Lanka Ltd. for the 15th consecutive year. Furthermore, Brand Finance ranked NSB as the 5th most valuable brand in Sri Lanka.

Brand building initiatives

A range of brand building exercises were carried out throughout the year. These varied from advertising, events, exhibitions, sponsorships, and special promotional campaigns.

Advertising

To build NSB’s corporate brand, we advertise our products in mass media, billboards, social media, website and other web-based advertising, bus halts around the country, etc. These forms of advertising have helped the brand to be more visible. The NSB brand has become a household name for savings in Sri Lanka, and our intention is to cater to and resonate with a wider demographic from all walks of life.

Sponsorships

NSB sponsored and co-sponsored various national, social, and cultural events. We sponsored a variety of religious events: National Vesak Festival, Gangarama Esala Perehera, Thissamaharama Poson Perehera, Bauddhaloka Vesak Festival, Kelaniya Perehera, and Kotte Perehera. We also spent Rs. 27 Mn. on sponsorships under special publicity, souvenirs, and banners for selected events. These enabled us to develop our Brand Image and to develop public relations.

Special events and exhibitions

NSB participated in a number of exhibitions and events throughout 2017 where we promoted our premier products. Annual *Hapan* Scholarship Awards ceremony was held at *Nelum Pokuna* to recognise the top 15 of each district who obtained the highest marks for Grade 5 Scholarship Examination in 2017. NSB also participated at the Edex Expo, Kedella 2017, Sustainable Energy Exhibition, Colombo Property Show, and Life Style Fair.

Special promotional campaigns

NSB conducted *Hapan* account opening campaigns through *Hapan* Scholarships seminar series. We conducted 144 *Hapan* scholarship seminars islandwide. Refer to page 138 for more information.

Awards and recognition

Our Annual Report 2016 was recognised at the recently concluded ARC Awards 2017 with a Gold award for the Chairman's letter in the Banks: Savings and Loan category and two Bronze awards for Financial data and Written text. In addition, our Annual Report 2016 received the Silver Award in Financial Institutions category at the CA Sri Lanka Annual Report Awards and Second Runner-up Public Sector Banking Institutions at the SAFA awards.

GRI 102-16

Corporate values

NSB's corporate values, developed over the last 45 years, help define the core values of the Bank and shape NSB's culture and vision. These values are the essence of NSB's identity. Further, they represent the Bank's philosophy that guide our stakeholder relationships.

Trust:

Building relationships through having complete confidence in the interests of all involved

Mutual respect:

Recognising the inherent worth of every individual and treating everyone with dignity

Integrity:

Being honest, consistent, and transparent in all our actions and decisions

Creativity:

Challenging existing practices whilst continuously seeking out for novel concepts

Safety:

Consistently making prudent decisions to meet the community needs and protect their value

Corporate culture

The corporate culture that prevails in NSB is consistent with our values and mission. It is a culture of utmost professionalism, teamwork, transparency, diversity, and respect between individuals.

We have embedded our values and beliefs in the processes such as recruiting, training and development activities. We strive to build a strong team fostering personal responsibility and collective decision-making with a strong level of compliance and governance. We have created a culture that promotes close collaboration among talented employees with diverse backgrounds. Our corporate culture is central to our long-term success.

Moreover, we have carefully fostered the Bank's team culture, where every individual is directly involved and accountable in realising the Bank's overall vision. From the most remote hill station post office to our boardroom in Colombo, the staff of NSB is deeply loyal to the Bank. To nurture the sense of family that prevails within the NSB, we have organised numerous events and initiatives throughout the year. For the first time in history, "NSB Staff Day" with the participation of all NSB employees was held at Sugathadasa Stadium in February 2017. Furthermore, we encourage other team-building activities through NSB Sports Club, Buddhist Society, Christians Society, NSB Welfare Society, and *Kala Kawaya* (Arts Circle).

Business ethics and integrity

As the premier savings bank of the nation, we believe that our business goes beyond banking. It is about making a difference and serving our employees, customers, communities, and the nation. We understand our ethical responsibility to our main stakeholders. Business ethics and integrity form the foundation of NSB's working culture. We constantly review our internal standards, codes and control mechanisms, regulatory and compliance requirements and upgrade them to be in line with the industry best practices.

Institutionalised knowledge

Our institutionalised knowledge derives from serving the nation for over 180 years. The processes and practises that are in place have matured over decades. Our experienced staff force, which comprises a high percentage of employees who have been with the Bank for more than ten years, principally contributes to our institutionalised knowledge. As the leading savings Bank in the country coming under the purview of the state and the Ministry of Public Enterprise Development, NSB has been able to adopt the best practices in the financial industry. Using our legacy and our experience, the Bank has developed innovative savings options for all segments of society.

Our top executives hold more than fifteen years of experience in the industry which contributes to our sound operational knowledge. NSB team members, who are qualified and well-trained, form the backbone of our operations. Our staff retention ratio stood at 96.7% in 2017. As at 31 December 2017, 1,156 employees completed more than ten years of service with us. This reveals our capacity in retaining experienced and knowledgeable employees with the Bank.

Customer confidence

Customer confidence is the fundamental requirement for a bank for its growth and for its long-standing success in the industry. The Government has offered 100% statutory guarantee on people's deposits in NSB and due interest which positions NSB as the safest bank in the country. In addition, exemplary corporate governance, risk management frameworks, business ethics, and values have contributed to sustain customer confidence.

Systems implemented and improved in 2017

We have taken numerous initiatives to improve and maintain robustness of the systems and processes to uphold our role in ensuring safe, secure, and trusted banking system. We implemented new IT systems to enhance business and workflow systems for employees, customers, and our business partners during the period under review. Continual review of the IT environment ensures that our IT systems and processes are both efficient and resilient and they can effectively support the delivery of services to customers. Our improved systems and processes help us to become more responsive to changing customer expectations while maintaining the operational excellence in the industry.

Business Continuity Management Systems (BCMS)

A BCMS is formed by a set of policies and proven methods to ensure continuity after a major disruption to an organisation resulting from technical failures, natural disasters, human error, or intentional hostile acts. A BCMS is a part of the Bank's overall management system. It is a set of interrelated elements that a company uses to establish, implement, operate, monitor, review, maintain, and improve their business continuity capabilities. NSB annually reviews our BCMS, and based on the results, changes are made. With the newly established Disaster Recovery facility based on TIA-942-tier 3, which is located remotely to the primary site, is the main improvement in the business continuity capability of the Bank during the year.

Information Security Management System (ISMS)

Through the ISMS, the Bank manages the security of assets and customer data such as financial information, intellectual property, employee details, or information entrusted to the Bank by third parties. Based on ISO 27001:2013, an ISMS governance structure is established comprising committees at Executive and Board levels. The processes that are introduced are being matured for certification. In addition, situational awareness and threat intelligence capabilities are also strengthened with a collaboration of an enterprise solution for event and incident management. The objective of these preliminary steps is to have a roadmap to develop an Internal Security Operations Centre for the Bank in the future.

Core banking solution

The existing in-house built Core Banking Solution will be replaced with an advanced Core Banking package where all IT services shall be implemented as per industry best practices in a more cohesive and efficient manner. This state-of-the-art financial services solution will help us in our digital journey of delivering value and convenience to our customers. The ground work for the solution was completed during the year under review.

Document Management System

The Document Management System was implemented in all NSB branches in 2017. This system has enabled the retrieval of documents and their verification easier and has resulted in the increase of operational efficiency in our branch network.

Automation of Human Resource Management functions

The HR functions, such as recruitment, promotion, attendance, leave monitoring, performance evaluation, integrating payroll administration, and benefit administration will be automated and integrated to increase the Bank's efficiency by streamlining HR management processes and functions.

ATM Switch upgrade

The Bank implemented the ATM Switch upgrade and amalgamated a Card Management System to facilitate our expanding debit card customer base. This process has enhanced the capabilities of our card products. Our debit card customers can now enjoy the modern-day facilities of a cashless society with the ability to link with LankaPay.

Productivity Improvement Programme (PIP)

The PIP was initiated by the R&D Division of NSB in collaboration with the National Productivity Secretariat (NPS) with the objective of improving the ambience. Manuals are being created to facilitate the 5S concept in branches and the Head Office by the R&D Division.17 branches and two divisions were identified for the implementation of the "Seiton" concept. The Boralesgamuwa NSB branch was developed as a Model Branch of the "Seiton" concept and currently awaiting certification from the NPS.

EMV Certificate

EMV (Europay, Mastercard, and Visa) is a worldwide authentication standard used by most major credit card issuers and networks. It is a global initiative to combat fraud and protect sensitive payment data in the card-present environment. This technology features payment instruments with embedded microprocessor chips that store and protect cardholder data. NSB obtained EMV certification for Mastercard. Our customers will be able to experience enhanced security in their transactions worldwide.

Credit Rating and Scoring System

The Bank has identified credit scoring as a systematic method for measuring credit risk by providing a consistent analysis of the contributing factors of credit risk. In 2017, NSB completed the implementation of Credit Rating and Scoring System for retail loans.

Anti-Money Laundering (AML) solution

The Bank also partnered with a service provider to implement an AML solution to facilitate detecting and reporting any illegitimate activities. The AML solution will have a bank wide approach to track and monitor transactions to prevent any money laundering activities.

Policies

Our policies and frameworks stemming from our tacit knowledge, skills and experience, promote consistent and integrated implementation to improve our service levels and economic scales. The policies formulated by us; Procurement, Code of Conduct, Outsourcing, Communication, Asset and Liability Management, Investment, Information Security Risk Management, ensure that we are true to our values and conduct our day-to-day operations in an efficient and effective manner.

Information security

Information security is of paramount importance to all IT/digital operations of the Bank. We recruited a Security Officer in March 2017 and established an independent IT Security Division. The Chief Information Security Officer directly reports to the Board Integrated Risk Management Committee (BIRMC) and the IT Security Division undertakes IT security reviews with the assistance of the TechCERT, Sri Lanka. The Bank obtained a SIEM solution for security event monitoring and implemented the End Point security solution for ATMs in 2017. The Bank also commenced a project for Information Security Management System (ISMS) implementation and completed the key tasks by December 2017.

In addition, the Bank implemented the BCMS framework in 2017 and initiated actions for obtaining IT security certifications for the Bank. Payment Card Industry Data Security Standards (PCIDSS) project which commenced in the year 2017 is expected to be completed by the third quarter of 2018.

A look into the future

Believing in the importance of digital platforms as the fastest, reliable, and most efficient means of communication with our stakeholders, our investments will continue to be made to ensure all systems and processes are run in a secured, fast, and high quality manner. IT Projects that are planned to take place along with our tacit knowledge and expertise will be the backbone of our transformation into a customer-centred and digitally-enabled bank. Though it will be a lengthy, complex, and expensive process, we envisage that it is critical to our competitiveness in an increasingly digitalising world.

Manufactured Capital

The Bank's manufactured capital is the collection of physical and technological objects that are available to an organisation for use in the provision of services and therefore in fulfilling its objectives. It includes assets that are produced by other entities and those manufactured internally and excludes intellectual capital such as software. The manufactured capital is integral to the Bank's success since the proper management of these assets will directly contribute to operational efficiency and profitability.

GRI 102-4, 6

NSB's reach

Local

As a Bank that serves all segments of society, NSB possesses a wide-ranging reach with 253 branches, 4,062 post offices across the island, and an extensive ATM network that provides Mastercard and Visa debit card facilities. In order to ensure a better supervision of the regional system, all branches were consolidated into nine regions during the year. We are part of the LankaPay Common ATM Switch (CAS), a national payment network, which is the backbone of all future payments in the country. CAS has 28 member banks connecting over 4,000 ATMs which makes LankaPay the largest common ATM network in the country which will facilitate NSB customers to enjoy islandwide, secure ATM access.

NSB touchpoints across Sri Lanka

253
branches

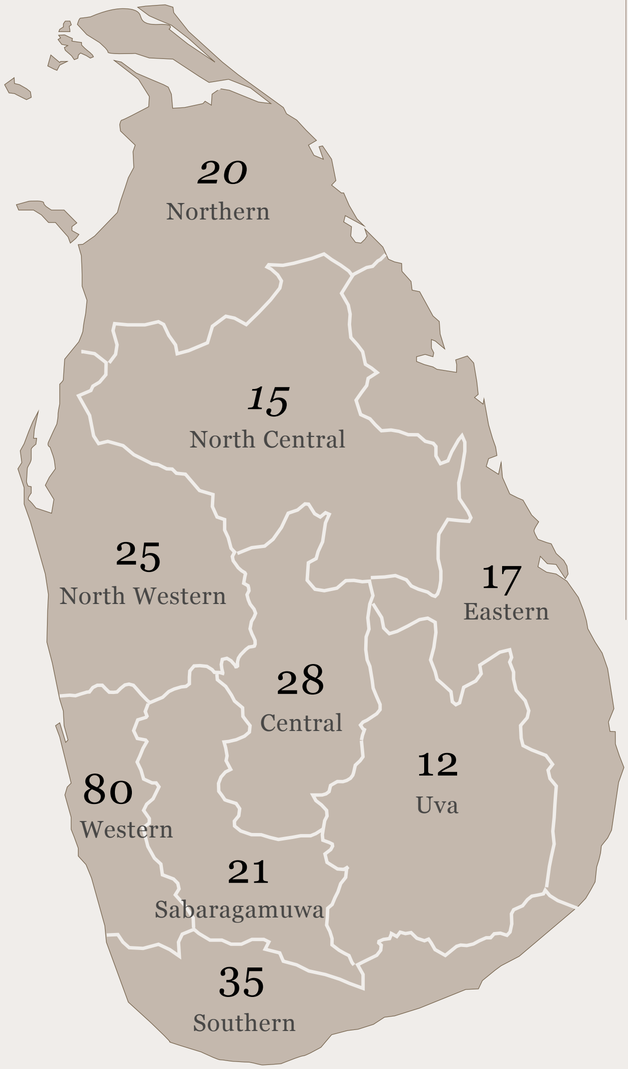
9
regional offices

4,062
post offices

4,000
ATMs through LankaPay

16,000
mCash retailers islandwide for NSB iSaver

300
hand-held POS machines for NSB Reach



Region	Number of branches
Central	30
Eastern	21
North Western	30
Northern	21
Postal Admin	23
Sabaragamuwa	25
Southern	32
Western 1	34
Western 2	37
Grand Total	253

District	Number of branches
Ampara	8
Anuradhapura	12
Badulla	6
Batticaloa	7
Colombo	43
Galle	13
Gampaha	25
Hambantota	10
Jaffna	14
Kalutara	12
Kandy	17
Kegalle	10
Kilinochchi	1
Kurunegala	17
Mannar	2
Matale	4
Matara	12
Monaragala	6
Mullaitivu	2
Nuwara Eliya	7
Polonnaruwa	3
Puttlam	8
Grand Total	253

International

NSB's reach extends beyond our national boundaries. The Bank's relationships with global money transferring companies enable faster, cheaper, and secure remittances from all over the world. The Bank is also a member of SWIFT and Eurogiro, a low cost, secure, and speedy money transfer system. NSB U-Trust, a remittance service attracts remittances from abroad. The Bank has relationships with 33 exchange houses and 14 correspondent Banks.

Our remittance services will be further improved with the new relationships that we have formed over the year. In 2017, we established links with the Arab National Bank, Saudi Arabia Exchange Company, and DBS Bank, Singapore. NSB plans to penetrate international markets for Inward Remittances and for Outward Remittances in countries such as USA, Canada, UK, Japan, Australia and, New Zealand.

Physical infrastructure

Branch expansion

We have facilitated customer interaction through a large network of customer interaction points. The Bank has widened its physical footprint with a modernised branch network in line with industry standards. In 2017, three new NSB branches were added to the branch network: Colombo City Plus branch, Peradeniya, and Piliyandala. The Tissamaharama branch was relocated to a new spacious premises. Expanding our reach and customer touch points even further, we identified key strategic locations across the country.

NSB Model Branch

The rapid digitalisation in the banking sector has made it necessary for incorporating technology for modern banking. With this objective in mind, NSB launched the "Model Branch" concept under the brand name "NSB Connect" with a smart zone for digital banking and stylistic changes to exterior and interior of the branch. The branches will also meet the requirement of 5Ss Programme. The Model Branch concept was initially launched at the Boralesgamuwa Branch. NSB plans to implement this concept to 50 more branches in 2018. The successful implementation of this initiative will deliver better value from our customer touch points across the island.

Investments in green energy

In 2017, we took steps to invest in renewable energy. There were green energy projects that were implemented in all branches. The Bank has initiated to install solar power systems to five branches in 2017. We are hoping to expand the number of branches utilising green energy to 50 in 2018. Further, NSB engaged in awareness programmes educating the public about energy saving and the necessity of the use of solar power.

Digital infrastructure

Digitalisation is bringing about permanent changes to the banking sector. The technical infrastructure, systems and processes, and our approach to banking must be realigned to keep pace with the rapidly changing digital world. NSB has taken comprehensive measures to improve its digital infrastructure.

NSB recognises that improving the digital infrastructure requires a greater capital investment. We also recognise that this investment is necessary to provide our tech savvy customers with a superior level of service and convenience. The digital world has also brought in cyber security threats. Digitalisation of the banking sector also brings about increased competition.

The key digital infrastructure development projects undertaken by the Bank include the implementation of next generation firewall system for the corporate network, upgrading of ATM network for EMV compliance, implementation of IP-based security surveillance system in branches and head office, and providing mini computers for branches.

Launch of “smart zone”

NSB City Plus branch was the first include a smart zone for digital banking with a cash deposit machine and an interactive digital signage machine. This will go hand in hand with our Model Branch concept and this aforesaid facility will be upgraded to all other branches.

Launch of iSaver

This revolutionary digital product was introduced in partnership with SLT Mobitel mCash to enable customers to conveniently deposit cash to their accounts. The service can be accessed through over 16,000 mCash touch points islandwide.

Software and hardware upgrade

To mitigate network attacks and cyber threats and to improve our digital infrastructure, there were upgrades to memory and to the firewall. In 2017, 1,000 Mini PCs and 400 pass book printers for Postal Banks were procured to bolster the digital infrastructure.

Oracle Exadata Database Machine

Oracle Exadata is the best-performing, most available, and most secure architecture for running Oracle Database. The system is architected, integrated, tested, and optimised to work together and it is coengineered with Oracle software for a level of cloud-ready integration and Oracle Database performance that generic systems cannot match.

NSB procured the Oracle Exadata Database Machine to cater to the demands of different systems running at the Bank and also to meet future requirements. NSB, using a single-vendor model, can control software licensing costs by using fewer database cores to get more work done. The Bank was also able to secure licensing for all Microsoft products with additional benefits. Successful implementation of Oracle Exadata and Microsoft Projects will enable the Bank to take all digital initiatives forward.

Upgrade of the Card Management System (CMS)

The Bank initiated a project to issue MasterCard EMV chip debit cards. Once the CMS project is completed, the Bank will be able to send the Personal Identification Number (PIN) of debit cards to customers through secured SMS and allow customers to manage the limits of debit cards by themselves. The Bank also automated the MasterCard and Visa debit card transactions reconciliation by acquiring a new reconciliation solution.

VISA Direct connectivity

Visa Direct enables real-time payments using Visa's global payments network. This would facilitate business initiated payments as well as person-to-person payments on Visa's secure payment network.

A look into the future

The Bank will vigorously engage in enhancing physical and digital infrastructure to face the future challenges emerging from evolving customer requirements. The Bank will focus on process improvement and efficiency projects that will boost customer experience and quality of service delivery. Construction of new branch buildings is under way for Negombo, Nugegoda, Ragama, and Bandarawela branches. Moreover, new buildings are being constructed for the new branches at Deiyandara, Pannala, and Weliveriya which will be opened in 2018.

The e-commerce sector demonstrates the rapid proliferation of online transactions across international borders. NSB will introduce a safe and secure e-commerce facility to conduct business transactions in a safe and secure environment.

Empower women to empower the next generation...

NSB *Sthree*, a savings scheme designed exclusively for women, empowers Sri Lankan women in every strata of life, in diverse financial situations, with financial freedom.

GRI 102-8

Human Capital

4,470
Total workforce

216
Total recruitments (5.3% of total cadre)

824
Promotions

Rs. 6,887 Mn.
Employee remuneration

6:5
Gender ratio (male:female) at all levels

100%
Employees receiving performance evaluations

252
No. of Training programmes

Rs. 34.4 Mn.
Total investment for training

45,347
Training hours

12
Training hours per employee

96.7%
Retention rate

3.3%
Employee turnover rate

99.7%
Employees covered by the collective agreement

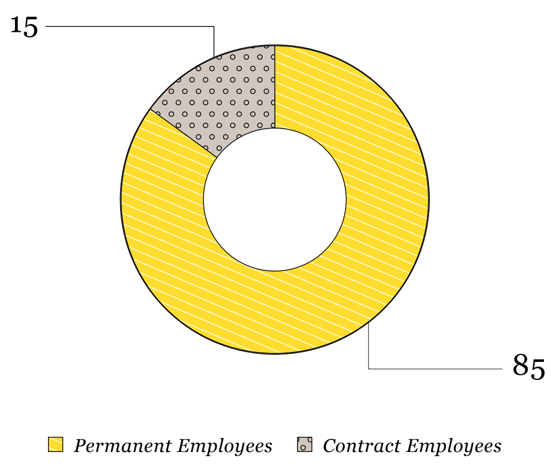
One of the seminal elements behind the impact of NSB on the nation is our team of dedicated employees. The Bank is blessed with highly-skilled, engaged, loyal, well-rounded individuals who contribute to creating the sense of family that pervades at NSB. We have emphasised the need for creating a work-life balance to ensure that our team remains content which leads to improved happiness and performance.

NSB, as a Government entity, is an exemplary corporate citizen. We are an equal opportunity employer, and over the years, we have created a diverse and inclusive working environment. We lead the way in keeping our employees happy and engaged by providing a holistic employee experience from competitive salaries, benefits, rewards, healthcare, and compensation to our team. NSB has succeeded in creating an open, non-discriminative, safe, and flexible working environment.

In 2017, the NSB family is 4,470 strong with 3,803 permanent employees and 667 contract employees. Out of our workforce 2,658 employees or 70% hail from the 25-39 age group. During the year we welcomed 216 new members to the NSB family. There was a total of 824 promotions in 2017. At NSB, 99.7% of permanent employees are covered by a collective bargaining agreement. Following NSB's Transfer Policy, 318 transfers were effected for employees who were in the same station for more than five years.

Total staff strength

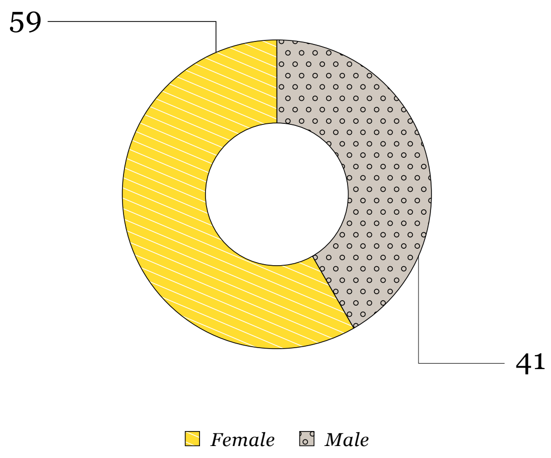
[%]



Total staff strength	No. of employees
Permanent employees	3,803
Contract employees	667

Gender analysis

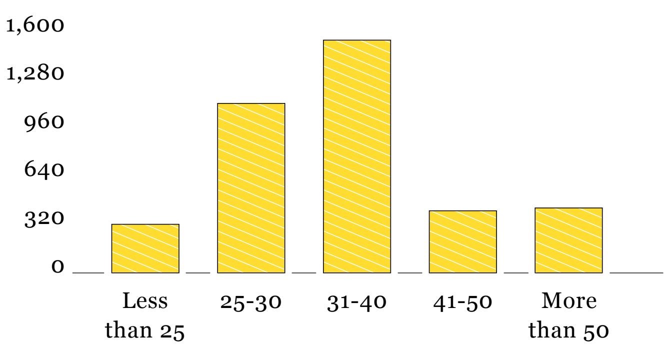
[%]



Gender analysis	No. of employees
Male	1,578
Female	2,225
Total	3,803

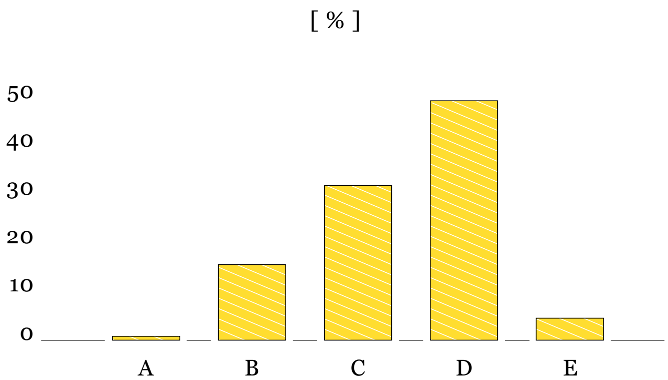
Age analysis

[Nos.]



Age analysis	No. of employees
Less than 25	317
25-30	1,438
31-40	1,253
41-50	415
More than 50	380
	3,803

Analysis of staff grade category



A – Senior Grade (GM/CEO/Snr DGM/DGMs/AGMs)
B – Managers (Grade I, II, III-I,III-II)
C – Executive (Grade III-III, IV)
D – Staff Assistants (Grade V/VI)
E – Grade VII Category

Analysis of staff grade category	Nos	%
Senior Grade (GM/CEO/Snr DGM/DGMs/AGMs)	20	0.5
Managers (Grade I, II, III-I,III-II)	580	15.3
Executive (Grade III-III, IV)	1,190	31.3
Staff Assistants (Grade V/VI)	1,848	48.6
Grade VII Category	165	4.3
	3,803	

Grade by gender	Male	Female
Senior Grade (GM/CEO/Snr DGM/DGMs/AGMs)	13	7
Managers (Grade I, II, III-I, III-II)	299	281
Executive (Grade III-III, IV)	507	683
Staff Assistants (Grade V/VI)	598	1,250
Grade VII Category	161	4

Service years analysis by age and grade	Less than 3 years	3-6 years	6-10 years	More than 10 years
Senior Grade (GM/CEO/Snr DGM/DGMs/AGMs)	2	1	2	15
Managers (Grade I, II, III-I, III-II)	30	16	100	434
Executive (III-III, IV)	308	116	346	420
Staff Assistants (V, VI)	923	571	250	104
Office Assistants (Grade VII)	137	4	0	24

GRI 401-1 GRI 202-2

NSB follows a stringent recruitment process

NSB has a stringent recruitment process to identify prospective candidates with competent professional skills. The HR Development Division follows NSB's recruitment policy, by which positions are offered without biases in race, ethnicity, religion, age, gender, or physical disability. Our very healthy male to female ratio of 6:5 at all levels in the workforce can attest to our claim of being an equal opportunity employer.

The recruitment process includes competitive exams, and subsequent interviews are held in a transparent manner. Selected candidates are required to complete a probation period of one year. Our senior management recruits are hired from local community. There were 216 new recruitments (5.3% of total cadre) in 2017 including permanent and contract based employees, with the majority of recruitments done at entry level.

Age group	Male	Female	Grand total
Less than 25	30	76	106
26-35	21	53	74
36-45	9	22	31
Above 45	2	3	5
Grand total	62	154	216
Percentage (%)	29	71	100

True professionals are created through training and development

Well-trained and an educated workforce is critical to achieve excellence, strategic goals, and gaining advantage in a highly-competitive industry. The training programmes offered at NSB help create true professionals who will meet the existing job requirements as well as future responsibilities.

NSB offers its employees local and foreign training programmes, sponsorships, and educational incentives to facilitate their continuous professional development. We have found that training programmes also help improving overall employee experience, engagement, and professional collegiality.

Training Needs Analysis (TNA)

Training Needs Analysis is the process to identify the training and development needs of the employees. The process involves the identification of the required skills set, an assessment of the existing skill level, and determining the training gap. NSB used various methods such as the annual training need survey, interviews with the respective Heads of divisions, Managers of branches, and consultations with the GM/CEO and DGMs, reviewing customer complaints, performance appraisals, and questionnaires in conducting the TNA. The findings of the TNA was used to determine the different types of training programmes required by the Bank: On-the-job training, in-house training , external training, or foreign training.

GRI 404-1, 2

Overview of training and development in 2017

We have created a safe learning environment for our employees offering various type of training programmes including induction, on board training, technical skills development training, and soft skills development training throughout their career life cycle. The induction programmes assist our new recruits to gradually assimilate into the working culture at NSB. Our principal objective is to create business leaders who will add value to our establishment as well as to the nation.

In 2017, over Rs. 34.4 Mn. was invested in foreign and local training initiatives, which funded 252 training programmes, logging a massive number of 45,347 training hours for 2017. Out of the 252 training programmes, 118 were conducted in-house and 120 externally. There were 14 overseas training programmes for 53 participants from NSB. The average number of training hours per employee stood at 12 hours and the participation ratio stood at 88%.

Our investments on training and development continued to increase with higher capital injected to the programmes and the increase of training hours per employee from previous years. We strive to improve training and knowledge sharing programmes to conduct through webinars from next year onwards which enable the employees to learn at their convenience across the geographical boarders. We will continue to invest in continuous professional development.

GRI 401-1

Employee retention and turnover: We are a coveted employer in Sri Lanka

NSB's position as a coveted employer in Sri Lanka has been cemented over the years by our reputation, employee-friendly policies, and our corporate culture. In 2017, we achieved a high employee retention ratio than the industry average. This is a huge achievement to us, and it signals that we have created a safe working environment and culture at NSB which nurtures the employees. Our very impressive retention rate of permanent employees cardre stood at 96.7% while our turnover rate for the year was 3.3%.

Age group	Male	Female	Grand total
Less than 25	1	0	1
26-35	2	5	7
36-45	1	4	5
Above 45	67	23	90
Grand total	71	32	103
Percentage (%)	69	31	100

The secret to our high retention is the benefits and incentives and the conducive working environment provided by NSB to the team that translate into employee loyalty, and retention. The sense of family that exists in NSB goes beyond ordinary employee loyalty. The fact that only 15 employees left the Bank during the year for reasons other than retirement shows the sustainable working culture we have created at NSB.

GRI 202-1 GRI 401-2, 405-2

NSB offers myriad benefits to its employees

We offer competitive salaries that are on a par with the wages of other State-owned banks and well above the National minimum wage. Frequent discussions are held from time to time with unions and employees on the subject of wages and remuneration packages. There is an equal pay policy in place for determining remuneration packages. We pay annual bonuses at the end of the year and a special target bonus if target Bank objectives are met.

The benefits to employees include a comprehensive health plan, housing, vehicle loans, computer loans, consumption loans, and distress loans at concessionary interest rates. The Bank granted 384 housing loans to employees for a value of Rs. 1,069 Mn. during the year. Staff housing loan balance as at 31 December 2017 is Rs. 5,634 Mn.

There is also a pension plan and training, travelling and accommodation subsidies, professional membership, and an honoraria payment on successful completion of examinations, at the Institute of Bankers of Sri Lanka (IBSL), and membership reimbursement for professional bodies such as Chartered Institute of Management Accountants (CIMA), The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), and Chartered Financial Analyst (CFA), and etc. There is also a scheme which allows employees to encash unused medical and privilege leave. We provide EPF, ETF, and Gratuity. Finally there are retirement benefits and death gratuity provided to our employees.

GRI 201-3

Retirement benefits: All our employees are well taken care of

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

There are four types of retirement benefit plan obligations given to our employees:

Pension fund (Scheme I and II), Contributory Widows/Widowers and Orphans Fund (only for Scheme II) and Contributory Retirement Medical Scheme. The fund set up to pay the pension plan's liability is fully covered. The cost of providing benefits under the defined benefit pension plan is determined using Projected Unit Credit actuarial valuation method and the estimate Pension Fund (Scheme I) includes employees recruited to the Bank before 1 October 1995. Contribution to Pension Fund (Scheme I) during the year was Rs. 392 Mn. and unfunded liability stood at Rs. 2,751 Mn.

The participation for Pension Fund (Scheme II) includes employees recruited to the Bank on or after 1 October 1995. Contribution made by the Bank to Pension Fund (Scheme II) during the year was Rs. 97.2 Mn. 12% of the gross salary is contributed by the Bank for the Pension Fund (Scheme II).

The Retirement Medical Scheme and Widows, Widowers and Orphans Fund are both contributory schemes. Bank contributed Rs. 96 Mn. to retirement medical scheme and unfunded liability stood at Rs. 961 Mn. at the year end. The amount of contribution to the Retirement Medical Scheme is determined by age. The contribution of Widows, Widowers and Orphans Fund is determined by the basic salary of employees. Members of the Fund should contribute 5% of their basic salary as contribution.

Employee engagement and well-being

Well-being programmes not only have a positive impact on employees' wellness, they can also lead to a significant increase in the team's engagement, cohesiveness, and overall productivity. For the first time in history, "NSB Staff Day" participated by all NSB employees was held at Sugathadasa Stadium in February 2017.

Throughout the year, multi-religious ceremonies and events like *Vesak Bakthi Gee*, *Avurudu Pola*, and Christmas Carols are organised by the Welfare Division to spread spiritual and religious harmony among the members of the staff. We also organise an "*Avurudu Uthsawaya*" every year with the participation of employees and their families. A sports meet is also held annually, with regional sports meets held before the final sports meet held in Kandy. There are also various sports teams of our employees ranging from cricket, football, volleyball, and etc. Our employees also come together for the numerous CSR events that are conducted throughout the year. Moreover, the Bank provides library facilities and NSB Sports Club maintains an in-house gym in the Bank's Head Office premises.

The annual Achievers Award Ceremony is held to felicitate academic achievements (GCE Ordinary Level, GCE Advanced Level, and Grade Five Scholarship Examinations) and non-academic achievements in sports and extracurricular activities of the children of the employees. To thank our people for their commitment and loyalty to NSB, the Bank organises an annual felicitation ceremony to recognise employees who have completed 25 and 35 years of service. In 2017, 21 employees received the reward, 15 of whom were honoured for their 35 years of service.

Concessionary rates for food from the Head Office canteen is provided to our employees and the Bank provides monetary assistance for day outings organised by branches and divisions.

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

Promoting work-life balance

Our HR team uses smart management methodologies to achieve work-life balance which allows our employees to feel as if they are paying attention to all of the important aspects of their lives. We assist our employees by offering such opportunities as sponsoring tours, establishing circuit bungalows to provide affordable accommodation at popular holiday destinations, and flexible working arrangements for new mothers by providing a feeding hour for six months since child's birth.

The Bank maintains 15 holiday resorts in different areas of the country as at December 2017: Inn Anuradhapura, Kandy, Kataragama, Ambalantota, Nuwara Eliya (two bungalows), Mahiyanganaya, Galle, Bandarawela, Badulla, Dambulla, Chawakachcheri, Beliatta, Marawila, etc. A new bungalow at Diyathalawa was opened this year. In 2018, we hope to expand our circuit bungalows even further by opening a new bungalow at Kataragama.

Parental leave

As per the Shop and Office Act, female employees are entitled to parental (maternity) leave. Our female employees are entitled to maternity leave and benefits without any constraints and we facilitate their return to work. We also offer paternity leave of three days to male employees.

GRI 404-3

Managing performance

At NSB, we possess an equitable, transparent appraisal system. The Bank measures the performance of employees periodically on the basis of their hierarchy. It is a continuous process. All our employees are assessed against a set of predetermined criteria each year. NSB's policy on performance management is drawn up to identify performance gaps of employees as well as training and development needs. The feedback from the performance appraisals is used for increments, promotions, annual bonuses, and reviews in remuneration packages.

NSB is in the process of introducing comprehensive KPI-based performance management and appraisal system to develop a performance-driven culture within the Bank. As the first phase of implementation, the system was introduced to the Senior Management level. The system will be put into effect across the Bank from 2018 onwards. Going ahead with this objective, NSB has conducted 12 training programmes with the participation of 378 employees to create awareness of the new system.

Employee grievance handling

Grievances arise when employee expectations are not fulfilled by the Management. NSB understands the need to address grievances in a timely manner and as close as possible to the point of origin. The Bank has incorporated both the "Step Ladder" system, where a grievance is resolved through the hierarchy, and the "Open Door" policy where the grievance is directly dealt with by an independent party nominated by the HR Committee. All grievances are handled in a fair and impartial manner. The Bank, recognising our position as a Bank for all segments of society, addresses all staff gatherings in English, Sinhala, and Tamil. All circulars and advertising campaigns are conducted in all three national languages.

Whistle-blowing policy

NSB's whistle-blowing policy was established to create a proactive framework addressing the occurrence of frauds and other illegal activities which covers prevention, early detection, reporting, monitoring, recovery, and follow-up actions. It enables employees to raise concerns about improprieties relating to accounting, financial reporting, internal controls, frauds, corruption, collusion, coercion, irregularity, misappropriation, auditing matters, or other matters, without fear of reprisal in any form. The policy is designed in a way that the employees can raise their concerns without fear of victimisation, subsequent discrimination, disadvantage or dismissal.

GRI 205-2

Code of Conduct

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

GRI 406-1

Ensuring diversity and equal opportunity

As an inclusive, equal opportunity employer with a diverse workforce, we do not discriminate on the grounds of sex, marital status, race, colour, creed, religion, physical disability, mental health, learning difficulty, age, or sexual orientation. We are committed to providing all our employees with equal opportunities and fair treatment. Our recruitment policy, as mentioned above, follows the same values. We are happy to report that there were no incidents of discrimination reported during the year.

Occupational health and safety

It is our responsibility to look after the health of our employees. As a part of NSB’s health initiative, we have launched several programmes to improve employee health. There is an in-house medical centre at NSB Head Office run by a leading private hospital and managed by the Bank’s Welfare Division. Twice a month, specialised doctors can be consulted at the medical centre. There are also medical clinics conducted by leading private hospitals.

Moreover, our employees have the opportunity to participate in regular seminars conducted by professional resource personnel on stress management, eye care, and prevention of cardiovascular diseases. The amounts for employee medical benefit scheme are decided by collective agreement. In addition, critical illness cover is available for employees in order to provide assistance to employees in critical illness.

In addition to ordinary medical coverage, all permanent employees are also covered by the Bank's Compensation Benefit Scheme, under which the Bank will compensate dependants of an employee up to a maximum of Rs. 1 Mn. in case of death or permanent or partial disability while at work. There was only one incident of occupational injuries reported in 2017.

The Security Division of NSB present at every NSB branch is given strict instructions of the management of safety and procedures to follow to ensure a safe, secure workplace. These vary from maintaining the alarm systems, CCTV systems to making the branch staff aware of handling crises. A comprehensive safety plan is in place to create a safe workplace.

GRI 102-41 GRI 407-1

Freedom of association and collective bargaining

Trade unions operating within the Bank include the Jathika Sevaka Sangamaya, Ceylon Bank Employees' Union, Sri Lanka Independent Bank Employees' Union, Executive Officers' Association, and All Ceylon Bank Employees' Union. We are happy to report that the relationship between the Management and the Unions has been very healthy over the years. NSB conducts regular cordial meetings with the unions to ensure the happiness of our employees. At NSB, our policy for collective bargaining focuses on encouraging employee engagement. All permanent staff members deal with collective bargaining agreements. Remuneration and benefits are determined by collective agreement which is decided once in every three years. Due to the effective transparent policies in place, there were no incidents of violation in industrial relations and collective bargaining during the reporting period.

Challenges faced in 2017

Management of the human capital of any organisation can be a very complicated process. It is shown that the effective management of human resources leads to a more cohesive, more productive, more engaged corporate entity. NSB faced numerous challenges throughout the year concerning our human capital.

The digitalisation of the banking industry due to the advent to technological innovations is a primary challenge in the banking sector. The ageing workforce with limited exposure to the technological advances poses a problem. NSB faced challenges in designing training programmes to prepare our employees for the digitalised environment. Our “Model Bank” initiative with a bespoke smart zone will help the Bank and its employees to prepare for the digital transformation of the future.

Attracting and managing the millennial segment of the country’s population is another challenge that we face. The Bank introduced a suite of products aimed at the younger generation along with marketing campaigns that are aimed at attracting the millennial segment. We hope that our initiatives will come to fruition in the near future.

The relentless demand for profitability and the increased competition in the industry pressurise financial institutions to focus only on the bottom line. We at NSB, are aware of these trends. Our objective is to build a corporate that exemplifies all forms of sustainability.

Another challenge was faced with the introduction of the new KPI-based performance evaluation system. We are gradually implementing the system after the initial training programmes conducted to create awareness across the NSB family.

A look into the future

Encouraging integrated thinking coupled with acquiring digital skills and continuous employee training and development through conventional as well as digital channels will be among our top priorities in the forthcoming year as we strive to anticipate to meet the needs of a new generation of increasingly tech savvy customers. We are committed to bring out the best in every one through professional development and empowering people to take ownership of their careers enriching employee experience and engagement.

Our impression can be measured beat by beat...

While NSB's unique story is 45 years old, we possess a financial heritage of over 180 years. Throughout our illustrious history we learnt the Nation's heartbeat, just as much as our unique heartbeat is heard throughout the Nation.

Social and Relationship Capital

19.9 million *Total no. of accounts*	**Rs. 78,445 Mn.** *Interest paid to customers*	**Rs. 10,513 Mn.** *Value of POS transactions*
Rs. 13.5 Mn. *Loans granted to POS customers*	**Rs. 20 Mn.** *Total investment in CSR*	**225,950** *No. of enquiries received over the phone*
43,895 *No. of enquiries over web chat*	**767,656** *No. of Sthree accounts*	**234,500** *No. of cards issued*
214 *No. of students recognised at the 13th Hapan Scholarship Awards*	**50 schools** **5,000 students** *Aided through NSB CSR Mission for flood relief*	**144 seminars** **72,000 students** *Hapan Scholarship seminar series*

Since our inception, building close relationships based on trust, sharing value, contributing to the community, and protecting the environment are core to the NSB ethos. Social and relationship capital encompasses our relationships with communities, groups of stakeholders, and other networks. Interaction with key stakeholders, consideration of their concerns and earning their trust are central to maintaining and developing this capital. We recognise that our relationship with regulators, the Government (our principal shareholder), customers, suppliers, business partners, and other bodies are equally important to our success. Our business activities have an impact on many aspects of society and we have strategies and systems in place that ensure that our relationships are managed effectively. We contribute to the betterment of society and community empowerment as they form an integral part of our business sustainability.

Regulator Capital

At NSB, we value transparency above all else and we are dedicated to fully comply with the required practices and regulatory requirements. Being a State-owned bank, NSB is highly regulated in terms of provisions of various acts such as the Banking Act, Finance Act, Financial Transactions Reporting Act, Exchange Control Act, NSB Act, and other regulations issued by the Central Bank of Sri Lanka (CBSL). We have in place an efficient Regulatory Board which plays a supervisory role to ensure compliance with regulatory requirements. NSB, in its operations, diligently follows the guidelines set by the Central Bank. Furthermore, complying with the directives of the CBSL, NSB submits periodic information related to Bank's operations. In addition to above, the Bank maintains a continuous dialogue with the line ministry, Ministry of Public Enterprise Development. Furthermore, the Bank engages with the Ministry of Finance, the Department of Inland Revenue, Auditor General's Department, Attorney General's Department, Sri Lanka Accounting and Auditing Standards Monitoring Board, and the Parliament.

GRI 205-2, 3 GRI 206-1

Culture of compliance

In the present business context, compliance has become the yardstick by which institutions gauge their preparedness with respect to unanticipated risks. Being a State bank, NSB is conscious of its role as a model corporate citizen. Our transparency and adherence to best practices have inculcated a culture of compliance. We are committed to fully comply with the required regulatory requirements and best practices by integrating high standards in governance through Board oversight and top-down communication on the culture of compliance. Educating employees with the standards and practices of compliance supports in enhancing the compliance culture. Our proactive approaches have ensured our compliance to all statutory requirements. During the period under review, no fines or non monitory sanctions were imposed due to non-compliance with laws and regulation relating to corruption, anticompetitive behaviour, antitrust, monopoly practices and use of product and services.

Customer Capital

Our customers form the backbone of NSB. We follow a customer-centric strategy that is geared towards improving our customer experience. NSB is committed to deliver high-quality customer experience through improving convenience, adopting the latest trends in banking, fulfilling customer service expectations, and tracking customer satisfaction. Over the years, NSB has created a qualitative customer experience through a multi-channel approach. Our extensive, customer-oriented product portfolio is aimed at all segments of the Sri Lankan society. Our high-quality service delivered across a wide branch network, mobile and Internet banking, and other digital platforms provide our customers with simpler, seamless, direct engagement with the Bank.

A Bank for all Sri Lankans

NSB is the Bank for all segments of society. This is not just a motto but a reality. We stay true to the “National” aspect of NSB by serving all the citizens of our nation including the unbanked and the underbanked. The Bank’s deposit base witnessed a stellar growth of 12.2% to reach Rs. 737.2 Bn. and the Bank’s loans and advances portfolio recorded an impressive 20.0% growth to reach Rs. 388 Bn. These impressive figures show our commitment to fostering a savings culture in Sri Lanka and the gradual growth in customer and deposit bases epitomise the trust that our customers place on NSB.

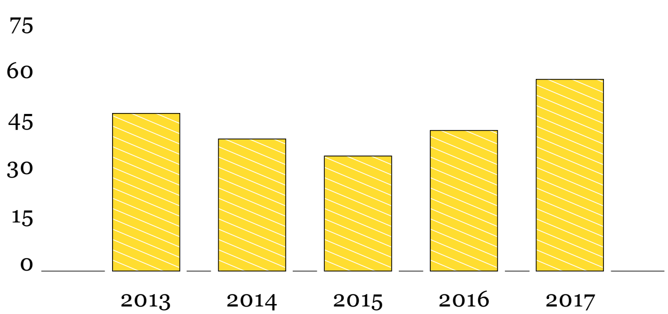
As a leading financial institution in Sri Lanka, we have built strong multi-generational relationships with many of our customers throughout their life cycles. We offered following products and services catering to different segments with diverse needs and objectives.

NSB product portfolio

The full list of NSB products and services can be found in the Supplementary Information section 372.

Interest paid to customers

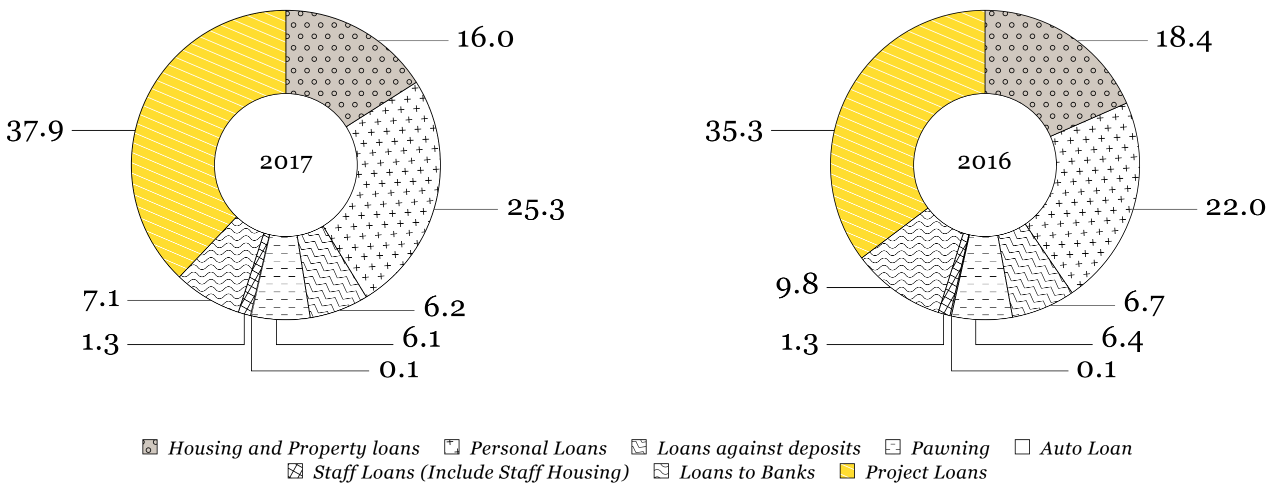
[Rs. Bn.]



Year	2013	2014	2015	2016	2017
Interest paid on deposits	49,416	41,500	36,257	44,366	60,162

Product wise analysis of loans portfolio

[%]



Banking made convenient

NSB provides easy, accessible, and convenient banking solutions to our customers. Our customised services are designed to save time and suit individual customer requirements whether it is managing your account, obtaining easy loans, or enabling you to keep track of your finances. We have extensive reach through our 250+ branch network, point of sale banking outlets, online and SMS banking, and a range of card options.

Point of Sale (POS) banking – NSB Reach

NSB introduced POS banking to take its unique products and services to reach underbanked people. There are over 300 hand-held POS machines in service across 253 branches of the Bank. In 2017, POS banking recorded Rs. 10.5 Bn. through 6.6 million transactions. Equipped with POS machines, Bank officers reach remote villages, towns, and key gathering points providing access to NSB's services in the most affordable way, whenever and wherever these customers need these services. We have gone an extra mile providing credit facilities under "NSB Reach +" to our POS customers with the objective of encouraging self-employment and small and medium enterprises. NSB disbursed 44 such loans amounting to Rs. 13.5 Mn. since its launch in November 2017, within the short span of just one month. Further, our customers have the convenience of making the utility bill payments through POS machines.

Province	Number of transactions	Value Rs. Mn.
Central	677,690	1,080
Eastern	610,455	781
North Central	364,415	714
North Western	728,490	1,370
Northern	890,316	1,011
Sabaragamuwa	528,034	765
Southern	753,998	1,061
Uva	377,005	597
Western	1,727,826	3,133
Grand Total	6,658,229	10,513

Digital banking

With customers and businesses preferring to bank digitally than to visit a branch, there is a higher demand for digital banking. NSB has embraced digitalisation in the banking sector to deliver more efficient, effective digital products and services for customers across diversified lines of business. This will shift the branch-centric model to customer-centric model and enable the customers to self-select and switch the channels seamlessly according to their personal preferences. Our online and SMS banking provide greater accessibility and convenience while our digital product portfolio is strengthened each year with new additions. The NSB iSaver is a prime example of an effective digital product that fosters a better savings culture among Sri Lankans. We hope to expand our digital capabilities to serve the customer of the future.

Card services

NSB offers its customers a range of card options, and in 2017, the Bank kept improving its debit card product and service system and secured rapid development of its debit card business through product innovation. Our customers can deposit or withdraw cash from accounts through our islandwide, extensive ATM network. NSB MasterCard or Visa Debit cards allow our customers to complete transactions through linked savings accounts. NSB maintained and further strengthened the value offer for NSB Easy Card platform. Easy Cards allows credit facilities to the Bank's fixed deposit holders without the added joining, annual, overdue, or late-payment fees.

Providing customer care to improve customer experience

NSB is dedicated to improve the customer experience by providing excellent customer service. We are geared to handle customer grievances through multiple channels.

The NSB Call Centre is established to conduct two-way communication between the Bank and our customers. This type of direct communication has created a greater value and has contributed to the customer experience. NSB Call Centre is operational 24/7 to offer the best possible customer service. The calls received are initially handled by the agents, then sent to relevant heads to address any issue. Customers receive a reference number and the complaints are tracked. A report on customer complaints and our actions taken to resolve them is compiled every month and is presented to the Management.

Customers can also direct their problems to our highly trained staff at our 253 branches islandwide. They are trained to provide any information necessary about products and services and are equipped to handle any complaints. The branches also possess a customer suggestion box for the use of our customers.

Customers can reach us virtually through NSB's website www.nsb.lk which provide comprehensive information on product details, lending rates, deposit rates, and contact details of the Management. Customers can use other digital methods of engagement such as email, skype and web chat.

	2017	2016
Number of enquiries received over the phone	**225,950**	200,045
Number of enquiries over web chat	**43,895**	40,009
Number of customer complaints received	**176**	184
Number of customer complaints resolved	**28**	26
Number of complaints related to cards – Point of Sale	**1,968**	1,673
Number of complaints related to cards – Card queries	**1,534**	1,608
Number of complaints to Central Bank of Sri Lanka	**None**	None
Number of complaints to Financial Ombudsman	**None**	None
Average time taken to answer a call	**<30 Sec**	< 30 Sec
Number of enquiries over email	**1,963**	1,968

GRI 418-1

Customer privacy

While information help us to provide a superior service, our utmost priority is our customers' trust which is achieved by keeping our customer information confidential. We invest in the latest technologies to help us protect your information. There are also processes and training of our team to improve the existing security procedures. Furthermore, "Customer Privacy" is embedded as an essential element in NSB Act as well as the Customer Charter. There were no complaints pertaining to the breach of customer privacy or loss of customer data in 2017.

GRI 417-2, 3

Product and service responsibility

All related information such as interest rates on deposits and lending products, charges and exchange rates are clearly disclosed to the customers via displays at branches, electronic media and corporate website. Terms and conditions applicable to the products and services are properly communicated to customers according to the Customer Charter prepared in compliance with CBSL guidelines. During the period under review, there were no instances of non-compliance to any product and service labelling or marketing communication guidelines.

GRI 102-13

Industry networks

As a leading financial institution in Sri Lanka, we play a vital role in strengthening the entire industry through continuous engagement with peers and network. We constantly participate in the industry forums and workshops making an influence towards the social and economic betterment of the country. The Bank holds memberships in the following organizations through which it engages with industry participants and the wider public:

- The National Chamber of Commerce
- LankaClear 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

Special marketing campaigns held in 2017

Each year, NSB conducts a series of marketing campaigns across our numerous customer touchpoints islandwide to improve customer reach and satisfaction. Our campaigns consist of incentives to our customers. Through research, NSB's marketing team identifies customers' needs and wants, and formulates a marketing strategy. Strategy is then converted into action, where the team takes decisions on particular products and services to be marketed within the year.

In 2017, NSB held a range of special marketing initiatives to improve customer reach and satisfaction. NSB's major marketing and digital marketing campaigns held during 2017 are mentioned below.

NSB iSaver

There was an islandwide promotional campaign held in August at all 253 NSB branches with the launching of NSB isaver.

NSB U-Trust

Our foreign currency remittance service NSB U-Trust is highly popular among the Sri Lankan expatriate community. To expand the reach of U-Trust and to increase the number of remittances received through Valutrans, Al Rajhi Bank, Middle East exchange houses, we conducted the "Cash from there, Gifts from here" lottery draw for the second time. The publicity campaign ranged from promotional material to advertisements. The following prizes: scooters, refrigerators, washing machines, home theatre systems, tabs, LED TVs, mobile phones, and bicycles were gifted to 60 winners.

Sthree

NSB *Sthree* savings account was successfully relaunched at a ceremony held in Colombo on 19 January 2017. It was relaunched with several value additions to provide a new strength to our female customers. Gift vouchers, Life style books, and umbrellas were distributed among the top savers. An island-wide promotional campaign was also organised to promote the *Sthree* savings account.

Hapan

Hapan is the savings product for children below 16 years. In order to popularize *Hapan*, *Punchi Hapan*, and *Thepal Hapan* children's savings accounts amid the competitive market environment, the Bank launched a new gift scheme from 15 May 2017. Pencil sets, rain coats, umbrellas, and water bottles were offered to top savers.

Engaging customers digitally

The rapid digitalisation of the sector has changed the way in which we market our products and brands. It is now necessary for a brand to have a digital presence in social media networks. Digital marketing is the process of using all available digital channels to promote a service or brand. NSB has recognised the advantages of cost-effective, targeted, measurable digital marketing and that social platforms can be a powerful tool for connecting with your audience and converting customers into brand enthusiasts NSB offers efficient knowledge flow on banking processes to its customers via mobile and digital banking applications through digital applications. We shares all corporate information and news on social media channels in addition to our website with all our customers.

In 2017, we revamped our digital marketing strategy and began the process of creating an online presence. In the process, we launched campaigns through all social networking sites like facebook, YouTube, twitter, and LinkedIn in August 2017.

www.facebook.com/ NSBSLOfficial

https://www.linkedin.com/ company/nsbslofficial/

www.nsb.lk

https://twitter.com/ NSBSLOfficial

https://www.youtube.com/channel/ UCv5lA_fM2_L8fd9xObUlhuQ

GRI 102-9

Business Partner Capital

NSB considers partnerships with our constituencies a key part of the way we conduct business. Over the years, we have built solid, productive, and long-term relationships with our customers, suppliers, outsourced service providers, correspondent banks, and other partners. As a State bank, we have a responsibility to adopt and maintain exemplary corporate practices. We follow a transparent policy in the engagement with our local and international business partners.

Outsourcing policy

The outsourcing policy of the Bank has been developed in accordance with the Banking Act Directions No. 2 of 2012, “Outsourcing of Business Operations of Licensed Specialised Banks”. The policy has been formulated to be followed when outsourcing its non-core operational activities that the Bank find it advantageous or deemed necessary to outsource.

The outsourcing policy discusses key factors to be considered when outsourcing the activities of the Bank including the oversight of the Board of Directors and the Senior Management.

Communication policy

As a leading Government-owned financial institution, the corporate communication of the Bank essentially should be; timely, accurate, comprehensive, authoritative, and relevant to all aspects of banking matters. All means of correspondence by the Bank should be made with responsibility and accountability. In order to address the above objective, NSB has a Board approved communication policy in place.

GRI 204-1

Procurement policy

The overall objective of our procurement policy is to ensure that all necessary materials, equipment, and services are available when needed to facilitate smooth functioning of operations while optimising costs. To this end, we have put in place standardised and efficient procurement procedures. To ensure compliance with the principles of sustainability, our suppliers must meet strict standards. Our policy ensures transparency in sourcing, procurement processes, and contracts.

Our procurement manual is in line with the Government's procurement guidelines. Three levels of procurement committees operate with authority under the procurement manual. As part of the process, the Bank procured all products from locally based suppliers. Each year an annual procurement plan is prepared and purchases are made in accordance with the plan. NSB obtains the services of outside suppliers for services such as the purchase of fixed assets, consumable items, IT and software infrastructure, gift items, printing, marketing and promotional activities, maintenance and construction services, and consultancy assistance in special cases.

Relationship management

During the year, NSB implemented several initiatives to maintain relationships with the number of business partners that the Bank associates. NSB also focused on building new relationships. The following are the initiatives undertaken by NSB in 2017:

- Visited overseas agents and exchange houses in order to strengthen the link between NSB and them. NSB's Business Relationship Officers engaged with exchange house staff to deliver high quality customer service to the NSB customer base.
- Conducted several marketing campaigns at cultural events at Sri Lankan embassies around the world and other organisations.
- Conducted several training sessions at Sri Lanka Foreign Employment Bureau.
- Maintained relationships with recruiting agencies to capture new markets.
- Built links with automobile dealers for retail trade and financing business segments.

GRI 413-1

NSB makes a true impression on the community

Being a State-owned bank, NSB has a responsibility of being an exemplary corporate citizen. To that effect we are cognisant of our impact on the society and environment and committed to create social value through engaging in sustainable business. Since our inception in 1972, we have shared long-term values with our customers, staff, environment, and the community we operate in. As mentioned in the Chairman's message, sustainability takes centre stage in our strategic direction and our operations. As a Government entity, we have to set an example to the rest of the business community.

We consider it our obligation to consider the interests of customers, employees, communities, and the ecology and to consider the social and environmental consequences of our business activities. All socio-economic, environmental, and social concerns are integrated into our business model, core business processes and decisions. Our ultimate goal is to create both sustainable social value and corporate value.

Every year, a number of community outreach and development projects are organised by NSB. There exists various programmes on improving social well-being, bolstering national healthcare, supporting education, and other various social, cultural, and religious programmes. The following are NSB's activities during 2017:

GRI 203-1

Our impression on capacity building of the nation

The bank has granted loans for large scale infrastructure projects of Sri Lanka such as the Central Expressway. This will foster development and increase accessibility and mobility which will reduce the concentration of expanding the industries in the Western Province. Further, construction of the Central Expressway will boost potential in Northern and Central parts of the country for economic growth.

Our impression on social well-being

The "NSB CSR Mission" for flood relief in Kalutara District

The Kalutara District was severely affected by adverse weather conditions which led to flash floods. NSB with the Ministry of Education and the Ministry of Public Enterprise Development organised a flood relief mission to help those in need.

The NSB CSR Mission was directed at helping with the rebuilding process of over 50 schools and helping over 5,000 schoolchildren in the process. Under the Mission, we renovated flood-affected school buildings and distributed stationery packs consisting of 24 exercise books, eight pens, 6 pencils, three erasers, and a foot ruler.

The mission also included conducting seminars for schoolchildren sitting for Grade 5 Scholarship and O/L Examinations in the Bulathsinhala, Baduraliya, and Matugama areas. The NSB branches in the affected areas provided with a list of affected schools and their recommendations were taken into consideration before undertaking the Mission.

The affected schools had to submit cost estimates for the rebuilding of infrastructure with an approval from the Zonal Educational Office.

A total of Rs. 9 Mn. collected for the programme through the contribution of Rs. 5 Mn. by the Bank and the donation of a day's salary by the Bank's staff of Rs. 3.8 Mn. The total cost incurred for the flood relief programme was Rs 4.2 Mn. The remaining Rs. 4.5 Mn. is available in the CSR fund which be used for another project of national importance.

The International Elders' Day 2017

NSB recognises that elderly people need care and comfort to lead a healthy life without worries and anxiety. The International Elders' Day was celebrated under the theme "Stepping into the future" on 1 October 2017 at the BMICH. This event was organised by the National Secretariat for Elders (NSE) along with the Ministry of Social Empowerment and Welfare. NSB was the main sponsor of the event.

The event celebrated elders over the age of 100, and elderly women over the age of 75 who had given birth to more than 14 children.

The Bank sponsored Rs. 600,000.00 to the event. 235 elders over the age of 100 were offered gift vouchers worth Rs. 2,000.00 There were 10 special gifts given to 10 elders from each category. The total cost of gifts accounted to Rs. 490,000.00.

Methsarana Scholarship

This programme was held to provide scholarships for schoolchildren who were affected by the Meethotamulla landslide. The event, organised by the Urban Planning and Water Supply Ministry and sponsored by NSB and AIA insurance Sri Lanka, was held at the BMICH on 16 November 2017. Scholarships worth Rs. 25,000.00 were distributed to 107 children where NSB contribution was Rs. 1.2 Mn.

Viru Sumithuru housing project for deceased and disabled war heroes

Ministry of Defence and the Ranaviru Seva Authority conducted a project to build 750 houses (300 new and 450 partly built houses) for deceased and disabled soldiers. NSB contributed Rs. 1.2 Mn. to the project.

Gift pack distribution for low-income families in Borella

NSB distributed 3,000 gift packs among children of low-income families in Colombo. Gift packs were given to Grade 1 and pre-school students. NSB invested Rs. 2.1 Mn. for the project.

Our impression on education

NSB holds Hapan Scholarship Awards for the 13th consecutive year

NSB organises this event annually to recognise the high achievers of Grade 5 Scholarship Examination. The award ceremony is the culmination of the *Hapan* seminar series. The 13th Hapan Scholarship Awards was held at Nelum Pokuna on 31 October 2017.

Out of the 214 students who received awards, 13 were students with learning difficulties. NSB recognises the commitment and hard work of students with learning difficulties. Rs. 195,000.00 was allocated to supporting students who had learning difficulties.

The 17th annual Hapan Scholarship seminar series

The Hapan Grade 5 Scholarship seminar series is part of NSB's initiative to support the future leaders of the country and national education. In 2017, there were 144 seminars conducted islandwide with the participation of more than 72,000 students. Participation ranged from Sinhala and Tamil medium students from around the country. The seminars are conducted by renowned educators. This year's total investment came to Rs. 3.4 Mn. This programme has been implemented continuously since 2001.

Nanodha educational development programme

This was a seminar series organised to assist O/L students in the districts of Kandy, Matale, and Nuwara Eliya in the Central Province covering 15 educational zones. 30 seminars were conducted. NSB contributed Rs. 2,946,400.00 to the programme.

Our impression on healthcare

HelpAge Sri Lanka

At present, more than two million Sri Lankans are over the age of 60 years of which about 500,000 live below the poverty line. They have limited access to proper medical and eye care facilities. HelpAge Sri Lanka conducts Mobile Medical Camps for medically vulnerable elderly persons in rural areas and suburban areas in Sri Lanka. NSB sponsors HelpAge with financial assistance for selected programmes. HelpAge engages in various activities including medical examinations, donation of bifocal spectacles, donation of reading glasses and facilitating cataract operations.

A bus equipped with the latest medical equipment and doctors, nurses, and orderlies travel to remote parts of the island to provide healthcare to underprivileged elders. The bus includes a pharmacy, as well as a ready supply of free spectacles, and is able to treat about 150 people a day free of charge.

In 2017, NSB sponsored nine mobile medical and eye camps investing Rs. 1.8 Mn. helping over 1,500 senior citizens. HelpAge Sri Lanka conducted eye clinics in Kalutara, Tangalle, Galle, Galgamuwa, Meerigama, Kurunegala, Kuliyapitiya, and Helamade.

Colombo Friend-In-Need Society mobile health camp in Oddusudan

NSB in collaboration with the Colombo Friend-In-Need Society sponsored a mobile health camp held at Oddusudan. Over 1,500 people benefited from this camp which tested eyesight, hearing and screening for diabetes. Artificial limbs were repaired and fitted for more than 20 people. The Bank contributed Rs. 389,000.00 for the camp.

A look into the future

NSB will diligently work towards creating value through our relationships with our employees, customers, society and environment, and other stakeholders. In the coming years, NSB hopes to further develop its multichannel approach to service delivery to enhance our customer experience. Towards that end, the Bank will establish a dedicated Customer Response Management (CRM) solution in the Call Centre which will link the entire branch network and the Head Office. This will ensure prompt response to customer grievances. NSB will also venture further into digitalisation and develop its digital product offering and services. Moreover, NSB's marketing strategy will be revamped. The marketing team will use diverse channels and promotional material to make our customers aware of our extensive product offering. A marketing plan will be unveiled by the Marketing Division covering all products and services with the objective of reaching a greater audience, boost customer base, and to increase deposit mobilisation.

Since its inception, NSB has become an integral participant of the communities that the Bank serves islandwide. NSB will develop an in-house CSR policy and guidelines with the help of professionals in the field to manage and streamline the Bank's CSR activities. A policy will ensure better organisation and proper management of CSR activities. Guided by NSB's core values, NSB will continue to give back to the community. With a clear perception of the social, economic needs of the communities, NSB will continue to create long-term value and drive towards economic, and social sustainability in the future.

A tree is not planted for oneself but for posterity...

NSB Agroforestry, our flagship project for environmental preservation initiated in celebration of the 93rd World Thrift Day, will distribute a million plants by 2020.

Natural Capital

As a service-oriented organisation and with minimal use of physical input materials, the Bank's operations do not have a direct impact on the environment in terms of emissions or generation of hazardous waste. However, as a responsible public entity, we are conscious of the need to preserve the environment and natural resources, for future generations.

We produce no goods to be transported except stationery, fixed assets, and promotional materials for marketing campaigns, and the environmental impact of this is negligible. Our business premises, too, are carefully selected and constructed in order to minimise their impact on the environment.

Guided by the UN SDGs, the Sri Lankan Government has implemented a number of sustainable initiatives. As a State-owned entity, and as a responsible corporate member of the community, we have pledged our support to these initiatives. We are thoroughly conscious of our impact on the ecosystem. We have adopted a multidimensional approach to preserve the environment and natural resources for future generations.

Going digital helps the environment

Over the past years, NSB has invested in digital banking by offering innovative digital products and adopting digital practices. We recognise that digitalisation will automatically eliminate the need for paper-based systems, storage space, and help minimise the carbon footprint.

NSB iSaver

With the introduction of NSB iSaver one is able to save money with the touch of a button, which will directly eliminate paper use and will help reduce consumption of resources in other ways.

Other digital initiatives

The following initiatives have been introduced to create a paperless business through practices which lead to the reduction of paper use.

- We encourage customers to subscribe to e-renewal letters instead of printed statements to reduce the usage of paper.
- Internet, mobile, and SMS banking is promoted to conduct all banking activities to save energy and resources.
- Digital marketing through online and social media networks have increased to reduce other forms of marketing that affect the environment.

Green banking initiatives

Energy-efficient buildings

The Bank has taken several measures to ensure energy efficiency in all operations. NSB is gradually converting to use renewable energy where solar panels were installed in five branches in 2017. A lightning arrester will be installed along with the solar power systems to secure electric appliances within a branch. We have also replaced the Split AC units with inverter operated systems to conserve energy at the Head Office.

Green lending initiatives

NSB continued the partnership with Ceylon Electricity Board (CEB) and Lanka Electricity Company (Private) Limited (LECO), for a community-based power generation project titled *Soorya Bala Sangramaya*, launched by the Ministry of Power and Renewable Energy. The NSB Eco-Loan scheme assists Sri Lankans who wish to switch to renewable energy with the necessary financial support. The project allows its beneficiaries to save on electricity bills as well as contribute to the national grid. Customers can select one of several options including Net Metering Scheme, Net Accounting Scheme and Net Plus Scheme.

GRI 302-1

Energy consumption

Our primary source of energy is electricity which is entirely fulfilled by the National grid and our electricity consumption for the year stood at 27,614 gigajoules Installation of solar panels in our own branches is expected to bring down the energy consumption. Further, there are frequent internal awareness programmes highlighting the importance of reducing energy consumption and the reasonable use of materials: use of LED lights, unplugging electronic equipment when not in use, switching off unnecessary lights, usage of printing papers, and etc.

Other energy saving initiatives

Our operations at the branches and office building constitute NSB's direct environmental impact. Outlined below are our initiatives to conserving resources, including water and paper, the efficient use of energy, and the management of waste.

- Continuous communication of importance of reduction of non-renewable energy consumption and conserving resources to the staff.
- When constructing branch buildings, NSB takes maximum effort to avoid impacting the natural environment.
- The Bank uses LED computer screen monitors.
- NSB's promotional materials are biodegradable.
- The Bank obtains legal clearance from local authorities for constructions of houses before granting loans.
- Limited the use of air conditioning to regular banking hours.
- The Bank only uses CFC-free air conditioning units.

NSB Agroforestry: A million plants by 2020

Trees are essential to life as we know it and our existing forests and the trees we plant work in tandem to make a better world. Trees also build soil and offer energy-saving shade that reduces global warming and creates habitat for thousands of different species. Trees also help to reduce ozone levels in urban areas.

NSB Agroforestry is NSB's flagship project focused towards environmental preservation. The project was initiated in celebration of the 93rd World Thrift Day. The NSB Agroforestry plans to distribute a million plants by 2020. This programme was conducted in collaboration with the Ministry of Primary Industry's *Dhana Saviya* Programme and the Coconut Cultivation Board with the objective of creating a new source of income while protecting the environment.

The Bank distributed 25,000 pepper plants and coconut seedlings through its island-wide branch network. Each branch was given 100 plants to distribute among the customers. There was an active participation of citizens irrespective of age, living conditions, or social status.

Challenges

- In a sector where generating profit and financial solvency are necessary elements, the high capital investment required to implement energy-efficient methods and renewable energy systems are challenges the Bank had to face.
- Implementation of proper waste management and the measurement of outcomes needs improvement.
- The reduction of electronic wastage disposal.
- The reduction of energy consumption in a continuously expanding business where new branches are constructed and new employees are recruited is another difficulty that NSB faced.

A Look into the future

We are committed to protecting the environment and our approach is to reduce our carbon footprint. We will continue to strengthen the Core Banking Solution, Data Management System, and automation to take digital banking further which will have a positive impact on the environment. Further, we plant to install state-of-the-art automated cash deposit machines that minimise the use of paper. We also hope to use teleconferencing facilities and telecommunication whenever possible and conduct online training through webinar, and developing more energy efficient office spaces. Our initiative to use solar power in branches will be expanded to reach 50 branches in 2018. We will continue to focus on aligning the UN SDGs to our strategy, our business decisions, and our operations.

NSB’s impression on the UN Sustainable Development Goals

The United Nations Sustainability Development Goals (SDGs) were created to address global inequality, insecurity, and injustice through specific targets to be achieved by 2030. These targets integrate the economic, social, and environmental dimensions of development while prioritising the management of natural resources for sustainable production and consumption.

As mentioned in the Chairman's Message, sustainability is embedded in NSB's strategy, business operations, infrastructure, and more. NSB has always recognised the role of the financial sector in its journey towards a sustainable, low carbon, and inclusive future. Thus, the Bank welcomes a global framework which communicates clearly and comprehensively global sustainable objectives and is working towards its achievement.

NSB has been integrating sustainability across the full breadth of our business activities. We focus on identifying and capturing opportunities that carry high potential to deliver positive and deliberate economic, social, and environmental impact. We partner with people, organisations, and communities that share our passion for sustainable development to maximise positive impacts on economy, social, and environmental phenomenon. We will continue to identify opportunities that contribute towards achieving UN SDGs by 2030.

The following diagram outlines NSB's contribution to the UN SDGs. Our projects and programmes cut across different SDGs, therefore we have grouped relevant SDGs together to provide a comprehensive outlook.

1 NO POVERTY

2 ZERO HUNGER

10 REDUCED INEQUALITIES

Scholarship programme, agricultural loans, sponsorships, donations.

Sonduru Piyasa loan scheme.

Sthree savings account.

Disaster relief programmes: "NSB CSR Mission", and rebuilding of houses in Kalutara District.

Viru Sumithuru housing project for deceased and disabled war heroes

Methsarana scholarship

As the largest licensed specialised Bank, we foster a savings culture in all Sri Lankans and work towards financial inclusion. We address these goals through the creation of new jobs, our community outreach and development projects, empowering our customers by providing access to financial support, generating rural employment opportunities, contributing indirect employment through our key business activities to improve their income capacity, and so on. The following projects were initiated throughout the year:

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3 GOOD HEALTH AND WELL-BEING

Colombo Friend-In-Need Society mobile health camp in Oddusudan.

NSB sponsored HelpAge Sri Lanka Mobile medical and eye camps for senior citizens.

Celebration of the International Elders' Day 2017.

Hapan Scholarship Awards that recognise children with learning differences.

NSB works towards good health and well-being through various community outreach projects and investing in healthcare in the work place. For our employees and their families, we provide comprehensive health care and medical schemes and our robust occupational health and safety policy contributes to creating a safe, secure working place. We also promote work-life balance, and provide incentives and benefits to improve employee well-being. Further, we have sponsored programmes with a human-centred approach to ensure heath and well-being, particularly in the elderly, and also children with learning differences. We partnered with reputed organisations in Sri Lanka and sponsored various health camps. The following projects were conducted in 2017 to address the relevant SDGs:

4 QUALITY EDUCATION

Hapan Grade Five Scholarship seminar series.

Hapan Scholarship Awards.

Nanodha Educational Development programme.

Kurunegala Defence Services school awards.

Training programmes provided for employees.

Donations to students in Ratnapura, Kahawatta, and Welladura.

Buddhi loan scheme.

NSB is committed to uplifting education by financing educational initiatives for advancing literacy and equal opportunities for education for all Sri Lankans. Through our specialised mandate, we foster financial literacy and are committed to educate Sri Lankans, from all segments of society, of the value of saving and managing finances. Our financial management expertise is shared with our customers through employees in our extensive branch network. Further, our product portfolio expands access and use of savings and loan products to help Sri Lankans plan for and finance education. We also conduct educational seminars annually and award top performers every year. We also invest regularly to enhance the professional qualifications of our employees through local and foreign training programmes. The following programmes, seminars, award ceremonies, and etc. were conducted in 2017 to address the SDG on Quality Education:

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5 GENDER EQUALITY

Equal opportunity employer

Male to female ratio of 6:5 at all levels

Promoting financial freedom through the Sthree product

Female employees accounts for 58% of the total employees

NSB believes that empowering women will empower the next generation. As mentioned in our General Manager's review, we have taken a holistic approach to empower women through specialised products and empowering women within our workforce. We are an equal opportunity employer and we do not discriminate on the grounds of gender. We have ensured women's participation in leadership, policy and decision-making processes. Our parental leave and policy towards new mothers facilitate our female workforce. We also can boast of a very healthy male to female ratio of 6:5 at all levels with a 58 % of women in our total workforce. We view the women's market as a distinct value proposition and we deliver tailor-made products, like the Sthree savings account, to empower Sri Lankan women in every strata of life, in diverse financial situations, with financial freedom.

Direct employment opportunities for 216 individuals.

NSB Reach product.

Supporting infrastructure project through loans: RDA, KDU, and etc.

Serving the Nation and Sri Lankans that come from all segments of society, we have strengthened the capacity of domestic financial institutions. Through our island-wide reach of 253 branches, over 4,000 postal offices, and POS banking we have expanded access to banking and financial services to the unbanked and under-banked population of the country. We also provide employment opportunities directly and our financing of projects lead to indirect job creation. Through our partnership with the Government, we have financed major infrastructure projects in the country.

Green lending initiatives: Official Bank for Soorya Bala Sangramaya and NSB Eco Loan.

Number of Eco Loans granted in 2017 902.

Digital initiatives: Model Branch concept, iSaver product, and more.

The use of renewable energy: Setting up solar power in branches.

Awareness programmes: Responsible consumption practices, awareness programmes are conducted to the staff. Biodegradable promotional material, energy management, limited the use of AC to bank hours, etc.

As mentioned in our Chairman's Message, we evaluate the social, economical, and ecological impressions NSB has made and take action to mitigate any negative impacts on the society and environment where we operate. We have initiated various programmes which attest to our commitment to climate action and creating sustainable communities. We promote the proliferation of clean energy through green banking initiatives and supporting island-wide projects on renewable energy. We have substantially increased the share of renewable energy in our energy mix and work towards improving energy efficiency through responsible consumption practices. Our investments on digital infrastructure and our digital product offering contribute to paperless, low-carbon output. Digitalisation of the sector will also drive innovation towards creating sustainable cities and communities.

NSB Agroforestry: NSB distributed 25,000 pepper plants and coconut seedlings islandwide.

We recognise that as a service-oriented organisation with minimal use of physical input materials, our relative impact on the environment in terms of emissions or generating waste is quite low. But we are conscious of the need to preserve life on land and below water. Our innovative financial tools like the Eco Loan and green banking initiatives contribute towards environmental preservation. We also ensure, when constructing new buildings, to minimise the impact on the environment. Moreover, in 2017, we initiated an ambitious community tree-planting project: NSB Agroforestry, which plans to distribute a million plants by 2020. NSB distributed 25,000 plants islandwide.

NSB is committed to improving the quality of life for all through creating a peaceful and inclusive society. As an exemplary corporate citizen, we comply with all regulatory and statuary requirements and conducts our business in a fair, transparent, and ethical manner. This culture of ethical conduct translates to our transactions and communications with suppliers and other entities. As a State-owned entity, we have nurtured strong partnerships with other Government entities, the Government, private, and international bodies. We have implemented processes such as Code of Conduct, whistle-blower policy, bribery and corruption statement, and other processes and policies to ensure ethical business practices are followed.

GRI 102-56

Independent Assurance Report to National Savings Bank

KPMG
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We have been engaged by the Directors of National Savings Bank ("Bank") to provide reasonable assurance and limited assurance in respect of the Sustainability Indicators as identified below for the year ended 31 December 2017. The Sustainability Indicators are included in the National Savings Bank's Integrated Annual Report for the year ended 31 December 2017 (the "Report").

The Reasonable Assurance Sustainability Indicators covered by our reasonable assurance engagement are:

Assured Sustainability Indicators	Integrated Annual Report Page
Financial Highlights	15

The Limited Assurance Sustainability Indicators covered by our limited assurance engagement are:

Limited Assurance Sustainability Indicators	Integrated Annual Report Page
Sustainability performance indicators – Non-Financial Highlights	16-18
Information provided on the following capitals	
Financial	73-84
Intellectual	92-99
Manufactured	100-105
Human	108-121
Social and Relationship	124-139
Natural	142-145

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, the Reasonable Assurance Sustainability Indicators, as defined above, for the year ended 31 December 2017 are, in all material respects, prepared and presented in accordance with the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines.

Limited Assurance Sustainability Indicators

Based on the limited assurance procedures performed and the evidence obtained, as described below, nothing has come to our attention that causes us to believe that the Limited Assurance Sustainability Indicators, as defined above, for the year ended 31 December 2017, have not in all material respects, been prepared and presented in accordance with the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines.

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 includes 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.

Reasonable Assurance Over Reasonable Assurance Sustainability Indicators

The procedures selected in our reasonable assurance engagement depend on our judgement, 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 controls 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 controls 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.

KPMG

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 Banks's key stakeholder groups;
- enquiries of relevant staff at corporate and selected site level responsible for the preparation of the Limited Assurance Sustainability Indicators;
- 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

Our report should not be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Bank, for any purpose or in any other context. Any party other than the Bank who obtains access to our report or a copy thereof and chooses to rely on our report (or any part thereof) will do so at its own risk. To the fullest extent permitted by law, we accept or assume no responsibility and deny any liability to any party other than the Bank for our work, for this independent assurance report, or for the conclusions we have reached.

Chartered Accountants
Colombo

14 April 2018

Governance

Board of Directors

Mr Aswin De Silva

Chairman

Mr Aswin De Silva's diverse banking experience expanding well over a 16 years, includes several senior managerial positions including been Director/Corporate Banking at American Express in Sri Lanka and Singapore. These include areas of Finance, Credit, Corporate Finance Advisory and Corporate Banking.

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

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

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

He is a Fellow of The Institute of Chartered Accountants of Sri Lanka (FCA) – having worked at KPMG Sri Lanka, Fellow of the Chartered Institute of Management Accountants, UK (FCMA) and fellow of the CPA FCPA (Australia).

Mr D L P R Abeyaratne

Director

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

Mr Abeyaratne is the Postmaster General of Sri Lanka since 2 December 2012. He brings to the Board, 22 years of experience serving in the Sri Lanka Administrative Service. He held the position of Divisional Secretary, Minuwangoda from 2005-2008; Director General of the National Gem and Jewellery Authority from 2009-2010, Senior Assistant Secretary, Ministry of Tourism, Senior Assistant Secretary to the Ministry of Economic Development in 2010 and Social/Gender and Resettlement Specialist of Conflict Affected Region Emergency Project (ADB).

He is also a visiting lecturer at the Institute of Human Resources Advancement, University of Colombo. He is a member of the Board of Directors of the Sri Lanka Social Security Board. He also serves as an external member of the Advisory Committee of Department of Commerce and Financial Management, University of Kelaniya

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

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

Mr A K Seneviratne

Director

Ananda Kithsiri Seneviratne is a special grade officer of the Sri Lanka Administrative Service (SLAS). Since January 2018 Mr Seneviratne has been working as the Director General of the Department of National Budget of the Ministry of Finance and Mass Media, Sri Lanka.

Mr Seneviratne holds a Honours Bachelors Degree specialising in Chemistry from University of Kelaniya. He has obtained a Postgraduate Diploma in Business and Financial Administration from The Institute of Chartered Accountants of Sri Lanka and Masters in Business Administration from the University of Colombo.

He joined the Sri Lanka Administrative Service in 1995. Upon completion of his in-service training year he was appointed as an Assistant Director to the Department of Fiscal Policy of the Ministry of Finance in 1996. In 2006 he was assigned to the Department of National Budget of the same Ministry as a Director. In 2015 he was appointed to Director General of the Department of Fiscal Policy. He worked there until has assumed duties of Director General of Department of National Budget in 2018.

Presently, he serves as a Board of Director of the State Pharmaceuticals Corporation (SPC), Ceylon Shipping Corporation Ltd., and De La Rue Lanka Currency and Security Print (Private) Limited.

Mr Suranga Naullage

Director

Mr Naullage was appointed to the NSB Board on 9 February 2015. He is a retired Bank Executive with 36 years of experience in Banking Services.

He holds a B. Com Special Degree from the University of Kelaniya and a Certificate in Banking and Finance from the Institute of Bankers of Sri Lanka.

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

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

Mr Ajith Pathirana

Director

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

Mr Pathirana is an Attorney-at-Law who possesses experience of more than 27 years. He is also an Unofficial Magistrate, a Justice of Peace, and a practitioner in Criminal Law and has appeared in many prominent cases in courts throughout the country.

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

He also serves as a Director of the NSB Fund Management Company Limited.

Mr Chandima Hemachandra

Director

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

He is the Chief Technology Officer at Scicom (MSC), Berhad, Malaysia, since 2011. He is an information technology professional with over twenty-six (26) years of experience, broad-based knowledge and skills in implementing large-scale and highly technologically complex projects in major financial institutions in UK, Malaysia, Sri Lanka and Kenya.

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

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

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

Mr Anil Rajakaruna

Director

Appointed to the NSB Board on 2 November 2015.
Mr Rajakaruna holds First in Laws (LLB, Part 1) from the University of Colombo. He is an Attorney-at-Law with 22 years experience. He holds a Diploma in External Affairs from the Bandaranayake Centre for International Studies.

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

Mr S D N Perera

General Manager/CEO

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

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

He is a Director of NSB Fund Management Company Limited.

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

Ms Anupama Muhandiram

Secretary to the Board

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

Prior to her appointment as the Secretary to the Board of Directors of National Savings 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 Company Limited from 2015 to 2017.

Out of 22 years experience in Banking and Finance sector, she had served more than 18 years at People's Bank as a 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.

Corporate Management

Mr S D N Perera
General Manager/CEO

Mr Jagath Gamanayake
Senior Deputy General Manager

Mr K Raveendran
DGM (Research and Development)

Mr M P A W Peiris
DGM (Operations)

Mr A C Gamage
DGM (Retail Credit)

Ms G V A D D Silva
DGM (Treasury)

Mr M Kiritharan
Consultant (Legal)

Mr P A Lionel
Consultant (Treasury)
(Up to 2 January 2018)

Mr K B Wijeyaratne
DGM (Finance and Planning)

Ms C S Jesudian
DGM (Credit)

Ms B P J Gunasekera
DGM (International)

Mr P A Abeysooriya
DGM (IT)

Mr K K V V L W Karunathilake
DGM (Marketing)

Mr G W E Jayaweera
DGM (Audit) *w.e.f. 1 January 2018*

Executive Management

Mr P S Wasanthathilaka

AGM IT – (Planning and Supporting)
(Retired w.e.f. 12 February 2018)

Ms K P D M De Silva

AGM (Operations)

Ms H R Silva

AGM (Operations)
(Retired w.e.f. 20 February 2018)

Mr K M W M Karunaratne

AGM (Engineering)

Mr M T A J F Gomis

AGM (Operations)

Ms M A Gomes

AGM (Planning)

Ms M N A Fernando

AGM (HRD)

Mr J H T Chandraratne

AGM (Engineering)

Chief Managers

Regional Managers

1
A L A Haleem
Regional Manager – Eastern

2
Ms H M S L Fernando
Regional Manager – Western I

3
Ms D D Wickramasinghe
Acting Regional Manager – Southern

4
K Kamalanathan
Acting Regional Manager – North Western

5
Ms H R Karunamuni
Acting Regional Manager – Western II

6
Ms V M S Sandalatha
Acting Regional Manager – Central

7
U Wattuhewa
Acting Regional Manager – Sabaragamuwa

8
N Baheerathan
Acting Regional Manager – Northern

Branch Management

9
Ms W P U A de Silva
Chief Manager – Branch Management

10
W M R B Weerakoon
Chief Manager – Branch Management

Branch Operations

11
Ms R A N N Wijesinghe
Chief Manager – Homagama Branch

12
Ms A J De Mel
Chief Manager – Panadura Branch

13
Ms A M C Attanayake
Chief Manager – Kandy Branch

14
A H Chandradasa
Chief Manager – Gampaha Branch

15
Ms C N Ekanayake
Chief Manager – City Branch

16
M M M Mansoor
Chief Manager – Kalmunai Branch
(Retired w.e.f. 22 March 2018)

17
U Munasinghe
Chief Manager – Battaramulla Branch

18
D C Olaboduwa
Chief Manager – Kiribathgoda Branch

19
M N C Perera
Chief Manager – Chilaw Branch

20
P M Thilakarathna Bandara
Chief Manager – Badulla Branch

21
W A K Wijeratne
Chief Manager – Matara Branch

22
S B Suranga
Chief Manager – Galle Branch

Audit and Vigilance

23
P A Perera
Chief Manager – Audit and Vigilance

Card Centre

24
K D K K Wijeyawardane
Chief Manager – Card Centre

Corporate Credit/Retail Credit

25
P T A Perera
Chief Manager – Credit

26
Ms K G Damayanthi
Chief Manager – Credit
(Retired w.e.f. 28 February 2018)

27
A B C R Wijayapala
Chief Manager – Pawning

28
Ms R C Samarasinghe
Chief Manager – Credit

Finance and Planning

29
Ms S S J P S de Silva
Chief Manager – Finance

30
H S P Ranaweera
Chief Manager – Finance

Human Resource Development

31
K S Weerasena
Chief Manager – Training

32
K A P Perera
Chief Manager – Personnel
(Retired w.e.f. 26 January 2018)

Information Technology

33
G M S P Fernando
Chief Manager – IT

34
M C Rajapakshe
Chief Manager – IT

35
A K L Illesinghe
Chief Manager – Network and Communication

36
L C Senanayake
Chief Manager – Hardware

37
A P R de Zoysa
Chief Manager – IS Security

International Banking

38
M V G Susil Kumara
Chief Manager – International Banking

Treasury

39
H M G P J Herath
Chief Manager – Treasury

40
Ms S W A Weerasinghe
Chief Manager – Treasury

Compliance, Legal, and Risk

41
Ms I K L Sasi Mahendren
Chief Manager –Compliance

42
Ms R P A M P Rajanayake
Chief Manager – Risk Management

43
Ms M A P Muhandiram
Secretary to the Board of Directors

Research and Development

44
M W K C de Silva
Chief Manager – Research and Development

Support Services

45
Ms C W Pathirana
Chief Manager – Supplies

46
K T S S Gunawardena
Chief Manager – Security

47
D M C P B Dissanayake
Chief Manager – General Manager's Division

48
D L P Abayasinghe
Chief Manager – NSB Fund Management Company Limited

49
K A R Gunathilake
Chief Manager – Welfare

Corporate Governance

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

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

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

Governance at NSB

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

In carrying out its activities, NSB places the value of corporate governance at its highest priority starting from the Board of Directors and Senior Management down to all operational levels staff members. The Board of Directors and all staff members at NSB are committed to the highest business integrity and ethical values and are dedicated to fully-complying with the best Corporate Governance Practices spelt in the NSB Act, Banking Act, Finance Act, Financial Reporting Act, Prevention of Money Laundering Act, Foreign Exchange Act, and other Regulations issued by the Government of Sri Lanka and Directions of Central Bank of Sri Lanka (CBSL) along with best business practices. The guidelines and their amendments/updates issued by the CBSL from time to time are well followed by NSB for its effective governance.

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

Governance framework at NSB is based on the following principles:

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

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

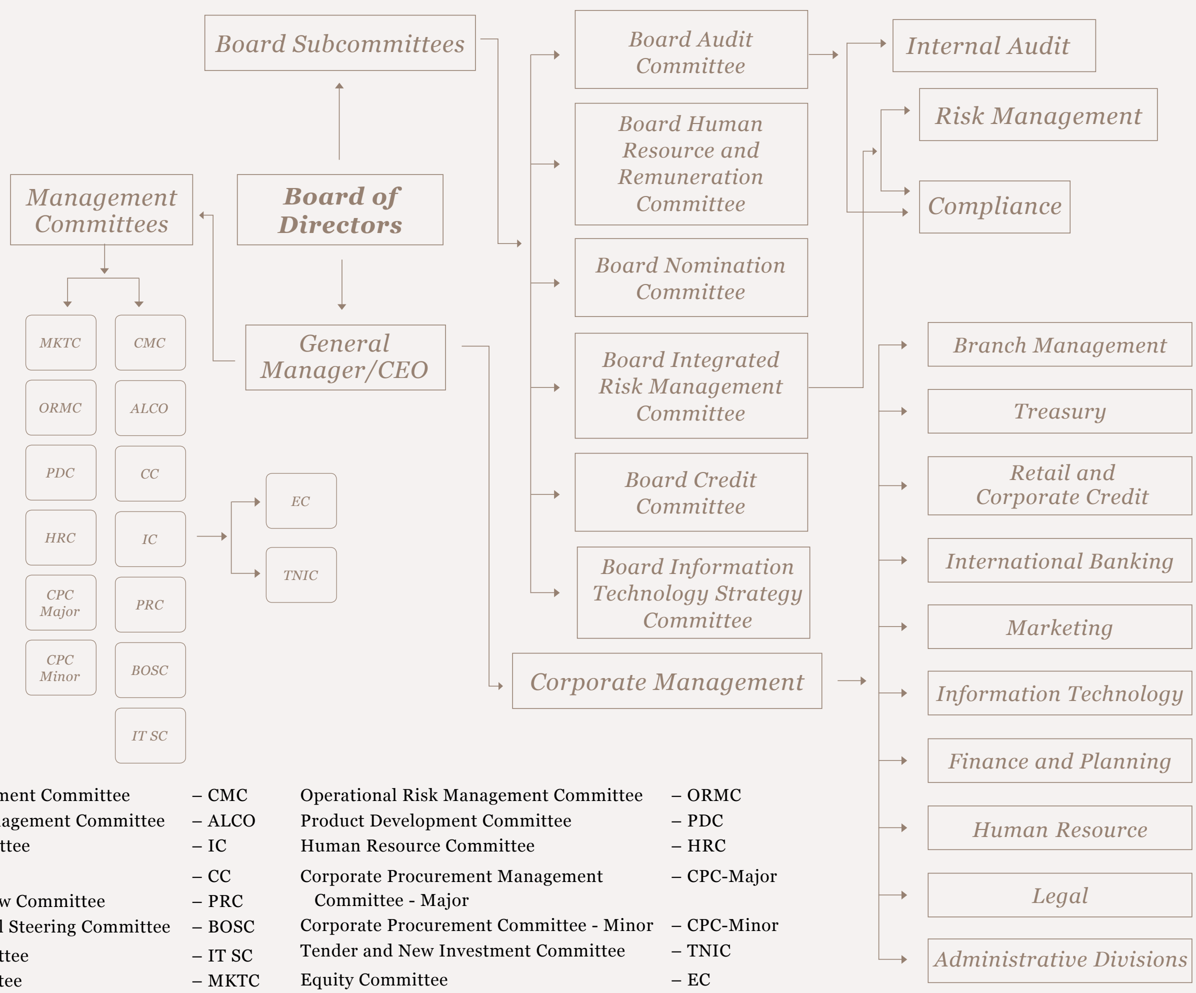
As a glance at the year 2017 Compliance Division has procured Anti-Money Laundering (AML) system and initiated implementation. Awareness on compliance was given priority and introducing of branch level training was carried out to achieve high level of awareness and a vast number of staff had been trained by the Compliance Division on General Compliance, AML and applicable laws and regulations. As for the year 2017 Compliance Division had executed its Action Plan targeting a successful compliance culture. In terms of Related Party Transaction (RPT) information, Compliance Division along with IT Division has introduced a new information capturing mechanism to obtain Directors and KMP RPT information. RPT reporting has been more effective under the introduced system and the year 2017 had been a target achieving year for the Compliance Division.

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

The Corporate Governance organisational chart GRI 102-18

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

Governance structure



Corporate Management Committee	– CMC	Operational Risk Management Committee	– ORMC
Asset Liability Management Committee	– ALCO	Product Development Committee	– PDC
Investment Committee	– IC	Human Resource Committee	– HRC
Credit Committee	– CC	Corporate Procurement Management Committee - Major	– CPC-Major
Performance Review Committee	– PRC		
Branch Operational Steering Committee	– BOSC	Corporate Procurement Committee - Minor	– CPC-Minor
IT Steering Committee	– IT SC	Tender and New Investment Committee	– TNIC
Marketing Committee	– MKTC	Equity Committee	– EC

Attendance of the Board members for Board meetings during the Year 2017

Name of Director Present Directors	Date Appointment	Eligible to Attend	Attended
Mr Aswin De Silva – Chairman	Appointed w.e.f. 9 February 2015	16	16
Mr D L P R Abeyaratne – Ex Officio Director	Appointed w.e.f. 9 February 2012	16	14
Mr Suranga Naullage – Director	Appointed w.e.f. 9 February 2015	16	16
Mr Ajith Pathirana – Director	Appointed w.e.f. 20 March 2015	16	14
Mr A K Seneviratne – Ex Officio Director	Appointed w.e.f. 27 May 2015	16	14
Mr Chandima Hemachandra – Director	Appointed w.e.f. 2 November 2015	16	13
Mr Anil Rajakaruna – Director	Appointed w.e.f. 2 November 2015	16	16

Scope, functions and attendance during the year 2017 are given below for the Board appointed Subcommittees in accordance with the Banking Act Direction No. 12 of 2007.

1. Board Audit Committee (BAC)

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

The BAC comprises three Non-Executive Directors, who conduct Committee proceedings in accordance with the rules stipulated in 3 (6) (ii) under the Direction No. 12 of 2007 on Corporate Governance for Licensed Specialised Banks, Board approved Audit Charter and connected Board decisions. The Board Secretary functions as the Secretary to the BAC. The Board of Directors of the National Savings Bank which consists of seven Directors and being constituted under the provisions of Section 8 (1) its sub section of NSB Act No. 28 of 1995 and members for all the Subcommittees including the BAC members are being appointed out of the said seven (7) members who possess necessary qualifications, skills and experience to serve BAC. The Committee functioned within the Terms of Reference stipulated in the BAC Charter. In terms of the Charter, the scope of the Committee was to assist the Board of Directors in fulfilling its oversight responsibilities for: (a) The integrity of the Bank's Financial Statements; (b) The effectiveness of the Bank's risk management function; (c) The performance of the Bank's external audit function; and (d) The performance of the Bank's internal audit function.

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

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

The BAC Report is given on page 190 to page 192.

2. Board Human Resources and Remuneration Committee (BHRRC)

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

The General Manager/CEO provides information to the Committee and attends all meetings of the Committee except when matters relating to the General Manager/CEO are being discussed. The Secretary to the Board functions as the Secretary to BHRRC. The Committee is responsible for determining the remuneration policy relating to the General Manager/CEO and Key Management Personnel of the Bank other than the remunerations determined by the Collective Agreement.

The Committee reviews all significant Human Resource Policies, initiatives, salary structures and terms and conditions relating to staff at senior executive level. In this process, necessary information and recommendations are obtained from the General Manager/CEO and the Senior Management of the Bank. The Committee meetings are held quarterly however based on the needs, meetings are fixed accordingly, and ten meetings had been held during the year 2017.

The BHRRC Report is given on page 193 to page 194.

3. Board Nomination Committee (BNC)

The BNC reports to the Board in respect of its activities and decisions. Secretary to the Board of Directors, functions as the Secretary to the BNC also.

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

The BNC Report is given on page 195.

4. Board Integrated Risk Management Committee (BIRMC)

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

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

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

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

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

The BIRMC Report is given on page 196 to page 197.

5. Board Credit Committee (BCC)

BCC is a subcommittee of the Board, which is responsible in conducting periodic reviews on the Credit Policy and the Investment Policy of the Bank and engage in approving of credit facilities and investment within the delegated limits of the Committee. BCC is consisted of three Directors appointed by the Board. The General Manager/CEO and Deputy General Managers in the credit line should attend the meeting on invitation and other senior officers to be presented at the BCC meetings when required.

BCC is empowered to:

- Approve and oversee the Bank's strategic objectives with respect to Credit and Investments including Policies, Procedures and other related policy level documents.
- Recommend delegated authority levels to the Board.
- Approval of Credit and Investment Proposals recommended by the Credit Committee and the Investment Committee within the delegated authority limits.
- Recommend Credit and Investment Proposals above the delegated authority limit to the Board for approval/ consideration.
- Recommend/forward new asset products and procedures to the Board for approval/consideration.
- Approve/advice on the pricing of Loans and Advances and Investments in consultation with/as recommended by Asset and Liability Management Committee.
- Guide/advice Credit Committee/Investment Committee on all matters such as credit administration, credit recovery, foreclosure actions, sale of vested properties etc.
- Monitor Loans and Advances and Investment portfolios against the limits and parameters set by the Board and regulatory authorities in line with accepted standards.
- Ensure implementation of appropriate systems to manage risks and strengthen internal controls and management information systems with respect to credit aspect of the Bank.

Minutes of the meeting shall be submitted to the meeting of the Board of Directors for adoption.

The BCC report is given on page 198 to page 199.

6. Board Information Technology Strategy Committee (BITSC)

The BITSC is authorised by the Board to conduct any activity covering the entire IT Framework of the Bank, compliance with the Board approved charter and the NSB Act No. 30 of 1971 as amended and the Regulatory Framework prescribed by the Central Bank of Sri Lanka.

Membership of the BITSC shall comprise three Directors appointed by the Board. The Board Secretary functions as the Secretary to the Committee. General Manager/CEO, Deputy General Managers, who oversees the scope of IT attends every meeting on invitation.

BITSC is empowered to:

- Approve and oversee the Bank's strategy objectives with respect to Information and Communication Technology (ICT), approve and review of IT strategy and policy documents, coordination with other Board Subcommittees as and when required, approve and manage new Technology Implementations within Bank's approved strategy.
- In order to meet the responsibilities, the BITSC shall delegate authority to Information Technology Steering Committee (ITSC).

The Committee meetings are held once in every two months or as required. The quorum of the Committee is two members.

The BITSC report is given on page 200.

Board Appointed Committee attendance

The number of meetings to be held as per Corporate Governance, meetings conducted and individual attendance for the year 2017 are shown below:

Names	Directorship status	Board Audit Committee	Board Human Resource Remuneration Committee	Board Nomination Committee	Board Integrated Risk Management Committee	Board Credit Committee	Board Information Technology Strategy Committee
Total minimum number of meetings to be held during the year as per statutory requirements		04	04	02	04	N/A	N/A
Total number of meetings held during the year		10	10	01	05	08	05
Mr Aswin De Silva – Chairman	Chairman Non-Independent Non-Executive (Chairman BHRRC, BCC, BITSC)	N/A	10 Chairman w.e.f. 12 March 2015	N/A	N/A	08 Chairman w.e.f. 3 February 2017	05 Chairman w.e.f. 3 February 2017
Mr D L P R Abeyaratne – Ex officio Director	Director Non-Independent Non-Executive (Chairman BAC, BNC)	10 Chairman w.e.f. 30 November 2015	10	01 Chairman w.e.f. 3 February 2017	N/A	N/A	02
Mr Suranga Naullage – Director	Director Non-Independent Non-Executive	N/A	N/A	N/A	05	N/A	N/A
Mr Ajith Pathirana – Director	Director Non-Independent Non-Executive	N/A	08	01	N/A	02	N/A
Mr A K Seneviratne – Ex officio Director	Director Non-Independent Non-Executive (Chairman BIRMC)	08	N/A	01	05 Chairman w.e.f. 30 November 2015	N/A	N/A
Mr Chandima Hemachandra – Director	Director Non-Independent Non-Executive	N/A	N/A	N/A	01	06	05
Mr Anil Rajakaruna – Director	Director Non-Independent Non-Executive	10	N/A	N/A	02	05	N/A

NA = Not Applicable
0 = Required to be present but not attended

Compliance at NSB

Annual Corporate Governance Report to be published in terms of the Banking Act Direction No. 12 of 2007 and subsequent amendments thereto in the Annual Report 2017.

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

Section	Principle	Level of compliance in 2017
3 (1)	**The responsibilities of the Board**	
3 (1) (i)	The Board shall strengthen the safety and soundness of the Bank, by ensuring the following:	
3 (1) (i) (a)	Approve and oversee the Bank's strategic objectives and corporate values and ensure that these are communicated throughout the Bank.	Complied with. The Bank's strategic objectives and corporate values are determined by the Board as stated on page 63. These are incorporated in the Board approved Strategic Business Plan for the period of 2017-2019 and communicated to all levels of employees.
3 (1) (i) (b)	Approve the overall business strategy of the Bank, the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least the next three years.	Complied with. The Board-approved three-year Strategic Business Plan (2017-2019) is being implemented, which covers business strategy, directions and measurable goals. Strategic Business Plan is a rolling plan that is updated and reviewed annually. Strategic Business Plan (2018-2020) was approved by the Board in 2017.
3 (1) (i) (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, governance structures and implementing systems to measure, monitor and manage the principal risks. The following reports provide an insight in this regard: • Risk Management Report on pages 201 to 238. • Board Integrated Risk Management Committee Report on pages 196 to 197.
3 (1) (i) (d)	Approve implementation of a policy of communication with all stakeholders, including depositors, borrowers, creditors, shareholders.	Complied with.

Section	Principle	Level of compliance in 2017
3 (1) (i) (e)	Review the adequacy and the integrity of the Bank's internal control systems and management information systems.	Complied with.
3 (1) (i) (f)	Identify and designate Key Management Personnel, as defined in the International Accounting Standards.	Complied with.
3 (1) (i) (g)	Define the areas of authority and key responsibilities for Directors themselves and for Key Management Personnel (KMP).	Complied with. Board Human Resources and Remuneration Committee has defined the areas of authority and key responsibilities for the Key Management Personnel. Areas of authority of the Board of Directors are governed by Section 7 of NSB Act.
3 (1) (i) (h)	Ensure that there is appropriate oversight of the affairs of the Bank by Key Management Personnel (KMP) that is consistent with Board policy.	Complied with.
3 (1) (i) (i)	Periodically assess the effectiveness of the Board of Directors' own governance practices, including: the selection, nomination and election of Directors and Key Management Personnel; the management of conflicts of interest; and the determination of weaknesses and implementation of changes, where necessary.	Complied with. The Directors are appointed by the Minister in terms of Section 8 of NSB Act No. 30 of 1971 as amended by Act No. 28 of 1995. Annual declarations of the Board of Directors in respect of related parties and their interests are obtained from Directors to monitor conflict, if any. Related Party Transaction Policy is in place to manage conflicts of interest.
3 (1) (i) (j)	Ensure that the Bank has an appropriate succession plan for Key Management Personnel.	Complied with.
3 (1) (i) (k)	Meet regularly, on a need basis, with the Key Management Personnel to review policies, establish communication lines and monitor progress towards corporate objectives.	Complied with. KMPs are regularly involved in discussions at the meetings of the Board and its Subcommittees on progress towards performance, strategy, policy and other matters pertaining to their areas of responsibility.
3 (1) (i) (l)	Understand the regulatory environment and ensure that the Bank maintains an effective relationship with regulators.	Complied with.
3 (1) (i) (m)	Exercise due diligence in the hiring and oversight of External Auditors.	Complied with. As per Section 37 in NSB Act the Auditor General is appointed as the External Auditor to the Bank.

Section	Principle	Level of compliance in 2017
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. 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. 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's and CEO's functions and responsibilities have been defined and approved by the Board.
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.
3 (1) (iv)	The Board shall ensure that arrangements are in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the Bank.	Complied with.
3 (1) (v)	The Board procedures shall ensure that notice of at least 7 days is given of a regular Board meeting to provide all Directors an opportunity to attend. For all other Board meetings, reasonable notice may be given.	Complied with.
3 (1) (vi)	The Board procedures shall ensure that a Director, who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director.	Complied with. Details of Directors' attendance are given on page 168. 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.
3 (1) (viii)	All Directors shall have access to advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable rules and regulations are followed.	Complied with.
3 (1) (ix)	The Company Secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any Director.	Complied with.

Section	Principle	Level of compliance in 2017
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.
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. Board approved Board Charter is in place, which enables the Directors upon reasonable request to seek independent professional advice in appropriate circumstances, at the Bank's expense.
3 (1) (xii)	Directors shall avoid conflicts of interest, or the appearance of conflicts of interest, in their activities with, and commitments to, other organisations or related parties.	Complied with.
3 (1) (xiii)	The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the Bank is firmly under its authority.	Complied with.

Section	Principle	Level of compliance in 2017
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. No such situation has arisen during the year.
3 (1) (xv)	The Board shall ensure that the Bank is capitalised at levels as required by the Monetary Board in terms of the capital adequacy ratio and other prudential grounds.	Complied with. The Board monitors capital adequacy and other prudential measures to ensure compliance with regulatory requirements, and Bank's defined risk appetite. The Bank is in compliance with the minimum capital requirements.
3 (1) (xvi)	The Board shall publish in the Bank's Annual Report, an annual corporate governance report setting out the compliance with Direction 3 of these Directions.	Complied with. Corporate Governance Report is given on page 165 in the Annual Report.
3 (1) (xvii)	The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually, and maintain records of such assessments.	Complied with.
3 (2)	**Board's composition**	
3 (2) (i)	The number of Directors on the Board shall not be less than 7 and not more than 13.	Complied with. As per Section 8 (1) of NSB Act the Board comprises seven Directors including the Chairman.
3 (2) (ii) (a)	The total period of service of a Director other than a Director who holds the position of Chief Executive Officer shall not exceed nine years.	Complied with.
3 (2) (ii) (b)	A Director who has completed nine years as at 1 January 2008, or who completes such term at any time prior to 31 December 2008, may continue for a further maximum period of 3 years commencing 1 January 2009.	Not applicable.
3 (2) (iii)	An employee of a bank may be appointed, elected or nominated as a Director of the Bank (hereinafter referred to as an "Executive Director") provided that the number of Executive Directors shall not exceed one third of the number of Directors of the Board. In such an event, one of the Executive Directors shall be the Chief Executive Officer of the Bank.	Not applicable.

Section	Principle	Level of compliance in 2017
3 (2) (iv)	The Board shall have at least three Independent Non-Executive Directors or one third of the total number of Directors, whichever is higher.	Directors are appointed by the Minister according to the Section 8 (1) (a) of the NSB Act. All the Directors are Non-Executive and Non-Independent.
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.
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 on pages 156 to 159.
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 NSB Act the quorum of the Board is four which is more than one-half of the Directors and all seven of the Directors are Non-Executive Directors.
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. Please refer pages 171 and 245.
3 (2) (ix)	There shall be a formal, considered and transparent procedure for the appointment of new Directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	Appointments of Directors are carried out by the Minister as per the NSB Act under Section 8 (1) (a).
3 (2) (x)	All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	Not applicable.
3 (2) (xi)	If a Director resigns or is removed from office, the Board shall: announce the Director's resignation or removal and the reasons for such removal or resignation; and issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.	Not applicable.
3 (2) (xii)	A Director or an employee of a bank shall not be appointed, elected or nominated as a Director of another bank except where such bank is a subsidiary company or an associate company of the first mentioned bank.	Complied with. Senior Deputy General Manager, an employee of the Bank, has been appointed as a Director of Regional Development Bank (RDB) representing the shareholding of the NSB.

Section	Principle	Level of compliance in 2017
3 (3)	**Criteria to assess the fitness and propriety of directors**	
3 (3) (i) a & b	The age of a person who serves as a Director shall not exceed 70 years.	Complied with.
3 (3) (ii)	A person shall not hold office as a Director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the Bank.	Complied with.
3 (4)	**Management functions delegated by the Board**	
3 (4) (i)	The Directors shall carefully study and clearly understand the delegation arrangements in place.	Complied with.
3 (4) (ii)	The Board shall not delegate any matters to a Board Committee, Chief Executive Officer, Executive Directors or Key Management Personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	Complied with.
3 (4) (iii)	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Bank.	Complied with.
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. The roles of Chairman and the CEO are performed by two separate individuals.
3 (5) (ii)	The Chairman shall be a Non-Executive Director and preferably an Independent Director as well. 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.	Not Applicable. Chairman is a Non-Executive and Non-Independent Director. However, there is no such requirement in the NSB Act to appoint Independent Director as the Senior Director.
3 (5) (iii)	The Board shall disclose in its corporate governance report, the identity of the Chairman and the Chief Executive Officer and the nature of any relationship.	Complied with. Profiles of the members of the Board and the General Manager/CEO are available on page 156.

Section	Principle	Level of compliance in 2017
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 Chairman provides leadership to the Board and ensures that the Board functions effectively in discharging its responsibilities. The Board in a timely manner discusses all key issues.
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 Chairman.
3 (5) (vi)	The Chairman shall ensure that all Directors are properly briefed on issues arising at Board meetings and also ensure that Directors receive adequate information in a timely manner.	Complied with.
3 (5) (vii)	The Chairman shall encourage all Directors 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. Evaluation of the role of the Chairman and the overall assessment of the Board's performance are incorporated in the Directors' Self-evaluation Process.
3 (5) (viii)	The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relations between Executive and Non-Executive Directors.	Not Applicable. Not relevant since there is no Executive Director.
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 acts in a Non-Executive capacity and he is not involved in executive functions to supervise KMPs.
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 shareholder is being represented at the Board by the nominee of Secretary to Ministry of Finance who is appointed as a Director by the provisions of the NSB Act.
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.

Section	Principle	Level of compliance in 2017
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.	Complied with. Six Board Committees are in place. Board Secretary acts as Secretary to all six committees. Board Audit Committee, Board Integrated Risk Management Committee, Board Human Resources and Remuneration Committee, Board Nominations Committee Board Credit Committee and Board Information Technology Strategy Committee directly submit reports through the Chairmen of the respective Board Committees to the Board.
3 (6) (ii)	**The following rules shall apply in relation to the Audit Committee:**	
3 (6) (ii) (a)	The Chairman of the Committee shall be an Independent Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.	Not applicable. The Chairman of the Board Audit Committee is Non-Executive and Non-Independent. All the members of the Board appointed as per the NSB Act.
3 (6) (ii) (b)	All members of the Committee shall be Non-Executive Directors.	Complied with.
3 (6) (ii) (c)	The Committee shall make recommendations on matters in connection with: 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	The Auditor General is appointed as per the NSB Act as the External Auditor of the Bank. And therefore, all the matters stated are taken into consideration.
	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.	Not applicable.
3 (6) (ii) (d)	The Committee shall review and monitor the External Auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.	Complied with. Since the Auditor General is the External Auditor the independence and objectivity are maintained. Effectiveness of the audit process is discussed with the Superintendent of the Government Audit at Board Audit Committee meetings.

Section	Principle	Level of compliance in 2017
3 (6) (ii) (e)	The Committee shall develop and implement a policy on the engagement of an External Auditor to provide non-audit services.	Not applicable.
3 (6) (ii) (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 the audit have been determined by the Auditor General as the External Auditor.
3 (6) (ii) (g)	The Committee shall review the financial information of the Bank, in order to monitor the integrity of the Financial Statements of the Bank, its Annual Report, accounts and quarterly reports prepared for disclosure, and the significant financial reporting judgements contained therein.	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.
3 (6) (ii) (h)	The Committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the Auditor may wish to discuss including those matters.	Complied with.
3 (6) (ii) (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.
3 (6) (ii) (j)	The Committee shall take the following steps with regard to the internal audit function of the Bank:	
	i. Review the adequacy of the scope, functions and resources of the Internal Audit Department, and satisfy itself that the department has the necessary authority to carry out its work;	Complied with.
	ii. Review the internal audit program and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the Internal Audit Department;	Complied with.
	iii. Review any appraisal or assessment of the performance of the Head and Senior Staff members of the Internal Audit Department;	Complied with.

Section	Principle	Level of compliance in 2017
	iv. Recommend any appointment or termination of the Head, Senior Staff members and outsourced service providers to the internal audit function;	Complied with. 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;	Complied with.
	vi. Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care.	Complied with.
3 (6) (ii) (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. Please refer Committee Report on page 190.
3 (6) (ii) (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. Ten meetings were held in the year of 2017 and a representative from Auditor General's Department was presented for eight meetings. All Directors are non-executive.
3 (6) (ii) (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. As per the Board Audit Charter of the Bank, the Committee has been empowered to investigate any matter, resources to carry out its functions, access to information and authority to obtain professional advice. Refer Committee Report on page 190.
3 (6) (ii) (n)	The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	Complied with. The Committee has met 10 times during the year and minutes have been maintained.

Section	Principle	Level of compliance in 2017
3 (6) (ii) (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 please refer, Scope of Board Audit Committee is given on page 168. No. of meetings held during the year are given on page 171. Details of attendance of Directors are given on page 171.
3 (6) (ii) (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 Board Secretary acts as Secretary and detailed minutes are maintained.
3 (6) (ii) (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. A Whistle-blowing policy is in place which covers these aspects and significant findings were reported to the Board Audit Committee for appropriate follow-up action. The Board Audit Committee 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:**	
3 (6) (iii) (a)	The Committee shall determine the remuneration policy (salaries, allowances and other financial payments) relating to Directors, Chief Executive Officer (CEO) and Key Management Personnel of the Bank.	Remuneration of the Directors is decided by the Ministry of Finance. The remuneration of the General Manager/CEO and KMPs are decided by the BHRRC on the basis of the collective agreement and approved by the Board of the Bank.
3 (6) (iii) (b)	The Committee shall set goals and targets for the Directors, CEO and the Key Management Personnel.	Complied with. Not Applicable to Directors as all of them are Non-Executive and appointed by the Minister as per the NSB Act. Goals and targets for General Manager/CEO and KMPs are set based on the Strategic Business Plan and linked to Key Performance Indicators.
3 (6) (iii) (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.	Complied with.

Section	Principle	Level of compliance in 2017
3 (6) (iii) (d)	The CEO shall be present at all meetings of the Committee, except when matters relating to the CEO are being discussed.	Complied with.
3 (6) (iv)	**The following rules shall apply in relation to the Nomination Committee:**	
3 (6) (iv) (a)	The Committee shall implement a procedure to select/ appoint new Directors, CEO and Key Management Personnel.	Not Applicable. The Directors are appointed by the Minister as per the NSB Act. Section 11 – The Minster shall nominate one of the Directors of the Board to be its Chairman. Section 26 – The Board shall appoint a fit and proper person to be the General Manager of the Bank who shall be the Chief Executive Officer of the Bank. Appointment of KMPs is complied with. Board of Directors appoints KMPs with the recommendation of Board Nomination Committee.
3 (6) (iv) (b)	The Committee shall consider and recommend (or not recommend) the re-election of current Directors.	Not Applicable. Directors are appointed by the Minister as per the NSB Act.
3 (6) (iv) (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.
3 (6) (iv) (d)	The Committee shall ensure that Directors, CEO and Key Management Personnel are fit and proper persons to hold office as specified in the criteria given in Direction 3 (3) and as set out in the statutes.	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 HR Division and forwarded to the Central Bank for assessing the fitness and propriety.
3 (6) (iv) (e)	The Committee shall consider and recommend from time to time, the requirements of additional/new expertise and the succession arrangements for retiring Directors and Key Management Personnel.	Complied with. Appointment of the Chairman, Directors and the CEO is stipulated in the NSB Act. Appointments of KMPs are made by the Board of Directors.
3 (6) (iv) (f)	The Committee shall be chaired by an Independent Director. The CEO may be present at meetings by invitation.	Not applicable. The Committee is chaired by Non-Independent Director. As all Directors are Non-Independent most suitable Director was appointed to chair.

Section	Principle	Level of compliance in 2017
3 (6) (v)	**The Board Integrated Risk Management Committee:**	
3 (6) (v) (a)	The Committee shall consist of at least three Non-Executive Directors, Chief Executive Officer and Key Management Personnel supervising broad risk categories,	Complied with.
3 (6) (v) (b)	The Committee shall assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the Bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a bank basis and group basis.	Complied with. Risk Management Division (RMD) submits monthly risk reports to the Board and quarterly risk reports based on the Board-approved risk appetite.
3 (6) (v) (c)	The Committee shall review specific quantitative and qualitative risk limits for all management level committees such as the Credit Committee and the Asset Liability Committee, and report any risk indicators periodically.	Complied with.
3 (6) (v) (d)	The Committee shall take prompt corrective action to mitigate the effects of specific risks.	Complied with.
3 (6) (v) (e)	The Committee shall meet at least quarterly to assess all aspects of risk management including updated Business Continuity Plans (BCP).	Complied with. During the year, the Committee had five meetings. Details of meetings and attendance are given on page 171.
3 (6) (v) (f)	The Committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the Committee, and/or as directed by the Director of Bank Supervision.	Complied with. No such necessity has arisen during the year.
3 (6) (v) (g)	The Committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.	Complied with.
3 (6) (v) (h)	The Committee shall establish a compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from Key Management Personnel shall carry out the compliance function and report to the Committee periodically.	Complied with. The Compliance function has been established by appointing a Compliance Officer (CO). Compliance officer submits reports periodically to the BIRMC/Board.

Section	Principle	Level of compliance in 2017
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.
3 (7) (ii)	The type of transaction with related parties that shall be covered by this Direction.	Information in this regard is disclosed in Note 40 on "Related Party Disclosures".
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. Annual declarations are obtained from the Directors where such transactions would be identified. System is also developed to capture any transaction with "more favourable Treatment" than that accorded to other constituents of the Bank carrying on the same business and reported to the Board periodically. Transactions (if any) carried out with Related Parties in the normal course of business and disclosed in Note 40 to the Financial Statements "Related Party Disclosures" on page 345.
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. No such instances were recorded.
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 such instances were recorded.
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.

Section	Principle	Level of compliance in 2017
3 (8)	**Disclosures**	
3 (8) (i)	The Board shall ensure that:	
3 (8) (i) (a)	Annual Audited Financial Statements and quarterly Financial Statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that.	Complied with.
3 (8) (i) (b)	Such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied with.
3 (8) (ii)	The Board shall ensure that the following minimum disclosures are made in the Annual Report:	
3 (8) (ii) (a)	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. Refer page 241 of the Annual Report on Board of Directors Responsibility for financial reporting.
3 (8) (ii) (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. Refer Directors' Statement on Internal Control over Financial Reporting on page 250.
3 (8) (ii) (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. Refer Independent Assurance Report on Internal Controls on page 252.
3 (8) (ii) (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 are given on page 156. Refer Note 40 (d) to the Financial Statements on page 348. Refer Note 40 (d) to the Financial Statements on page 348.
3 (8) (ii) (e)	Total net accommodation as defined in 3 (7) (iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the Bank's regulatory capital.	Complied with. The net accommodations granted as a percentage of Bank's regulatory capital is given in Note 40 (e) to the Financial Statements on page 348.

Section	Principle	Level of compliance in 2017
3 (8) (ii) (f)	The aggregate values of remuneration paid by the Bank to its Key Management Personnel and the aggregate values of the transactions of the Bank with its Key Management Personnel, set out by broad categories such as remuneration.	Complied with. Details are given in Note 40 (d) to the Financial Statements on page 348.
3 (8) (ii) (g)	The External Auditor's certification of the compliance with these Directions in the annual corporate governance report.	Complied with. External Auditor's certification was obtained and has been set out on page 255.
3 (8) (ii) (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. Please refer Statement on Directors' Responsibility for financial reporting on page 248.
3 (8) (ii) (i)	A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision of the 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.	Not Applicable. Monetary Board has not directed any disclosures to be made public during the year.
3 (9)	**Transitional and other general provisions**	Complied with. The Bank has complied with the applicable transitional provisions.

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

The Auditor General has performed procedures in accordance with the principles set out in Sri Lanka Standards on Related Services 4400-Engagements to Perform Agreed-upon Procedures Regarding Financial Information issued by The Institute of Chartered Accountants of Sri Lanka to meet the compliance requirement of the Direction No. 12 of 2007 on Corporate Governance issued by the Central Bank of Sri Lanka. His findings given in his report dated 2 May 2018 were not materially different to the matters disclosed above and did not identify any significant inconsistencies to those reported above by the Board.

M A P Muhandiram
Secretary to the Board

Aswin De Silva
Chairman

2 May 2018
Colombo

Our high-quality service delivered across an island-wide branch network, and through digital platforms provide our account base of over 19.9 million with simpler, seamless, and direct engagement with the Bank.

Central Region →

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

Eastern Region →

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

Northern Region →

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

North Western Region →

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

Sabaragamuwa Region →

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

Southern Region →

128. Akuressa
129. Ambalangoda
130. Angunakolapelessa
131. Baddegama
132. Beliatta
133. Deniyaya
134. Devinuwara
135. Dikwella
136. Elpitiya
137. Galle
138. Habaraduwa
139. Hakmana
140. Hambantota
141. Hikkaduwa
142. Imaduwa
143. Kamburupitiya
144. Karapitiya
145. Kekanadura
146. Matara
147. Middeniya
148. Morawaka
149. Neluwa
150. Pitigala
151. Sooriyawewa
152. Tangalle
153. Tissamaharama
154. Udugama
155. Uragasmanhandiya
156. Urubokka
157. Walasmulla
158. Weerakatiya
159. Weligama

Western 1 Region →

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

Western 2 Region →

194. Aluthgama
195. Athurugiriya
196. Bambalapitiya
197. Bandaragama
198. Battaramulla
199. Beruwala
200. Boralesgamuwa
201. City
202. City Plus
203. Dehiwala
204. Delkanda
205. Homagama
206. Kahathuduwa
207. Kalubowila
208. Kalutara
209. Katubedda
210. Kollupitiya 2nd
211. Kottawa
212. Maharagama
213. Malabe
214. Matugama
215. Meegoda
216. Moratumulla
217. Moratuwa
218. Mount Lavinia
219. Nawala
220. Nugegoda
221. Panadura
222. Piliyandala
223. Piliyandala 2nd
224. Pitakotte
225. Puwakaramba
226. Rajagiriya
227. Thalawathugoda
228. Wadduwa
229. Wellawatta
230. WTC

Postal Administration →

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

Report of the Board Audit Committee

Composition of the Committee

Board Audit Committee (BAC) consists of following members whose profiles are given on the page 156 of this Annual Report.

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

Secretary to the Board of Directors, functions as the Secretary to the Board Audit Committee.

Meetings

The quorum for a meeting is two (2) members.

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

Name	Eligible to attend	Attended
Mr D L P R Abeyaratne	10	10
Mr A K Seneviratne	10	8
Mr Anil Rajakaruna	10	10

The Board Audit Committee (BAC) 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 Board Secretary functions as the Secretary to the BAC as per the Board decision dated 11 July 2013. The Board of Directors of the National Savings Bank which consists of seven Directors and being constituted under the provisions of Section 8 (1), sub-section of National Savings Bank Act No. 30 of 1971 as amended. Members for all the Subcommittees including the BAC are being appointed out of the said seven (07) members. The members possess necessary qualifications, skills and experience to serve in the BAC.

The Superintendent of the Government Audit as the representative of the Auditor General attended eight BAC meetings on invitation as an Observer. The General Manager/CEO, Deputy General Manager (Finance & Planning) and Acting Deputy General Manager (Audit) have attended meetings of BAC during the year 2017 on invitation ensuring optimum independency of the BAC.

Board Audit Committee Charter

The Charter of the BAC has been approved by the Board of Directors and reviewed regularly, clearly defines the Terms of Reference of the Committee. The Committee assists the Board of Directors in discharging its responsibilities and fulfilling its oversight responsibilities for –

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

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

Financial reporting

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

The Committee reviewed the "Report on the review of Financial Statement for the year ended 2017" which was submitted along with findings by the Internal Audit Division and reviewed the draft Financial Statement submitted on quarterly basis.

Progress of implementation of SLFRS 9

The Committee monitored the progress of implementation of SLFRS 9 on "Financial Instruments" as per the Sri Lanka Accounting Standards which will be effective from 1 January 2018.

Identification of risks and control measures

The Directors of the Bank and its subsidiaries are responsible for identifying and evaluating risk and its impact on business operations and financial reporting.

BAC reviews and assesses the Bank's risk management process, including the adequacy of the overall control environment and controls in areas of significant risks. Further BAC reviews 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 Bank adapts risk base audit approach and the Committee assessed the effectiveness of the Bank's internal control over financial reporting in line with the Banking Act Direction No. 12 of 2007, Section 3 (8) (ii) (b), and prepared based on the guidelines issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

Internal audit and inspection

The BAC ensures that, the internal audit function is independent of the activities it audits. It reviews the internal audit budget, resource plan, activities, and organisational structure of the internal audit function with the Acting Deputy General Manager Audit and also satisfies itself that the Division has the necessary authority to carry out its work.

The Internal Audit Division of the Bank carries out audit of Branches, Divisions and other Units as per the Annual Audit Plan. The frequency of audit is determined by the level of risk assessed. The Audit Plan is approved by the BAC for implementation. The approved audit plan for the year 2017 has been achieved by the end of 2017.

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 and provides recommendations for improvements. Audits are carried out to provide an independent and objective report on operational and Management activities.

BAC reviewed findings of regular audit examinations and information system audits carried out by the Internal Audit Division. Further, reviewed the reports on internal investigations carried out during the period from November 2016 to November 2017, report on Fraudulent Withdrawals of the Bank and reviewed the performance of Acting Deputy General Manager (Audit) and senior staff members of the Audit Division for the year.

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

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

External audit

By statute, the Auditor General is the External Auditor of the Bank. Meetings with the External Auditor were held at least twice during the engagement. They were also provided with the opportunities of meeting the Committee independently, to discuss and express their views on any matter of significance. Board Audit Committee had ten meetings in the year 2017 and a representative from Auditor General's Department attended to eight meetings.

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

Ethics and good governance

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

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

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.

Committee evaluation

The Committee completed the evaluation process with self-assessment for the year 2017 and concluded that its performance was effective.

Reporting

The Committee is directly reporting to the Board of Directors about its activities, issues and related recommendations 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 the terms of reference of the Committee were compiled within all material aspects.

D L P R Abeyaratne

Chairman – Board Audit Committee

12 March 2018
Colombo

Report of the Board Human Resource and Remuneration Committee

Composition of the Committee

The Committee (BHRRC) comprises of following Non-Executive Directors whose profiles are given on page 156 of this Annual Report.

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

The General Manager/CEO attends meetings of the Committee when taking up of Human Resource and Remuneration matters. The Secretary to the Board of Directors, functions as the Secretary to the BHRRC.

Meetings

The Committee meetings are held quarterly however based on the needs, meetings are being fixed accordingly. The quorum for a meeting is two (2) members.

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

Name	Eligible to attend	Attended
Mr Aswin De Silva	10	10
Mr D L P R Abeyaratne	10	10
Mr Ajith Pathirana	10	8

The Board Human Resource and Remuneration Committee (BHRRC) constituted in terms of the provisions of Sections 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.

Role and responsibilities of the Committee

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

The Committee set Key Performance Indicators for General Manager/CEO and the Key Management Personnel. Further evaluate the performance of the General Manager/CEO and Key Management Personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.

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

Activities during the year 2017

Activities attended and carried out by the Committee during the year 2017, were as follows:

- Reviewed the Human Resources Policy and the Disciplinary Code of the Bank.
- Evaluation of Key Performance Indicators (KPI) of Key Management Personnel (KMPs) for 2016 (General Manager/CEO, Senior DGM, all DGMM, all Consultants, Compliance Officer and all AGMM).
- Reviewed recruitment and selection methodology of the Bank.
- Reviewed the recruitment, promotion and upgrading of staff based on the requirement of the Bank.
- Revisited and provided a value addition to staff welfare benefit scheme of the Bank.
- Consideration of appeals submitted by staff on HR-related matters.

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

Committee evaluation

The Committee completed the evaluation process with self-assessment for the year 2017 and concluded that its performance was effective.

Aswin De Silva
Chairman – Board Human Resource and Remuneration Committee

12 March 2018
Colombo

Report of the Board Nomination Committee

Composition of the Committee

Board Nomination Committee (BNC) consists of following members whose profiles are given on the page 156 of this Annual Report:

Mr D L P R Abeyaratne – Chairman
(Appointed w.e.f. 03.02.2017 and member up to 02.02.2017)

Mr Aswin De Silva – Chairman
(Resigned w.e.f. 03.02.2017)

Mr Ajith Pathirana – Member

Mr A K Seneviratne – Member
(Appointed w.e.f. 03.02.2017)

The Secretary to the Board of Directors, functions as the Secretary to the BNC.

Meetings

The quorum for a meeting is two members. Attendance of the Committee members during the year is as follows:

Name	Eligible to attend	Attended
Mr D L P R Abeyaratne	1	1
Mr Ajith Pathirana	1	1
Mr A K Seneviratne	1	1

The Board of Directors has established the Board Nomination Committee (BNC) in compliance with the Banking Act Direction No. 12 of 2007, Corporate Governance for Licensed Specialised Banks in Sri Lanka issued by the Monetary Board of the Central Bank of Sri Lanka under Section 76 J (1) of the Banking Act No. 30 of 1988 as amended, to ensure Board oversight and control over the 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 No. 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 2017

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

- Review and approval for proposed cadre for the Bank – 2017.
- Review the Succession Plan of the Bank.
- Interviews for posts of Special Grades in banking and non-banking streams, and Key Management Personnel (KMPs) – initiate interviews for Posts of Assistant General Managers (Special Grade)

Committee evaluation

The Committee completed the evaluation process with self-assessment for the year 2017 and concluded that its performance was effective.

D L P R Abeyaratne
Chairman – Board Nomination Committee

12 March 2018
Colombo

Report of the Board Integrated Risk Management Committee

Composition of the Committee

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

The following Directors have been functioning as members of BIRMC whose profiles are given on page 156 of this Annual Report:

Mr A K Seneviratne – Chairman

Mr Suranga Naullage – Member

Mr Chandima Hemachandra – Member (Resigned w.e.f. 14.08.2017)

Mr Anil Rajakaruna – Member (Appointed w.e.f. 14.08.2017)

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

Meetings

The Committee meetings are held quarterly however based on the needs, meetings are being fixed accordingly. The quorum for a meeting is two (2) members.

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

Name	Eligible to attend	Attended
Mr A K Seneviratne	5	5
Mr Chandima Hemachandra	3	1
Mr Suranga Naullage	5	5
Mr Anil Rajakaruna	2	2

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

Role and responsibilities of the Committee

The Terms of Reference set out by the Board of Directors, includes the following:

- Assist the Board of Directors in fulfilling its responsibilities relating to risk management and establishing an effective risk management framework.
- 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.
- Work with Key Management Personnel very closely on all critical risk areas and make suitable recommendation to the Board within the framework of the authority and responsibility assigned to the Committee.

- Identify, review, report and recommend on risk of new operational developments and compliance related to those concerns.
- Review implementation and compliance with the Basel III directions issued by CBSL.

During the year 2017, the BIRMC has reviewed the Charter. 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 is 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 2017

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

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

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

Committee evaluation

The Committee completed the evaluation process with self-assessment for the year 2017 and concluded that its performance was effective.

A K Seneviratne
Chairman – Board Integrated Risk Management Committee

12 March 2018
Colombo

Report of the Board Credit Committee

Composition of the Committee

The BCC comprised three Non-Executive Directors and General Manager/CEO, DGM (Credit) and DGM (Retail Credit) shall attend as invitees.

The following Directors have been functioning as members of BCC whose profiles are given on the pages 156 of this Annual Report.

Mr Aswin De Silva – Chairman

Mr Anil Rajakaruna – Member
(Appointed w.e.f. 03.02.2017 and Resigned w.e.f. 14.08.2017)

Mr Ajith Pathirana – Member
(Appointed w.e.f. 14.08.2017)

Mr Chandima Hemachndra – Member

The Secretary to the Board of Directors, functions as the Secretary to the BCC.

Meetings

The quorum for a meeting is two members. Attendance of the Committee members during the years as follows :

Name	Eligible to attend	Attended
Mr Aswin De Silva	8	8
Mr Anil Rajakaruna	5	5
Mr Ajith Pathirana	3	2
Mr Chandima Hemachandra	8	6

The Board of Directors has established the Board Credit Committee (BCC) 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 and National Savings Bank Act No. 30 of 1971 as amended, to conduct periodic reviews on the Credit Policy and Investment Policy of the Bank as and when required, and to engage in approving of credit facilities and investments within the limits delegated to.

Role and responsibilities of the Committee

Reviews and recommends the Banks strategic objectives with respect to credit and investment including policies, procedures and other related policy level documents.

Assists the Board of Directors through efficient and effective management relating to Credit Policy and Investment Policy of the Bank in order to promoting and reinforcing a sound, robust and healthy credit risk acceptance and management culture.

Approves and advises on the pricing of Loans and Advance and Investments in accordance with the recommendations by Assets and Liability Management Committee (ALCO).

Ensuring implementation of appropriate systems to manage risks and strengthen internal controls and management information systems with respect to credit aspect of the Bank.

Activities during the year 2017

The committee approved the credit and investment proposals and other specific reports which prerequisite the approval of the Board in line with the lending and investment policies and credit risk appetite of the Bank in order to ensure the efficient and effective performance over the credit and investment direction of the Bank.

Committee evaluation

The Committee completed the evaluation process with self-assessment for the year 2017 and concluded that its performance was effective.

Aswin De Silva
Chairman – Board Credit Committee

12 March 2018
Colombo

Report of the Board Information Technology Strategy Committee

Composition of the Committee

The Board Information Technology Strategy Committee (BITSC) comprised of three Non-Executive Directors and General Manager/CEO shall attend as invitee.

The following Directors have been functioning as members of BITSC whose profiles are given on the page 156 of this Annual Report.

Mr Aswin De Silva – Chairman
Mr D L P R Abeyaratne – Member
Mr Chandima Hemachnadra – Member

Meetings

The quorum for a meeting is two (2) members. Attendance of the Committee members during the year is as follows:

Name	Eligible to attend	Attended
Mr Aswin De Silva	5	5
Mr D L P R Abeyaratne	5	2
Mr Chandima Hemachandra	5	5

The Board of Directors of the Bank has established the Board Information Technology Strategy Committee (BITSC) 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

Establish and review Information Technology Governance Framework to ensure leadership support, organisational structure and Bank's IT process, value delivery, IT risk management, resource management and performance management.

Ensure adequacy and effectiveness of Business Continuity Management and Disaster Recovery of Information Communication Technology systems of the Bank.

Ensure adequacy and effectiveness of Information Systems Security according to CBSL directions and international best practices.

Activities during the year 2017

The Committee approved policies and procedures in order to enhance information technology infrastructure, enabling the banking functions more linked with the emerging technologies to ensure efficient and effective implementation over the strategies of the Bank. Moreover, the Committee foresees the need of customer's data protection and ensures all necessary policies and procedures have been taken against the information security.

Committee evaluation

The Committee completed the evaluation process with self-assessment for the year 2017 and concluded that its performance was effective.

Aswin De Silva
Chairman – Board Information Technology Strategy Committee

12 March 2018
Colombo

Risk Management Report

The foremost among the challenges faced by the banking sector today is the challenge of understanding and managing the risk as it is an inherent part of all business and supportive activities. Thus the NSB's overall objective is to manage its operations and the associated risks in a manner that balances serving the interests of its customers & investors and solvency.

Risk management function of the Bank requires to identify, assess, measure, aggregate & manage risks and to monitor optimum capital allocation among business operations.

Risk management framework is implemented in an integrated manner to cover a broad spectrum of economic and other main risk areas such as credit, market, liquidity, operational, compliance, reputation and strategic with controls and governance established for each area as appropriate. A comprehensive risk management framework is applied throughout the Bank with effective governance and corresponding risk mitigation tools.

The scope of risk management is not limited to the Bank, but also to the fully-owned subsidiary, NSB Fund Management Company. The subsidiary company engages in Primary Dealer functions. This report mainly elaborates risk management in the Bank considering the materiality of the Bank's operation in the NSB Group. (Bank contributes 99.3% to consolidated assets and 97.5% to consolidated capital).

Material existing and emerging risks to the performance

Material existing and emerging risks would significantly affect the current and future performance of the Bank if crystallised, may cause deviation from the current prospects and adversely impact on the key performing areas such as profitability, liquidity and capital adequacy.

These risks can be identified as risks which would directly impact on specific principal risk or likely to impact on more than one principal risk. NSB considers Credit Risk, Market Risk, Operational Risk and Liquidity Risk as principal risks.

Existing risks in relation to micro and macro contexts are identified, assessed and mitigated/minimised within the risk management framework. Emerging risks can be new and unforeseen where potential loss is not fully known and the time horizon for realisation is extremely difficult to predict.

NSB keeps updating on emerging risks which are crucial to navigate the changing and complex risk environment.

During the year 2017, to improve the risk assessment models, the Bank procured credit rating and scoring system which consist of credit rating and scoring models. Regulatory developments such as capital requirements under Basel III, foreign currency borrowing, financial derivatives and changes in tax laws may increase the pressure on the Bank to comply.

The role of risk management function will be reshaped with emerging trends such as broadening and deepening regulations, rising customer expectations due to advancement of technology, evolving advance analytics due to dynamic technology etc. These risks continued to grow across the banking industry due to unprecedented volatility in the environment and rapidly changing market conditions.

The Bank analyses the emerging risks to take necessary steps to manage the adversities to business results and financial conditions. This report discusses in detail existing principal and material existing and emerging risks and the Bank's approach in management of such risks.

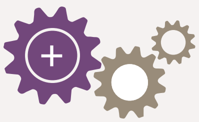
Regulatory and Compliance Risk

The scope of regulatory framework will continue to expand globally. Regulatory changes in areas such as capital, leverage ratios, funding and liquidity are expected to have considerable implications for Bank's risk management processes. The regulator (CBSL) and the Government are increasingly demanding banks to comply with both local and global regulatory standards.

Since the scope of regulations is expanding substantially, compliance with existing regulations is unlikely to be sufficient. Therefore, NSB is prepared to comply with potential future changes in regulations as well.

Contagion Risk

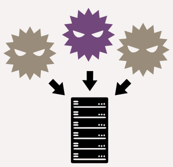
The banks are more vulnerable to financial contagion due to its financial and macroeconomic connectedness. Negative market developments can spread other areas of a bank or involved parties and can cause bank's operating environment to deteriorate quickly and significantly. The Bank has in place processes and procedures to understand to what extent it is exposed to contagion risk to take proactive risk mitigation action.



Model Risk

Increasing dependence on models will require better understanding and managing of model risk. Model errors stem from issues with data quality, technical or implementation issues and correlation inconsistencies.

The Bank has taken actions to mitigate Model Risk through sophisticated model development, better execution with high quality data through validation and continuous monitoring.



Cyber Security Risk

Cyber risk have evolved significantly over the last years across the banking industry due to high reliance on software systems, information technology and data including confidential customer data. Since cyber attacks can have devastating consequences, protection against cyber attacks has become a top strategic priority of NSB.

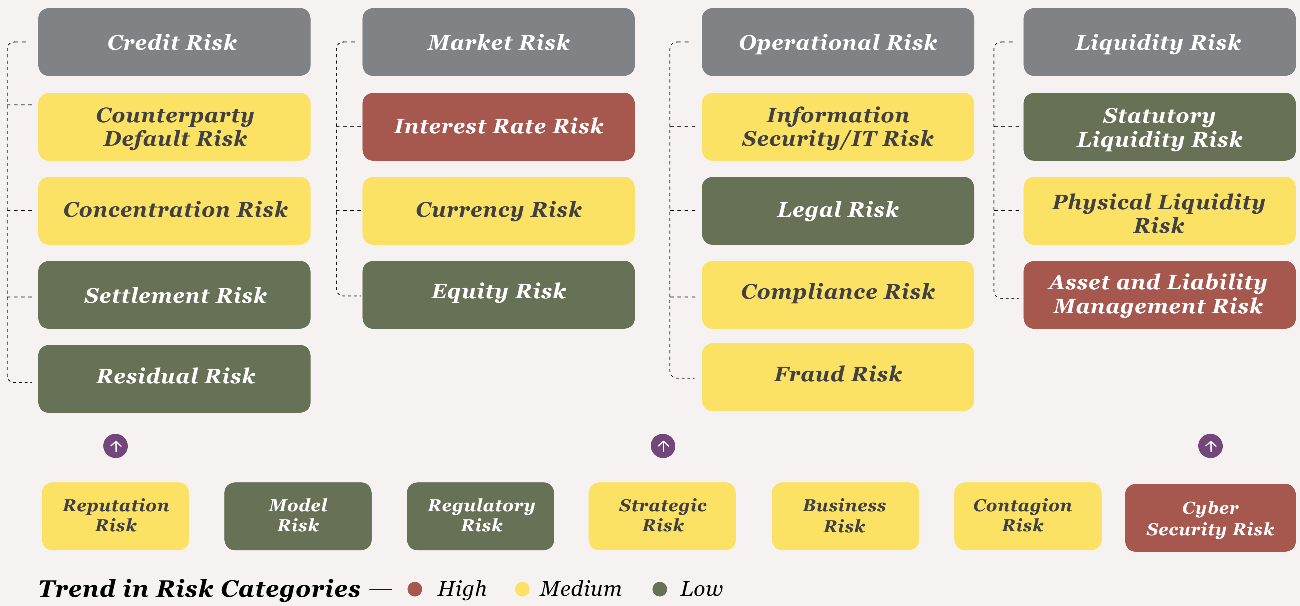


Figure 1: Material Existing and Emerging Risks based on Principal Risks

Integrated risk governance

Ownership and responsibility for risk management lies with all individuals engaged in business operations of NSB. Sound corporate governance principles coupled with the "Three Lines of Defence" model are entrenched to risk governance framework of the Bank.

Risk governance originates at the Board level and flows throughout the business functions of the Bank via risk appetite statement, policies, delegated authority and committee structures. This ensures the Board level oversight and clear segregation of duties between those who originate and those who approve risk exposures. The Board and its risk committees operate within the purview of their respective charters.

Figure 2: Bank's Ownership and Responsibility for Risk Management

Board

Board, through the risk oversight role ensures that Senior Management of the Bank has established an integrated framework to manage various risk exposures and to ensure internal policies are appropriately established and complied with.

The Board approves the Bank's overall risk appetite and oversees its implementation while reviewing the same to ensure that it continues to be relevant to reflect all types of risks and market conditions.

Further, the Board ensures that sound internal control and assurance framework exists within the Bank and is responsible for taking necessary steps to foster a culture of risk awareness and risk adjusted decision-making.

BIRMC

Board Integrated Risk Management Committee (BIRMC) assists the Board in fulfilling its risk related responsibilities to recommend an effective risk management framework to the Board. Key purposes of BIRMC is to establish risk appetite and recommend the Internal Capital Adequacy Assessment Process (ICAAP).

BIRMC monitors the Bank's compliance with risk management framework. It reviews adequacy of all management level committees, significant correspondence with the regulator and the risk profile of the Bank.

BAC

The policies and practices used by the Bank to manage risks are typically debated by the Board Audit Committee (BAC). It monitors the effectiveness and efficiency of internal control processes and internal audit function.

BAC ensures integrity of information, usage of appropriate accounting policies and monitor legal or regulatory compliance issues. It recommends interim and year-end financial statements to the Board for approval before publication. External Auditors report their findings to the BAC.

Management Committees

Management level committees, directly involved in managing the principal risks, include Credit Committee (CC), Asset and Liability Management Committee (ALCO), Investment Committee (IC) and Operational Risk Management Committee (ORMC).

Other management committees such as IT Steering Committee, Corporate Management Committee (CMC), Operational Performance Review Committee (OPRC), Marketing Committee (MC), Product Development Committee (PDC), Human Resource Committee (HRC), Action Plan Review (APR), IT Review and Card Centre (ITR and CC) manage material risks to the Bank from people, processes, systems and external risk drivers.

NSB has introduced improvements essential to strengthen the risk management framework to evaluate, monitor and manage principal and material risks assumed in the course of its operations. Risk management policies, procedures and systems of the Bank are established in line with the guidelines issued by the CBSL and the international best practices introduced by BASEL.

Risk Management Policy Framework consists of the following:

- Integrated Risk Management Policy
- Credit Risk Management Policy
- Market and Liquidity Risk Management Policy
- Operational Risk Management Policy
- Risk Management Disclosure Policy
- Stress Testing Policy
- ICAAP Policy

Bank's risk management framework consists of three defence levels internally. Regulator and External Auditors provide valuable inputs to strengthen internal controls and risk management framework, which is an additional assurance to the stakeholders of the Bank, therefore considered as a Fourth Line of Defence.

1st Line of Defence

Business Functions

Branches/operational divisions are accountable for identifying and addressing the risks in their respective business areas and to operate within a sound control environment.

All staff members attached to branches/operational divisions are aware/responsible for the risks taken and to abide by the internal controls/risk management practices.

2nd Line of Defence

Risk Management and Compliance Function

Risk Management Division (RMD) formulates risk management framework, policies and methodologies. RMD consists of three main units; Credit Risk Management Unit (CRMU), Market Risk Management Unit (MRMU) and Operational Risk Management Unit (ORMU). As a risk oversight division, risk aggregation, escalation and risk reporting functions are conducted by the RMD.

Compliance Division focuses on overseeing compliance with laws, rules and regulations applicable to the business operations of the Bank. They ensure governance, policies and actions are as per rules, regulations, directions and laws etc.

Risk Management and Compliance Divisions independently report to BIRMC/Board.

3rd Line of Defence

Internal Audit Function

Internal Audit Division (IAD) ensures the adequacy of internal controls, risk management function and compliance function by conducting independent and regular audits on the implementation of risk management practices, compliance function and internal controls.

IAD reports the audit findings to the Board through BAC.

4th Line of Defence

Regulators and External Auditors

CBSL and the Government Audit provide additional assurance to the Bank. The inputs and findings from their independent reviews/audits are used to further strengthen the control and risk management framework.

Board and Senior Management monitor the compliance to findings of the regulator. BAC monitors compliance to the gaps identified by the External Auditors.

Figure 3: Lines of Defence in Risk Management

Risk appetite

Risk Appetite Statement is a key component of the risk management framework. Risk appetite is the level of risk the Bank desires to take when achieving objectives. It reflects the key aspects of business and stakeholder expectations.

Risk appetite is an integral element of NSB's business planning process. Risk Appetite Statement of the Bank enhances value by aligning business operations and risks. It facilitates the staff at business divisions to understand the level of risk they are prepared to take in pursuit of daily business operations, so that they can take more risk-aware decisions.

The Bank uses top-down approach in setting risk appetite at corporate level using qualitative and quantitative parameters that minimise adverse impacts to the Bank's values and financial condition. Quantitative risk appetite at corporate level focuses mainly on capital adequacy, liquidity, profitability and other prudential requirements.

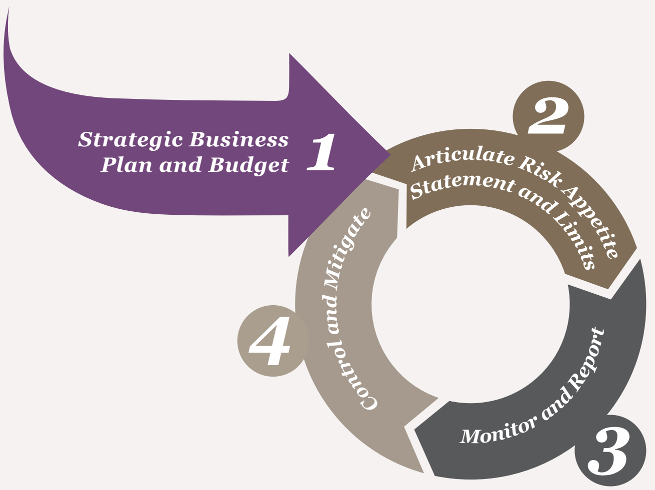


Figure 4: Implementing Risk Appetite Framework

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).

NSB's Risk Appetite Statement is approved by the Board of Directors on an annual basis or more frequently in the event of unexpected changes to the risk environment, with the aim of ensuring that they are consistent with the Bank's business strategy, regulatory environment and stakeholders' requirements. The Board has the ultimate responsibility to manage risks within the risk appetite levels and has delegated the responsibility to BIRMC.

Risk Appetite Dash Board – Corporate Level

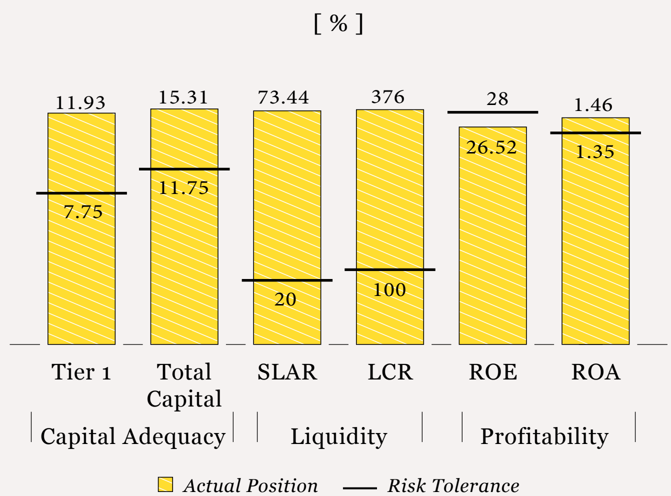


Figure 5

RMD monitors actual performance against qualitative and quantitative risk appetite parameters and reports to BIRMC/Board.

Risk appetite of the Bank permits accepting credit, market and operational risks as a part of its business operations. These principal risks are managed within the levels defined in the Risk Appetite Framework.

Credit risk

Credit risk is the risk of potential financial loss resulting from the failure or delaying of a customer or a counterparty to a financial instrument to honour its financial or contractual obligations to the Bank.

The Bank is exposed to credit risk both from on-balance sheet credit exposures; principally the loans & receivables and investments in debt securities and off-balance sheet credit exposures such as letters of credit, guarantees etc.

Credit risk comprises counterparty default risk, concentration risk, settlement risk and residual credit risk.

On and Off Balance Sheet Exposure

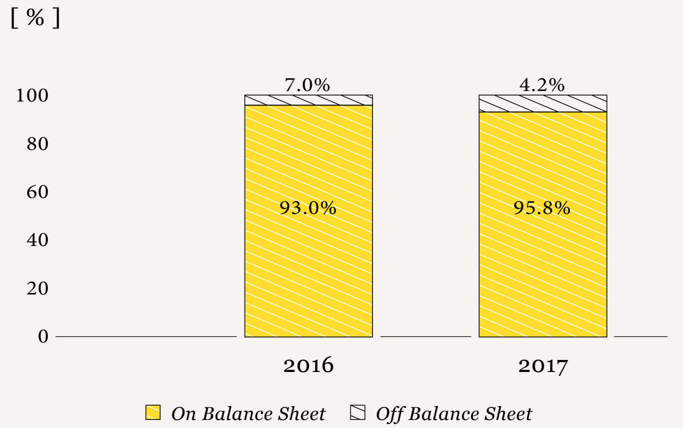


Figure 6

As at 31 December	Maximum exposure 2017 Rs. '000	Maximum exposure 2016 Rs. '000	Change %
Cash and cash equivalents	**3,849,627**	4,619,699	(17)
Placements with banks	**23,438,104**	19,013,572	23
Derivative financial instruments	**1,360,714**	2,728,445	(50)
Other financial assets – Held for Trading (HFT)	**6,472,314**	20,290,588	(68)
Loans and receivables to banks	**27,714,565**	31,834,072	(13)
Loans and receivables to other customers	**360,309,866**	291,976,942	23
Financial assets – Available for Sale (AFS)	**5,693,829**	6,227,764	(9)
Financial assets – Held to Maturity (HTM)	**544,273,077**	505,824,398	8
On-balance sheet exposure	**973,112,096**	882,515,480	10
Off-balance sheet exposure	**17,060,099**	24,501,480	(30)
Credit exposure	**990,172,195**	907,016,960	9

Table 1: Maximum Credit Risk Exposure

Loans & receivables to banks and other customers and investment in debt securities are the largest and most obvious sources of credit risk to the Bank comprising 98% of total credit exposure. The Bank's credit exposure increased by 9% up to Rs. 990 Bn. during the year 2017 and the expansion of retail and corporate lending portfolios is the main contributory factor to the growth.

Loans and Receivables – Portfolio Mix

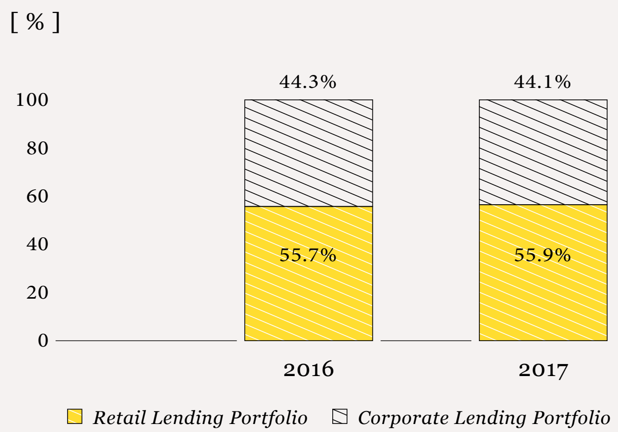


Figure 7

Retail Lending Portfolio

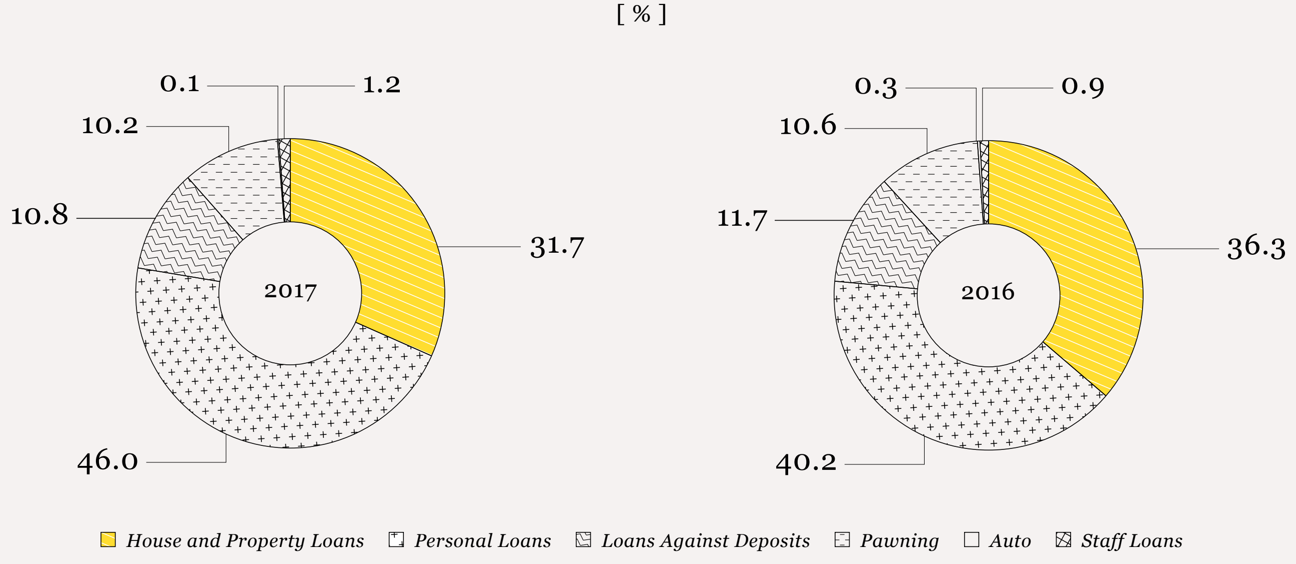


Figure 8

Corporate Lending Portfolio

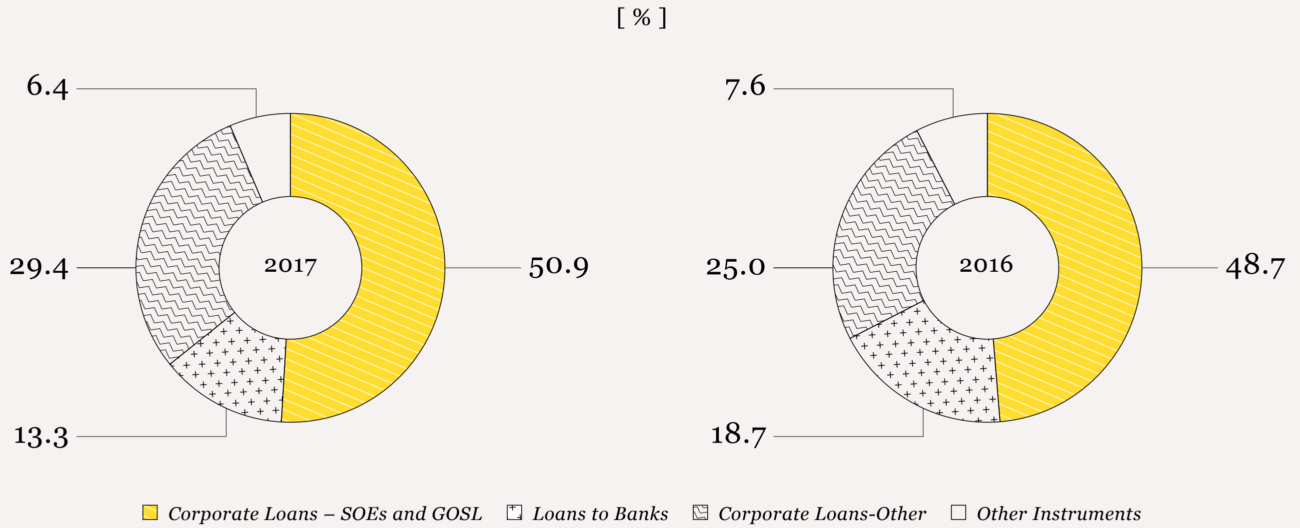


Figure 9

Risk review

Risk Component	Description	Monitoring/Management tools	Exposure	Impact*
Counterparty default risk	Possible impact due to failure of counterparties to meet contractual obligations with the Bank according to the agreed terms.	• Monitoring of early warning indicators, NPA trends • Loan Review Mechanism (LRM)	High	Moderate
Concentration risk	Uneven distribution of counterparties in credit to an industry sector or geographical region.	• Herfindahl – Hirschman Index (HHI) • Limit monitoring • Stress testing	Moderate	Moderate
Settlement risk	Possible impact due to failure of delivering on the terms of a contract at the time of settlement.	• Credit rating/scoring, stress testing • Limit monitoring	Moderate	Low
Residual risk	Possible impact from remaining risks after all other risks have been eliminated, hedged or otherwise accounted.	• Collateralisation • Monitoring of valuation/revaluation • Monitoring of Loan to Value (LTV) ratios	Moderate	Low

** Possible impact on earnings and capital in a high stress situation*

Table 2: Credit Risk Review

Counterparty default risk

Counterparty default risk, the most significant element of credit risk is the risk that counterparties fail to meet contractual obligations with the Bank according to the agreed terms.

Loan Amount vs NPL

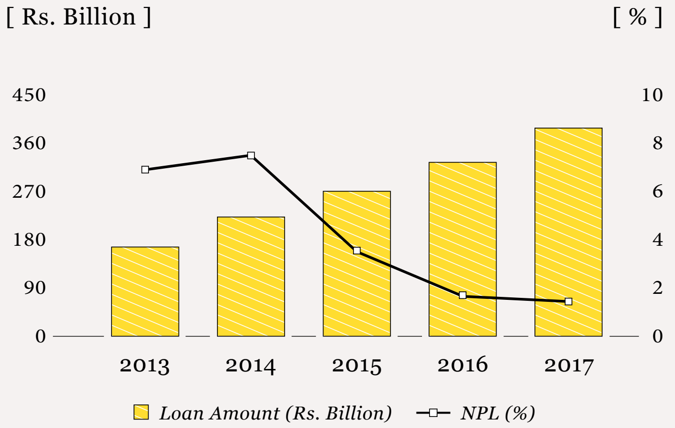


Figure 10

Robust and stringent credit risk management practices for mitigating counterparty default risk are evident from the well managed Non-Performing Loan (NPL) ratio of the Bank over the past few years. The Bank further improved the gross NPL ratio from 2.6% in 2016 to 1.34% in 2017.

Concentration risk

Concentration risk in credit arises when a number of counterparties or exposures with comparable economic characteristics or such counterparties are engaged in similar activities or operate in the same geographical areas or industry sectors so that their collective ability to meet contractual obligations are uniformly affected by changes in economic, political or other conditions.

To assess the concentration in the credit portfolio, NSB uses the HHI. The Bank has a moderate risk appetite towards sector concentration considering contribution to achieve the development goals of the Government. High geographical concentration to the Western Region is due to all large loans being booked at the Head Office Credit Division.

The Bank has taken measures such as monitoring portfolio concentration limits and stress testing to manage concentration risk.

Age Analysis of NPL

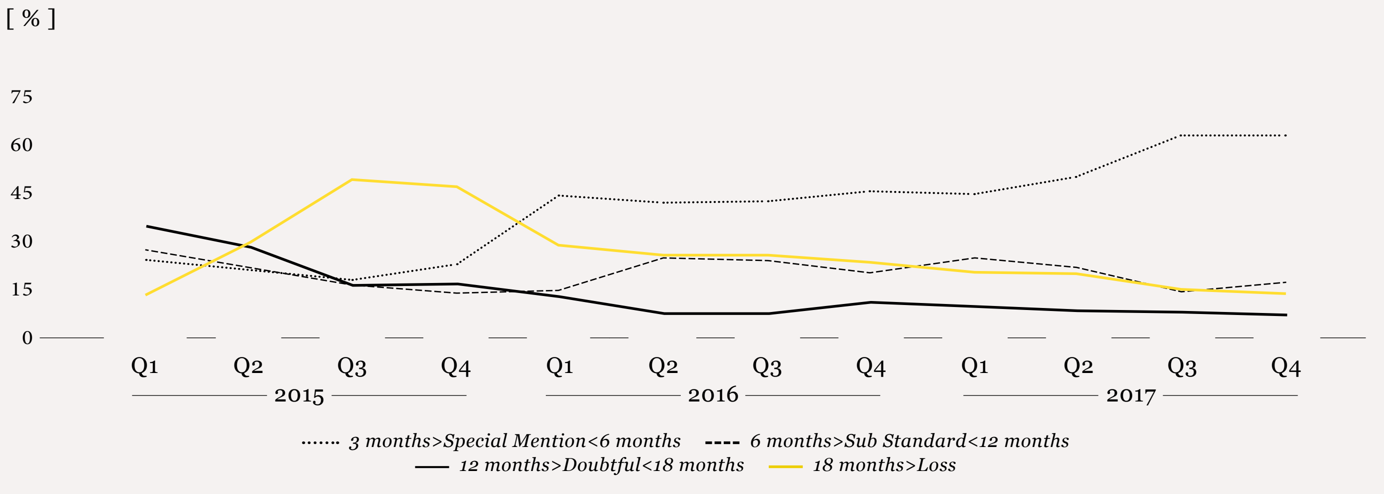


Figure 11

Geographical Concentration

[%]

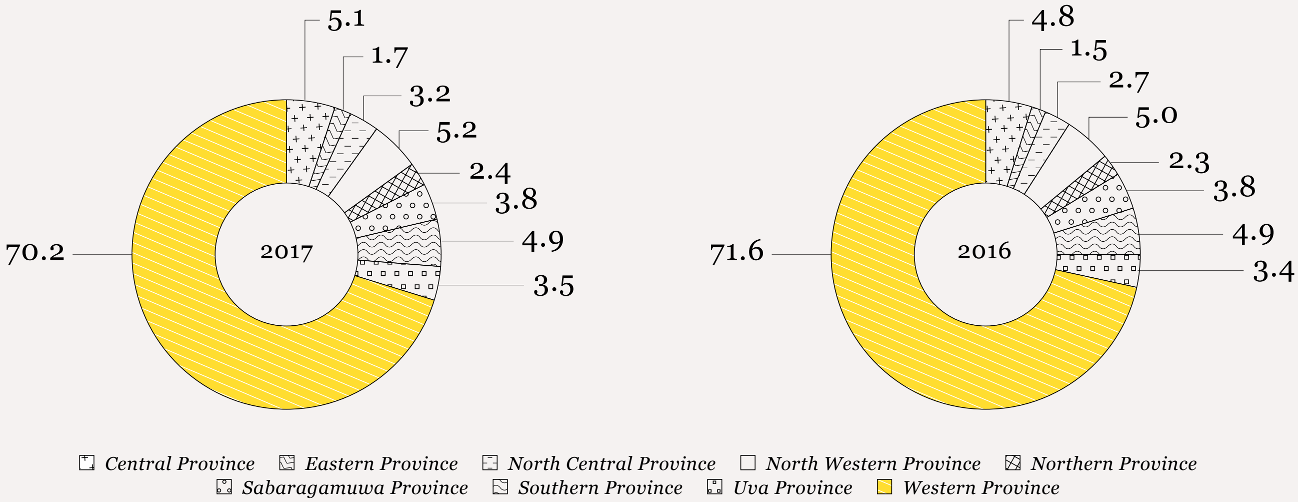


Figure 12

Sector Concentration

[%]

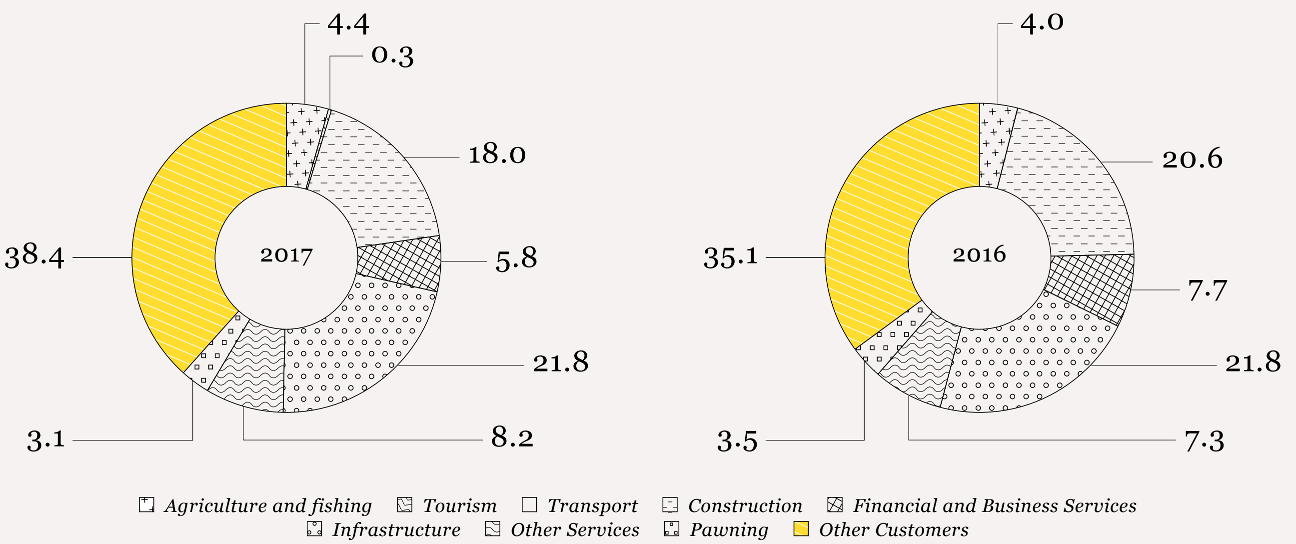


Figure 13

Settlement risk

Settlement risk is the risk that a counterparty to a transaction will fail to deliver on the terms of a contract at the time of settlement. This risk can associate with defaults, along with any timing differences in settlement between the two parties.

Usually settlement risk arises when settlement in a transfer system does not take place as expected. This happens because one party defaults on its clearing obligations to one or more counterparties. NSB has established a comprehensive limit framework to monitor settlement risk.

Residual risk

Strong control mechanism and risk mitigation techniques are incorporated to risk governance framework in order to maintain the residual risk at an acceptable level considering cost and time consumption for mitigating such risks.

Robust internal controlling environment comprising risk mitigation processes and procedures such as collateralisation, maintenance of LTV ratios as per the Retail Credit Policy (RCP) and stringent recovery actions ensure that residual risk of the Bank is managed within the risk appetite.

Further, the Bank measures credit risk using prudential ratios and in terms of capital allocation under Standardised Approach. From the total credit exposure more than 69.4% are risk weighted at 0% and only 3.7% are risk weighted at 100% or above under Standardised Approach.

Credit Risk is monitored through the risk appetite limit framework and delegated authority limits of the Bank. Credit risk is managed through a robust risk governance framework with clear and consistent policies and guidelines.

Governance Structure

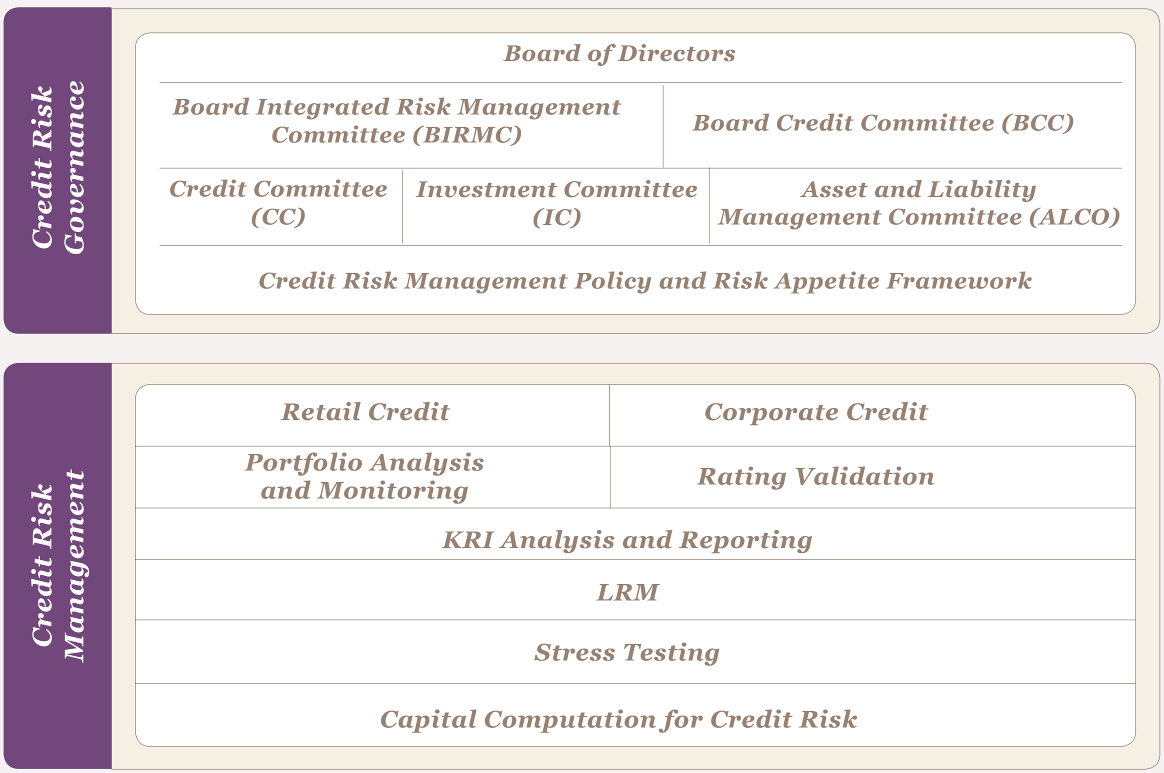


Figure 14: Credit Risk Governance Structure

Credit risk governance stems from the Board and cascades through different layers of management providing cohesive credit risk governance to delineate the responsibilities and control of the credit risk management.

The Board provides the oversight on credit risk exposure via the credit risk strategy which outlines the risk appetite and limit structure, credit risk management policies, delegated authority limits and committee structure of the Bank.

Senior Management has the responsibility for implementing the credit risk strategy approved by the Board and for developing policies and procedures for identifying, measuring, monitoring and controlling the credit risk.

Board has delegated the credit risk management oversight responsibility to BIRMC and BCC, which is further reinforced by the senior management level committees i.e. CC and IC.

CRMU of RMD is accountable to monitor and manage credit risk within the risk appetite and policy framework of the Bank. The responsibilities of CRMU include:

- Renew/update policies.
- Develop and maintain quantitative risk models.
- Risk appetite limit monitoring.
- Credit risk review at transaction and portfolio level.
- Conduct LRM.
- Monitor Key Risk Indicators (KRIs) and early warning indicators.
- Report to CC, IC and Board through BIRMC.

Credit risk management process

Effective management of credit risk is a critical component of a comprehensive risk management approach and essential for the long-term success of any bank.

The goal of credit risk management of NSB is to maximise the Bank's risk adjusted rate of return by maintaining credit quality and credit risk exposure within the risk appetite levels.

The Bank exerts a set of risk management tools and techniques to manage the credit risk inherent at portfolio level as well as at transaction level.

During the year 2017, the Bank has taken initiatives to further strengthen the credit risk management by:

- Formulating a BCC to strengthen the oversight function of the Board towards credit operation and credit risk management.
- Established a dedicated Credit Administration Unit to independently handle retail credit administration functions.
- Implementation of an internal risk rating and scoring systems to strengthen and standardise credit evaluation with a view to promote risk based pricing decisions.

Risk rating

The Bank uses credit rating to assess the creditworthiness of counterparties. Creditworthiness is assessed using internal rating models which consist of qualitative and quantitative risk parameters assessing the obligor and facility risk and assign with a rating grade from a scale of nine internal rating grades.

External ratings are also considered together with internal rating as an endorsement until undertaking a comprehensive validation of the internal rating for corporate lending.

The Bank uses credit scoring to assess the creditworthiness in retail lending. All customers are mapped to a scoring scale of eight considering the creditworthiness and risk.

This system is implemented across the branch network covering all the retail loan products of the Bank.

The Bank considers the credit score as the single depiction of creditworthiness and risk from retail counterparty to a specific product. The system acts as a facilitator to streamline the credit approval and risk based pricing.

Collateral management and valuation

The Bank accepts collateral to secure credit facilities and considers sufficient value at liquidation to fully cover the principal, interest, legal charges and other charges.

The Bank has defined security cover limits for credit facilities granted against immovable properties. All immovable properties are valued by panel valuers. Panel of professional valuers are obliged to take all standard valuation criteria for valuation and revaluation of immovable properties. Policy on Valuation and Revaluation of Immovable Property of the Bank is set based on the guidelines issued by the CBSL.

CRMU monitors the revaluation due loans as early warning indicator to take immediate actions to mitigate risk. Further, LTV ratio of immovable property, pawning and cash backed lending are monitored and report to the CC.

In the year 2017, 78% of the loan portfolio was backed by immovable properties with LTV ratio of less than 50%.

Loan Portfolio – Collateral Wise

[%]

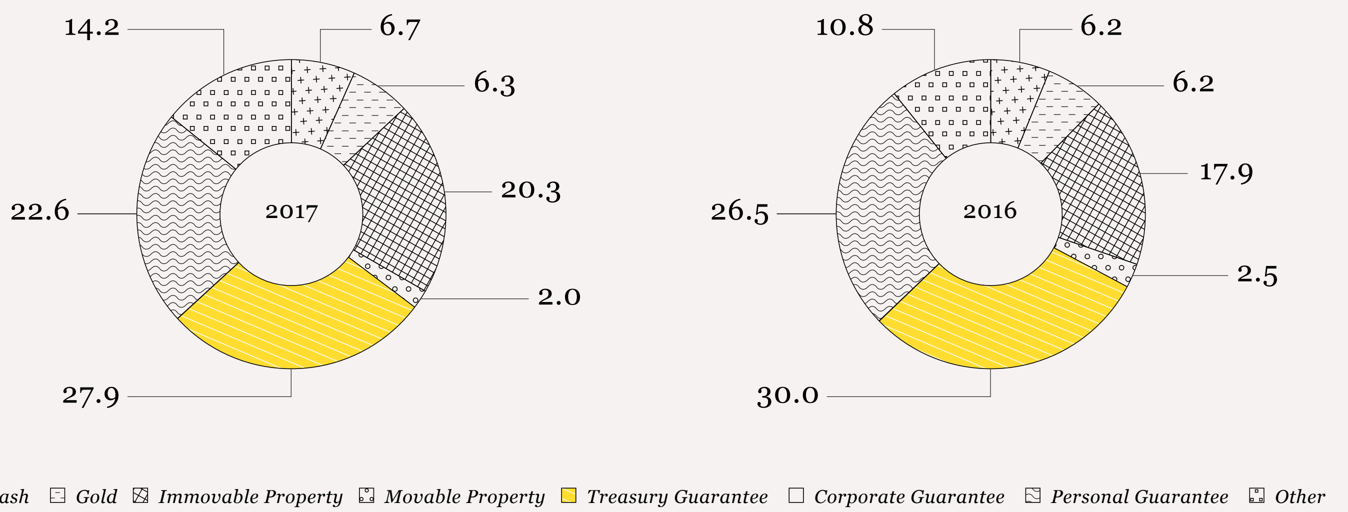


Figure 15

As at 31 December	2017		2016	
	Rs. '000	Composition (%)	Rs. '000	Composition (%)
LTV ratio				
Less than 50%	**51,515,268**	**78.5**	48,438,163	78.3
51-75%	**12,160,610**	**18.5**	11,334,198	18.3
More than 75%	**1,988,195**	**3.0**	2,110,331	3.4
	65,664,073	**100.0**	61,882,692	100.0

Table 3: LTV Distribution of Loans backed by Immovable Property

Loan review mechanism

The Bank uses LRM as an effective tool to mitigate the credit risk by prompt identification and rectification of gaps in credit granting and documentation process. This process ensures quality assurance of the credit process and the credit quality.

The Bank's LRM process ensures covering of credit operation at Head Office and branch level and CRMU reviews high value loans within three months of sanction and reports to the CC.

Impairment provision

Impairment provision of the Bank is calculated according to the Sri Lanka Accounting Standards based on the incurred loss methodology. Provision for collective impairment has increased by 33% compared to the previous year despite the improvement in credit quality. Provision cover for the year 2017 is 46% which is in line with the internal limits.

In 2018, SLFRS 9 will have the first direct touch on income statements of banks, making the balance sheet assets and liabilities to represent the fair value with the expectation to improve the transparency of the financial reporting. This will increase loan loss provisions due to identifying of expected loan losses in the financial statements. This will drive financial statements into forward looking rather than historical reporting.

NPL vs Impairment Provision

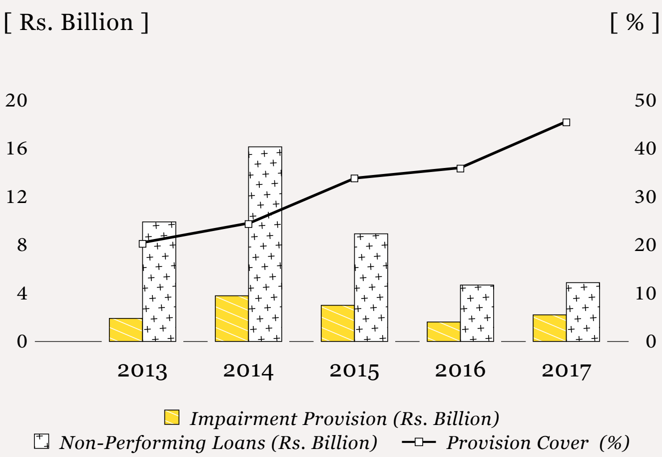


Figure 16

Risk transfer

The Bank uses insurance as a risk transfer strategy which involves in a contractual shift of risk to an insurer. The Bank uses Decreasing Term Assurance (DTA) as an additional cover for loan repayments considering the creditworthiness of the borrower. Further, title insurance and fire insurance are also used to transfer the risk in both retail and corporate lending backed by immovable property.

Scenario analysis and stress testing

The Bank uses scenario analysis and stress testing to assess the credit risk to the Bank from unforeseen events of varying severity due to adverse economic, political and physical changes in the environment.

Stress test for credit risk assesses the impact of an economic downturn on the Bank's capital adequacy position under Basel III. This test assesses the increased level of Probability of Default (PD). This could have a two way impact. The Bank's risk weighted assets will increase due to deterioration in asset quality along with additional provisioning requirements.

Particulars	Impact on Total Capital Adequacy Ratio Favourable/(Adverse) (%)		
	Low	Medium	High
Credit Risk – Increase in PD due to an economic down-turn *(Low 10% – Medium 20% – High 30%)*	(0.12)	(0.24)	(0.36)

Table 4: Stress Testing-Credit Risk

Market risk

Market risk is the risk that the value of both on-balance sheet and off-balance sheet financial assets and liabilities will fluctuate as a result of market price changes, regardless of whether these price changes are originated by factors typical for individual instruments or their issuer or counterparty or by factors pertaining to all the instruments traded on the market. Hence, the market risk is connected with the price instability on four main economic markets i.e. Debt security market, Stock market, Currency market and Commodity market.

Price fluctuations in these markets result in interest rate risk, equity price risk, foreign exchange risk and commodity price risk in both trading and banking book.

The Bank has no direct exposure for commodity price risk as the Bank has no investments in commodities. However, changes in world commodity prices such as gold prices and crude oil prices indirectly affect the Bank's business activities.

Unfavourable movements in interest rates, equity prices and exchange rates cause decline of market value of financial instruments, actual & effective earnings and future cash flows of a portfolio of financial instruments.

As at 31 December 2017	Rs'000 (Audited)			
	Primary market Risk factor	Carrying amount	Market risk measurements	
			Trading portfolio	Non-trading portfolio
Assets subject to market risk				
Cash and cash equivalents	IRR*	3,849,627	–	**3,849,627**
Placements with banks	IRR, FX**	23,438,104	–	**23,438,104**
Derivative financial instruments	FX	1,360,714	1,360,714	–
Other financial assets Held for Trading (HFT)	IRR, Equity	6,472,314	6,472,314	–
Loans and receivables to banks	IRR	27,714,565	–	**27,714,565**
Loans and receivables to other customers	IRR	360,309,866	–	**360,309,866**
Financial investments – Available for Sale (AFS)	IRR, Equity	5,693,829	5,693,829	–
Financial investments – Held to Maturity (HTM)	IRR	544,273,077	–	**544,273,077**
		973,112,096	**13,526,857**	**959,585,239**
Liabilities subject to market risk				
Due to banks	IRR	180,439	–	**180,439**
Derivative financial instruments	FX	956,937	956,937	
Due to other customers	IRR	737,212,640	–	**737,212,640**
Other borrowings	IRR, FX	217,955,777	–	**217,955,777**
Subordinated liabilities	IRR	6,006,411	–	**6,006,411**
		962,312,204	**956,937**	**961,355,267**

Table 5: Market Risk Exposure
** Interest Rate Risk*
*** Foreign Exchange Risk*

The Bank has a mandatory requirement to hold 60% of the deposits in Government Securities. In the year 2017, the Bank held 67% of deposits and 49% of total assets in Government Securities (Trading and Banking Book) exposing the Bank to interest rate risk due to the fluctuations in Government Securities market.

Equity is relatively a small part of the Bank's total investments where 53% of equity is in trading investments and 47% in strategic investments. The Bank's total equity investments were below 1% of total assets in year 2017.

The Bank's foreign currency operations include foreign currency trading, accepting deposits, remittances, lending, placements, derivatives and settlement of obligations due to USD bond issues.

Risk review

Market risk of the Bank is reviewed in terms of interest rate risk, foreign exchange (FX) risk and equity price risk. This is done for traded and non-traded portfolios. The Bank reviews the market risk profile of the Bank using different methodologies and models.

Risk Component	Description	Monitoring/Management tools	Exposure	Impact *
Interest rate risk				
Re-pricing risk	The risk arises from timing differences between rate changes or cash flows from rate sensitive on and off balance sheet assets and liabilities.	• Monitoring re-pricing gap limits and limits on Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL)	High	High
Yield curve risk	Risk of short-term rates changing by more or less than the change in long-term rates.	• Sensitivity/Stress testing with rate shocks	High	High
Basis risk	Risk from unequal movements in interest rates on RSAs and RSLs with the same maturity or re-pricing dates.	• Sensitivity of rate shocks on RSAs and RSLs	High	High
Foreign exchange risk	Possible impact on earnings and capital arising from adverse changes in exchange rates arising out of maturity mismatches in Foreign Currency (FCY) positions.	• Limit monitoring • FX Value at Risk (VaR) • Stress Testing	High	Moderate
Equity	Possible losses arising from changes in equity market prices.	• Equity VaR • Limit Monitoring • Marking to market trading and AFS portfolio on daily basis	Low	Low
Commodity	Possible negative impact on earnings due to changes in prices of commodities (Gold).	• Indirect impact on value of collateral against pawning advances	No direct exposure	Low

** Possible impact on earnings and capital in a High stress situation*

Table 6: Market Risk Review

Interest rate risk

Interest rate risk is the risk of reduction in earnings and capital which deteriorate the net worth of the Bank due to probable changes in interest rates. The Bank is exposed to interest rate risk arising from the values of its investments in trading book as well as the mismatches in repricing periods of RSA and RSL in the banking book.

The Bank assesses interest rate risk primarily through an interest rate repricing gap analysis. 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.

	<1 month Rs. Mn.	1-3 month Rs. Mn.	3-6 month Rs. Mn.	6-12 month Rs. Mn.	1-3 year Rs. Mn.	3-5 year Rs. Mn.	>5 year Rs. Mn.
RSA	24,624	30,922	61,835	199,780	178,933	155,174	310,219
RSL	199,861	256,153	129,752	316,234	47,012	10,138	2,206
Period GAP (RSA-RSL)	(175,237)	(225,231)	(67,917)	(116,454)	131,921	145,036	308,013
Cumulative Gap	(175,237)	(400,468)	(468,385)	(584,839)	(452,918)	(307,882)	131
Actual gap as a percentage of RSL – 2017	(88%)	(88%)	(52%)	(37%)	281%	1,431%	13,966%
Actual gap as a percentage of RSL – 2016	(74%)	(89%)	(32%)	(64%)	76%	1,111%	–

Table 7: Interest Rate Sensitivity Analysis

Interest rate risk in trading book

Government Securities trading and AFS portfolio consist of Treasury Bonds and Treasury Bills which at the end of the year amounted to Rs. 4.2 Bn. and Rs. 1.2 Bn. respectively. Interest rate risk in Government Securities trading portfolio is assessed through mark-to-market valuation of the portfolio. Further, portfolio duration is monitored on a quarterly basis.

Interest Rate Risk in Banking Book (IRRBB)

Main aspect of the banking book related to market risk management principally involves in minimising the potential adverse effect of interest rate movements on earnings such as net interest income and the economic value of equity. This risk results from different repricing characteristics of banking book assets and liabilities.

Equity risk

Equity risk refers to the risk that NSB's investments will depreciate due to stock market dynamics exposing the Bank to potential variation in income and reserves. The Bank is exposed to equity position risk from its investments in listed and unlisted equity instruments both ordinary shares and in unit trusts.

The Bank's listed equity portfolio comprises both trading and AFS portfolios and the extent of investment in equities is wedged by its limit structure and by its Investment Policy Statement (IPS).

	2017		2016		Unrealised gain/ (loss)
	Book value Rs. '000	Market value Rs. '000	Book value Rs. '000	Market value Rs. '000	Rs. '000
Trading Portfolio	**3,521,949**	**2,357,336**	4,533,006	3,095,911	(738,575)
AFS Portfolio	**3,107,875**	**4,440,951**	2,753,905	4,123,733	317,218
Total	**6,629,824**	**6,798,287**	7,286,911	7,219,644	(421,357)

Table 8: Equity Portfolio Position

During the year under review, stock market was active and witnessed an improved local and foreign investor sentiment towards investments in listed equities. Accordingly, main indices namely ASPI and S&P SL 20 improved by 2% and 5% respectively reaping a favourable return on the Bank's equity investments. During the year, the Bank realised Rs. 225.9 Mn and Rs. 297.1 Mn. as capital gains and dividends from equity investments (excluding unlisted investments) which are significantly higher than that of recorded in previous year.

Year 2017 was full of Right issues and debenture issues of Banks & Financial Institutions (B & FI) to raise capital in comply with Basel III capital requirement. Thus, the improved investor interest towards the high liquid B & FI shares were appreciated during the year 2017 and reported mark-to-market gains.

Equity Portfolio Composition

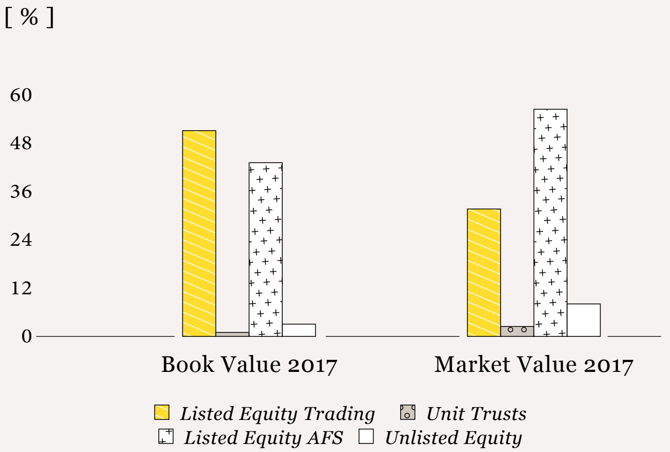


Figure 17

Portfolio Return Vs Market Returns

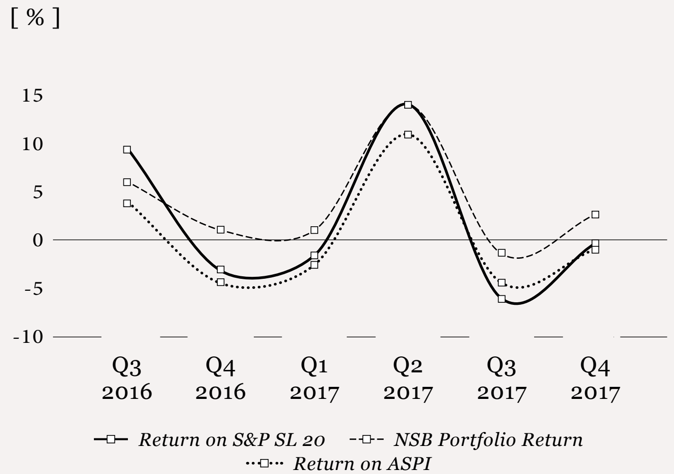


Figure 18

Foreign Currency Risk

FX risk is the risk that an asset or investment and transactions denominated in a foreign currency will loose value as a result of unanticipated and unfavourable fluctuations in exchange rates. During 2017, USD/LKR average rate fluctuated in the range of Rs. 149.81-153.70 (Source: CBSL). The rupee depreciation was 2.3% for the year.

The Bank expanded its foreign currency operations with the regulatory approval for trading and other business operations.

The issuance of USD denominated bonds totaling to USD 1,000 Mn. increased the foreign currency exposures of the Bank. Foreign currency risk in capital redemption is covered via SWAP agreements with the CBSL and investments in Sri Lanka Development Bonds (SLDB) and USD lending to SOEs which will facilitate the bullet payments due in 2018 and 2019 respectively.

Currency	<1 month Rs. '000	1-3 month Rs. '000	3-6 month Rs. '000	6-12 month Rs. '000	1-3 year Rs. '000	>3 year Rs. '000	Total Rs. '000
USD	69,623,008	1,669,527	4,672,413	(22,577,603)	(38,257,264)	–	15,130,081
EURO	(262,453)	405,044	350,989	307,925	–	–	801,505
GBP	(122,887)	364,061	217,589	(371,954)	–	–	86,809
SGD	75	–	–	–	–	–	75
AUD	(53,672)	77,254	238,141	(215,090)	–	–	46,633
JPY	(121)	–	–	–	–	–	(121)

Table 9: Foreign Currency Maturity Gaps

FX risk is associated with the un-hedged position 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). Daily Net Open Position (NOP), which is one of the main indicators of foreign currency risk in treasury operations are monitored and properly adhered throughout the year with no or limited exceptions which are approved by relevant authorities.

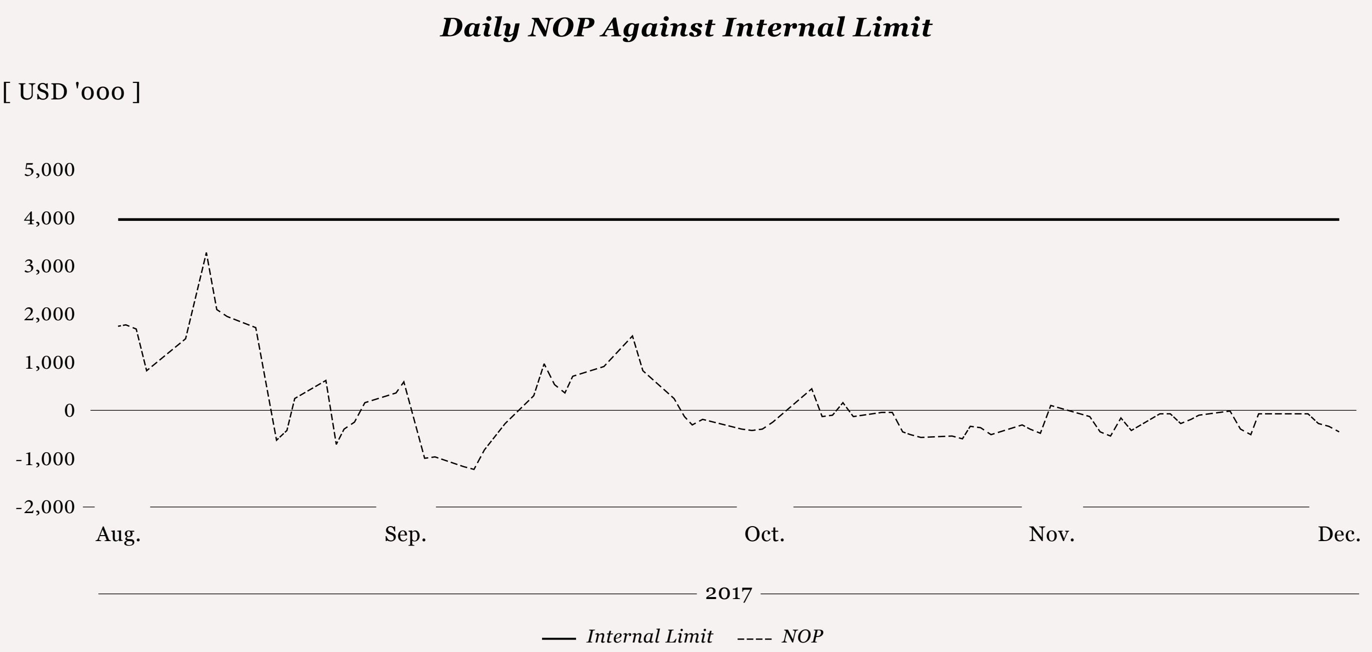


Figure 19

Governance structure

The Bank is equipped with prudent and independent market risk governance framework which is an integral part of the risk management of the Bank. Market risk governance is a principal responsibility of the Board and management committees of the Bank.

The Bank's market risk appetite, principles, policies, procedures, controls and reporting are fully in line with regulations and industry best-practices, to manage the impact of market risk factors on the Bank's profitability, capital levels and the risk profile.

ALCO is the apex committee at management level, responsible for managing the balance sheet within the performance/risk parameters based on the risk appetite of the Bank. The IC appraises the Board of Directors by recommending actions if considered necessary or desirable to invest or divest the Bank's investment portfolio or part of it in order to manage the risk in investments.

MRMU of the RMD is responsible for providing with a clear and comprehensive understanding of the market risks to the Board, BIRMC and the Senior Management. The responsibilities of MRMU include;

- Update policies
- Develop and maintain quantitative risk models
- Monitor treasury operations, exposures and position limits against the risk appetite and treasury limits
- Conduct daily reviews and analysis of trading portfolios
- Monitor material risk exposures at transaction and portfolio level

Treasury Middle Office (TMO) which is a part of MRMU, functions independently from the Bank's Treasury Front Office (TFO) and Treasury Back Office (TBO) to monitor, measure, analyse and report inherent risk and trading risk in treasury operations of the Bank against pre-defined limits on a daily basis. The observations are directly reported to the IC, ALCO and to the Board providing an independent opinion.

Figure 20: Market Risk Governance Structure

Market risk management process

The Bank manages and controls market risk exposures while maintaining a market risk profile consistent with the risk appetite. The Bank uses a range of models, methodologies and tools to monitor market risk exposures at portfolio and transaction level.

Limits Monitoring

A well designed risk limit framework is one of the key mechanisms for risk control and mitigation. The Bank has set risk appetite and comprehensive risk limit framework to monitor treasury operations as a function of TMO. These limits are reviewed on yearly basis or occurrence of an internal or external event which change the risk environment. Approval of the Board/BIRMC is obtained for the risk limits and to monitor the market risk and treasury operations within the risk limit framework.

Risk limits comprise clear authority limits covering the treasury operations and trading and non-trading portfolios. The limit structure is sufficiently granular to facilitate effective control of market risk related activities of the Bank and provides a continuous overview and understanding of activities undertaken by TFO.

TMO closely monitors the fluctuations in interest rates, equity prices and FX rates against the risk limits on more frequent basis. Counterparty risk limits on foreign currency placement and Government Securities trading and settlement exposures are monitored on a daily basis. Exceptions if any, are reported to IC, ALCO and the Board.

Value at Risk (VaR)

“VaR” is a technique for estimating potential losses on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The Bank developed VaR models internally to manage and monitor equity price risk and FX risk.

The Bank calculates the Equity VaR and FX VaR in accordance with Basel III considering a 99% confidence level and 10 day holding period using historical data for a period of 365 days to monitor against the risk appetite of the Bank and reports to Deputy General Manager – Treasury/TFO on a daily basis. All exceptions are reported to ALCO, IC and to the Board through BIRMC.

Equity VaR Against Appetite Limits

[Rs. million]

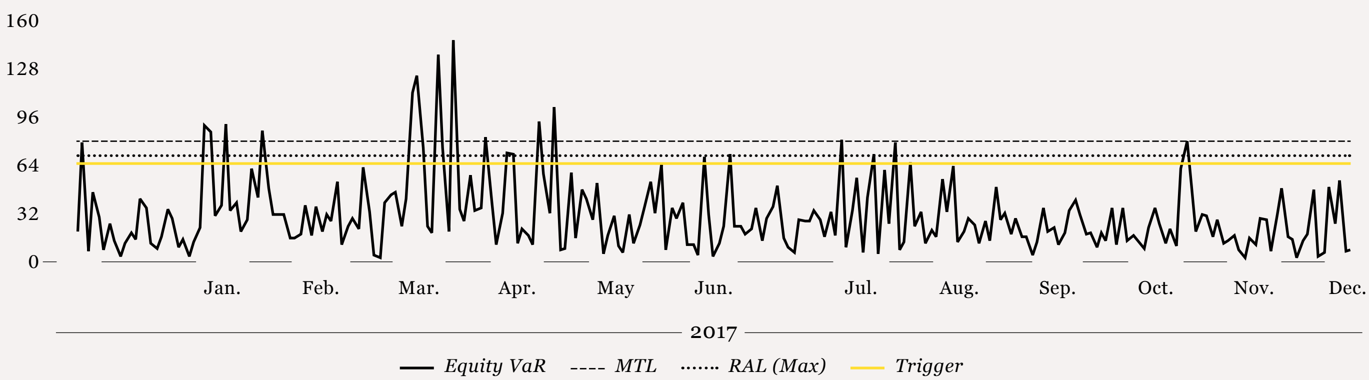


Figure 21

FX VaR

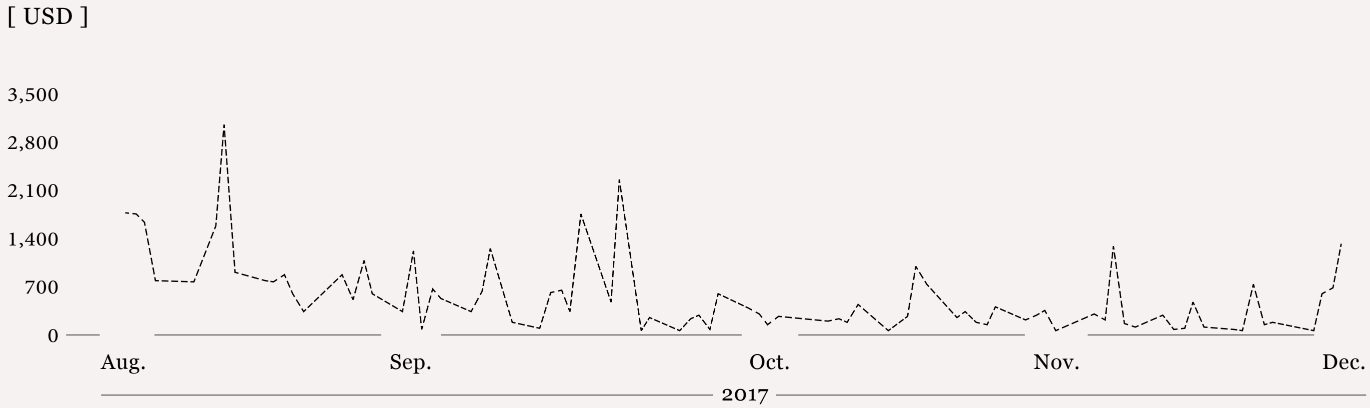


Figure 22

Sensitivity analysis

Sensitivity analysis measures the impact of individual market factor movements on specific instruments or portfolios, including interest rates, foreign exchange rates and equity prices, such as the effect of one basis point change in yield.

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 on a periodic basis. These reports are instrumental in Asset and Liability Management and pricing decisions of the Bank.

Stress testing

Stress testing is an important measure that is integrated into market risk management framework to evaluate the potential impact on portfolio values from more extreme, although plausible events or market movements.

MRMU conducts stress tests according to the Stress Testing Policy of the Bank. Market risk stress testing assesses the impact to the Capital Adequacy Ratio (Basel III) due to adverse movements in market variables such as interest rates, equity prices and foreign exchange rates. Stress testing exercise enables the Bank to identify potential adverse impacts which enables to take planned decisions and mitigations.

	Trading Rs. '000	AFS Rs. '000	Total Rs. '000
Unrealised gain/(loss) of G Sec portfolio against cost at the end of 2017	220,485	96,503	316,988
Change in M2M value			
100 bps increase in yield	(96,657)	(6,267)	(102,924)
200 bps increase in yield	(190,187)	(12,394)	(202,581)
100 bps decrease in yield	99,786.6	6,415	106,202
200 bps decrease in yield	202,949.4	12,998	215,947

Table 10: Stress Testing-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	(175,237)	(225,232)	(67,917)	(116,454)	131,921	145,036	308,013	131
	Impact on NII (Rs. Mn)	(1,680)	(1,882)	(428)	(303)	–	–	–	(4,293)
Consolidated Level	Gap	(177,093)	(227,378)	(67,706)	(117,598)	133,636	148,347	309,759	1,968
	Impact on NII (Rs. Mn)	(1,698)	(1,900)	(427)	(306)	–	–	–	(4,331)

Table 11: Stress Testing Assessment of Yield Curve Risk in Banking Book

Particulars	Impact on Total Capital Adequacy Ratio Favourable/(Adverse) (%)		
	Low	Medium	High
Interest rate risk: Increase in market yield *(Low 50bps, Medium 100bps, High 200bps)*	(0.02)	(0.04)	(0.08)
Equity price risk: Decline in market prices *(Low 15%, Medium 20%, High 25%)*	0.14	0.47	0.57
FX Risk: Rupees depreciation *(Low 5%, Medium 10%, High 15%)*	(0.57)	(0.87)	(1.16)

Table 12: Stress Testing – Market Risk

Liquidity risk

Liquidity risk is defined as the risk that the Bank, although solvent, cannot maintain or generate adequate liquid funds to meet its payment obligations in full as they fall due, or can only do so at materially disadvantageous terms.

The Bank maintained the liquidity positions well above the regulatory minimum levels during the year under review. Appropriate liquidity buffers were held in line with regulatory, prudential and internal stress testing requirements, taking into account the Bank's risk profile and market conditions.

Depositor Concentration

[%]

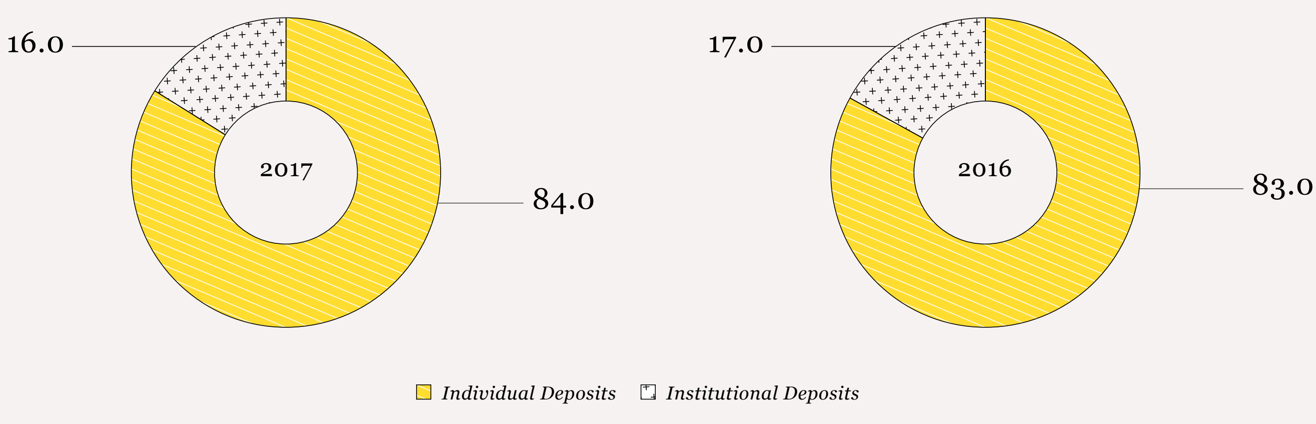


Figure 23

Funding Diversification by Product

[%]

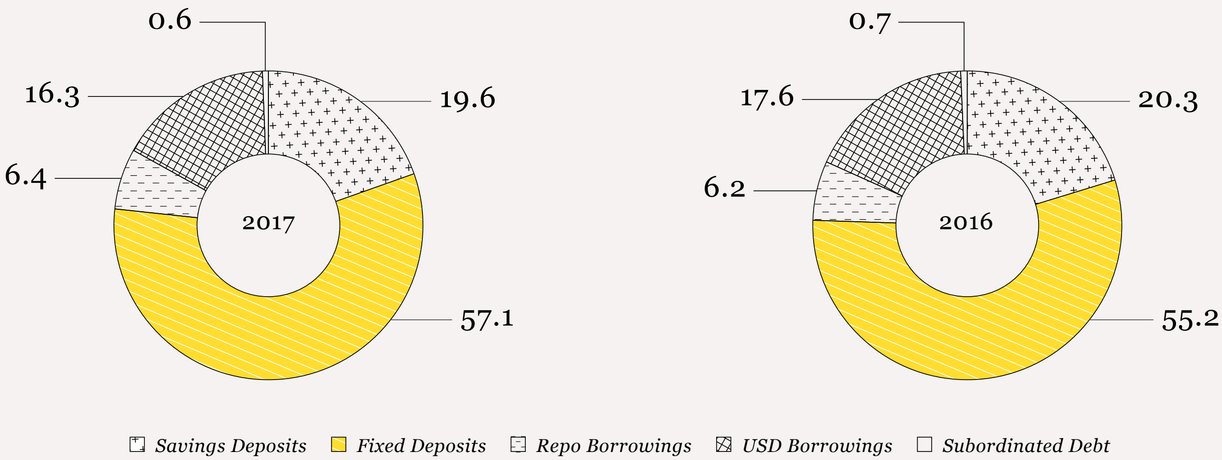


Figure 24

The Bank continues to focus on building its deposit base as a key component of the funding mix. Primary funding sources are in the form of deposits across a spectrum of retail and institutional depositors. In 2017, total funding related liabilities grew by 10.4% to Rs. 961.2 Bn. of which 76.7% consists of deposits.

The Bank's concentration of funding remains low due to high concentration towards retail deposits since 84% of the deposits are funded by retail depositors. The Bank has set concentration limits to ensure that funding diversification is maintained across products and to ensure adherence to appetite limits.

The Bank's subsidiary mainly engages in highly regulated primary dealer activities with high composition of liquid assets.

Governance structure

At Senior Management level, ALCO oversees the liquidity risk of the Bank. The principal liquidity risk governance document is the Liquidity and Market Risk Management Policy of the Bank approved by the Board.

MRMU monitors liquidity risk using stock approach, flow approach and regulatory ratios. Further, stress tests are performed on a periodic basis considering scenarios of different severities for a liquidity crisis, credit tightening and speed/time to act in a crisis situation.

The stress test results and liquidity ratios are communicated to ALCO and to the Board through BIRMC.

Liquidity risk management process

The Bank manages liquidity in compliance with respective statutory regulations set by the regulator and within the risk appetite framework. Liquidity risk management ensures that the Bank has appropriate amount, diversification and tenor of liquidity to support its asset base at all times.

The Bank manages liquidity risk using statutory ratios and best practices aligned to Basel III requirements.

Tactical (Short-term) liquidity risk management	Structural (Long-term) liquidity risk management	Contingency liquidity risk management
Manage intraday liquidity positions	Ensure a structurally sound financial position	Monitor and manage early warning liquidity indicators
Ensure LCR and NSFR within the risk appetite Monitor interbank and repo shortage levels	Identify and manage structural liquidity mismatches	Establish and maintain contingency funding plans
Monitor daily cash flow requirements	Determine and apply behavioural profiling	Undertake regular liquidity stress testing and scenario analysis
Manage short-term cash flows	Manage long-term cash flows	Convene liquidity crisis management committees, if needed
Manage daily foreign currency liquidity	Preserve a diversified funding base	Set liquidity buffer levels in accordance with anticipated stress events
Set deposit rates in accordance with structural and contingent liquidity requirements as informed by ALCO	Inform term funding requirements	Advise on the diversification of liquidity buffer portfolios
	Assess foreign currency liquidity	Ensure compliance with Basel III liquidity requirements
	Establish liquidity risk appetite	
	Ensure appropriate transfer pricing of liquidity costs	

Table 13: Liquidity Management Process

Regulatory ratios

The Bank monitors liquidity risk using ratios under Stock Approach, Flow Approach and regulatory ratios.

Statutory Liquid Asset Ratio (SLAR) and Liquidity Coverage Ratio (LCR) are monitored on monthly basis under statutory ratios.

The Bank has successfully maintained Basel III LCR in excess of 100% and SLAR in excess of 20% to ensure compliance with the minimum regulatory requirement. According to the draft calculation on Basel III Net Stable Funding Ratio (NSFR), the Bank is well above the regulatory minimum requirement.

Trends in Regulatory Ratios

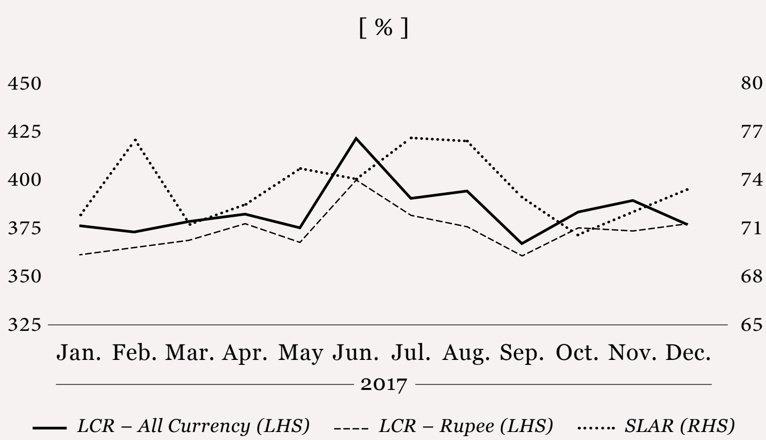


Figure 25

Flow approach

Under the flow approach, Liquidity gap analysis is one of the methods used by the Bank to assess liquidity risk. Liquidity gap results are periodically calculated, monitored and used for sensitivity analysis and stress testing.

	December 2017 %	December 2016 %	Regulatory minimum %
SLAR – DBU	73.44	72.56	20
LCR – Rupee	377.57	379.26	100
LCR – All currencies	376.18	393.96	100

Bank	Up to 3 months Rs. '000	3-12 months Rs. '000	1-3 years Rs. '000	3-5 years Rs. '000	Over 5 years Rs. '000	Total Rs. '000
Assets with contractual maturity						
Cash and cash equivalents	3,849,627	–	–	–	–	3,849,627
Balances with central banks	–	–	–	–	–	–
Placements with banks	4,706,549	18,731,555	–	–	–	23,438,104
Derivative financial instruments	650	1,360,064	–	–	–	1,360,714
Other financial assets Held for trading	681,127	1,919,984	535,258	3,335,945	–	6,472,314
Loans and receivables to banks	3,056,673	6,616,175	17,241,717	800,000	–	27,714,565
Loans and receivables to other customers	22,722,801	67,835,029	83,264,461	57,112,104	129,375,471	360,309,866
Financial investments – Available for sale	942	1,172,235	–	26,045	4,494,608	5,693,830
Financial investments – Held to maturity	24,583,892	167,108,102	77,891,419	93,900,259	180,789,405	544,273,077
Investments in subsidiaries	–	–	–	–	900,000	900,000
Property, plant and equipment	–	–	–	–	12,015,376	12,015,376
Intangible assets	–	–	–	–	380,308	380,308
Other assets	712,063	7,168,611	7,173,278	5,004,266	5,637,471	25,695,689
Total Assets	**60,314,324**	**271,911,755**	**186,106,133**	**160,178,619**	**333,592,639**	**1,012,103,470**
Liabilities with contractual maturity						
Stated capital/assigned capital	–	–	–	–	6,700,000	6,700,000
Statutory reserve fund	–	–	–	–	3,002,952	3,002,952
Retained earnings	–	–	–	–	2,228,885	2,228,885
Other reserves	–	–	–	–	28,289,941	28,289,941
Due to banks	180,439	–	–	–	–	180,439
Due to other customers	391,222,111	330,921,064	8,725,472	4,138,492	2,205,501	737,212,640
Other borrowings	64,611,281	115,058,141	38,286,355	–	–	217,955,777
Derivative liabilities	956,937	–	–	–	–	956,937
Deferred tax liabilities	–	–	–	–	507,063	507,063
Other liabilities	2,288,755	2,500,117	480,835	474,946	3,317,771	9,062,424
Subordinated liabilities	–	6,411	–	6,000,000	–	6,006,411
Total Liabilities	**459,259,523**	**448,485,733**	**47,492,662**	**10,613,438**	**46,252,114**	**1,012,103,470**
Maturity Gap	(398,945,199)	(176,573,978)	138,613,471	149,565,181	287,340,525	0
Cumulative Gap	(398,945,199)	(575,519,177)	(436,905,706)	(287,340,525)	0	-

Table 14: Maturity Profile of Assets and Liabilities

Stock approach

Liquidity risk indicators under stock approach include

- Net loans to total assets
- Loans to customer deposits
- Liquid assets to short-term liabilities
- Purchased funds to total assets
- Commitments to total loans
- (Large liabilities – Temporary investments) to (Earning Assets – Temporary investments)

As measured by stock approach, the Bank's overall liquidity level remained high throughout the year. Loans to deposits ratio has improved but remains low compared to the industry averages due to the mandatory requirement to invest 60% of the deposits in Government Securities which are highly liquid.

Trend in Ratios Under Stock Approach

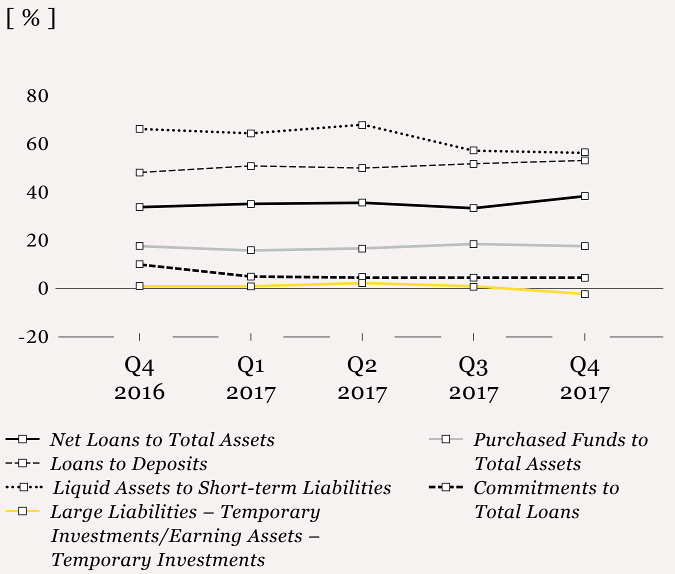


Figure 26

Liquidity contingency plan

Liquidity contingency plan ensures the ability to withstand bank specific or market crisis scenarios. The existing liquidity risk profile of the NSB is based on the following guidelines.

- Ensures 60% of deposits are invested in Government Securities as per the NSB Act (highly liquid/risk free assets)
- Accessibility to the fixed income securities market and equity market in a crisis situation
- Ability to borrow at lesser cost using fixed income securities as collateral (Repo borrowings) and high credit rating of the Bank

MRMU monitors liquidity risk on a frequent basis and provides reports on liquidity indicators and stress testing which will act as early warning to support crisis response strategies. Government Securities portfolio which is highly marketable, provides a protection against unforeseen disruptions in cash flows. These portfolios are managed within ALCO defined limits on the basis of diversification and liquidity.

Operational risk

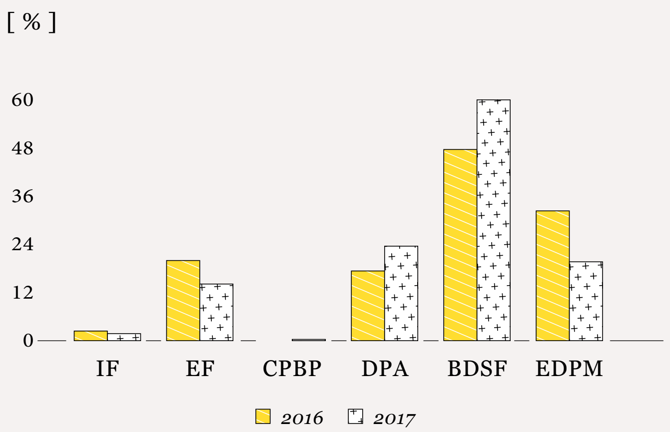
Operational risk is inherent in all activities of the Bank and can be defined as risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk but excludes reputational and strategic risk.

Bank classifies and reviews operational risk events as per the Basel Accords.

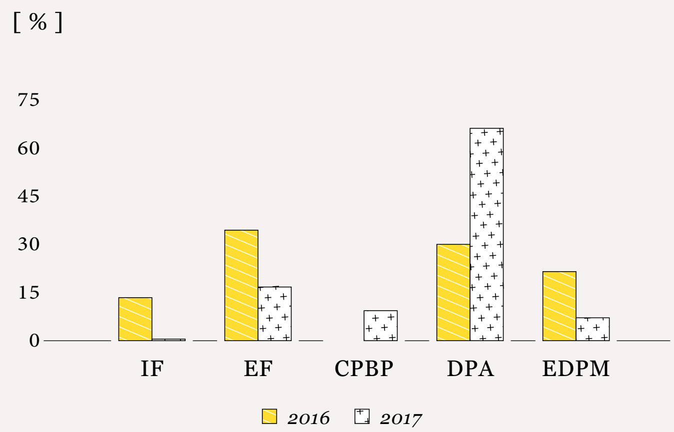
During the year 2017, there was a high frequency of business disruption and system failures which is inherent in a service provider in an automated environment. The severity of the events was manageable since the events were within the maximum tolerable period of disruption.

“Damage to Physical Assets” has the highest severity due to floods during south-west monsoon season affecting some branches in Western, Southern and Sabaragamuwa regions. Fraud risk arising from internal and external drivers is also a material risk to the Bank. The Bank has an effective Fraud Risk Management and Whistle-Blowing process for effective management of fraud risk.

Frequency of Loss Events



Severity of Loss Events



IF – Internal Fraud
EF – External Fraud
DPA – Damage to Physical Assets
BDSF – Business Disruption and System Failures

EPWS – Employment Practices and Workplace Safety*
CPBP – Clients, Products and Business Practices
EPPM – Execution, Delivery and Process Management

Frequency – 0% – 2017: EPWS 2016: CPBP, EPWS

Severity – 0% – 2017: BDSF, EPWS 2016: BDSF, EPWS, CPBP

Figure 27

Figure 28

Actual Operational Losses against Risk Appetite and Tolerance Limit

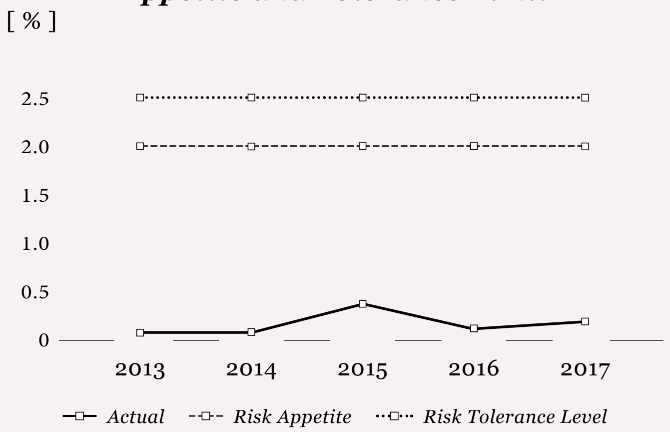


Figure 29

Operational losses for the financial year 2017 was 0.19% from the average audited gross income for last three years, which is far below the internal alert level reflecting the "tone at the top" effectiveness of the governance structures, processes and procedures in place to manage operational risk. The trend line also demonstrates the Bank's consistency in maintaining losses at minimal levels over the last five-year period. Continuous endeavours are taken by the Bank to manage and minimise the operational risks within the risk appetite.

Risk review

Risk Component	Description	Monitoring /Management tools	Exposure	Impact *
Fraud risk	Fraudulent activities by internal or external party	• Fraud Risk Management and Whistle-Blowing process • Internal controls • Key Operational Risk Indicators (KORIs) monitoring • Loss event monitoring • Risk and Control Self-Assessment (RCSA)	High	Moderate
System/ Information Technology/ Information Security Risk	Failed, inadequate processes, Systems and Information Technology	• Internal controls • Information Security Management System (ISMS) • Business Continuity Management System (BCMS) • KORIs monitoring • Incident reporting	High	Moderate
Compliance risk	Failure in meeting regulatory requirements	• Compliance programmes and examinations • KORIs monitoring • Compliance risk scorecard	High	Moderate
Legal risk	Inadequate/Failure to comply with legal requirements	• Legal clearance on all contractual obligations • KORIs monitoring	Moderate	Low

**Possible impact on earnings and capital in a high stress situation*

Figure 30: Operational Risk Review

Governance structure

The Bank has a comprehensive Operational Risk Management Framework (ORMF) which is sensitive to the existing and emerging operational risks. It strives to achieve more efficient, transparent, profitable and sustainable business operations. ORMF is codified in the Board approved Operational Risk Management Policy which describes a formal governance structure and NSB’s approach in identifying, assessing, monitoring and controlling operational risk. Further, following policies supplement Operational Risk Management Policy framework:

- Information Security Management Policy
- Business Continuity Management Policy
- Fraud Risk Management and Whistle-Blowing Policy
- Outsourcing Policy

ORMF is reinforced by the effective governance structure and Senior Management oversight. Responsibility to operational risk management lies with the Board with the assistance of the BIRMC.

Figure 31: Operational Risk Governance Structure

ORMC is the apex level management committee to oversee the operational risk management.

ORMU of RMD has the responsibility for the design, implementation and maintenance of the ORMF including the associated governance structure. The responsibilities of ORMU include:

- Reviewing/updating policies
- Operational risk assessment using RCSA, KORI and loss event data.
- Monitoring implementation of BCMS
- Monitoring ISMS
- Monitoring the risk of outsourcing of activities
- New products/process reviews
- Reporting to ORMC and Board through BIRMC

Operational risk management process

The Bank manages operational risk based on a bank-wide consistent framework that enables determination of its operational risk profile in comparison to its risk appetite.

As operational risk is inherent in every person, process and system, a specific group or a committee itself cannot effectively manage such risk.

NSB has created a risk management culture which begins with unwavering commitment of the Board and Senior Management and drives through awareness at all levels.

Branches and operational divisions are recognised as the primary owners of the operational risk. They are provided with adequate training to be clear about inherent risks in their area of responsibility.

Thus, the Bank has put in place extensive internal controls as the First Line of Defence for operational risk which include system controls, access controls, segregation of duties, dual checks through authorisation and verification of transactions, reconciliations, audit trails and audit logs and above all educating the risk owners through proper training programmes.

RMD and Compliance Division act as Second Line of Defence and IAD act as the Third Line of Defence in operational/risk management.

Operational Risk Management Process begins with identification and assessment of operational risk profile of the Bank using different tools and techniques to manage and minimise risk exposures.

Loss event data collection and analysis

Internal and external loss event data collection is a key requirement of moving into advanced approaches in operational risk capital charge calculation.

ORMU continuously collects loss event data over a period and such operational losses are categorised into seven loss event types as per Basel classification to facilitate regulatory and other reporting.

Loss event data is subject to stringent analysis to identify the nature, root causes and the probability of occurrence in order to take prompt corrective and preventive actions.

NSB has a low appetite for operational risk and has established tolerance levels for all material operational risk types.

Key operational risk indicators monitoring

KORI matrix enables monitoring changes in levels of a risk exposure and acts as early warning indicators to take prompt risk mitigation actions.

The Bank's KORI dashboard covers key business operations and support services of the Bank in order to identify and assess operational risk profile by a risk matrix covering Audit Issue Management, Business Continuity Management, Information Security Management, Product Quality, Process Quality and Compliance.

KORIs are defined under each area to assess the risk based on predefined threshold limits. These threshold limits are revised annually or more frequently considering the changes in operational environment.

ORMU monitors the operational risk profile using KORIs and reports to ORMC and the Board through BIRMC.

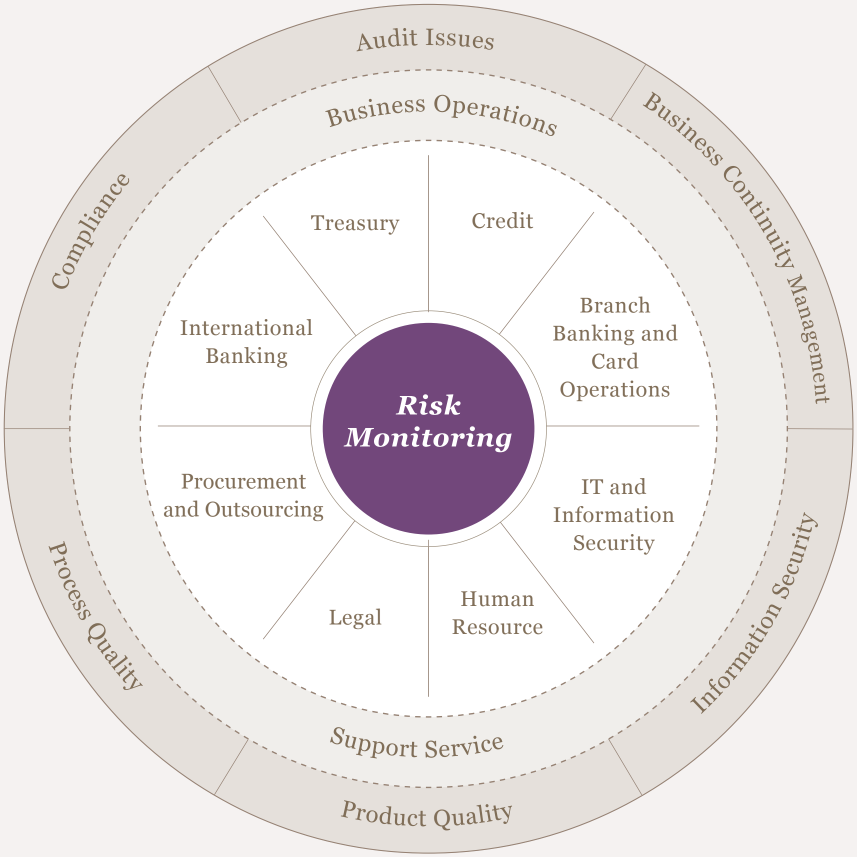


Figure 32: KORI Framework

Risk and control self-assessment

RCSA is a methodology that reviews and assesses operational risk across business lines against the internal controls designed to manage such risks. Underlying assumption in RCSA is that, business process owners/First Line of Defence is in a best position to understand their own risks.

This helps in raising awareness on risks that need immediate attention and to prioritise addressing operational weaknesses in a structured manner.

During the year 2017, the Bank has effectively used RCSA to identify and mitigate operational risk in critical processes.

Customer complaints management

Customer complaint management process of the Bank includes recording and responding within the benchmark time upon receipt of a complaint to ensure an effective customer service.

ORMU considers customer complaints as a source of identifying operational weaknesses and risks in the Bank's operations. Customer complaint data is analysed and relevant findings are reported to ORMC to take further risk mitigation actions.

New product and process risk assessment

With the recent global financial crisis, it is evident that the transition from the test phase of a new product or system to the operative business is particularly risky due to the lack of experience and expertise in an unfamiliar environment. ORMU assesses the sources of operational risk that stems from new products, channels and processes prior to introducing/implementing within the Bank. Also post introduction/implementation reviews are conducted by ORMU to further minimise operational risk to the Bank.

Information security risk management

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

Bank has taken steps to comply with the Baseline Security Standards (BSS) with the assistance of industry expertise and monitored through the IT Steering Committee. Accordingly, NSB's improved ICT infrastructure and ISMS are reviewed based on ISO 27001:2013. Under this, Information Security Policies and procedures are reviewed with expert opinions to streamline the current practices.

ORMU monitors implementation of information security through progress reviews and provides recommendations if any for further improvements.

Business continuity management system

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

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

Business continuity planning is a proactive planning process that ensures critical services/products, systems or operations are delivered despite disruption and are based on outcomes of an annually reviewed business impact assessment.

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

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

Risk transfer

Outsourcing is used as an effective cost saving and a risk transfer strategy. The Bank outsourcing function is based on the Board approved Outsourcing Policy prepared as per the CBSL guidelines. This is further supplemented by the Bank's procurement guidelines.

The risk arising from outsourcing of business operations are managed by a separate outsourcing unit, established in order to streamline the function and reporting.

The Bank conducts comprehensive due diligence exercises to ensure the service providers' capability to perform the activities outsourced.

Insurance plays a key role as an operational risk mitigant to transfer key insurable risk to an insurance service provider. Insurance policies are used to cover "low frequency high impact" events such as damage to physical assets due to natural disasters, fire, etc.

The adequacy of the insurance policies is continuously reviewed considering the existing and emerging risks to the Bank. ORMU monitors the insurance policy, process and recovery trend and reports to ORMC. During the year 2017, insurance process was centralised to optimise the insurance benefits to the Bank.

Stress testing and scenario analysis

Stress testing and scenario analysis help to identify the impact of plausible operational risk events.

Scenario analysis is used for evaluating the impact of specified operational risk scenarios whereas stress testing exercise assists in identifying the impact on more than one scenario to the Bank's financial and solvency position. The results are communicated to ORMC and the Board through BIRMC to assist in taking pre-emptive risk mitigation actions.

Particulars	Impact on Total Capital Adequacy Ratio Favourable/(Adverse) (%)		
	Low	Medium	High
Operational Loss – increase in severity of actual Operational Losses (maximum of actual total severity occurred during last three years)	(0.03)	(0.05)	(0.07)

Low – Maximum severity
Moderate – 1.5 times of maximum severity
High – Twice severe than the maximum severity

Legal risk

Basel defines legal risk as a part of operational risk. Legal risk includes, but not limited to risk of losses due to inaccurately drafted contracts and their execution, absence of written agreements or inadequate agreement resulting in fines, penalties and punitive damages. Legal risk is managed through:

- Ensuring all applicable laws are fully taken into consideration in business operations when entering into contractual relationships with third parties such as customers or service providers
- Ensuring all such contractual relationships are supported by required documentation
- Establishing mechanisms to ensure conformity to laws and regulations when introducing/reviewing products and processes.

The responsibilities of managing legal risk is delegated to the business owners with the guidance of Legal Division. Legal Division engages in strategic management of legal risk of the Bank.

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

Compliance risk

Compliance risk is deemed crucial because the Bank's financial status and reputation will be directly affected due to non- compliance with applicable laws and regulations, Code of Conduct and standards of practice in the banking industry. As such, the Compliance Division headed by the Compliance Officer directly reports to the Board through BIRMC and takes measures to mitigate the compliance risk of the Bank.

Initiatives taken by the Compliance Division with the intention of creating a better compliance environment and mitigating the compliance risk during 2017:

- Implementation of Risk Based Approach (RBA) to compliance under Customer Due Diligence (CDD) rules by the CBSL.
- Expanding compliance focus within the scope of Foreign Exchange Act No. 12 of 2017
- Conducting compliance assessment on long distance branches and critical divisions.
- Conduct compliance training and awareness programmes at regional and head office level.

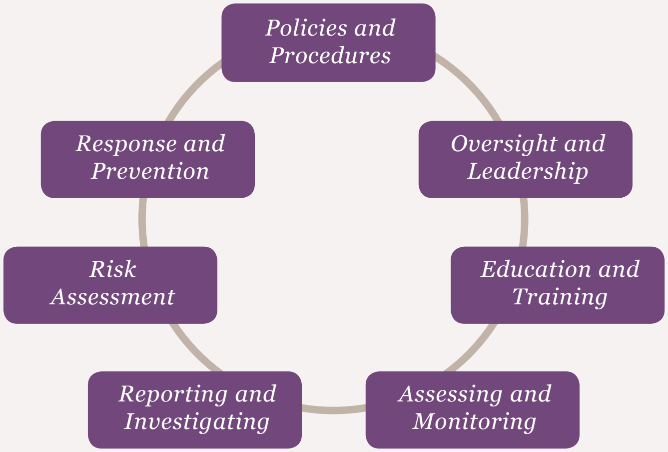


Figure 33: Compliance Risk Management Process

Reputational risk

Reputational risk is the risk of adversities to earnings or solvency of the Bank due to negative stakeholder perception on business practices and financial conditions. In general, reputational risk is broadly managed through systems and controls adopted for all other risk as reputational risk is driven by a wide range of other business risks which are managed by the policies, procedures, Code of Conduct and business ethics.

Board oversees the reputational risk management which is carried out by the CEO/GM and Corporate Management.

The Bank has a zero risk appetite for reputational losses. Thus, RMD monitors the reputational vulnerabilities using tools such as KORIs, and customer complaint analysis. The Bank uses a scorecard-based model to assess reputation risk for ICAAP.

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. Missing out on potential upside opportunities can also be considered under strategic risk.

Responsibility for strategy development rests with the divisional heads through the strategic planning and budgeting process which aligns with NSB's vision, mission and the risk appetite. Strategic risk could arise due to worsening of general economic and market conditions locally and globally. The inputs from the Research and Development Division are incorporated in formulating business strategies.

The Board has the oversight responsibility towards the strategic risk of the Bank. Senior Management continuously monitors strategic risk through frequent reviews. A scorecard based model is used to assess the strategic risk for the ICAAP.

Figure 34: Elements of Strategic Risk

Capital management

Managing capital is an integral part of the risk management framework to assure resilience of the Bank while generating stakeholder return. Capital management process is in line with the guidelines issued by the CBSL.

Minimum capital requirements and buffers – Pillar I

The Banking Act Direction No. 01 of 2016, introduced capital requirements under Basel III for licensed banks commencing from 1 July 2017 with specified timelines to increase minimum capital ratios which is to be fully implemented by 1 January 2019.

The Bank achieved the regulatory minimum requirements set for capital adequacy during the year 2017. Common Equity Tier 1 (CET1) ratio marginally improved during the year to 11.93% as at 31 December 2017, from 11.31% as at 31 December 2016. This is mainly due to increase of equity capital and reduction of contribution to consolidated fund/dividend to Rs.5. 1 Bn. in the year 2017 against Rs. 12.02 Bn. in the year 2016. In the absence of qualifying Additional Tier 1 capital instruments, the Bank's CET 1 ratio is equal to Total Tier 1 Capital Ratio.

The Bank took initiatives to monitor and maintain the Risk Weighted Assets (RWA) within the risk appetite levels. Total Capital Ratio increased to 15.31% as at 31 December 2017 against 13.86% as at 31 December 2016.

The Bank's subsidiary, NSB Fund Management Company contributes positively to the Capital Adequacy Ratio at group level. Group CET 1/Tier 1 Ratio is 12.65% and Total Capital Ratio is 16.00% as at 31 December 2017.

Capital Level – Bank and Group

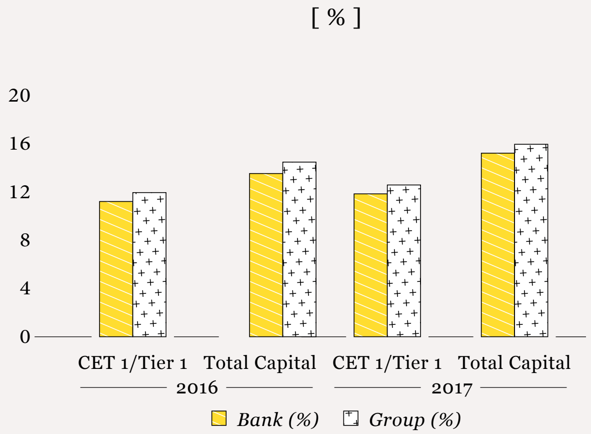


Figure 35

As the 100% State-owned savings bank, there are limited options available to raise capital externally. The only regulatory capital instrument available under Basel III is the shares issued to the Secretary to the Treasury. According to the National Savings Bank Act No. 30 of 1971, the Bank cannot raise Tier 2 Capital that fulfil criteria to qualify as regulatory capital under the Basel III guidelines.

Initiatives to improve the capital levels of the Bank:

- Conserve capital by reducing dividend payments until improving CAR to Risk Appetite Levels.
- Ensure internal capital generation through monitoring of portfolios and high value investments against the risk adjusted return.
- Monitoring of RWA mix and changes in the risk profile to minimise adverse impacts to capital levels.
- Increase stakeholder awareness on the challenges in achieving the strategic business objectives due to increased demand for capital imposed by Basel III with the intention to obtain stake holder backing to improve capital levels.

Ratios (%)	Actual as at 31.12.2017		Actual as at 31.12.2016		Regulatory minimum 01.07.2017	Regulatory minimum 01.01.2018	Regulatory minimum 01.01.2019
	Bank	Group	Bank	Group			
CET1 plus CCB and Capital surcharge for D-SIBs	11.93	12.65	11.31	12.03	6.25	7.375	8.50
Tier1 plus CCB and Capital surcharge for D-SIBs	11.93	12.65	11.31	12.03	7.75	8.875	10.00
Total Capital plus CCB and Capital surcharge for D-SIBs	15.31	16.00	13.86	14.54	11.75	12.875	14.00

Table 14 : Regulatory Ratios-Actual vs. Regulatory Minimum

Capital is a costly resource; hence the Bank strives to manage capital more efficiently by achieving a right balance between performance and risk. ICAAP promotes an integrated approach, combining risk management practices and strategic business planning to gain operational efficiencies, growth and solvency.

Internal Capital Adequacy Assessment Process (ICAAP) – Pillar II

The ICAAP comprises risk appetite, stress testing and capital planning concepts along with a sound risk management framework to capture all material risks. This enables combining the business performance, risk management actions and risk sensitive capital in a more rational manner to establish a level of internal capital commensurate to the Bank's risk profile.

NSB has a Board approved ICAAP Policy which is in line with the CBSL Directions on Basel III Pillar II guidelines issued to banks on the conduct of the Supervisory Review & Evaluation Process (SREP) and international best practices.

The Bank's ICAAP is governed by four principles which are fundamentals for the Bank and the regulator. The Process involves integrating risk to decision-making, comprehensive risk assessment, reviewing of internal controls, monitoring, reporting and stress testing of risks with the oversight responsibility of the Board.

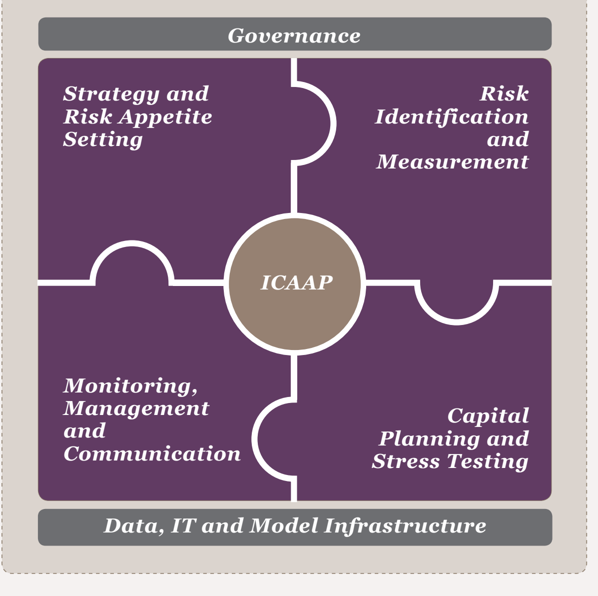


Figure 36: ICAAP Framework

Risk assessment captures both Pillar I and Pillar II risks. Pillar I risks deal with regulatory capital requirements whilst Pillar II risks deal with economic capital. Bank uses both qualitative and quantitative approaches to assess Pillar II risks.

According to the ICAAP assessments, the Bank identified the capital requirements to cover the total risk profile of the Bank. Comprehensively documented ICAAP is discussed and approved by ALCO and the Board through BIRMC prior submitting to the regulator.

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 page no 379 to 391 for minimum disclosure requirements as per Banking Act No. 01 of 2016.

**All the disclosures in this section (Page No. 201 to 238) are unaudited unless otherwise stated.*

Financial Reports

Financial calendar

Financial calendar 2017

Publication of Interim Financial Statements for the quarter ended 31 March 2017	**27 May 2017**
Publication of Interim Financial Statements for the quarter ended 30 June 2017	**31 August 2017**
Publication of Interim Financial Statements for the quarter ended 30 September 2017	**30 November 2017**
Publication of Financial Statements (Audited) for the year ended 31 December 2017	**15 March 2018**

Proposed financial calendar 2018

Publication of Interim Financial Statements for the quarter ended 31 March 2018	**31 May 2018**
Publication of Interim Financial Statements for the quarter ended 30 June 2018	**31 August 2018**
Publication of Interim Financial Statements for the quarter ended 30 September 2018	**30 November 2018**
Publication of Financial Statements (Audited) for the year ended 31 December 2018	**29 March 2019**

Annual Report of Board of Directors

General

The Directors of the National Savings Bank have pleasure in presenting their Integrated Annual Report on the affairs of the Bank together with the Audited Financial Statements of the Bank and Consolidated Financial Statements for the year ended 31 December 2017. We ascertain that it gives the strategic picture of the Bank's business that explains how the Bank creates and sustains value over the years and in the future.

The draft Financial Statements were approved by the Board of Directors at the Board meeting held on 8 February 2018 and submitted to the Auditor General on 9 February 2018. The Audited Financial Statements were authorised to be issued on 12 March 2018. The Report also includes certain disclosures required to be made under the Banking Act No. 30 of 1988 and amendments thereto and the Direction on Corporate Governance. The Annual Report and Financial Statements, together with the Auditor General's Report will be submitted to the Minister of Finance, on or before 31 May 2018 as per Circular No. PED/27 of 27 January 2005, issued by the Director General of the Department of Public Enterprises to be placed before the Parliament of Sri Lanka.

National Savings Bank is incorporated in Sri Lanka by National Savings Bank Act No. 30 of 1971 and was granted the status of Licensed Specialised Bank in terms of Banking Act No. 30 of 1988. The Bank has been assigned AAA (lka) long-term credit rating by the Fitch Rating Lanka (Pvt) Ltd. for the 15th consecutive year. It has also been awarded international credit ratings of B+ Stable by Fitch Inc. and B+ Stable by Standard and Poor Rating services.

Vision, Mission and Values

The Bank's Vision, Mission and Values are given on page 3 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 reaching the Vision and Mission of the Bank.

Principal Activities

Bank

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

Subsidiary

NSB Fund Management Company Ltd., is the Bank's only Subsidiary and the principal activity of the Company is dealing in Government Securities as a primary dealer authorised by the Central Bank of Sri Lanka. Details of the transactions are given in Note 40(b) to the Financial Statements.

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

Review of Business Performance

The overall financial performance of the Bank for the financial year 2017 and its financial position as at 31 December 2017 were reviewed in the Chairman's Message (page 21), General Manager/CEO's Review (page 27), the 2017 Story (page 12) and Audited Financial Statements (page 256). These reports form an integral part of the Annual Report.

NSB has joined hands with Mobitel, the national mobile service provider, to create new digital environment of convenience and flexibility through mCash outlets. This facility has been branded as NSB "i-Saver" which is expected to further inculcate the habit of savings amongst Sri Lankan's populace, thus resulting in wealth creation and mobility of funds for investment.

Network Expansions and Future Developments

Widening the Bank's presence in the island, three branches were added to the network during the year under review. At the end of the year the Bank has 253 branches in its network. The ATM network was further expanded enhancing customer convenience. The Bank installed seven ATMs during the year across the island bringing out the total ATMs to 286 excluding peer banks' ATMs through which customers of NSB can transact. The customers could also access the Bank through over 16,000 mCash outlets.

The Bank intends to tie-up with technological advancements in the coming years. This will enhance the convenience to customer base of the Bank. An overview of the future developments of the Bank is given in the Chairman's Message (page 21), General Manager/CEO's Review (page 27) and the 2017 Story (page 12).

Going Concern

The Board of Directors have reviewed and satisfied that the Bank has ample resources to continue its operations in the foreseeable future. Furthermore, the Directors are not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern, such as restrictions or plan to curtail operations.

Financial Statements

The Financial Statements are prepared in accordance with the Sri Lanka Financial Reporting Standards/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 as amended. The Financial Statements of the Bank and the Group for the year ended 31 December 2017 duly certified by the Deputy General Manager – Finance and Planning and approved and signed by the General Manager/CEO and two Directors including Chairman of the Bank are given on page 256 which form an integral part of the Annual Report of the Bank.

Directors' Responsibilities for Financial Reporting

The Directors are responsible for the preparation of the Financial Statements that will reflect a true and fair view of the state of affairs of the Bank as at 31 December 2017 and its profit for the year then ended. The Directors are of the view that Statements of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Cash Flow Statement, Significant Accounting Policies and Notes there to have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards (SLFRSs/LKASs) and the Banking Act No. 30 of 1988 and its amendments. The Statement of Directors' Responsibility for Financial Reporting appearing on page 248 of this Annual Report describes in detail the Directors' Responsibilities in relation to Financial Statements, which form an integral part of the Annual Report of the Board of Directors.

Auditors' Report

The Auditor General had carried out the audit of the Financial Statements of the Bank, its subsidiary of NSB Fund Management Company and the Consolidated Financial Statements of the Group for the year ended 31 December 2017. In 2017, 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 255 of this Annual Report.

As a regulatory supervisory body, the Central Bank of Sri Lanka carried out a periodic examination of the records and affairs of the Bank to ascertain compliance with directives issued by the Central Bank of Sri Lanka. It also determines whether required financial indicators are being maintained at the required level so that the interests of the stakeholders, particularly depositors are safeguarded.

Significant Accounting Policies and Changes during the Year

The Bank prepared its Financial Statements in accordance with Sri Lanka Accounting Standards (SLFRSs/LKASs). Significant Accounting Policies adopted in the preparation of Financial Statements for the year are given on page 265. Significant changes to accounting policies if any in the preparation of the Financial Statements are also stated therein.

Strategic Business Plan

The Bank developed its latest Strategic Business Plan for 2018-2020 through roll-out of the SBP 2017-2019 during the year 2017. Focusing areas and Strategic Initiatives were identified in this process. The Bank will strive to operate within the parameters set out in the new Business Plan, which will help to accelerate the future momentum of NSB. In line with Strategic Business Plan, Balance Score Card with KPI was introduced for each operation and service unit for the purpose of easy monitoring.

Income

The gross income of the Bank for 2017 was Rs. 107,817 Mn. (2016 – Rs. 87,399 Mn.) while the Group's income was Rs. 108,056 Mn. (2016 – Rs. 88,039 Mn.). Details of the income are given in Note 3 to the Financial Statements.

Results and Appropriation

The profit before income tax of Bank and Group amounted to Rs. 14,029 Mn. and Rs. 13,645 Mn. (2016 – Rs. 13,303 Mn. and Rs. 13,397 Mn.). This is an increase of 5.45% for the Bank and 1.85% for the Group (2016 – 2.07% and 0.94% increase).

The profit after tax of the Bank and Group stood at Rs. 9,610 Mn. and Rs. 9,050 Mn. respectively (2016 – Rs. 9,498 Mn. and Rs. 9,562 Mn.). This is an increase of 1.18% for the Bank and decreased of 5.36% for the Group (2016 – 9.52% and 8.27%). Details of profit relating to the Bank are given in the following Table:

Provision for Taxation

The Income Tax rate applicable for the Bank on its operation is 28%, the Bank's operations are liable for Value Added Tax on Financial Services at the rate of 15% and Nation Building Tax at the rate of 2%.

The Bank provided deferred tax on all known temporary differences under the liability method in accordance with Sri Lanka Accounting Standard (LKAS) 12 – "Income Taxes". Information of Income Tax expenditure and Deferred Taxation are given in Notes 13 and 29 respectively on pages 289 and 324.

Stated Capital

The authorised share capital of the Bank is Rs. 10 Bn. which is made of One Bn. ordinary shares of Rs. 10.00 each. The Bank has issued 50 Mn. ordinary shares of Rs. 10.00 using unclaimed deposit reserve to the Secretary to the Treasury on 31 December 2017. The issued share capital of the Bank as at 31 December 2017 stood at Rs. 6.7 Bn. The Secretary to the Treasury in his official capacity holds the entirety of the issued share capital.

Borrowed Capital

The Bank issued an International Bond for a value of USD 750 Mn. and USD 250 Mn. in the years 2013 and 2014 respectively. This was the highest amount of foreign funds raised in a single issue by a bank so far from foreign investors. Information of Borrowed capital is given in Note 33 respective on page 327.

	2017 Rs. Mn.	2016 Rs. Mn.
Profit for the Year after Payment of all Expenses and Providing for Depreciation, Possible Loan Losses and Contingencies before VAT, NBT and Tax	**17,523**	16,094
VAT on Financial Services	**3,083**	2,405
NBT on Financial Services	**411**	386
Provision for Income Tax	**4,419**	3,805
Net Profit	**9,610**	9,498

Subordinated liabilities of the Bank as at 31 December 2017 consisted Rs. 6 Bn. rated, unsecured subordinated and redeemable debenture of Rs.100.00 issued on 29 December 2016 on private placement. Information is given in Note 35 respective on page 339.

Shareholding

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

Reserves

The Bank's Reserves consist of –

	2017 **Rs. Mn.**	2016 Rs. Mn.
Statutory Reserve Fund	**3,003**	2,522
Revaluation Reserve	**7,793**	3,297
Retain Earnings	**2,229**	2,379
Other Reserves	**20,497**	17,848
	33,522	26,046

Information on changes of reserves is given in the Statement of Changes in Equity on page 260.

Contribution to the Government

The Bank contributed Rs. 13,440 Mn. by way of taxes and levies to the Government in 2017 (2016 – Rs. 19,251 Mn.). This consisted of Rs. 4,419 Mn. of Income Tax (2016 – Rs. 3,805 Mn.), Rs. 3,083 Mn. of Value Added Tax (2016 – Rs. 2,406 Mn.), Rs. 411 Mn. of Nation Building Tax (2016 – Rs. 386 Mn.), Rs. 320 Mn. of Special Fee (2016 – Rs. 533 Mn.), Rs. 5,111 Mn. of contribution to the Consolidated Fund (2016 – Rs. 12,026 Mn.) and Rs. 96 Mn. of contributions to National Insurance Trust Fund (2016 – Rs. 95 Mn.).

Service Charges to Postmaster General (PMG)

Service charges to the PMG for 2017 amounting to Rs. 141 Mn. has been provided for on the same basis as in 2016.

Pension Fund

A sum of Rs. 489 Mn. (2016 – Rs. 829 Mn.) has been provided in the Financial Statements on account of 6,423 employees (including retired employees) who are eligible for the Non-Contributory Pension Scheme.

Corporate Sustainability and Responsibility

The programmes carried out under the Corporate Social Responsibility (CSR) are detailed on pages 135 to 139 in this Annual Report.

Property, Plant and Equipment and Intangible Assets

The value of Property, Plant & Equipment and Intangible Assets as at the year end 2017 was Rs. 15,108 Mn. and Rs. 959 Mn. respectively (Rs. 10,188 Mn. and Rs. 639 Mn. in 2016).

The total capital expenditure incurred by the Bank on the acquisition of Property, Plant & Equipment and Intangible Assets (including building work-in-progress and improvements to rent/leasehold buildings) during the year amounted to Rs. 1,109 Mn. (2016 – Rs. 750 Mn.) and Group amounted to Rs. 1,111 Mn. (2016 – Rs. 751 Mn.), the details of which are given in Notes 27 and 28 to the Financial Statements on pages 315 to 322 of this Annual Report.

Market Value of Freehold Property

The Bank carried out a revaluation on entire class of freehold land and buildings of the Bank as of 31 December 2017 in accordance with the Section 3 of the Central Bank Direction No. 01 of 2014 on "Valuation of Immovable Properties of Licensed Specialised Banks".

The revaluation process of the land and buildings of the Bank was carried out by professionally-qualified independent valuers as per above Direction. The Board of Directors is on the view that revalued amounts of freehold land and buildings are not in excess of its market value.

Events after the Reporting Date

No circumstances have arisen since the Reporting date which would require adjustments to, or disclosure in the accounts, other than those disclosed in Note 46 to the Financial Statements.

Outstanding Litigation

In the opinion of the Directors and the Bank's lawyers, outstanding litigation against the Bank disclosed in Note 45 to the Financial Statements will not have a material impact on the financial position of the Bank or its future operations.

Board of Directors

The Board of Directors comprises seven Directors including the Chairman and two Ex Officio Members representing the Ministry of Finance and the Postmaster General. 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 and other four Directors are appointed by the Minister. The following were the Directors during the year and their brief profiles appear on page 156 of this Annual Report.

Name of the Director	Period	Status
Mr Aswin De Silva, Chairman	Appointed w.e.f. 09.02.2015	NED/NIND
Mr D L P R Abeyaratne, Director (Ex Officio)	Appointed w.e.f. 09.02.2012	NED/NIND
Mr Suranga Naullage, Director	Appointed w.e.f. 09.02.2015	NED/NIND
Mr Ajith Pathirana, Director	Appointed w.e.f. 20.03.2015	NED/NIND
Mr A K Seneviratne, Director (Ex Officio)	Appointed w.e.f. 27.05.2015	NED/NIND
Mr Chandima Hemachandra, Director	Appointed w.e.f. 02.11.2015	NED/NIND
Mr Anil Rajakaruna, Director	Appointed w.e.f. 02.11.2015	NED/NIND

NIND - Non-Independent Directors', IND - Independent, NED - Non-Executive Director

Directors' Remuneration and Other Benefits

Details of Directors' emoluments and other benefits in respect of the Bank and Group for the financial year 2017 are given in Note 40 to the Financial Statements.

Board Subcommittees

The Board while assuming the overall responsibility and accountability has also appointed the following Board Subcommittees to ensure conformity with Corporate Governance Standards of the Central Bank and other statutory compliances.

Composition of the Board Subcommittees including the mandatory four as at 31 December 2017 are as follows:

Board Audit Committee

Mr D L P R Abeyaratne	Chairman (Appointed w.e.f. 30.11.2015)
Mr A K Seneviratne	Member (Appointed w.e.f. 04.06.2015)
Mr Anil Rajakaruna	Member (Appointed w.e.f. 30.11.2015)

The Report of the Board Audit Committee is given on pages 190 and 191.

Board Human Resource and Remuneration Committee

Mr Aswin De Silva	Chairman (Appointed w.e.f. 12.03.2015)
Mr D L P R Abeyaratne	Member (Appointed w.e.f. 12.03.2015)
Mr Ajith Pathirana	Member (Appointed w.e.f. 30.11.2015)

The Report of the Board Human Resource and Remuneration Committee is given on pages 193 and 194.

Board Nomination Committee

Mr D L P R Abeyaratne	Chairman (Appointed w.e.f. 03.02.2017 and member from 30.11.2015 upto 03.02.2017)
Mr Aswin de Silva	Chairman (Resigned w.e.f. 03.02.2017)
Mr Ajith Pathirana	Member (Appointed w.e.f. 30.04.2015)
Mr A K Seneviratne	Member (Appointed w.e.f. 03.02.2017)

The Report of the Board Nomination Committee is given on page 195.

Board Integrated Risk Management Committee

Mr A K Seneviratne	Chairman (Appointed w.e.f. from 30.11.2015)
Mr Suranga Naullage	Member (Appointed w.e.f. 30.11.2015)
Mr Chandima Hemachandra	Member (Resigned w.e.f. 14.08.2017)
Mr Anil Rajakaruna	Member (Appointed w.e.f. 14.08.2017)

The Report of the Board Integrated Risk Management Committee is given on pages 196 and 197.

Board Credit Committee

Mr Aswin De Silva	Chairman (Appointed w.e.f. 03.02.2017)
Mr Anil Rajakaruna	Member (Appointed w.e.f. 03.02.2017 and Resigned w.e.f. 14.08.2017)
Mr Chandima Hemachandra	Member (Appointed w.e.f. 03.02.2017)
Mr Ajith Pathirana	Member (Appointed w.e.f. 14.08.2017)

The Report of the Board Credit Committee is given on pages 198 and 199.

Board Information Technology Strategy Committee

Mr Aswin De Silva	Chairman (Appointed w.e.f. 03.02.2017)
Mr D L P R Abeyaratne	Member (Appointed w.e.f. 03.02.2017)
Mr Chandima Hemachandra	Member (Appointed w.e.f. 03.02.2017)

The Report of the Board Information Technology Strategy Committee is given on page 200.

Directors' Meetings

The number of meetings held by Board of Directors, Board Audit Committee, Board Nomination Committee, Board Integrated Risk Management Committee, Board Human Resource and Remuneration Committee, Board Credit Committee and Board Information Technology Strategy Committee and the attendance of Directors for the aforesaid meetings are given on Corporate Governance Report (page 171) of this Annual Report.

Directors' Interests in Contracts

Directors' interests in contracts with the Bank, both direct and indirect are referred to in Note 40 to the Financial Statements. These interests have been declared at the Board meetings. The Directors do not have any direct or indirect interest in other contracts or proposed contracts with the Bank.

Related Party Transactions

The Directors have also disclosed the transactions if any, that could be classified as related party transactions in terms of Sri Lanka Accounting Standard (LKAS) 24 – "Related Party Disclosures" which is adopted in the preparation of the Financial Statements. Those transactions disclosed by the Directors are given in Note 40 to the Financial Statements forming part of the Annual Report of the Board of Directors.

Chief Executive Officer (CEO)

The General Manager is the Chief Executive Officer of the Bank and is appointed by the Board of Directors. The General Manager has the right to be present at, and to participate in the meetings of the Board of Directors.

Human Resources

The Bank continued to develop and maintain dedicated and highly-motivated employees who are committed to create sustainable value through high quality service. Significant investments have been made in the development of quality of Human Capital of the Bank. The policies and procedures adopted by the Bank to upgrade Human Capital is described the 2017 Story on page 108.

Environmental Protection

The Bank has taken initiatives to safeguard and enhance the environment which are vital for sustainable development and growth of the Bank. The Bank and the Group have not engaged in any activity that is harmful or hazardous to environment.

Statutory Payments

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

Risk Management, Internal Controls and Management Information Systems

The Board of Directors assumes overall responsibility for managing risk. For this purpose, the Board of Directors has instituted and implemented an effective and comprehensive system of internal controls and management information systems in the Bank. Internal control systems have been redesigned to mitigate the risks to which the Bank is exposed, to provide reasonable assurance against material misstatements or loss. There is an ongoing process for identifying, evaluating and managing the risks that are faced by the Bank. The specific measures taken by the Bank in mitigating the risk are detailed on pages 201 to 238 of this Report.

Corporate Governance

In the Management of the Bank, the Directors have placed emphasis on conforming with, the best Corporate Governance Practices and Procedures. Accordingly, systems and structures have been introduced/improved from time to time to enhance risk management measures and to improve accountability and transparency.

Compliance with Laws, Regulations and Prudential Requirements

The Bank has at all times ensured that it complied with National Savings Bank Act and all other applicable laws, regulations and prudential requirements.

Government Guarantee

The Government of Sri Lanka guarantees the repayment of the monies deposited with the Bank together with interest thereon.

Auditors

The Auditor General carried out the audit of the Financial Statements of the Bank for the financial year ended 31 December 2017.

By Order of the Board,

Aswin De Silva
Chairman

M A P Muhandiram
Secretary to the Board

12 March 2018
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 Subsidiary (Group) is set out in this statement.

Financial Statements

The Directors of the Bank are responsible for ensuring that the Bank and the Group keep proper books of accounts of all the transactions and prepare Financial Statements in accordance with Generally Accepted Accounting Principles, Sri Lanka Accounting Standards' and Sri Lanka Financial Reporting Standards that give a true and fair view of the financial position of the Bank and the Group at the end of each financial year in compliance with the relevant statutory requirements. The Financial Statements comprise of Statement of Comprehensive Income, Statement of Financial Position as at 31 December 2017, Statement of Changes in Equity, Statement of Cash Flows, Significant Accounting Policies and Notes thereto.

The Financial Statements of the Bank and its Subsidiary give a true and fair view of:

1. Financial position of the Bank and its Subsidiary as at 31 December 2017; and
2. Financial performance of the Bank and its Subsidiary for the financial year ended 31 December 2017.

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 pages 265 to 370 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 Specialised 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 page 256.) The Financial Statements for the year 2017 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 250 of this Annual Report and Auditor General's Assurance Report on the Bank's Internal Control is given on page 252.

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 255 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 The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Securities and Exchange Commission of Sri Lanka (SEC), the Bank and the Group have adequate resources to continue in operation for the foreseeable future and to justify the application of the going concern basis in preparing these Financial Statements and the Board has taken all necessary measures to comply with the directives issued by the Central Bank of Sri Lanka.

By Order of the Board,

M A P Muhandiram
Secretary to the Board

12 March 2018
Colombo

Directors' Statement on Internal Control Over Financial Reporting

This report has been issued in line with the Banking Act Direction No. 12 of 2007, Section 3 (8) (ii) (b), and prepared based on the guidelines issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

The Board of Directors (Board) is responsible for ensuring that an adequate and effective system of internal control is established and maintained at the National Savings Bank. However, such a system is designed to manage the Bank's significant risk areas within acceptable risk parameters, rather than eliminating the risk of failure to achieve business objectives of the Bank. Accordingly, the system of internal controls can only provide reasonable but not absolute assurance against material misstatement of management and financial information and records or against financial losses or frauds.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Bank and this process includes enhancing the system of internal controls as and when there are changes to business environment or regulatory requirements and other guidelines. The process is regularly reviewed by the Board and confirmed the compliance with the Guidance for Directors of the Bank's on the Directors Statement on Internal Controls issued by The Institute of Chartered Accountants of Sri Lanka. The Board has assessed the internal control system taking into principles for the assessment of Internal Control System as given in that guidance.

The Board is of the view that the system of internal controls in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and the preparation of Financial Statements for external purposes and is in accordance with the relevant accounting principles and regulatory requirements.

The Management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced by the Bank, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

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

- The Board Subcommittees have been established with defined scopes and functions to assist the Board in ensuring the effectiveness of the Bank's operations and that the Bank's operations are in accordance with the corporate objectives, strategies, and policies and business directions that have been approved.
- The Board Audit Committee (BAC) reviews periodically the internal control issues identified by the Internal Audit Division of the Bank, the External Auditors, Regulatory Authorities and corrective actions taken to rectify such deficiencies. The Auditor General carries out the external audit of the Bank. The Superintendent of the Government Audit is generally invited to BAC meetings.
- The BAC reviews the internal audit function with particular emphasis on the scope of audits and quality of the same. The activities attended to by the BAC during the year 2017 are set out in the Board Audit Committee report appearing on page 190 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 Subsidiary.

The Bank adopted the new Sri Lanka Accounting Standards comprising LKAS and SLFRS in 2012. Since adoption of such Sri Lanka Accounting Standards, continuous monitoring and progressive enhancement on processes to comply with new requirements of recognition, measurement, classification and disclosure are being made. The Board has given due consideration to the effect of SLFRS 9 – "Financial Instruments", which becomes applicable for financial reporting periods beginning on or after 1st January 2018. This will have a significant impact on the calculation of impairment on financial instruments as it uses forward looking "expected credit loss model" compared to the previously applied "incurred credit loss model" under LKAS 39. The Bank has obtained the services of an External Consultant for SLFRS 9 implementation and performed the Diagnostic Phase (Preliminary impact assessment exercise) and implementation phase (solution development) on SLFRS 9. The Bank has undertaken a significant analysis of how SLFRS 9 should be implemented and has taken tentative accounting policy decisions.

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.

Review of the Statement by the External Auditors

The External Auditors, the Auditor General will review the above Directors' Statement on Internal Control over Financial Reporting for the year ended 31 December 2017 and report to the Board of Directors. Their Report on the Statement of Internal Control Over Financial Reporting is given on page 252 of this annual report.

By Order of the Board,

Aswin De Silva
Chairman

D L P R Abeyaratne
Chairman – Board Audit Committee/Director

Suranga Naullage
Director

12 March 2018
Colombo

Independent Assurance Report on Internal Control

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கணக்காய்வாளர் தலைமை அதிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT

මගේ අංකය / எனது இல. / My No. } BAF/A/NSB/2017/29 ඔබේ අංකය / உமது இல. / Your No. } දිනය / திகதி / Date } 27 April 2018

The Chairman

National Savings Bank

Assurance Report of the Auditor General to the Board of Directors on the Directors' Statement on Internal Control of National Savings Bank

Introduction

This report is to provide assurance on the Directors' Statement on Internal Control ("Statement") of National Savings Bank included in the annual report for the year ended 31st December 2017.

Management's Responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of Bank on the Directors' Statement on Internal Control" issued in compliance with the Section 3 (8) (ii) (b) of the Banking Act Direction No. 12 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

My Responsibilities and Compliance with SLSAE 3050

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

Summary of Work Performed

My engagement has been conducted to assess whether the Statement is both supported by the documentation prepared by or for Directors and appropriately reflects the process the Directors have adopted in reviewing the system of internal control for the Bank.

The procedures performed are limited primarily to inquiries of bank personnel and the existence of documentation on a sample basis that supports the process adopted by the Board of Directors.

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

My Conclusion

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

H M Gamini Wijesinghe
Auditor General

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව. - இல. 306/72, பொல்துவ வீதி, பத்தரமுல்லை, இலங்கை. - No. 306/72, Polduwa Road, Battaramulla, Sri Lanka
+94-11-2887028-34 +94-11-2887223 ag@auditorgeneral.gov.lk www.auditorgeneral.gov.lk

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

The Financial Statements of the National Savings Bank and the Consolidated Financial Statements of the Bank and its Subsidiary (Group) as at 31 December 2017 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 Financial Reporting Standards (SLFRSs/LKASs) issued by The Institute of Chartered Accountants of Sri Lanka.
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995.
- Banking Act No. 30 of 1988 as amended and Directions issued by Central Bank of Sri Lanka there under relating to Financial Statements formats and disclosure of information.
- Code of Best Practices on Corporate Governance issued by The Institute of Chartered Accountants of Sri Lanka.
- The Banking Act Direction No. 12 of 2007 on Corporate Governance issued by Central Bank of Sri Lanka.

The formats used in the preparation of the Financial Statements and disclosures made, comply with the specified formats prescribed by the Central Bank of Sri Lanka which are also in compliance with the disclosure requirements of the Sri Lanka Accounting Standard – LKAS 1 on "Presentation of Financial Statements". The Group presents the financial results to its users on a quarterly basis.

The Significant Accounting Policies have been consistently applied by the Group. Application of Significant Accounting Policies and estimates that involved a high degree of judgement and complexity were discussed with the Bank's External Auditors and the Board Audit Committee. Comparative information has been reclassified wherever necessary to comply with the current presentation and material departures, if any, have been disclosed and explained.

We confirm that to the best of our knowledge, the Financial Statements, Significant Accounting Policies and other financial information included in this Annual Report, fairly present in all material aspects of the financial position, results of the operations and the cash flows of the Group during the period under review. We also confirm that the Group has adequate resources to continue in operation and has applied the going concern basis in preparing these Financial Statements.

We are responsible for establishing, implementing and maintaining Internal Controls and Procedures of the Bank and its Subsidiary. We ensure that effective Internal Controls and Procedures are in place ensuring material information relating to the Group is made known to us for safeguarding assets, preventing and detecting fraud and/or error as well as other irregularities, which are reviewed, evaluated and updated on an ongoing basis. We 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 any fraud that involved management or other employees. The Bank's Internal Auditors also conduct periodic reviews to ensure that the Internal Controls and Procedures are consistently followed.

Directors' Statement on Internal Control over Financial Reporting is provided on page 250 of this Annual Report. The Auditor General have audited the effectiveness of the Internal Control adapted by the Bank and have given unqualified opinion is provided on page 252.

The Financial Statements of the Bank and its Subsidiary were audited by the Auditor General. The Auditor General's Report on the Bank's Consolidated Financial Statements is given on page 255 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 190 and 191 of this Annual Report. To ensure complete independence, the Auditor General and the Internal Auditors have full and free access to the members of the Board Audit Committee to discuss any matter of substance. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal control and accounting.

We confirm that to the best of our knowledge –

- The Bank and Group have complied with all applicable laws and regulations and guidelines and there are no material litigations against the Group other than those disclosed in Note 45 on page 351 of the Financial Statements;
- There are no material non-compliance;
- 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 2017 have been paid, or where relevant, provided for.

S D N Perera
General Manager/CEO

K B Wijeyaratne
Deputy General Manager (Finance and Planning)

12 March 2018
Colombo

Auditor General's Report

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கணக்காய்வாளர் தலைமை அதிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT

මගේ අංකය / எனது இல. / My No. BAF/A/NSB/FA/2017/22 ඔබේ අංකය / உமது இல. / Your No. දිනය / திகதி / Date 14 March 2018

The Chairman

National Savings Bank

Report of the Auditor General on the Financial Statements of the National Savings Bank and its subsidiary for the year ended 31 December 2017

The audit of the Financial Statements of the National Savings Bank ("Bank") and the Consolidated Financial Statements of the Bank and its subsidiary ("Group") for the year ended 31 December 2017 comprising the Statement of Financial Position as at 31 December 2017, the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

Board's Responsibility for the Financial Statements

The Board of Directors ("Board") is responsible for the preparation and fair presentation of these Financial Statements in accordance with Sri Lanka Accounting Standards and for such internal control as Board determines is necessary to enable the preparation of Financial Statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these Financial Statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Statements. The procedures selected depend on the Auditor's judgement, including the assessment of the risk of material misstatement of the Financial Statements, whether due to fraud or error. In making those risk assessments, the Auditor considers internal control relevant to the Bank's preparation and fair presentation of the Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of Accounting Policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the Financial Statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion – Bank

In my opinion, the Financial Statements give a true and fair view of the financial position of the Bank as at 31 December 2017 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Opinion – Group

In my opinion the Consolidated Financial Statements give a true and fair view of the financial position of the Bank and its subsidiary as at 31 December 2017 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirement

These Financial Statements had been presented the information required by the Banking Act No. 30 of 1988 and subsequent amendments thereto.

Report to Parliament

My report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

H M Gamini Wijesinghe
Auditor General

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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Statement of Comprehensive Income

For the year ended 31 December	Note	Bank			Group		
		2017 Rs. '000	2016 Rs. '000	Change %	**2017 Rs. '000**	2016 Rs. '000	Change %
Gross income	3	**107,816,909**	87,399,144	23	**108,055,746**	88,038,610	23
Interest income		**103,399,962**	86,390,039	20	**104,245,541**	87,142,784	20
Less: Interest expenses		**78,444,825**	60,923,221	29	**78,987,596**	61,453,898	29
Net interest income	4	**24,955,137**	25,466,818	(2)	**25,257,945**	25,688,886	(2)
Fee and commission income		**782,776**	650,164	20	**785,077**	651,160	21
Less: Fee and commission expenses		**109,082**	137,432	(21)	**113,037**	140,122	(19)
Net fee and commission income	5	**673,694**	512,732	31	**672,040**	511,038	32
Net gain/(loss) from trading	6	**1,206,408**	(39,270)	3,172	**1,520,740**	(136,897)	1,211
Net gain/(loss) from financial instruments designated at fair value through profit or loss	7	**–**	–	–	**–**	–	–
Net gain/(loss) from financial investments	8	**707,491**	40,923	1,629	**707,491**	40,923	1,629
Other operating income (net)	9	**1,720,272**	357,288	381	**796,897**	340,640	134
Total operating income		**29,263,002**	26,338,490	11	**28,955,113**	26,444,590	9
Less: Impairment charge for loans and other losses	10	**693,233**	(99,693)	795	**693,233**	(99,693)	795
Net operating income		**28,569,769**	26,438,183	8	**28,261,880**	26,544,283	6
Less: Expenses							
Personnel expenses	11	**6,886,505**	6,235,370	10	**6,918,813**	6,266,515	10
Other expenses	12	**4,160,911**	4,108,538	1	**4,107,116**	4,068,918	1
Operating profit before value added tax (VAT) and nation building tax (NBT)		**17,522,354**	16,094,275	9	**17,235,951**	16,208,850	6
Less: Value added tax on financial services		**3,082,619**	2,405,618	28	**3,168,299**	2,423,091	31
Nation building tax on financial services		**411,016**	385,670	7	**422,440**	388,482	9
Operating profit after value added tax (VAT) and nation building tax (NBT)		**14,028,719**	13,302,987	5	**13,645,212**	13,397,277	2
Profit before income tax		**14,028,719**	13,302,987	5	**13,645,212**	13,397,277	2
Less: Income tax expenses	13	**4,419,019**	3,805,271	16	**4,595,065**	3,834,995	20
Profit for the year		**9,609,700**	9,497,716	1	**9,050,147**	9,562,282	(5)
Profit attributable to:							
Equity holders of the Bank		**9,609,700**	9,497,716	1	**9,050,147**	9,562,282	(5)
Profit for the year		**9,609,700**	9,497,716	1	**9,050,147**	9,562,282	(5)
Earnings per share on profit							
Basic earnings per ordinary share (Rs.)	14	**15.50**	29.68	(48)	**14.60**	29.88	(51)
Diluted earnings per ordinary share (Rs.)		**15.50**	29.68	(48)	**14.60**	29.88	(51)

Statement of Comprehensive Income

For the year ended 31 December	Note	Bank 2017 Rs. '000	Bank 2016 Rs. '000	Bank Change %	Group 2017 Rs. '000	Group 2016 Rs. '000	Group Change %
Profit for the year		**9,609,700**	9,497,716	1	**9,050,147**	9,562,282	(5)
Other comprehensive income, net of tax							
Other comprehensive income to be reclassified to income statement							
Net gains/(losses) on cash flow hedges		**290,074**	(137,256)	311	**290,074**	(137,256)	311
Net gains/(losses) on re-measuring available-for-sale financial assets		**656,807**	(299,996)	319	**822,050**	(402,955)	304
Fair value gains transferred to the Income Statement on disposal of available-for-sale financial assets		**(690,388)**	46,952	(1,570)	**(690,388)**	46,952	(1,570)
Total other comprehensive income to be reclassified to income statement		**256,492**	(390,300)	(166)	**421,735**	(493,259)	(185)
Other comprehensive income not to be reclassified to income statement							
Net gains/(losses) on revaluation of property, plant and equipment		**4,508,480**	–	100	**4,508,480**	–	100
Actuarial gains/(losses) on retirement benefit plans		**(2,072,425)**	2,379,307	(187)	**(2,072,155)**	2,379,640	(187)
Total other comprehensive income not to be reclassified to income statement		**2,436,055**	2,379,307	2	**2,436,325**	2,379,640	2
Other comprehensive income for the year, net of taxes		**2,692,547**	1,989,007	35	**2,858,060**	1,886,381	52
Total comprehensive income for the year		**12,302,247**	11,486,723	7	**11,908,207**	11,448,663	4
Attributable to:							
Equity holders of the Bank		**12,302,247**	11,486,723	7	**11,908,207**	11,448,663	4
Total comprehensive income for the year		**12,302,247**	11,486,723	7	**11,908,207**	11,448,663	4

The Notes to the Financial Statements disclosed on pages 265 to 370 are integral parts of these Financial Statements.

Statement of Financial Position

As at 31 December	Note	Bank 2017 Rs. '000	Bank 2016 Rs. '000	Bank Change %	Group 2017 Rs. '000	Group 2016 Rs. '000	Group Change %
Assets							
Cash and cash equivalents	16	**3,849,627**	4,619,699	(17)	**3,854,086**	4,627,629	(17)
Balances with central banks	17	–	–	–	**94**	477	(80)
Placements with banks	18	**23,438,104**	19,013,572	23	**23,438,104**	19,013,572	23
Derivative financial instruments	19	**1,360,714**	2,728,445	(50)	**1,360,714**	2,728,445	(50)
Other financial assets held for trading	20	**6,472,314**	20,290,588	(68)	**9,389,950**	27,303,207	(66)
Financial assets designated at fair value through profit or loss	21	–	–	–	–	–	–
Loans and receivables to banks	22	**27,714,565**	31,834,072	(13)	**27,971,234**	31,834,072	(12)
Loans and receivables to other customers	23	**360,309,866**	291,976,942	23	**358,766,093**	291,178,121	23
Financial investments – available for sale	24	**5,693,829**	6,227,764	(9)	**7,713,852**	8,122,516	(5)
Financial investments – held to maturity	25	**544,273,077**	505,824,398	8	**547,924,390**	507,624,954	8
Investments in subsidiaries	26	**900,000**	150,000	500	–	–	–
Property, plant and equipment	27	**12,015,376**	7,119,651	69	**12,018,679**	7,121,823	69
Intangible assets	28	**380,308**	157,271	142	**380,655**	157,271	142
Deferred tax assets	29	–	–	–	–	588	(100)
Other assets	30	**25,695,689**	21,761,440	18	**25,976,944**	21,890,777	19
Total assets		**1,012,103,470**	911,703,842	11	**1,018,794,797**	921,603,453	11
Liabilities							
Due to banks	31	**180,439**	115,391	56	**828,433**	2,858,673	(71)
Derivative financial instruments	19	**956,937**	–	100	**956,937**	–	100
Due to other customers	32	**737,212,640**	657,280,315	12	**737,212,640**	657,280,315	12
Other borrowings	33	**217,955,777**	207,039,909	5	**222,771,969**	212,629,427	5
Current tax liabilities		–	–	–	**137,344**	17,153	701
Deferred tax liabilities	29	**507,063**	416,180	22	**507,138**	416,180	22
Other liabilities	34	**9,062,425**	8,600,056	5	**9,107,460**	8,608,506	6
Subordinated liabilities	35	**6,006,411**	6,006,411	–	**6,006,411**	6,006,411	–
Total liabilities		**971,881,692**	879,458,262	11	**977,528,332**	887,816,665	10
Equity							
Stated capital/Assigned capital	36	**6,700,000**	6,200,000	8	**6,700,000**	6,200,000	8
Statutory reserve fund	37	**3,002,952**	2,522,467	19	**3,002,952**	2,522,467	19
Retained earnings		**2,228,885**	2,379,307	(6)	**2,805,727**	3,708,614	(24)
Other reserves	38	**28,289,941**	21,143,806	34	**28,757,786**	21,355,707	35
Total equity of the owners of the Parent		**40,221,778**	32,245,580	25	**41,266,465**	33,786,788	22
Total equity		**40,221,778**	32,245,580	25	**41,266,465**	33,786,788	22
Total equity and liabilities		**1,012,103,470**	911,703,842	11	**1,018,794,797**	921,603,453	11
Contingent liabilities and commitments	39	**18,320,312**	24,970,060	(27)	**18,320,312**	24,970,060	(27)

The Notes to the Financial Statements disclosed on pages 265 to 370 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 2017 and its profit for the year ended.

K B Wijeyaratne
Deputy General Manager (Finance and Planning)

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

Approved and signed for and on behalf of the Board,

Aswin De Silva	**D L P R Abeyaratne**	**S D N Perera**
Chairman	*Director*	*General Manager/CEO*

12 March 2018
Colombo

Statement of Changes in Equity

Bank →

	Stated capital/ Assigned capital Rs. '000	Statutory reserve fund Rs. '000	Revaluation reserve Rs. '000
Balance as at 1 January 2016	3,200,000	2,047,581	3,296,565
Profit for the year 2016	–	–	–
Other comprehensive income (net of tax)	–	–	–
Total comprehensive income for the year	–	–	–
Transaction with equity holders, recognised directly in equity			
Transfers to reserves during the period	–	474,886	–
Contribution to consolidated fund – dividend/levy	–	–	–
Contribution to national insurance trust fund	–	–	–
Transfers to unclaimed deposits reserve/issued share capital	3,000,000	–	–
Total transactions with equity holders	3,000,000	474,886	–
Balance as at 31 December 2016	6,200,000	2,522,467	3,296,565
Profit for the year 2017	–	–	–
Other comprehensive income (net of tax)	–	–	4,508,480
Total comprehensive income for the year	–	–	4,508,480
Transaction with equity holders, recognised directly in equity			
Transfers to/from reserves during the period	–	480,485	(11,728)
Contribution to consolidated fund – dividend/levy	–	–	–
Contribution to national insurance trust fund	–	–	–
Transfers to unclaimed deposits reserve/issued share capital	500,000	–	–
Total transactions with equity holders	500,000	480,485	(11,728)
Balance as at 31 December 2017	6,700,000	3,002,952	7,793,317

Available-for-sale reserve Rs. '000	Cash flow hedging reserve Rs. '000	Other reserves Rs. '000	Retained earnings Rs. '000	Total equity Rs. '000
1,631,862	139,106	22,108,709	–	32,423,827
–	–	–	9,497,716	9,497,716
(253,044)	(137,256)	–	2,379,307	1,989,007
(253,044)	(137,256)	–	11,877,023	11,486,723
–	–	(3,098,147)	2,623,262	–
–	–	–	(12,026,000)	(12,026,000)
–	–	–	(94,977)	(94,977)
–	–	(2,543,992)	–	456,008
–	–	(5,642,139)	(9,497,716)	(11,664,969)
1,378,818	1,850	16,466,570	2,379,307	32,245,580
–	–	–	9,609,700	9,609,700
(33,581)	290,074	–	(2,072,425)	2,692,547
(33,581)	290,074	–	7,537,274	12,302,247
–	–	2,000,000	(2,480,485)	(11,728)
–	–	–	(5,111,114)	(5,111,114)
–	–	–	(96,097)	(96,097)
–	–	392,891	–	892,891
–	–	2,392,891	(7,687,696)	(4,326,048)
1,345,237	291,924	18,859,461	2,228,885	40,221,778

Group

	Stated capital/ Assigned capital Rs. '000	Statutory reserve fund Rs. '000	Revaluation reserve Rs. '000
Balance as at 1 January 2016	3,200,000	2,047,581	3,296,565
Profit for the year 2016	–	–	–
Other comprehensive income (net of tax)	–	–	–
Total comprehensive income for the year	–	–	–
Transaction with equity holders, recognised directly in equity			
Transfers to/from reserves during the period	–	474,886	–
Contribution to consolidated fund – dividend/levy	–	–	–
Contribution to national insurance trust fund	–	–	–
Transfers to unclaimed deposits reserve/issued share capital	3,000,000	–	–
Total transactions with equity holders	3,000,000	474,886	–
Balance as at 31 December 2016	6,200,000	2,522,467	3,296,565
Profit for the year 2017	–	–	–
Other comprehensive income (net of tax)	–	–	4,508,480
Total comprehensive income for the year	–	–	4,508,480
Transaction with equity holders, recognised directly in equity			
Transfers to/from reserves during the period	–	480,485	(11,728)
Contribution to consolidated fund – dividend/levy	–	–	–
Withholding tax on dividend	–	–	–
Contribution to national insurance trust fund	–	–	–
Transfers to unclaimed deposits reserve/issued share capital	500,000	–	–
Total transactions with equity holders	500,000	480,485	(11,728)
Balance as at 31 December 2017	6,700,000	3,002,952	7,793,317

The Notes to the Financial Statements disclosed on pages 265 to 370 are integral parts of these Financial Statements.

Available-for-sale reserve Rs. '000	Cash flow hedging reserve Rs. '000	Other reserves Rs. '000	Retained earnings Rs. '000	Total equity Rs. '000
1,452,761	139,106	22,582,817	1,285,911	34,004,744
–	–	–	9,562,282	9,562,282
(356,003)	(137,256)	–	2,379,640	1,886,381
(356,003)	(137,256)	–	11,941,922	11,448,663
–	–	(3,078,293)	2,603,408	–
–	–	–	(12,027,650)	(12,027,650)
–	–	–	(94,977)	(94,977)
–	–	(2,543,992)	–	456,008
–	–	(5,622,285)	(9,519,219)	(11,666,619)
1,096,758	1,850	16,960,532	3,708,614	33,786,788
–	–	–	9,050,147	9,050,147
131,662	290,074	–	(2,072,155)	2,858,060
131,662	290,074	–	6,977,992	11,908,207
–	–	2,090,699	(2,571,184)	(11,728)
–	–	–	(5,111,114)	(5,111,114)
–	–	–	(102,483)	(102,483)
–	–	–	(96,097)	(96,097)
–	–	392,891	–	892,891
–	–	2,483,590	(7,880,878)	(4,428,531)
1,228,420	291,924	19,444,122	2,805,727	41,266,465

Statement of Cash Flows

For the year ended 31 December	Note	Bank 2017 Rs. '000	Bank 2016 Rs. '000	Group 2017 Rs. '000	Group 2016 Rs. '000
Cash flows from operating activities					
Profit before tax		**14,028,719**	13,302,987	**13,645,212**	13,397,277
Adjustment for:					
Non-cash items included in profit before tax	42	**(1,176,426)**	1,153,639	**(731,037)**	1,271,628
Change in operating assets	43	**(90,981,284)**	(54,762,416)	**(88,112,777)**	(56,499,933)
Change in operating liabilities	44	**81,073,681**	61,611,498	**79,015,251**	64,316,597
Placements with banks		**(4,424,532)**	(6,387,063)	**(4,424,532)**	(6,387,063)
Contribution paid to defined benefit plans		**(881,812)**	(1,390,261)	**(881,812)**	(1,390,261)
Tax paid		**(4,328,136)**	(3,893,514)	**(4,383,329)**	(4,005,853)
Interest expense on subordinated debt		**780,000**	–	**780,000**	–
Contribution to national insurance trust fund		**(87,253)**	(104,375)	**(87,253)**	(104,375)
Dividends received from investment in subsidiaries		**(172,350)**	(14,850)	**–**	–
Net cash generated in operating activities		**(6,169,393)**	9,515,645	**(5,180,277)**	10,598,017
Cash flows from investing activities					
Purchase of property, plant and equipment		**(730,492)**	(450,150)	**(732,376)**	(450,732)
Proceeds from the sale of property, plant and equipment		**7,189**	1,948	**7,189**	1,948
Net (increase)/decrease in investment in available for sale		**1,228,954**	(2,052,611)	**1,268,928**	(2,029,052)
Net purchase of intangible assets		**(319,428)**	(134,926)	**(319,828)**	(134,926)
Net increase/(decrease) in unclaimed reserve fund		**(49,054)**	456,008	**(49,054)**	456,008
Dividends received from investment in subsidiaries		**172,350**	14,850	**–**	–
Net cash (used in)/from investing activities		**309,519**	(2,164,881)	**174,858**	(2,156,754)
Cash flows from financing activities					
Interest paid on subordinated debt		**(780,000)**	–	**(780,000)**	–
Other borrowings		**10,915,868**	14,384	**10,142,542**	(1,074,004)
Withholding tax on dividend paid		**–**	–	**(84,983)**	–
Contribution to consolidated fund – dividend/levy		**(5,111,114)**	(12,026,000)	**(5,111,114)**	(12,027,650)
Proceeds from the issue of subordinated debt		**–**	6,000,000	**–**	6,000,000
Net cash from financing activities		**5,024,754**	(6,011,616)	**4,166,445**	(7,101,654)
Net (decrease)/increase in cash and cash equivalents		**(835,120)**	1,339,148	**(838,974)**	1,339,610
Cash and cash equivalents at the beginning of the year		**4,504,308**	3,165,160	**4,512,715**	3,173,105
Cash and cash equivalents at the end of the year		**3,669,188**	4,504,308	**3,673,741**	4,512,715
Reconciliation of cash and cash equivalents					
Cash in hand		**944,759**	691,527	**944,769**	691,537
Balances with banks		**2,892,643**	3,881,589	**2,897,093**	3,889,509
Money at call and short notice		**12,224**	46,583	**12,224**	46,583
Balances with central banks		**–**	–	**94**	477
Due to Banks – Other facilities		**(180,439)**	(115,391)	**(180,439)**	(115,391)
Cash and cash equivalents at the end of the year		**3,669,188**	4,504,308	**3,673,741**	4,512,715

The Notes to the Financial Statements disclosed on pages 265 to 370 are integral parts of these Financial Statements.

Notes to the Financial Statements

1. Reporting entity

1.1 Corporate information

National Savings Bank (NSB) is a licensed specialised bank incorporated in 1972 under the National Savings Bank Act No. 30 of 1971 and domiciled in Sri Lanka. The registered office of the Bank is located at No. 255, "Saving House", Galle Road, Colombo 03, Sri Lanka.

The staff strength of the Bank as at 31 December 2017 was 4,470 (2016 – 4,384).

The Bank possesses 253 branches, 28 School bank units and 286 ATMs of its service outlets and 653 post offices and 3,409 sub-post offices as its agency network.

1.2 Consolidated Financial Statements

The Consolidated Financial Statements for the year ended 31 December 2017 comprise the Bank (Parent) and its fully-owned subsidiary, NSB Fund Management Company 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 subsidiary 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 table in the Parliament.

1.3 Principal activities and nature of operations

GRI 102-2

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, loans to government project, pawning, Internet banking, SMS banking etc.

Subsidiary

Bank's fully-owned subsidiary, namely, NSB Fund Management Company Limited, acts as a primary dealer and engaged in dealing in Government Securities.

1.4 Basis of preparation

1.4.1 Statement of compliance

The Financial Statements of the Bank and the Group which comprise Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Notes to the Financial Statements have been prepared and presented in accordance with Sri Lanka Accounting Standards (LKASs/SLFRSs) issued by The Institute of Chartered Accountants of Sri Lanka and are in compliance with the information required by the Banking Act No. 30 of 1988 and subsequent amendments thereto. These Financial Statements, except for the information in cash flow have been prepared following the accrual basis of accounting.

The formats used in the preparation of Financial Statements and the disclosures made therein also comply with the specified formats prescribed by the Central Bank of Sri Lanka for the preparation, presentation and publication of Annual Audited Financial Statements of Licensed Specialised Banks.

1.4.2 Responsibility for Financial Statements

The Board of Directors is responsible for the preparation and presentation of the Financial Statements of the Group and the Bank as per the provisions of the National Savings Bank Act No. 30 of 1971 and amendments thereto and Sri Lanka Accounting Standards.

1.4.3 Approval of Financial Statements by the Board of Directors

The Financial Statements of the Bank and the Group for the year ended 31 December 2017 were approved on 12 March 2018, by the Board of Directors.

1.4.4 Basis of measurement

The Consolidated Financial Statements have been prepared on a historical cost basis, except for the following material items, which are measured at fair value:

(i) Available-for-sale investments,

(ii) Derivative financial instruments,

(iii) Other financial assets and liabilities held for trading,

(iv) Financial assets and liabilities designated at fair value through profit or loss,

(v) Land and buildings,

(vi) Liability for employee defined benefits.

1.4.5 Functional and presentation currency

The Consolidated Financial Statements are presented in Sri Lankan Rupees (Rs.) which is the currency of the primary economic environment in which Group operates and all values are rounded to the nearest thousand Rupees, unless indicated otherwise.

1.4.6 Presentation of Financial Statements

The assets and liabilities of the Bank and the Group presented in the Statement of Financial Position are grouped by their nature and listed in the order of their relative liquidity and maturity pattern. An analysis of maturity patterns of assets and liabilities of the Bank and the Group is presented in Note 49.

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if and only if there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the Income Statement unless required or permitted by any accounting standard or interpretation and as specifically disclosed in the accounting policies of the Group.

1.4.7 Materiality and aggregation

Each material class of similar items are presented separately in the Financial Statements. Items of dissimilar nature or functions are presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standard – LKAS 01 on "Presentation of Financial Statements".

1.4.8 Comparative information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period in the financial statements in order to enhance the understanding of the current period's financial statements and to enhance the inter period comparability. The comparative information is reclassified where necessary for the better presentation and to conform to the current year's presentation. The details are given in Note 47 to the Financial Statements on page 352.

1.4.9 Significant accounting judgements, estimates and assumptions

The preparation of financial statements of the Group and the Bank in conformity with Sri Lanka Accounting Standards requires the Management to make 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 Group and the Bank are as follows:

1.4.9.1 Going concern

The Board of Directors/Management of the Bank has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the Management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the Financial Statements are prepared on the going concern basis.

1.4.9.2 Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the Statement of Financial Position cannot be derived from active markets, they are determined using the valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, 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 50 to the Financial Statements on page 364.

1.4.9.3 Impairment losses on loans and receivables

Individual impairment assessment

The Group reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the Income Statement. In particular, the Management 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 the assumptions about number of factors and the actual results may differ, resulting in future changes to the allowance made.

Collective impairment assessment

Loans and receivables that have been assessed individually and found not to be impaired and all individually insignificant loans and receivables are then assessed collectively, by categorising them into groups of assets with similar risk characteristics, to determine whether provision is required due to incurred loss events for which there is objective evidence, but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilisation, loan to collateral ratios, etc.) and judgements to the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

Impairment of financial assets is further discussed in Note 2.3.6 in page 273.

1.4.9.4 Impairment of financial investments – available for sale

Debt securities

The Group reviews its debt securities classified as available-for-sale investments at each reporting date to assess whether they are impaired. This requires similar judgement as applied to the individual assessment of loans and advances.

Equity investments

The Group also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

1.4.9.5 Revaluation of property, plant 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 on "Fair Value Measurement".

The methods and key assumptions used to determine the fair value of the freehold land and buildings are further explained in Note 2.4 to the Financial Statements.

1.4.9.6 Useful life time of property, plant and equipment

The Group review 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.

1.4.9.7 Deferred tax asset

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profits will be available against which such tax losses can be utilised. 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.

1.4.9.8 Defined benefit obligation

The cost of the defined benefit plans and the present value of their obligations are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases.

In determining the appropriate discount rate, the Management considers the interest rates of Sri Lanka Government Bonds with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rates and expected future salary increase rate of the Bank.

Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

1.4.9.9 Provisions, commitments and contingencies

The Group receives legal claims against it in the normal course of business. The 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. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements, unless otherwise indicated. The accounting policies of the Bank are also consistently applied by the Group entities where applicable and deviations if any have been disclosed accordingly.

2.1 Basis of consolidation

The financial statements of the Bank and the Group comprise the Financial Statements of the Bank and its subsidiary in terms of the SLFRS – 10 on “Consolidated Financial Statements” and LKAS – 27 on “Separate Financial Statements”.

2.1.1 Subsidiary

The Financial Statements of the subsidiary is fully consolidated from the date on which control is transferred to the Bank and continued to be consolidated until the date when such control ceases. The control exists where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The Financial Statements of the Bank’s subsidiary for the purpose of consolidation are prepared for the same reporting period as that of National Savings Bank, using consistent accounting policies.

2.1.2 Transactions eliminated on consolidation

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full in preparing the Consolidated Financial Statements.

2.2 Foreign currency transactions and balances

All foreign currency transactions are translated into the functional currency, which is Sri Lankan Rupees, using the exchange rates prevailing at the dates on which the transactions were affected.

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

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

The Statement of Financial Position of Foreign Currency Banking Unit is translated to Sri Lankan Rupees at the middle rate of exchange ruling at the reporting date. The transactions of the Foreign Currency Banking Unit have been recorded in accordance with the above policy and the resulting gains/losses are recognised in the Income Statement.

2.3 Financial instruments

2.3.1 Financial instruments – Initial recognition, classification and subsequent measurement

i. Date of recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument.

Government Securities are recognised in the books of accounts on the settlement date which falls due after three days from the date of trade. The position is rectified at the date of reporting in preparation of the Financial Statements.

ii. Recognition and initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose and the Management's intention for which the financial instruments were acquired and their characteristics.

All financial instruments are measured initially at their fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial instrument, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss, as per Sri Lanka Accounting Standards – LKAS 39 on "Financial Instruments: Recognition and Measurement".

Transaction costs in relation to financial assets and financial liabilities at fair value through profit or loss are dealt with through profit or loss.

iii. "Day 1" profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or fair value based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a "Day 1" profit or loss) in "Interest Income and Personnel Expenses". In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the Statement of Comprehensive Income when the inputs become observable or when the instrument is derecognised. The "Day 1" loss arising in the case of loans granted to employees at concessionary rates under uniformly applicable schemes is deferred and amortised using Effective Interest Rates (EIR) over the remaining service period of the employees or tenure of the loan whichever is shorter.

2.3.2 Classification and subsequent measurement of financial assets

At inception a financial asset is classified in one of the following categories:

- Financial assets at fair value through profit or loss
  - (a) Financials assets held for trading
  - (b) Financials assets designated at fair value through profit or loss
- Held-to-maturity financial assets
- Loans and receivables
- Available-for-sale financial assets

The subsequent measurement of financial assets depends on their classification.

Detailed analysis of classification and subsequent measurement of financial assets is given in Note 15 on page 292.

2.3.2.1 Financial assets at fair value through profit or loss (FVTPL)

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated at fair value through profit or loss.

(a) Financials assets held for trading

Details of financial assets held for trading are given in Note 20 on page 301.

Derivatives recorded at fair value through profit or loss

Details of derivatives recorded at fair value through profit or loss are discussed in Note 19 on page 297.

Derivatives used as hedge instruments

Details of derivatives used as hedge instruments are given in Note 19 on page 297.

(b) Financial assets designated at fair value through profit or loss

The Group has not designated any financial assets upon initial recognition on designated at fair value through profit or loss.

2.3.2.2 Held to maturity financial investments

Details of held to maturity financial investments are given in Note 25 on page 314.

2.3.2.3 Loans and receivables to banks and other customers

Details of loans and receivables to banks and other customers are given in Note 22 and Note 23 respectively on pages 305 and 306.

(i) Securities purchased under resale agreements

Securities purchased under agreements to resell at a specified future date are not recognised in the Statement of Financial Position. The consideration paid, including accrued interest, is recorded in the Statement of Financial Position, within "securities purchased under resale agreements", reflecting the transaction's economic substance as a loan granted by the Group. The difference between the purchase and resale prices is recorded in "net interest income" and is accrued over the life of the agreement using the EIR.

Details of securities purchased under resale agreements are given in Note 22 and Note 23, respectively on pages 305 and 306.

2.3.2.4 Available-for-sale financial investments (AFS)

Details of available-for-sale financial investments are given in Note 24 on page 310.

2.3.2.5 Cash and cash equivalents

Details of cash and cash equivalents are given in Note 16 on page 296.

2.3.3 Classification and subsequent measurement of financial liabilities

At the inception the Group determines the classification of its financial liabilities into one of the following categories:

- Financial liabilities at fair value through profit or loss (FVTPL):
  (a) Financial liabilities held for trading
  (b) Financial liabilities designated at fair value through profit or loss
- Financial liabilities at amortised cost

The subsequent measurement of financial liabilities depends on their classification. Please refer Notes 2.3.3.1 and 2.3.3.2 as detailed below:

2.3.3.1 Financial liabilities at fair value through profit or loss (FVTPL)

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value and changes therein recognised in profit or loss.

Financial liabilities are classified as held for trading if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short-term profit or position taking. This category includes derivatives financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by the Sri Lanka Accounting Standard – LKAS 39 on "Financial Instruments: Recognition and Measurement".

Gains or losses on liabilities held for trading are recognised in the Income Statement.

The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

2.3.3.2 Financial liabilities at amortised cost

Financial instruments issued by the Group that are not designated at fair value through profit or loss, are classified as liabilities under "due to banks", "due to other customers", "securities sold under repurchase agreements" and "debt issued and other borrowed funds" as appropriate, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares at amortised cost using the EIR method.

After initial recognition, such financial liabilities are substantially measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in "interest expenses" in the Income Statement. Gains and losses are recognised in the Income Statement when the liabilities are derecognised as well as through the EIR amortisation process.

(i) Due to banks

Details of due to banks are given in Note 31 on page 325.

(ii) Due to other customers

Details of due to other customers are given in Note 32 on page 325.

(iii) Securities sold under repurchase agreements

Details of securities sold under repurchase agreements are given in Note 33 on page 327.

(iv) Other borrowings – debt securities issued

Details of other borrowings – debt securities issued are given in Note 33 on page 327.

(v) Subordinate liabilities

Details of "subordinated liabilities" are given in Note 35 on page 339.

2.3.4 Reclassification of financial instruments

The Group reclassifies non-derivative financial assets out of the "held-for-trading" category and into the"available for sale", "loans and receivables" or "held-to-maturity" categories as permitted by the Sri Lanka Accounting Standard – LKAS 39 on "Financial Instruments: Recognition and Measurement". In certain circumstances the Group is also permitted to reclassify financial assets out of the "available-for-sale" category and into the "loans and receivables", "held-for-trading" or "held-to-maturity" categories.

Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

For a financial asset with a fixed maturity reclassified out of the "available-for-sale" category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate (EIR). Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR.

In the case of a financial asset does not have a fixed maturity, the gain or loss is recognised in the profit or loss when such financial asset is sold or disposed of. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to the Income Statement.

The Group may reclassify a non-derivative trading asset out of the "held-for-trading" category and into the "loans and receivables" category if it meets the definition of loans and receivables and the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Group subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Reclassification is at the election of management, and is determined on an instrument by instrument basis.

The Group does not reclassify any financial instrument into the "fair value through profit or loss" category after initial recognition. Also the Group does not reclassify any financial instrument out of the "fair value through profit or loss" category if upon initial recognition it was designated as at fair value through profit or loss.

2.3.5 Derecognition of financial instruments

(a) Financial assets

The Group derecognises a financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement and either the Group has transferred substantially all the risks and rewards of the asset or the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

(b) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

2.3.6 Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has a impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Objective evidence of impairment includes indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial restructuring, default or delinquency in interest or principal payments and also other observable data indicating that there is a measurable decrease in the estimated future cash flows, or economic conditions that correlate with defaults.

Objective evidence that financial assets (including equity securities) are impaired can include –

- Significant financial difficulty of the borrower or issuer,
- Reschedulement of credit facilities,
- Adverse financial ratio and gearing ratios
- Downgrading of the external credit rating
- Default or delinquency by a borrower,
- Restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider,
- Indications that a borrower or issuer will enter bankruptcy,
- The disappearance of an active market for a security, or
- Other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Group or economic conditions that correlate with defaults in the Group.

In general, the Group considers a decline of 20% to be "significant" and a period of six months to be "prolonged". However, in specific circumstances a smaller decline or a shorter period may be appropriate.

i. Impairment of financial assets carried at amortised cost

Details of the individual and collective assessment of impairments are given in Note 10 on page 286.

ii. Impairment of available-for-sale financial investments

Detailed discussion on impairment of available-for-sale financial investments is given in Note 24 on page 310.

2.3.7 Recognition of income and expenses for financial instruments

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. Details of "income and expenses" are given in Notes 3 to 14 on pages 282 to 291.

i. Interest and similar income and expense

Details of "interest income and expenses" are given in Notes 3 and 4 on pages 282 to 291.

ii. Fee and commission income

Details of "commission income and expenses" are given in Note 5 on page 284.

iii. Net trading income

Details of "net gains/(losses) from trading" are given in Note 6 on page 285.

iv. Dividend income

Dividend income is recognised when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities. Details of "dividend income" is given in Note 9 on page 286.

2.4 Property, plant and equipment (PPE) →

Details of property, plant and equipment are given in Note 27 on page 315.

2.5 Intangible assets →

Details of intangible assets are given in Note 28 on page 322.

2.6 Impairment of non-financial assets →

The Group assess at each reporting date whether there is an indication that an asset other than deferred tax asset, may be impaired. If any indication exists or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

2.7 Employee benefits

2.7.1 Defined benefit pension plans

2.7.1.1 Staff Pension Fund I

The Bank operates a defined benefit pension plan, for the permanent staff members who have joined the Bank prior to 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 2017, by Mr Piyal S Gunatilleke F.S.A. (USA), Member of the American Academy of Actuaries and Consulting Actuaries.

The principal financial assumptions used in the valuation as at 31 December 2017 are as follows:

Interest/discount rate	11.00% p.a.
Increase in cost of living allowances	4.50% p.a.
Increase in average basic salary	6.50% p.a.

The assets of the fund are held separately from these of the Bank and are independently administrated by the Trustees as per the provisions of the Trust Deed and are subject to annual audit by Independent External Auditors. The Financial Statements as well as the Auditor's Report are tabled and reviewed by the Board of Trustees. They are also submitted for review of the disclosure of the Bank, as the Bank has an obligation of ensuring that funding is made at optimum levels. Pension is payable monthly as long as the participant is alive.

Details of Staff Pension Fund I are given in Note 34. (a) 1. on pages 328 to 331.

2.7.1.2 Unfunded pension liability

The past service cost not funded is recognised in Other Comprehensive Income immediately upon actuarial valuation. The actuarial valuation as at 31 December 2017 indicated a past service cost deficit of Rs. 2,750 Mn. which has been provided in full. The details of unfunded pension liability are given in Note 34. (a) 1 on pages 328 to 331.

2.7.1.3 Staff Pension Fund II

The Bank, established and operates a defined benefit pension plan, for the permanent staff members who have joined the Bank on or after 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 2017, by Mr Piyal S Gunatilleke F.S.A. (USA), Member of the American Academy of Actuaries and Consulting Actuaries.

The principal financial assumptions used in the valuation as at 31 December 2017 are as follows:

Interest/discount rate	11.00% p.a.
Increase in cost of living allowances	4.50% p.a.
Increase in average basic salary	6.50% p.a.

The assets of the fund are held separately from these of the Bank and are independently administrated by the Trustees as per the provisions of the Trust Deed and are subject to annual audit by Independent External Auditors. The Financial Statements as well as the Auditor's Report are tabled and reviewed by the Board of Trustees. They are also submitted for review of the disclosure of the Bank, as the Bank has an obligation of ensuring that funding is made at optimum levels. Pension is payable monthly as long as the participant is alive.

Details of Staff Pension Fund II are given in Note 34. (a) 2. on pages 332 to 334.

2.7.1.4 Widows'/Widowers' and Orphans' Pension Fund

Effective from 2013 December, the Bank has established a "Widows'/Widowers' and Orphans" Pension Scheme for the members of Pension Scheme II. Members of Pension Scheme II are opts for be members of the Widows'/ Widowers' and Orphans' Pension Scheme. The Bank does not contribute to the Fund while Bank's employees monthly contribute 5% of their basic salary, to the Fund.

2.7.2 Gratuity

With the establishment of Staff Pension Scheme II, employees who joined the Bank on or after 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 retires before 10 years of service and whose services are terminated after five years other than by retirement are eligible to receive a terminal gratuity under the Payment of Gratuity Act No. 12 of 1983, at the rate of one-half of the gross salary applicable to the last month of the financial year, for each year of continuous service.

Probability of occurrence of such event is rare according to the 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.

2.7.3 Post-employment medical benefits

The Bank has a contributory medical assistance scheme for the retired employees. The assets of the plan are held independently of the Bank's assets and administered by Boards of Trustees, representing the Management and the employees, as provided in the trust deed of the fund.

The Bank contributes to the contributory medical scheme an amount determined by the Management of the Bank based on actuarial recommendation made from time to time. Accordingly, a sum of Rs. 96.1 Mn. has been provided from the profit of 2017.

Details of post-employment medical benefits are given in Note 34. (a) 3. on pages 335 to 336.

2.7.4 Defined contribution plans

Details of defined contribution plans are given in Note 11 on page 287.

2.8 Other liabilities →

Details of other liabilities are given in Note 34 on page 328.

2.9 Provisions →

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expenses relating to any provision is presented in the Income Statement net of any reimbursement.

2.9.1 Provision for fraudulent withdrawals

The total value of fraudulent withdrawals identified as at 31 December 2017 was Rs. 94.7 Mn. A provision of Rs. 85.7 Mn. already exists in the account.

2.10 Contingent liabilities and commitments →

Details of contingent liabilities and commitments are given in Note 39 on pages 344 to 345.

2.11 Taxation →

2.11.1 Current taxation

Details of current taxation are given in Note 13 on page 289.

2.11.2 Deferred taxation

Details of deferred taxation are given in Note 13 and Note 29 on page 289 and page 324 respectively.

2.11.3 Value added tax (VAT) on financial services

VAT on financial services is calculated in accordance with Section 25 A of Value Added Tax Act No. 14 of 2002 and subsequent amendments thereto.

VAT on financial services is payable at 15% on operating profit before value added tax and nation building tax on financial services adjusted for emoluments of employees and economic depreciation.

2.11.4 Nation building tax (NBT) on financial services

NBT on financial services is calculated in accordance with Nation Building Tax (Amendment) Act No. 10 of 2014. NBT on financial services is payable at 2% on same base subjected to value added tax on financial services.

2.11.5 Economic service charge (ESC)

Economic Service Charge (ESC) has been administered since 1 April 2006 under the Economic Service Charge (ESC) Act No. 13 of 2006, as amendments thereafter. Prior to this, it has been administered under Finance Acts 11 of 2004 and 11 of 2005 from 1 April 2004 up to 1 April 2006. The rate applicable is 0.25% on relevant turnover. Unclaimed ESC, if any, can be carried forward and set-off against the income tax payable in the five subsequent years. As per budget proposal 2017, the applicable rate is increased to 0.50% on relevant turnover and claimable period limited to 3 years including existing year effective from 1 January 2017.

As per the provisions of the Finance Act No. 11 of 2004 and amendments thereto, the ESC was introduced with effect from 1 April 2004. Currently, the ESC is payable at 0.25% on “Exempt Turnover” and is deductible from the income tax payments. Unclaimed ESC, if any, can be carried forward and set-off against the income tax payable in the five subsequent years.

2.12 Statement of cash flows →

The Statement of Cash Flows has been prepared by using the “Indirect Method” of preparing cash flows in accordance with the LKAS 7. Cash and cash equivalents comprise short-term highly liquid investment that is readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalents include cash in hand, balances with banks and money at call and short notice.

2.13 Regulatory provisions →

2.13.1 Deposit insurance scheme

The Bank calculates the insurance premium on eligible deposit base at the rate of 0.10% which is the applicable statutory rate based on capital adequacy ratio of the Bank. The Bank has remitted the applicable premium within a period of 15 days from the end of each quarter as stipulated by the Direction.

2.13.2 Crop insurance levy (CIL)

As per the provisions of the Section 14 of the Finance Act No. 12 of 2013, the CIL was introduced with effect from 1 April 2013 and is payable to the National Insurance Trust Fund. Currently, the CIL is payable at 1% of the profit after tax.

2.14 Events after the reporting period

Details of events after reporting date are given in Note 46 on page 351.

2.15 Accounting standards issued but not yet effective as at reporting date

The following SLFRSs have been issued by The Institute of Chartered Accountants of Sri Lanka that have an effective date in the future and have not been applied in preparing these Financial Statements. Those SLFRS will have an effect on the accounting policies currently adopted by the Bank and the Group and may have an impact on the future financial statements.

2.15.1 Sri Lanka Accounting Standard (SLFRS 9) – Financial Instruments: Classification and Measurement

In July 2014, The Institute of Chartered Accountants of Sri Lanka issued SLFRS 9 on "Financial Instrument" (on a par with International Accounting Standards Board), the standard that will replace LKAS 39 for annual periods on or after 1 January 2018, with early adoption permitted.

Bank performed the Diagnostic Phase (Preliminary Impact Assessment exercise) and Implementation Phase (solution development) on SLFRS 9 Financial Instruments. The Bank has undertaken a significant analysis of how SLFRS 9 should be implemented and has taken tentative accounting policy decisions.

The key aspects of SLFRS 9 are:

2.15.1.1 Classification and measurement

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

Business model assessment

Bank determines its business model at the level that best reflects how it manages the financial assets to achieve its objectives. 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 asset held within that business model are evaluated and reported to the entity's Key Management Personal.
- The risks that affects the performance of the business model (and the financial asset 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 flow collected)
- The expected frequency, value and timing of sales are also important aspect of Bank's assessment.

The business model assessment is based on reasonably expected scenarios without taking Worst case or Stress Case scenarios in to account. If cash flows after initial recognition are realised in away that is different from the Bank's original expectation, 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.

Contractual cash flow characteristic test

As the second test of the classification process the Bank assesses the contractual terms of the financial asset to identify whether they meet solely the Payment of Principle and Interest (SPPI). “Principle” 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 principle 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 SPPI assessment, the Bank applies judgement and considers relevant factors such as currency in which the financial asset is denominated and the period for which the interest rate is set.

In contrast to contractual exposures that introduce a more than deminimise exposure to risk 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 the payment of principle and interest on the amount outstanding. In such cases the financial asset is required to be measured at FVPL.

According to the Preliminary impact assessment exercise there no significant impact to Financial Statement of the Bank with regard to the financial asset classification.

2.15.1.2 Impairment of financial assets

Overview of expected credit loss principle (ECL)

SLFRS 9 will principally change the Bank’s impairment provision method by replacing LKAS 39 on “Financial Instruments: Recognition and Measurement” incurred loss approach with a forward looking ECL approach.

ECL allowance will be based on credit losses expected to arise over the life of the asset (Lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination in which case the loss allowance will be 12 month expected credit loss (12mECL).

12mECL is the portion of LTECL that represent the ECL that results from default events on a financial instrument that are possible within 12 months after the reporting date. The Bank 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. Based on such process the Bank groups loans into stage 1, Stage 2, Stage 3 as described below:

Stage 1 When loans are first recognised, the Bank recognises an allowance based on 12mECL. Stage 1 loans also include the facilities where the credit risk has improved and the loans has been re classified from Stage 2. Assessment of Stage 1 will be performed collectively.

Stage 2 When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 2. Assessment of Stage 2 will be performed collectively.

Stage 3 Loan considered to be credit impaired/contains objective evidence of incurred losses records an allowance for the LTECL. Stage 3 assessment will be performed individual/collectively.

Significant increase in credit risk

The Bank 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 an exposure to have significantly increased in credit risk when either of the following criteria’s are met:

- Facilities exceeding 30 days past due
- Re-structured facilities
- Secondary qualitative indicators triggering a significant increase in credit risk for an asset, such as moving a customer/facility to watch list

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 have 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 causes 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.

The calculation of ECL

The Bank calculates ECL based on three probability weighted scenarios to measure 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 mechanics of the ECL calculation are outlined below and the key elements are as follows:

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

EAD: Exposure at Default is the estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of the principle and interest, whether scheduled by contract or otherwise, expected draw downs on committed facilities.

LGD: 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 lenders would expect to receive, including realisation of any collateral. It is usually expressed as a percentage of the EAD.

Forward Looking Information

In its ECL model the Bank relies on broad range qualitative/ quantitative forward looking information as economic input such as:

Quantitative	Qualitative
GDP Growth	Government Policies
Inflation	Status of the Industry Business
Unemployment	Regulatory Impact
Interest Rates	
Exchange Rates	

2.15.2 Sri Lanka Accounting Standard (SLFRS 15) – "Revenue from Contracts with Customers"

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance including Sri Lanka Accounting Standard LKAS 18 – on "Revenue", Sri Lanka Accounting Standard LKAS 11 – on "Construction Contracts" and IFRIC 13 – on "Customer Loyalty Programmes". This Standard is effective for the annual periods beginning on or after 01 January 2018.

The Bank and the Group will adopt these standards when they become effective. Pending the completion of detailed review, the financial impact is not reasonably estimable as at the date of publication of these Financial Statements.

2.15.3 Sri Lanka Accounting Standard (SLFRS 16) – "Leases"

This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. This Standard supersedes the following Standards and Interpretations:

(a) LKAS 17 "Leases";

(b) IFRIC 4 Determining whether an Arrangement Contains a "Leases";

(c) SIC-15 Operating Leases – Incentives; and

(d) SIC-27 Evaluating the Substance of Transactions Involving the Legal form of a Lease.

An entity shall apply this standard for annual reporting periods beginning on or after 1 January 2019. The Bank and the Group will adopt these standards when they become effective. Pending the completion of detailed review, the financial impact is not reasonably estimable as at the date of publication of these Financial Statements.

3. Gross income

Accounting policy

Gross revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The specific recognition criteria must also be met before revenue recognition is discussed under respective income notes.

	Bank		Group	
For the year ended 31 December	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Interest income	**103,399,962**	86,390,039	**104,245,541**	87,142,784
Fee and commission income	**782,776**	650,164	**785,077**	651,160
Net gain/(loss) from trading	**1,206,408**	(39,270)	**1,520,740**	(136,897)
Net gain/(loss) from financial investments	**707,491**	40,923	**707,491**	40,923
Other operating income (net)	**1,720,272**	357,288	**796,897**	340,640
Gross income	**107,816,909**	87,399,144	**108,055,746**	88,038,610

4. Net interest income

Accounting policy

Recognition of interest income and interest expenses

For all financial instruments measured at amortised cost, interest-bearing financial assets classified as available for sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example: prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as interest income for financial assets and interest expense for financial liabilities. However, for a reclassified financial asset for which the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase are recognised as an adjustment to the EIR from the date of the change in estimate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

4. Net interest income (contd.)

For the year ended 31 December	Bank 2017 Rs. '000	Bank 2016 Rs. '000	Group 2017 Rs. '000	Group 2016 Rs. '000
4. (a) Interest income				
Cash and cash equivalents	**51,967**	37,992	**51,967**	37,992
Placements with banks	**710,462**	597,916	**710,462**	597,916
Derivative financial instruments	–	–	–	–
Other financial assets – held for trading	**1,337,694**	1,370,010	**1,854,041**	1,816,446
Loans and receivables to banks	**3,178,875**	2,751,558	**3,180,780**	2,756,295
Loans and receivables to other customers	**40,580,453**	29,937,593	**40,411,921**	29,916,980
Financial investments – available for sale	**568,219**	36,612	**725,318**	195,556
Financial investments – held to maturity	**56,972,292**	51,658,359	**57,311,051**	51,821,600
Total interest income	**103,399,962**	86,390,039	**104,245,541**	87,142,784
4. (b) Interest expenses				
Due to bank	–	–	**267,689**	44,951
Due to other customers	**60,161,942**	44,365,840	**60,161,942**	44,365,840
Other borrowings	**17,502,883**	16,550,970	**17,777,965**	17,036,696
Subordinated liabilities	**780,000**	6,411	**780,000**	6,411
Total interest expenses	**78,444,825**	60,923,221	**78,987,596**	61,453,898
Net interest income	**24,955,137**	25,466,818	**25,257,945**	25,688,886
4. (c) Net interest income from Sri Lanka Government Securities				
Interest income	**58,878,205**	53,064,981	**59,890,410**	53,833,602
(Less): Interest expenses	–	–	–	–
Net interest income	**58,878,205**	53,064,981	**59,890,410**	53,833,602

4. Net interest income (contd.)

4. (d) Notional tax credit for withholding tax on Government securities on secondary market transactions

In accordance with the Section 137 of the Inland Revenue Act No. 10 of 2006 and amendment thereto, the Group is entitled to a notional tax credit equivalent to 1/9th of the interest income derived from the market transaction in Government Securities.

Accordingly, the net income earned by the Group from the secondary market transactions in Government Securities, has been grossed up in the Financial Statements and the resulting notional tax credit amounted to Rs. 4,787 Mn. (2016: Rs. 4,447 Mn.) for the Bank and Rs. 4,815 Mn. (2016 – Rs. 4,467 Mn.) for the Group.

4. (e) Notional tax receivable

The notional tax receivable is given in Note 30 to the Financial Statements after deducting the recoverable amounts.

5. Net fee and commission income

Accounting policy

The Group earns fee and commission income from a range of services it provides to customers which can be divided into the following two categories:

(a) Fee and commission income earned from services that are provided over a certain period of time:

Fee and commission earned for the provision of services over a period of time are accrued over that period.

(b) Fee and commission income from providing transaction services:

Fee and commission income arising from renegotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised as the related services are performed.

Fees and commission expenses relating to transaction and service fees are expensed as the services are received. Fee and commission expenses are recognised on an accrual basis.

	Bank		Group	
For the year ended 31 December	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Fee and commission income	**782,776**	650,164	**785,077**	651,160
Fee and commission expenses	**(109,082)**	(137,432)	**(113,037)**	(140,122)
Net fee and commission income	**673,694**	512,732	**672,040**	511,038
Earned from –				
Loans	**675,382**	547,761	**675,382**	547,760
Cards	**(43,413)**	(76,986)	**(43,413)**	(76,986)
Others	**41,726**	41,957	**40,071**	40,264
Net fee and commission income	**673,694**	512,732	**672,040**	511,038

6. Net gain/(loss) from trading

Accounting policy

Net trading income includes all gains and losses from changes in fair value and related dividend for financial assets and financial liabilities 'held for trading' other than interest income/income from foreign exchange.

Dividend income is recognised when the Group's right to receive the payment is established.

	Bank		Group	
For the year ended 31 December	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Foreign exchange from other customers	**200,639**	296,380	**200,639**	296,380
Interest rates – mark-to-market gain/(loss) and others	**973,468**	(72,705)	**1,287,800**	(170,332)
Equities – mark-to-market gain/(loss) and others	**334,601**	(314,945)	**334,601**	(314,945)
Others – forward swap/contract	**(302,300)**	52,000	**(302,300)**	52,000
Total	**1,206,408**	(39,270)	**1,520,740**	(136,897)

7. Net gain/(loss) from financial instruments designated at fair value through profit or loss

Bank/Group has not designated any financial assets at fair value through profit or loss as at the reporting date.

8. Net gain/(loss) from financial investments

Accounting policy

'Net gains/(losses) from financial investments' comprise gains less losses related to available-for-sale investments and loans and receivables, and include all realised and unrealised fair value changes.

	Bank		Group	
For the year ended 31 December	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Assets available-for-sale				
Sri Lanka Government Securities – Treasury Bonds/Bills	**707,491**	40,923	**707,491**	40,923
Total	**707,491**	40,923	**707,491**	40,923

9. Other operating income (net)

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 available-for-sale financial investments is recognised when the Group's right to receive the payment is established.

	Bank		Group	
For the year ended 31 December	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Gain on sale of property, plant and equipment	**2,826**	70,016	**2,824**	70,014
Gain/(loss) on revaluation of foreign exchange	**111,687**	16,726	**111,687**	16,726
Equities – divided income	**163,707**	137,747	**163,743**	137,774
Dividend income from subsidiary	**922,350**	14,850	**–**	–
Others	**519,702**	117,950	**518,643**	116,126
Other operating income (net)	**1,720,272**	357,288	**796,897**	340,640

10. Impairment for loans and other losses

Accounting policy

The Group recognises the changes in the impairment provisions for loans and receivables to banks and other customers, which are assessed as per Sri Lanka Accounting Standard – LKAS 39 on "Financial Instruments: Recognition and Measurement". The methodology adopted for impairment is explained in Note 23 (d) to the Financial Statements.
The Bank also makes provisions/(write-backs) for impairment of financial investments – available for sale and financial investments – loans and receivables when there is a permanent diminution in the carrying value of these investments.
Further, the Bank/Group recognises an impairment loss when the carrying amount of a non-financial asset exceeds the estimated recoverable amount from that asset.

10. Impairment for loans and other losses (contd.)

	Bank		Group	
For the year ended 31 December	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Loans and receivables to other customers [refer Note 23. (d)]	**693,233**	(99,693)	**693,233**	(99,693)
Total	**693,233**	(99,693)	**693,233**	(99,693)

11. Personnel expenses

Accounting policy

i. Defined contribution plans

The Group operates a defined contribution plan. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Group by the employees and is recorded as an expense under "Personnel expenses". Unpaid contributions are recorded as a liability. The Group contributes to the following defined contribution plans:

(a) Employees' Provident Fund

The Bank and employees contribute 12% and 8% respectively of the employee's monthly gross salary (excluding overtime) to the Provident Fund. The Bank's Provident Fund is an approved fund under the Employees' Provident Fund Act. The Bank guarantees 8% p.a. return to the members of the Employees' Provident Fund.

NSB Fund Management Company and its employees contribute 12% and 8% respectively to the Employees' Provident Fund (EPF) maintained by Central Bank of Sri Lanka.

(b) Employees' Trust Fund

The Group contributes 3% of the employee's monthly gross salary (excluding overtime) to the Employees' Trust Fund maintained by the Employees' Trust Fund Board.

11. Personnel expenses (contd.)

ii. Defined benefit plans

Contribution to defined benefit plans are recognised in the Income Statement based on an Actuarial Valuation carried out separately for each defined benefit plan in accordance with Sri Lanka Accounting Standard – LKAS 19 on "Employee Benefits".

For the year ended 31 December	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Salary and bonus	**5,576,762**	4,701,071	**5,604,513**	4,728,359
Contribution – Staff Provident Fund	**404,151**	354,545	**404,994**	355,301
Contribution – Employees' Trust Fund	**101,038**	88,637	**101,249**	88,826
Contribution – staff pension fund I [Note 11. (a) and 34. (a) 1]	**392,077**	577,594	**392,077**	577,797
Contribution – staff pension fund II [Note 11. (b) and 34. (a) 2]	**97,240**	251,758	**97,572**	252,043
Gratuity on termination of service [Note 34. (a) 4]	**5,571**	14,590	**5,815**	14,837
Retired Staff Medical Assistance Scheme [Note 34. (a) 3]	**96,108**	71,698	**96,108**	71,698
Others	**213,558**	175,477	**216,486**	177,653
Total	**6,886,505**	6,235,370	**6,918,813**	6,266,515

11. (a) Contribution – Staff pension fund – I

For the year ended 31 December	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Amount recognised as expense	**392,077**	577,594	**392,077**	577,797

Actuarial valuation was carried out by Mr Piyal S Goonetilleke, Fellow of Society of Actuaries (USA) of Piyal S Goonetilleke & Associates, on 31 December 2017 [Refer Note 34. (a)].

11. (b) Contribution – Staff pension fund – II

For the year ended 31 December	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Amount recognised as expense	**97,240**	251,758	**97,572**	252,043

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 Piyal S Goonetilleke, Fellow of Society of Actuaries (USA) of Piyal S Goonetilleke & Associates, on 31 December 2017 [Refer Note 34 (a)].

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 Statement of Profit or Loss 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.

	Bank		Group	
For the year ended 31 December	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Directors' emoluments	**1,929**	1,879	**3,089**	2,755
Auditors' remunerations	**5,478**	3,141	**5,988**	3,606
Professional and legal expenses	**25,126**	38,359	**25,126**	38,359
Depreciation of property, plant and equipment	**315,741**	289,683	**316,492**	290,314
Amortisation of leasehold property/improvement	**11,415**	7,198	**11,415**	7,198
Amortisation of intangible assets	**96,391**	35,512	**96,444**	35,512
Special fees paid to Treasury [Note 30. (a)]	**320,000**	533,333	**320,000**	533,333
Office administration and establishment expenses	**2,828,558**	2,707,353	**2,832,989**	2,711,216
Others	**556,273**	492,080	**495,573**	446,624
Total	**4,160,911**	4,108,538	**4,107,116**	4,068,918

13. Income tax expenses

Accounting policy

As per Sri Lanka Accounting Standard – LKAS 12 on "Income Taxes", tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxes. Income tax expense is recognised in Income Statement, except to the extent it relates to items recognised directly in Equity or Other Comprehensive Income (OCI).

Current taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current as well as prior years. The tax rates and tax laws used to compute the amount are those that are enacted or subsequently enacted at the reporting date. Accordingly, provision for taxation is made on the basis of the profit for the year as adjusted for taxation purpose in accordance with the provision of the Inland Revenue Act No. 10 of 2006 and the amendment thereto, at the rates specified below.

13. Income tax expenses (contd.)

Deferred taxation

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

Deferred tax assets are recognised for all deductible differences. Carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of a deferred tax asset is reviewed at each reporting date and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that is probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply in the year when the assets are realised or the liabilities are settled, based on tax rates and tax laws that have been enacted or subsequently enacted at the reporting date.

	Bank		Group	
For the year ended 31 December	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Current tax expenses				
Current year tax expenses	**4,328,136**	3,896,240	**4,503,829**	3,930,455
Prior years (over)/under provision	**–**	(2,726)	**(310)**	(6,856)
Deferred tax expenses				
Temporary differences [refer Note 13. (b)]	**90,883**	(88,243)	**91,546**	(88,604)
Total	**4,419,019**	3,805,271	**4,595,065**	3,834,995
Effective tax rate (%)	**31.50**	28.60	**33.68**	28.63
Effective tax rate (excluding deferred tax) (%)	**30.85**	29.27	**33.00**	29.29

13. (a) Reconciliation of tax expenses

Profit before tax	**14,028,719**	13,302,987	**13,645,212**	13,397,277
Income tax for the period (Accounting profit @ 28%)	**3,928,041**	3,724,836	**3,820,659**	3,751,238
Add: Tax effect of expenses that are not deductible for tax purposes	**2,854,015**	2,089,332	**2,881,503**	2,100,179
(Less): Tax effect of expenses that are deductible for tax purposes	**2,453,920**	1,917,928	**2,198,334**	1,920,962
Tax expense for the period	**4,328,136**	3,896,240	**4,503,829**	3,930,455

13. Income tax expenses (contd.)

13. (b) The deferred tax charge in the Income Statement comprises the following:

	Bank		Group	
For the year ended 31 December	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Deferred tax assets	**–**	–	**(663)**	361
Deferred tax liabilities	**90,883**	(88,243)	**90,883**	(88,243)
Deferred tax (credit)/charge to Income Statement	**90,883**	(88,243)	**91,546**	(88,604)

14. Earnings per share (EPS)

Accounting policy

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss for the year attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

	Bank		Group	
For the year ended 31 December	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Net profit attributable to ordinary equity holders	**9,609,700**	9,497,716	**9,050,147**	9,562,282
Adjustment for the effect of dilution	**–**	–	**–**	–
Net profit attributable to ordinary equity holders adjusted for the effect of dilution	**9,609,700**	9,497,716	**9,050,147**	9,562,282
Weighted average number of ordinary shares for basic earnings per share	**620,000**	320,000	**620,000**	320,000
Effect of dilution	**–**	–	**–**	–
Weighted average number of ordinary shares adjusted for the effect of dilution	**620,000**	320,000	**620,000**	320,000
Basic earnings per ordinary share (Rs.)	**15.50**	29.68	**14.60**	29.88
Diluted earnings per ordinary share (Rs.)	**15.50**	29.68	**14.60**	29.88

14. Earnings per share (EPS) (contd.)

14. (a) Weighted average number of ordinary shares for basic and diluted earnings per share

	Outstanding number of shares		Weight average number of shares	
	2017 Rs. '000	2016 Rs. '000	**2017 Rs. '000**	2017 Rs. '000
Number of shares in issue as at January 1,	**620,000**	320,000	**620,000**	320,000
Add: Number of shares issued during the year (refer Note 36)	**50,000**	300,000	–	–
Weighted average number of ordinary shares basic and diluted earning per shares	**670,000**	620,000	**620,000**	320,000

15. Analysis of financial instruments by measurement basis

Accounting policy

The carrying amounts of financial instruments by category as defined in Sri Lanka Accounting Standard – LKAS 39 on "Financial Instruments: Recognition and Measurement" under headings of the Statement of Financial Position are summarised below:

15. (a) Bank – 2017

	HFT Rs. '000	HTM Rs. '000	Amortised cost Rs. '000	AFS Rs. '000	FVTPL Rs. '000	Hedging Rs. '000	Total Rs. '000
Assets							
Cash and cash equivalents	–	–	3,849,627	–	–	–	3,849,627
Balances with central banks	–	–	–	–	–	–	–
Placements with banks	–	–	23,438,104	–	–	–	23,438,104
Derivative financial instruments	–	–	–	–	–	1,360,714	1,360,714
Other financial assets held for trading	6,472,314	–	–	–	–	–	6,472,314
Other financial assets at fair value through profit or loss	–	–	–	–	–	–	–
Loans and receivables to banks	–	–	27,714,565	–	–	–	27,714,565
Loans and receivables to other customers	–	–	360,309,866	–	–	–	360,309,866
Financial investments	–	544,273,077	–	5,693,829	–	–	549,966,906
Total financial assets	**6,472,314**	**544,273,077**	**415,312,162**	**5,693,829**	**–**	**1,360,714**	**973,112,095**

15. Analysis of financial instruments by measurement basis (contd.)

15. (a) Bank – 2017 (contd.)

	HFT Rs. '000	Designated at fair value Rs. '000	Amortised cost Rs. '000	FVTPL Rs. '000	Hedging Rs. '000	Total Rs. '000
Liabilities						
Due to banks	–	–	180,439	–	–	180,439
Derivative financial instruments	–	–	–	–	956,937	956,937
Other financial liabilities at fair value through profit or loss	–	–	–	–	–	–
Due to other customers	–	–	737,212,640	–	–	737,212,640
Other borrowings	–	–	217,955,777	–	–	217,955,777
Subordinated liabilities	–	–	6,006,411	–	–	6,006,411
Total financial liabilities	–	–	**961,355,267**	–	**956,937**	**962,312,204**

Held-for-trading – HFT
Designated at fair value through profit or loss – Designated at fair value – FVTPL
Loans and receivables/deposits at amortised cost – Amortised cost
Held to maturity – HTM
Available for sale – AFS
Instruments of fair value and cash flow hedging – Hedging

15. (b) Bank – 2016

	HFT Rs. '000	HTM Rs. '000	Amortised cost Rs. '000	AFS Rs. '000	FVTPL Rs. '000	Hedging Rs. '000	Total Rs. '000
Assets							
Cash and cash equivalents	–	–	4,619,699	–	–	–	4,619,699
Balances with central banks	–	–	–	–	–	–	–
Placements with banks	–	–	19,013,572	–	–	–	19,013,572
Derivative financial instruments	–	–	–	–	–	2,728,445	2,728,445
Other financial assets held for trading	20,290,588	–	–	–	–	–	20,290,588
Other financial assets at fair value through profit or loss	–	–	–	–	–	–	–
Loans and receivables to banks	–	–	31,834,072	–	–	–	31,834,072
Loans and receivables to other customers	–	–	291,976,942	–	–	–	291,976,942
Financial investments	–	505,824,398	–	6,227,764	–	–	512,052,162
Total financial assets	20,290,588	505,824,398	347,444,284	6,227,764	–	2,728,445	882,515,480

15. Analysis of financial instruments by measurement basis (contd.)

15. (b) Bank – 2016 (contd.)

	HFT Rs. '000	Designated at fair value Rs. '000	Amortised cost Rs. '000	FVTPL Rs. '000	Hedging Rs. '000	Total Rs. '000
Liabilities						
Due to banks	–	–	115,391	–	–	115,391
Derivative financial instruments	–	–	–	–	–	–
Other financial liabilities at fair value through profit or loss	–	–	–	–	–	–
Due to other customers	–	–	657,280,315	–	–	657,280,315
Other borrowings	–	–	207,039,909	–	–	207,039,909
Subordinated liabilities	–	–	6,006,411	–	–	6,006,411
Total financial liabilities	–	–	870,442,026	–	–	870,442,026

15. (c) Group – 2017

	HFT Rs. '000	HTM Rs. '000	Amortised cost Rs. '000	AFS Rs. '000	FVTPL Rs. '000	Hedging Rs. '000	Total Rs. '000
Assets							
Cash and cash equivalents	–	–	3,854,086	–	–	–	3,854,086
Balances with central banks	–	–	94	–	–	–	94
Placements with banks	–	–	23,438,104	–	–	–	23,438,104
Derivative financial instruments	–	–	–	–	–	1,360,714	1,360,714
Other financial assets held for trading	9,389,950	–	–	–	–	–	9,389,950
Other financial assets at fair value through profit or loss	–	–	–	–	–	–	–
Loans and receivables to banks	–	–	27,971,234	–	–	–	27,971,234
Loans and receivables to other customers	–	–	358,766,093	–	–	–	358,766,093
Financial investments	–	547,924,390	–	7,713,852	–	–	555,638,242
Total financial assets	9,389,950	547,924,390	414,029,611	7,713,852	–	1,360,714	980,418,516

	HFT Rs. '000	Designated at fair value Rs. '000	Amortised cost Rs. '000	FVTPL Rs. '000	Hedging Rs. '000	Total Rs. '000
Liabilities						
Due to banks	–	–	828,433	–	–	828,433
Derivative financial instruments	–	–	–	–	956,937	956,937
Other financial liabilities at fair value through profit or loss	–	–	–	–	–	–
Due to other customers	–	–	737,212,640	–	–	737,212,640
Other borrowings	–	–	222,771,969	–	–	222,771,969
Subordinated liabilities	–	–	6,006,411	–	–	6,006,411
Total financial liabilities	–	–	966,819,453	–	956,937	967,776,390

15. Analysis of financial instruments by measurement basis (contd.)

15. (d) Group – 2016

	HFT Rs. '000	HTM Rs. '000	Amortised cost Rs. '000	AFS Rs. '000	FVTPL Rs. '000	Hedging Rs. '000	Total Rs. '000
Assets							
Cash and cash equivalents	–	–	4,627,629	–	–	–	4,627,629
Balances with central banks	–	–	477	–	–	–	477
Placements with banks	–	–	19,013,572	–	–	–	19,013,572
Derivative financial instruments	–	–	–	–	–	2,728,445	2,728,445
Other financial assets held for trading	27,303,207	–	–	–	–	–	27,303,207
Other financial assets at fair value through profit or loss	–	–	–	–	–	–	–
Loans and receivables to banks	–	–	31,834,072	–	–	–	31,834,072
Loans and receivables to other customers	–	–	291,178,121	–	–	–	291,178,121
Financial investments	–	507,624,954	–	8,122,516	–	–	515,747,470
Total financial assets	27,303,207	507,624,954	346,653,871	8,122,516	–	2,728,445	892,432,992

	HFT Rs. '000	Designated at fair value Rs. '000	Amortised cost Rs. '000	FVTPL Rs. '000	Hedging Rs. '000	Total Rs. '000
Liabilities						
Due to banks	–	–	2,858,673	–	–	2,858,673
Derivative financial instruments	–	–	–	–	–	–
Other financial liabilities at fair value through profit or loss	–	–	–	–	–	–
Due to other customers	–	–	657,280,315	–	–	657,280,315
Other borrowings	–	–	212,629,427	–	–	212,629,427
Subordinated liabilities	–	–	6,006,411	–	–	6,006,411
Total financial liabilities	–	–	878,774,826	–	–	878,774,826

16. Cash and cash equivalents

Accounting policy

Cash and cash equivalents include cash in hand, balances with banks, money at call and short notice that are subject to an insignificant risk of change in their value. Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

	Bank		Group	
As at 31 December	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Cash in hand	**944,759**	691,527	**944,769**	691,537
Balances with banks	**2,892,643**	3,881,589	**2,897,093**	3,889,509
Money at call and short notice	**12,224**	46,583	**12,224**	46,583
Total	**3,849,627**	4,619,699	**3,854,086**	4,627,629

17. Balances with central banks

	Bank		Group	
As at 31 December	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Balances with Central Bank of Sri Lanka	–	–	**94**	477
Total	–	–	**94**	477

18. Placements with Banks

Accounting policy

Placement with banks include short-term deposits placed in banks that are subjected to insignificant risk of changes in fair value, and are used by the Bank and the Group in the management of its short-term commitments. They are recorded in the Financial Statements at their face values or the gross values, where appropriate.

	Bank		Group	
As at 31 December	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Placements with banks – Sri Lanka	**23,438,104**	19,013,572	**23,438,104**	19,013,572
Total	**23,438,104**	19,013,572	**23,438,104**	19,013,572

19. Derivative financial instruments

Accounting policy

Derivatives are financial instruments that derive their value in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and indices. Derivatives are categorised as "trading" unless they are designated as hedging instruments. The Group uses derivatives such as interest rate swaps and forward foreign exchange contracts.

Derivatives recorded at fair value through profit or loss

Derivatives except for derivatives used as hedging instrument are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in "Net trading income".

Derivatives used as hedge instruments

The Group entered into derivative contacts to hedge against the foreign exchange rate or interest rate. These derivatives are measured at fair value. The Group adopts hedge accounting mismatch to eliminate the accounting resulting from volatility in the Financial Statements between derivatives measured at fair value and the financial asset or liability (hedge exposure) measured at cost/amortised cost, if hedge is efficient.

Cash flow hedge

Cash flow hedge is measured at fair value at the end of each reporting period.

If a hedge of the exposure to variability in cash flow, the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in Other Comprehensive Income within "cash flow hedge" – "fair value gains/(losses)". Any gain or loss in fair value relating to an ineffective portion is recognised immediately in the Income Statements.

The accumulated gains and losses recognised in Other Comprehensive Income are reclassified to the Income Statement in the periods in which the hedged item will affect profit or loss. However, when the forecast transaction that is hedged result in the recognised of a non-financial asset or a non-financial liability, the gains and losses previously recognised in Other Comprehensive Income are removed from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meet the criteria for hedge accounting, any cumulative gain or loss recognised in Other Comprehensive Income at that time remains in equity until the forecast transaction is eventually recognised in the Income Statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in Other Comprehensive Income is immediately reclassified to the Income Statement.

19. Derivative financial instruments (contd.)

19.1 Derivative assets

Bank and Group

As at 31 December	**Assets 2017 Rs. '000**	**Notional amount – 2017 Rs. '000**	Assets 2016 Rs. '000	Notional amount – 2016 Rs. '000
Forward foreign exchange contract				
Forward exchange purchases	**–**	**–**	27,750	3,743,750
Forward exchange sales	**650**	**306,400**	–	–
Foreign currency derivative/cash flow hedges				
Foreign currency swaps – (Note 19.3)	**1,360,064**	**28,106,213**	2,700,695	73,474,097
Total	**1,360,714**	**28,412,613**	2,728,445	77,217,847

19.2 Derivative liabilities

Bank and Group

As at 31 December	**Liabilities 2017 Rs. '000**	**Notional amount – 2017 Rs. '000**	Liabilities 2016 Rs. '000	Notional amount – 2016 Rs. '000
Forward foreign exchange contract				
Forward exchange purchases	**139,200**	**3,064,600**	–	–
Forward exchange sales	**–**	**–**	–	–
Foreign currency derivative/cash flow hedges				
Foreign currency swaps – (Note 19.3)	**817,737**	**38,201,771**	–	–
Total	**956,937**	**38,201,771**	–	–

19.3 Foreign currency swaps

The Bank has raised USD 750 Mn. on 18 September 2013 through foreign borrowings for a period of five years against which two swaps agreements have been entered into with the Central Bank of Sri Lanka for USD 183.425 Mn. and USD 187.5 Mn. with annual and monthly renewal basis respectively.

The Bank has also raised USD 250 Mn. on 10 September 2014 through foreign borrowings for a period of five years against which a Swaps agreements has been entered into with the Central Bank of Sri Lanka for USD 249.31 Mn. with monthly renewal basis.

The objective of the Swaps is to hedge the risk of the foreign currency denominated above mentioned borrowings (only the capital portion) attributable to changes in LKR/USD exchange rate.

19. Derivative financial instruments (contd.)

19.3 Foreign currency swaps (contd.)

A brief description of the swaps is given below:

19.3 (a) Swap agreements 1 and 2

Details	Description of the hedge	
Hedge instrument	**Swap contract – 1**	Counterparty – Central Bank of Sri Lanka Notional amount – USD 183.425 Mn. 24.5% of the total foreign borrowings.
	Swap contract – 2	USD 187.5 Mn. agreement was expired on 9 May 2017
Hedge Item		5 years USD denominated senior note – USD 750 Mn. with interest payable semi-annually. Capital is repayable in 18 September 2018 in full.
The period when the cash flows are expected to occur	**Swap contract – 1**	Annually
The amount recognised in Other Comprehensive Income during the year	**Swap contract – 1**	Annually
	Swap contract – 1	Rs. 290.074 Mn. credit to the cash flow hedge reserve
Fair value of hedged item as at 31 December 2017		Rs. 114,922.5 Mn.
Fair value of hedged instrument as at 31 December 2017	**Swap contract – 1**	Rs. 1,360 Mn.
Any forecast transaction for which hedge accounting had previously been used but which is no longer expected to occur		None
The amount that was reclassified from equity to profit or loss during the period		None

19. Derivative financial instruments (contd.)

19.3 Foreign currency swaps (contd.)

19.3 (b) Swap agreements 3

Details	Description of the Hedge	
Hedge instrument	**Swap Contract**	Counterparty – Central Bank of Sri Lanka Notional amount – USD 249.31 Mn. 99.72% of the total foreign borrowings. The Bank has renewed the above agreement with Central Bank on 25 October 2017 for a notional amount of USD 249.31 Mn. at a premium.
Hedge item		5 years USD denominated senior note – USD 250 Mn. with interest payable semi annually. Capital is repayable in 10 September 2019 in full.
The period when the cash flows are expected to occur		Quarterly
The amount recognised in Other Comprehensive Income during the year		None
Fair value of hedged item as at 31 December 2017		Rs. 38,307.5 Mn.
Fair value of hedged instrument as at 31 December 2017		None
Any forecast transaction for which hedge accounting had previously been used but which is no longer expected to occur		None
The amount that was reclassified from equity to profit or loss during the period		None

19.3 (c) Amount recognised in Other Comprehensive Income relating to the currency swaps

	Bank		Group	
For the year ended 31 December	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Swap agreement – 01	**290,074**	1,850	**290,074**	1,850
Swap agreement – 02	–	72,597	–	72,597
Swap agreement – 03	–	(211,703)	–	(211,703)
Total	**290,074**	(137,256)	**290,074**	(137,256)

20. Other financial assets held for trading

Accounting policy

Financial assets are classified as held for trading if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short-term profit or position taking as per Sri Lanka Accounting Standard – LKAS 39 on "Financial Instruments: Recognition and Measurement". This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships.

Financial assets held for trading are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognised in "Net trading income". Dividend income is also recorded in "Net trading income" while interest income and expenses are recorded in "Net interest income" according to the terms of the contract, or when the right to the payment has been established.

The Group evaluates its financial assets held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and Management's intention to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets, in rare circumstances.

Financial assets held for trading includes Government Securities held for trading and dealing securities.

	Bank		Group	
As at 31 December	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Held-for-trading				
Sri Lanka Government Securities				
Treasury Bills	–	–	**499,798**	1,438,757
Treasury Bonds	**4,114,978**	17,194,677	**6,532,816**	22,768,539
Equity securities – [Refer Note 20. (a)]	**2,357,336**	3,095,911	**2,357,336**	3,095,911
Total	**6,472,314**	20,290,588	**9,389,950**	27,303,207

20. Other financial assets held for trading (contd.)

20. (a) Equity securities (quoted) – Bank and Group

As at 31 December	2017			2016		
	Number of shares	**Cost Rs. '000**	**Market value Rs. '000**	Number of shares	Cost Rs. '000	Market value Rs. '000
1. Banks, finance and insurance						
Commercial Bank of Ceylon PLC	**485,180**	**76,303**	**65,245**	435,587	71,292	62,453
Commercial Bank of Ceylon PLC (NV)	**268,731**	**33,862**	**27,901**	240,504	31,644	27,467
DFCC Bank	**430,000**	**85,787**	**52,723**	430,000	85,787	52,085
Hatton National Bank PLC (NV)	**284,964**	**49,599**	**54,946**	240,468	41,864	45,177
Lanka ORIX Leasing Company PLC	**28,060**	**3,171**	**3,191**	606,900	68,594	43,507
Lanka ORIX Finance PLC	**4,550,000**	**50,340**	**17,096**	4,550,000	50,340	11,698
Sampath Bank PLC (NV)	**128,723**	**31,222**	**40,106**	1,230,988	310,433	318,298
Union Bank PLC	**245,000**	**6,009**	**3,174**	245,000	6,009	3,803
		336,293	**264,382**		665,963	564,488
2. Beverage, food and tobacco						
Cargills (Ceylon) PLC	**114,320**	**21,003**	**22,608**	598,040	109,872	115,312
		21,003	**22,608**		109,872	115,312
3. Chemical and pharmaceuticals						
CIC Holdings PLC	**135,839**	**15,558**	**8,959**	135,839	15,558	12,089
CIC Holdings PLC (NV)	**13,700**	**1,183**	**704**	13,700	1,183	921
Haycarb PLC	**447,211**	**83,786**	**64,341**	447,211	83,786	66,330
		100,527	**74,004**		100,527	79,340
4. Construction and engineering						
Access Engineering PLC	**3,470,023**	**132,692**	**80,975**	3,470,023	132,692	85,093
Colombo Dockyard PLC	**1,234,706**	**275,603**	**107,193**	1,234,706	275,603	92,787
		408,295	**188,168**		408,295	177,880

20. Other financial assets held for trading (contd.)

20. (a) Equity securities (Quoted) – Bank and Group (Contd.)

As at 31 December	2017			2016		
	Number of shares	**Cost Rs. '000**	**Market value Rs. '000**	Number of shares	Cost Rs. '000	Market value Rs. '000
5. Diversified holdings						
Aitken Spence PLC	**2,593,516**	**306,499**	**138,738**	2,593,516	306,499	166,690
Browns Capital PLC	**–**	**–**	**–**	2,900,000	13,279	3,441
Browns Investments PLC	**14,367,669**	**71,838**	**36,938**	33,606,200	168,031	43,199
C T Holdings PLC	**74,585**	**13,073**	**13,282**	750,265	131,498	92,881
Hayleys PLC	**123,026**	**41,512**	**29,196**	114,294	39,199	30,514
John Keells Holdings PLC	**2,660,190**	**465,818**	**391,140**	2,660,190	465,818	381,407
Richard Pieris & Company PLC	**6,463,907**	**60,911**	**82,450**	12,001,659	113,095	96,125
Vallibel One PLC	**3,143,693**	**72,975**	**55,020**	3,143,693	72,975	57,507
		1,032,626	**746,764**		1,310,394	871,764
6. Hotels and travels						
Asian Hotels & Properties PLC	**1,366,132**	**106,609**	**71,324**	1,366,132	106,609	76,997
Aitken Spence Hotel Holdings PLC	**2,102,133**	**188,903**	**61,110**	2,102,133	188,903	90,003
Ceylon Hotels Corporation PLC	**3,975,017**	**128,776**	**62,888**	3,793,842	128,776	78,403
John Keells Hotels PLC	**5,541,205**	**103,475**	**48,216**	5,541,205	103,475	58,627
Lighthouse Hotels PLC	**1,175,667**	**71,492**	**52,080**	1,175,667	71,492	61,729
Mahaweli Reach Hotels PLC	**133,300**	**4,884**	**2,373**	133,300	4,884	2,742
Marawila Resorts PLC	**1,900**	**16,063**	**3,569**	1,899,556	16,063	4,508
The Kingsbury PLC	**4,669,876**	**105,764**	**62,337**	4,669,876	105,765	71,572
Jetwing Symphony Limited	**1,300,000**	**19,500**	**19,500**	–	–	–
		745,466	**383,397**		725,967	444,581
7. Investment trusts						
Renuka Holdings PLC	**–**	**–**	**–**	5,356,146	235,077	111,749
Renuka Holdings PLC (NV)	**466,438**	**11,307**	**8,302**	466,438	11,307	8,210
		11,307	**8,302**		246,384	119,959
8. Land and property						
Overseas Reality (Ceylon) PLC	**943,473**	**23,777**	**16,419**	943,473	23,777	18,658
		23,777	**16,419**		23,777	18,658

20. Other financial assets held for trading (contd.)

20. (a) Equity securities (Quoted) – Bank and Group (contd.)

As at 31 December	2017			2016		
	Number of shares	**Cost Rs. '000**	**Market value Rs. '000**	Number of shares	Cost Rs. '000	Market value Rs. '000
9. Manufacturing						
Teejay Lanka PLC	**40,095**	**1,480**	**1,348**	–	–	–
Lanka Ceramic PLC	**89,191**	**12,069**	**13,229**	445,955	60,344	54,062
Royal Ceramics Lanka PLC	**1,748,679**	**221,888**	**197,981**	1,834,159	232,734	210,380
Tokyo Cement Company (Lanka) PLC	**688,992**	**29,029**	**44,964**	574,160	29,030	33,780
Tokyo Cement Company (Lanka) PLC (NV)	**611,060**	**22,602**	**35,649**	509,217	22,602	25,931
Alumex PLC	**16,150**	**277**	**294**	46,150	791	913
		287,345	**293,465**		345,501	325,066
10. Plantation						
Namunukula Plantations PLC	**–**	**–**	**–**	150,000	12,432	10,931
		–	**–**		12,432	10,931
11. Power and energy						
Resus Energy PLC	**203,341**	**4,653**	**3,639**	203,341	4,653	4,323
LVL Energy Fund	**4,606,600**	**46,066**	**46,066**	–	–	–
		50,719	**49,705**		4,653	4,323
12. Telecommunication						
Dialog Axiata PLC	**3,790,960**	**94,332**	**49,105**	6,790,960	168,982	70,506
		94,332	**49,105**		168,982	70,506
13. Trading						
Brown & Company PLC	**985,000**	**315,149**	**77,820**	985,000	315,149	81,229
		315,149	**77,820**		315,149	81,229
14. Unit trust						
Comtrust Equity Fund	**556,793**	**10,000**	**11,139**	556,793	10,000	11,147
Ceybank Unit Trust	**7,604,797**	**85,110**	**172,058**	7,604,797	85,110	200,729
		95,110	**183,197**		95,110	211,876
Total		**3,521,949**	**2,357,336**		4,533,006	3,095,911

21. Financial assets designated at fair value through profit or loss

Accounting policy

The Group designates financial assets as fair value through profit or loss when –

- The designation eliminates or significantly reduces measurement or recognition inconsistency that would otherwise arise from measuring the assets on a different basis.
- The assets are part of a group of financial assets, financial liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- The asset contains one or more embedded derivatives which significantly modify the cash flows that would otherwise be required by the contract.

Financial assets designated at fair value through profit or loss are recorded in the Statement of Financial Position at fair value. Changes in fair value are recorded in "Net gain or loss on financial assets and liabilities designated at fair value through profit or loss". Interest earned or incurred is accrued in "Interest income" or "Interest expense", respectively using the effective interest rate (EIR), while dividend income is recorded in "Other operating income" when the right to the payment has been established.

The Group has not designated any financial assets upon initial recognition as designated at fair value through profit or loss.

22. Loans and receivables to Banks

Accounting policy

Loans and receivables to banks include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than –

- Those that the Group intends to sell immediately or in the near term and those that the Group, upon initial recognition, designates as at fair value through profit or loss.
- Those that the Group, upon initial recognition, designates as available for sale.
- Those for which the Group may not recover substantially all of its initial investment, other than due to credit deterioration.

"Loans and receivables to banks" include amounts due from banks. After initial measurement, loans and receivables are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest income' in the Income Statement. The losses arising from impairment are recognised in 'Impairment charge for loans and other losses' in the Income Statement.

	Bank		Group	
As at 31 December	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Gross loans and receivables	**27,714,565**	31,834,072	**27,971,234**	31,834,072
(Less): Individual impairment	–	–	–	–
Net loans and receivables	**27,714,565**	31,834,072	**27,971,234**	31,834,072

22. Loans and receivables to Banks (contd.)

22. (a) Analysis by product

As at 31 December	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Loans and receivables				
Short-term loans	–	6,297,207	–	6,297,207
Long-term loans	**20,283,997**	18,503,946	**20,283,997**	18,503,946
Securities purchased under resale agreements	**2,766,684**	2,406,732	**3,023,353**	2,406,732
Debentures	**4,094,279**	4,126,976	**4,094,279**	4,126,976
Securitisation/Trust certificates	**569,605**	499,210	**569,605**	499,210
Gross total	**27,714,565**	31,834,072	**27,971,234**	31,834,072

22. (b) Analysis by currency

All loans and receivables to banks are in Sri Lankan Rupees.

23. Loans and receivables to other customers

Accounting policy

Loans and receivables to other customers include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than –

- Those that the Group intends to sell immediately or in the near term and those that the Group, upon initial recognition, designates as at fair value through profit or loss.
- Those that the Group, upon initial recognition, designates as available-for-sale.
- Those for which the Group may not recover substantially all of its initial investment, other than due to credit deterioration.

After initial measurement, loans and receivables are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'interest income' in the Income Statement. The losses arising from impairment are recognised in "impairment charge for loans and other losses" in the Income Statement.

As at 31 December	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Gross loans and receivables	**362,608,207**	293,708,714	**361,064,434**	292,909,893
(Less): Individual impairment	–	–	–	–
Collective impairment [Refer – Note 23. (d)]	**2,298,341**	1,731,772	**2,298,341**	1,731,772
Net loans and receivables	**360,309,866**	291,976,942	**358,766,093**	291,178,121

23. Loans and receivables to other customers (contd.)

23. (a) Analysis by product

	Bank		Group	
As at 31 December	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Loans and receivables				
Pawning	**23,939,944**	20,852,188	**23,939,944**	20,852,188
Staff loans	**5,057,767**	4,090,448	**5,057,767**	4,090,448
Term loans				
Short term	**684,797**	–	**684,797**	–
Long term	**321,221,287**	257,549,045	**321,221,287**	257,549,045
Securities purchased under resale agreements	**2,826,289**	2,496,838	**1,282,516**	1,698,017
Others				
Securitisation/Trust certificates	**3,083,997**	2,695,185	**3,083,997**	2,695,185
Loan to Government	**2,075,000**	2,075,000	**2,075,000**	2,075,000
Others	**3,719,127**	3,950,010	**3,719,127**	3,950,010
Gross total	**362,608,207**	293,708,714	**361,064,434**	292,909,893

23. (b) Analysis by industry

	Bank		Group	
As at 31 December	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Agriculture and fishing	**14,282,395**	10,869,217	**14,282,395**	10,869,217
Manufacturing	**505,113**	505,113	**505,113**	505,113
Tourism	**49,042**	81,090	**49,042**	81,090
Transport	**1,042,138**	983,022	**1,042,138**	983,022
Construction/housing	**67,530,740**	65,006,143	**67,530,740**	65,006,143
Traders	**1,239,568**	1,237,814	**1,239,568**	1,237,814
Others				
Financial and business services	**10,169,034**	6,899,422	**10,169,034**	6,899,422
Infrastructure	**76,080,169**	60,412,604	**76,080,169**	60,412,604
Power and energy	**8,525,567**	10,254,573	**8,525,567**	10,254,573
Education	**31,844,099**	23,701,503	**31,844,099**	23,701,503
Government	**2,075,000**	2,075,000	**2,075,000**	2,075,000
Personal/pawning/others	**149,265,341**	111,683,213	**147,721,568**	110,884,392
Gross total	**362,608,207**	293,708,714	**361,064,434**	292,909,893

23. Loans and receivables to other customers (contd.)

23. (c) Analysis by currency

As at 31 December	Bank 2017 Rs. '000	Bank 2016 Rs. '000	Group 2017 Rs. '000	Group 2016 Rs. '000
Sri Lankan Rupees	**334,526,456**	273,730,701	**332,982,683**	272,931,880
United States Dollars	**28,081,751**	19,978,013	**28,081,751**	19,978,013
Gross total	**362,608,207**	293,708,714	**361,064,434**	292,909,893

23. (d) Movements in collective impairment charges during the year

Accounting policy

Individual assessment of impairment

For financial assets carried at amortised cost (such as amounts due from banks, loans and receivables to customers as well as held-to-maturity investments), the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of a provision account and the amount of the loss is recognised in the Income Statement. Interest income continues to be accrued on the reduced carrying amount at the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of "Interest and similar income".

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. If the Group has reclassified trading assets to loans and receivables, the discount rate for measuring any impairment loss is the new EIR determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increased or decreased because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the "Credit loss expense".

23. Loans and receivables to other customers (contd.)

23. (d) Movements in collective impairment charges during the year (contd.)

Collective assessment of impairment

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable date to reflect the effect of current conditions on which the historical loss experience is based and to remove the effect of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status or other factors that are indicative of incurred losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment of renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

Collateral valuation

The Group uses collateral where possible to mitigate the risk on financial assets. The collateral comes in various forms such as cash, gold, Government Securities. To the extent possible, the Bank uses active market data for valuing financial assets held as collaterals.

	Bank		Group	
As at 31 December	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Collective impairment				
Opening balance	**1,731,772**	3,092,209	**1,731,772**	3,092,209
Charge to Income Statement (Note 10)	**693,233**	(99,693)	**693,233**	(99,693)
Net write-off during the year	**(126,664)**	(1,260,744)	**(126,664)**	(1,260,744)
Closing balance	**2,298,341**	1,731,772	**2,298,341**	1,731,772

24. Financial investments – available for sale

Accounting policy

Available-for-sale investments include equity and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt Securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Equity investments under AFS that do not have quoted market price and whose fair value cannot be reliably measured shall be measured at cost.

Unrealised gains and losses are recognised directly in equity (other comprehensive income) in the "available-for-sale reserve". When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the Income Statement in "net gain/(loss) from financial investment". Where the Group holds more than one investment in the same security they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available-for-sale financial investments is required as interest income using the EIR. Dividends earned whilst holding available-for-sale financial investments are recognised in the Income Statement as "other operating income" when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the Income Statement in "impairment losses on financial investments" and removed from the "available-for-sale reserve".

Impairment of available-for-sale financial investments

For available-for-sale financial investments including debt securities, the Group assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available for sale, the Group assesses individually whether there is objective evidence of impairment based on the same criteria as financial asset carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the Income Statement. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of "Interest and similar income". If, in a subsequent period, the fair value of a debt instrument increased and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the Income Statement, the impairment loss is reversed through the Income Statement.

In the case of equity investments classified as available for sale, objective evidence would also include a "significant" or "prolonged" decline in the fair value of the investment below its cost. The Group treats "significant" generally as 20% and "prolonged" generally as greater than six months. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the other comprehensive income is removed from equity and recognised in the Income Statement. Impairment losses on equity investments are not reversed through the Income Statement; increases in the fair value after impairment are recognised in Other Comprehensive Income.

24. Financial investments – available for sale (contd.)

As at 31 December	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Quoted investments				
Equity securities [Note 24. (a)]	**3,876,570**	3,332,148	**3,876,570**	3,332,148
Debt securities [Note 24. (b)]	**–**	–	**199,920**	199,839
Other investments				
Sri Lanka Government Securities – Treasury Bonds [Note 24. (c)]	**81,390**	2,104,031	**1,900,493**	3,797,944
Sri Lanka Government Securities – Treasury Bills [Note 24. (d)]	**1,171,488**	–	**1,171,488**	–
Unquoted investments				
Equity securities [Note 24. (e)]	**564,381**	791,585	**565,381**	792,585
Net available-for-sale investments	**5,693,829**	6,227,764	**7,713,852**	8,122,516

24. (a) Quoted investments – equity securities – Bank and Group

	2017			2016		
	No. of shares	**Cost Rs. '000**	**Fair value Rs. '000**	No. of shares	Cost Rs. '000	Fair value Rs. '000
Hatton National Bank PLC	**11,262,707**	**1,655,816**	**2,773,004**	9,523,878	1,301,845	2,118,873
Sri Lanka Telecom PLC	**13,158,700**	**445,642**	**369,522**	13,158,700	445,643	474,913
People's Leasing Company PLC	**43,668,157**	**784,405**	**734,044**	43,668,157	784,405	738,362
		2,885,863	**3,876,570**		2,531,893	3,332,148

24. (b) Quoted investments – debt securities – Group

	2017			2016		
	No. of debentures	**Cost Rs. '000**	**Fair value Rs. '000**	No. of debentures	Cost Rs. '000	Fair value Rs. '000
Pan Asia Bank Corporation PLC	**500,000**	**50,000**	**51,234**	500,000	50,000	51,234
People's Leasing Company PLC	**945,000**	**94,500**	**95,735**	945,000	94,500	95,735
HDFC Bank of Sri Lanka	**386,800**	**38,680**	**39,154**	386,800	38,680	39,154
Seylan Bank PLC	**129,400**	**12,940**	**13,717**	129,400	12,940	13,717
		196,120	**199,920**		196,120	199,839

24. Financial investments – available for sale (contd.)

24. (c) Other investments – Treasury Bonds

	2017 – Bank			2016 – Bank		
	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 Bonds	**76,000**	**74,709**	**81,390**	2,175,000	2,012,176	2,104,031
		74,709	**81,390**		2,012,176	2,104,031

	2017 – Group			2016 – Group		
	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 Bonds	**1,751,000**	**2,037,829**	**1,900,493**	3,850,000	3,975,296	3,797,944
		2,037,829	**1,900,493**		3,975,296	3,797,944

24. (d) Other investments – Treasury Bills

	2017 – Bank and Group			2016 – Bank and Group		
	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	**1,200,000**	**1,164,059**	**1,171,488**	–	–	–
		1,164,059	**1,171,488**		–	–

24. Financial investments – available for sale (contd.)

24. (e) Unquoted investments – equity securities

	2017 – Bank			2016 – Bank		
	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 Ceylon Limited	**20,000**	**127**	**127**	20,000	127	127
Investment – Regional Development Bank (RDB)	**16,452,126**	**164,521**	**506,890**	16,452,126	164,521	734,094
(Less): Impairment		–	–		–	–
		222,012	**564,381**		222,012	791,585

	2017 – Group			2016 – Group		
	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 Ceylon Limited	**20,000**	**127**	**127**	20,000	127	127
Investment – Regional Development Bank (RDB)	**16,452,126**	**164,521**	**506,890**	16,452,126	164,521	734,094
Investment – Sri Lankan Financial Services Bureau	**100,000**	**1,000**	**1,000**	100,000	1,000	1,000
(Less): Impairment		–	–		–	–
		223,012	**565,381**		223,012	792,585

All unquoted available-for-sale equities (except RDB) are recorded at cost, since its fair value cannot be reliably estimated. There is no active market for these investments and Bank intends to hold it for the long term. The investment in RDB shares have been fair valued using a valuation model based on observable data.

25. Financial investments – held to maturity

Accounting policy

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Group has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in "interest and similar income" in the Income Statement. The losses arising from impairment of such investments are recognised in the Income Statement line "impairment charge for loans and other losses".

If the Group were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available for sale. Furthermore, the Group would be prohibited from classifying any financial asset as held to maturity during the following two years:

	Bank		Group	
As at 31 December	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Sri Lanka Government Securities				
Treasury Bills	**35,115,115**	17,279,328	**35,115,115**	17,279,328
Treasury Bonds	**450,001,836**	430,456,075	**453,653,149**	432,256,631
Sri Lanka Development Bond – USD	**59,156,126**	58,088,995	**59,156,126**	58,088,995
(Less): Impairment	–	–	–	–
Net held-to-maturity investments	**544,273,077**	505,824,398	**547,924,390**	507,624,954

The Bank has pledged Treasury Bills and Treasury Bonds held to maturity of Rs. 48,382 Mn. as collateral as at 31 December 2017 (2016: Rs. 63,413 Mn.) and Rs. 56,229 Mn. for the Group (2016: Rs. 73,809 Mn.).

26. Investments in subsidiaries

Accounting policy

Investments in subsidiary companies are accounted at cost less allowance for impairment in Financial Statements of the Bank. The net assets of subsidiary company are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of investment is estimated and the impairment loss is recognised to the extent of its loss in net assets.

As at 31 December	**2017**	2016	**2017**		2016	
	Holding %	Holding %	**Cost* Rs. '000**	**Directors' valuation** Rs. '000**	Cost Rs. '000	Directors' valuation** Rs. '000
Unquoted equity shares						
NSB Fund Management Co. Limited	**100**	100	**900,000**	**1,944,687**	150,000	1,691,209
(90,000,000 ordinary shares of Rs. 10.00 each)						
(Less): Impairment			–	–	–	–
Net total			**900,000**	**1,944,687**	150,000	1,691,209

** The subsidiary has issued Rs. 750 Mn. worth of shares as bonus dividend during the year.*

*** The Director's valuation of investments in subsidiary has been carried out on net asset basis as at 31 December 2017 based on audited Financial Statements.*

27. 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.

27. Property, plant and equipment (contd.)

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.

Revaluation model

The Group applies the revaluation model to the entire class of freehold land and buildings. Such properties are carried at a revalued amount, being their fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Freehold land and buildings of the Group are revalued every three years or more frequently, if the fair values are substantially different from their carrying amounts to ensure that the carrying amounts do not differ materially from the fair values at the reporting date.

On revaluation of an asset, any increase in the carrying amount is recognised in Other Comprehensive Income and accumulated in equity, under capital reserve or used to reverse a previous revaluation decrease relating to the same asset, which was charged to Income Statement. In this circumstance, the increase is recognised as income to the extent of the previous write down. Any decrease in the carrying amount is recognised as an expense in the Income Statement or debited in the Other Comprehensive Income to the extent of any credit balance existing in the capital reserve in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under capital reserves. Any balance remaining in the revaluation reserve in respect of an asset is transferred directly to retained earnings on retirement or disposal of the asset.

Derecognition

Property, plant and equipment are derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in “other operating income” in the Income Statement in the year the asset is derecognised.

Capital work-in-progress

These are expenses of capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation. These are stated in the Statement of Financial Position at cost less any accumulated impairment losses. Capital work-in-progress is transferred to the relevant asset when it is in the location and condition necessary for it to be capable of operating in the manner intended by Management.

Borrowing Costs

There were no capitalised borrowing costs related to the acquisition of property, plant and equipment by the Bank.

27. Property, plant and equipment (contd.)

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:

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.

Category of asset	Depreciation rate per annum (%)
Leasehold properties, improvement to rent/leasehold	over the period of lease
Freehold buildings	2.5% p.a.
Office and sundry equipment	10% p.a.
Motor vehicles	20% p.a.
Computer hardware and software	20% p.a.
Furniture and fittings	10% p.a.

Effective from 1 January 2017 the rate of depreciation on computer hardware and software has been revised from 25% – 20% considering the useful life of the item.

The Group provides depreciation of an assets commence from the date when they are available for use to the date of disposal of the asset.

27. Property, plant and equipment (contd.)

27. (a) Property, plant and equipment – Bank – 2017

	Land and buildings Rs. '000	Leasehold properties, improvement to rent/ leasehold buildings* Rs. '000	Computer hardware Rs. '000	Office equipment, furniture and fittings Rs. '000	Others Rs. '000	Building work-in-progress Rs. '000	Total Rs. '000
Cost/valuation							
Opening balance as at 1 January 2017	5,565,220	488,317	2,061,817	1,650,968	344,735	77,280	10,188,337
Adjustments	(1,500)	1,500	(128)	–	–	(15,785)	(15,913)
Additions	43,065	58,194	393,032	122,621	4,878	167,681	789,471
Revaluation	4,496,752	–	–	–	–	–	4,496,752
Depreciation adjustment for revalued assets	(83,404)	–	–	–	–	–	(83,404)
Disposals	–	–	(184,696)	(39,106)	(11)	(43,065)	(266,878)
Closing balance as at 31 December 2017	10,020,133	548,011	2,270,025	1,734,483	349,602	186,111	15,108,365
(Less): Accumulated depreciation							
Opening balance as at 1 January 2017	41,214	65,881	1,732,391	988,753	240,447	–	3,068,686
Adjustments	–	–	–	–	–	–	–
Charge for the year	42,190	11,415	111,180	125,860	36,512	–	327,157
Depreciation adjustment for revalued assets	(83,404)	–	–	–	–	–	(83,404)
Disposals	–	–	(184,293)	(35,146)	(11)	–	(219,450)
Closing balance as at 31 December 2017	–	77,296	1,659,278	1,079,467	276,948	–	3,092,989
(Less): Impairment	–	–	–	–	–	–	–
Net book value as at 31 December 2017	10,020,133	470,715	610,747	655,016	72,654	186,111	12,015,376

27. Property, plant and equipment (contd.)

27. (a) Property, plant and equipment – Bank – 2016

	Land and buildings Rs. '000	Leasehold properties, improvement to rent/ leasehold buildings* Rs. '000	Computer hardware Rs. '000	Office equipment, furniture and fittings Rs. '000	Others Rs. '000	Building work-in-progress Rs. '000	Total Rs. '000
Cost/valuation							
Opening balance as at 1 January 2016	5,498,292	474,060	1,877,980	1,512,787	290,826	134,375	9,788,320
Adjustments	(35,475)	–	(16,661)	–	–	(46,268)	(98,404)
Additions	102,403	14,257	208,230	180,577	53,914	56,101	615,482
Revaluation	–	–	–	–	–	–	–
Disposals	–	–	(7,732)	(42,396)	(5)	(66,928)	(117,061)
Closing balance as at 31 December 2016	5,565,220	488,317	2,061,817	1,650,968	344,735	77,280	10,188,337
(Less): Accumulated depreciation							
Opening balance as at 1 January 2016	–	58,683	1,639,704	915,173	207,690	–	2,821,250
Adjustments	–	–	(3,371)	–	–	–	(3,371)
Charge for the year	41,214	7,198	103,790	115,289	32,762	–	300,253
Disposals	–	–	(7,732)	(41,709)	(5)	–	(49,446)
Closing balance as at 31 December 2016	41,214	65,881	1,732,391	988,753	240,447	–	3,068,686
(Less): Impairment	–	–	–	–	–	–	–
Net book value as at 31 December 2016	5,524,006	422,436	329,426	662,215	104,288	77,280	7,119,651

** Leasehold properties, improvement to rent/leasehold buildings include working progress of improvement to rent/leasehold building amounting 5.3 Mn. as at 31 December 2017.*

27. Property, plant and equipment (contd.)

27. (b) Property, plant and equipment – Group – 2017

	Land and buildings Rs. '000	Leasehold properties, improvement to rent/ leasehold buildings* Rs. '000	Computer hardware Rs. '000	Office equipment, furniture and fittings Rs. '000	Others Rs. '000	Building work-in-progress Rs. '000	Total Rs. '000
Cost/valuation							
Opening balance as at 1 January 2017	5,565,220	488,317	2,065,843	1,652,758	344,734	77,444	10,194,317
Adjustments	(1,500)	1,500	(128)	–	–	(15,949)	(16,077)
Additions	43,065	58,194	394,787	122,914	4,878	167,681	791,519
Revaluation	4,496,752	–	–	–	–	–	4,496,752
Depreciation adjustment for revalued assets	(83,404)	–	–	–	–	–	(83,404)
Disposals	–	–	(184,937)	(39,154)	(11)	(43,065)	(267,167)
Closing balance as at 31 December 2017	10,020,133	548,011	2,275,565	1,736,518	349,601	186,111	15,115,940
(Less): Accumulated depreciation							
Opening balance as at 1 January 2017	41,214	65,881	1,735,142	989,810	240,447	–	3,072,494
Adjustments	–	–	–	–	–	–	–
Charge for the year	42,190	11,415	111,776	126,015	36,512	–	327,908
Depreciation adjustment for revalued assets	(83,404)	–	–	–	–	–	(83,404)
Disposals	–	–	(184,534)	(35,192)	(11)	–	(219,737)
Closing balance as at 31 December 2017	–	77,296	1,662,384	1,080,633	276,948	–	3,097,261
(Less): Impairment	–	–	–	–	–	–	–
Net book value as at 31 December 2017	10,020,133	470,715	613,181	655,886	72,653	186,111	12,018,679

27. Property, plant and equipment (contd.)

27. (b) Property, plant and equipment – Group – 2016

	Land and buildings Rs. '000	Leasehold properties, improvement to rent/ leasehold buildings* Rs. '000	Computer hardware Rs. '000	Office equipment, furniture and fittings Rs. '000	Others Rs. '000	Building work-in-progress Rs. '000	Total Rs. '000
Cost/valuation							
Opening balance as at 1 January 2016	5,498,292	474,060	1,883,308	1,514,177	290,825	134,375	9,795,038
Adjustments	(35,475)	–	(16,661)	–	–	(46,268)	(98,404)
Additions	102,403	14,257	208,230	180,995	53,914	56,265	616,064
Revaluation	–	–	–	–	–	–	–
Disposals	–	–	(9,034)	(42,414)	(5)	(66,928)	(118,381)
Closing balance as at 31 December 2016	5,565,220	488,317	2,065,843	1,652,758	344,734	77,444	10,194,317
(Less): Accumulated depreciation							
Opening balance as at 1 January 2016	–	58,683	1,643,238	916,135	207,690	–	2,825,746
Adjustments	–	–	(3,371)	–	–	–	(3,371)
Charge for the year	41,214	7,198	104,309	115,400	32,762	–	300,883
Disposals	–	–	(9,034)	(41,725)	(5)	–	(50,764)
Closing balance as at 31 December 2016	41,214	65,881	1,735,142	989,810	240,447	–	3,072,494
(Less): Impairment	–	–	–	–	–	–	–
Net book value as at 31 December 2016	5,524,006	422,436	330,701	662,948	104,287	77,444	7,121,823

** Leasehold properties, improvement to rent/leasehold buildings include working progress of improvement to rent/leasehold building amounting 5.3 Mn. as at 31 December 2017.*

27. (c) Revaluation

The Bank has revalued its land and buildings, by professionally qualified independent valuers. The revaluation was carried out by taking into account the observable prices in active market or recent market transactions on arm's length basis. Accordingly a revaluation surplus, amounting to Rs. 4,508.48 Mn. had been credited to the revaluation reserve account in 2017 and Rs. 11.73 Mn. had been adjusted to the same in relation to the prior year.

27. Property, plant and equipment (contd.)

27. (d) Land and buildings of the Bank

Land and building balance include freehold land value of Rs. 7,996.2 Mn.

27. (e) Property, plant and equipment pledged as security for liabilities

There were no items of property, plant and equipment pledged as securities for liabilities.

27. (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 is as follows:

	Group	
As at 31 December	**2017 Rs. '000**	2016 Rs. '000
Computer hardware	**1,370,615**	1,525,529
Office equipment, furniture and fittings	**271,677**	270,382
Intangible assets	**433,977**	401,879
Others – sundry equipments	**27,840**	160,881

28. Intangible assets

Accounting policy

The Group's intangible assets consist of the value of purchased computer software.

Basis of recognition

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Basis of measurement

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

28. Intangible assets (contd.)

Useful economic life and amortisation

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

Derecognition

Intangible assets are derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other operating income' in the Income Statement in the year the asset is derecognised.

The Group does not possess intangible assets with indefinite useful economic life. The estimated economic life of the Group's computer software is four years (25% per annum).

	Bank		Group	
As at 31 December	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Cost				
Opening balance	**639,336**	504,410	**641,306**	506,380
Additions	**319,428**	134,926	**319,828**	134,926
Disposals	**–**	–	**–**	–
Closing balance	**958,764**	639,336	**961,134**	641,306
(Less): Accumulated amortisation				
Opening balance	**482,065**	446,553	**484,035**	448,523
Charge for the year	**96,391**	35,512	**96,444**	35,512
Disposals	**–**	–	**–**	–
Closing balance	**578,456**	482,065	**580,479**	484,035
Net book value	**380,308**	157,271	**380,655**	157,271

29. Deferred tax assets/liabilities

Accounting policy

Detailed discussion on deferred tax is given in Note 13 on page 289.

As at 31 December	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
29. (a) Deferred tax assets				
Deferred tax assets	–	–	**588**	228
Income Statement	–	–	**(588)**	360
Deferred tax assets	–	–	–	588
29. (b) Deferred tax liabilities				
Deferred tax liabilities	**416,180**	504,423	**415,592**	504,423
Income Statement	**90,883**	(88,243)	**91,546**	(88,243)
Net deferred tax liabilities	**507,063**	416,180	**507,138**	416,180

30. Other assets

As at 31 December	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Notional Tax/WHT receivable [refer Note 4. (e)]	**7,184,079**	5,813,616	**7,212,333**	5,833,897
Receivables	**2,195,402**	3,601,388	**2,448,403**	3,710,443
Receivable from treasury on interest (senior citizen)	**8,150,352**	4,332,737	**8,150,352**	4,332,737
Deposits and prepayments	**363,458**	199,139	**363,458**	199,139
Advance payment to Treasury [refer Note (a)]	**4,480,000**	4,800,000	**4,480,000**	4,800,000
Advance payment made to pension II [refer Note 34. (a) 2]	**46,384**	80,656	**46,384**	80,656
Sundry debtors	**27,436**	35,022	**27,436**	35,022
Prepaid employee compensation	**3,115,069**	2,362,379	**3,115,069**	2,362,379
Other assets	**133,509**	536,502	**133,509**	536,502
Total	**25,695,689**	21,761,440	**25,976,944**	21,890,777

30. Other assets (contd.)

Note (a)

At the request of Treasury, the Bank paid an advance of Rs. 6,000 Mn. in 2012 and Rs. 2,000 Mn. in 2013 as confirmed by the Treasury to be set off against the profit within a period of 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. There after 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.

31. Due to banks

Accounting policy

Due to banks represents overdrafts, call money borrowings and Repos by the subsidiary. Subsequent to initial recognition deposits are measured at their amortised cost using EIR method. Interest paid/payable on these dues are recognised in the Income Statement under interest expense.

	Bank		Group	
As at 31 December	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Securities sold under repurchase (Repo) agreements	**–**	–	**647,994**	2,743,282
Other facilities	**180,439**	115,391	**180,439**	115,391
Total	**180,439**	115,391	**828,433**	2,858,673

32. Due to other customers

Accounting policy

Due to other customers include savings deposits and term deposits. Subsequent to initial recognition deposits are measured at their amortised cost using EIR method. Interest paid/payable on deposits are recognised in the Income Statement under interest expense.

	Bank		Group	
As at 31 December	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Amount due to other customers	**737,212,640**	657,280,315	**737,212,640**	657,280,315
Total	**737,212,640**	657,280,315	**737,212,640**	657,280,315

32. Due to other customers (contd.)

32. (a) Analysis by product

	Bank		Group	
As at 31 December	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Savings deposits	**188,191,882**	176,347,004	**188,191,882**	176,347,004
Fixed deposits	**549,020,758**	480,933,311	**549,020,758**	480,933,311
Total	**737,212,640**	657,280,315	**737,212,640**	657,280,315

32. (b) Analysis by currency

	Bank		Group	
As at 31 December	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Sri Lankan Rupee	**727,849,199**	648,802,789	**727,849,199**	648,802,789
United States Dollar	**5,924,264**	5,330,985	**5,924,264**	5,330,985
Euro	**1,211,334**	1,245,906	**1,211,334**	1,245,906
Great Britain Pound	**1,207,599**	1,076,387	**1,207,599**	1,076,387
Australian Dollar	**1,020,083**	824,248	**1,020,083**	824,248
Japanese Yen	**161**	–	**161**	–
Total	**737,212,640**	657,280,315	**737,212,640**	657,280,315

33. Other borrowings

Accounting policy

33.1 Securities sold under repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the Statement of Financial Position as the Group retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the Consolidated Statement of Financial Position as financial liability reflecting as a loan received by the Group, including accrued interest as a liability within "Securities sold under repurchase agreements", reflecting the transaction's economic substance. The difference between the sale and repurchase prices is treated as interest expenses and is accrued over the life of agreement using the EIR.

33.2 Senior notes issued

These represent the funds borrowed by the Bank for long-term funding requirement. It consists of borrowings through international bonds (USD denominated). Subsequent to initial recognition debt securities issued are measured at their amortised cost using EIR method. Interest paid/payable is recognised in profit or loss.

Foreign currency denominated debt securities as at the reporting date are translated to the functional currency at the middle exchange rate of the functional currency at that date. Foreign currency differences arising on retranslation at the reporting date are recognised in profit or loss.

	Bank		Group	
As at 31 December	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Securities sold under repurchase (Repo) agreements	**61,253,161**	54,111,728	**66,069,353**	59,701,246
Senior note issued [Note 33. (a)]	**156,702,616**	152,928,181	**156,702,616**	152,928,181
Total	**217,955,777**	207,039,909	**222,771,969**	212,629,427

33. (a) Senior note issued

Senior note issued	Interest payable frequency	Issued date	Maturity date	Coupon rate %	**2017 Rs. '000**	2016 Rs. '000
750 Million US Dollar senior note	Semi-annually	18.09.2013	18.09.2018	8.875	**117,831,970**	114,980,416
250 Million US Dollar senior note	Semi-annually	10.09.2014	10.09.2019	5.150	**38,870,646**	37,947,765
					156,702,616	152,928,181

34. Other liabilities

Accounting policy

Other liabilities include provisions made in account of interests, fees and expenses, pensions, leave encashment and other expenses. These liabilities are recorded at amounts expected to be payable at reporting date.

	Bank		Group	
As at 31 December	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Sundry creditors	**119,903**	91,375	**124,903**	92,487
Interest payable	–	88,054	–	88,054
Provision for pension scheme I [Note 34. (a) 1]	**2,750,601**	1,252,553	**2,750,601**	1,252,553
Provision for medical assistance scheme [Note 34. (a) 3]	**960,830**	644,377	**960,830**	644,377
Provision for gratuity [Note 34. (a) 4]	–	–	**1,234**	1,260
Unamortised day one difference currency swaps (refer Note 19.2)	**1,099,322**	2,448,670	**1,099,322**	2,448,670
Other payables	**4,131,769**	4,075,027	**4,170,571**	4,081,104
Total	**9,062,425**	8,600,056	**9,107,460**	8,608,506

34. (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 Medical Assistance Scheme for retired employees.

The assets of these schemes are held independently of the Bank's assets and administered by Boards of Trustees/Managers, representing the management and the employees, as provided in the trust deed/rules of the respective funds.

All the funds are subject to annual audits independent to the audit of the Bank, by a firm of Chartered Accountants appointed by the members and actuarial valuations are carried out at least once in every two years, as per the rules governing these funds.

34. (a) 1. National Savings Bank Employees' Pension Scheme I

Pension Scheme I

An actuarial valuation was carried out by Mr Piyal S Goonetilleke, fellow of Society of Actuaries (USA) of Piyal S Goonetilleke & Associates, on 31 December 2017.

Projected Unit Credit Method was used to allocate the actuarial present value of the projected benefits earned by employees to date of 31 December 2017.

34. Other liabilities (contd.)

34. (a) Defined benefit plans (contd.)

34. (a) 1. National Savings Bank Employees' Pension Scheme I (contd.)

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
(a) Net asset/(liability) recognised in Statement of Financial Position				
Fair value of plan assets	**13,552,607**	13,198,392	**13,552,607**	**13,198,392**
Defined benefit obligation	**(16,303,208)**	(14,450,945)	**(16,303,208)**	**(14,450,945)**
Total	**(2,750,601)**	(1,252,553)	**(2,750,601)**	**(1,252,553)**
(b) Amount recognised in Income Statement				
Current service cost	**137,244**	155,778	**137,244**	**155,981**
Interest cost on benefit obligation	**254,833**	421,816	**254,833**	**421,816**
Net benefit expense	**392,077**	577,594	**392,077**	**577,797**
(c) Amount recognised in Other Comprehensive Income (OCI)				
Provision adjustment	–	(796,913)	–	(796,913)
Experience (gain)/loss	**526,139**	1,017,720	**526,139**	1,017,720
(Gain)/loss due to changes in assumptions	**1,062,775**	(2,400,266)	**1,062,775**	(2,400,266)
Actuarial gain/(loss) on plan assets	**(90,866)**	84,779	**(90,866)**	84,779
Difference in interest income on plan assets	–	153,482	–	153,482
Total	**1,498,048**	(1,941,199)	**1,498,048**	(1,941,199)
(d) Changes in fair value of plan assets are as follows:				
Opening fair value of plan assets	**13,198,392**	12,189,981	**13,198,392**	**12,189,981**
Expected return on plan assets	**1,479,280**	966,365	**1,479,280**	**966,365**
Actual employer contribution	**392,077**	1,642,381	**392,077**	**1,642,381**
Benefits paid	**(1,608,008)**	(1,515,555)	**(1,608,008)**	**(1,515,555)**
Actuarial gain/(loss) on plan assets	**90,866**	(84,779)	**90,866**	**(84,779)**
Closing fair value of plan assets	**13,552,607**	13,198,392	**13,552,607**	**13,198,392**

34. Other liabilities (contd.)

34. (a) Defined benefit plans (contd.)

34. (a) 1. National Savings Bank Employees' Pension Scheme I (contd.)

	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
(e) Changes in present value of defined benefit obligation are as follows:				
Opening defined benefit obligation	**14,450,945**	15,651,403	**14,450,945**	15,651,403
Interest cost	**1,734,113**	1,541,663	**1,734,113**	1,541,663
Current service cost	**137,243**	155,980	**137,243**	155,980
Benefits paid	**(1,608,008)**	(1,515,555)	**(1,608,008)**	(1,515,555)
(Gain)/loss due to changes in assumptions	**1,062,775**	(2,400,266)	**1,062,775**	(2,400,266)
Actuarial (gain)/loss on obligation	**526,140**	1,017,720	**526,140**	1,017,720
Closing defined benefit obligation	**16,303,208**	14,450,945	**16,303,208**	14,450,945
(f) Plan assets consists of followings:				
Treasury Bonds	**7,438,650**	7,114,705	**7,438,650**	**7,114,705**
Treasury Bills	**237,424**	2,577,678	**237,424**	**2,577,678**
Fixed deposits	**267,939**	673,231	**267,939**	**673,231**
Securities purchased under resale agreements	**242,285**	262,843	**242,285**	**262,843**
Debentures	**4,699,545**	2,230,133	**4,699,545**	**2,230,133**
Trust Certificate	**100,000**	–	**100,000**	–
Cash at Bank of Ceylon	**52**	11,194	**52**	**11,194**
Other assets	**566,712**	328,609	**566,712**	**328,609**
Total	**13,552,607**	13,198,392	**13,552,607**	**13,198,392**

	Pension Scheme I 2017	Pension Scheme I 2016
(g) Actuarial assumption		
Future salary increment rate (%)	**6.50**	6.50
Discount rate (%)	**11.00**	12.00
Increase in future Cost of Living Allowance (COLA) (%)	**4.50**	4.50
Mortality	**GA 1983 Mortality table**	GA 1983 Mortality table
Retirement age	**57 years**	57 years
Normal form of payment	**Monthly**	Monthly

34. Other liabilities (contd.)

34. (a) Defined benefit plans (contd.)

34. (a) 1. National Savings Bank Employees' Pension Scheme I (contd.)

Turnover rate

Age	**2017 %**	2016 %
20	**2**	2
25	**1.5**	1.5
30	**1**	1
35	**1**	1
40	**1**	1
45	**1**	1
50	**1**	1
55	**–**	–

(h) Increase/decrease in the following assumptions will have an impact on the present value of defined benefit obligation as illustrated below:

	Bank and Group			
	2017		2016	
	1% increase	**1% decrease**	1% increase	1% decrease
Future salary increment rate	**16,333,406**	**16,274,156**	14,497,686	14,406,862
Discount rate	**15,240,433**	**17,513,994**	13,543,373	15,481,918

34. Other liabilities (contd.)

34. (a) Defined benefit plans (contd.)

34. (a) 2. National Savings Bank Employee's Pension Scheme II

An actuarial valuation was carried out by Mr Piyal S Goonetilleke, fellow of Society of Actuaries (USA) of Piyal S Goonetilleke & Associates, on 31 December 2017.

Projected Unit Credit Method was used to allocate the actuarial present value of the projected benefits earned by employees to date of 31 December 2017.

	Bank		Group	
As at 31 December	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
(a) Net asset/(liability) recognised in Statement of Financial Position				
Fair value of plan assets	**1,527,607**	1,086,586	**1,527,607**	1,086,586
Defined benefit obligation	**(1,481,223)**	(1,005,930)	**(1,481,223)**	(1,005,930)
Total	**46,384**	80,656	**46,384**	80,656
(b) Amount recognised in Income Statement				
Current service cost	**106,574**	152,794	**106,906**	153,075
Interest cost on benefit obligation	**(9,334)**	98,964	**(9,334)**	98,964
Net benefit expense	**97,240**	251,758	**97,572**	252,039
(c) Amount recognised in Other Comprehensive Income (OCI)				
Provision adjustment	**–**	–	**–**	–
Experience (gain)/loss	**16,090**	23,289	**16,090**	23,289
(Gain)/loss due to changes in assumptions	**236,887**	(507,585)	**236,887**	(507,585)
Actuarial gain/(loss) on plan assets	**4,947**	(51,278)	**4,947**	(51,278)
Difference in interest income on plan assets	**–**	2,916	**–**	2,916
	257,924	(532,658)	**257,924**	(532,658)

34. Other liabilities (contd.)

34. (a) Defined benefit plans (contd.)

34. (a) 2. National Savings Bank Employee's Pension Scheme II (contd.)

As at 31 December	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
(d) Changes in fair value of plan assets are as follows:				
Opening fair value of plan assets	**1,086,586**	218,065	**1,086,586**	218,065
Expected return on plan assets	**130,046**	18,360	**130,046**	18,360
Actual employer contribution	**321,223**	802,686	**321,223**	802,686
Benefits paid	**(5,302)**	(3,804)	**(5,302)**	(3,804)
Actuarial gain/(loss) on plan assets	**(4,947)**	51,278	**(4,947)**	51,278
Closing fair value of plan assets	**1,527,607**	1,086,586	**1,527,607**	1,086,586
(e) Changes in present value of defined benefit obligation are as follows:				
Opening defined benefit obligation	**1,005,930**	1,220,714	**1,005,930**	1,220,714
Interest cost	**120,712**	120,240	**120,712**	120,240
Current service cost	**106,906**	153,075	**106,906**	153,075
Benefits paid	**(5,302)**	(3,804)	**(5,302)**	(3,804)
(Gain)/loss due to changes in assumptions	**236,887**	(507,585)	**236,887**	(507,585)
Actuarial (gain)/loss on obligation	**16,090**	23,289	**16,090**	23,289
Closing defined benefit obligation	**1,481,223**	1,005,930	**1,481,223**	1,005,930
(f) Plan assets consists of followings:				
Treasury Bonds	**1,376,780**	937,115	**1,376,780**	937,115
Treasury Bills	–	65,000	–	65,000
Fixed Deposits	**140,747**	63,487	**140,747**	63,487
Securities purchased under resale agreements	**2,161**	–	**2,161**	–
Savings	**1,006**	186	**1,006**	186
Other assets	**6,913**	20,798	**6,913**	20,798
Total	**1,527,607**	1,086,586	**1,527,607**	1,086,586

34. Other liabilities (contd.)

34. (a) Defined benefit plans (contd.)

34. (a) 2. National Savings Bank Employee's Pension Scheme II (contd.)

	2017 %	2016 %
(g) Actuarial assumption		
Future salary increment rate	**6.50**	6.50
Discount rate	**11.00**	12.00
Increase in future Cost of Living Allowances (COLA)	**4.50**	4.50
Mortality	**GA 1983 Mortality table**	GA 1983 Mortality table
Retirement age	**57 years**	57 years
Normal form of payment	**Monthly**	Monthly

Turnover rate

Age	%	%
20	**2**	2
25	**1.5**	1.5
30	**1**	1
35	**1**	1
40	**1**	1
45	**1**	1
50	**1**	1
55	**–**	–

(h) Increase/decrease in the following assumptions will have an impact on the present value of defined benefit obligation as illustrated below:

	Bank and Group			
	2017		2016	
	1% increase	**1% decrease**	1% increase	1% decrease
Future salary increment rate	**1,666,712**	**1,323,749**	1,145,953	887,635
Discount rate	**1,244,336**	**1,784,570**	846,718	1,208,269

34. Other liabilities (contd.)

34. (a) Defined benefit plans (contd.)

34. (a) 3. Medical Assistance Scheme for the Retired Employees of NSB

An actuarial valuation was carried out by Mr Piyal S Goonetilleke, fellow of Society of Actuaries (USA) of Piyal S Goonetilleke & Associates, on 31 December 2017.

Projected Unit Credit Method was used to allocate the actuarial present value of the projected benefits earned by employees to date of 31 December 2017.

As at 31 December	**2017 Rs. '000**	2016 Rs. '000
(a) Net asset/(liability) recognised in Statement of Financial Position		
Fair value of plan assets	**283,336**	300,986
Defined benefit obligation	**(1,230,477)**	(937,788)
Less:		
Contribution from employees	**(13,689)**	(7,575)
Total	**(960,830)**	(644,377)
(b) Amount recognised in Income Statement		
Current service cost	**9,393**	4,746
Interest cost on benefit obligation	**86,715**	66,952
Net benefit expense	**96,108**	71,698
(c) Amount recognised in other Comprehensive Income (OCI)		
Provision adjustment	**–**	47,471
Experience (gain)/loss	**235,163**	232,764
(Gain)/loss due to changes in assumptions	**94,023**	(177,376)
Actuarial gain/(loss) on plan assets	**(12,733)**	(11,788)
Difference in interest income on plan assets	**–**	3,480
Total	**316,453**	94,550
(d) Changes in fair value of plan assets are as follows:		
Opening fair value of plan assets	**300,986**	340,170
Expected return on plan assets	**25,820**	21,909
Actual employer contribution	**96,108**	71,698
Actual participants' contribution	**6,114**	7,575
Benefits paid	**(158,425)**	(152,154)
Actuarial gain/(loss) on plan assets	**12,733**	11,788
Closing fair value of plan assets	**283,336**	300,986

34. Other liabilities (contd.)

34. (a) Defined benefit plans (contd.)

34. (a) 3. Medical Assistance Scheme for the Retired Employees of NSB (contd.)

As at 31 December	**2017 Rs. '000**	2016 Rs. '000
(e) Changes in present value of defined benefit obligation are as follows:		
Opening defined benefit obligation	**937,788**	937,468
Interest cost	**112,535**	92,341
Current service cost	**9,393**	4,746
Benefits paid	**(158,425)**	(152,154)
(Gain)/loss due to changes in assumptions	**94,023**	(177,376)
Actuarial (gain)/loss on obligation	**235,163**	232,764
Closing defined benefit obligation	**1,230,477**	937,788
(f) Plan assets consists of followings:		
Treasury Bonds	**154,270**	121,764
Treasury Bills	**–**	234,960
Fixed Deposits	**99,224**	6,005
Securities purchased under resale agreements	**7,615**	18,450
Trust Certificate	**83,342**	–
Savings	**484**	265
Other payable	**(61,599)**	(80,458)
Total	**283,336**	300,986

(g) Actuarial Assumption

	2017 %	2016 %
Medical cost inflation rate	**5.00**	5.00
Discount rate	**11.00**	12.00

34. Other liabilities (contd.)

34. (a) Defined benefit plans (contd.)

34. (a) 4. Gratuity plan – Bank and Group

Bank

With the establishment of Pension Scheme II, employees who joined the Bank on or after 1 October 1995 are become members of the Pension Scheme II, thus are not entitle to the rights and privileges under Service Gratuity Scheme. However, where there are payment of termination gratuity before the entitlement pension of Bank recognise the expense on cash basis.

Group

The staff members of the subsidiary company is 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.

	2017		2016	
	Bank Rs. '000	**Group Rs. '000**	Bank Rs. '000	Group Rs. '000
(a) Net benefit expense (recognised under personal expenses)				
Current service cost	–	**119**	–	115
Interest cost on benefit obligation	–	**125**	–	132
Net benefit expense	–	**244**	–	247
(b) Provision for gratuity				
Defined benefit obligation as at 1 January	–	**1,260**	–	1,346
Interest cost	–	**125**	–	132
Current service cost	–	**119**	–	115
Benefits paid	–	–	–	–
Actuarial (gain)/loss on obligation (recognised in OCI)	–	**(270)**	–	(333)
Defined benefit obligation at 31 December	–	**1,234**	–	1,260

34. Other liabilities (contd.)

34. (a) Defined benefit plans (contd.)

34. (a) 4. Gratuity plan – Bank and Group (contd.)

(c) Actuarial assumption

		Group	
		2017	2016
		%	%
Future salary increment rate		**6.59**	6.50
Discount rate		**10.63**	10.00
Mortality		**0**	0

Staff turnover rate and average future working lifetime

Age group	30-34	35-39	40<
Staff turnover rate	0%	0%	0%
Average future working lifetime – Years	30	23	16

(d) Increase/decrease in the following assumptions will have an impact on the present value of defined benefit obligation as illustrated below:

	Group			
	2017		2016	
	1% increase	**1% decrease**	1% increase	1% decrease
Future salary increment rate	**183**	**219**	226	190
Discount rate	**226**	**191**	183	220

Assumptions

Financial assumptions – Rate of discount, salary increment rate

Demographic assumptions – Mortality, staff turn over, disability, retirement age

35. Subordinated liabilities

Accounting policy

These represent the funds borrowed by the Group for long-term funding requirements. Subsequent to initial recognition these are measured at their amortised cost using the EIR method, except where the Group designates them at fair value through profit or loss. Interest paid/payable is recognised in profit or loss.

Primary objective of issuing debenture is to increase the capital of the Bank in order to enhance the capital adequacy ratio and reduce the maturity mismatch between the asset and liability portfolio of the Bank.

The Bank intends to utilise the entire proceeds of the issue to expand its asset base in the ordinary course of business.

As at 31 December	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Balance as at 1 January	**6,000,000**	–	**6,000,000**	–
Amount borrowed during the year	–	6,000,000	–	6,000,000
Repayments/redemptions during the year	–	–	–	–
Balance as at 31 December (before adjusting for amortised interest) [refer Note 35.1]	**6,000,000**	6,000,000	**6,000,000**	6,000,000
Net effect of amortised interest payable	**6,411**	6,411	**6,411**	6,411
Adjusted balance as at 31 December	**6,006,411**	6,006,411	**6,006,411**	6,006,411

Outstanding subordinated liabilities of the Bank as at 31 December 2017 consisted of Rs. 6,000,000,000.00 rated, unsecured subordinated and redeemable debentures of Rs. 100.00 issued on 29 December 2016 as private placement under the provision of the NSB Act No. 30 of 1971. NSB Fund Management Company Limited is acting as Trustee for this debenture issue. The debenture carry AA+(lka) rating from the Fitch Ratings Lanka Limited.

35.1 Categories of subordinated liabilities

Category	Face value	Interest rate	Repayment terms	Issue date	Maturity date	Effective annual yield		Bank		Group	
						2017 %	2016 %	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Issued by the Bank											
Fixed rate 13%	6,000,000	13% p.a.	Semi-Annually	29 December 2016	29 December 2021	**13.42**	13.42	**6,000,000**	6,000,000	**6,000,000**	6,000,000
Total amount due after 1 year								**6,000,000**	6,000,000	**6,000,000**	6,000,000

In the event of the winding up of the issuer, the above liabilities would be subordinated to the claims of depositors and all other creditors of the issuer.

36. Stated capital/Assigned capital

As at 31 December	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Authorised				
One billion ordinary Share 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)				
620 million ordinary shares of Rs. 10.00 each	**6,200,000**	3,200,000	**6,200,000**	3,200,000
Issue of ordinary shares during the year				
50 million ordinary shares of Rs. 10.00 each	**500,000**	3,000,000	**500,000**	3,000,000
Total	**6,700,000**	6,200,000	**6,700,000**	6,200,000

As per Section 47 of NSB Act subsection 3, Bank has issued 50 Mn. ordinary shares of Rs. 10.00 using unclaimed deposit reserve to the Secretary to the Treasury on 31 December 2017 (Refer Note 38.1 unclaimed deposit reserve on page 342).

37. Statutory reserve fund

The statutory reserve fund is maintained as per the requirements under Section 20 (1) of the Banking Act No. 30 of 1988. Accordingly, the fund is built up by allocating a sum equivalent to not less than 5% of the profit after tax, but before declaring any dividend or any profit that are transferred to elsewhere until the reserve is equal to 50% of the Bank's stated capital and thereafter sum equivalent to 2% of such profit until the amount of said reserve fund is equal to the stated capital of the Bank.

The balance in the statutory reserve fund will be used only for the purposes specified in the Section 20 (2) of the Banking Act No. 30 of 1988.

As at 31 December	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Opening balance	**2,522,467**	2,047,581	**2,522,467**	2,047,581
Transfer during the period – 5% of profit after tax	**480,485**	474,886	**480,485**	474,886
Closing balance	**3,002,952**	2,522,467	**3,002,952**	2,522,467

38. Other reserves

Bank – 2017

	Opening balance at 1 January 2017 Rs. '000	Movement/ transfers Rs. '000	**Closing balance at 31 December 2017 Rs. '000**
General reserve	15,740,879	2,000,000	**17,740,879**
Revaluation reserve	3,296,565	4,496,752	**7,793,317**
Available-for-sale reserve	1,378,818	(33,581)	**1,345,237**
Cash flow hedging reserve	1,850	290,074	**291,924**
Other reserves (refer Notes 38.1 and 38.2)	725,695	392,891	**1,118,586**
Total	21,143,806	7,146,136	**28,289,941**

Bank – 2016

	Opening balance at 1 January 2016 Rs. '000	Movement/ transfers Rs. '000	Closing balance at 31 December 2016 Rs. '000
General reserve	18,839,027	(3,098,147)	15,740,879
Revaluation reserve	3,296,565	–	3,296,565
Available-for-sale reserve	1,631,862	(253,044)	1,378,818
Cash flow hedging reserve	139,106	(137,256)	1,850
Other reserves (refer Notes 38.1 and 38.2)	3,269,686	(2,543,992)	725,695
Total	27,176,246	(6,032,439)	21,143,806

Group – 2017

	Opening balance at 1 January 2017 Rs. '000	Movement/ transfers Rs. '000	**Closing balance at 31 December 2017 Rs. '000**
General reserve	15,740,879	2,000,000	**17,740,879**
Revaluation reserve	3,296,565	4,496,752	**7,793,317**
Available-for-sale reserve	1,096,758	131,662	**1,228,420**
Cash flow hedging reserve	1,850	290,074	**291,924**
Other reserves (refer Notes 38.1, 38.2 and 38.3)	1,219,656	483,590	**1,703,246**
Total	21,355,707	7,402,077	**28,757,786**

38. Other reserves (contd.)

Group – 2016

	Opening balance at 1 January 2016 Rs. '000	Movement/ transfers Rs. '000	Closing balance at 31 December 2016 Rs. '000
General reserve	18,839,027	(3,098,147)	15,740,879
Revaluation reserve	3,296,565	–	3,296,565
Available-for-sale reserve	1,452,761	(356,003)	1,096,758
Cash flow hedging reserve	139,106	(137,256)	1,850
Other reserves (refer Notes 38.1, 38.2 and 38.3)	3,743,793	(2,524,138)	1,219,656
Total	27,471,252	(6,115,544)	21,355,707

38.1 Unclaimed deposit reserve

	Bank		Group	
As at 31 December	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Opening Balance	**723,509**	3,267,505	**723,509**	3,267,505
Transferred to share capital	**(500,000)**	(3,000,000)	**(500,000)**	(3,000,000)
Transferred during the year	**892,892**	456,004	**892,892**	456,004
Closing balance	**1,116,401**	723,509	**1,116,401**	723,509

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 2017, was Rs. 892.9 Mn.

38.2 Special reserve

	Bank		Group	
As at 31 December	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Opening balance	**2,186**	2,182	**2,186**	2,182
Transferred during the year	**(1)**	4	**(1)**	4
Closing balance	**2,185**	2,186	**2,185**	2,186

38. Other reserves (contd.)

38.2 Special reserve (contd.)

The special reserve represents the amount transferred from the dormant accounts of customers where the aggregate of the amount dormant is less than Rs. 10.00 (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. 6,700 Mn. reflected in the Statement of Financial Position was issued by capitalising the unclaimed deposit reserve time to time.

38.3 Special risk reserve – (NSB Fund Management Company Limited)

	Bank		Group	
As at 31 December	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Opening balance	–	–	**493,961**	474,107
Transferred during the year – 25% of profit after tax	–	–	**90,699**	19,854
Closing balance	–	–	**584,660**	493,961

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

	Bank		Group	
As at 31 December	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Total other reserves	**1,118,586**	725,695	**1,703,246**	1,219,656

39. Contingent liabilities and commitments

Accounting policy

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future event or present obligation where the transfer of economic benefit is not probable or cannot be reliably measured as defined in the Sri Lanka Accounting Standard LKAS 37 on – "Provisions, Contingent Liabilities and Contingent Assets".

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of finance guarantees, letters of credit and other undrawn commitments to lend. Letters of credit and guarantees commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and stand by 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.

	Bank		Group	
As at 31 December	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Commitments				
Commitment for unutilised credit facilities	**14,963,565**	22,727,130	**14,963,565**	22,727,130
Other commitments indirect credit facilities	**78,648**	74,149	**78,648**	74,149
Capital commitments (Note 39.1)	**1,260,213**	468,580	**1,260,213**	468,580
	16,302,426	23,269,859	**16,302,426**	23,269,859
Contingent liabilities				
Documentary credit	**276,003**	109,948	**276,003**	109,948
Guarantees	**1,741,883**	1,590,253	**1,741,883**	1,590,253
	2,017,886	1,700,201	**2,017,886**	1,700,201
Total commitment and contingencies	**18,320,312**	24,970,060	**18,320,312**	24,970,060

39. Contingent liabilities and commitments (contd.)

39.1 Capital commitments

Capital expenditure approved by the Board of Directors, for which provisions have not been made in the Financial Statements are detailed below:

	Bank		Group	
As at 31 December	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Approved and contracted for	**1,187,213**	408,380	**1,187,213**	408,380
Approved but not contracted for	**73,000**	60,200	**73,000**	60,200
	1,260,213	468,580	**1,260,213**	468,580

40. Related party disclosures

Accounting policy

The financial dealings carried out with the Government of Sri Lanka and state-controlled entities for the year and as of the date of the Statement of Financial Position are disclosed below on a collective basis:

40. (a) Transactions with state and state controlled entities

	Bank		Group	
As at 31 December	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Assets				
Loans to Government	**2,075,000**	2,075,000	**2,075,000**	2,075,000
Investments made on Government Securities	**550,064,186**	525,123,106	**556,857,496**	535,630,193
Investments on state and state-controlled entities	**151,145,775**	127,543,373	**151,145,775**	127,543,373
Securities purchased under resale agreements	**1,660,634**	2,220,500	**1,672,197**	2,232,062
Tax receivable (Notional Tax)	**7,184,079**	5,813,616	**7,212,333**	5,833,897
Postmaster-General's current account	**351,107**	314,534	**351,107**	314,534
Advance payment to Government	**4,480,000**	4,800,000	**4,480,000**	4,800,000
Other receivables from Government	**8,426,009**	5,919,297	**8,426,009**	5,919,297
	725,386,790	673,809,427	**732,219,917**	684,348,357

40. Related party disclosures (contd.)

40. (a) Transactions with state and state controlled entities (contd.)

	Bank		Group	
As at 31 December	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Liabilities				
Due to other customers	**2,198,575**	–	**2,198,575**	–
Securities sold under repurchase agreements	**51,917,316**	21,708,120	**27,297,637**	27,297,637
Taxes paid				
Income tax	**4,419,019**	3,805,271	**4,595,065**	3,834,995
Value added tax	**3,082,619**	2,405,618	**3,168,299**	2,423,091
Nation building tax	**411,016**	385,670	**422,440**	388,482
Contribution to consolidated fund – dividend/levy	**5,111,114**	12,026,000	**5,111,114**	12,027,650
	13,023,768	18,622,560	**13,296,918**	18,674,217

40. (b) Transactions with subsidiary company (NSB Fund Management Company Limited)

The Bank has contributed Rs. 900 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 a service charge of Rs. 58.7 Mn. has been made (Rs. 52.6 Mn. in 2016). Bank received dividend of Rs. 922.35 Mn. during the Year (Rs. 14.85 Mn. in 2016).

The Bank holds following balances with NSB Fund Management Company Limited, as at the reporting date:

	Bank	
As at 31 December	**2017 Rs. '000**	2016 Rs. '000
Assets		
Inter-company current account	**51**	300
Securities purchased under resale agreement	**1,564,600**	810,000
Interest receivable on securities purchased under resale agreement	**1,326**	383
Other receivable	**955**	1,764
Liabilities		
Other payable	**750**	–

40. Related party disclosures (contd.)

40. (c) Transactions with post-employment benefit plans of the Bank

Transactions which were taken place between the Bank and post-employment benefit plans of the Bank as at the year end are summarised below:

	Bank		Group	
As at 31 December	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
National Savings Bank Employees' Pension Scheme I				
Liabilities				
Fixed deposits	**263,813**	844,854	**263,813**	844,854
Securities purchased under resale agreements	**242,643**	14,800	**242,643**	14,800
Debentures	**1,700,000**	1,700,000	**1,700,000**	1,700,000
Assets				
Securities purchased under resale agreements	–	1,525,000	–	1,525,000
Loan against deposit	–	170,490	–	170,490
National Savings Bank Employees' Provident Fund				
Liabilities				
Fixed deposits	–	241,000	–	241,000
Securities purchased under resale agreements	**36,637**	20,000	**36,637**	20,000
Debentures	**125,000**	125,000	**125,000**	125,000
Assets				
Repo borrowings	**28,068**	–	**28,068**	–
Liabilities				
National Savings Bank Employees' Pension Scheme II				
Fixed deposits	**140,373**	66,300	**140,373**	66,300
Securities purchased under resale agreements	**3,137**	–	**3,137**	–
Medical Assistance Scheme for the Retired Employees of NSB				
Fixed deposits	**101,405**	6,967	**101,405**	6,967
Securities purchased under resale agreements	**8,253**	17,516	**8,253**	17,516
Widows'/Widowers' and Orphans Pension Fund				
Fixed deposits	**19,763**	20,800	**19,763**	20,800
Securities purchased under resale agreements	**5,078**	–	**5,078**	–

40. Related party disclosures (contd.)

40. (d) Transactions with Key Managerial Persons

(i) Key Managerial Persons include members of the Board of Directors of the Bank and key employees of the Bank holding directorships in subsidiary, NSB Fund Management Company Limited.

(ii) Loans and advances in the names of Key Managerial Persons are given below:

	Bank and Group	
As at 31 December	**2017 Rs. '000**	2016 Rs. '000
Loans and advances	**82,294**	52,660

(iii) Chairman's, Directors', GM's/CEO's and DGM's emoluments and fees amounted to Rs. 69.11 Mn. in 2017 (Rs. 70.52 Mn. in 2016).

40. (e) Net accommodation granted to related parties

Disclosure under Rule 3 (8) (ii) (e) of the Governance Direction of No. 12 of 2007 issued by the Central Bank of Sri Lanka.

	Bank and Group	
As at 31 December	**2017 Rs. '000**	2016 Rs. '000
Key Managerial Persons		
Loan and advances	**82,294**	52,660
Total net accommodation	**82,294**	52,660
Regulatory capital	**32,808,403**	29,667,577
Net accommodation as a percentage of the Bank's regulatory capital (%)	**0.3**	0.2

40. (f) Due from other related parties

	Bank		Group	
As at 31 December	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Securities purchased under resale agreements – Entrust Securities PLC	**31,300**	157,400	**31,300**	157,400
Receivable from Entrust Securities PLC	**96,068**	38,540	**96,068**	38,540
	127,368	195,940	**127,368**	195,940

40. Related party disclosures (contd.)

40. (g) Due to other-related parties

As at 31 December	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Repo Borrowings – Entrust Securities PLC	–	2,637,795	–	2,637,795
Other Payable – Entrust Securities PLC	**633,133**	607,985	**633,133**	607,985
	633,133	3,245,780	**633,133**	3,245,780

41. Net assets value per ordinary share

As at 31 December	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Amount used as the numerator				
Shareholders' funds	**40,221,778**	32,245,580	**41,266,465**	33,786,788
Number of ordinary share used as the denominator				
Total number of shares	**670,000**	620,000	**670,000**	620,000
Net assets value per ordinary share (Rs.)	**60.03**	52.01	**61.59**	54.49

42. Non-cash items included in profit before tax

For the year ended 31 December	Bank		Group	
	2017 Rs. '000	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Depreciation of property, plant and equipment	**315,741**	289,683	**316,492**	290,314
Amortisation of leasehold property/improvement	**11,415**	7,198	**11,415**	7,198
Amortisation of intangible assets	**96,391**	35,512	**96,444**	35,512
Impairment losses on loans and receivables	**693,233**	(99,693)	**693,233**	(99,693)
Profit on disposal of property, plant and equipment	**(2,826)**	(70,016)	**(2,824)**	(70,014)
Accretion of discounts and amortisation of premiums of investment securities	**(721,202)**	1,048,604	**(1,009,119)**	1,165,960
Foreign currency revaluation	**(111,687)**	(16,726)	**(111,687)**	(16,726)
Bonus share dividend received	**(750,000)**	–	–	–
Gain from financial investments/others	**(707,491)**	(40,923)	**(724,991)**	(40,923)
Total	**(1,176,426)**	1,153,639	**(731,037)**	1,271,628

43. Change in operating assets

For the year ended 31 December	Bank		Group	
	2017 **Rs. '000**	2016 Rs. '000	**2017** **Rs. '000**	2016 Rs. '000
Change in derivative financial instruments	**1,657,805**	869,583	**1,657,805**	869,583
Net (increase)/decrease in debt securities, Treasury Bills and Bonds and equity shares held at FVTPL/HTM	**(23,930,314)**	1,680,328	**(21,398,172)**	(776,569)
Net (increase)/decrease in loans and receivables to banks	**4,119,507**	(8,116,249)	**3,862,838**	(8,098,247)
Net (increase)/decrease in loans and receivables to customers	**(69,026,157)**	(43,844,407)	**(68,281,204)**	(43,040,691)
Change in other assets	**(3,802,125)**	(5,351,671)	**(3,954,044)**	(5,454,009)
Total	**(90,981,284)**	(54,762,416)	**(88,112,777)**	(56,499,933)

44. Change in operating liabilities

For the year ended 31 December	Bank		Group	
	2017 **Rs. '000**	2016 Rs. '000	**2017** **Rs. '000**	2016 Rs. '000
Change in derivative financial instruments	**956,937**	–	**956,937**	–
Change in deposits from banks, customers and debt securities issued	**80,874,270**	61,504,606	**78,778,982**	64,212,785
Change in other liabilities	**(757,526)**	106,892	**(720,668)**	103,812
Total	**81,073,681**	61,611,498	**79,015,251**	64,316,597

45. Litigation against the Bank and the Group

Litigation is a common occurrence in the banking industry due to the nature of the business. The Bank has an established protocol for dealing with such legal claims. Once professional advice has been obtained on the certainty of the outcome and the amount of damages reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. The unresolved court cases against the Bank as at the year end for which adjustments to the Financial Statements have not been made due to the uncertainty of its outcome are as follows:

As at 31 December	**2017**	2016
Tribunal/Court		
Labour Tribunal	**5**	6
Labour Commission	**0**	1
Industrial Court	**0**	2
Magistrate's Court	**4**	8
District Court	**30**	32
High Court/Civil Appellate High Court/Provincial High Court	**4**	5
Court of Appeal	**6**	8
Supreme Court	**1**	3

46. Events occurring after the reporting date

Accounting policy

Events occurring after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the Financial Statements are authorised for issue.

Where necessary all material events after the reporting date have been considered and appropriate adjustments/ disclosures have been made in the Financial Statements as per the LKAS 10 – "Events after the Reporting Period".

No circumstances have arisen since the reporting date which would require adjustments to or disclosure in the Financial Statements other than the following:

Merger with Sri Lanka Savings Bank

In 2016, Budget proposals, Hon. Minister of Finance has proposed that National Savings Bank to be merged with Sri Lanka Savings Bank and the Bank is in the process of evaluating the proposal as at the reporting date.

47. Comparative figures

The comparative information is reclassified wherever necessary, to comply with the current year's classification in order to provide a better presentation.

There were no reclassifications during the year.

48. Financial risk management

48.1 Risk management framework

Integrated risk management framework of NSB encompasses policies and procedures covering various risks, mechanism to identify such risks, and effective measures to manage and mitigate risks.

Risk management framework of the Bank begins with the oversight of the Board of Directors. It has set-up Board Integrated Risk Management Committee (BIRMC) to assist the Board of Directors in discharging its risk management responsibility. The Risk Management Division (RMD) independently reports to the Board through BIRMC. These Management Committees review regular reports from respective Business Divisions and RMD, to ensure adequacy and effectiveness of Bank's risk management with meticulous focus.

The following executive management subcommittees, are responsible for the coordination of risk matters for each of the areas of risk management with meticulous focus:

- Operational Risk Management Committee
- Asset and Liability Management Committee
- Credit Committee
- Investment Committee
- IT Steering Committee
- Human Resource Committee
- Performance Review Committee
- Marketing Committee
- Management Committee

Internal Audit Division engages both regular and ad hoc reviews of risk management controls and procedures and the results are reported to the Board Audit Committee (BAC).

48. Financial risk management (contd.)

48.2 Broad risk categories in focus

The Bank is exposed to the following key risks from financial instruments:

a. Credit risk
b. Liquidity risk
c. Market risk –
   (i) Foreign exchange risk
   (ii) Equity risk
   (iii) Interest rate risk
d. Operational risk

(a) Credit risk

Credit risk is the risk of losses resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Bank which could materialise from the banking book and both on or off-balance sheet. The on-balance sheet credit risk arises mainly from notional value of financial products such as retail loans, corporate loans, loans to banks and financial institutions, loans to State-Owned Enterprises (SOEs) and loans to the Government. The off-balance sheet credit risk arises from undrawn loan commitments.

i. Credit risk exposures of the Bank

The total credit exposure which is 38.5% of the Bank's total assets is the second major line of business (the investment in risk free securities is 54.8% of total assets). Hence the magnitude of credit risk is comparatively moderate to the Bank, albeit the fact that the Bank considers credit risk as a major type of risk.

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

Net exposure to credit risk

The following tables show the maximum exposure and net exposure (fair value of any collateral held, value of risk-free investments, Government guarantees and impairment provision made were deducted in arriving the net exposure) to credit risk by class of financial assets.

48. Financial risk management (contd.)

48.2 Broad risk categories in focus (contd.)

As at 31 December	2017		2016	
	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	**3,849,627**	**2,904,867**	4,619,699	3,938,171
Balances with central banks	**–**	**–**	–	–
Placements with banks	**23,438,104**	**23,438,104**	19,013,572	19,013,572
Derivative financial instruments	**1,360,714**	**1,360,714**	2,728,445	2,728,445
Other financial assets – held for trading	**6,472,314**	**2,357,336**	20,290,588	3,095,911
Financial assets designated at fair value through profit or loss	**–**	**–**	–	–
Loans and receivables to banks	**27,714,565**	**24,947,881**	31,834,072	29,429,326
Loans and receivables to other customers	**360,309,866**	**108,372,745**	291,976,942	86,307,208
Financial assets – available for sale	**5,693,829**	**4,440,951**	6,227,764	4,123,732
Financial assets – held to maturity	**544,273,077**	**–**	505,824,398	–
Gross total	**973,112,095**	**167,822,598**	882,515,480	148,636,365

As at 31 December	2017		2016	
	Maximum exposure to credit risk Rs. '000	**Net exposure Rs. '000**	Maximum exposure to credit risk Rs. '000	Net exposure Rs. '000
Group				
Cash and cash equivalents	**3,854,086**	**2,909,317**	4,627,629	3,936,092
Balances with central banks	**94**	**94**	477	477
Placements with banks	**23,438,104**	**23,438,104**	19,013,572	19,013,572
Derivative financial instruments	**1,360,714**	**1,360,714**	2,728,445	2,728,445
Other financial assets – held for trading	**9,389,950**	**2,357,336**	27,303,207	3,095,911
Financial assets designated at fair value through profit or loss	**–**	**–**	–	–
Loans and receivables from banks	**27,971,234**	**25,204,551**	31,834,072	29,429,326
Loans and receivables from other customers	**358,766,093**	**108,372,745**	291,178,121	86,307,208
Financial assets – available for sale	**7,713,852**	**4,641,872**	8,122,516	4,324,572
Financial assets – held to maturity	**547,924,390**	**–**	507,624,954	–
Gross total	**980,418,517**	**168,284,733**	892,432,992	148,835,603

48. Financial risk management (contd.)

48.2 Broad risk categories in focus (contd.)

ii. Management of the credit portfolio

Collateral and other credit enhancement

The amount and type of collateral required depends as an assessment of the credit risk of the counterparty. Guidelines are in place covering the accessibility and valuation of each type of collateral.

The main type of collateral obtained are as follows:

a. for corporate lending – Government guarantees, mortgages over immovable and movable fixed assets, inventory, corporate and personal guarantees

b. for retail lending – mortgage over residential property, gold, personal guarantees, vehicles.

Concentration of credit risk by product and sector

The Bank monitors the concentration of credit risk by product and sectors. An analysis of concentration risk of the Bank portfolio (Loans and receivables to other customers) is given below:

Concentration by product

	Bank		Group	
As at 31 December	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Loans and receivables to other customers				
Pawning	**23,939,944**	20,852,188	**23,939,944**	20,852,188
Staff loans	**5,057,767**	4,090,448	**5,057,767**	4,090,448
Term loans –				
Short term	**684,797**	–	**684,797**	–
Long term	**321,221,287**	257,549,045	**321,221,287**	257,549,045
Securities purchased under resale agreements	**2,826,289**	2,496,838	**1,282,516**	1,698,017
Others –				
Securitisation/Trust certificates	**3,083,997**	2,695,185	**3,083,997**	2,695,185
Loan to Government	**2,075,000**	2,075,000	**2,075,000**	2,075,000
Others	**3,719,127**	3,950,010	**3,719,127**	3,950,010
Gross total	**362,608,207**	293,708,714	**361,064,434**	292,909,893

48. Financial risk management (contd.)

48.2 Broad risk categories in focus (contd.)

Concentration by sector

	Bank		Group	
As at 31 December	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Loans and receivables to other customers				
Agriculture and fishing	**14,282,395**	10,869,217	**14,282,395**	10,869,217
Manufacturing	**505,113**	505,113	**505,113**	505,113
Tourism	**49,042**	81,090	**49,042**	81,090
Transport	**1,042,138**	983,022	**1,042,138**	983,022
Construction/housing	**67,530,740**	65,006,143	**67,530,740**	65,006,143
Traders	**1,239,568**	1,237,814	**1,239,568**	1,237,814
Financial and business services	**10,169,034**	6,899,422	**10,169,034**	6,899,422
Infrastructure –				
Road development and others	**76,080,169**	60,412,604	**76,080,169**	60,412,604
Power and energy	**8,525,567**	10,254,573	**8,525,567**	10,254,573
Other services				
Education	**31,844,099**	23,701,503	**31,844,099**	23,701,503
Other customers –				
Government	**2,075,000**	2,075,000	**2,075,000**	2,075,000
Personal/pawning/others	**149,265,341**	111,683,213	**147,721,568**	110,884,392
Gross total	**362,608,207**	293,708,714	**361,064,434**	292,909,893

Credit quality by classes of financial assets

As at 31 December 2017	**Neither past due nor impaired Rs. '000**	**Past due but not impaired Rs. '000**	**Individually impaired Rs. '000**	**Total Rs. '000**
Assets				
Cash and cash equivalents	**3,849,627**	–	–	**3,849,627**
Placements with banks	**23,438,104**	–	–	**23,438,104**
Derivative financial instruments	**1,360,714**	–	–	**1,360,714**
Other financial assets – held for trading	**6,472,314**	–	–	**6,472,314**
Loans and receivables to banks	**27,714,565**	–	–	**27,714,565**
Loans and receivables to other customers (gross)*	**335,414,770**	**27,193,437**	–	**362,608,207**
Financial investments – available for sale	**5,693,829**	–	–	**5,693,829**
Financial investments – held to maturity	**544,273,077**	–	–	**544,273,077**
	948,216,999	**27,193,437**	–	**975,410,436**

** Collectively assessed for the impairment.*

48. Financial risk management (contd.)

48.2 Broad risk categories in focus (contd.)

Aging analysis of past due (i.e., facilities in arrears of 1 day and above) but not impaired loans, by class of financial assets.

As at 31 December 2017	Past due but not impaired				
	1 to 30 days Rs. '000	**31 to 60 days Rs. '000**	**61 to 89 days Rs. '000**	**More than 90 days Rs. '000**	**Total Rs. '000**
Loans and receivables to other customers (gross)	**18,897,148**	**4,101,928**	**1,052,673**	**3,141,688**	**27,193,437**
	69%	**15%**	**4%**	**12%**	**100%**

Credit quality by class of financial assets

As at 31 December 2016	Neither past due nor impaired Rs. '000	Past due but not impaired Rs. '000	Individually impaired Rs. '000	Total Rs. '000
Assets				
Cash and cash equivalents	4,619,699	–	–	4,619,699
Placements with banks	19,013,572	–	–	19,013,572
Derivative financial instruments	2,728,445	–	–	2,728,445
Other financial assets – held for trading	20,290,588	–	–	20,290,588
Loans and receivables to banks	31,834,072	–	–	31,834,072
Loans and receivables to other customers (gross)*	268,252,090	25,456,624	–	293,708,714
Financial investments – available for sale	6,227,764	–	–	6,227,764
Financial investments – held to maturity	505,824,398	–	–	505,824,398
	858,790,628	25,456,624	–	884,247,252

** Collectively assessed for the impairment.*

Aging analysis of past due (i.e., facilities in arrears of 1 day and above) but not impaired loans, by class of financial assets.

As at 31 December 2016	Past due but not impaired				
	1 to 30 days Rs. '000	31 to 60 days Rs. '000	61 to 89 days Rs. '000	More than 90 days Rs. '000	Total Rs. '000
Loans and receivables to other customers (gross)	15,572,198	4,029,783	466,969	5,387,675	25,456,624
	61%	16%	2%	21%	100%

48. Financial risk management (contd.)

48.2 Broad risk categories in focus (contd.)

(b) Liquidity risk

Liquidity risk is the Bank's inability to meet "on" or "off" balance sheet contractual and contingent financial obligations as they fall due, without incurring material losses.

Concentration of liquid assets

The Bank's regulatory requirement to invest 60% of its deposits in Government Securities forces the Bank to maintain a high Statutory Liquid Assets Ratio. Currently, the Bank maintains a liquidity ratio at 73.4% which is well above the statutory requirement of 20%. The investment in Government Securities represents 88.4% from the total liquid assets of the Bank.

	Bank		Group	
As at 31 December	**2017 Rs. '000**	2016 Rs. '000	**2017 Rs. '000**	2016 Rs. '000
Liquidly assets ratio –				
Year end	**73.4**	72.6	–	–
30 June	**74.1**	75.2	–	–
Year beginning	**72.6**	81.1	–	–
Gross loans and receivables to deposit	**52.9**	49.5	**52.8**	49.4
Net loans and receivables to total assets	**38.3**	35.5	**38.0**	35.0

(c) Market risk

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

Sources of market risk to NSB

The exposure to market risk arises to National Savings Bank from the following sources:

- Treasury securities portfolio (Government Securities and other permitted fixed income securities)
- Repo and reverse repo transaction
- Bank's operations in foreign currency
- Equity investments
- Derivatives
- Rate sensitive assets liabilities mismatch

(i) Foreign exchange risk

Foreign exchange risk (also known as exchange rate risk or currency risk) is a financial risk posed by an exposure to unanticipated changes in the exchange rate between two currencies. The Bank has entered in to swap and forward foreign exchange contract to minimise the foreign exchange risk (refer Note 19).

48. Financial risk management (contd.)

48.2 Broad risk categories in focus (contd.)

(ii) Equity risk

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

The investment in equity represents 0.7% of the total assets while investments in quoted and unquoted equity are 0.6% and 0.1% 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.

(iii) Interest rate risk

Interest rate risk is the risk that an investment's value will change in the absolute level of interest rates, in the spread between two rates, in the shape of the yield curve or in any other interest rate relationships. The Bank's major source of funding is deposits which represent 73.2% of total on-balance sheet liabilities. of this, 25.5% represents savings deposits where 74.5% represents term deposits.

Bank's interest rate sensitivity report as at 31 December 2017 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	24,623,909	55,545,413	117,380,701	317,160,492
Bank balances and placements	1,008,772	5,089,312	11,196,556	23,820,867
Other financial assets – held for trading	1,840	91,793	112,824	243,775
Loans and receivables to bank	2,852,671	3,056,673	3,133,604	9,672,848
Loans and receivables to other customers	14,598,625	22,722,801	33,705,077	90,557,830
Financial investments – available for sale	–	942	1,173,177	1,173,177
Financial investments – held to maturity	6,162,001	24,583,892	68,059,463	191,691,995
Interest bearing liabilities	199,860,658	456,013,831	585,765,770	901,999,449
Due to banks	180,439	180,439	180,439	180,439
Due to other customers	141,589,236	391,222,111	520,951,317	722,143,176
Other borrowings	58,090,983	64,611,281	64,627,603	179,669,423
Subordinated liabilities	–	–	6,411	6,411
Net rate sensitive assets (liabilities)	(175,236,749)	(400,468,418)	(468,385,069)	(584,838,957)
Interest rate sensitivity ratio (%)	12	12	20	35

48. Financial risk management (contd.)

48.2 Broad risk categories in focus (contd.)

Group's interest rate sensitivity report as at 31 December 2017 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	**24,733,224**	**55,873,361**	**118,297,374**	**317,688,693**
Bank balances and placements	**1,008,772**	**5,089,312**	**11,196,556**	**23,820,867**
Other financial assets – held for trading	**11,055**	**119,439**	**362,206**	**936,629**
Loans and receivables to bank	**2,938,228**	**3,313,343**	**3,390,273**	**9,929,518**
Loans and receivables to other customers	**14,601,636**	**22,731,835**	**33,718,484**	**89,014,056**
Financial investments – available for sale	–	**942**	**1,258,300**	**1,428,546**
Financial investments – held to maturity	**6,173,533**	**24,618,490**	**68,371,555**	**192,559,077**
Interest bearing liabilities	**201,826,112**	**460,344,267**	**590,474,124**	**907,463,634**
Due to banks	**918,412**	**828,433**	**828,433**	**828,433**
Due to other customers	**141,589,236**	**391,222,111**	**520,951,317**	**722,143,176**
Other borrowings	**59,318,464**	**68,293,723**	**68,687,963**	**184,485,614**
Subordinated liabilities	–	–	**6,411**	**6,411**
Net rate sensitive assets (liabilities)	**(177,092,888)**	**(404,470,906)**	**(472,176,750)**	**(589,774,941)**
Interest rate sensitivity ratio (%)	**12**	**12**	**20**	**35**

Bank's interest rate sensitivity report as at 31 December 2016 is presented below:

Bank	0-1 month Rs. '000	0-3 months Rs. '000	0-6 months Rs. '000	0-12 months Rs. '000
Interest bearing assets	39,406,492	67,316,653	150,571,506	209,818,308
Bank balances and placements	6,078,068	7,918,434	11,247,714	21,224,972
Other financial assets – held for trading	139,446	799,686	1,246,754	2,332,650
Loans and receivables to bank	2,839,753	3,122,269	4,344,333	12,389,001
Loans and receivables to other customers	11,439,739	17,663,032	26,793,434	54,413,298
Financial investment – available for sale	22,800	70,422	82,383	82,383
Financial investment – held to maturity	18,886,686	37,742,810	106,856,888	119,376,004
Interest bearing liabilities	153,559,463	401,743,980	524,858,634	689,298,959
Due to banks	115,391	115,391	115,391	115,391
Due to other customers	121,412,238	359,588,812	469,593,750	631,721,042
Other borrowings	32,031,834	42,039,777	55,143,082	57,456,115
Subordinated liabilities	–	–	6,411	6,411
Net rate sensitive assets (liabilities)	(114,152,971)	(334,427,327)	(374,287,128)	(479,480,651)
Interest rate sensitivity ratio (%)	26	17	29	30

48. Financial risk management (contd.)

48.2 Broad risk categories in focus (contd.)

Group's interest rate sensitivity report as at 31 December 2016 is presented below:

Group	0-1 month Rs. '000	0-3 months Rs. '000	0-6 months Rs. '000	0-12 months Rs. '000
Interest-bearing assets	39,723,960	68,269,053	152,100,000	211,712,532
Bank balances and placements	6,078,068	7,918,434	11,247,714	21,224,972
Other financial assets – held for trading	368,617	1,487,197	2,397,580	4,410,106
Loans and receivables to bank	2,839,753	3,122,269	4,344,333	12,389,001
Loans and receivables to customers	11,441,800	17,669,214	26,801,409	53,614,477
Financial investments – available for sale	50,194	152,604	156,591	164,565
Financial investments held to maturity	18,945,528	37,919,335	107,152,373	119,909,411
Interest-bearing liabilities	155,713,763	407,396,496	531,404,579	697,631,758
Due to banks	1,299,946	2,858,673	2,858,673	2,858,673
Due to other customer	121,412,238	359,588,812	469,593,750	631,721,042
Other borrowings	33,001,579	44,949,011	58,945,745	63,045,632
Subordinated liabilities	–	–	6,411	6,411
Net rate sensitive assets (liabilities)	(115,989,803)	(339,127,443)	(379,304,579)	(485,919,226)
Interest rate sensitivity ratio (%)	26	17	29	30

(d) Operational risk

The BASEL Committee on Banking Supervision defines operational risk as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events".

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 ORMC, BIRMC and the Board by Operational Risk Management Unit of the Risk Management Division.

49. 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 31.12.2017 Rs. '000**	Total as at 31.12.2016 Rs. '000
Assets with contractual maturity (interest-bearing asset)							
Cash and cash equivalents	382,763	–	–	–	–	**382,763**	2,211,401
Placements with banks	4,706,549	18,731,555	–	–	–	**23,438,104**	19,013,572
Other financial assets – held for trading	91,793	151,982	535,258	3,335,945	–	**4,114,978**	17,194,677
Financial investments – available for sale	942	1,172,235	–	26,045	53,657	**1,252,878**	2,104,032
Loans and receivables to banks	3,056,673	6,616,175	17,241,717	800,000	–	**27,714,565**	31,834,072
Loans and receivables to other customers	22,722,801	67,835,029	83,264,461	57,112,104	129,375,471	**360,309,866**	291,976,942
Financial investments – held to maturity	24,583,892	167,108,102	77,891,419	93,900,259	180,789,405	**544,273,077**	505,824,398
	55,545,413	261,615,078	178,932,855	155,174,353	310,218,533	**961,486,232**	870,159,094
Other asset (non-interest-bearing asset)							
Cash and cash equivalents	3,466,864	–	–	–	–	**3,466,864**	2,408,298
Balances with central banks	–	–	–	–	–	**–**	–
Derivative financial instruments	650	1,360,064	–	–	–	**1,360,714**	2,728,445
Other financial assets – held for trading	589,334	1,768,002	–	–	–	**2,357,336**	3,095,911
Financial investments – available for sale	–	–	–	–	4,440,951	**4,440,951**	4,123,732
Investments in subsidiaries	–	–	–	–	900,000	**900,000**	150,000
Property, plant and equipment	–	–	–	–	12,015,376	**12,015,376**	7,119,651
Intangible assets	–	–	–	–	380,308	**380,308**	157,271
Other assets	712,063	7,168,611	7,173,278	5,004,266	5,637,471	**25,695,689**	21,761,440
	4,768,911	10,296,677	7,173,278	5,004,266	23,374,106	**50,617,238**	41,544,748
Total asset	60,314,324	271,911,755	186,106,133	160,178,619	333,592,639	**1,012,103,470**	911,703,842
Liabilities with contractual maturity (interest-bearing liability)							
Due to banks	180,439	–	–	–	–	**180,439**	115,391
Due to other customers	391,222,111	330,921,064	8,725,472	4,138,492	2,205,501	**737,212,640**	657,280,315
Other borrowings	64,611,281	115,058,141	38,286,355	–	–	**217,955,777**	207,039,909
Subordinated liabilities	–	6,411	–	6,000,000	–	**6,006,411**	6,006,411
	456,013,831	445,985,616	47,011,827	10,138,492	2,205,501	**961,355,267**	870,442,026
Other liabilities (non-interest-bearing liability)							
Current tax liabilities	956,937	–	–	–	–	**956,937**	–
Deferred tax liabilities	–	–	–	–	507,063	**507,063**	416,180
Other liabilities	2,288,755	2,500,117	480,835	474,946	3,317,771	**9,062,425**	8,600,056
State capital/assigned capital	–	–	–	–	6,700,000	**6,700,000**	6,200,000
Statutory reserve fund	–	–	–	–	3,002,952	**3,002,952**	2,522,467
Other reserves	–	–	–	–	28,289,941	**28,289,941**	21,143,806
Retained earnings	–	–	–	–	2,228,885	**2,228,885**	2,379,307
	3,245,692	2,500,117	480,835	474,946	44,046,612	**50,748,203**	41,261,816
Total liabilities	459,259,523	448,485,733	47,492,662	10,613,438	46,252,113	**1,012,103,470**	911,703,842

49. 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 31.12.2017 Rs. '000**	Total as at 31.12.2016 Rs. '000
Assets with contractual maturity (interest-bearing asset)							
Cash and cash equivalents	382,763	–	–	–	–	**382,763**	2,211,401
Placements with banks	4,706,549	18,731,555	–	–	–	**23,438,104**	19,013,572
Other financial assets – held for trading	119,439	817,191	966,361	4,433,644	695,979	**7,032,614**	24,207,296
Financial investments – available for sale	942	1,427,604	744,564	865,955	232,836	**3,271,901**	3,997,784
Loans and receivables to banks	3,313,342	6,616,175	17,241,717	800,000	–	**27,971,234**	31,834,072
Loans and receivables to other customers	22,731,835	66,282,222	83,264,461	57,112,104	129,375,471	**358,766,093**	291,178,121
Financial investments – held to maturity	24,618,490	167,940,586	78,430,928	95,273,989	181,660,397	**547,924,390**	507,624,954
	55,873,360	261,815,333	180,648,031	158,485,692	311,964,683	**968,787,100**	880,067,200
Other asset (non-interest-bearing asset)							
Cash and cash equivalents	3,471,323	–	–	–	–	**3,471,323**	2,416,228
Balances with central banks	94	–	–	–	–	**94**	477
Derivative financial instruments	650	1,360,064	–	–	–	**1,360,714**	2,728,445
Other financial assets – held for trading	589,334	1,768,002	–	–	–	**2,357,336**	3,095,911
Financial investments – available for sale	–	–	–	–	4,441,951	**4,441,951**	4,124,732
Property, plant and equipment	–	–	–	–	12,018,679	**12,018,679**	7,121,823
Intangible assets	–	–	–	–	380,655	**380,655**	157,271
Deferred tax assets	–	–	–	–	–	**–**	588
Other assets	855,666	7,196,866	7,282,677	5,004,266	5,637,470	**25,976,944**	21,890,777
	4,917,067	10,324,932	7,282,677	5,004,266	22,478,755	**50,007,697**	41,536,253
Total asset	60,790,427	272,140,265	187,930,708	163,489,958	334,443,438	**1,018,794,797**	921,603,453
Liabilities with contractual maturity (interest-bearing liability)							
Due to banks	828,433	–	–	–	–	**828,433**	2,858,673
Due to other customers	391,222,111	330,921,064	8,725,472	4,138,492	2,205,501	**737,212,640**	657,280,315
Other borrowings	68,293,723	116,191,891	38,286,355	–	–	**222,771,969**	212,629,427
Subordinated liabilities	–	6,411	–	6,000,000	–	**6,006,411**	6,006,411
	460,344,267	447,119,366	47,011,827	10,138,492	2,205,501	**966,819,453**	878,774,826
Other liabilities (non-interest-bearing liability)							
Derivative liabilities	956,937	–	–	–	–	**956,937**	–
Current tax liabilities	–	137,344	–	–	–	**137,344**	17,153
Deferred tax liabilities	–	–	–	–	507,138	**507,138**	416,180
Other liabilities	2,301,971	2,530,702	480,835	474,946	3,319,006	**9,107,460**	8,608,506
State capital/assigned capital	–	–	–	–	6,700,000	**6,700,000**	6,200,000
Statutory reserve fund	–	–	–	–	3,002,952	**3,002,952**	2,522,467
Other reserves	–	–	–	–	28,757,786	**28,757,786**	21,355,707
Retained earnings	–	–	–	–	2,805,727	**2,805,727**	3,708,614
	3,258,908	2,668,046	480,835	474,946	45,092,609	**51,975,344**	42,828,627
Total liabilities	463,603,175	449,787,412	47,492,662	10,613,438	47,298,110	**1,018,794,797**	921,603,453

50. Fair value of financial instruments

50.1 Financial instruments recorded at fair value

Accounting policy

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives

i. Forward exchange purchases

Bank value the forward exchange purchase contracts using the quoted prices available for similar contract for the market.

ii. Foreign currency swaps

Derivative products (Foreign Currency swaps/Cash Flow Hedges) valued using valuation techniques incorporating various inputs such as foreign exchange spot rates and foreign exchange forward rates.

Financial assets held for trading

i. Government Treasury Bills and Bonds

Financial assets held for trading are valued using a valuation technique consists of Government Treasury Bills and Treasury Bonds. The Bank values the securities using discounted cash flow valuation models which incorporate observable data. Observable inputs include assumptions regarding current rates of interest, broker statements and market data publishing by Central Bank of Sri Lanka.

ii. Equity securities

The Bank values the equity securities using the quoted prices available for the identical securities in active market.

Financial assets available for sales

The Bank values the quoted equity securities using the quoted prices available for the identical securities in active market.

The unquoted equity securities have been fair valued using a valuation model based on observable data.

50.2 Determination of fair value and fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) price in active markets for identical assets or liabilities.

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

50. Fair value of financial instruments (contd.)

50.2 Determination of fair value and fair value hierarchy (contd.)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	Bank			
As at 31 December 2017	**Level 1 Rs. '000**	**Level 2 Rs. '000**	**Level 3 Rs. '000**	**Total Rs. '000**
Derivative financial instruments				
Forward exchange purchases	**650**	–	–	**650**
Foreign currency swaps	–	–	**1,360,064**	**1,360,064**
Financial assets – held for trading				
Government Treasury Bills and Bonds	**4,114,978**	–	–	**4,114,978**
Equity securities	**2,357,336**	–	–	**2,357,336**
Available for sale				
Equity securities – quoted	**3,876,570**	–	–	**3,876,570**
Other investments – Government Securities	**1,252,878**	–	–	**1,252,878**
Equity securities – unquoted	–	**506,890**	–	**506,890**
Total financial assets	**11,602,412**	**506,890**	**1,360,064**	**13,469,366**

	Bank			
As at 31 December 2016	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
Derivative financial instruments				
Forward exchange purchases	27,750	–	–	27,750
Foreign currency swaps	–	–	2,700,695	2,700,695
Financial assets – held for trading				
Government Treasury Bills and Bonds	17,194,677	–	–	17,194,677
Equity securities	3,095,911	–	–	3,095,911
Available for sale				
Equity securities – quoted	3,332,148	–	–	3,332,148
Other investment – Government Securities	2,104,031	–	–	2,104,031
Equity securities – unquoted	–	734,094	–	734,094
Total financial assets	25,754,518	734,094	2,700,695	29,189,306

50. Fair value of financial instruments (contd.)

50.2 Determination of fair value and fair value hierarchy (contd.)

	Group			
As at 31 December 2017	**Level 1 Rs. '000**	**Level 2 Rs. '000**	**Level 3 Rs. '000**	**Total Rs. '000**
Derivative financial instruments				
Forward exchange purchases	**650**	–	–	**650**
Foreign currency swaps	–	–	**1,360,064**	**1,360,064**
Financial assets – held for trading				
Government Treasury Bills and Bonds	**7,032,614**	–	–	**7,032,614**
Equity securities	**2,357,336**	–	–	**2,357,336**
Available for sale				
Equity securities – quoted	**3,876,570**	–	–	**3,876,570**
Debt securities – debenture	–	**199,920**	–	**199,920**
Other investment – Government Securities	**3,071,981**	–	–	**3,071,981**
Equity securities – unquoted	–	**506,890**	–	**506,890**
Total financial assets	**16,339,150**	**706,810**	**1,360,064**	**18,406,025**

	Group			
As at 31 December 2016	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
Derivative financial instruments				
Forward exchange purchases	27,750	–	–	27,750
Foreign currency swaps	–	–	2,700,695	2,700,695
Financial assets – held for trading				
Government Treasury Bills and Bonds	24,207,296	–	–	24,207,296
Equity securities	3,095,911	–	–	3,095,911
Available for sale				
Equity securities – quoted	3,332,148	–	–	3,332,148
Debt securities – debenture	–	199,839	–	199,839
Other Investment – Government Securities	3,797,944	–	–	3,797,944
Equity securities – unquoted	–	734,094	–	734,094
Total financial assets	34,461,049	933,933	2,700,695	38,095,677

50. Fair value of financial instruments (contd.)

50.3 Fair value of financial instruments – Bank

As at 31 December	**2017**		2016	
	Carrying amount Rs. '000	**Fair value Rs. '000**	Carrying amount Rs. '000	Fair value Rs. '000
Financial assets				
Cash and cash equivalents	**3,849,627**	**3,849,627**	4,619,699	4,619,699
Balances with central banks	–	–	–	–
Placement with banks	**23,438,104**	**23,438,104**	19,013,572	19,013,572
Derivative financial instruments	**1,360,714**	**1,360,714**	2,728,445	2,728,445
Other financial assets – held for trading	**6,472,314**	**6,472,314**	20,290,588	20,290,588
Loans and receivable to banks	**27,714,565**	**27,579,470**	31,834,072	30,571,117
Loans and receivable to other customers	**360,309,866**	**360,506,041**	291,976,942	289,348,586
Financial investments – available for sale	**5,693,829**	**5,693,829**	6,227,764	6,227,764
Financial investments – held to maturity	**544,273,077**	**543,880,618**	505,824,398	474,362,481
Total financial assets	**973,112,095**	**972,780,717**	882,515,480	847,162,253
Financial liabilities				
Due to banks	**180,439**	**180,439**	115,391	115,391
Derivative financial instruments	**956,937**	**956,937**	–	–
Due to other customers	**737,212,640**	**735,574,071**	657,280,315	655,297,898
Other borrowings	**217,955,777**	**217,955,777**	207,039,909	207,039,909
Subordinated liabilities	**6,006,411**	**6,006,411**	6,006,411	6,006,411
Total financial liabilities	**962,312,203**	**960,673,636**	870,442,026	868,459,609

50. Fair value of financial instruments (contd.)

50.3 Fair value of financial instruments – Group

As at 31 December	2017		2016	
	Carrying amount Rs. '000	**Fair value Rs. '000**	Carrying amount Rs. '000	Fair value Rs. '000
Financial assets				
Cash and cash equivalents	**3,854,086**	**3,854,086**	4,627,629	4,627,629
Balances with central banks	**94**	**94**	477	477
Placement with banks	**23,438,104**	**23,438,104**	19,013,572	19,013,572
Derivative financial instruments	**1,360,714**	**1,360,714**	2,728,445	2,728,445
Other financial assets – held for trading	**9,389,950**	**9,389,950**	27,303,207	27,303,207
Loans and receivable to banks	**27,971,234**	**27,836,139**	31,834,072	30,571,117
Loans and receivable to other customers	**358,766,093**	**358,962,267**	291,178,121	288,549,764
Financial investments – available for sale	**7,713,852**	**7,713,852**	8,122,516	8,122,516
Financial investments – held to maturity	**547,924,390**	**547,610,506**	507,624,954	476,022,040
Total financial assets	**980,418,516**	**980,165,712**	892,432,992	856,938,767
Financial liabilities				
Due to banks	**828,433**	**828,433**	2,858,673	2,858,673
Derivative financial instruments	**956,937**	**956,937**	–	–
Due to other customers	**737,212,640**	**735,574,071**	657,280,315	655,297,898
Other borrowings	**222,771,969**	**222,771,969**	212,629,427	212,629,427
Subordinated liabilities	**6,006,411**	**6,006,411**	6,006,411	6,006,411
Total financial liabilities	**967,776,390**	**966,137,822**	878,774,826	876,792,409

50. Fair value of financial instruments (contd.)

50.4 Determination of fair value and fair value hierarchy

Fair value of financial assets and liabilities not carried at fair value

The following describes the methodologies and assumptions used to determine the fair values for those financial instruments which are not recorded at faire 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 loans and receivables granted to customers with a variable rate are also considered to be carried at fair value in the books.

Fixed rate financial instruments

Carrying amounts are considered as fair values for short-term credit facilities. In fair valuing held-to-maturity securities, rates published by the CBSL for similar trading securities were used. Loans and 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.

51. 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. Basel II guidelines were revoked and with effect from 1 July 2017, 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, which are planned to be implemented on a staggered basis by 2019 starting from mid-2017, 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.

51. Capital management (as per regulatory reporting) (contd.)

The Bank currently uses the standardised approach for credit risk, standardised measurement approach for market risk and basic indicator approach for operational risk. Basel III emphasis 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 Domestic Systemically Important Banks (D-SIBs). As per the CBSL Basel III Directive, all D-SIBs are required to maintain a minimum Total Capital Ratio of 14% by year 2019.

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	**2017 Basel III**	2016 Basel III	**2017 Basel III**	2016 Basel III
Common equity Tier 1 capital ratio (minimum requirement – 6.25%)	**11.93**	11.31	**12.65**	12.03
Tier 1 capital ratio (minimum requirement – 2017 – 7.75%)	**11.93**	11.31	**12.65**	12.03
Total capital ratio (minimum requirement – 2017 – 11.75%)	**15.31**	13.86	**16.00**	14.54

Supplementary Information

GRI 102-2

Products and Services

1. Deposit Product Portfolio

Savings Products

Ordinary Savings Account

The Bank offers ordinary savings accounts to anyone aged over seven years, with a minimum deposit of Rs. 100.00. An account holder can make deposits or withdrawals at NSB branch or through SMS/Internet-banking facility.

"Hapan" Children's Savings Account

The *"Hapan"* and *"Punchi Hapan"* are children's savings accounts designed for those between the ages of 8-16 and 1-7 years, respectively. Deposits in both the said accounts are paid a 1% more interest than what the Bank pays to other savings accounts.

"Ithuru Mithuru" Savings Account

The *"Ithuru Mithuru"* savings account is a savings scheme designed for the purpose of fostering the habit of savings in youth aged between 16-30 years, and the Bank offers it 0.5% more interest than what it pays for an ordinary savings account. A customer who saves with an *"Ithuru Mithuru"* account can enjoy this higher interest rate up until he/she reaches the age of 35.

"Sthree" Savings Account

The *"Sthree"* savings account is designed specifically for women who play different roles in life aged over 16 years with more privileges to celebrate the achievements of life and lend a hand to shoulder their responsibilities to transform them as heiress to a better tomorrow. *Sthree* account holder entitles to a 1% interest rate reduction on pawning advances and now the reduction has been extended to the Eco/Personal/*Buddhi* loans as well, and these loans are now referred to as *"Diriya Sthree Loans"*.

"NSB Pension +" Account

The *"NSB Pension +"* is a contributory pension scheme that allows holders to invest any amount into the account over a period of time, or make a lump sum investment. With a minimum balance of Rs. 100,000.00 in the account, account holder will start receiving a pension, upon reaching the age of 55 years.

"Happy" Savings Account

With a *"Happy"* Savings Account, the more you save; the higher the interest you will be paid, up to maximum of 7% interest offers with absolutely no restrictions on withdrawals. This account can be opened by anyone aged over 16 years, with a minimum initial deposit of Rs. 1,000.00.

"Smile" Savings Account

Any person above the age of 16 years can open and operate a *"Smile"* account either individually or jointly. This account can be opened with an initial deposit of Rs. 100.00. Deposits and withdrawals can be made at any NSB branch or **Post-Sub Post Office, islandwide.**

"Pas Avurudu" Savings Account

This is a high interest-bearing NSB savings scheme for customers of all ages who prefer long term savings plans. A customer has to continually make a monthly deposit of Rs. 100.00/200.00/300.00/400.00/500.00 or any multiple of Rs. 1,000.00, over a 60 month period, on any convenient day in a given calendar month.

Term Deposits

The Bank also accepts tenure-based deposits of fixed amounts for different maturity periods. A term deposit customer may withdraw his/her money before the expiry of the relevant maturity period in accordance with the applicable premature rates. Tenures range from three months to five years, and they indeed are targeted at children, senior citizens, societies and corporates.

Fixed Deposits (FDs)

Any person of over 16 years of age can open a NSB Fixed Deposit Account, either individually or jointly with someone, while parents/guardians can open and operate an account, on behalf a child, provided the child concerned is below 16 years old. The minimum amount required to open a 12-month FD is Rs. 1, 000.00, and if one wants to open a monthly-interest earning 12-month FD, then, the minimum amount is the Rs. 25,000.00. Fixed Deposit Accounts can be opened for, 3/6/12/24/36 or 60-months maturity periods. What's more, a FD customer can raise a loan against the deposit.

Gaurawa Fixed Deposits Account

Any Senior Citizen aged over 55 years can open a *Gaurawa* Fixed Deposit Account, which will earn for the customer a monthly interest, which will always be 0.5% above the rate paid to the Bank's normal FD customer. The minimum deposit, a senior citizen can deposit in a *Gaurawa* FD Account is Rs. 25,000.00, while the maximum is Rs. 20 Mn.

Prarthana Children's Savings Certificate

A long-term deposit scheme for kids with attractive interest rates paid in upfront. The "*Prarthana*" Savings Certificate matures when the account holder reaches 16 years of age.

Senior Citizens' Special Fixed Deposit

It is a fixed deposit for senior citizens aged over 60 years. The maximum amount that can be deposited in a Senior Citizen's Special Fixed Deposit is Rs. 1.5 Mn., while a holder of the deposit will earn 15% as interest, upon maturity.

Foreign Currency Savings Accounts/ Term Deposits

The Bank offers Personal Foreign Currency Accounts (PFCAs) to both resident and non-resident Sri Lankans. PFCAs can be opened by any Sri Lankan national employed abroad or by any resident citizen who is either in possession of foreign currency or is receiving foreign currency remittances. Inward Investment Accounts (IIAs) are on offer for Investment purpose.

2. Lending Portfolio

Retail Lending

Home/Property Loans

The Bank offers home loans to people who intent to construct, renovate, purchase or repair a home, to purchase a land to build a house on as well as to pay off a home loan obtained from another financial institution. The following are the home loan products which are available for different customer segments:

- *Ge Dora*
- *Alankara*
- Home Loans for Government Employees
- *Sonduru Piyasa* – for low income groups

Personal Loans

The Bank offers personal loans to its customers for meeting the costs; associated with the purchase of consumer goods, healthcare, travel abroad, solar panels and education. The Bank obtains the security interest over properties such as primary mortgage of the borrower's property, item purchased, surrender value of the borrowers' life insurance policy or Government Securities they own. This loan is also available with personal guarantors. The repayment period and the amount of a loan are dependent on the nature of the collateral provided and the prospective borrower's circumstances. The following personal loans are available:

- Normal Personal Loan
- *Buddhi* Loan
- Special Pension Loan
- *Charika* Loan
- Eco Loan

Auto Loan

Auto Loans are granted to purchase unregistered vehicle, and registered vehicle. This loan can also be raised to pay-off an auto loan obtained from another legitimate source. An auto loan will be released within two or three days of making an application.

Loans Against Deposits – Speed Loans

Speed loans are loans granted against the deposits of an account holder. The Bank offers speed loans of up to 90% of a customer's deposits with the Bank, while the deposits will serve as security.

ECO Loan

NSB Eco loan is designed to provide financial assistance to those who are interested having a solar power generation system installed in their homes, enabling them to go green and save on their electricity bills, at the same time.

Pawning

The Bank provides instant loans for short-term credit needs at comparatively low rates of interest, against the security of jewellery and fully-automated machinery is used to check the valued gold articles. Part payment on pawned articles is also possible.

Corporate Lending

The Bank is also engaged in corporate lending for long-term infrastructure or other development projects, in the areas of power-generation, telecommunication, healthcare, highway and irrigation etc. Such loans will be granted in the form direct loans to a bank/financial institution, either as part of a syndicated loan or to private corporate entities/State-Owned Enterprises (SOE), as a direct loan.

3. Other Services

Money Changing Business

With the approval of the Central Bank of Sri Lanka to engage in Money Changing Business, NSB has commenced this business at selected branches. Therefore, the customers who possess Foreign Currency Notes could encash them and also customers who travel abroad could purchase foreign currency notes at the selected branches at competitive exchange rates.

Remittance Services

"NSB U-Trust" is the Bank's foreign currency remittance service. Through this service, Sri Lankans working abroad can remit their earnings to their families back home. In fact, money can be sent either to a NSB account or to an account elsewhere. A beneficiary can also collect his/her remittance, over the counter, at any NSB branch or main Post Office.

Trade Finance Services

The Bank facilitates import trade transactions targeting the retail sector; especially importation of motor vehicles. Issuance of Letters of Credit (LC), handling import bills under LC, issuance of shipping and air freight guarantees, collection of bills and forward exchange bookings are the services offered at all the branches under trade financing.

Treasury Services

This services include money market activities, trading in Government securities and Derivative transactions.

Card Services

Shopping + ATM Card

The Bank issues "Shopping + ATM Cards" connected to customers' savings accounts which provides easy access to cash by enabling the customers to make ATMs withdrawals and pay for their purchases.

NSB Easy Card

The "NSB Easy Card" is a master card that is issued against the balance in customer's fixed deposit account, with credit limit of up to 80% of the deposit balance. Additionally, cardholders can also withdraw cash with their NSB Easy Card from any ATM with Master card logo, including all NSB ATMs.

NSB Reach

"NSB Reach" is the Bank's POS device-based savings mobilisation programme, which has enabled mostly under banked people to save from where they are, without going through the hassle of visiting a branch, as its tag line "Your Address is Our Address" says.

NSB iSaver

NSB iSaver is a digital innovation which is expected to provide customer convenience through Mobitel standalone and all franchisee outlets at any time during the day. This innovative service is expected to further inculcate the habit of savings amongst Sri Lanka's populace, thus resulting in wealth creation and mobility of funds for investment.

Now from anywhere and at anytime you can deposit to your NSB Savings Account through your nearest mCash retailers islandwide from the NSB iSaver Service.

Advantages of NSB iSaver:

- Extended operational hours
- Hassle-free customer convenience
- Low cost on deposits mobilisation

No fee will be charged from the Savings Account Holders or Third Party Depositor.

Guarantees

This is an instrument, which amounts to an unconditional undertaking by the Bank, to discharge the liability of a depositor; in the event of his/her failing to discharge the obligation. The following types of guarantees can be issued against deposits on the request of the customer: Performance Bonds, Bid Bonds, Retention Bonds, Retention Guarantees, Tender Bonds and Advance Payment Guarantees.

Standing Order

A standing order will enable you to authorise the Bank to make a series of payments on your behalf to a names payee or beneficiary by debiting your savings account with a fixed payment amount. Standing order within the NSB accounts are free of charge.

Safety Deposit Locker

NSB provides you with a safe and trusted place for safekeeping of your valued belongings. You will receive the facility to store your valuable belongings and documents under safe custody at a nominal annual rental at selected branches. Safety Lockers are available in three sizes as Small, Medium and Large.

Utility Bill Payments

Utility Bill Payment services are available at NSB and you can pay utility bills at any of our branches island wide. Bills will be updated online as soon as you pay your bill.

SMS Banking

SMS Banking service is available to any NSB savings account holder. With SMS Banking, customers can pay their utility bills and transfer funds between NSB accounts.

Internet Banking

The Bank also provides the Internet Banking facility to its customers. Indeed, internet banking allows NSB customers to check their account balances, transfer funds from their accounts to any account, no matter which bank the transferee's account is, on top of reloading facility and paying utility bills, online.

Collection Centres at School

NSB was involved in establishing collection centres at Schools, where children learn the habit of savings and get used to leadership role within the school.

NSB Call Centre

The NSB Call Centre provides assistance to customers to contact the Bank and inquire about the Bank's activities. Indeed, any person can come to the Call Centre on 2379379 and get information related to any NSB product or service. As well, they can reach it via email, Skype too. What's more, web-chatting too is possible, if they so wish to.

Statement of Comprehensive Income in US Dollars

For the year ended 31 December	Bank 2017 US $ '000	Bank 2016 US $ '000	Bank Change %	Group 2017 US $ '000	Group 2016 US $ '000	Group Change %
Gross income	**703,628**	583,634	21	**705,188**	587,904	20
Interest income	**674,802**	576,895	17	**680,321**	581,922	17
Less: Interest expenses	**511,942**	406,833	26	**515,484**	410,377	26
Net interest income	**162,860**	170,062	(4)	**164,837**	171,545	(4)
Fee and commission income	**5,109**	4,342	18	**5,124**	4,348	18
Less: Fee and commission expenses	**712**	918	(22)	**738**	936	(21)
Net fee and commission income	**4,397**	3,424	28	**4,386**	3,412	29
Net gain/(loss) from trading	**7,873**	(262)	(3,102)	**9,925**	(914)	(1,186)
Net gain/(loss) from financial instruments designated at fair value through profit or loss	–	–	–	–	–	–
Net gain/(loss) from financial investments	**4,617**	273	1,590	**4,617**	273	1,590
Other operating income (net)	**11,227**	2,386	371	**5,201**	2,275	129
Total operating income	**190,974**	175,883	9	**188,966**	176,591	7
Less: Impairment charge for loans and other losses	**4,524**	(666)	(780)	**4,524**	(666)	(780)
Net operating income	**186,450**	176,549	6	**184,442**	177,257	4
Less: Expenses						
Personnel expenses	**44,942**	41,639	8	**45,153**	41,847	8
Other expenses	**27,155**	27,436	(1)	**26,804**	27,171	(1)
Operating profit before value added tax (VAT) and nation building tax (NBT)	**114,353**	107,474	6	**112,485**	108,239	4
Less: Value added tax on financial services	**20,118**	16,064	25	**20,677**	16,181	28
Nation building tax on financial services	**2,682**	2,575	4	**2,757**	2,594	6
Operating profit after value added tax (VAT) and nation building tax (NBT)	**91,553**	88,835	3	**89,051**	89,464	(0)
Profit before Income tax	**91,553**	88,835	3	**89,051**	89,464	(0)
Less: Income tax expenses	**28,839**	25,411	13	**29,988**	25,609	17
Profit for the year	**62,714**	63,424	(1)	**59,063**	63,855	(8)
Profit attributable to:						
Equity holders of the Bank	**62,714**	63,424	(1)	**59,063**	63,855	(8)
Profit for the year	**62,714**	63,424	(1)	**59,063**	63,855	(8)
Earnings per share on profit						
Basic earnings per ordinary share (Rs.)	**0.10**	0.20	(49)	**0.10**	0.20	(52)
Diluted earnings per ordinary share (Rs.)	**0.10**	0.20	(49)	**0.10**	0.20	(52)

Statement of Comprehensive Income in US Dollars

For the year ended 31 December	Bank			Group		
	2017 US $ '000	2016 US $ '000	Change %	**2017 US $ '000**	2016 US $ '000	Change %
Profit for the year	**62,714**	63,424	(1)	**59,063**	63,855	(8)
Other comprehensive income, net of tax						
Other comprehensive income to be reclassified to Income Statement						
Net gains/(losses) on cash flow hedges	**1,893**	(917)	(307)	**1,893**	(917)	(307)
Net gains/(losses) on re-measuring available-for-sale financial assets	**4,287**	(2,003)	(314)	**5,365**	(2,691)	(299)
Fair value gains transferred to the Income Statement on disposal of available for sale financial assets	**(4,506)**	314	(1,537)	**(4,506)**	314	(1,537)
Total other comprehensive income to be reclassified to Income Statement	**1,674**	(2,606)	(164)	**2,752**	(3,294)	(184)
Other comprehensive income not to be reclassified to Income Statement						
Net gains/(losses) on revaluation of property, plant and equipment	**29,423**	–	–	**29,423**	–	–
Actuarial gains/(losses) on retirement benefit plans	**(13,525)**	15,889	(185)	**(13,523)**	15,891	(185)
Total other comprehensive income not to be reclassified to Income Statement	**15,898**	15,889	0	**15,900**	15,891	0
Other comprehensive income for the year, net of taxes	**17,572**	13,283	32	**18,652**	12,597	48
Total comprehensive income for the year	**80,286**	76,707	5	**77,715**	76,452	2
Attributable to:						
Equity holders of the Bank	**80,286**	76,707	5	**77,715**	76,452	2
Total comprehensive income for the year	**80,286**	76,707	5	**77,715**	76,452	2
US Dollar conversion rate (Rs.)	**153.2300**	149.7500		**153.2300**	149.7500	

Statement of Financial Position in US Dollars

	Bank			Group		
As at 31 December	**2017 US $ '000**	2016 US $ '000	Change %	**2017 US $ '000**	2016 US $ '000	Change %
Assets						
Cash and cash equivalents	**25,123**	30,849	(19)	**25,152**	30,902	(19)
Balances with central banks	**–**	–	–	**1**	3	(81)
Placements with banks	**152,960**	126,969	20	**152,960**	126,969	20
Derivative financial instruments	**8,880**	18,220	(51)	**8,880**	18,220	(51)
Other financial assets held for trading	**42,239**	135,496	(69)	**61,280**	182,326	(66)
Financial assets designated at fair value through profit or loss	**–**	–	–	**–**	–	–
Loans and receivables to banks	**180,869**	212,581	(15)	**182,544**	212,581	(14)
Loans and receivables to other customers	**2,351,432**	1,949,763	21	**2,341,357**	1,944,428	20
Financial investments – available for sale	**37,159**	41,588	(11)	**50,342**	54,241	(7)
Financial investments – held to maturity	**3,552,000**	3,377,792	5	**3,575,830**	3,389,816	5
Investments in subsidiaries	**5,874**	1,002	486	**–**	–	–
Property, plant and equipment	**78,414**	47,544	65	**78,436**	47,558	65
Intangible assets	**2,482**	1,050	136	**2,484**	1,050	137
Deferred tax assets	**–**	–	–	**–**	4	(100)
Other assets	**167,694**	145,318	15	**169,529**	146,182	16
Total assets	**6,605,126**	6,088,173	8	**6,648,795**	6,154,281	8
Liabilities						
Due to banks	**1,178**	771	53	**5,406**	19,090	(72)
Derivative financial instruments	**6,245**	–	100	**6,245**	–	100
Due to other customers	**4,811,150**	4,389,184	10	**4,811,151**	4,389,184	10
Other borrowings	**1,422,409**	1,382,570	3	**1,453,840**	1,419,896	2
Current tax liabilities	**–**	–	–	**896**	115	683
Deferred tax liabilities	**3,309**	2,779	19	**3,310**	2,779	19
Other liabilities	**59,143**	57,429	3	**59,437**	57,486	3
Subordinated liabilities	**39,199**	40,110	(2)	**39,199**	40,110	(2)
Total liabilities	**6,342,633**	5,872,843	8	**6,379,484**	5,928,660	8
Equity						
Stated capital/Assigned capital	**43,725**	41,402	6	**43,725**	41,402	6
Statutory reserve fund	**19,598**	16,845	16	**19,598**	16,845	16
Retained earnings	**14,546**	15,889	(8)	**18,311**	24,765	(26)
Other reserves	**184,624**	141,194	31	**187,677**	142,609	32
Total equity of the owners of the parent	**262,493**	215,330	22	**269,311**	225,621	19
Total equity	**262,493**	215,330	22	**269,311**	225,621	19
Total equity and liabilities	**6,605,126**	6,088,173	8	**6,648,795**	6,154,281	8
Contingent liabilities and commitments	**119,561**	166,745	(28)	**119,561**	166,745	(28)
US Dollar conversion rate (Rs.)	**153.2300**	149.7500		**153.2300**	149.7500	

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

Item	Bank		Group	
	31.12.2017	31.12.2016	**31.12.2017**	31.12.2016
Regulatory Capital (Rs. '000)				
Common Equity Tier 1	**25,564,909**	21,725,576	**27,370,741**	23,484,317
Tier 1 Capital	**25,564,909**	21,725,576	**27,370,741**	23,484,317
Total Capital	**32,808,403**	26,634,140	**34,605,855**	28,387,739
Regulatory Capital Ratios (%)				
Common Equity Tier 1 Capital Ratio (Minimum Requirement – 6.25%)	**11.93**	11.31	**12.65**	12.03
Tier 1 Capital Ratio(Minimum Requirement – 7.75%)	**11.93**	11.31	**12.65**	12.03
Total Capital Ratio (Minimum Requirement – 11.75%)	**15.31**	13.86	**16.00**	14.54
Regulatory Liquidity				
Statutory Liquid Assets (Rs. '000)	**509,079,407**	460,877,014	**N/A**	N/A
Statutory Liquid Assets Ratio (Minimum Requirement – 20%)	**–**	–	**N/A**	N/A
Domestic banking unit (%)	**73.44**	72.56	**N/A**	N/A
Off-shore banking unit (%)	**–**	–	**N/A**	N/A
Liquidity Coverage Ratio (%) – Rupee (Minimum Requirement – 2017 – 80%, 2016 – 70%)	**377.57**	379.26	**N/A**	N/A
Liquidity Coverage Ratio (%) – All Currencies (Minimum Requirement – 2017 – 80%, 2016 – 70%)	**376.18**	393.96	**N/A**	N/A

Basel III – Computation of Capital Ratios

Item	Bank		Group	
	31.12.2017 Rs. '000	31.12.2016 Rs. '000	**31.12.2017 Rs. '000**	31.12.2016 Rs. '000
Common Equity Tier 1 (CET1) capital after adjustments	**25,564,909**	21,725,576	**27,370,741**	23,484,317
Total Common Equity Tier 1 (CET1) Capital	**30,655,010**	25,291,743	**31,654,889**	26,945,443
Equity capital (stated capital)/Assigned capital	**6,700,000**	6,200,000	**6,700,000**	6,200,000
Reserve fund	**3,002,952**	2,522,467	**3,002,952**	2,522,467
Published retained earnings/(Accumulated retained losses)	**(3,122,124)**	(5,351,010)	**(2,545,305)**	(4,022,024)
Published accumulated other comprehensive income (OCI)	**982,297**	828,401	**912,206**	659,165
General and other disclosed reserves	**23,091,885**	21,091,885	**23,585,036**	21,585,835
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	**5,090,100**	3,566,166	**4,284,148**	3,461,126
Goodwill (net)	–	–	–	–
Intangible assets (net)	**380,308**	157,271	**380,655**	157,271
Revaluation losses of property, plant and equipment	**19,183**	26,263	**19,183**	26,263
Deferred tax assets (net)	–	–	–	–
Cash flow hedge reserve	**291,924**	1,850	**291,924**	1,850
Investments in the capital of banking and financial institutions where the Bank does not own more than 10% of the issued ordinary share capital of the entity	**3,597,821**	3,284,480	**3,592,386**	3,275,742
Significant investments in the capital of financial institutions where the Bank owns more than 10% of the issued ordinary share capital of the entity	**800,864**	96,302	–	–
Additional Tier 1 (AT1) capital after adjustments	–	–	–	–
Total additional Tier 1 (ATI) capital	–	–	–	–
Qualifying additional Tier 1 capital instruments	–	–	–	
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	–	–	–	–
Total adjustments to AT 1 capital	–	–	–	–
Investment in own shares	–	–	–	–
Tier 2 capital after adjustments	**7,243,494**	4,908,563	**7,235,114**	4,903,422
Total Tier 2 capital	**9,855,227**	7,632,503	**9,855,227**	7,632,503
Qualifying Tier 2 capital instruments	**4,800,000**	6,000,000	**4,800,000**	6,000,000
Revaluation gains	**3,565,866**	451,286	**3,565,866**	451,286
Loan loss provisions	**1,489,362**	1,181,217	**1,489,362**	1,181,217
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	–	–	–	–

Basel III – Computation of Capital Ratios

Item	Bank		Group	
	31.12.2017 Rs. '000	31.12.2016 Rs. '000	**31.12.2017 Rs. '000**	31.12.2016 Rs. '000
Total adjustments to Tier 2 capital	**2,611,733**	2,723,939	**2,620,113**	2,729,080
Investment in own shares	–	–	–	–
Investments in the capital of financial institutions and where the Bank does not own more than 10% of the issued capital carrying voting rights of the issuing entity	**2,611,733**	2,723,939	**2,620,113**	2,729,080
CET 1 capital	**25,564,909**	21,725,576	**27,370,741**	23,484,317
Total Tier 1 capital	**25,564,909**	21,725,576	**27,370,741**	23,484,317
Total capital	**32,808,403**	26,634,140	**34,605,855**	28,387,739
Total Risk Weighted Assets(RWA)	**214,281,753**	192,176,027	**216,344,080**	195,214,914
RWAs for Credit Risk	**157,267,128**	132,285,956	**157,555,103**	132,337,238
RWAs for Market Risk	**22,109,583**	26,680,261	**23,537,259**	29,370,044
RWAs for Operational Risk	**34,905,043**	33,209,810	**35,251,718**	33,507,632
CET 1 capital ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer and Surcharge on D-SIBs (%)	**11.93**	11.31	**12.65**	12.03
of which: Capital Conservation Buffer (%)	**1.25**	1.25	**1.25**	1.25
of which: Countercyclical Buffer (%)	–	–	–	–
of which: Capital Surcharge on D-SIBs (%)	**0.50**	0.50	**0.50**	0.50
Total Tier 1 Capital Ratio (%)	**11.93**	11.31	**12.65**	12.03
Total Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer and Surcharge on D-SIBs) (%)	**15.31**	13.86	**16.00**	14.54
of which: Capital Conservation Buffer (%)	**1.25**	1.25	**1.25**	1.25
of which: Countercyclical Buffer (%)	–	–	–	–
of which: Capital Surcharge on D-SIBs (%)	**0.50**	0.50	**0.50**	0.50

The Bank's practice was to transfer the current year retained earnings to the General Reserve until 2016 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 the difference 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 – Computation of Liquidity Coverage Ratio (Bank) – All Currency

Item	2017		2016	
	Total unweighted value Rs. '000	**Total weighted value Rs. '000**	Total unweighted value Rs. '000	Total weighted value Rs. '000
Total Stock of High-Quality Liquid Assets (HQLA)	**430,221,226**	**426,508,743**	386,476,434	384,358,309
Total Adjusted Level 1A Assets	**431,889,252**	**431,889,252**	385,053,885	385,053,885
Level 1 Assets	**422,446,260**	**422,446,260**	381,890,184	381,890,184
Total Adjusted Level 2A Assets	**500,000**	**425,000**	500,000	425,000
Level 2A Assets	**500,000**	**425,000**	500,000	425,000
Total Adjusted Level 2B Assets	**7,274,966**	**3,637,483**	4,086,250	2,043,125
Level 2B Assets	**7,274,966**	**3,637,483**	4,086,250	2,043,125
Total Cash Outflows	**812,037,851**	**126,236,382**	716,823,579	114,590,449
Deposits	**611,264,221**	**61,126,422**	546,065,547	54,606,555
Unsecured wholesale funding	**114,458,122**	**58,912,164**	103,797,493	53,548,512
Secured funding transactions	**57,193,088**	–	31,587,170	–
Undrawn portion of committed (irrevocable) facilities and other contingent funding obligations	**24,722,883**	**1,798,259**	32,429,006	3,491,019
Additional requirements	**4,399,537**	**4,399,537**	2,944,363	2,944,363
Total Cash Inflows	**25,850,376**	**12,858,108**	26,069,178	17,027,987
Maturing secured lending transactions backed by collateral	**7,704,694**	**2,115,566**	6,570,488	1,672,088
Committed facilities	–	–	–	–
Other inflows by counterparty which are maturing within 30 days	**15,514,164**	**10,742,542**	18,615,686	15,059,224
Operational deposits	**2,631,518**	–	586,329	–
Other cash inflows	–	–	296,675	296,675
Liquidity Coverage Ratio (%) stock of High Quality Liquid Assets/Total Net Cash Outflow over the next 30 calendar days)*100		**376.18**		393.96

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	29 December 2016
Par value of instrument	100
Perpetual or dated	Dated
Original maturity date	29 December 2021
Amount recognised in regulatory capital (Rs. '000)	4,800,000
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	Fixed
Coupon rate and any related index	13%
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 Management Report on pages 236 to 238.

Credit Risk under Standardised Approach (Bank)

Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects

As at 31 December 2017	Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA Density (%)	
Asset class	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 [(ii)] Rs. '000
Claims on Central Government and CBSL	570,017,914	70,419,903	566,591,484	1,408,398	–	–
Claims on Foreign Sovereigns and their Central Banks	–	–	–	–	–	–
Claims on Public Sector Entities	129,141,451	13,603,901	57,491	–	57,491	100.0
Claims on Official Entities and Multilateral Development Banks	–	–	–	–	–	–
Claims on Banks Exposures	50,419,407	–	50,419,407	–	17,503,010	34.7
Claims on Financial Institutions	10,391,535	150,000	10,391,535	75,000	5,143,089	49.1
Claims on Corporates	5,812,876	–	5,812,876	–	1,573,679	27.1
Retail Claims	143,158,529	2,017,886	120,008,991	138,002	75,044,202	62.5
Claims Secured by Residential Property	62,846,579	1,209,665	62,846,579	604,832	31,964,947	50.4
Claims Secured by Commercial Real Estate	–	–	–	–	–	–
Non-Performing Assets (NPAs)[(i)]	4,553,112	–	4,553,112	–	5,584,761	122.7
Higher Risk Categories	263,658	–	263,658	–	659,144	250.0
Cash Items and Other Assets	19,515,605	1,338,862	19,515,605	1,338,862	19,736,804	94.6
Total	996,120,666	88,740,216	840,460,738	3,565,094	157,267,128	18.6

Note:
(i) NPAs – As per Banking Act Directions on classification of loans and advances, income recognition and provisioning.
(ii) 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 2017	**Exposures before Credit Conversion Factor (CCF) and CRM**		**Exposures post CCF and CRM**		**RWA and RWA Density (%)**	
Asset class	**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 [ii] Rs. '000**
Claims on Central Government and CBSL	**573,853,573**	**70,419,903**	**570,427,144**	**1,408,398**	–	–
Claims on Foreign Sovereigns and their Central Banks	–	–	–	–	–	–
Claims on Public Sector Entities	**129,141,451**	**13,603,901**	**57,491**	–	**57,491**	**100.0**
Claims on Official Entities and Multilateral Development Banks	–	–	–	–	–	–
Claims on Banks Exposures	**50,429,947**	–	**50,429,947**	–	**17,506,172**	**34.7**
Claims on Financial Institutions	**10,393,805**	**150,000**	**10,393,805**	**75,000**	**5,143,836**	**49.1**
Claims on Corporates	**5,813,876**	–	**5,813,876**	–	**1,574,679**	**27.1**
Retail Claims	**143,158,529**	**2,017,886**	**120,008,991**	**138,002**	**75,044,202**	**62.5**
Claims Secured by Residential Property	**62,846,579**	**1,209,665**	**62,846,579**	**604,832**	**31,964,947**	**50.4**
Claims Secured by Commercial Real Estate	–	–	–	–	–	–
Non-Performing Assets (NPAs)[i]	**4,553,112**	–	**4,553,112**	–	**5,584,761**	**122.7**
Higher Risk Categories	**273,707**	–	**273,707**	–	**684,269**	**250.0**
Cash Items and Other Assets	**19,773,557**	**1,338,862**	**19,773,557**	**1,338,862**	**19,994,747**	**94.7**
Total	**1,000,238,138**	**88,740,216**	**844,578,210**	**3,565,094**	**157,555,103**	**18.6**

Note:
(i) NPAs – As per Banking Act Directions on classification of loans and advances, income recognition and provisioning.
(ii) 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 2017

Description	**(Post CCF and CRM)**							
Risk weight / **Asset classes**	**0%** Rs. '000	**20%** 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	567,999,882	–	–	–	–	–	–	567,999,882
Claims on Foreign Sovereigns and their Central Banks	–	–	–	–	–	–	–	–
Claims on Public Sector Entities	–	–	–	–	57,491	–	–	57,491
Claims on Official Entities and Multilateral Development Banks	–	–	–	–	–	–	–	–
Claims on Banks Exposures	–	34,741,494	10,246,404	–	5,431,509	–	–	50,419,407
Claims on Financial Institutions	–	2,037,595	7,386,738	–	1,042,201	–	–	10,466,535
Claims on Corporates	–	4,524,266	1,239,568	–	49,042	–	–	5,812,876
Retail Claims	16,472,684	4,930,053	–	98,744,256	–	–	–	120,146,993
Claims Secured by Residential Property	–	–	62,972,929	–	478,482	–	–	63,451,412
Claims Secured by Commercial Real Estate	–	–	–	–	–	–	–	–
Non-Performing Assets (NPAs)	–	–	60,180	–	2,369,455	2,123,477		4,553,112
Higher Risk Categories	–	–	–	–	–	–	263,658	263,658
Cash Items and Other Assets	951,842	207,275	–	–	19,695,349	–		20,854,466
Total	**585,424,408**	**46,440,684**	**81,905,820**	**98,744,256**	**29,123,529**	**2,123,477**	**263,658**	**844,025,832**

Credit Risk under Standardised Approach: Exposures by Asset Classes and Risk Weights (Group)

As at 31 December 2017

Description	(Post CCF & CRM)							
Risk weight / Asset classes	0% Rs. '000	20% 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	571,835,542	–	–	–	–	–	–	571,835,542
Claims on Foreign Sovereigns and their Central Banks	–	–	–	–	–	–	–	–
Claims on Public Sector Entities	–	–	–	–	57,491	–	–	57,491
Claims on Official Entities and Multilateral Development Banks	–	–	–	–	–	–	–	–
Claims on Banks Exposures	–	34,748,520	10,249,917	–	5,431,509	–	–	50,429,947
Claims on Financial Institutions	–	2,038,891	7,387,713	–	1,042,201	–	–	10,468,805
Claims on Corporates	–	4,524,266	1,239,568	–	50,042	–	–	5,813,876
Retail Claims	16,472,684	4,930,053	–	98,744,256	–	–	–	120,146,993
Claims Secured by Residential Property	–	–	62,972,929	–	478,482	–	–	63,451,412
Claims Secured by Commercial Real Estate	–	–	–	–	–	–	–	–
Non-Performing Assets (NPAs)	–	–	60,180	–	2,369,455	2,123,477	–	4,553,112
Higher Risk Categories	–	–	–	–	–	–	273,707	273,707
Cash Items and Other Assets	951,852	207,275	–	–	19,953,292	–	–	21,112,419
Total	589,260,078	46,449,007	81,910,308	98,744,256	29,382,472	2,123,477	273,707	848,143,304

Market Risk under Standardised Measurement Method

Item	Bank RWA Amount as at 31.12.2017 Rs. '000	Group RWA Amount as at 31.12.2017 Rs. '000
(a) RWA for Interest Rate Risk	**1,334,454**	**2,752,740**
General Interest Rate Risk	1,334,454	2,738,653
(i) Net long or short position	1,334,454	2,738,653
(ii) Horizontal disallowance	–	–
(iii) Vertical disallowance	–	–
(iv) Options	–	–
Specific Interest Rate Risk	–	14,086
(b) RWA for Equity	**4,768,080**	**4,777,470**
(i) General Equity Risk	2,547,998	2,553,434
(ii) Specific Equity Risk	2,220,081	2,224,036
(c) RWA for Foreign Exchange and Gold	**16,007,049**	**16,007,049**
Capital Charge for Market Risk [(a)+(b)+(c)] *CAR	2,597,876	2,765,628

Operational Risk under Basic Indicator Approach

Bank

Capital Charge	Capital Charge Factor %	Gross income as at 31.12.2017 1st year Rs. '000	2nd year Rs. '000	3rd year Rs. '000	Rs. '000
The Basic Indicator Approach	15	27,996,613	26,227,552	27,802,685	–
Capital Charge	–	–	–	–	4,101,342
Risk Weighted Amount for Operational Risk	–	–	–	–	34,905,043

Group

Capital Charge	Capital Charge Factor %	Gross income as at 31.12.2017 1st year Rs. '000	2nd year Rs. '000	3rd year Rs. '000	Rs. '000
The Basic Indicator Approach	15	28,263,087	26,333,652	28,244,798	–
Capital Charge	–	–	–	–	4,142,077
Risk Weighted Amount for Operational Risk	–	–	–	–	35,251,718

Differences between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories – Bank only

As at 31 December 2017	a	b	c	d	e
	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	1,012,103,470	1,009,756,002	838,971,376	7,733,972	163,050,654
Cash and cash equivalents	3,849,627	9,077,385	5,634,244	16,711	3,426,429
Balances with Central Bank	–	–	–	–	–
Placements with banks	23,438,104	23,528,022	23,528,022	–	–
Derivative financial instruments	1,360,714	–	–	–	–
Other financial assets held for trading	6,472,314	11,315,082	–	7,717,261	3,597,821
Financial assets designated at fair value through profit or loss	–	–	–	–	–
Loans and receivables to banks	27,714,565	20,283,997	20,283,997	–	–
Loans and receivables to other customers	360,309,866	351,668,920	199,435,422	–	152,233,498
Financial investments – available for sale	5,693,829	–	–	–	–
Financial investments – held to maturity	544,273,077	540,939,521	538,204,015	–	2,735,506
Investments in subsidiaries	900,000	900,000	222,910	–	677,090
Investments in associates and joint ventures	–	–	–	–	–
Property, plant and equipment	12,015,376	12,015,376	12,015,376	–	–
Investment properties	–	–	–	–	–
Goodwill and intangible assets	380,308	380,308	–	–	380,308
Deferred tax assets	–	–	–	–	–
Other assets	25,695,689	39,647,389	39,647,389	–	–
Liabilities	971,881,692	966,643,376	–	–	–
Due to banks	180,439	180,439	–	–	–
Derivative financial instruments	956,937	–	–	–	–
Other financial liabilities held for trading	–	–	–	–	–
Financial liabilities designated at fair value through profit or loss	–	–	–	–	–
Due to other customers	737,212,640	714,363,230	–	–	–
Other borrowings	217,955,777	213,413,211	–	–	–
Debt securities issued	–	–	–	–	–
Current tax liabilities	–	–	–	–	–
Deferred tax liabilities	507,063	507,063	–	–	–
Other provisions	–	–	–	–	–

Differences between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories – Bank only (contd.)

As at 31 December 2017	a	b	c	d	e
	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**
Other liabilities	9,062,425	32,179,434	–	–	–
Due to subsidiaries	–	–	–	–	–
Subordinated term debt	6,006,411	6,000,000	–	–	–
Off-balance sheet liabilities	18,320,312	88,740,216	3,565,094	–	–
Guarantees	1,741,883	1,741,883	–		
Performance bonds	–	–	–	–	–
Letters of credit	276,003	276,003	138,002		
Other contingent items	–	–	–	–	–
Undrawn loan commitments	15,042,213	14,963,565	679,832		
Other commitments	1,260,213	71,758,765	2,747,260		
Shareholders' equity	6,700,000	6,700,000			
Equity capital(stated capital)/Assigned capital	–	–	–	–	–
of which amount eligible for CET 1	6,700,000	6,700,000			
of which amount eligible for AT 1	–	–	–	–	–
Retained earnings	2,228,885	–	–	–	–
Accumulated other comprehensive income	1,637,161	–	–	–	–
Other reserves	29,655,733	36,412,625	–	–	–
Total shareholders' equity	40,221,778	43,112,625	–	–	–

Explanations of significant differences between accounting and regulatory exposure amounts

The carrying value of loans and advances in the published Financial Statements has been subject to impairment provisions based on the principles of "Incurred loss" as per LKAS 39 – (refer Note 23 for details). Carrying value of regulatory reporting is as per the Banking Act Direction No. 3 of 2008 Classification of Loans and Advances, Income Recognition and Provisioning issued by the CBSL are "time/ delinquency based". As a result, the LKAS 39 – recognises delinquency pattern of a loan much earlier when compared to the CBSL Guidelines and also computes the impairment provision based on the historical loss experience of loans.

Investment securities are carried at "Cost" for regulatory reporting purposes while they classified as "Available for sale" carried at fair value or "Held to maturity" carried at amortised cost using Effective Interest Rate (EIR) under the LKAS 39. The "Fair value" is defined as the best estimate of the price that would be received to sell an asset or be paid to transfer a liability in an orderly transaction between market participants at the measurement date. A variety of valuation techniques combined with the range of plausible market parameters as at a given point in time may still generate unexpected uncertainty beyond fair value. Refer Note 50 for details on valuation methodologies. Debentures and trust certificates are classified as Loans and Receivable to bank or other customers in Financial Reporting in contrast to Held to Maturity in Regulatory Reporting.

A "Day 1 difference" is recognised as per LKAS 39 in contrary to regulatory reporting, when the transaction price differs from the fair value of other observable current market transactions in the same instrument. E.g. Employee loans below market rates.

Derivatives are financial instruments which derive values in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and indices. The fair value of these derivative financial instruments is determined using forward pricing models. The positive fair value changes of these financial instruments as at the balance sheet date are reported as assets while the negative fair value changes are reported as liabilities. The details of derivative financial instruments have been disclosed in Note 19 to the Financial Statements.

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 page 201 to 238.

Other Disclosure Requirements

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	292-295
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 2.3.2.1 Financial assets at fair value through profit or loss (FVTPL)	270
		Note 2.3.3.1 Financial liabilities at fair value through profit or loss (FVTPL)	271
	ii. Reclassifications of financial instruments from one category to another.	Significant Accounting Policies: Note 2.3.4 Reclassification of financial instruments	272
	iii. Information about financial assets pledged as collateral and about financial or non-financial assets held as collateral.	Notes to the Financial Statements: Note 25 – Financial investments held to maturity	314
	iv. Reconciliation of the allowance account for credit losses by class of financial assets.	Note 23 (d) Movements in collective impairment charges during the year	309
	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	282-291
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	283-284
	ii. Fee income and expense.	Notes to the Financial Statements: Notes 5 Net fee and commission income	284
	iii. Amount of impairment losses by class of financial assets.	Notes to the Financial Statements: Notes 10 Impairment of loans and other losses	286-287
	iv. Interest income on impaired financial assets.	Notes to the Financial Statements: Notes 4 (a) Net interest income	283

Disclosure Requirements		Description	Page Number/s
1.3	**Other disclosures**		
1.3.1	Accounting policies for financial instruments.	Significant Accounting Policies: Note 2.3 Financial instruments	269
1.3.2	Information on hedge accounting.	Notes to the Financial Statements: Note 19 – Derivative financial instruments	297-300
1.3.3	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 50.3 Fair value of financial instrument	368
	ii. Description of how fair value was determined.	Notes to the Financial Statements: 1.4.9.2 Fair value of financial instruments	267
		Note 50.2, 50.4 Determination of fair value and fair value hierarchy	364-369
	iii. The level of inputs used in determining fair value.	Notes to the Financial Statements: Note 50 Fair value of financial instruments	364-369
	iv. Reconciliations of movements between levels of fair value measurement hierarchy, 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	
	v. Information if fair value cannot be reliably measured.	Notes to the Financial Statements: Note 24 (e) Unquoted investments – equity securities	313
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 48 Financial risk management	352-361
		Risk management report	201-238
2.1.2	Management's objectives, policies, and processes for managing those risks.	Notes to the Financial Statements: Note 48 Financial risk management	352-361
		Risk management report	201-238
2.1.3	Changes from the prior period.	No major policy changes during the period under review	

	Disclosure Requirements	Description	Page Number/s
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 48 Financial risk management	352-361
		Risk management report	201-238
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 48 Financial risk management	352-361
	(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 48.2 Broad risk categories in focus	353-361
	(c) Information about collateral or other credit enhancements obtained or called.	Notes to the Financial Statements: Note 48.2 (a) Broad risk categories in focus – credit risk	353
	(d) Other disclosures as required by the Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks.	Risk management report	201-238
	ii. Liquidity risk		
	(a) A maturity analysis of financial liabilities.	Notes to the Financial Statements: Note 49 Maturity analysis	362-363
	(b) Description of approach to risk management.	Notes to the Financial Statements: Note 48.2 Broad risk categories in focus Risk management report	353-361
	(c) Other disclosures as required by the Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks.	Risk management report	201-238
	iii. Market risk		
	(a) A sensitivity analysis of each type of market risk to which the entity is exposed.	Notes to the Financial Statements: Note 48.2 Broad risk categories in focus	353-361
	(b) Additional information, if the sensitivity analysis is not representative of the entity's risk exposure.	Risk management report	201-238
	(c) Other disclosures as required by the Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks.	Risk management report	201-238

Disclosure Requirements		Description	Page Number/s
	iv. Operational risk		
	Disclosures as required by the Section H of the Banking Act Direction No. 07 of 2011 on Integrated Risk Management Framework for Licensed Banks.	Risk management report	201-238
	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 24 Financial investments – available for sale	310-313
	• Discussion of important policies covering the valuation and accounting of equity holdings in the banking book.	Notes to the Financial Statements: Note 24 Financial investments – available for sale	310-313
	(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. • The types and nature of investments.	Notes to the Financial Statements: Note 20 Other financial assets held for trading	301-304
		Note 24 Financial investments – available for sale	310-313
	• 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	285
		Note 8 Net gain/(loss) from financial investments	285
	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 48.2 Broad risk categories in focus	353-361
		Risk management report	201-238
	(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 management report	201-238
2.2.3	Information on concentrations of risk.	Notes to the Financial Statements: Note 48.2 Broad risk categories in focus	353-361
		Risk management report	201-238

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	379-391
		Risk management report	201-238
	ii. Quantitative disclosures.	Notes to the Financial Statements: Note 51 Capital management	369-370
		Risk management report	201-238
	(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	379-391
		Risk management report	201-238
	(b) The total amount of Tier 2 and Tier 3 capital		379-391
	(c) Other deductions from capital		379-391
	(d) Total eligible capital		379-391
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 management report	201-238
	ii. Quantitative disclosures.	Risk management report	201-238
	(a) Capital requirements for credit risk, market risk and operational risk.	Risk management report	201-238
	(b) Total and Tier 1 capital ratio.	Risk management report	201-238

Statistical Indicators 2008-2017

	2008 Rs. Mn.	2009 Rs. Mn.	2010 Rs. Mn.	2011 Rs. Mn.	2012 Rs. Mn.	2013 Rs. Mn.	2014 Rs. Mn.	2015 Rs. Mn.	2016 Rs. Mn.	**2017 Rs. Mn.**
Operating results										
Gross income	41,247	49,803	50,070	46,545	52,903	65,573	77,890	79,282	87,399	**107,817**
Interest income	40,834	49,046	48,142	47,096	52,531	64,248	74,023	78,128	86,390	**103,400**
Interest expenses	31,190	36,067	31,487	29,296	39,142	54,141	52,642	51,146	60,923	**78,445**
Net interest income	9,643	12,979	16,655	17,800	13,389	10,107	21,380	26,983	25,467	**24,955**
Other income	413	757	1,929	(578)	347	1,292	3,798	1,043	872	**4,308**
Operating expenses, provisions and VAT	6,956	6,792	8,807	7,967	7,396	9,120	14,706	14,991	13,036	**15,234**
Profit before tax	3,100	6,943	9,777	9,255	6,340	2,279	10,472	13,034	13,303	**14,029**
Income tax	2,041	3,229	4,386	3,193	2,578	1,095	3,606	4,361	3,805	**4,419**
Profit after tax	1,059	3,714	5,391	6,062	3,763	1,184	6,867	8,672	9,498	**9,610**
Contribution to the Government	4,287	7,277	10,107	7,970	6,327	4,731	11,043	11,015	19,251	**13,440**
Assets (Rs. Mn.)										
Cash and short-term funds	1,146	855	1,355	1,398	1,466	1,546	1,927	3,240	4,620	**3,850**
Loans and investments	277,157	335,520	395,334	455,914	492,009	632,187	757,182	821,494	878,046	**970,162**
Property, plant and equipment/lease-hold property/intangible assets	3,006	3,584	4,971	5,247	5,264	5,692	5,594	7,025	7,277	**12,396**
Other assets	13,010	14,463	2,733	3,415	10,075	14,943	14,764	16,320	21,761	**25,696**
Total	294,319	354,422	404,393	465,974	508,813	654,368	779,466	848,079	911,704	**1,012,103**
Liabilities and shareholder's funds (Rs. Mn.)										
Total deposits	259,562	313,007	364,430	421,849	457,650	501,890	554,060	595,776	657,280	**737,213**
Repo/borrowings/ subordinated liabilities	6,205	8,730	11,436	16,270	22,958	120,561	191,192	207,101	213,162	**224,143**
Differed taxation	56	84	27	96	123	143	270	504	416	**507**
Other liabilities	13,497	14,841	5,997	4,707	4,314	9,557	10,684	12,274	8,600	**10,019**
Shareholders' funds	15,000	17,760	22,503	23,052	23,767	22,217	23,260	32,424	32,246	**40,222**
Total	294,319	354,422	404,393	465,974	508,813	654,368	779,466	848,079	911,704	**1,012,103**

	2008	2009	2010	2011	2012	2013	2014	2015	2016	**2017**
Ratios										
Income growth (%)	33.8	20.7	0.5	(7.0)	13.7	24.0	18.8	1.8	10.2	**23.4**
Interest margin (%)	3.4	4.0	4.4	4.1	2.7	1.7	3.0	3.3	2.9	**2.6**
NIM/gross income (%)	23.4	26.1	33.3	38.2	25.3	15.4	27.4	34.0	29.1	**23.1**
Personnel cost/gross income (%)	7.5	6.9	7.4	8.9	7.7	6.4	6.2	7.5	7.1	**6.4**
Overheads (excluding provisions)/ gross income (%)	11.2	10.7	12.0	13.5	12.0	10.9	11.9	13.3	12.0	**10.3**
Profit before tax/gross income (%)	7.5	13.9	19.5	19.9	12.0	3.5	13.4	16.4	15.2	**13.0**
Contribution to the GOSL/ gross income (%)	10.4	14.6	20.2	17.1	12.0	7.2	14.2	13.9	22.0	**12.5**
Cost to deposits (%)	2.4	2.7	2.7	2.0	1.7	1.6	2.1	2.3	2.1	**2.1**
Cost to income with VAT (%)	58.5	55.5	48.9	45.4	52.8	67.7	44.8	46.1	50.1	**49.9**
Cost to income without VAT (%)	46.1	38.8	32.4	36.4	46.1	62.2	36.7	37.4	39.6	**38.0**
Return on average shareholders' funds (ROE) (%)	7.5	22.7	27.3	26.6	16.1	5.2	30.2	31.2	29.4	**26.5**
Return on average assets (ROA)	1.1	2.1	2.6	2.1	1.3	0.4	1.5	1.6	1.5	**1.5**
NPL (gross)	1.7	3.8	2.6	2.6	2.4	6.5	7.6	3.5	1.6	**1.3**
NPL (net)	1.1	3.0	1.8	1.9	1.8	6.7	7.6	3.4	1.5	**1.2**
Capital adequacy – Tier 1 (Minimum 5%)	23.2	25.1	22.2	20.0	20.4	18.5	20.5	17.9	12.5	–
Capital adequacy – Tier 2 (Minimum 10%)	17.7	21.5	19.2	17.7	19.1	16.7	19.0	16.4	14.7	–
Basel III – Tier 1 (Minimum 7.75%)	–	–	–	–	–	–	–	–	11.3	**11.9**
Basel III - total capital (Minimum 11.75%)	–	–	–	–	–	–	–	–	13.9	**15.3**
Liquidity coverage ratio (Minimum 80%)	–	–	–	–	–	–	–	445.9	394.0	**376.2**
Deposits as percentage of assets	88.2	88.3	88.0	90.5	89.9	76.7	71.1	70.3	72.1	**72.8**
Profit per employee (Rs. '000)	1,077	2,382	3,205	2,826	2,026	774	3,119	3,585	3,034	**3,139**
Deposit per employee (Rs. '000)	90,157	107,378	116,513	128,809	146,261	170,537	164,997	163,855	149,927	**164,961**
Other information										
Number of employees	2,879	2,915	3,050	3,275	3,129	2,943	3,358	3,636	4,384	**4,470**
Number of branches	137	157	186	210	219	229	236	245	250	**253**
Number of post offices/ sub-post offices	4,045	4,055	4,053	4,058	4,053	4,063	4,063	4,063	4,061	**4,062**
Number of account holders (Million)	15.6	16.3	16.7	17.0	17.4	17.9	18.3	18.8	19.3	**19.9**

**Note: Highlighted information is based on LKAS/SLFRS*

Analysis of Deposits

	2008 Rs. Mn.	2009 Rs. Mn.	2010 Rs. Mn.	2011 Rs. Mn.	2012 Rs. Mn.	2013 Rs. Mn.	2014 Rs. Mn.	2015 Rs. Mn.	2016 Rs. Mn.	**2017 Rs. Mn.**
Local currency deposits										
Savings	71,667	79,280	94,118	105,108	106,177	113,165	139,384	160,814	173,583	**185,201**
Time	185,755	230,147	266,007	311,569	345,794	379,969	408,309	427,588	475,220	**542,647**
	257,422	309,427	360,125	416,677	451,971	493,134	547,692	588,402	648,803	**727,849**
Growth %	10.0	20.2	13.5	15.7	8.5	9.1	11.1	7.4	10.3	**12.2**
Foreign currency deposits										
Savings	826	1,255	1,517	1,750	1,963	2,101	2,215	2,568	2,764	**2,990**
Time	1,314	2,325	2,788	3,422	3,717	6,654	4,153	4,806	5,714	**6,373**
	2,140	3,580	4,305	5,172	5,679	8,755	6,368	7,373	8,478	**9,364**
Growth %	59.3	67.3	20.3	20.1	9.8	54.2	-27.3	15.8	15.0	**10.5**
Total deposits	259,562	313,007	364,430	421,849	457,650	501,890	554,060	595,776	657,280	**737,213**
Growth %	10.3	20.6	13.5	15.8	8.5	9.7	10.4	7.5	10.3	**12.2**

**Note: Highlighted information is based on LKAS/SLFRS.*

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Glossary of Financial and Banking Terms

A

Accounting Policies →
The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

Accrual Basis →
Recognising the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalent.

Actuarial Gain →
Gain or loss arising from the difference between estimates and actual experience in an entity's pension plan.

Amortisation →
The systematic allocation of the depreciable amount of an intangible asset over its useful life.

Amortised Cost →
Amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and minus any reduction for impairment or uncollectability.

Available-for-Sale Financial Assets →
Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

B

Basel III →
Basel III is a global voluntary regulatory framework issued by The Basel Committee on Banking Supervision (BCBS) on Bank Capital Adequacy, Stress Testing and Market Liquidity Risk.

C

Capital Adequacy Ratio →
The relationship between capital and risk-weighted assets as defined in the framework developed by the Bank for International Settlements (BIS) and as modified by the Central Bank of Sri Lanka to suit local requirements.

Capital Conservation Buffer (CCB) →
A capital buffer prescribed by regulators under Basel III and designed to ensure banks build up capital buffers outside periods of stress that 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 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.

Common Equity Tier 1 Capital (CET1) →
The highest quality form of regulatory capital under Basel III that comprises common shares issued and related share premium, retained earnings and other reserves, less specified regulatory adjustments.

Concentration Risk →
Risk arisen from uneven distribution of counterparty and portfolio exposures to business sector or geographic region.

Contingencies →
A condition or situation existing at reporting date where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events

Corporate Governance →
The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and the direction of entity, the supervision of executive actions and accountability to owners and others.

Cost/Income Ratio →
Operating expenses excluding impairment provision and provisioning for fall in value in dealing securities as a percentage of net income.

Cost Method →
A method of accounting whereby the investment is recorded at cost. The Income Statement reflects income from the investment only to the extent that the investor receives distributions from accumulated net profits of the investee.

Credit Ratings →
An evaluation of a corporate's ability to repay its obligation or the likelihood of not defaulting, carried out by an independent rating agency.

Credit Risk →
Credit risk or default risk is most simply defined as the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms and conditions.

Customer Deposits →
Money deposited by account holders. Such funds are recorded as liabilities.

D

Dealing Securities →
Marketable securities that are acquired and held with the intention of reselling them in the short-term.

Debenture →
A medium-term debt instrument issued by a corporate entity.

Deferred Tax →
Sum set aside for tax in the Financial Statements that will become payable in a financial year other than the current financial year.

Depreciation →
The systematic allocation of the depreciable amount of an asset over its useful life.

Derecognition →
Removal of previously recognised financial assets or financial liability from an entity's statement of financial position.

Derivative →
Financial contract of which the value is derived from the value of underlined assets.

E

Earnings per Ordinary Share (EPS) →
Profit attributable to ordinary shareholders divided by the number of ordinary shares in issue.

Economic Value Added (EVA) →
A measure of productivity which takes into consideration cost of total invested equity.

Effective Income Tax Rate →
Provision for taxation divided by the profit before taxation

Effective Interest Rate →
Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate a shorter period to the net carrying amount of the financial asset or financial liability

Equity Method →
The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

Equity Risk →
Risk of depreciating equity investments due to stock market dynamics

Exchange Gain/Loss →
Profit earned on foreign currency transactions arising from the difference in foreign exchange rates between the transaction/last Reporting date and the settlement/ Reporting date. Also arises from trading in foreign currencies.

F

Fair Value →
The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Financial Asset →
Is any asset that is cash, an equity instrument of another entity or a contractual right to receive cash or another financial asset from another entity.

Financial Asset or Financial Liability at Fair Value through Profit or Loss →
Financial asset or financial liability that is held-for-trading or upon initial recognition designated by the entity as 'at fair value through profit or loss'.

Financial Instrument →
Financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial Liability →
Is a contractual obligation to deliver cash or another financial asset to another entity.

Foreclosed Properties →
Properties acquired in full or partial; satisfaction of debts.

Foreign Currency Risk →
Risk exists in transaction other than the local currency. Adverse movements in foreign exchange rates may decline the value of Assets/ Liabilities held in terms of foreign currency.

Foreign Exchange Contract →
Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

G

General Provisions →
These are provisions made on loans and advances for anticipated losses on aggregate exposures where credit losses cannot yet be determined on an individual facility basis.

Group →
A group is a parent and all its subsidiaries.

Guarantees →
Three party agreement involving a promise by one party (the guarantor) to fulfill the obligations of a person owing a debt if that person fails to perform.

H

Hedging →
A strategy under which transactions are effected with the aim of providing cover against the risk of unfavourable price movements (interest rates and prices of commodities etc.).

Held-to-Maturity Investments (HTM) →
Non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

Held-for-Trading (HFT) →
Debt and equity investments that are purchased with the intent of selling them within a short period of time (usually less than one year).

I

ICCAP →
Process by which the Bank ensures additional capital is provided for banking risks other than those covered in Pillar 1.

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 →
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 nonperforming loans and advances.

Interest Margin →
Net interest income expressed as a percentage of average interest earning assets.

Interest Rate Risk →
The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Interest Rate Swap
An interest rate Swap is a derivative in which one party exchanges a stream of interest payments for another party's stream of cash flows.

Interest Spread →
Represents the difference between the average interest rate earned and the average interest rate paid on interest earning assets and interest bearing liabilities, respectively. variables such as interest rates, exchange rates, credit spreads and other asset prices.

Investment Properties →
Investment property is property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use or sale.

Investment Securities →
Securities acquired and held for yield or capital growth purposes and are usually held for maturity.

K

Key Managerial Personnel →
Key managerial personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

L

Leverage ratio →
A measure that is the ratio of Tier 1 capital to total exposures. Total exposures include on-balance sheet items, off-balance sheet items and derivatives, and should generally follow the accounting measure of exposure. 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.

Liquidity Coverage Ratio (LCR) →
The ratio of the stock of high quality liquid assets to expected net cash outflows over the following 30 days. High quality liquid assets should be unencumbered, liquid in markets during a time of stress and ideally be central bank eligible.

Liquidity Risk →
The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Loans and Receivables →
Conventional loan assets that are unquoted (originated or acquired).

Loss Given Default (LGD) →
LGD is the percentage of an exposure that a lender expects to loose in the event of obligor default.

M

Market Risk →
This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

Materiality →
The relative significance of a transaction or an event, the omission or misstatement of which could influence the decisions of users of Financial Statements.

N

Net Interest Income →
The difference between the interest income from investment portfolio and the interest paid on deposits.

Non-Performing Loans (NPL) →
The loans which are in default for more than three months.

NOSTRO Accounts →
A bank account held in foreign country by a domestic bank, denominated in the currency of that country.

NPL Ratio →
Total non-performing loans and advances (net of interest in suspense) divided by total loans and advances portfolio (net of interest in suspense).

Net Stable Funding Ratio (NSFR)
The ratio of available stable funding to required stable funding over a one-year time horizon, assuming a stressed scenario. Available stable funding would include items such as equity capital, preferred stock with a maturity of over one year and liabilities with an assessed maturity of over one year. The Basel III rules require this ratio to be over 100% with effect from 2018. The NSFR is still subject to an observation period and review to address any unintended consequences.

O

Off-Balance Sheet Transactions
Transactions that are not recognised as assets or liabilities in the Statement of Financial Position, but which give rise to contingencies and commitments.

Operational Risk
This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

P

Parent
A parent is an entity that has one or more subsidiaries.

Portfolio
A pool of investments including investment in Government Securities, loans and advances, equities, etc.

Probability of Default (PD)
PD is an internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation.

Provision Cover
Total provisions for loan losses expressed as a percentage of net non-performing loans and advances before discounting for provisions on non-performing loans and advances.

R

Return on Assets (ROA)
Net income expressed as a percentage of average total assets, used along with ROE, as a measure of profitability and as a basis of intra-industry performance comparison.

Return on Equity (ROA)
Net income, less preferred share dividends if any, expressed as a percentage of average ordinary shareholders' equity.

Related Parties
Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly as per the Sri Lanka Accounting Standard No. 30 on 'Related Party Disclosures'.

REPOs
Repurchase agreements. Securities sold to lenders with the commitment to buy back on a later date at a fixed price plus interest.

Revenue Reserve
Reserves set aside for future distribution and investment.

Risk Weighted Assets
The sum of total of assets as per the statement of financial position and the credit equivalent of off-balance sheet exposures multiplied by the relevant risk weighting factors. All the risk components are considered together to correct the nominal value of financial assets.

Rupee Loan
Rupee securities issued by the Central Bank of Sri Lanka on behalf of the Government of Sri Lanka.

S

Shareholders' Funds
A capital reserve created as per the provisions of the Banking Act No. 30 of 1988.

Single Borrower Limit
33% of the regulatory capital base.

Statutory Reserve Fund
A capital reserve created as per the provisions of the Banking Act No. 30 of 1988.

Stress Test
Integrated test that shows to varying degrees whether the Bank can withstand unforeseen scenarios of varying severity.

Subsidiary
An entity, including an unincorporated entity such as a partnership, which is controlled by another entity known as the parent.

Substance Over Form
The consideration that the accounting treatment and the presentation in Financial Statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

Swaps (Currency)
The simultaneous purchase of an amount of a currency for spot settlement and the sale of the same amount of the same currency for forward settlement. Alternatively a simultaneous spot sale and forward purchase of a currency.

T

Tier 1 Capital (Core Capital)
Core measure of the 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 (Supplementary Capital)
Supplementary capital representing revaluation gains, general provisions and other capital instruments which combine certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debts.

Total Capital
Total Capital is a summation of the core capital (Tier 1) and the supplementary capital (Tier 2).

Treasury Bill
A short-term debt instrument issued on auction basis by the Central Bank of Sri Lanka on behalf of the Government of Sri Lanka.

U

Unit Trust
An undertaking formed to invest in securities under the terms of a trust deed.

Useful life
Useful life is the period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity.

V

Value Added
Wealth created by providing banking and other services less the cost of providing such services. The value added is allocated among the employees, the providers of capital, to Government by way of taxes and retained for expansion and growth.

Corporate Information

Name of the Bank

National Savings Bank

Legal Form GRI 102-5

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 GRI 102-3

"Savings House", No. 255,
Galle Road, Colombo 03,
Sri Lanka.
Tel: 94 11 2573008-15
Fax: 94 11 2573178
E-mail: nsbgen@nsb.lk
Website: http://www.nsb.lk
Swift Code: NSBALKLX

VAT Registration Number

4 09046266-7000

Service Outlets

253 Branches
286 ATMs

Agency Network

653 Post Offices and 3,409 Sub-Post Offices throughout the Island.

Credit Rating

The Bank has been assigned AAA (lka) long-term credit rating by the Fitch Rating Lanka (Pvt) Limited.

B+ Stable International Credit Rating from Standard and Poors.

B+ Stable International Credit Rating by Fitch Ratings.

Board of Directors

Aswin De Silva – *Chairman*
D L P R Abeyaratne – *Director (Ex Officio)*
Suranga Naullage – *Director*
Ajith Pathirana – *Director*
A K Seneviratne – *Director (Ex Officio)*
Anil Rajakaruna – *Director*
Chandima Hemachandra – *Director*

General Manager/CEO

S D N Perera

Board Secretary

Ms M A P Muhandiram

Board Audit Committee

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

Board Human Resource and Remuneration Committee

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

Board Nomination Committee

D L P R Abeyaratne – *Chairman*
Ajith Pathirana – *Member*
A K Seneviratne – *Member*

Board Integrated Risk Management Committee

A K Seneviratne – *Chairman*
Suranga Naullage – *Member*
Anil Rajakaruna – *Member*

Board Credit Committee

Aswin De Silva – *Chairman*
Ajith Pathirana – *Member*
Chandima Hemachandra – *Member*

Board Information Technology Strategy Committee

Aswin De Silva – *Chairman*
D L P R Abeyaratne – *Member*
Chandima Hemachandra – *Member*

Compliance Officer

Ms I K L Sasi Mahendran

Auditors

Auditor General

Subsidiary
Name of the Company

NSB Fund Management Co. Limited

Registered Office and Head Office

1st Floor, "Savings House",
National Savings Bank,
No. 255, Galle Road,
Colombo 03, Sri Lanka.
Tel.: 94 11 2564601, 2467731
Fax: 94 11 2564706
E-mail: nsbfmc@nsb.lk
Swift Code: NSBFLKLXXXX

Board of Directors

Aswin De Silva – *Chairman*
D L P R Abeyaratne – *Director*
Suranga Naullage – *Director*
S D N Perera – *Director*
Ajith Pathirana – *Director*
Ravi Amarasekera – *Director*
Dammika Ambewela – *Director*
Nimal Jayasundara – *Director*
D S W Samarasekera – *Director*
Yasas De Silva – *Director*
Srilal Fernando – *Director*

Chief Executive Officer

Ms G V A D D Silva

Auditors

Auditor General

Company Secretary

Ms Farzana Aniff

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This is an Integrated Annual Report

Prepared using the Smart Integrated Reporting Methodology™ of Smart Media The Annual Report Company, this report captures the essence of the IIRC <IR> Framework and the GRI Standards.

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