Inspired by Values...Driven by Purpose... Shaped by Technology

National Savings Bank

Integrated Annual Report 2021

Inspired by Values...Driven by Purpose... Shaped by Technology

Amidst all the other global and local "headlines", 2021 was a stellar year for NSB in terms of financial capital formation. Such results in the Bank's 50th financial year of operations stand testimony to the consistency of our performance and achievement over the years.

As we transition to our "next 50", the poise and shape of the Bank has never been better. We have a large customer base in the country. Over 4,500 people who work at the Bank are distinguished by their ability and willingness to rise to any occasion. The admirable manner in which they served over the height of the pandemic was no exception.

The Bank's financial, customer, and employee capitals are clear industry leaders. Whilst we've made steady and significant investments over the years in our technological capital, the year 2021 saw a significant uptick in investments as we complemented our strengths across the board.

Thus, NSB is really celebrating not the successes of 50 years past, but our preparedness for the next!

NSB

Contents

About our Integrated Report

GRI 102-2

It is with great pleasure that the National Savings Bank (NSB) presents its seventh Integrated Annual Report for the calendar year 2021. The Report provides a comprehensive discussion of the Bank's strategy and financial performance in the context of the surrounding economic, social, and environmental conditions. It provides us with the opportunity to share our strategic progress to date and how we transform our business to ensure we remain relevant beyond our present position, thereby continuing to deliver value and be a force for good in the communities in which we operate.

How to read this Report

The Report provides a detailed insight into the Bank's strategy, capital management, risk management, and governance mechanisms. It also examines the value creation process for stakeholders over the short, medium, and long-term, moving on to address the Bank's operations, achievements, execution of strategic objectives, expansion of product portfolio, community contribution, and environmental awareness. Further, it includes a comprehensive review of the Bank's corporate governance and risk management practices as well as the Audited Financial Statements complete with notes. The latter portrays the Bank and Group's financial performance over the year under review and the financial position at 31 December 2021, along with supplementary information.

Navigation icons

Icons have been used throughout this Report to show the connectivity between sections as well as our INTEGRATED THINKING for ease of navigation and to reduce excess textual content where possible. The primary icons used throughout the Report denote capitals, stakeholders, strategic priorities, and material matters. An index of these is given on page 6.

Scope and boundary

Our reporting boundary GRI 102-10, 45, 46, 48, 49, 50, 51 and 52

Our reporting boundary includes the National Savings Bank and its fully owned subsidiaries – NSB Fund Management Company Ltd. and Sri Lanka Savings Bank Ltd. – identified as the "Bank" individually and the "Group" collectively. In line with the framework adopted in 2014 report, key financial aspects are discussed in the context of both the Bank and the Group, while non-financial aspects are discussed under the Bank only, unless stated otherwise.

The Report covers a 12-month period from 1 January to 31 December 2021, consistent with the annual reporting cycle for financial and sustainability reporting, with any material events beyond this date and up to the Board approval date of 15 March 2022 being included as well. While there are no significant changes from previous reporting periods in terms of scope and aspect boundaries, any comparative information that has been reclassified/ restated is disclosed and discussed in the relevant sections.

In addition to financial reporting, the Report also includes information on non-financial performance, opportunities, risks/outcomes related to stakeholders, strategy, business model, operating context, material risks, stakeholder interests, performance, and governance. Special focus is given to "Material matters" covered on pages 76 to 93 in terms of its impact on the Bank's ability to create value over the short, medium, and long-term. Further, it covers the Bank's strategic progress in 2021, shedding light on the Bank's strategy and financial and non-financial targets for the short, medium (two to three years), and long-term (five years or more), which have been set with COVID-19 and economic impacts in mind.

Integrated reporting boundary

- Annual financial statements
- Corporate governance report
- Remuneration report
- Risk and capital management report

Sustainability reporting boundary – all stakeholders

The Report is intended to supply the information requirements of:

- long-term investors – shareholders
- bondholders
- prospective investors
- other key stakeholders such as employees, customers, regulators, and society and environment

Our reporting framework and compliance

GRI 102-12, 54

- 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)
- Global Reporting Initiative (GRI) Sustainability Reporting Guidelines GRI Standards (www.globalreporting.org)
- Code of Best Practice on Corporate Governance issued by CA Sri Lanka
- Sustainable Development Goals (SDGs) – The UN initiative with 17 aspirational "Global Goals"
- 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)
- Regulations and Directions of the Department of Inland Revenue (IRD).

All financial information in the Report complied with all applicable laws, regulations, and standards and can be examined in the several reports and statements presented under "Financial Reports" beginning on page 241.

INTEGRATED THINKING

We are navigating internal and external drivers, interdependencies, and trade-offs in our pursuit of sustainable value creation for all stakeholders in the short, medium and long-term through sound strategy management and reporting practices. Our approach is underpinned by INTEGRATED THINKING, connecting the emerging trends affecting our business, the relationship between the capitals that we use or affect and the potential trade-offs inherent in our strategic choices and the issues that impact the execution of our strategy and the achievement of our value creation. We strive to report transparently, reflecting the value we create, preserve, and erode. By understanding how these elements interact, we are better able to deliver sustained value for all stakeholders in the short, medium, and long-term. In essence, INTEGRATED THINKING is the foundation that translates our capital management into strategic choice making, which then allows for sustainable value creation for all Bank stakeholders in the short, medium, and long-term, thereby keeping the whole process interdependent and intact.

INTEGRATED THINKING DRIVES OUR VALUE CREATION

We assess our operating context

Operating environment Page 26

Global trends and issues such as COVID-19, geopolitical events, socio-economic challenges arising from where we operate, and emerging and existing megatrends determine the environment that informs our value creation process.

Stakeholder relationships Page 67

The quality of our relationships with stakeholders impacts our ability to fulfil our purpose. We therefore measure the quality of our relationships through various mechanisms to make an informed assessment.

Risks and opportunities Page 38

Our business model is the primary lens through which we analyse a multitude of factors that impact our ability of value creation, including the operating environment, stakeholder relationships, and resource dependency. From this universe, we derive our top-of-mind risks and opportunities that are updated throughout the year.

We aim to deliver broader societal and environmental value through our commitment to the United Nations Sustainable Development Goals (UNSDGs)

These areas are underpinned by the six capitals that we use or affect

We consider our material matters GRI 102-46

We take an integrated approach to identify matters that could significantly affect our ability to create or preserve value, or lead to value erosion, over the short, medium, and long-term. These matters inform our strategy to manage the risks and maximise the opportunities that present themselves.

How we respond to our material matters across our six capitals

Strategy and Resource Allocation Page 50

We integrate strategy into our business model

Page 24

Our business model

Our business model enables us to manage our resources and relationships responsibly to deliver the best outcomes for all our stakeholders, enhance positive outcomes, and minimise negative outcomes.

Page 52

Our sustainable strategy

With our defining vision further embedded in the strategy, we make strategic choices with lasting outcomes. We have identified four strategic objectives that enable an integrated decision-making approach to creating sustained value for our stakeholders in the short, medium, and long-term.

Outlook

Outlook information answers the question: What challenges, opportunities and uncertainties are we likely to encounter in pursuing our strategy, and what are the potential implications for our business model and future performance?

Given the uncertain operating context due to COVID-19 and its impact on the economy, we have also highlighted potential uncertainties and our response, where applicable

Outlook information can be found throughout this report, particularly in the following sections:

- Operating environment — Pages 26 to 37
- Risk and opportunities — Pages 38 to 49
- Strategy and resource allocation — Pages 50 to 66
- Six capitals — Pages 96 to 176

External assurance

All regulatory and statutory requirements have been complied with when producing this Report. The Financial Statements have been audited by the Auditor General while Messrs KPMG Sri Lanka issued the assurance on sustainability reporting.

Messrs KPMG Sri Lanka have issued the assurance on the sustainability indicators reported for year ended 31 December 2021 only. Comparative numbers for 2020 have not been audited.

Forward-looking statements

This Report contains forward-looking statements regarding NSB's future performance and prospects. While these statements represent our judgements and future expectations at the time of preparing this report, several emerging risks, uncertainties, and other important factors could materially change the results from our expectations. These may include factors that could adversely affect our business and financial performance.

Interactive PDF

This Interactive Report is a first of its kind in the corporate reporting landscape of Sri Lanka. By using enhanced content navigation and hyperlinks for cross-reference, it allows the reader multiple journeys through the Report. Ultimately, it is part of the Bank's broader efforts to create solutions that prioritise its stakeholders' convenience and experience.

Queries GRI 102-53

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

Senior Deputy General Manager,
Finance and Planning Division,
National Savings Bank,
No. 255, Galle Road, Colombo 3.
sdgm.op@nsb.lk.

Index of navigation icons

Capitals

Financial | Human | Intellectual | Manufactured | Social and relationship | Natural

Stakeholders

Shareholder/Investor | Customers | Employees | Regulators and Government institutions | Business partners | Society and environment

Short to medium-term strategies

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

Long-term strategies

Customer driven | Excellence in governance | Strength and sustainability | Transformation leader

Material matters

Economic disruption | Financial sustainability | Managing market volatility | Customer service and experience | Business/Operational resilience | Adapting to the new normal | Digital transformation | Innovation and agility

Skills and capabilities | Employee value proposition | Health and safety | Cyberthreat and information security | Legal and regulatory compliance | Financial crime | Environmentally resilient

Others

Page reference

INTEGRATED REPORT

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→ *Preamble*

NSB at a glance

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Established in 1972 through a Parliamentary Act that merged four traditional savings organisations in the country into one establishment, the National Savings Bank boasts of a rich history, inheriting over a century old savings legacy from its predecessor, the Ceylon Savings Bank (CSB) established in 1832. NSB was conferred the status of a Licensed Specialised Bank (LSB) under the Banking Act No. 30 of 1988 with the aim of nurturing a savings culture across all sections of class, race, and gender in Sri Lanka. At present, the Bank holds 21.8 million accounts that support the claim of being the most inclusive Bank in the country.

Our Vision – to become the most stable and coveted choice for savings and investment solutions

Our Mission – to provide our customers with a full range of financial solutions to augment their savings and investments needs whilst meeting all stakeholder expectations

Our Values – to operate with integrity and mutual respect, responding swiftly and innovatively in our day-to-day business

Figure 1

National Savings Bank Group

Operating Companies

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

Operating segments / Line of Business

National Savings Bank

Retail banking

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

Corporate finance

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

International banking

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

Treasury and dealing

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

NSB Fund Management Company Ltd.

- Primary Market Activities
- Secondary Market Activities
- Settlement A/C with CBSL (Lanka Settle)
- Security A/C with CBSL (Lanka Secure)
- Trader Corporate Debt Securities
- Swift Connectivity
- Portfolio Management
- Cash Management

Sri Lanka Savings Bank Limited

- Deposit mobilisation
- Retail lending
- Corporate lending
- Leasing
- Microfinance
- Pawning

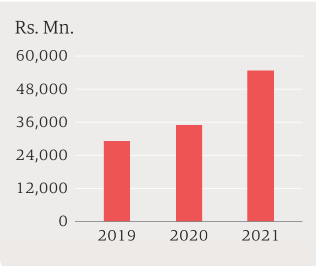
Corporate Services including technology and operations

How are we different?

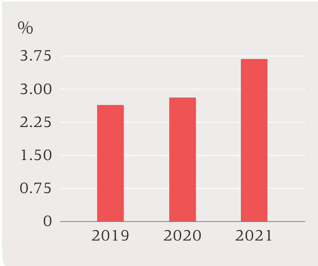
- A purposeful business supported by a progressive corporate culture
  Highly reliable and coveted choice for savings and investments
- Required by statute to invest 60% of deposits in gilt-edged Government Securities
  The country's premier savings bank
- Selective origination and sound risk management
  A lower non-performing loan ratio in comparison to industry average
- Only bank in the country with 100% Government guarantee on all deposits and interests thereon
  Safest Bank in the country
- Serves 21.8 million accounts
  The people's choice
- Contributes taxes, levies, fees, and dividend to the General Treasury
  Stoic support to the national economy
- Funds Government long-term development and socio-economic projects
  Nation building
- Conducts business in a manner that positively impacts society
  Ethical and moral banking practices
- Good governance coupled with veteran management
  Stable organisational structure

Figure 2

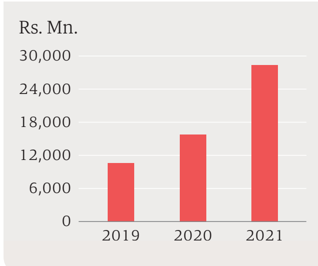
Net interest income



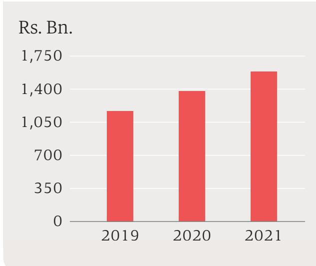
Net interest margin



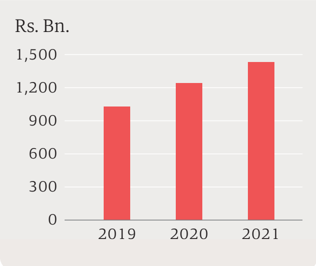
Profit before tax



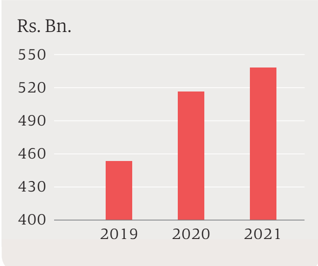
Total assets



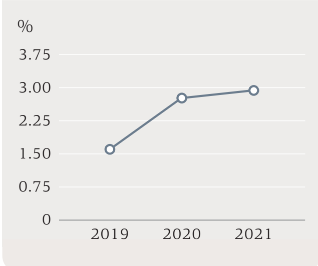
Customer deposits



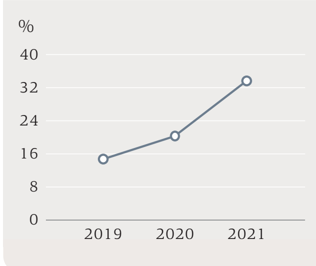
Loans and advances



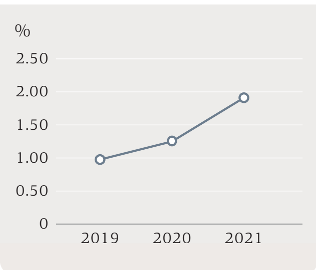
Gross NPL ratio



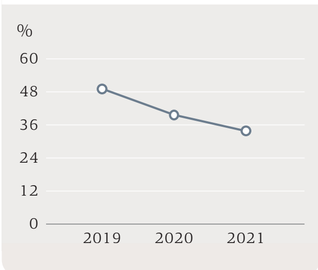
Return on equity



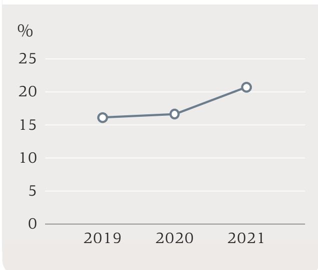
Return on assets



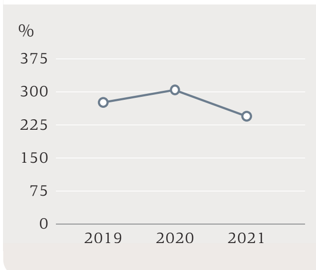
Cost to income without financial taxes



Basel III - Total capital (minimum 12%)



All currency liquidity coverage



Milestones

1972

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

1979

Introduction of Savings Certificate with a draw

1981

NSB implements Mobile Banking Unit to reach the rural population

1994

The first ATM machine was established

1995

The NSB ACT was amended to facilitate business diversification

1998

Launch of "*Hapan Punchi Hapan*" product

1999

NSB opened doors to its 100th branch at Nittambuwa

Launch of "*Ithuru Mithuru*" product

2000

NSB's subsidiary NSB FMC was established

2002

Launch of "*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 Senior Note of USD 750 Mn. by a Sri Lankan bank

2014

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

2016

Opened its 250th branch at Kopay

Global Finance rated NSB as "The Safest Bank in Sri Lanka"

Ventured into trade financing

Issuance of NSB's first unquoted subordinated debenture valued at Rs. 6 Bn.

2017

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

2018

Successfully redeemed the USD 750 Mn. Senior Note

Secured the first foreign currency term loan

2019

First Sri Lankan State Bank to receive PCI-DSS Certification

Sri Lanka Savings Bank became a fully-owned subsidiary of NSB

Surpassed the Rs. 1 Tn. deposit base

Successfully redeemed the USD 250 Mn. Senior Note

2020

Successful issuance of Hybrid debt instrument (perpetual debenture)

2021

Launch of "NSB Pay" mobile App

Products and services

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Savings Deposits

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

Savings/Retirement Plans

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

Term Deposits

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

Foreign Currency Products

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

Retail Lending Products

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

Personal Loans

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

Card Services

- Shopping + ATM Card
- NSB Easy Card

Corporate Lending

Other Services

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

Digital/Electronic Banking

- Internet Banking
- Quick Response Code Banking

Collection Centres at Schools

Customer Contact Centre – NSB Call Centre

Treasury

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

Scan to view more details on products and services

Highlights

GRI 102-7

Table 1

As at 31 December	Bank 2021	Bank 2020	Bank Change %	Group 2021	Group 2020	Group Change %
Results for the year (Rs. Bn.)						
Gross income	**134.94**	127.55	5.80	**136.06**	130.04	4.63
Profit before financial VAT and taxation	**34.54**	19.43	77.77	**34.66**	20.80	66.64
Profit before taxation (PBT)	**28.38**	15.64	81.41	**28.42**	16.79	69.29
Income tax expenses	**6.26**	5.54	13.10	**6.29**	5.97	5.43
Profit after taxation (PAT)	**22.12**	10.11	118.83	**22.13**	10.82	104.52
Position at the year end (Rs. Bn.)						
Shareholders' funds (Total equity)	**76.01**	54.41	39.69	**81.45**	59.97	35.83
Due to other customers/deposits from customers	**1,428.47**	1,237.12	15.47	**1,426.72**	1,237.67	15.28
Financial assets at amortised cost – Debt and other instruments	**935.35**	754.23	24.01	**940.54**	758.59	23.98
Loans and receivable	**538.94**	516.80	4.29	**538.60**	517.83	4.01
Total assets	**1,579.10**	1,363.81	15.79	**1,605.81**	1,383.22	16.09
Information per ordinary share (Rs.)						
Earnings (Basic)	**23.53**	10.75	118.83	**23.54**	11.51	104.52
Earnings (Diluted)	**23.53**	10.75	118.83	**23.54**	11.51	104.52
Net assets value	**80.86**	57.89	39.69	**86.65**	63.79	35.83
Ratios	2021	2020	Change (bps)	2021	2020	Change (bps)
Net interest margin (NIM) (%)	**3.71**	2.77	95	**3.73**	2.83	90
Return on average shareholders' funds (ROE) (%)	**33.92**	20.15	1,377	**31.30**	19.79	1,151
Return on average assets (ROA) (%)	**1.93**	1.24	69	**1.90**	1.31	59
Year-on-year growth in earnings (%)	**118.83**	58.40	6,043	**104.52**	24.20	8,032
Regulatory liquidity ratios (%)						
Statutory liquid assets – Minimum requirement 20%	**59.63**	69.10	(947)	**N/A**	N/A	–
Rupee – Minimum requirement (2021 – 100%, 2020 – 90%)	**240.84**	311.02	(7,018)	**N/A**	N/A	–
All currency – Minimum requirement (2021 – 100%, 2020 – 90%)	**240.43**	307.22	(6,679)	**N/A**	N/A	–
Net stable funding ratio– Minimum requirement (2021 – 100%, 2020 – 90%)	**160.78**	168.54	(776)	**N/A**	N/A	–
Regulatory capital requirements: Basel III						
Tier - 1– Minimum requirement (8%)	**18.60**	13.65	495	**19.94**	15.57	437
Total Capital– Minimum requirement (12%)	**20.83**	16.45	438	**21.98**	18.30	368
Leverage Ratio– Minimum requirement (3%)	**8.93**	6.64	229	**9.02**	7.21	181

Financial goals and achievements – Bank

Financial indicator	Goals	Achievement 2021	2020	2019	2018	2017
Net interest margin (NIM) (%)	3.27	**3.71**	2.77	2.63	2.43	2.61
Return on average assets (ROA) (%)	1.50	**1.93**	1.24	0.95	0.78	1.47
Return on average shareholders' funds (ROE) (%)	27.32	**33.92**	20.15	14.25	10.95	27.24
Growth in income (%)	1.89	**5.80**	4.61	8.96	3.62	23.57
Growth in profit for the year (PAT) (%)	53.29	**118.83**	58.40	41.80	(53.68)	2.30
Growth in total assets (%)	13.71	**15.79**	17.78	11.68	2.56	10.89
Capital requirements: Basel III						
Tier - 1– Minimum requirement (8%)	Over 8%	**18.60**	13.65	13.49	13.08	11.93
Total Capital– Minimum requirement (12%)	Over 12%	**20.83**	16.45	15.82	15.90	15.31

Our Economic, Environmental and Social Focus

Economic

Interest paid to customers
Rs. 76.8 Bn.
(2020 – 87.6 Bn.)

Rs. 3,500 Mn.
paid in dividends to shareholder
(2020 – Rs. 1,000 Mn.)

Rs. 834.1 Bn.
investment in Government Securities portfolio
(2020 – Rs. 740.8 Bn.)

Paid direct and indirect taxes of
Rs. 12.4 Bn.
(2020 – Rs. 9.3 Bn.)

Rs. 251.7 Bn.
Loans granted
(2020 – Rs. 202.1 Bn.)

Environment

Rs. 3.80 Mn.
worth of nine eco loans disbursed
(2020 – Rs. 5.41 Mn. worth of eight eco loans disbursed)

277,328 kWh
Solar power generated in 2021
(2020 – 119,696 kWh)

Consumed **33,539 GJ** of energy
(2020 – 31,823 GJ)

Recycled **3,070 kg** of used paper
(2020 – 1,159 kg)

Consumed **88,986 m³** of water
(2020 – 105,515 m³)

Social

Paid Rs. 13 Bn. to our **4,616** employees
(2020 – Rs. 10 Bn. to 4,641 employees)

Invested Rs. 11 Mn.
on skills development
(2020 – 8.8 Mn.)

55%
of our total employees are women
(2020 – 54%)

98.6%
retention ratio
(2020 – 98.8%)

Rs. 1,306.1 Mn. spent on procurement for our **351** suppliers
(2020 – Rs. 2,159.1 Mn. for our 351 suppliers)

261
branches
(2020 – 259)

ATM/CRM
292 + 92 = **384**
(2020 – 289 + 72= 361)

4,064
Post and sub-post offices
(2020 – 4,063)

Provided
36
new job opportunities
(2020 – 9)

Chairperson's message

GRI 102-14

A part of our ability to stand strong lies in our brand image and consequent brand loyalty. Since our establishment in 1972, we have upheld the vision, mission, and values of NSB, striving to promote a strong savings culture with myriad benefits to the Sri Lankan people.

It is with great pride that this message is penned, as the past year has proved to be a testament to NSB's resilience and fortitude in what has been a challenging year. Given our position as the savings giant in Sri Lanka coupled with being the largest Licensed Specialised Bank (LSB), our purpose has never been more relevant than over the past year. With a deep understanding of our responsibility towards customers and stakeholders, we have supported those affected by the pandemic, ensuring that their businesses and personal finances stayed afloat This responsibility has directed all our decisions and we have maintained a robust track record, a firm business foundation, and an unwavering brand reputation which in turn has translated into sustainable value for our customers, stakeholders, the Sri Lankan economy, and society at large.

The challenges posed in 2021

The global economic context has been both interesting as well as challenging given its rapidly changing nature due to the pandemic and its ensuing economic effects. In the first half of 2021, GDP growth was broadly in line with expectations with outturns for first quarter global GDP being stronger than expected, reflecting the continued adaptation of economic activities and associated restrictions in the pandemic, and the continued policy support in many countries. However, the second quarter saw weakened momentum due to the increasing COVID-19 infection rates in many Emerging Markets and Developing Economies (EMDEs) and supply disruptions. As such, global growth is expected to moderate in 2022, reflecting continued COVID-19 flare-ups, diminished fiscal support, and lingering supply bottlenecks.

This macroeconomic situation has meant that the Sri Lankan economy too has felt the shocks brought on by COVID-19, with the banking industry having to undergo a challenging year due to the ensuing socio-economic impacts. COVID-19 has become a part and parcel of our operating landscape, and while sound vaccination policies and adjustments at socio-economic levels have begun to gradually revive the economy, sovereign downgrades coupled with policy uncertainties have affected that growth. As per the Central Bank of Sri Lanka (CBSL), the Sri Lankan economy is estimated to have grown by 3.7%, partly supported by the strong vaccination programme.

While policy rates moved up a mere 0.5% during 2021, a 700bps increase was witnessed in April 2022 making an 850bps increase in year 2022 to control soaring inflation due to crippling shortages of basic goods fuelled by a crushing economic crisis. This move is hopeful for the Banking industry as it will encourage companies with dollar earnings to bring these back into the country for investment whilst providing locals with the incentive to invest any dollar savings in Sri Lankan rupee bills, bonds, or deposits. As such, while the depreciation of the rupee, the decline in foreign currency reserves due to debt repayments, and the low levels of foreign currency inflows have posed difficulties for the industry, the path has been laid for coming out of these roadblocks as well.

In this extremely challenging environment, we continued to make the tough decisions necessary to protect and enhance our Bank's resilience and sustainability, looking beyond our present context to where we want to be in the future. It is this ability to face any situation and come up with solutions that has made NSB a successful institution.

A summary of our financial performance

We saw growth in interest income, profit before tax, return on equity (ROE), total assets, total investment portfolio of equity and debt instruments and total shareholders' equity. These profits were invested back into the economy via taxes, levies, and dividends to the government. As is the case in any financial institution, we witnessed regress in a few areas as well.

Given the above macroeconomic context, NSB presents a stable financial performance for the year 2021, having maintained a strong capital position of 20.83% which is well above the revised minimum statutory requirement of 12.0%. We boast of one of the lowest NPL in the industry, with a rate of 2.97% compared to the industry level of 4.47% whilst also holding the second highest deposit mobilisation of Rs. 192.6 Bn. which extended the deposit base by 15.5% to achieve Rs. 1.4 Tn. as of December 2021.

However, NSB continued to remain strong in the face of every situation, and our uninterrupted service to customers via our branches even during the peak of the pandemic highlights this dedication. We stand firm in the belief that the Bank will tide over all financial difficulties and continue to be a stable savings option to our customer base.

A Trusted Brand

A part of our ability to stand strong lies in our brand image and consequent brand loyalty. Since our establishment in 1972, we have upheld the vision, mission, and values of NSB, striving to promote a strong savings culture with myriad benefits to the Sri Lankan people. ICRA Lanka Limited has awarded NSB as Sri Lanka's largest and safest LSB with AAA credit rating, on the back of 100% explicit guarantee provided by the Government of Sri Lanka.

With our position as the 5th most valuable brand in Sri Lanka with Rs. 31 Bn. at the end of 2021, we can safely say that our brand is one of the most trusted in the country. We have evolved with the times to ensure that we remain both relevant and accessible to every segment of Sri Lankan society and we remain particularly dedicated to harness and nurture a new generation of stakeholders who will support the continued trust in the Bank.

Focused on sustainable outcomes for all stakeholders

Sustainability is at the core of all our efforts as it is of paramount importance to our continued existence. While we engage in financial sustainability due to our position as a financial institution, we also recognise that sustainability in our social and environmental performance is crucial to delivering outcomes that are sustainable and balance the interest of our stakeholders.

Financially, our strong capital position coupled with sound operational performance continued to render returns to our stakeholders, with the Bank's dividend to shareholder standing at Rs. 3.5 Bn. this year. The business ended its performance for the financial year on a high note, with a strong focus on driving growth in core banking businesses whilst providing excellent customer experiences.

Socio-economically, the Bank made every effort to accommodate all COVID-19 related issues, responding quickly and efficiently to customer needs and delivering government stimulus initiatives to support the economy. As the pandemic raged on, the Bank continued to defer payments on home, personal, and business loans, on top of offering a wide range of support to customers. This helped alleviate financial pressure and uncertainty to both individuals and businesses, highlighting our commitment to long-term sustainability as opposed to short-term gains at the expense of our customer base.

Beyond COVID-19 support, NSB has remained steadfast to its commitment to UNSDGs as it firmly believes in building communities and nurturing the environment as part of its organisational mantle. To build communities, we have continued direct investments that support sustainable education and infrastructure, practicing financial inclusion in our initiatives to instil a habit of savings in Sri Lankans, which is key to our organisation's mandate. Our commitment to the environment is clear in our eco-friendly products and services targeted at influencing retail customers to invest in sustainable and energy efficient solutions by providing low-cost financing and home loans to enterprises and housing projects that have green concepts. We have also taken steps such as environmental-minded business lending to move us to a low carbon economy.

Digitalisation for a sustainable future

COVID-19 has seen an almost revolutionary change in our customers' transition to digital platforms, as lockdowns, social distancing, and health concerns have influenced record numbers of customers to move to digital banking platforms. More than ever before, customers are looking to integrate internet and mobile banking into day-to-day functions. We have leveraged all such opportunities and driven digital enablement, proactively shifting customers to secure seamless digital platforms. We have done so whilst keeping our brand as a focal point which emphasises our presence in digital markets, thereby marking us out as a futuristic bank that is part of a hybrid banking system which merges and optimises the physical and digital to provide state-of-the-art technology to our stakeholders.

This drive towards digitalisation has also considered efficiency within the organisation itself, with our core banking solution, treasury management solution, and human resource management system enabling cost-effective yet optimal processes within the Bank. Both these digital drives – within and outside of the Bank have been secured through investment in robust cybersecurity systems that monitor and protect data, providing all stakeholders with the highest levels of security and privacy when on Bank platforms. All our endeavours in this regard have been conducted with the aim of ensuring secure sustainability, thereby upholding our responsibility as a Bank.

Sustainability

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

For details, pages 52 to 55

Governance and Risk Management

Among other factors, the Bank owes its healthy performance amidst a challenging operating context to proactive risk management and best practice governance which supported value creation and provided uninterrupted service to customers. We are fortunate to house a skilled and decisive governance body who oversees all key decisions and provides stable leadership to the Bank. They are supported by cautious yet enterprising risk management processes that ensure the Bank remains secure in the midst of its decisions.

Governance

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

For details, pages 188 to 202

Risk Review

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

For details, pages 212 to 239

Looking to the future

It becomes increasingly evident that NSB is a dynamic financial institution that has progressed its strategy, evolved its brand, and maintained its core values to reflect the socio-economic, environmental, and digital directions of society, both in present and futuristic terms.

We are especially pleased with our digital drive that has taken off with particular effect this year, paving the way for our financial services to be customised to individual needs whilst simultaneously proving to be environmentally friendly and sustainable.

We are committed to supporting the Sri Lankan economy through this difficult time and will engage in strategic operations that will contribute to long-term economic revival. As a state bank, we not only see it as our duty but our privilege as well, to serve the nation.

Acknowledgements

While this section may come last in my message, it is certainly not least in importance. NSB is what it is because of its people and as such, my gratitude and thanks is extended to the numerous players in our Organisation. My colleagues on the Board of Directors have provided sound advice and unwavering support during a testing year while the Corporate Management team and staff across NSB have tirelessly implemented all decisions with excellence. These efforts have been cemented by our loyal customer base, who together with NSB have ensured the continued stability of the Bank.

At a state level, I am appreciative of the confidence and support provided by the Hon. Prime Minister, and the Minister of Finance. This gratitude is further extended to the Treasury Secretary, the Governor of Central Bank Sri Lanka, all officials in the above institutions, the Attorney General and the Auditor General. I am also grateful to the Postmaster General and officials of the Postal Department who provided the Bank with crucial support in its island-wide operations.

Together, we will always be a strong and resilient force that secures our nation's interests for generations to come.

Keasila Jayawardana

Ms Keasila Jayawardena

24 March 2022

General Manager/ CEO's review

GRI 102-14

Our foundation is statistically evident in our healthy financial performance this year. Our interest income recorded a growth of 7.3%, recording Rs. 131.4 Bn. while profit before tax stood at Rs. 28.4 Bn. depicting an 81.4% growth.

I share the Chairperson's pride in NSB's performance this year, especially given the challenging macroeconomic environment the Bank has had to face. The continued effects of the ongoing pandemic resulted in slow economic growth, which was further curtailed by sovereign downgrades and policy uncertainties. Added to these were the depreciation of the rupee, steady decline in foreign currency reserves on the back of debt repayments, and low currency inflows due to reduced tourism and foreign currency remittances.

However, the Banking industry responded strongly with support from the Central Bank of Sri Lanka who adopted an accommodative monetary policy in 2020 followed by quantitative tightening in 2021. The slight upward movement of 0.5% for policy rates during 2021, with a further 50bps increase in January and 100bps increase in March 2022 indicated that there was headroom for interest rates to move up further a factor which came to fruition in April 2022 when the Central Bank set a 700bps to reduce sky rocketing inflation and to stabilise the economy. This move is a hopeful step in the right direction as it will encourage investments back into the country, bringing in much needed foreign currency inflows. Beyond mere economics, it will also signal to the international community that Sri Lanka is committed to its debt restructuring plans, thereby building confidence in the country's resolve to come out of its current crisis.

Through all this, NSB has held firm to its responsibility of being the safest bank in Sri Lanka, paying all its dues and giving back to its customers as well. This ability to stand firm in hardship is primarily due to committed workforce and responsible governance which has set cautious strategy and risk for the Bank, thereby ensuring a solid foundation.

We, at NSB have taken an INTEGRATED THINKING approach which carefully balances the wider macroeconomic factors with the internal context of our operations, ensuring that capital inputs and outputs create value for the Bank, the stakeholders, and wider society whilst maintaining environmental sustainability.

Financial performance

Our foundation is statistically evident in our healthy financial performance this year. Our interest income recorded a growth of 7.3%, recording Rs. 131.4 Bn. while profit before tax stood at Rs. 28.4 Bn. depicting an 81.4% growth. At year end, return on equity (ROE) improved to 33.92% while the asset base grew by 15.8% to reach Rs. 1.6 Tn., with loans and advances accounting for 34.1% of total assets. The Bank's total investment portfolio of equity and debt instruments witnessed a growth of 33.3%, total shareholders' equity rose to Rs. 76.0 Bn., and risk weighted assets increased by 13.3% to Rs. 350.4 Bn. The Bank's cost to income ratio (without taxes) closed at 33.3%, aided by growth in the income base. In addition to this, we were also able to secure Rs. 7 Bn. funding from Indian Bank and Indian Overseas Bank.

A key element is our strong capital position of 20.83%, well above the 12.0% statutory requirement. This highlights the importance we place on security here at NSB. We are home to one of the lowest NPL rates in the industry, boasting of 2.97% in relation to the industry rate of 4.47%. Our deposit mobilisation this year is also worth mentioning as it is the second highest of the Bank's history with Rs. 192.6 Bn. this year, which resulted in a 15.5% extension in the deposit base, leaving it at Rs. 1.4 Tn. as at end December 2021.

NSB contributed to the Government by way of taxes and levies, thereby supporting the Sri Lankan economy. During the year, the Bank's contribution to the nation via taxes was Rs. 12.4 Bn. whilst dividends paid stood at Rs. 3.5 Bn.

All things considered, 2021 has seen sound financial performance with the Bank ending the year with sustainable growth.

Financial capital

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

For details, pages 96 to 113

Business lines review

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

For details, pages 114 to 119

COVID-19 support

Our performance as a Bank has been translated into supporting our customer base, especially during COVID-19. The pandemic has created an urgent need to support domestic economic activity through enhanced credit flows to business affected by COVID-19. As a response, the Central Bank introduced broad-based stimulus packages including the *"Saubhagya"* COVID-19 Renaissance Facility and debt moratorium scheme. In line with these requirements, the Bank has granted debt moratorium and instalment deferment to all customers except for those who opted out of the schemes.

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90% of the retail loan portfolio were given the moratorium at the concessionary rate of 7.0% with periods generally varying from two to six months, with all moratoria scheduled to end in June 2022. All instalments were deferred till the end of the loan period and an interest rate reduction of up to 10% on existing loans was provided for customers who requested relief.

Complementing the concessionary loan schemes proposed by the Government in the 2021 Budget, the Monetary Board of the Central Bank of Sri Lanka (CBSL) introduced a maximum interest rate on mortgage-backed housing loans obtained by salaried employees from licensed banks, to support the expansion of home ownership in Sri Lanka whilst providing an additional stimulus to the domestic construction sector and its supply chains. Accordingly, in 2021, the Bank introduced a special housing loan scheme for permanent employees in the public and private sector, thereby further supporting its customer base.

Customers

Our customers are valued and well-looked after at NSB and we provide a wide array of products and services aimed at meeting customer specific needs.

For details, "Customer capital" under "Social and relationship capital" on pages 157 to 163

Progress in our strategic priorities

At NSB, sustainability is not a mere concept but a strategic priority that influences our decision making and value creations process. We ensure that every single strategy is assessed alongside the relevant sustainability goals, thereby keeping our operations in line with international standards and UNSDGs.

In terms of finance, we have increased our commitment to sustainable finance through the granting of eco loans to environmentally friendly businesses in order to encourage responsible business practices. We have seen great success in this area, with our eco loan of Rs. 3.8 Mn. disbursed during the year.

Our digital initiatives are targeted at both our customers and employees with a view to providing efficient yet sustainable banking to all. The Core Banking solution is one such digital investment expected to be live in 2022. NSB will be equipped with powerful front-end digital platforms that provide efficient processes that incorporate automated and streamlined back-office processes as well. The Bank's Core Banking Project Team has engaged in awareness programmes even amidst the pandemic, and we aim to train both Branch and Head Office staff prior to the launch.

We have continued our expansion of digital infrastructure with a view to facilitating savings via our network of 261 branches, 292 ATMs and 92 CRMs at the end of 2021. This has been further supported by our "NSB Pay" App which is available on leading mobile application platforms such as iOS, Android, and Huawei. We are committed to increasing digital infrastructure and mechanisms towards more sustainable banking.

Strategy

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

For details, pages 50 to 66

Segmental performance

All four segments of the Bank's main arteries – retail banking, corporate banking, international banking, and treasury – depicted stable performance this year.

The Retail Banking segment continued to be the most profitable business line for NSB, accounting for 32.4% of Net Operating Income, with 2021 showing Rs. 17.4 Bn. due to increases in retail banking loans and fee-based income from cards. However, the deposit mobilised during the year witnessed a 5.3% decline to Rs. 192.6 Bn. compared to the previous year, due to the negative returns from Bank deposits coupled with soaring living expenses caused by hiking inflation.

Our Corporate segment focused on growth sectors such as of power, utilities, infrastructure, renewable energy, green businesses, and financial institutions. In line with these interests, we disbursed loans worth Rs. 28.5 Bn. as project loans to the NWSDB and RDA - Rs. 14.1 Bn. and Rs. 13.2 Bn. respectively. We also granted a loan facility of Rs. 750 Mn. to the Techno Park Development Company for the development of a Technology Park in Kurunegala. Throughout all the above, NSB's Corporate Banking maintained a lower NPL ratio of 2.1%.

While we have endeavoured to maintain our **International Banking segment** operations, it is one of the areas that have lacked stimulation due to stagnation in the Bank's foreign currency deposit base in 2021, given the mobilisation of only Rs. 16.4 Mn. against the Rs. 3.3 Bn. reported in 2020. This has been largely due to the drying up of foreign exchange inflows into the country through banking channels, post the revaluation of the Sri Lanka rupee, coupled with worker's remittances in 2021 via banking channels declining to a 10-year low. Even amidst this, the Bank has shown its resilience by managing to receive Rs. 57.1 Bn. worth of remittances in 2021 compared to Rs. 56.2 Bn. reported in the same period last year. Consequently, the market share in the remittances increased to 5.25% as of December 2021 from 4.24% in December 2020.

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

The Bank's **Treasury segment** continued to make a significant contribution to the Bank's net operating income of 51.6% during 2021, mainly due to the significant increase in net interest income. The market volatilities that prevailed in 2021 amplified the importance of the Treasury Division's role in managing the Bank's liquidity levels and monitoring asset and liability maturity mismatches. The Division strengthened liquidity buffers, successfully raised funds at lower cost, and oversaw long-term directed investments towards Government Securities and Sri Lankan Development Bonds. At the end of 2021, the Government Securities portfolio stood at Rs. 834.1 Bn. while the equity portfolio recorded a strong performance with a mark to market gain of Rs. 427.4 Mn., ending with Rs. 5.2 Bn. worth of portfolio.

Risk Management and Governance

NSB continues to be a stable bank due to its sound risk management and responsible governance. This has been of particular importance in relation to moratoria and consequent extensions, as the Bank has balanced the risk in a manner which has prioritised long-term stability.

Managing asset quality was a key priority in 2021 and I am pleased to state that as per the latest published information, the Bank recorded one of the lowest NPA among its peers in the banking industry.

In general, the Bank's risk management strategy was in favour of keener insights as the Board of Governors set up risk within approved boundaries that ensure the security of the Bank. Given the uncertain market conditions, the Bank minimised its risk exposures in line with responsible risk appetite and ensures that all decisions were within the context of the operating environment.

Engaging our people

Our people are our finest asset at NSB, and we are committed to optimising the skill set within our workforce through targeted training, supportive workplaces, and attractive remuneration. It is my personal desire to see our staff energised by NSB's vision and feel a strong sense of pride and loyalty towards NSB. Thus we ensure that the Bank's strategic goals, its evolution as an industry, and its investment in digitalised workplaces directly link back to employee capabilities, thereby creating an organisation that is in tune with its people.

To this end, we believe in retaining our older, experienced talent – this year saw the retirement age extended to 62 years – whilst also investing in millennials so that the Bank will be up to date with current trends. Given this twofold approach, I firmly believe that NSB will continue to maintain a balanced workforce that achieves remarkable results in the coming year.

Outlook on our sustainable value creation

We will continue to strengthen our capital base across the board to ensure that the Bank has a stable foundation from which to conduct its business. Financially, we will continue stringent cost management with a bid to achieving the financial targets set out in the budget and strategic business plans whilst simultaneously creating sustainable products and services that would preserve our natural capital. With sustainability further guiding our value creation, we will continue to invest in manufactured capital that is increasingly digital in nature so that our banking processes can move onto more efficient digital platforms, with enhanced intellectual capabilities further supporting the transition to a more digitalised system. In all of this, our people and our social relationships will take centre stage as NSB's value creation process relates back to the benefit to our stakeholders.

In essence, it is my desire that NSB continues to function as an integrated organisation that derives value from all its capitals, to then deliver value back to society. I believe that this ability to link every aspect of our business to create a strong organisation will help us stand firm in what is likely to be extremely challenging times ahead. As always, we will continue to work alongside the Government and regulators to ensure that the Sri Lankan economy revives and prospers once more.

Acknowledgements

It is both my duty as well as my honour to be able to formally extend my gratitude to numerous people and institutions that have helped NSB weather this challenging year. I would like to begin extending my thanks to our customers for their unwavering loyalty over the year under review. It

is your belief in our ability that has continued to maintain NSB's position as the safest bank in Sri Lanka.

The Board of Directors, the Management Team, and NSB staff have my gratitude for the fortitude with which they set strategy and then implemented it to achieve a common goal. I can safely say that it was teamwork that saw us through this year.

I also wish to extend my thanks to all government bodies without whose support the Bank would not have been a success. The Hon. Prime Minister, the Minister of Finance, Secretary to the Treasury and Officials, the Governor and Officials of the Central Bank of Sri Lanka, the Attorney General, the Auditor General and his team, the Heads of other regulatory bodies and their teams, and the Postmaster General and all Officials of the Department of Posts have provided us with state support throughout the year.

I believe that continued teamwork – both within the Bank as well as with wider state bodies – will ensure that NSB stands firm in any crisis and continues to be the bank that all Sri Lankans rely on, now and in future.

M P A W Peiris

24 March 2022

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→ *Our sustainable value creation model*

Operating environment pages 26 to 37

An uncertain geopolitical and socio-economic environment

Stakeholders

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

Inputs

Financial capital

A sound capital base and balanced funding support deposits and lending activities

- Rs. 7.7 Bn. Cash and cash equivalents
- Rs. 76 Bn. Share capital and reserves
- Rs. 1.4 Tn. Deposits from customers
- Rs. 52.9 Bn. Long- and short-term borrowings

Manufactured capital

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

- Rs. 15.0 Bn. Property, plant, and equipment
- Rs. 1.3 Bn. Capital Expenditure
- Physical touchpoints
- Virtual touchpoints/Digital Channels
- Investments in Digital infrastructure

Human capital

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

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

Social and relationship capital

Shared relationships with a range of stakeholders and within the community

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

Intellectual capital

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

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

Natural capital

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

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

Evolving customer requirements

Figure 3

Social and economic impacts of COVID-19

Increased regulatory scrutiny

Disruptive technologies and competition

Output

PRODUCTS
(page 11)
i. Deposits
(15.5% growth YoY)
Savings deposits
Time deposits

ii. Lending products
(17.8% growth YoY)

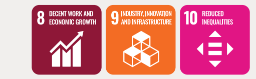
Retail lending
Personal loans
Housing loans
Pawning advances
Auto loans
Loans against deposits

Corporate lending
Direct lending to FIs
Loan syndication
Project lending
COVID-19 support loans

SERVICES
(page 11)
Inward and outward remittances
Trade finance

Value added services
Card services
Utility bill payment
"NSB Pay" App

ENVIRONMENTAL SUSTAINABILITY
(pages 469 to 472)
GRI Content Index in accordance with Core Criteria

Outcomes	Sustainable Value Creation and Sharing		Impact on SDGs
• Rs. 28.4 Bn. Operating profit before tax • Rs. 22.1 Bn. Profit after tax • Rs. 13.7 Bn. Retained Earnings • Rs. 834.1 Bn. Government securities portfolio • Rs. 3.5 Bn. Dividend Payment • Rs. 16.5 Bn. Contribution to the government	Financial returns for: • Bank • Shareholder • Providers of capital	Economic value created for: • Broader stakeholders • Sri Lankan economy	
• 27,204 new internet banking customers • 261 Branch Network • 292 ATMs • 92 Cash Recycling Machines (CRMs) • 4,064 Post offices and sub-post offices • ICT systems, digital platforms. and cloud services	• Value propositions through self-service channels • Digital transformation across the value chains • Business continuity • Physical and digital infrastructure reliability	• Operational efficiencies and improved productivity • Improved access to financial products and services through convenient banking customers' needs	
• 140 Greater number of professionally skilled employees • Higher retention ratio of 98.6% • 4,616 motivated and engaged employees • 42,553 training hours • 99.7% returned after maternity leave • 55% of female employees	Highly skilled and engaged employees who: • Improve our ability to understand and serve our customers, driving our business performance successfully • Facilitate the effective implementation of our strategies to achieve corporate objectives and create value to our stakeholders	• Create value under pressures of a dynamic and unpredictable environment in which rapid and unexpected developments take place • Creating direct and indirect employment or Sri Lankans	
• 21.8 million new customer accounts • 100% local employment • Rs. 16.5 Bn. contribution to the Government • Successful implementation collective agreements with labour unions	• Maintain social license • Financial inclusion • Fair, transparent and ethical management systems • Fair and equitable tender process	• Exceeding customer expectation on customer experience and service delivery	
• Only state bank to achieve PCI DSS compliance • 24/7 Security Operations Centre (SOC) under the Information Security Division and a third party, to keep incident response capabilities in line with international standards and next generation features • Achieved all milestones set in the "Direction on Technology Risk Resilience" prospectus by the Central Bank of Sri Lanka • Mobile Payment App • Implemented a Human Resource Information System by a leading provider • Awards and Accolades	• Strong brand position • Consistently maintained AAA credit rating • 100% Government guarantee for deposits and interest thereon • Distinctive wide range of products and services	• Financial inclusion	
• 33,539 GJ of energy consumption • 88,986 m³ of water consumption • Rs. 3.8 Mn. green loans disbursed • 42 branches/circuits converted to Solar energy	• Business operations with a low-carbon footprint • Support the Government/Sri Lanka to achieve SDGs • Responsible consumption and lending	• Initiatives that are energy efficient and green • Fast-paced digitalisation	

Changes in demographic structure

Climate change and sustainability

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Our sustainable value creation business model

Operating environment

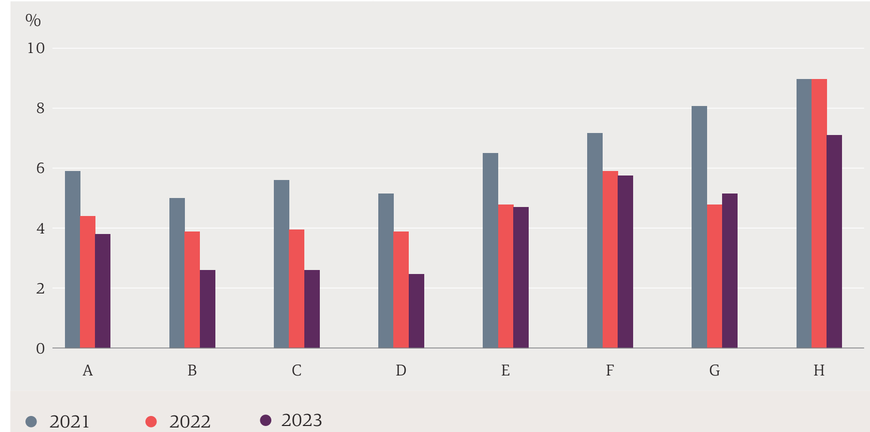
The global economy

The global economy global growth

According to the January 2022 World Economic Outlook (WEO), global growth is expected to moderate from 5.9% in 2021 to 4.4% in 2022, reflecting continued COVID-19 flare-ups, diminished fiscal support, and lingering supply bottlenecks. This is half a percentage point lower for 2022 than forecast in the October 2021 World Economic Outlook (WEO) and reflects the predicted markdowns in the two largest economies, namely the United States and China. Further, global growth is expected to slow to 3.8% in 2023.

Graph 1

GDP Growth



A – Global economy
B – Advanced economies
C – USA
D – Euro area
E – Emerging market and developing economies
F – Emerging and Developing Asia
G – China
H – India

Source: World Economic Outlook Update – January 2022, International Monetary Fund

The global economy – regional prospects

In the **United States** GDP increased to 5.5% in 2021 after a 3.4% contraction in 2020. However, the pace of economic recovery slowed over the summer amid ongoing supply chain disruptions and the continued spread of COVID-19 in some regions. A further downward revision of 1.2% was applied, based on a revised assumption removing the Build Back Better fiscal policy package from the baseline, earlier withdrawal of monetary accommodation, and continued supply shortages.

While employment remains well below pre-pandemic levels, labour markets have continued to improve with the unemployment rate to 3.9% in December 2021, down from 6.7% a year earlier. Consumer spending on goods has declined from elevated levels in the Spring of 2021 but spending on services has increased as spending rotates away from merchandise and back to leisure and hospitality services that have been- in many cases- unavailable through the pandemic.

Households have accumulated substantial savings, in part due to exceptional government income transfers to support a further recovery in spending, as the virus threat continues to ease. Consumer prices have increased sharply as the economy has reopened.

Higher business input costs and expected further growth in household demand are increasing the risk that inflation growth will persist at rates above pre-pandemic levels for longer than expected. The Federal Reserve (Fed) has committed to maintaining extraordinary policy support until the economic slack is fully absorbed and the labour market has recovered. The Fed is expected to begin the process of raising interest rates in the calendar year 2022.

In **Europe**, GDP is expected to rise by 5.2% in 2021 following a 6.5% drop in 2020, amid the lifting of most containment measures across member states.

In **China**, pandemic-induced disruptions related to the zero-tolerance COVID-19 policy and protracted financial stress among property developers and the consequent disruption in the housing sector forecast the beginning of a broader slowdown. In addition, its private consumption is estimated to be lower than expected due to the recurring mobility restrictions and deteriorating prospects for construction sector employment. These factors, together with lower investment in real estate have meant that the growth forecast for 2022 has been revised down a 0.8% for early 2022, leaving China at 4.8% for global growth.

Regionally, except for East Asia and the Pacific, growth in most Emerging Market and Developing Economies **(EMDE) regions** in 2022/23 is projected to revert to the average rates during the decade prior to the pandemic. However, annual output is set to remain below the pre-pandemic trend in all EMDE regions, which contrasts with the expectation set on advanced economies, where the gap is predicted to close, pointing to an uneven pace of recovery across and within regions.

The expectation is that on a per capita basis, the recovery is most likely to leave behind economies that experienced the deepest contractions in 2020, such as tourism-reliant island economies. The January 2022 Global Economics Prospects predicts that either half or more of the economies in East Asia, the Pacific, Latin America, the Caribbean, the Middle East, North Africa, and two-fifths of economies in Sub-Saharan Africa, will still be below their 2019 per capita GDP levels by 2023.

The global economy – outlook

An effective global health strategy is imperative as the pandemic continues into its third year. The world requires increased production of vaccines, better delivery systems, and a fairer system of distribution to lessen the danger of further COVID-19 variants. Climate change continues to pose grave risks to the global economy and its recovery and the persistence of floods, droughts, and wildfires throughout 2021 underline the gathering danger. Economies in the developed and developing world would be threatened with the likely occurrence of major natural disasters placing tremendous pressure on the global supply chain. Countries with low income and low vaccination rates would feel the most impact.

The impact of ongoing war in Ukraine would also have a substantial impact on the global economy and financial markets, with significant spillovers to other countries. The associated sanctions imposed on Russia by the United States, European countries, and others are creating an adverse shock to both inflation and activity in many nations amid already elevated price pressures. The war has an adverse impact on the prices of commodities such as oil, gas, and raw materials. As the world economy recovers from the pandemic, the crisis is expected to further complicate the policy landscape.

The Sri Lankan economy – overview

The Sri Lankan economy recorded a GDP growth of 3.7% in 2021, recovering from the contraction of 3.6% in 2020. Amid the revival of economic activities in a better controlled COVID environment 1Q and 2Q of 2021 recorded economic growth of 4.2% and 12.4% respectively. However, the third wave of COVID-19 coupled with rising input prices hindered the growth momentum to record a 1.5% contraction in 3Q2021. The subsequent removal of pandemic-induced lockdowns and a boost in economic activities backed by the rapid vaccination rollout programme resulted in a GDP growth of 1.8% during 4Q2021.

The Agricultural sector may have contracted in 4Q2021 on the back of supply shortages amidst chemical fertilizer import restrictions. Continuous growth in the Purchasing Managers Index (PMI) reflected the elevated industrial activities despite import restrictions, port congestions, shortages of raw materials, and difficulties in opening LCs. It is felt that the less impacted services sector would have broadly remained flat.

The Sri Lankan economy – outlook

Sri Lanka was severely affected by the pandemic, with lockdowns, restrictions, and other consequences creating major concerns. This caused significant difficulties to pre-existing economic challenges, with high external debt and fiscal deficits being some of the crucial concerns. The impacts are expected to be felt over the medium-term, given that the exposures were from an already challenging base and the existing fundamentals do not provide adequate support for a shorter-term transition.

Despite the positive momentum supported by omicron variant of COVID-19 subsides, strong vaccination drive, reviving tourism industry, economic growth would held back by several headwinds. Rising food, fuel and commodity prices; higher import prices: supply chain disruptions; shortages stemming from the foreign currency squeeze; demand side pressures; exchange rate depreciation will drive inflation further higher in 2022. Adding to the higher inflation, underlying macroeconomic weakness, the pandemic's lingering impacts, energy shortages, large external financing requirements and other external shocks pose downside risks to the economic outlook. While challenging macroeconomic conditions looming over 2022 will influence economic activities throughout the year, the situation could improve if foreign funds are successfully arranged for the country.

The recent war in Ukraine creates further challenges in terms of supply chain disruptions and rising commodity prices, as well as in the domestic front, particularly in the form of power and supply interruptions. Addressing these disruptions immediately is imperative to ensure the continuation of uninterrupted domestic production and the momentum in exports, along with the efforts to strengthen the production economy through well-targeted growth policies. Sri Lanka's total exports to both Russia and Ukraine were equivalent to 1.4% of total exports and tea, which is the main export, constituting from Sri Lanka to these two nations constitutes 10.2% of Sri Lanka's total tea exports. The total imports from Russia and Ukraine account for 1.4% of the total imports of Sri Lanka.

The Asian Development Bank's (ADB) annual flagship economic publication forecasts a muted recovery from the corona virus disease (COVID-19) pandemic as Sri Lanka's economy grapples with macroeconomic challenges arising from high debt, low foreign reserves, and inflationary pressures. ADB forecasts Sri Lanka's economic growth to dip to 2.4% in 2022 and improve marginally to 2.5% in 2023.

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The banking industry

Profitability

Net interest income of the banking sector improved by 28.5% to Rs. 548.9 Bn. compared to the Rs. 427.2 Bn. in 2020. This is mainly attributable to the significant reduction in interest expenses, which declined by 11.5% to Rs. 649.3 Bn. despite the slight increase of 3.2% in the interest income to Rs. 1,198.3 Bn. during 2021. Subsequently, net interest margin (NIM) improved from 3.1% in 2020 to 3.4% by the end of 2021. Non-interest income also increased by 17.4% to Rs. 166.6 Bn. during 2021 compared to Rs. 141.9 Bn. recorded in the corresponding period in 2020. This was largely due to the revival of economic activities along with a 47.1% increase in foreign exchange income. The efficiency ratio improved to 48.1% in 2021 from 51.8% in 2020 reflecting the improved efficiencies through digitalisation.

The sector recorded an impressive profit mainly driven by the lower interest expenses triggered by the low-interest rates coupled with improved fee income and operational efficiencies. Profit after tax for 2021 grew significantly by 46.0% to Rs. 198.4 Bn. from Rs. 135.9 Bn. in 2020. The surge in the profitability of the banking industry is reflected in the Return on Assets (ROA) and return on equity (ROE). While ROA (after tax) of the banking sector improved to 1. 2% in 2021 from 1.0% in 2020, the ROE improved from 11.4% in 2020 to 14.5% in 2021.

Financial position

The Banking industry encompassed 24 Licensed Commercial Banks (LCBs) and 6 Licensed Specialised Banks (LSB) by the end of 2021. The total asset base of the banking sector increased to Rs. 16.9 Tn. as at the end of 2021, recording a growth of 15.4% compared to Rs. 14.7 Tn. reported at end of 2020. The asset growth was mainly driven by an expansion in investments together with loans and advances.

Gross loans and advances of the banking sector expanded by 15.3% to Rs. 10.5 Bn. during 2021 compared to the Rs. 9.0 Bn. for the corresponding period of 2020 supported by the lower interest rate regime. The gross Non-Performing Loans (NPL) ratio improved marginally from 4.9% in December 2020 to 4.5% in 2021, due to the prudent approach taken by the banks concerning the credit quality of the loans and advances. However, the specific provision to net non-performing loans ratio increased to 64.0% as of December 2021 against the 51.7% in the previous comparable period due to an increased share of NPLs (72.9%) classified under the "Loss" category which requires higher provisioning.

Total deposits of the banking sector which accounted for 74.9% of the total assets recorded a growth of 13.7% during 2021 to reach Rs. 12.7 Tn. compared to Rs. 11.1 Tn. recorded in December 2020. The credit to total deposits ratio, which indicates the stable sourcing of lending activities increased to 82.7% as at end of 2021 compared to 81.6% reported in the same period last year.

Stability

Despite the challenging macro-economic environment, the banking sector remained resilient supported by healthy capital adequacy ratios (CAR) which were well above the regulatory minimum requirement, despite the relaxation provided to drawdown the Capital Conservation Buffer (CCB) by 100 basis points for Domestic Systemically Important Banks (D-SIBs) and 50 basis points for non-D-SIBs. The total CAR and Tier I capital ratio encompassing the capital conservation buffer of the banking sector stood at 16.55% and 13.15% respectively, at the end of the year 2021 with a slight increase compared to the previous year which stood at 16.51% and 13.04% respectively.

The banking sector continued with healthy liquidity levels during 2021 and exhibited a higher resilience against liquidity risk. The Statutory Liquid Asset Ratio (SLAR) that measures the adequacy of liquid assets against deposits and borrowings of the Domestic Banking Units (DBU) of the banking sector was 33.8%, which was well above the regulatory minimum.

The factors affecting the Banking industry and its outlook is outlined under the "Risks and opportunities" section on pages 38 to 49 of this report. The performance of the Bank against the industry is analysed under Financial capital on pages 96 to 113.

Specific macroeconomic developments and related impacts on the Sri Lankan economy and the banking industry

The lower-than-expected economic growth reduces the consumption, investment, and purchasing power of the people, which then results in lower credit and deposit growth.

While the sector outlook contains several negative factors, it is believed that economic conditions will resume an upward trajectory, backed by the vaccination programme and the recovery of distressed sectors such as tourism. Furthermore, the digitalisation efforts of banks coupled with the increased awareness of customers in dealing with online platforms are likely to aid cost to income ratios going forward, supported by a higher customer base.

Inflation

Global scenario

In the US, the Consumer Price Index (CPI) inflation, at 7.0%, is already at its highest in 40 years. The core Personal Consumption Expenditure (PCE) price index – the Fed's key inflation gauge – hit 4.7% in November, its highest since 1989, and is forecast to average 4.9% this quarter. Inflation in Canada is forecasted to have edged up to a 30 year high of 4.8% in December, while inflation in Britain rose faster than expected to a near 30-year high in December. With interest rates still on the floor at 0.0-0.25%, inflation has already risen significantly, and this is a common problem most central banks across the world are struggling to contain together with the US Fed.

Global oil prices – another big inflation driver – continued to rise amidst strong demand due to post-pandemic recovery and short-term supply disruptions, coupled with low inventory levels. Oil prices rose 50% in 2021 and it is expected to increase further toward USD 100 levels due to tight production capacity and increasing demand. Compared to other key commodities, prices in energy-related commodities have greatly increased and outperformed during 2021. Price increases were largely driven by increased demand from the initial phase of global economic recovery from the COVID-19 pandemic.

Additionally, agriculture and livestock-related commodity prices were also increased by more than 23% during 2021 due to similar dynamics and it is further expected to increase during 2022 due to increasing demand with the reopening of major economies and short to medium-term supply constraints, caused by Russia-Ukraine war.

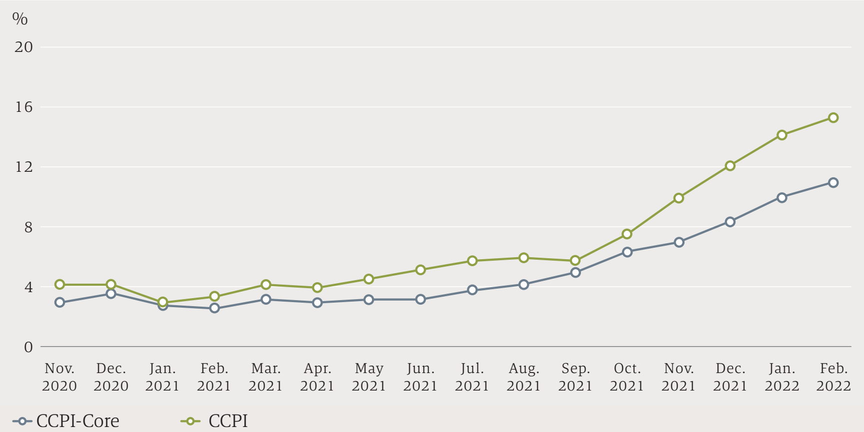
Impacts on the Sri Lankan scenario

During recent months, headline inflation as measured by the Sri Lanka Colombo Consumer Price Index (CCPI) accelerated, exceeding the set target of 4-6%.

Inflation rates began to accelerate gradually from the beginning of 2021 due to lower interest rates, import restrictions, and fiscal stimulus measures taken by the Government which led to demand-pull inflationary pressure. In addition, rising food prices and rising global oil prices due to supply disruptions combined with high freight rates led to cost-push inflation during the 1H2021. In the 2H2021, the Government's decision to impose restrictions on chemical fertilizers resulted in food shortages, leading to steep food prices. Further, rising global oil prices led to hikes in fuel prices which spilled over to other commodities, resulting in steep inflation of 12.1% (CCPI) in December 2021. Food inflation on a YoY basis increased to 22.1% in December 2021 compared to the previous month's 17.5%, with non-food inflation increasing to 7.5% compared to the 6.4% in the respective periods.

Graph 2

YoY percentage change in CCPI and CCPI-core inflation



Source: Department of Census and Statistics

It is believed that inflationary pressure will continue to be exacerbated by several factors including supply shortages due to the forex crisis and rising global commodity prices, especially fuel. Moreover, with the boost in economic activity in the post-pandemic period, and with the increase in salaries of state employees, it is likely to inflate demand in the period ahead.

Inflation (contd.)

Impact on the banking industry and related developments

Inflation affects the purchasing power of the public, general wages, and overall costs of the banking sector. These factors have led to a lower capacity in terms of savings and loan repayments. The increase in gold prices expanded the pawning portfolio and increased the revenue generated through the pawning business, while the changes in oil prices impacted transport costs. Further, the prevailing rate of inflation largely determines the monetary policy decisions taken by the Central Bank of Sri Lanka (CBSL), thereby directly affecting the banking sector. When the interest rate increases, if there is any funding mis-maturity, deposits will reprice earlier than loan portfolio which lead to shrinkage of the net interest margin.

Interest rates

Global scenario

Interest rates hikes

It is expected that the US Federal Reserve will tighten monetary policy to control raging inflation which hit a nearly 40-year high in December 2021. The US Federal Reserve is expected to raise interest rates by 25 basis points beginning in March 2022, with a cumulative 105bps in rate hikes being priced in by the end of -2022. In the UK, the Bank of England is expected to begin raising interest rates before the end of calendar 2021, while the European Central Bank (ECB) is expected to hold policy rates through 2022.

However, amidst the growing concerns of global inflation, China opposed the global monetary policy U-turn and urged major countries to work together on monetary policy decisions. Additionally, The People's Bank of China reduced the one-year loan prime rate by 10 basis points from 3.8% to 3.7%.

Financial markets

While the government bond yields remain low, they have risen in the latter half of calendar 2021, as the global economic recovery has continued and inflation rates have risen. Equity markets have broadly continued to improve, supported by the positive economic outlook, and prices for some raw materials, including crude oil, have increased to well above pre-pandemic levels, reflecting limited supply and rising demand as the virus threat eases globally. Global Fixed income investors have raised their expectations of rate hikes from the world's leading central banks to battle the multi-decade high inflation rates.

Impacts on the Sri Lankan scenario

Impact of tightening monetary policy

Tightening monetary policy in the global markets will cause increased pressure on Sri Lanka with capital outflows increasing. Consequently, an increasing interest rate will also cause the cost of borrowing to increase, and if Sri Lanka continues its current borrowing trajectory, the cost will be significant. Below are some key predictions:

- Inflation to take on a north-bound trajectory consequent to the increased fuel costs and raw material costs due to the devaluing currency, which will be heightened by the assumed food shortage.
- Domestic interest rates will increase to peak levels due to the global context and counter the elevated inflation levels, as a result of the demand-supply mismatch and price hikes.
- A higher proportion of local borrowing is expected to meet the government spending requirement, due to an increased cost and challenge to borrow in international markets. As a result, a crowding-out effect may be witnessed, reducing the private sector credit availability. This will in turn have an implication on production, employment, and consumption.

Interest rates (contd.)

Impacts on the Sri Lankan scenario

- Currency devaluation will continue. With essential imports and debt repayments being the focus, the reserves of the country will not provide a sufficient buffer to defend the currency, resulting in the currency devaluating further.

Credit growth

As of November 2021, the private sector credit growth recorded a 12% YTD growth amid the low-interest-rate environment and increased demand for pawning and housing loan facilities. However, we believe the CBSL will be compelled to bring price stability through monetary policy tightening in 2022 amid the inflationary pressures and funding costs. Hence, net interest margins (NIMs) are likely to increase in 2022.

Yields of Government Securities

Yields of Government Securities continued their upward momentum albeit volatility was evident. While volatility provides an opportunity for primary dealers, rates will continue to rise as the CBSL tightens its monetary policy to combat price instabilities.

The primary and secondary yields on Government Securities adjusted upwards, whereas the overall market activities witnessed a complete standstill. Yield rates applicable for 91-day, 182-day, and 364-day Treasury Bills increased to 12.92%, 12.25% and 12.28% respectively as of 31 March 2022.

Impact on the banking industry and related developments

The CBSL monetary policy

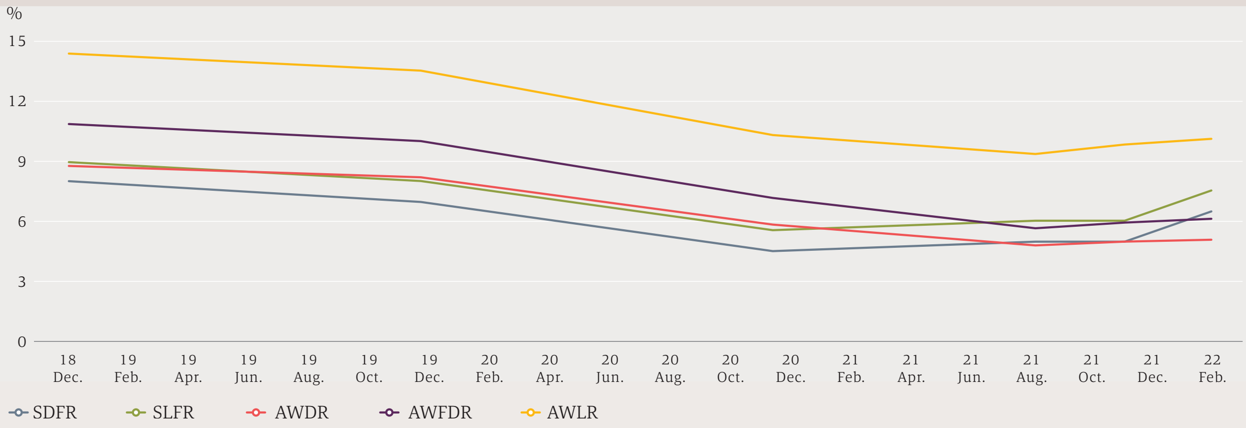
The CBSL adopted and maintained an accommodative monetary policy for most of 2021, with only one hike taking place in August 2021. The CBSL increased Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) by 50 basis points each whilst SRR was raised by 200bps. The CBSL continued to keep policy rates at the same level, supporting the economic expansion and private credit growth. However, the Monetary Board raised policy rates by 50 basis points by January 2022 and 100 basis points in March 2022 at the Monetary policy Review to promote economic stability by curtailing underline demand pressures. It is anticipated that further rate hikes are on the cards for 2022, to restore price stability following the tightening monetary policy actions taken by global economies.

Deposit and lending rates

Following the latest rate hike, the Central Bank expects financial institutions to swiftly pass policy rate increases to deposit rates of customers, thereby encouraging savings, whilst discouraging excess consumption. Therefore, the Average Weighted Deposit Rate (AWDR) in the near term would increase whilst lending rates will see further increases amidst monetary tightening and inflationary pressures. However, deposit rates will rise at a slower pace with a lagged effect.

Graph 3

Deposit and lending rates



Interest rates (contd.)

Impact on the banking industry and related developments

Negative liquidity in the market

As of March 2022, Sri Lanka's sudden liquidity shortage is in the range of Rs. 600.0 Bn. and has continued to remain so, given the SRR hike by CBSL which took in the excess liquidity held by banks. This meant that banks had to greatly rely on borrowings from the Central Bank's Standing Lending Facility window to meet daily liquidity requirements. While consequent tightening of monetary policy resulted in an upward adjustment of lending rates, this did not transpire to deposit interest rates which remained slow, thereby proving insufficient to harness deposits into banks from the excess cash in circulation. It is hoped that the April 2022 monetary policy measures would result in higher deposits and improved liquidity in the banking and financial institutions.

Investments and returns from Government Securities

Liquidity and interest rates prevailing in the market for Government Securities influences resource allocation/investments in the fixed income securities. The increase in treasury bills and bond rates would elevate the mark to market losses from the trading portfolio of Government Securities and the nature of the financial instruments and the extent to which the investment made in those securities determines the risk weighted assets, capital adequacy and stable funding status of the banks.

Fiscal/Budget deficit

Global scenario

EMDE fiscal policy challenges

Fiscal support packages implemented since the start of the pandemic have averaged 6.8% of 2019 GDP in EMDEs and 3.5% of 2019 GDP in low-income countries (LICs). This is less than one-quarter and one-eighth respectively of the advanced economy package. In many cases, these packages were largely funded by cuts in other expenditures, as spending in both 2020 and 2021 was reprioritised by governments towards support.

Given that fiscal support was largely withdrawn by the end of 2021, with the pace of fiscal adjustment over the forecast horizon expected to be gradual- the share of EMDEs with tightening fiscal policy is expected to rise from over 60% in 2021 to more than 80% over 2022/23. Further, despite support efforts, EMDEs government debt-to-GDP ratios are not expected to return to pre-pandemic levels, but instead, are projected to continue to rise to around 66% by end-2023.

Impacts on the Sri Lankan scenario

During the 9M2021, the budget deficit continued to expand to Rs. 1,328.2 Bn. compared to Rs. 1,153.8 Bn. in 9M2020. The expansion in deficit (11% of GDP) was due to underperforming government revenues due to the pandemic, tax cuts introduced from the end of 2019, and the rise in expenditure on subsidies and transfers, wages, and interest payments. Further, a higher cost was incurred on health facilities to manage the spread of COVID-19.

While newly introduced tax measures and collection methods will result in higher tax revenue, the recurrent expenditure would continue to rise on higher salary and subsidy allocation.

The Government projects the 2021 fiscal deficit to be 11.1% of GDP- a much higher level than was expected at the beginning of the year. Although the budget for 2022 aims to narrow the fiscal deficit to 8.8% of GDP in 2022, ambitious revenue targets and possibilities of an increase in recurrent expenditures due to increase in salaries, interest payments, and unexpected expenditures on virus containment could lead to a double-digit deficit in 2022 as well. The new Surcharge Tax, Social Security Tax, Special GST that may be introduced, and the increase on VAT on Financial Services could strengthen revenue collection. The multiplier effect of increased government spending may help to strengthen the aggregate demand of the economy.

Fiscal/budget deficit (contd.)

Impact on the banking industry and related developments

Impact of taxes

The banking sector was one of the most impacted sectors by the Budget 2022 proposals. The Government proposed to impose a surcharge tax on companies that have recorded more than Rs. 2 Bn. taxable income for the year of assessment of 2020/21. Therefore, most banks are likely to be liable for the surcharge tax based on their higher profitability. Social contribution tax of 2.5% on annual turnover exceeding Rs. 120 Mn. will apply to all banks with effect from 1 April 2022, given the lower threshold. Further, Value-added taxes on financial services will be increased to 18% from 15% in 2022 (cannot be passed on to customers).

Government's relief packages

The Government announced a Rs. 229 Bn. economic relief package on 4 January 2022 (1.4% of GDP) as part of measures to lessen the impact of the rising cost of living in the country. Some of the key measures announced include:

- Monthly allowance of Rs. 5,000 for state sector workers and pensioners
- Additional monthly allowance of Rs. 1,000 for *Samurdhi* beneficiaries currently receiving Rs. 3,500 per month
- Farmers are to be compensated Rs. 25/kg for any decrease in harvest experienced in the upcoming *Maha* season
- Removal of taxes on the import of all essential food and medicines

The unveiling of the relief package which mainly targets low income earners is a positive step for consumers in the near term. However, current inflation levels in the economy remain extremely high, with food inflation as measured by the CCPI reaching 22.1% YoY in December 2021.

With the expectations for inflation levels to remain high in 2022, the benefit of the economic package might be of temporary benefit to consumers, and it is expected that pressure on consumer disposable income levels will continue through 2022.

Lift of moratoriums

Additionally, the moratoriums given to eligible borrowers will be lifted with effect from 31 March 2022 excluding the tourism and transportation sectors, whose moratoriums will be lifted with effect from 30 June 2022. The lifting of moratoriums is likely to be an added pressure on asset quality and earnings. However, early provisions and recovery of sectors post vaccination are likely to aid in slowing down the impact.

External developments

Global scenario

US Dollar (USD) strengthening with FED rates hike

The US Dollar continued to strengthen against major currencies with the development of US Fed tightening plans and starting from March, the market is prepared for widely expected three rate hikes during 2022.

Further, the USD gathered momentum with the recent increase in US Treasury yields. The 10-year note hit 1.89% while the 2-year traded at 1.076%, levels not seen since the pandemic began. The increased expectations of higher rates will develop pressure on the equity market momentum and major global equity indices are currently preparing for these amidst all-time high levels.

External developments (contd.)

Impacts on the Sri Lankan scenario

In particular, the external sector status is the main concern, as Sri Lanka has limited foreign currency reserves to defend the currency while being import-dependent. The easing of import restrictions has seen an increase, although some non-essentials remain on the restricted list. Exports have witnessed momentum together with an improvement in tourism, which allows for mild flexibility.

The restricted access to foreign currency for importers and an artificially controlled exchange rate have caused a rampant effect on the unregulated exchange markets, with rates soaring as a result. This policy decision affected the remittances to Sri Lanka, which is the major forex contributor, with individuals deciding to hold on to the currency rather than convert at official rates.

External trade

Earnings from merchandise exports in December 2021 grew by 19.9% YoY to USD 1,156 Mn. driven by increases in earnings across all main categories, with the highest contribution from industrial exports. The Export Development Board (EDB) targets to achieve USD 12.5 Bn. merchandise exports by end of 2021. The EDB is currently in the process of updating the National Export Strategy (NES) in conjunction with new developments. Merchandise exports will gather momentum as the global economy adapts to the new normal. The currency depreciation will aid in the attractiveness of Sri Lankan products. However, limitations in inputs may have short-term impacts on finished products.

Graph 4

Export performance (Jan-Dec)

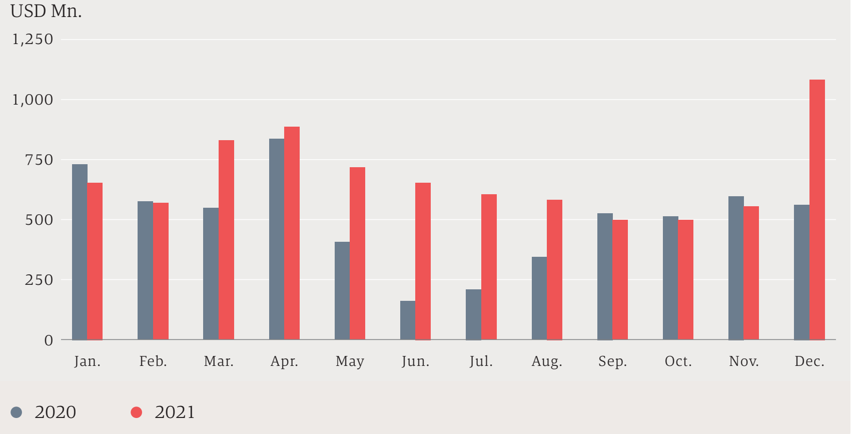
Source: The Central Bank of Sri Lanka

Current Account Deficit

The deficit in the trading account widened to the highest-ever monthly value of USD 1,085 Mn. in December 2021, compared to the deficit of USD 562 Mn. in December 2020. This was on account of the excessive surge in imports recording the highest-ever monthly import expenditure, despite persistently high earnings from exports that exceeded USD 1.0 Bn. for the seventh consecutive month. Tourist arrivals continued the growth momentum in December whilst the workers' remittances recorded a month-on-month growth in December 2021, mainly reflecting the response to the incentive scheme introduced for remittances and the seasonal increase.

Graph 5

Trade deficit



Source: The Central Bank of Sri Lanka

External developments (contd.)

Impacts on the Sri Lankan scenario

Official reserves

Gross official reserves continued to decline during the last quarter of 2021 amid continued liquidity injections to sterilize interventions. As outlined by the CBSL's six-month road map, several steps were taken to increase reserves. However, at the end of 2021, the Central Bank was able to lift the reserve position to USD 3.1 Bn. with the conversion of the USD 1.5 Bn. swap from China.

The reserves will continue to be under pressure owing to the USD 6.9 Bn. debt repayments due in 2022. However, the CBSL has ensured bilateral arrangements are being made while a debt restructuring is on the cards.

Impact on the banking industry and related developments

Foreign remittances

Recovering from a sharp contraction in April 2020, worker remittances showed a steady growth resuscitating the shrinking reserves during the first five months of 2021. However, workers' remittances recorded a notable decline thereafter, possibly due to the use of informal channels to secure higher conversion rates. Consequently, the remittance for 2021 declined by 23% YoY to USD 5.5 Bn. (from USD 7.1 Bn. in 2020), falling to a 10-year low.

If stringent measures are not taken by the CBSL, the growing price disparity in the forex market may continue. The economy is yet to see positive outcomes on the extra Rs. 10 per dollar on conversions via official channels, which will be further continued until the end of April 2022.

New policy measures by the CBSL to attract dollar earnings

- Distribute the financing of essential import bills for fuel purchases among licensed banks in proportion to their foreign exchange inflows.
- Mandated all registered tourist establishments to accept foreign exchange only in respect of services rendered to persons resident outside Sri Lanka.
- Extend the payment of an additional Rs. 8.00 per USD for workers' remittances paid in addition to the incentive of Rs. 2.00 per USD offered under the "Incentive Scheme on Inward Workers' Remittances" until 30 April 2022. (Rs. 2 is granted by the Government whilst Rs. 8 is granted by the CBSL).
- Reimbursement of the transaction cost borne by Sri Lankan migrant workers through the payment of Rs. 1,000 per transaction, when remitting money to rupee accounts via licensed banks and other formal channels with effect from 1 February 2022. (This incentive will be funded by the CBSL).
- Introduce higher interest rates for both foreign currency and rupee-denominated deposits of migrant workers.

Currency depreciation

The worsening economic situation saw gross official reserves decline from USD 3.1 Bn. at the end of December 2021 to USD 2.3 Bn. in February 2022, with the Government resorting to credit lines from China and India to strengthen its finances in the midst of marginal foreign inflows.

The subsequent need for rate hikes to secure foreign reserves while encouraging inflows into the country, amidst the rising import bills and widening trade deficit, resulted in the CBSLs 150bps hikes up to March 2022 which were targeted at arresting inflation and stabilising the economy. Since the rupee has depreciated by more than 40% – with unofficial trading platforms stating a far weaker rate- due to the CBSL's decision to allow a free-float, the indicative USD/Rs. rate at 31 March 2022 stood at Rs. 299.

Trade deficit (USD Mn.) **Table 2**

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
2020	730	574	549	840	407	161	209	342	525	509	600	562
2021	**655**	**572**	**832**	**889**	**716**	**652**	**607**	**586**	**495**	**495**	**553**	**1,085**

Debt

Global scenario

Increased debt in EMDEs

As discussed in the “fiscal and budget deficits” section, despite the Government support relief packages, the Government debt-to-GDP ratios of EMDEs are not expected to return to pre-pandemic levels. Instead, it is expected to rise to around 66% by end-2023. Deteriorating debt dynamics appear to reflect the impact of persistent revenue losses on fiscal deficits. By 2023, revenues are expected to be below 2019 levels in over 55%t of EMDEs, with the EMDE average stabilising around 25% of GDP, which is 1.5% of GDP lower than the 2019 average. Furthermore, tighter financing conditions on EMDEs with elevated short-term external debt could trigger a materialisation of debt rollover and currency mismatch risks, further straining public balance sheets through the realisation of contingent liabilities, which have historically incurred large fiscal costs.

Impacts on the Sri Lankan scenario

External debt challenges

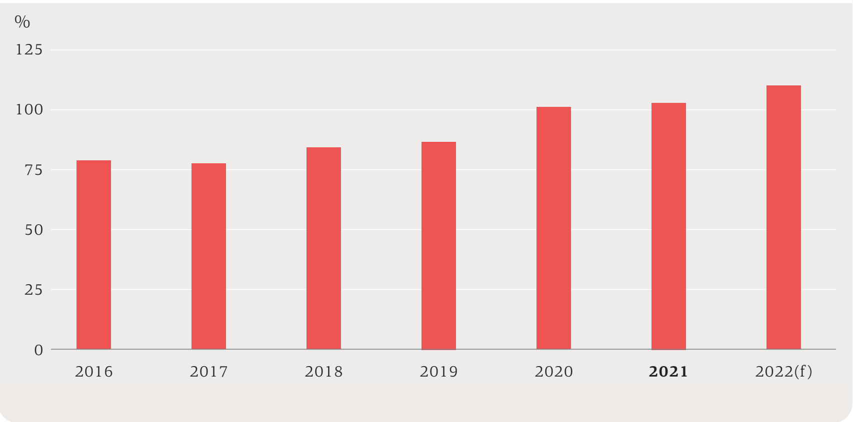
Sri Lanka is facing a liquidity crunch due to a fall in gross official reserves aggravated by the pandemic, which has raised doubts concerning the ability to repay the debt obligations. In addition, the continuous depreciation of exchange rates has led to a rise in interest and instalment values. Many economists and policy analysts suggest that Sri Lanka may need to engage in an IMF bailout package to manage future debt obligations. However, the CBSL is yet to decide on an IMF bailout, while government-to-government discussions are ongoing with China, India, and Japan to manage the external debt challenges of the country.

The CBSL repaid a USD 500 Mn. ISB which matured on 18 January 2022, while a 1 Bn. USD loan repayment is due on 25 July 2022. USD 6.9 Bn. worth of total debt repayments is due this year, including the above International Sovereign Bonds (ISB) payments.

The overall debt component will most likely continue to remain higher in the near term due to fiscal constraints, of which a larger portion is expected to be financed through domestic sources. Also, the foreign debt exposure will increase further if the government moves on to bilateral credit lines. Average debt repayment remains at USD 4.5 Bn. per annum over the next five years. (Source: CBSL)

Graph 6

Sri Lanka's public debt as a percentage of GDP



(f) Forecast by Fitch

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Debt (contd.)

Impact on the banking industry and related developments

Credit rating downgrade

International rating agencies have continued to downgrade Sri Lanka on the back of weak macro fundamentals, shrinking foreign reserves, and a lack of clarity on policies. Hence, international banking units of banks have witnessed difficulties in opening letters of credit and handling exports and imports. Given the exposure of banks to International Sovereign Bonds (ISBs) and Sri Lanka Development Bonds (SLDBs), a haircut would have a significant impact on the sector. However, we believe the government will continue to keep its unblemished debt record with short-term funding arrangements (especially with China and India). Furthermore, a pegged currency has resulted in expatriates using informal channels to transfer money to Sri Lanka, which remains a threat to the industry.

IMF Bailout

The Central Bank and the Government is to begin working closely with the International Monetary Fund (IMF) to formulate a sustainable solution to overcome the macroeconomic challenges faced by the country at present. Negotiations to obtain bridging financing have already commenced with interested counterparties.

Table 3

	2016	2017	2018	2019	2020	2021	2022 (f)
Public debt as a percentage of GDP	79.0	77.9	84.2	86.8	101	**102.8**	110.0

Risks and opportunities

GRI 102-11

Our operating context

Global trends and issues such as the COVID-19 pandemic, geopolitical events, socio-economic challenges arising from where we operate, and emerging and existing mega trends determine the environment that impacts our value creation process. We have identified seven such mega trends that are global macro forces which have the potential to transform our business and become broader themes to classify our material matters. These trends are:

1. An uncertain geopolitical and socio-economic environment
2. Increased regulatory scrutiny
3. Disruptive technologies and competition
4. Evolving customer requirements
5. Changes in Demographic Structure
6. Climate change and sustainability
7. Social and economic impacts of COVID-19

Through an analysis of our operating environment, we derive our top-of-mind risks and opportunities which are updated throughout the year based on our top-down approach to the risk assessment process. The following heat map provides an overview of the assessment of the seven mega trends identified above, based on their level of risk. The detailed risk assessment of the principal risks of credit, market, operational and liquidity risks and other risks such as reputational and strategic risks arising from the above mega trends along with the Bank's appetite to those risks are discussed in the Risk review report from pages 212 to 239.

INTEGRATED THINKING

In the process of delivering on our strategy, we respond to opportunities and associated risks in a manner that does not jeopardise the direct interests of stakeholders. When determining risk, we carefully consider our operating context, assess their impact on our strategic priorities, and envision how our strategy could proactively respond. Our consideration of risk is balanced across all the capitals that we affect.

One year time horizon

Figure 4

Likelihood of occurring

Impact on NSB	Rare	Unlikely	Moderate	Likely	Almost Certain
Insignificant					
Minor			7		
Moderate				6	4
Major				2	
Extreme					1

Five year time horizon

Likelihood of occurring

Impact on NSB	Rare	Unlikely	Moderate	Likely	Almost Certain
Insignificant					
Minor			7		
Moderate				6	2 4 5
Major					
Extreme				1	

● Elevated ● Emerging ● Static ● Reduced

Ranking of mega trends	Risk level 2021	Risk level 2020
An uncertain geopolitical and socio-economic environment	1	2
Increased regulatory scrutiny	3	3
Disruptive technologies and competition	4	4
Evolving customer requirements	5	5
Changes in Demographic Structure	7	6
Climate change and sustainability	6	7
Social and economic impacts of COVID-19	2	1

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1. An uncertain geopolitical and socio-economic environment

Impacts on our sustainable value creation

The macroeconomic environment affects our ability to sustain our business and achieve our market commitments and the political environment impacts the operating environment.

Trend

- Extreme market instability and heightened geopolitical tensions have added further impetus to deglobalisation and protectionist behaviour
- Deteriorating political stability in Sri Lanka has given rise to critical social issues, increased inflation, and policy uncertainty
- Increased volatility of financial variables such as low GDP growth, deteriorating foreign reserves, liquidity deficit, and rising inflation
- Elevation of ongoing macro-financial risks due to high government debt and COVID-19 related expansionary fiscal and monetary policies
- Subdued business and consumer confidence due to the slow economic recovery exacerbated by policy and political uncertainty

Opportunities

- Reconfigure business models and differentiation of revenue sources (short to medium-term increase in opportunities)
- Capitalise on our relevant and efficient risk models (short to medium-term increase in opportunities)
- Develop credit solutions to support new business ventures (short to medium-term increase in opportunities)
- Extend support for customer wealth management and ecological transition (short to long-term increase in opportunities)

Challenges/Risks

- Disruptions to global supply chains and productivity across geographies consequent to the pandemic and changing geopolitical environment impacting global prosperity and cooperation. (short to medium-term increase in risks)
- Exposure of Bank balance sheets to the abrupt movements in assets valuations (short to medium-term increase in risks)
- Sri Lanka's sovereign downgrade due to macroeconomic instability makes access to finance costly (short to medium-term increase in risks)

Our strategic response

- Monitoring the leading indicators to ensure economic risks are effectively managed.
- Monitoring and managing our risk strategy and appetite based on the ongoing evaluation of global, regional, and local developments to identify and mitigate risks as they arise and capitalise opportunities.
- Developing new markets and products to leverage business opportunities as economies recover from the pandemic.
- Maintaining our focus on core banking services to improve customer outcomes and efficient allocation of capital and resources.

Short to medium-term increase in opportunities | Short to long-term increase in opportunities | Short to medium-term increase in risks | Short to long-term increase in risks | Remain same compared to 2020

Capitals impacted

Short to medium-term strategic objectives impacted

Material matters impacted

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Governance in action

The Board closely monitored the impact of the pandemic and the associated lockdowns on our ability to conduct business, in particular the risks associated with lending and the ability of our customers to repay their debts. To address the economic impacts, the Board approved the reviewed strategic business plan and subsequent amendments.

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

Outlook

Inflation would impact GDP growth in 2022, creating continuous challenges throughout the year. The extremely weak economic indicators may force the Monetary Board to further tighten the monetary policy in 2022. The Average Weighted Prime Rate (AWPR) witnessed a rise during the second half of 2021, amid the monetary policy hike, negative liquidity, and rising demand for private sector credit. This may continue at a similar pace with the increase in AWPR.

Sri Lanka's lower foreign reserve position, currency depreciation, high foreign currency debt repayments, and the rise in imports despite the ongoing import restrictions remain prime concerns.

The downgrading of Sri Lanka's credit rating has made it extremely challenging to raise external funds. This is likely to lead to a lack of inflows resulting in further deterioration of foreign reserves. Tax revenue has been insufficient to meet Government expenses following the tax cuts in 2019. Furthermore, domestic expenditure soared following the pandemic, leading to a double-digit budget deficit which is likely to continue through 2022.

Further slowdown in currency inflows may be experienced which may create further challenges. The Government's repayment plan remains unclear, creating a high-risk environment. However, the developments pertaining to the free float of the Sri Lankan rupee and the discussion with the IMF are likely to create a positive outcome for the Sri Lankan economy. A significant net foreign inflow along with improvements in the external sector and an upgrade in the rating outlook could support economic recovery in future.

2. Increased regulatory scrutiny

Impacts on our sustainable value creation

The evolving regulatory and reporting landscape including Basel reforms, the overhaul of accounting standards, changes in the monetary and fiscal policies, regulations on financial crime, emerging privacy, cybersecurity, and legislation on conduct may affect our business model and give rise to compliance risk. Regulatory changes could have an impact on interest rates as well as taxes, and ultimately affect the Bank's bottom line. Integration of regulatory and socio-economic factors influenced by changes in Government policies can have an impact on the business model.

Trend	Opportunities	Challenges/Risks	Our strategic response
• Due to increased pressure on the macroeconomic environment, regulators are revising, and developing regulations to ensure a robust banking framework, profitability, and the stability of the financial sector • The plurality of regulatory authorities and tighter prudential rules	Bank to provide committed support to its customers Continuous improvement in the Bank's governance processes and ethical framework	Challenges arising from regulatory expectations and changing community standards and expectations	• Maintaining a coordinated, comprehensive, and forward-looking approach to evaluate, respond, and monitor regulatory changes through ongoing investment in people, processes and systems across the Bank.

Trend	Opportunities	Challenges/Risks	Our strategic response
• Stronger protection for customers and investors • Regulation to combat money laundering and financing of terrorism • Transparency requirement • Incorporation of climate and ESG risks	Continued management of new risks and better customer knowledge	Failure to meet our ESG commitments and related social expectations could lead to customer and community impacts and reduced shareholder value Higher capital requirements and stricter liquidity management The exponential increase in regulations have heightened demand for compliance, increasing costs of banking Distorted competition with new, less-regulated players	• Working cooperatively with regulators, the government, and advocacy groups. • Strengthening our ESG policies and processes and ensuring effective implementation and transparent disclosure of our progress. • The regulatory developments coming to effect soon were factored into our strategic plans. • Consistent engagement with regulators and policymakers to strengthen the stability of the financial system.

Short to medium-term increase in opportunities

Short to long-term increase in opportunities

Short to medium-term increase in risks

Short to long-term increase in risks

Remain same compared to 2020

Capitals impacted

Short to medium-term strategic objectives impacted

Material matters impacted

Governance in action

The BIRMC and the Board Audit Committee monitor the current and anticipated regulatory changes within their respective mandates. The 2021 reviews included, but were not limited to, the Bank's credit quality, statutory and economic capital compositions and regulatory requirements, stress scenarios, Basel III amendments (revising the rules for the determination of risk-weighted assets), and interest rate reforms.

Outlook

A new Banking Act will be enacted in 2022 which contains provisions to extend regulations for banks. The CBSL will also introduce provisions to strengthen crisis preparedness and resilience of financial institutions. Changes will be introduced to the regulatory and supervisory framework with respect to information technology and security of banks, in line with international standards and best practices. The proposed regulations will prompt banks to upgrade and strengthen their information systems and related technology platforms, thereby enhancing the risk management process.

3. Disruptive technologies and competition

Impacts on our sustainable value creation

Digital technology has the potential to overcome traditional barriers to banking such as limited customer touchpoints and limited access to services and payment options. The exponential advancement in technology coupled with intense competition impacts our ability to remain relevant to our customers and our competitiveness in the industry whilst increasing operational risk levels.

Trend

- The steady roll-out of new technologies such as mobile technology, FinTech partnerships, blockchain technology, artificial intelligence, and robotics that challenge the traditional banking models
- Entry of non-traditional market players with innovative technology and business models offering a wide range of financial products and services
- The growing number of participants in the value chain

Opportunities

- Improving our operations allows us to deliver an exceptional customer experience
- Position as a truly multichannel bank with an extensive island-wide reach
- Accelerating innovation and increasing the agility of the Bank
- Automation and increased focus on complex and value-adding transactions reduce costs in the long-term

Challenges/Risks

- Technology is removing the barriers to entry, making financial services more competitive
- Concerns on the security of personal data, cybersecurity, risk of fraud, and financial crime
- Eroding profitability and market share due to heightened competition and increasing costs
- Fragmentation and unbundling of offers and limited opportunities for cross-selling
- Agility and transformation challenge our IT systems

Our strategic response

- Upgrading of infrastructure and technology enables us to remain relevant and face competition from new entrants
- Continuous investment in technology platforms, enhancement of processes and controls, collaborating with FinTechs, and stringent monitoring
- Establishing appropriate checks and balances including close monitoring to prevent and manage cyber risks
- Reaching potential customers in a timely manner through our extensive multichannel distribution network that offers a digital-friendly experience

Short to medium-term increase in opportunities
Short to long-term increase in opportunities
Short to medium-term increase in risks
Short to long-term increase in risks
Remain same compared to 2020

Capitals impacted

Short to medium-term strategic objectives impacted

Material matters impacted

Governance in action

COVID-19 has changed our approach to business and sharpened our strategic focus and execution abilities to maintain our relevance. The majority of projects approved by the Board relate to core banking implementations and digital transformation (including improvements in information security). Given the need for deeper integration of business and digitalisation in 2021, the Board focused on Accelerating Digitalisation, giving due attention to invigorating innovative capabilities to meet the pace of change required in the industry. The Board also provided oversight to implement measures to combat increased cybersecurity threats.

Outlook

Despite the economic downturn, we anticipate continuous expansion of the Information Communication Technology (ICT) sector, fuelled by the increased demand for digital and telecommunication services following the COVID-19 movement restrictions. We expect digital adoption to grow, driven by the demand for convenient and "anytime – anywhere" banking services, deeper penetration of smart mobile devices, and access to cheaper data.

The digital transformation strategy considers emerging threats and factors. We need to transform with the right balance of efficient systems, relevant skills, and digital expertise in alignment with the originally planned spend and business benefits. Cyber risk is constantly evolving in tandem with technological advancements and geopolitical developments.

4. Evolving customer requirements

Impacts on our sustainable value creation

Changing expectations and increased competition create challenges for banks to remain relevant to customers. Creating a customer-focused culture is critical to improving profitability and driving long-term value.

Trend

- Increased requirement for a relevant, personalised, and proactive approach
- Increased demand for services that are fast, simple, omnichannel, and free of charge
- Need for security and use of personal data
- Increased consumer power over brands

Opportunities

- Positioning as an omnichannel bank with empowered teams for customer support
- Diversity of expertise and business lines
- Enhancement of customer offering including non-banking offers to provide a comprehensive solution catering to every life stage of customers
- Capitalisation of the strong ethical culture and the sound IT systems to guarantee data security

Challenges/Risks

- Decrease in branch traffic
- Ability to prioritise customer requirements in the transformations
- Increased cyberattacks, scams, and attempted frauds

Our strategic response

- Meeting the customer need for safe, secure, and reliable banking services by strengthening our cybersecurity capabilities
- Deploying new and improved digital services, products, and processes to offer efficient and accessible banking services

Trend	Opportunities	Challenges/Risks	Our strategic response
• Need for close customer support as more customers adopt digital channels • The expectation of greater commitment from banks to purchasing power/inclusion, protection (notably the security of data), and environmental sustainability	Use of new technologies and artificial intelligence to deliver an enhanced customer experience Offering differentiated customer service and customer retention through excellent customer relations	Increased competition from digitally enabled competitors due to low switching cost New fee models that increase pricing pressure	

Short to medium-term increase in opportunities

Short to long-term increase in opportunities

Short to medium-term increase in risks

Short to long-term increase in risks

Remain same compared to 2020

Capitals impacted

Short to medium-term strategic objectives impacted

Material matters impacted

Governance in action

The Board assumed a cautious approach to ensure the long-term sustainability of customers' digital adoption in the new normal. As a state-owned institution, the Board emphasised on extending community support and ensuring transparency, which are decisive factors when it comes to customers' banking decisions. The Bank was at the forefront of supporting its customers through the crisis by transmitting government stimulus measures, offering forbearance, and donating to relief efforts. The Board remained acutely aware of safeguarding the Bank's reputational risk.

Outlook

The future of banking will change with the varying consumer expectations and embracing of advanced technologies. Digital transformation is a critical imperative to succeed in a dynamic business environment. Technology will continue to be the driver of business growth and remain central to delivering a wide range of services. Banks need to be agile and successfully integrate the digital and human workforce to serve customers seamlessly. They need to utilise digital platforms and data to optimise their products and service offering whilst delivering tailored customer services that effectively meet customer specific requirements.

5. Changes in demographic structure

Impacts on our sustainable value creation

Changes in the social Demographic Structure impacts savings, investments, and credit while creating long-lasting implications on service delivery. Changes in the Demographic Structure and behaviour influence the nature of products and services, delivery channels, and value propositions offered to customers. By recruiting talent from the localities, we ensure our value creation and business growth. Trends in society determine the social relevance of our Bank and any failure to attract and retain talent impedes our succession and expansion plans.

Trend	Opportunities	Challenges/Risks	Our strategic response
• The rise in aging populations, increased dependency, diversification of family models, and forms of employment • An increasing number of Millennials and Generation Z constituting the labour force • Jobs concentrated in urban areas • Scarcity of critical skills and challenge in recruiting competent talent • Loss of purchasing power among the middle-class and inequality in society	Reiteration of the universal banking model, being attentive to customer concerns and expectations over the long-term Improving customer understanding to support them better Investment in retaining and developing skills to build the NSB brand and develop the Nation Broad island-wide coverage through the diverse customer touchpoints Development of banking, social, and entrepreneurial accessibility	Need to enhance identification of customer expectations concerning environmental and social aspects Decline in banking margins in certain geographic areas Acceleration of skills and academic migration make recruitment and retention of new and emerging skills challenging and increasingly expensive Adapting to evolving customer preferences and revision of risk assessment models	• Catering to different customer segments and fulfilling their needs at every life stage through our extensive distribution channels and product portfolio with continuous value additions • Elevating customer awareness and develop innovative products to capture a sizeable market share of the younger population. • Expansion of the young working population provides adequate opportunity to develop wealth planning products and retirement plans • Implementing programmes that promote employee wellbeing • Continuous investment in skills development and leadership programmes to reskill and upskill our employees and nurture a future-fit workforce

Short to medium-term increase in opportunities | Short to long-term increase in opportunities | Short to medium-term increase in risks | Short to long-term increase in risks | Remain same compared to 2020

Capitals impacted

Short to medium-term strategic objectives impacted

Material matters impacted

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Governance in action

The Board gave due consideration to address the changing customer needs and provide effective solutions. The Board approved the succession plan and promotions to cater to changes in human capital.

Outlook

Sri Lanka has reached an advanced stage in the demographic transition with an increasingly aging population. This is expected to have long-lasting implications for service delivery, pensions, employment, and public finances. By 2050, it is projected that the proportion of elderly would be 23%, surpassing the 17% of estimated youth population.

It is important to reduce the gap in the labour force participation rates between men and women to buffer the impact of the reduction in the number of workers and mitigate the impact of demographics on economic growth. It is also important to have policies that foster the entry of women into the labour market. Development in education can elevate productivity and participation rates of younger cohorts while a reallocation of labour towards more productive sectors would achieve productivity gains.

6. Climate change and sustainability

Impacts on our sustainable value creation

Climate change is causing serious challenges to the sustainability of communities resulting in significant credit risk. Banks are required to be socially and environmentally responsible in their product offering, investment decisions, and the utilisation of scarce resources. There is a greater need for banks to align with the United Nations Sustainable Development Goals (UNSDGs) by adopting sustainable business practices and adhering to regulations set by the Government. Failure of compliance results in erosion of stakeholder trust and exposure to reputational risk.

Finding solutions to social and environmental concerns including climate change, scarcity of resources, conservation of ecosystems, inequality, and human rights has become a business necessity. Therefore, we integrate social and environmental concerns to our value creation model. We also play a key role in transitioning to a low-carbon economy.

Trend	Opportunities	Challenges/Risks	Our strategic response
• Global commitment to combat climate change and preserve biodiversity • Reinforcement of regulatory restrictions on the energy transition and protection of biodiversity • Growing awareness of the climate emergency	Development of investment and financing solutions to support institutional customers, corporates, and small businesses to adopt a low-carbon economy Products and services to enable consumers to adopt a green economy in line with the Paris Agreement and support environmental sustainability Financial innovation in response to the new economic models (sustainable agriculture in particular)	Increasing regulatory, political, and societal focus on transition risks associated with climate change Potential financial risks associated with lending to business and retail customers impacted by climate change Increase in costs and economic losses related to the effects of climate change, for customers or the Bank Uncertainty over the nature and timeline to transition to a low-carbon economy	• Supporting solutions that aid transition to a low-carbon economy and a sustainable future by creating relevant finance solutions • Strengthening our policies, processes, products, and services to manage the risks and opportunities associated with climate change • Engaging with the Government on an orderly transition to a green economy to support Sri Lanka's compliance to the universally agreed goals on sustainable development

Short to medium-term increase in opportunities | Short to long-term increase in opportunities | Short to medium-term increase in risks | Short to long-term increase in risks | Remain same compared to 2020

Capitals impacted

Short to medium-term strategic objectives impacted

Material matters impacted

Governance in action

In 2018, the Board approved the sustainability policies and elevation of sustainability risk to the Environmental and Social Risk Management Framework. In the same year, the Board also approved the implementation of a course of action to support four selected United Nations Sustainable Development Goals. The Board continues to monitor the impact of sustainability risk and takes every effort to minimise any adverse impact in the process of value creation.

Outlook

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

7. Social and economic impacts of **COVID-19**

Impacts on our sustainable value creation

With global supply chains disrupted and many businesses closed, all customer segments including individuals, small and medium enterprises (SMEs), and large corporates are facing a cash flow crunch that threatens economic and financial market stability. To support the vulnerable parties, temporary exemptions as well as capital and liquidity management support were announced by the CBSL to enable banks to allocate additional resources to meet the unprecedented demand for liquidity.

Trend	Opportunities	Challenges/Risks	Our strategic response
• The global pandemic accelerated volatility, uncertainty, complexity, and ambiguity in the socio-economic conditions	Banks to support transformations and affected sectors	Heightened risk of credit defaults. Further political polarisation caused by high unemployment, poverty, and inequality.	• Responding to customer requirements by extending financial support and information
• This was characterised by low GDP growth and high levels of unemployment	Acceleration in the trends towards digitisation	Many customers continue to be financially impacted and adapted to a new normal	• Working cooperatively with the Government to support our customers to tide over challenges
• Persistence of a low-interest rate regime with highly accommodative monetary policies	Maintaining a well-capitalised position	Changed employment proposition due to continued stay-at-home restrictions and employees moving to "blended" models of working	• Ensuring the safety and well-being of our employees

Trend	Opportunities	Challenges/Risks	Our strategic response
• Strong regulatory focus on business operations, liquidity and capital levels, risk management. and governance functions of the banking sector	Sound risk management taking cognisance of the operating conditions, competition, and opportunities	Negative economic impacts amplified by financial fraud	• Supporting our customers, employees, and the community to enter a period of recovery

Short to medium-term increase in opportunities

Short to long-term increase in opportunities

Short to medium-term increase in risks

Short to long-term increase in risks

Remain same compared to 2020

COVID-19 impacts on other mega trends

While COVID-19 is a standalone mega trend in its own right, it has had several impacts on the other mega trends in terms of direction and operations, which are presented below.

Mega trend	Impact of COVID-19
An uncertain geopolitical and socio-economic environment	• Maintaining a well-capitalised position • Sustained financial returns • Sound risk management • Improving efficiencies while managing strategic investments
Increased regulatory scrutiny	• Stringent regulations to ensure a robust and stable banking framework due to increased pressure on the macroeconomic environment • Consistent engagement with regulators which focused on the impact of the pandemic on business operations
Disruptive technologies and competition	• Accelerated digitisation and digital-first banking • Negative economic impacts amplified by financial fraud
Evolving customer requirements	• Greater impetus towards cashless payments • Increased necessity for remote onboarding across diverse customer segments • Increased requirements of cybersecurity
Changes in Demographic Structure	• Changes in staff numbers have implications for the workforce and the larger economy • Changes in consumption patterns
Climate change and sustainability	• COVID-19 is expected to worsen pre-existing socio-economic inequalities • Heighten political instability in the country • All the above will be further exacerbated by continued climate-related shocks.

Capitals impacted

Short to medium-term strategic objectives impacted

Material matters impacted

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Governance in action

By adapting its operating model to drive efficiency and resilience, the Board ensured the Bank's continuous support towards customer recovery from the impacts of the pandemic. Necessary adjustments were made to the risk management thresholds to be reflective of the broader economic changes, whilst giving due attention to vulnerable customer segments. Board oversight was given to address the immediate NPL overhang and the repercussions for the Bank, businesses, and individuals that are expected to be longer-lasting. Taking a long-term view, the Board assessed the Bank's ability to improve customer service through efficiency of delivery channels, relevance of the product suite, adopting novel ways of working, and by building a more resilient and agile institution.

Outlook

While the distribution and uptake of vaccines along with greater access to therapies for COVID-19 may result in lower infection and death rates, the emergence of the Omicron variant along with the uneven diffusion of vaccines amongst the world populations will continue to position COVID-19 as a serious contender in 2022. As such, some emerging markets and developing economies are more likely to fall short of the IMF set vaccination targets for 2022, achieving sufficiently broad coverage only in 2023, which will invariably impact economic recovery as well.

Industry attractiveness and competitiveness

To maintain our market position as a major competitor in Sri Lanka's banking industry we conducted the Five Forces Analysis developed by Michael Porter. This helps to understand the external factors significant to our industry environment, identify Bank's material issues and formulate our strategic priorities. Our ability to strategically address these concerns influences the Bank's resilience. The intensities of the five forces in the banking industry environment are as follows:

01 Threat from new entrants

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

02 Bargaining power of customers

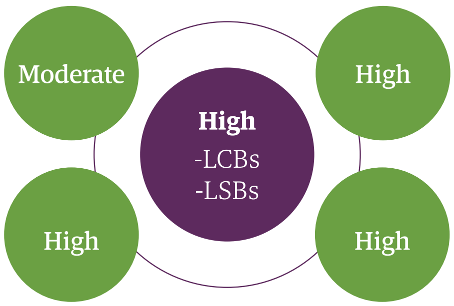
- Increasing demand from customers for personalised and high standards of service
- Availability of similar products and services in the market
- Customers are able to switch to competitors and substitutes without incurring high costs
- The new generation of customers lack customer loyalty
- High net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

03 Bargaining power of suppliers

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

- New players
- New regulations and compliance requirements

- Existing and potential customers



- Goods and service providers
- Employees

- Non-Banking Financial Institutions
- Payment facility providers

04 Competitive rivalry

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

05 Threat of substitutes

- Increasing threat from telecommunication companies and other payment providers offering efficient payment solutions (FinTech companies)
- Availability of similar products of low-cost with no differentiation in pricing, quality, or features
- Depositors and lenders being highly sensitivity to change of prices

Strategy and resource allocation

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

Integrated strategic planning process

Our strategy is derived through the INTEGRATED THINKING approach, thereby taking into consideration who we are, our capabilities, current and future needs, our stakeholders' needs and expectations, and our operating environment. An important part of our integrated strategic planning is to consider the connectivity, interdependencies, and trade-offs between possible responses across the six capitals that affect our Bank's ability to create value over the short, medium, and long-term, which then influences our decision-making process. Our integrated strategy planning process drives strategy development and deployment across the short to long-term horizon.

Our integrated strategic planning process consists of

- Strategy Development
- Strategy Deployment and Resource Allocation
- Monitoring Phase

Strategy development

The Bank's strategies are clearly linked to its Vision, Mission, and Values. The development process takes cognisance of both the external and internal business environments while suitably factoring in the opportunities, challenges, and historical experiences.

As part of our strategy planning process, we scan the external environment for trends and understand how these trends influence the banking sector. The assessment of our business model and operating environment along with proactive stakeholder engagement has shaped the material issues and aspects that add or deduct value. These aspects along with the resultant risks and opportunities from material matters inform our strategy for the short, medium, and long-term.

Strategy deployment and resource allocation

Our planning process ensures our strategy and key resource considerations are integrated into our financial and execution plans. Potential opportunities are assessed within our risk appetite framework to ensure a balanced approach between future growth and responsible risk management.

The long-term strategic projects identified through this process are first evaluated and approved by the Board of Directors, and thereafter included in the long-term planning process for execution. Our short-term strategies and targets are aligned to our long-term strategic targets and are implemented across the Bank. The overall strategies and plans are released down to individual divisions/departments with clearly defined responsibilities and are connected to the last mile with employees' Key Result Areas.

Our Strategic Business Planning Framework enables us to identify the resources (IT, HR, Finance) required for achieving our stated strategic objectives. Our functional teams take suitable action in ensuring the availability of resources and these resources are allocated through our medium-term action plan which outlines the required capabilities and the focused initiatives undertaken to achieve our ambitions. Based on resource availability and current and anticipated requirements, certain trade-offs are made which reprioritise change initiatives and new projects.

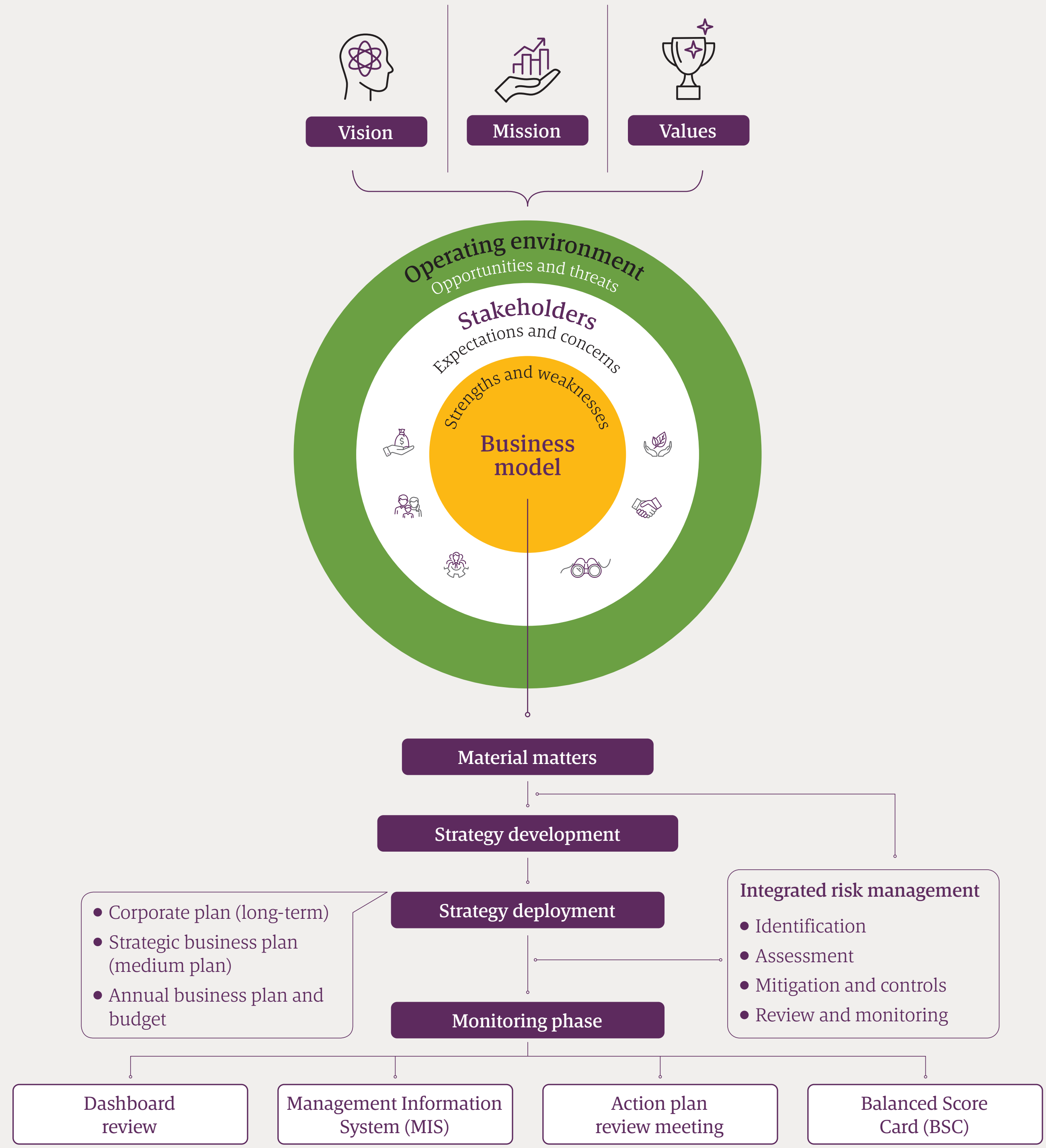
Monitoring phase

To enable the Bank to respond with agility to changes in the environment, the progress of the strategies and plans is periodically tracked through various reports and reviewed at defined intervals by the Management Committee and the Board. This process enables us to identify and test the robustness of our strategic initiatives against the progress achieved, and to test possible future scenarios.

Through monthly MIS/dashboards, we review our monthly performance when compared to budget and historical performance. On a quarterly basis, we monitor our strategic performance against the targets set out and the status of key projects. Further, when deemed necessary, we revise them after considering any changes in the strategic outlook that have come to light through the Action Plan review.

We have defined our Key Performance Indicators based on the balanced scorecard to review our performance. They encompass both financial and non-financial indicators as well as quantitative and qualitative factors. These continuous monitoring processes enable us to oversee operational issues, review market trends, keep abreast of customer needs and expectations, analyse business results and top priorities, whilst also enabling us to refine our strategy and business model to remain relevant and competitive.

Figure 5


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

Building a more sustainable bank

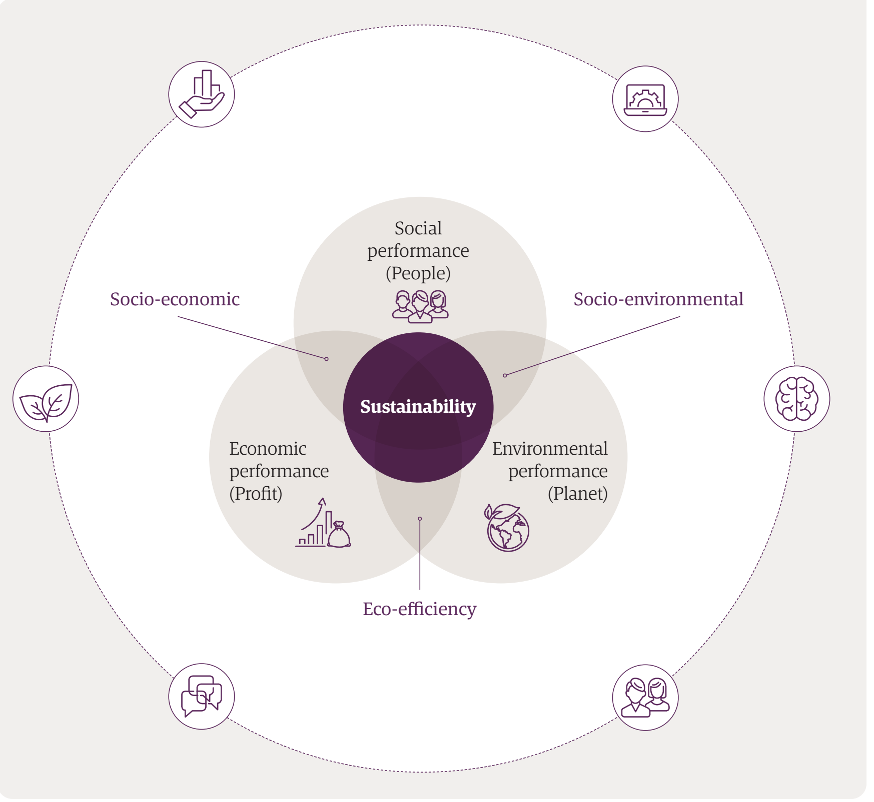
As a bank, it is our greatest desire to ensure that our customers and communities have the best possible future. It is to this end that we strive to achieve economic, social, and environmental value that will transfer to our customers, staff, society, and the planet whilst simultaneously benefiting our stakeholders. Given our position as a leading state-bank, we are situated right in the centre of the Sri Lankan economy and in a position of power to create strong social and environmental changes, with our widespread reach and authority situating us as a leader in supporting sustainable enterprises. These positions of responsibility are further complemented by our strong ethical values, systems, and processes which temper our ambition with moral standing as well. All the above aspects have come together to support our commitment towards building sustainable banking and promoting a secure environment for future generations.

Our sustainable business model

NSB's sustainable business model is a well thought out set of processes based on INTEGRATED THINKING. The model presents the Bank's value creation process which incorporates NSB's Vision, Mission, and Values along with the support of sound governance and strong ethics. The model takes into consideration both socio-economic and environmental aspects, factoring these into the overall process. All Bank activities are geared towards our main objective of creating sustainable social and corporate value. To this end, we utilise our core strengths, skill, and resources to add value to all our endeavours towards the Bank itself, our stakeholders, and to the society we live in. On this value driven journey, we have maintained our position as the savings giant of Sri Lanka due to our ability to foresee challenges as well as our capacity for seizing opportunities when they present themselves. This winning streak has been further enhanced through our reputed communication skills with all stakeholders which has enabled us to meet their needs with a deep understanding of their requirements and concerns. To consolidate all the above, NSB also performs a materiality assessment to determine the most pressing issues that require attention in internal engagement and the development of sustainable strategy.

pages 24 and 25 for the sustainable value creation business model of NSB.

Figure 6



Sustainable strategy as a part of business strategy

We view sustainability as a key component of success and have included sustainability principles into corporate strategy, funding decisions and product/service definition.

The following aspects highlight the manner in which sustainability is integrated into our strategy:

Figure 7

NSB is proud to have a moderate risk profile and is determined to continue its position as a profitable, well-capitalised bank. As strong capital and liquidity buffers are essential to maintaining financial stability, it is key that we continue our solid capital and liquidity position, and maintain a clean and strong financial position, which in turn will pave the way to create long-term value for our stakeholders. The sustainability policies at the Bank allow the concept of sustainability to be seamlessly integrated into the business model of the Bank, thereby ensuring that they function together. The environmental policy, human rights policy, Corporate Social Responsibility (CSR) policy, and Environment, Social and Risk Management (ESRM) policy enhance our sustainability framework, whilst programmes that target awareness and capacity development are key ways in which our sustainability framework is ingrained in staff and Corporate Management. In addition to the above, we have implemented several initiatives into our business lines so that all business activities follow SDGs, thereby further strengthening our dedication to social and environmental aspects.

pages 154 to 178 for additional details of the initiatives discussed above.

Sustainability governance

When positioning the Bank for success, we must meticulously weigh risks and determine the most efficient way in which the interest of our diverse stakeholders can be balanced to propel long-term value for the Bank. Given the weight of such decisions, the governance and oversight of the Bank's Economic, Social, and Environmental (ESE) risks and impacts are shared by the Board. The Bank's decision-making process embeds these ESE issues and impacts all matters that are material to value creation, as these are incorporated into the balanced scorecard which then moves down to the performance measurement of Bank employees.

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

Our commitment to sustainability

Creating shared value is key to our strategy and we are responsible for ensuring inclusive growth and providing financial products and services in a sustainable manner.

We are firm believers in equal opportunity when it comes to fair play, health, education, and all other key socio-economic factors that make up society.

Given our purpose-driven organisational structure, we understand that the sustainability of our operations directly impacts the communities we work in. Hence, we use our strategic position to bring together myriad value creation initiatives, which when considered together, produce both direct and indirect socio-economical and environmental value to our customers.

Our integrated approach to sustainability includes the following principles:

- A keen commitment to diversity, stakeholder engagement, and strategic partnerships
- Sound risk management that includes both environmental and social concerns
- Highly ethical behaviour, responsible corporate governance, and transparent communications
- Investment in digitisation and innovation to deliver high powered solutions to our networks
- Create holistic social and business impacts

Figure 8

Pillar 1:	**Pillar 2:**	**Pillar 3:**
Building Sustainable Communities	**Supporting Inclusive Finance**	**Environmental Sustainability**

Pillar 1
Building sustainable communities

Communities are a critical part of the economic and social fabric. We help to build a more vibrant, prosperous future by:

- Supporting infrastructure development projects – "Corporate banking" on page 115.

  Development projects that facilitate economic development, empower local communities, and uplift the living standards of people in Sri Lanka

  Collaborating with Government institutions. We invest in diverse sectors including transportation, water, telecommunication, and education
- Open dialogue with stakeholders – "Resolving customer concerns" on page 162, and "Communicating effectively" on page 151.

  Going beyond mere compliance, we maintain an open dialogue with all our stakeholders to maintain the transparency of our operations
- Robust systems and controls – "Robust systems and processes" on page 133.

  Protecting the integrity of the financial system and our customers' funds through our robust system and controls which prevents fraud, corruption, and funding to illegal operations and organisations
- Equal employment opportunities – "Diversity and equal opportunity" on page 146.

  Providing employment that is free from discrimination, and instead is underpinned by fair labour practices and employee well-being
- Prioritising CSR programmes – "Building thriving communities" on page 167.

  Prioritising CSR programmes that support child education and skills development

Pillar 2
Supporting inclusive finance

We promote financial inclusion to facilitate social and economic progress in the Nation by:

- Providing cost-efficient propositions – "Financial facilities for low-income earners" on page 158, "Expanding our digital footprint" and "Augmenting our reach" on page 124.

  Providing innovative, relevant, and cost-efficient propositions to our entry level banking customers and small and medium clients

- Advocating government-initiated loan programmes – "Supporting customers during COVID-19", "A place to call 'home'", and "Appreciation of migrant workforce" on page 158

  Advocating Government-initiated loan programmes, we directly promote a sustainable and inclusive economy through financing small and medium enterprises

- Responsible procurement on page 163

- Enabling access to financial services for all segments of society through financial literacy, inclusive access and expanded financial education – "Prioritise financial inclusion" on page 168 and "Expanding our digital footprint" on page 124

- Promoting self-sufficient communities – "Contributing to a Sustainable World" on page 173

  Promoting self-sufficient communities by financing private institutions that lend to small and medium entrepreneurs

- Sustainable financing on page 175

Pillar 3
Environmental sustainability

We will help to promote sustainable environmental practices and mitigate climate change risk in Sri Lanka by using positive and progressive climate-linked initiatives to contribute towards a more sustainable future for the communities in which we operate.

This includes:

- Committing to lending and financing projects that generate renewable energy – "Sustainable financing" on page 175

  Committing to lending and financing projects that generate renewable energy, and to small and medium enterprises engaged in producing green products and services. Our main focus is supporting solar energy projects by closely collaborating with the Ceylon Electricity Board (CEB)

- Employing enhanced assessment criteria for capital allocation decisions – the "ESRM Framework" on page 175

  Employing enhanced assessment criteria for capital allocation decisions, which would incorporate climate change, positive impact, and our environmental, social, and governance commitments

- Being energy efficient – "Responsible consumption" on page 174

  Being energy efficiency by installing solar energy in the buildings owned by NSB

Contribution to the UNSDGs

The United Nations Sustainable Development Goals (SDGs) are a set of 17 Sustainable Development Goals adopted by world leaders at the United Nations Sustainable Development Summit on 25 September 2015. The goals attempt to eradicate poverty by 2030, fight inequality and injustice, and combat climate change. These goals integrate the economic, social, and environmental dimensions of development while prioritising the management of natural resources for sustainable production and consumption.

Our contribution to the UNSDG is outlined throughout the Report.

Future outlook

We aim to grow our business in a sustainable manner and we believe that a sustainable business model is – by definition – a work in progress, so we constantly explore ways in which to improve, while keeping a firm eye on our strategic priorities.

As we continue to develop our approach to sustainability and refine our reporting, this year we are focusing even more strongly on areas of activity that our stakeholders deem to be particularly relevant. Going forward, we wish to set key performance indicators (KPIs) and targets to drive sustainability initiatives across the Bank. Further, the formulated CSRS Committee will take an active involvement in monitoring the sustainability performance of the Bank and advise the Board on material ESE matters which will contribute to the materiality assessment of the Bank.

The SDGs provide universal agreement on economic, social, and environmental priorities that are to be met by 2030. They represent a powerful lens to identify opportunities for business innovation and growth, and they define the "good" in our purpose. Therefore, we have reoriented our approach to focus on the most material to guide our sustainable development initiatives. As such, we will be setting ambitious new targets to measure our delivery on the SDGs.

3 GOOD HEALTH AND WELL-BEING | 4 QUALITY EDUCATION | 6 CLEAN WATER AND SANITATION | 7 AFFORDABLE AND CLEAN ENERGY

SWOT analysis

A SWOT analysis was conducted as an initial step of our strategy formulation and execution of strategic priorities. This provides insights into our internal strengths and weaknesses as well as opportunities and threats in the external environment.

Strengths

- Deposits and interest payments are fully guaranteed by the Government
- A banking legacy of 189 years
- 100% state owned bank
- Strong brand reputation-recognised as the 5th most valuable brand in Sri Lanka
- Extensive customer reach across the island exceeding 4,000 service points
- Strong employee loyalty with higher retention rate
- AAA credit rating by ICRA Lanka Ltd.
- Specialised in financing infrastructure projects and clean energy financing
- A low NPL ratio compared to the industry average

Weaknesses

- Limitations imposed on business expansion through the NSB Act (Microfinance, lending for SME sector)
- Mandatory requirement to invest 60% of deposits in Government Securities
- Bureaucratic processes and procedures
- Absence of a fully integrated system curtails flexibility
- Stringent procedures slows the adoption of new technologies
- Primary source of funding are term deposits
- Limitations to generating fee and commission based income
- Conservative risk culture and business policy

Leveraging strengths to maximise opportunities

- Use the infrastructure needs of the country using specialised knowledge
- Improve service excellence through motivation and nurturing talent
- Increase revenue and profitability derived from lending opportunities by increasing contribution from a wide range of access points
- Providing the lending products in relation to green economy and utilising specialised skills in clean energy financing

Counter weaknesses by capitalising opportunities

- Augment lending to small and medium entrepreneurs and grow our customer base and increase revenue generation
- Adopt technology to increase efficiency, productivity and minimise errors
- Adopt the risk conscious culture to maintain a lower NPL ratio while growing the lending portfolio
- Automate processes to boost savings deposits
- Penetrate the remittance market and grow fee-based income

Opportunities

- NSB's role in executing Government's commitment towards improving Sri Lanka's infrastructure
- Government's commitment towards UNSDGs
- Growing focus on climate change and moving towards a green economy
- Increasing consumerism and credit culture
- Increasing small and medium enterprise sector and its importance in economic development
- Dynamic technological advancements in banking
- Growing market for foreign currency remittances

Threats

- Pandemic induced uncertainities, weak macroeconomic and political instability
- Intense competition from commercial banks and non-banking competitors
- Tightening regulatory and supervisory framework on banking and financial services industry
- Disruptive technologies challenging traditional business models
- Dynamic changes in customer preferences and expectations
- Downgrading of credit rating

Minimise threats by leveraging strengths

- Capitalise on our 100% Government guarantee, brand, and unique status to differentiate our products
- Expand our customer touchpoints and grow our customer base using our digital infrastructure
- Offering an exceptional customer experience through our wide access channels
- Adopting to new normal

Countering weaknesses and threats

- Making our systems and processes more agile to enhance customer experience using our technological advancements
- Acquire new talent with the required skills for future banking such as IT and data analytics
- Focus on growing low-cost deposits, long-term deposits, and longer tenure borrowings

Strategy map

Long-term strategies

Customer centric

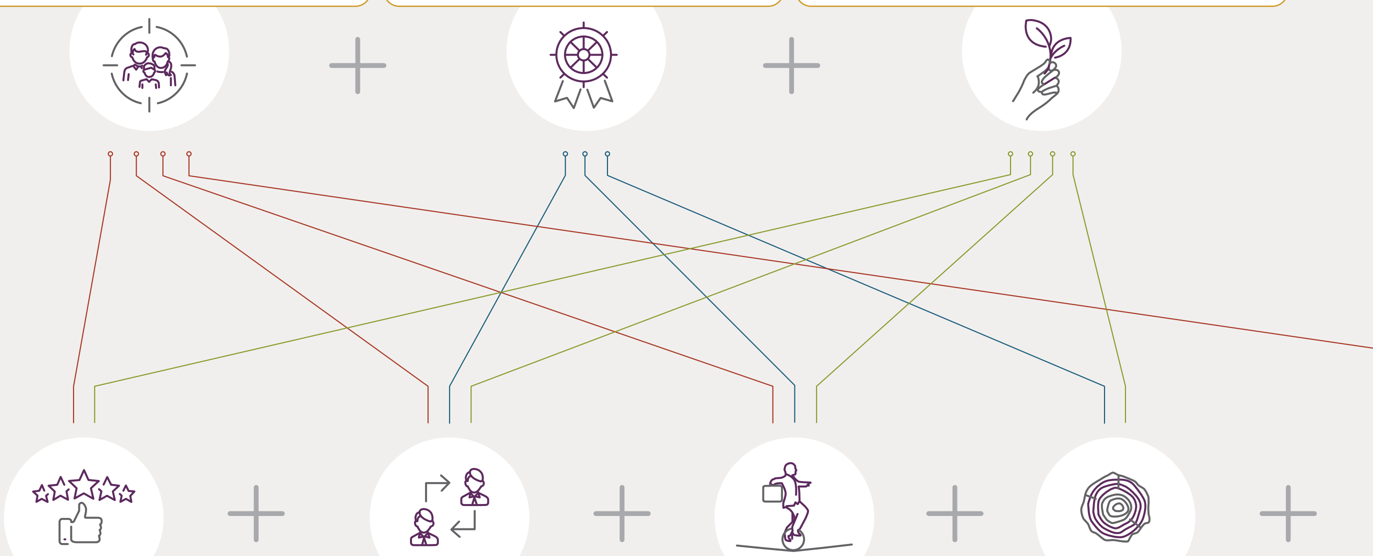
We at NSB see our customers as central to our operations, and customer outcomes determine our actions as a Bank. In our goal towards achieving status as "The Bank of Choice", superior customer experience in all customer interactions remain our topmost priority. It is customer needs that direct our resource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

Governing excellence

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

Sustainable growth

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



Heightening customer experience

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

Enhancing employee engagement

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

Reinforcing risk culture

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

Promoting organic growth

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

Short to medium-term strategic priorities

Transformative leadership

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

Accelerating digitalisation

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

Leading by example

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

Strategic enablers

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

Outcomes of strategies 2021

- 21.8 million accounts
- Integrated IT systems
- Healthy balance sheet revenue/ profit growth
- Improved margin and capital growth
- Lower level of NPAs
- Higher employee retention
- 2nd largest investor in Government Securities

Our short to medium-term strategic priorities

As we are strengthening our digital capabilities and integrating our business to transform client experiences and drive operational efficiency for a radically different world, we've also added the objective of **"Accelerating digitalisation"**. While all other short to medium-term strategic objectives remain unchanged, we are focusing on accelerating its execution.

Heightening customer experience

Why it matters most

Improving customer experience is one of our top priorities. We take a multichannel approach to meet multiple customer needs with the notion of enhancing overall customer experience. We are committed to delivering an unmatched customer experience whenever a customer engages with our brand. When developing our digital infrastructure, we have sort to facilitate our customers' seamless transition between channels, while we sustain and improve our physical touchpoints.

Related material matters

Capitals employed

Resource allocation

Our investments in technology, people, processes/ infrastructure, products, and service propositions underpin our efforts to deliver an integrated and differentiated customer experience.

Contributing to our long-term objectives

Understanding our customers' present and future needs enables us to provide customised solutions for every stage of their life. Improving customer service and experience is directly connected to our long-term strategic objective of being "Customer centric"

Primary UNSDGs

Elevating customer experience requires us to be innovative, invest in digital infrastructure, develop our people, and collaborate with business partners, all of which strengthens our long-term sustainability.

Trade-offs

- Increasing digitisation to improve customer experience and operational efficiencies require additional IT development. This has led to an increase in maintenance cost to ensure a stable and secure IT infrastructure and increased the depreciation and amortisation of our IT assets.
- Developing innovative, accessible, and affordable digitally enabled solutions should keep in mind customer privacy and security of personal information, while mitigating cybersecurity risk.

Enhancing employee engagement

Why it matters most

We depend on our people to deliver better customer outcomes and experiences. Creating a team of engaged and motivated employees with the right skills is essential to operate our business effectively and create value for our stakeholders. Therefore, we are determined to attracting and retaining the right people by creating a safe and rewarding environment. We are intent on nurturing a team of engaged employees who are highly skilled, motivated, possess good communication skills, are receptive, responsible, and lead by example.

Related material matters

Capitals employed

Resource allocation

Investing financial capital, human capital and time in our staff training and engagement initiatives not only drives employee productivity, contribution, and engagement, but our brand and reputation as well.

Contributing to our long-term objectives

We are committed to building a workforce that reflects our long-term goals for a prosperous and equitable society whilst also being able to meet the needs of our future data-driven business model. We invest in our employees' development, implement relevant policies, and have wellness programmes in place to support our employees' personal and professional growth.

Primary UNSDGs

Gaining valuable skills, training, and experience through our skills development programmes strengthens the sustainability of the Bank in the long-term.

Trade-offs

- Significant investments need to be made on training and development, and improving employee well-being, to attract the right talent and to develop and retain scarce or emerging key skills which are necessary to achieve our strategic objectives.
- Digitalisation – which is key to our future competitiveness – will change the way we conduct business. Shifts in our future capability requirements needs to be managed in a responsible manner by balancing both commercial and social considerations.

Reinforcing risk culture

Why it matters most

We strive to establish a healthy risk culture to effectively anticipate and manage the numerous risks that arise in a constantly evolving landscape. We continue to explore all available opportunities to improve and align our strategies and operations with our robust business model to prudently manage risks. We remain committed to operating ethically and reinforcing a healthy risk culture by being fully compliant with all applicable regulations, standards, and best practices, and embracing new technologies to strengthen our risk capabilities.

Related material matters

Capitals employed

Resource allocation

We invest in people, processes, and systems to establish robust protocols and processes to identify and prevent all forms of irregularities and financial crimes. This investment is also to minimise risks, which is a factor of differentiation in customer relationships when compared to the risk cultures of our competitors.

Contributing to our long-term objectives

To achieve our long-term objective of "Excellence in Governance", we are committed to establishing a risk culture with reputable and ethical brand assurance that is underpinned by a value-driven culture and governance framework.

Primary UNSDGs

A continuous assessment and adjustment of our policies and processes to ensure compliance and best practices propels us to be a stable, secure, and strong institution in the financial ecosystem.

Trade-offs

- We are required to tighten our risk appetite when managing our lending exposures by taking into consideration social and economic aspects, which then hinders customer growth and our revenue generation capacity.
- Continually evolving regulatory and supervisory requirements slowdown our ability to meet customers' needs and expectations in a speedy and convenient manner.
- Complying with new regulatory requirements requires us to incur costs for compliance, establish technology-based risk solutions, extensively train our employees, and adopt business systems to secure our reputation as a trusted organisation.

Promoting organic growth

Why it matters most

Since our inception, we have directed our systems, operations, and strategic priorities to achieve our mandate of fostering a savings culture in Sri Lanka. In our 49 years of operations, we have become an entity that is trusted by all Sri Lankans. We leverage our systems and processes to achieve financial stability and organic growth. Through bank-wide, multichannel efforts, we focus on improving customer experience and employee engagement, whilst practising prudent risk management to grow and create sustainable returns to our stakeholders.

Related material matters

Capitals employed

Resource allocation

We allocate financial, human, and manufactured capital to where we believe the best market opportunities lie. This is done with a prudent risk approach to ensure that new income streams remain relevant and safeguard sustainability.

Contributing to our long-term objectives

Our long-term strategic objective of "Strength and Sustainability" is reliant on the well-being of our planet and society. As such, our capital allocation decisions must consider our investments' long-term consequences. Where possible, we consider innovative development solutions and invest in greening our buildings and implementing renewable energy solutions.

Primary UNSDGs

Our long-term success depends on our ability to generate value for society by providing products, services, and facilities that are useful to the communities in which we operate.

Trade-offs

- We need to provide an appropriate rate of return to our shareholder and providers of debt, including depositors, to attract the capital we need to fund asset growth. This requires us to increase our revenue generation by continuously and sustainably meeting our clients' needs.

Leading by example

Why it matters most

We aim to amplify the positive impact of the Bank by contributing to solutions that address socio-economic and environmental challenges. We integrate sustainability into every area of business operations and we are committed to achieving the UNSDGs. We are aware of our impact on society and the environment and remain committed to creating social value by engaging in responsible and sustainable business practices. As a government organisation with deep social roots, NSB has a reputation of being an exemplary corporate citizen and leading by example.

Related material matters

Capitals employed

Resource allocation

We allocate a significant amount of money, people, and time in systems and processes to pursue projects and initiatives which will have an impact on all six of our capitals. During 2021, we invested in deepening our Environmental, Social and Governance (ESG) commitment.

Contributing to our long-term objectives

Our success is dependent on our communities. By engaging in informed, targeted initiatives that create mutual benefit for NSB and our stakeholders, we ensure the long-term resilience of our operations in our challenging socio-economic context. Achieving sustainable development is not only a global priority but a business imperative that supports our long- term objective of "Transformative Leadership".

Primary UNSDGs

The Bank directly affects the environment, society, and communities through its footprint consumption of resources and indirectly via the Bank's influences through its role of financial intermediation (lending and investment practices). The health and stability of the country affects our ability to achieve sustainable growth in the long run. Supporting initiatives to achieve SDGs also have a positive impact on the country.

Trade-offs

- Implementing systems and processes with significant investments and developing capacity, to operate responsibly and maintain sustainability.
- Supporting small and medium businesses in vulnerable sectors through lending, while managing default risk.
- Restructuring debts in sectors affected by climate change affects the viability of customer's business.

Accelerating digitalisation

Why it matters most

Digital innovations present both significant risks and opportunities to us. We are accelerating the delivery of digital innovations and the drive for greater levels of digital service to improve customer experience and satisfaction, explore new revenue streams beyond banking, and reduce costs. The behavioural outcomes of the COVID-19 pandemic are likely to drive increased levels of digital adoption and promote greater levels of flexible work practices. Therefore, our focus on innovation, disruption, and cybersecurity remains top priority in banking.

Related material matters

Capitals employed

Resource allocation

In recent years, we have begun to make hefty investments in transformational initiatives relating to technology, systems, and human capital. We also work in partnership with institutions that are in the process of fully digitalising the Bank.

Contributing to our long-term objectives

Long-term industry trends, such as digitisation, global connectivity, and democratised computing have accelerated due to COVID-19. Being a digitalised entity has never been more relevant and NSB continues to pursue opportunities to accelerate our digital transformation, which will enable us to achieve all our long-term strategic objectives under "Sustainable growth".

Primary UNSDGs

Financial inclusion accelerated by digitalisation is key to making transactions more efficient, transparent and secure. It will also expand savings and business opportunities, while reducing poverty.

Trade-offs

- The provision of financial services continues to shift towards digital interfaces, and this directly impacts our physical branches and employees.
- In turn, it has the benefit of improving customer service.
- However, it does reduce our human capital requirements and necessitates the reconfiguration of our branches.
- The cost efficiencies arising are partly offset by investments in information and technology to encompass regulatory changes, innovation, and modernisation, as well as cyber resilience.

Our strategy scoreboard

Achieved	✓
Partially achieved	✓
Not achieved	⊗
Paused or impacted due to COVID-19	⏸

Table 4

Strategic objectives	Priorities for 2021	Key deliverables	Status	Actual 2021	Actual 2020	Actual 2019	Notes	Future priorities	Expected outcomes
Heightening customer experience	Increase accessibility and convenience	Opening new branches at targeted places	Paused or impacted due to COVID-19	**2**	3	1		• Continuously improve our products, services, and channels in line with customer expectations and changing needs • Calibrating postal network to strengthen our footprint • Strive to improve customer experience in branches • Enabling self-service channels and reducing customers' waiting times	• Increasing the customer base • Increasing delivery channels
	Enabling self-service channels and reducing customers' waiting time	Commissioning Cash Recycle Machines in highly populated areas	Paused or impacted due to COVID-19	**1**	–	–			
		Commissioning Cash Recycle Machines in branches	Achieved	**19**	27	24			
		Absorbing more customers to internet banking	Achieved	**112,531**	85,327	18,298			
	Product development	Developing new products for children	Not achieved; Paused or impacted due to COVID-19	**–**	–	–			
	Enhancing customer awareness, association, and loyalty	Brand value ranking in Sri Lanka	Achieved	**5**	6	5			
Promoting organic growth	Growth in core areas	Growth in deposits compared to industry (%) NSB Industry	Achieved	 **15.5** **13.7**	 21.7 21.6	 21.1 7.9		• Improving operational efficiency through various digitisation initiatives • Exploring new avenues to enhance fee-based income • Improving the balance sheet quality and reducing non-strategic assets • Focusing on improving cost of funds • Improving market share • Increasing profitability to exceed the cost of capital • Improving efficiency of back-office processes	• Create sustainable financial returns • Create a sustainable capital base • Continue declaring dividends
		Growth in lending compared to industry (%) NSB Industry	Achieved	 **17.7** **13.5**	 13.7 12.7	 7.5 5.0			
	Arresting the declining deposit market share	Retaining or increasing market share (%)	Achieved	**11.0**	10.8	10.7			
	Increasing value for shareholders	Improving shareholder returns by raising the medium-term ROE target range from 10% to 15%	Achieved	**33.9**	20.1	14.3			
	Managing costs effectively	Cost to income ratio (%)	Achieved	**33.3**	39.3	49.6			
	Reducing earnings volatility and dependency on interest income	Increasing fee-based income (%)	Achieved	**12.6**	11.5	25.5			

Strategic objectives	Priorities for 2021	Key deliverables	Status	Actual 2021	Actual 2020	Actual 2019	Notes	Future priorities	Expected outcomes
Accelerating digitalisation	Carrying out IT projects	Implementing mobile payment APP solution	✓	✓	–	–		• Developing innovative, accessible, and affordable digitally enabled solutions without forgoing customers' personal information, privacy, but mitigating cybersecurity risk. • Enhance the remote and digital customer service model	• Satisfied customers and increasing customer loyalty • Increasing employee efficiency
		Customisation and testing Core Banking Solution	✓ ⏸	–	–	–			
		Investment in digital capital (Rs. Mn.)	✓	**534.8**	539.1	–	Will be implemented in 2022		
		Implementing HR Management System	✓ ⏸	–	–	–	Could not be implemented due to COVID-19 spread among the employees and travel restrictions		
Enhancing employee engagement	Increasing employee value proposition	Spend on employees (Rs. Bn.)	✓	**13.0**	10.0	10.2		• Enhance employee happiness and loyalty at work with work-life balance • Create a positive culture with special focus on employee development and engagement • Create an E-learning culture • Change management towards digital transformation • Training for high quality customer service and staff development • Promoting professional development and merit-based criteria in selection and internal promotion processes	• Highly motivated employees and lower employee turnover
		Employee voluntary turnover (%)	✓	**0.18**	0.23	0.28			
		Unionised salary increase (%)	✓	**17**	22	22			
		Gender diversity of permanent employees at all level	✓	**5:5**	5:5	5:5			
		Introducing a target-based performance appraisal system to enhance productivity and motivation	✗	–	–	–	Will be implemented in 2022		
	Learning and development	Training and development spent (Rs. Mn.)	✓	**11.0**	8.8	39.4			
		Conducting online training programmes	✓	**145**	17	9			
		Training on change management with Core Banking Implementation	✓	**157**	4	–			

Strategic objectives	Priorities for 2021	Key deliverables	Status	Actual 2021	Actual 2020	Actual 2019	Notes	Future priorities	Expected outcomes
Reinforcing risk culture	Sustaining strong capital adequacy levels	CAR – Tier 1 – Basel III Compliance (%)	✓	**18.6**	13.6	13.5		• Sustaining strong capital adequacy levels to facilitate business growth in a prudent and disciplined manner. • Implementing environmental, social, and governance policies and integrating them into business operations. • Employing digital capabilities in preventing and identifying irregularities • Maintaining the robustness of systems, processes, and controls to combat cybersecurity threats. • Sustain strong asset quality through disciplined credit risk management	• Sustainable capital management • Prudent risk management and zero non-compliance
		Total Capital Ratios – Basel III Compliance (%)	✓	**20.8**	16.4	15.8			
	Managing credit risk prudently	NPL ratio (%)	✓	**2.97**	2.79	1.57	Below the industry average of 4.5%		
	Cybersecurity	Implementing 24/7 security operations centre for the Bank	✓	✓	–	–			
		Maintaining the PCIDSS certification obtained in 2019	✓	✓	–	–			
		Obtaining ISO 27001 certification	✓	✓	–	–			
	Zero tolerance to non-compliance	Regulatory fines or penalties	✓	**0**	0	0			
Lead by example	Reducing our environmental footprint in all our business operations	Energy consumption (GJ)	✗	**33,539**	31,823	35,696		• Addressing social challenges such as access to financial services, education, employment opportunities, and economic growth • Funding for strategic partnerships in community development • Managing the environmental and social impacts of our lending practices • Managing our environmental footprint • Commitment to financial inclusion	• Contributing to the society in which we operate • Reducing our carbon footprint
		Water consumption (m^3)	✓	**88,986**	105,515	79,368			
		Paper recycled (kg)	✓	**3,070**	1,159	3,000			
	Uplifting local communities and supporting community building initiatives	Proportion of spending local suppliers on local suppliers (%)	✓	**100%**	100%	100%			
	Economical supporting	Direct and indirect taxes paid (Rs. Bn.)	✓	**12.4**	9.3	9.3			
		Dividends paid (Rs. Bn.)	✓	**3.5**	1.0	2.0			
	Supporting low carbon economy	Number of eco-loans granted	✓	**9**	8	222			

Integrated stakeholder engagement

GRI 102-40, 42, 43 and 44

Stakeholder engagement is fundamental to a successful business. We aim to create value for NSB and the society through active stakeholder engagement. Strong and constructive stakeholder relationships are built on trust, respect, transparency, constructive engagement, and ethical business practices.

Our robust stakeholder engagement process is integrated into every step of our value creation process. We embrace a customer-centric and stakeholder-inclusive approach in creating value. Our stakeholder engagement framework involves identifying stakeholders, engaging with them, understanding their challenges and expectations, identifying material issues to the Bank, and aligning these to NSB's strategic and operational objectives and targets.

Through meaningful dialogue, we are able to better understand and address their needs and concerns while balancing the distribution of value created. We do this by having a deep understanding of aspects that matter most to them and are relevant to our business. This approach has allowed us to identify topics that have a direct or indirect impact on our Bank's ability to create, preserve, or erode economic, environmental, and social value – not only for ourselves, but also for our stakeholders. Feedback from our stakeholders helps us to build on our strategy which clearly outlines our commitment to deliver sustainable value to our stakeholders.

This form of effective stakeholder engagement compels us to be future ready, as we continue to improve our business model and integrated strategic planning processes based on the feedback received from our stakeholders.

Our integrated stakeholder engagement process

Our stakeholder engagement process encompasses the following stages:

1. Identifying all stakeholders
2. Prioritising key stakeholders
3. Defining the method of engagement and identifying stakeholder needs and expectations
4. Establishing a tool for monitoring and evaluating stakeholder relationships

1. Identifying all stakeholders

We have a broad range of stakeholders who we impact, and who in turn, impact us. We define stakeholders as those individuals or groups that are significantly impacted by our actions, products, and services. In turn, their perceptions and actions can have a strong effect on our ability to conduct our activities and meet our strategic goals.

we have identified the following stakeholder groups who influence our operations, either directly or indirectly. We strive to continuously build and maintain cordial relationships with these groups:

- Shareholder/Investors
- Customers
- Employees
- Regulators and Government Institutions
- Business Partners
- Society and Environment

2. Prioritising key stakeholders

We have identified and prioritised stakeholders for targeted engagement based on how our activities impact them and the relevance of our strategy in addressing their concerns. Given the significant impact stakeholders have on NSB and vice versa, it is essential to identify and communicate effectively with them. Connecting with our key stakeholders helps us to understand and address their concerns while balancing the distribution of value created.

We use the following criteria to prioritise individuals and organisations that have a stake in our Organisation:

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

Our key stakeholders are identified by mapping the stakeholders on the following matrix based on their level of interest in the Bank and their power to influence our operations. This annual ranking is important as we understand that stakeholder needs, interests, and expectations are dynamic, and therefore may change from time to time.

Figure 9

Stakeholder influence (LOW → HIGH) / *Stakeholder interest* (LOW → HIGH)

Align Engagement – Keep Satisfied

- Government and Regulators
- Suppliers

High Engagement – Key Players

- Customers
- Shareholders
- Employees

Low Engagement – Minimal Effort / Monitor

- Society and Environment

Medium Engagement - Keep Informed

Our stakeholder goals

Shareholder/ Investors	Customers	Employees	Regulators and Government institutions	Business partners	Society and environment
Sustainable growth in total returns	Provider of differentiated and relevant financial solutions	Employer of choice	Law abiding corporate citizen	Preferred business partner	Responsible corporate citizen

3. Defining the method of engagement and identifying their needs and expectations

Ranking and prioritising stakeholders enable the Bank to devise appropriate engagement plans including appropriate methods, levels, modes, and frequency of engagement.

We maintain a number of formal mechanisms to remain linked to our stakeholder groups. Continuous and systematic dialogue with our internal and external stakeholders is an important aspect in ascertaining key issues. We strive to engage in constructive, continuous, and detailed stakeholder dialogue to build and nurture long-lasting, mutually beneficial relationships with our stakeholders. There are various modes of communication to conduct dialogues with our key stakeholders. These include face-to-face conversations, conferences, and social media platforms. Their feedback helps us understand their expectations and concerns, thereby enabling us to develop effective strategies for value creation.

4. Monitoring and evaluating relationships

Properly assessing stakeholder relationships is critical and allows NSB to prioritise resources. This process enables us to ascertain the material matters to ensure that we reach our common goals in a sustainable manner.

A key focus going forward will be to assess the effectiveness of stakeholder engagements and relations through Key Performance Indicators (KPIs) that are linked to value creation and relationship quality. We will ensure this is measured accurately and consistently across the group. We report on the most material stakeholder concerns that impacted NSB in the FY 2021 (pages 70 to 75).

The value we create for stakeholders and our engagement with them

The following tables outline the stakeholder groups who have a substantive impact on our ability to create value, their contribution to value creation, our modes of engagement with them, and their key interests, concerns, and expectations based on our interactions.

The following is an assessment of relationship quality between us and our key stakeholder groups. This scale represents our internal assessment on the quality of these relationships.

★ Poor relationship	★★ Relationship established, but involves more work to improve relationship quality	★★★ Relationship established, is a value-generating connection but with room for improvement
★★★★ Good quality, is a mutually beneficial relationship with some room for improvement	★★★★★ Strong relationship of mutual benefit	
Improved from previous year	Declined from previous year	No change from previous year

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Shareholder/Investors

Composition

- Sole shareholder: the Government of Sri Lanka
- Bond holders

How we measure success

- Return on equity
- Income growth

Value shared

- Rs. 22.1 Bn. profit attributable to shareholder
- 3.71 net interest margin
- Rs. 3.7 Bn. Interest paid to bond holders

How the Shareholder/Investors create value for NSB

Our Shareholder and Investors provide the financial capital for long-term growth, and in meeting their expectations of value creation, we grow trust in our Bank, which strengthens our capital.

Interests, needs and expectations

- Long-term sustainable return on investment
- Trust and transparency
- Sound risk management and corporate governance practices
- Clear strategic direction and execution
- Consistency in delivering on our strategy
- Proper resource allocation in line with strategic objectives
- Financial and business performance due to COVID-19 impact

How we engage

- One to one meetings with representatives from the Ministry of Finance and other investors
- Our corporate website serves as a key information platform
- Annual and Interim Financial Statements
- Communicating long-term focus and strategy through our Annual Reports
- Participation at industry and investor conferences

Material matters

How NSB creates value for the Shareholder/Investors

- NSB provides a sustainable return on the investments of providers through dividend payments on equity, capital and interest payments on bonds, and interest payment on loans
- COVID-19 has weakened the economy and increased uncertainty. As such, we have increased our engagement with respective officials from the Ministry of Finance to ensure that customer requirements are fulfilled in a needy time in terms of service accessibility, debt moratorium, credit relief schemes, etc.
- Maintaining a strong balance sheet that contributes to a safe and stable banking system, instilling confidence, and protecting against downside risk

Reference

Financial capital on pages 96 to 113

Related capital

NSB's desired outcomes

- Equity capital infusion
- Access to debt markets
- Investor confidence
- Positive credit rating

Quality of relationship

Link to Sustainable Development Goals

Customers

Composition
- Individuals
- Institutions
- Corporates

How we measure success
- Market share
- Complaints management
- Customer base

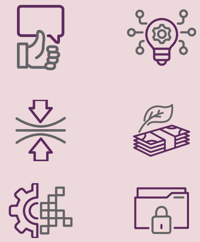
Value shared
- 21.8 million customer accounts
- Rs. 76.8 Bn. interest paid to depositors
- 32% growth in internet banking

How the Customers create value for NSB
- Customers underpin our existence and drive our reputation and brand.
- They consume the products and services from which we generate revenue.
- Customer requirements guide product or service development in terms of new trends.

Interests, needs and expectations
- Pricing of products and services
- Value-rich products and services
- Cheaper and more convenient banking services
- Improving banking experience and reliability of service
- Reducing delays, errors, and complexity in processes
- Timeous resolution of complaints and issues
- Safety for their money and investments
- Protection against fraud and safety of personal data
- Responsible banking services and solutions
- COVID-19 debt concessions and credit relief schemes
- Uninterrupted service and accessibility during lock-down periods
- Health and Safety at premises since the COVID-19 pandemic outbreak

How we engage
- Personal interaction through branches and divisions
- Operational issues are communicated through various platforms, including emails, the corporate website and phones
- Customer satisfaction ratings are obtained through surveys
- Information of products and services are spread through promotional campaigns, the corporate website, mass media, and social media
- Other communication channels include:
  - Call centres
  - Corporate events

Material matters



How NSB creates value for the Customers
- Safeguarding deposits and investments while increasing returns
- Launching efficient channels and providing cost-effective, convenient banking options
- Offering personalised and comprehensive financial solutions by understanding the needs of our customers
- Equipping and empowering our people to deliver an exceptional customer experience every time
- Increasing digitisation and innovation with a focus on safety
- Proactively responding to cybersecurity threats and ensuring customer privacy and security
- Maintaining the stability, security, and speed of our IT systems
- Contributing to financial inclusion through our products, delivery channels, and markets
- Increasing process efficiency and automation
- Increasing the capacity of our touch points and strengthening multi-channel delivery

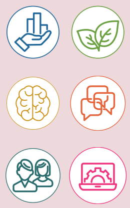
Reference
Building a loyal customer base on page 157

Augmenting our reach on page 124

Expanding our digital footprint on page 124

Enhancing our operational processes on page 125

Related capital



NSB's desired outcomes
- Fulfilment of customers' financial solutions/Effective financial solutions for customers
- Provide good customer experience
- Customer acquisition and Retention
- Increase in market share

Quality of relationship

Link to Sustainable Development Goals

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Employees

Composition

- Permanent employees
- Employees on contract basis
- Outsourced personnel
- Trade unions

How we measure success

- Retention ratio
- Employee engagement

Value shared

- Rs. 13 Bn. paid in wages and benefits
- 45% men and 55% women
- Enhancing our culture by focusing on embedding the right behaviours
- 42,553 hours of training

How the Employees create value for NSB

- Our employees facilitate the achievement of the Bank's strategy by driving the daily operations of our business.
- Our employees are fundamental to growing our brand and to the delivery of consistently high-quality service

Interests, needs and expectations

- Issues during COVID-19 include:
  – Health and well-being
  – Job rotation and remote working feasibility
  – Commute to and from work
  – Freeze of bonus, and promotions
  – Data accessibility
  – Business sustainability
  – Adequate safety measures
- Fair and market-related remuneration
- Recognition and reward for performance
- Career and personal development opportunities
- Need for two-way communication across multiple platforms
- Job security
- Freedom for collective bargaining
- Learning and development programmes
- A relationship of trust and transparency
- A non-discriminatory, positive, and safe work environment

How we engage

- One to one interaction between employees and managers
- Intranet and circulars
- Quarterly internal newsletters
- Staff meetings
- Performance reviews and exit interviews
- Welfare events and activities
- Recognised trade union participations
- Grievance handling mechanism

Material matters

How NSB creates value for the Employees

- During COVID-19
  - Increased communication through emails, intranet, and managers to keep employees motivated and engaged
  - Raised awareness campaigns on safety, health, and well-being
  - Communicated operational changes, policies, and protocols on matters such as working from home, travel, vulnerable employees and providing customer service without foregoing quality
  - Provided instructions/directions on how to help customers on the programmes/measures announced by the Government (Ex: Debt moratorium, relief packages)
- Competitive Remuneration in line with the collective bargaining
- Formalised induction and training programmes for new employees to become familiar with the Bank's culture and business
- Supporting and encouraging our employees to improve their skills and capabilities to remain relevant and encouraging internal career growth
- Providing learning and developments programmes to support capacity building for future needs and employee development
- Providing wellness programmes offering financial, physical, and mental support during employment and post-retirement
- Adhering to and complying with all laws and upholding human rights
- Resolving issues, grievances, or conflicts effectively with mutual trust and understanding

Reference

Human capital on pages 136 to 153

Related capital

NSB's desired outcomes

- Attracting and retaining talent
- An innovative and committed workforce
- Productive, efficient, and competent workforce
- Upholding ethics and professionalism

Quality of relationship

★★★★

Link to Sustainable Development Goals

Regulators and Government institutions

Composition
- Central Bank of Sri Lanka (CBSL)
- Ministry of Finance (MOF)
- Auditor General's Department
- Inland Revenue Department
- Other Government and Professional bodies

How we measure success
- Effective compliance with regulatory requirements and regulatory change
- Strong capital and liquidity levels
- Feedback on regulatory returns and inspections

Value shared
- Rs. 3.5 Bn. dividend paid to the Government
- Rs. 12.4 Bn. tax paid to the Government
- Zero tolerance for non-compliance

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

Interests, needs and expectations
- Compliance with all legal and regulatory requirements
- Opportunities for job creation and socio-economic development
- Protecting customer interests on service quality, costs, and privacy
- Sustained contribution to national tax base/ revenue
- Timely resolution of tax-related matters
- Contribution to local infrastructure through funding
- Active participation and contribution to industry and regulatory working groups
- Providing uninterrupted banking services to the public as an essential service even during the COVID-19 lockdown
- Channelling the benefits of monetary stimulus and COVID-19 relief packages announced by the Government to the people through banking business to revitalise the economy

How we engage
- Complying with laws, regulations, circulars, and directives
- One to one meetings and interactions with the Government and regulatory representatives
- Annual and Interim Financial Statements
- Participating in industry and public forums
- Responding to statutory examinations carried out by regulatory and Government institutions
- Engagement on draft regulations and directions
- Partnering on various social programmes

Material matters

How NSB creates value for the Regulators and Government institutions
- Investments in Government securities as required by the NSB Act supports the funding needs of the economy for economic and social development
- Contributing towards Government budgets through financial contributions such as dividend, tax, treasury fee, and special levies
- Enabling the Government's social and economic mandate of "Vistas of Prosperity and Splendour" through access to banking products and services (Ex: Financial Inclusion, Digital inclusion, increasing the economic and social contribution of women)
- Supporting local procurement and employment, while value adding to corporate social responsibility initiatives
- Enabling a safe and stable banking system by embracing sustainable banking practices and regulatory compliances
- Making essential banking services and Government's relief packages accessible to the public during the COVID-19 lockdown period, and contributing to the Government COVID-19 Fund

Reference
Strengthening regulatory compliance on pages 165 to 166

Supporting customers during COVID-19 on page 158

Related capital

NSB's desired outcomes
- Fair regulation or policies that encourage banking business

Quality of relationship
★★★★

Link to Sustainable Development Goals

Business partners

Composition

- Suppliers
- Utility service providers
- Other service providers
- Exchange houses
- Correspondent banks

How we measure success

- Quality of relationships
- Engagement with business partners

Value shared

- Rs. 1.3 Bn. spent on local procurement
- Rs. 0.5 Bn. procurement from IT vendors

How the Business partners create value for NSB

We create value-adding partnerships with our suppliers and business partners to deliver high-quality services to customers, while they in turn impact our ability to meet customers' expectations.

Training and support are provided where relevant.

Interests, needs and expectations

- Timeous payment and fair terms
- Transparency in procurement practices
- Adherence to terms and conditions of the agreement
- Supporting local procurement

How we engage

- Potential/new supplier introduction
- Having regular direct communication with major suppliers
- Tender processes
- Service level agreement and service delivery
- Business/Industry forums
- Ongoing site visits
- Meetings and presentations
- Annual reports
- Corporate websites
- Training sessions on products and services

Material matters

How NSB creates value for the Shareholder/Investors

- Generates revenue through their products and services to the Bank
- NSB provides a platform to make products available to the market and their brand is strengthened through association with the Bank
- NSB purchases products and services at fair terms to support local businesses
- Awards contracts within the minimum time period possible and ensures timely payments

Reference

Building strong relationship with business partners on pages 163 to 165

Related capital

NSB's desired outcomes

- Supporting local procurement, employment, and upliftment of small and medium enterprises

Quality of relationship

★★★★

Link to Sustainable Development Goals

12 RESPONSIBLE CONSUMPTION AND PRODUCTION
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
8 DECENT WORK AND ECONOMIC GROWTH
17 PARTNERSHIPS FOR THE GOALS

Society and environment

Composition

- Citizens of Sri Lanka
- The environment
- Media
- Opinion makers and influencers

How we measure success

- Contribution made towards the country's growth and sustainability through development activities, including contributions towards the SDGs
- Environmental risk management practices and sustainable finance
- Resource use and waste management

Value shared

- 16,529 m^3 reduction in consumption of water
- 277,328 kWh generation of electricity

How the Society and environment create value for NSB

Our communities drive our social licence to operate, and we have a responsibility to contribute to the socio-economic environment in which we operate.

Media, opinion makers, influencers, and forums can impact our operations.

Interests, needs and expectations

- Affordable products and services
- Access to banking and financial services and information
- Financial support
- Job creation and business opportunities
- Sustainability of bank and business
- Delivery of Global and national development goals
- Transparency on performance and governance
- Responsible investments and banking
- Providing financial assistance and continuous service during the COVID-19 pandemic

How we engage

- Community interaction in projects relating to education, health, low-carbon economy, and financial inclusion
- Corporate website
- Social media channels
- Advertorials, interviews, flyers, and notices
- Annual Reports and Financial statements

Material matters

How NSB creates value for the Society and environment

- Contributions towards transforming economies and society positively through our lending and transactional activities in line with SDGs
- Manage operations in a responsible way, taking social, economic, and environmental matters in to account and complying with the relevant regulations
- Implementing a number of projects focusing on education, skills development, health, and well-being transitioning to low carbon economy, and relevant selective sponsorships
- COVID-19 halted our corporate social responsibility projects, and we are seeking ways in which to revive them

Reference

Building thriving communities on pages 167 and 168

Building a more sustainable Bank on pages 52 to 55

Related capital

NSB's desired outcomes

- Good corporate citizen status
- Youth and women empowerment
- Partnerships with communities

Quality of relationship

★★★

Link to Sustainable Development Goals

11 SUSTAINABLE CITIES AND COMMUNITIES | 7 AFFORDABLE AND CLEAN ENERGY | 4 QUALITY EDUCATION | 3 GOOD HEALTH AND WELL-BEING | 17 PARTNERSHIPS FOR THE GOALS

Material matters

GRI 103-1, 2 and 3

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

We define our material themes as the factors that substantively affect our ability to create value for our stakeholders over time. We take an INTEGRATED THINKING approach to identify matters that could influence our ability to create value in the short, medium and long term. These matters inform our strategy to manage the risks and maximise the opportunities that present themselves. Collectively, these are grouped into seven themes that represent the megatrends identified in risks and opportunities section on pages 38 to 49 considered in our operating context. We have continuously improved the processes of identifying and integrating the material topics with the Bank's strategy.

The process of determining material themes is set out below:

Inputs

Review of the impact of the operating environment on our value creation	Review of our stakeholders' interests, needs and expectations	Review of risks which are most significant to the Bank's ability to achieve strategic objectives	Review of the key decisions of the Board and subcommittees	Other Inputs
(Pages 26 to 37 – Our operating environment)	(Pages 67 to 75 – Stakeholder engagement)	(Pages 38 to 49 – Risks and opportunities) (Pages 212 to 239 – Risk review)	(Pages 203 to 211– Board Subcommittee Reports)	Media Reviews Peer Reviews External/Research Publications

Identification

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

Prioritisation

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

Please refer the "Materiality Matrix" to understand how we prioritise our material matters

Integrate

The material matters are integrated into our strategy by contextualising into six strategic priorities guiding our integrated approach to strategic objectives.

These matters play an important role in our decision-making and value creation processes through the evaluation of trade-offs between our six capitals. We responded by evaluating their impact, formulating appropriate strategies to mitigate disruptions to value creation and capitalising on factors that generate greater value.

Assess

We track our performance against the strategy using identified Key Performance Areas (KPAs) and Key Performance Indicators (KPIs) to deliver on the strategic objectives.

Furthermore, the matters are continuously assessed and reviewed at our annual strategic planning workshop to ensure the relevance of our strategy.

Materiality matrix

The identified issues are plotted on a materiality matrix based on the level of stakeholder consideration, the extent of the impact on the viability of our business, relationship with stakeholders and the topic boundary. Our social, economic, and environmental aspects are categorised into three groups based on materiality.

The COVID-19 pandemic brought forth new material topics – the economic disruption, safety of our people, the resilience of our operations, the strength of our balance sheet, adapting to the new normal and the financial security of our customers and community.

Hence, considering the impact of the pandemic, we refreshed our materiality assessment in 2020 to reflect the current status. Accordingly, 15 new material issues were identified that have the potential to impact our operations and are of great importance to our stakeholders.

Even as the COVID-19 situation continues to evolve both locally and globally, new challenges and risks will emerge in the short to medium-term. The Board and the Management continue to actively monitor the situation and adapt our response to maintain our financial strength and ensure our customers and the community are supported through these unprecedented times.

Our material matters have been classified under seven megatrends that were identified under the operating context. GRI 102-47

An uncertain geopolitical and socio-economic environment	Social and economic impacts of COVID-19	Disruptive technologies and competition	Evolving customer requirements	Changes in demographic structure	Increased regulatory scrutiny	Climate change
Economic disruption	Business / operational resilience	Cyberthreat and information security	Cyberthreat and information security	Skills and capabilities	Financial crime	Environmentally resilient
Financial sustainability	Health and safety	Digital transformation	Digital transformation	Employee value proposition	Legal and regulatory compliance	
Managing market volatility	Adapting to the new normal	Customer service and experience	Customer service and experience			
			Innovation and agility			

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The material issues have been grouped under three main pillars

Figure 10

Strategic differentiators

These are value creating material matters significant to NSB's strategy, and have the highest potential to create value for stakeholders.

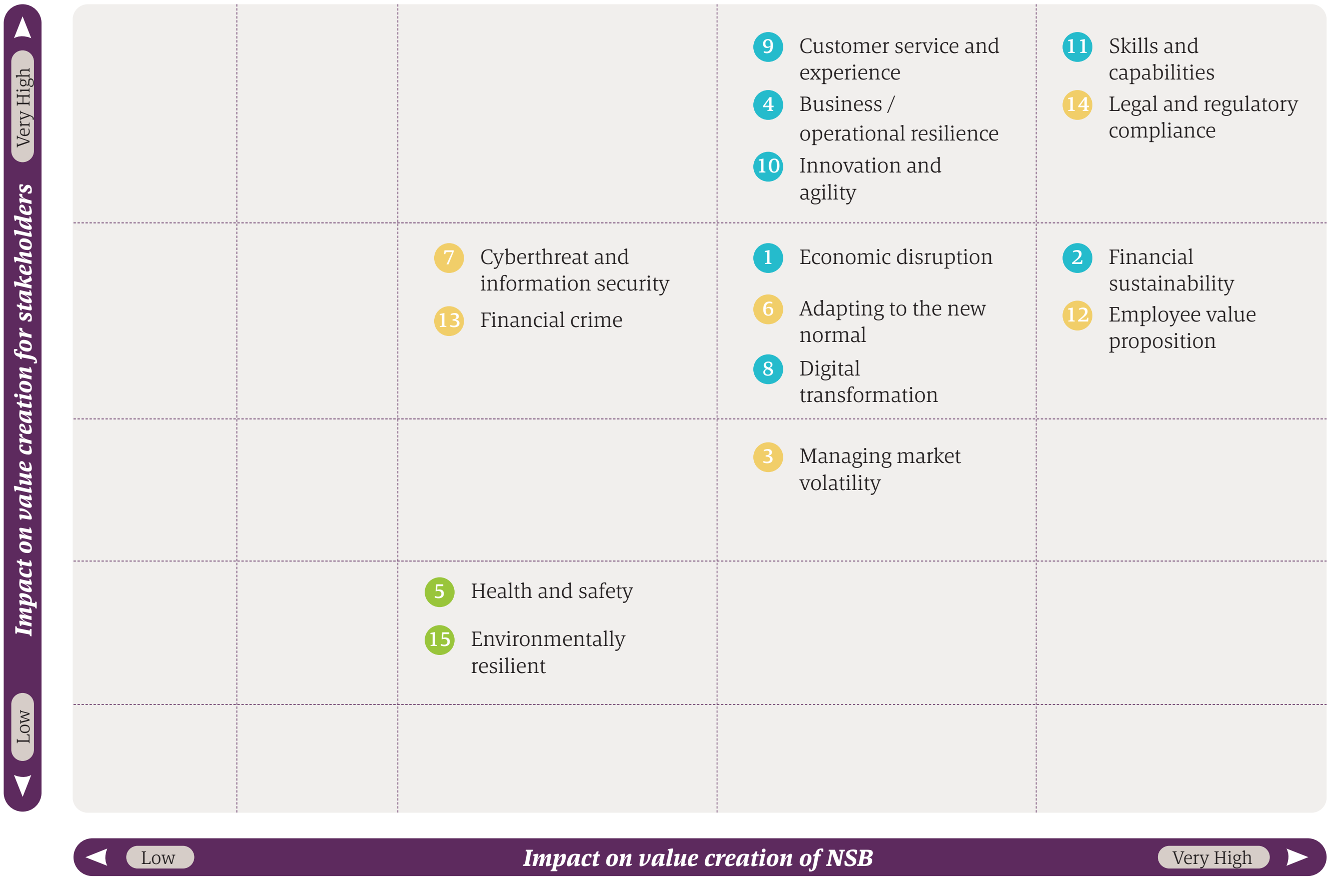
Fundamental value creators

These support value creation and implementation of NSB's strategy.

Other value-creating material matters

These enable NSB to create value, but their impact on the Bank's value creation is less material.

We have prioritised matters and plotted them on the materiality matrix below:



The following section describes the specific risks and opportunities within the material topics where the Board and the committees focus their efforts. It includes a blend of existing and emerging risks that could impact our ability to create value for our stakeholders or deliver our strategy over the short, medium and long term.

Risk categories: Financial, strategic, operational, credit, market, liquidity, reputational.

Time frame: For each key external factor, we indicate the time frame in which it will significantly impact the Bank. For this integrated report, short-term refers the ensuing financial year (ending 31 December 2022), medium-term, the period up to 31 December 2024, and the long-term, the period from December 2024 and beyond.

Year on year movement: Increased Emerging Stable Decreased

Material matters are divided/categorised under Economic, Environment and Social aspects.

These aspects define the heading on pages 79 to 93

Economic

Economic Disruption

Context/Description

Geopolitics and associated volatility, uncertainty, complexity and ambiguity create potential social and economic disruptions, with COVID-19 significantly altering the operating context, accelerating trends and highlighting structural issues.

Why it is material

Any major economic disruption could reduce the demand for our services and lower the spending power of our customers, affecting our profitability and cash flow generation.

Reasons for the increase

Factors such as low economic growth induced by COVID-19, high unemployment levels, currency volatility, rising liquidity pressure, increased social unrest, high administration costs, inflation and weakening macroeconomic fundamentals impede growth and investment, that may reduce the demand for lending, increase the cost of doing business and the potential for customer defaults.

Our response/approach

- Monitor local and global conditions, including the economy, sector-specific, regional and global political events
- Issue guidelines to minimise funding risks through the Financial Risk Management Framework
- Corporate planning and budgeting processes provide flexibility to adjust strategies and reprioritise capital
- Position the core portfolio to withstand prevailing conditions and adapt to potential scenarios
- Focused and selective investments aligned to strategic goals, supported by ongoing scenario planning
- Generate business development strategies to drive diversification and market development
- Maintain sufficient liquidity buffers to operate without accessing financial markets for a prolonged period

Year on year movement

Risk category

Financial, operational, market

Time frame

Short to medium-term

Capitals impacted

Impacted short to medium-term strategic priorities

Related stakeholders

Relevant GRI and boundary

- 201: Economic performance – within and outside
- 203: Indirect economic impacts – Outside

Impacted SDGs

8 DECENT WORK AND ECONOMIC GROWTH

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

11 SUSTAINABLE CITIES AND COMMUNITIES

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Economic

Financial sustainability

Context/Description

Preserving our financial strength and playing a counter-cyclical role during economic and financial turmoil.

Why it is material

Preserves our competitiveness and reliability through the delivery of an uninterrupted service, prudent risk management and maintaining a solid capital base. Financial sustainability helps to reduce the borrowing cost and extend affordable financing to our customers.

Reasons for the increase

- Lower than expected economic growth, both globally and locally
- Impact on revenue generation due to below-expected market growth
- Disruptions due to COVID-19
- Elevated credit exposure due to customer defaults and extension of concessions
- Limitations on revenue diversification and refinance risks
- Downgrading of the credit rating and its impact on debt financing

Our response/approach

- Maintaining a conservative capital adequacy position
- Sustainable cost-control measures
- Stringent budgeting, forecasting and scenario analysis processes
- Diversification of revenue streams through conservative portfolio diversification
- Credit risk assessment and integrity due diligence for all investments
- New business development initiatives to bridge the revenue generation deficit gap
- Continuous working capital management including management of debtors and creditors and close monitoring of customers with high credit risk exposures

Year on year movement

Risk category

Financial, market, credit

Time frame

Short to medium-term

Capitals impacted

Impacted short to medium-term strategic priorities

Related stakeholders

Relevant GRI and boundary

- 201: Economic performance – within and outside

Impacted SDGs

8 DECENT WORK AND ECONOMIC GROWTH
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
11 SUSTAINABLE CITIES AND COMMUNITIES
12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Economic

Managing market volatility

Context/Description

Unprecedented global events, including the pandemic and the associated economic lockdowns, altered the pricing of assets (exchange rates, interest rates, property and equity) over time.

Why it is material

- Financial volatility impacts the demand for credit, increase potential defaults and the availability and the cost of capital, even though the Government provided supportive measures through banks.
- These factors may impede our ability to achieve projected growth and liquidity levels and diminish the asset values.
- The portfolio of mortgage-backed securities affected due to the decline in real estate prices.
- Foreign exchange risk caused by volatility in exchange rates.

Reasons for increase

Increased volatility of asset prices is likely to impact the earning capacity of the assets due to repricing risk. The value of investments in the equity portfolio, fixed income portfolio (60% of our investments are in Government Securities) and money market portfolio has declined with refinancing risk.

Our response/approach

- Strengthening our balance sheet
- Prudent liquidity management through capital recycling, hedging, and diversification of funding sources
- Engaging with customers and offering relief measures introduced by the Government
- Maintaining a balanced portfolio

Year on year movement

Risk category

Financial, market, credit, liquidity

Time frame

Short to medium-term

Capitals impacted

Impacted short to medium-term strategic priorities

Related stakeholders

Relevant GRI and boundary

- 201: Economic performance – within

Impacted SDGs

8 DECENT WORK AND ECONOMIC GROWTH

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

10 REDUCED INEQUALITIES

11 SUSTAINABLE CITIES AND COMMUNITIES

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

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Social

Customer service and experience

Context/Description

Offering a unique customer value proposition consisting of innovative and effective customer solutions, and superior service quality with a strong commitment to business ethics, increase customer satisfaction and trust in the Bank.

Why it is material

Delivering an excellent customer service is essential to build trust and ensure financial strength and stability. Poor customer service and capacity constraints lead to strained customer relationships and loss of business. Remaining relevant by offering innovative and cost-effective products and solutions is essential to retain and acquire customers.

Reasons for increase

- Increased competition from diverse technology platforms that provide alternative communication services or different touchpoints
- Financial constraints on customers due to the pandemic and credit rating downgrades
- Operational constraints resulting from COVID-19
- Evolving customer requirements

Our response/approach

- Delivering an engaging customer experience by combining the best of technology and human interaction in a personal, speedy and simple manner.
- Developing insights into customer needs and behaviour patterns to provide tailored customer propositions and achieve market leadership in niche segments.
- Embedding a purpose-led culture by focusing on competitive differentiation through innovative product and service offerings that enable an inclusive digital society with the least environmental impact.
- Increasing investment in digital channels, smarter capital allocation, innovative tailor-made customer propositions and competitive pricing through new partnerships.
- Deepening customer relationships through innovative value propositions.
- Strategic focus on simplifying offering and accelerating digital transformation for an improved customer experience.

Year on year movement

Risk category

Strategic, reputational, operational

Time frame

- Short to long-term

Capitals impacted

Impacted short to medium-term strategic priorities

Related stakeholders

Relevant GRI and boundary

- 416: Customer health and safety – Outside
- 417: Marketing and labelling – Outside

Impacted SDGs

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
17 PARTNERSHIPS FOR THE GOALS

Social

Business/Operational resilience

Context/Description

Our ability to adapt to rapidly changing environments through the resilience of systems and processes and continue business operations even through unprecedented events.

Why it is material

The continuity and resilience of our operations are crucial to extend an uninterrupted customer service, uphold community trust and maintain our reputation. Operational resilience is ingrained to our strategic goals and to anticipate and navigate both operational and financial risks that emerge from increasingly complex and inter-connected business models.

Reasons for increase

The risk of potential disruption to our operations is currently elevated due to the emergence of COVID-19 clusters that could impact the safety of employees, disrupt operations and reduce productivity. There is uncertainty in the stability of global supply chains and their impacts and the increased frequency of natural disasters.

Our response/approach

- Monitoring the resilience of our systems through contingency planning.
- Operating a data centre, modernising our network and enhancing the security and resilience of our technology infrastructure.
- Driving greater agility and alignment in our stakeholder engagement to ensure effective mitigation of risks across the Bank.
- Implementing the required safety protocols to safeguard our employees and customers and facilitating efficient remote working arrangements for our staff.

Year on year movement

Risk category

Strategic, operational, reputational

Time frame

Short to long-term

Capitals impacted

Impacted short to medium-term strategic priorities

Related stakeholders

Relevant GRI and boundary

- 403: Occupational health and safety – within
- 418: Customer privacy – within

Impacted SDGs

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Social

Adapting to the new normal

Context/Description

Adapting our operations, culture and strategic execution to suit the changed business environment following the COVID-19 pandemic.

Why it is material

The pandemic continues to have wide-ranging impacts on our Bank, employees, customers, and the economy, creating unprecedented challenges to our business model, governance systems and financial viability. The pandemic has accelerated our transition to the new normal and has sharpened pre-existing challenges and vulnerabilities that need ongoing attention.

Reasons for satisfaction

- Return to normalcy amid business disruptions
- Emergence of new operational and remote working arrangements

Our response/approach

- Reassessment of the medium and long-term effects of the pandemic on our strategy and value preservation and creation.
- Continuous adaptation to a new remote working paradigm.
- Consolidating the new communication protocols established across the Bank.
- Adopting the required safety protocols to ensure the safety and well-being of our employees and customers.
- Refining operational practices to strengthen the resilience of the Bank through scenario planning, trend analysis and business continuity assessments (pages 112 to 140 for more details).

Year on year movement

Risk category

Strategic, operational

Time frame

Short to medium-term

Capitals impacted

Impacted short to medium-term strategic priorities

Related stakeholders

Relevant GRI and boundary

- 403: Occupational health and safety – within
- 404: Training and education – within
- 418: Customer privacy – within

Impacted SDGs

3 Good health and well-being
8 Decent work and economic growth
10 Reduced inequalities
12 Responsible consumption and production

Social

Digital transformation

Context/Description

Invest in digitalisation to deliver a superior customer experience by meeting the evolving needs of customers, transforming our processes and honing the digital skills of our employees. Furthermore, emerging technologies facilitate new entrants that are non-bank institutions to compete directly with banks.

Why it is material

- Adoption of emerging technologies enables to deliver sustainable growth, enhance service standards, improve the productivity of our employees and nurture a culture of innovation.
- Digitisation and automation require dedicated, highly-skilled talent that may be difficult to attract and retain.
- Although adoption of new technologies is a differentiator, a failure in digital transformation could result in business loss, budget overruns, poorer customer experience and reputational damage, that would adversely impact the Bank's financial performance.

Reasons for increase

- Obsolete ICT infrastructure and technology (inadequate network connectivity)
- Cybersecurity and later adoption to the fourth industrial revolution
- Funding constraints
- Delay in the automation of critical business processes
- Delayed commercialisation of digital solutions
- Remote working arrangements and increased demand for digital banking solutions

Our response/approach

- A key strategic pillar of the Bank is "Accelerating digital transformation". We strive to deliver the best digital banking experiences to our customers by ongoing investment in technology.
- Use data analytics to offer tailored banking solutions, seamlessly across multiple digital channels.
- Built a stable and sound digital infrastructure to offer digital solutions to customers. There is a significant increase in customer onboarding to our digital platforms.
- Our investments in digital businesses augment our core product offering.
- Modernise and simplify our systems and digitise our end-to-end process to reduce risks and costs, and to improve system availability and resilience.
- Adhere to the relevant national and international standards to assure the safety and security of our digital operations.
- Monitor emerging technologies, research and test the adoption of new innovative capabilities to maintain our technology leadership.
- Track our programmes against the objectives and target KPIs throughout the lifecycle of our projects, to mitigate new threats.

Year on year movement	Risk category	Time frame	Capitals impacted
↑	Strategic, operational, reputational	Short to medium-term	

Impacted short to medium-term strategic priorities

Related stakeholders

Relevant GRI and boundary

- 401: Employment – within
- 404: Training and education – within
- 413: Local communities – Outside
- 418: Customer privacy – Within

Impacted SDGs

9 Industry, innovation and infrastructure; 11 Sustainable cities and communities; 13 Climate action; 17 Partnerships for the goals

Social

Innovation and agility

Context/Description

Conceptualising, developing and implementing new products, services and processes to improve efficiency and swiftly adapt to change.

Why it is material

Innovation and agility are imperative for an organisation to remain relevant in a rapidly evolving operating context by continuously creating and refining customer-focused products.

Reasons for increase

Rapid advances in disruptive technology have the potential to disrupt traditional business models and create new markets. In such a milieu, adapting our operating model to respond to change enables us to stay relevant and improve customer experience, even though the stakeholder demands may be conflicting.

Our response/approach

- Adopting a self-disruptive approach by developing a culture of innovation.
- Leveraging emerging technologies for all our operations.
- Enhancing our operating model with sustainable innovations and stakeholder engagement channels.
- Analysing changing markets and customer behavioural trends using big data.
- Implementing flexible and innovative solutions that improve our resource efficiency and operational efficiency.

Year on year movement

Risk category

Strategic, operational, financial

Time frame

Short to medium-term

Capitals impacted

Impacted short to medium-term strategic priorities

Related stakeholders

Relevant GRI and boundary

- 401: Employment – within
- 413: Local communities – Outside
- 404: Training and education – within

Impacted SDGs

4 QUALITY EDUCATION
8 DECENT WORK AND ECONOMIC GROWTH
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
11 SUSTAINABLE CITIES AND COMMUNITIES

Social

Skills and capabilities

Context/Description

The emergence of new technologies, changing macroeconomic conditions and increased regulatory scrutiny have increased the need to have a team of employees with new and different skill sets, with deep banking experience to deliver for the stakeholders.

Why it is material

Our people are critical to our success, and our inability to attract or retain the right talent could hinder the delivery of our long-term goals. Attracting and retaining the needed skills have become more challenging due to intense competition from non-traditional players.

Reasons for increase

- Risk of inability to attract and retain the required skills and competencies to respond to fourth industrial revolution business model
- Impact on long-term business sustainability
- Impact on business operations and market growth
- Impact of COVID-19 on employee training, work arrangements and productivity

Our response/approach

- Targeted training programmes to develop our people across the board.
- Improving employee retention by offering career opportunities by recognising the expertise, potential and aspirations of our employees.
- Developing employee capabilities and equipping them with the required skills and tools to lead cultural and behavioural changes throughout the Bank.
- Reskilling and upskilling our people to make them future ready.
- Training and development initiatives tailored to specific roles and personal development needs of employees.
- Adopting virtual learning and training solutions.

Year on year movement

Risk category

Strategic, financial, operational, reputational

Time frame

Short to long-term

Capitals impacted

Impacted short to medium-term strategic priorities

Related stakeholders

Relevant GRI and boundary

- 401: Employment – within
- 404: Training and education – within

Impacted SDGs

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Social

Employee value proposition

Context/Description

Include risks associated with our ability to extend an attractive employee value proposition that facilitates attraction and retention of skills for current and future business requirements, maintain a high-performance culture anchored in our values and ethics, maintain a high employee engagement and high productivity, ensure inclusion and diversity, manage organisational change and facilitate good labour relations.

Why it is material

Developing a winning team is imperative to create shared value and the efficient execution of our strategic plans to achieve corporate objectives.

Reasons for increase

- Adopting a holistic approach to employee well-being from psychological, physical, spiritual, intellectual, and financial perspectives (Increasing need for mental health, flexible working models, work-life balance, stress management to non-traditional forms of wellness, mindfulness or financial well-being)
- Increase in remote and flexible work arrangements in the post-pandemic new normal
- Need for culture transformation and change management

Our response/approach

- Continuous investment in our value proposition through the offer of competitive remuneration, rewards and benefits and employee well-being programmes.
- Nurturing an inclusive and diverse workforce.
- Ongoing review of our remuneration framework to drive employee engagement.
- Workforce planning to assess the resources and skills needed in the long-term and improve gender and age representation.
- Strengthening our culture and remuneration frameworks.
- Proactive engagement with organised labour.

Year on year movement

Risk category

Strategic, operational

Time frame

Short to long-term

Capitals impacted

Impacted short to medium-term strategic priorities

Related stakeholders

Relevant GRI and boundary

- 401: Employment – Within
- 413: Local communities – Outside
- 404: Training and education – Within
- 407: Freedom of association and collective bargaining – Within
- 405: Diversity and equal opportunity – Within
- 203: Indirect economic impacts – Outside

Impacted SDGs

4 QUALITY EDUCATION
5 GENDER EQUALITY
8 DECENT WORK AND ECONOMIC GROWTH
11 SUSTAINABLE CITIES AND COMMUNITIES

Social

Health and safety

Context/Description

Create a safe and healthy working environment for employees that assures their physical, mental and social well-being.

Why it is material

- Nurturing a safe and healthy workplace is imperative to improve employee well-being, job satisfaction and enhance employee motivation leading to high performance.
- Maintaining essential banking services to meet the surge in customer demand, especially following the pandemic.

Reasons for increase

- Impact of COVID-19 on workforce availability and operational performance
- Impact on employees having to face unprecedented challenges and isolation due to COVID-19 related lockdowns without a proper remote working management strategy
- Lack of adequate assessment of the impact of the pandemic on people
- Increase in mental fatigue and poor work-life balance due to remote working

Our response/approach

- Our branches and offices swiftly adopted safety protocols to keep our people and customers safe.
- Operationalised the new safety guidelines and work arrangements.
- Adhered to all Government regulations related to COVID-19.
- Branch interiors were organised to improve health and safety.
- Enhanced facilities management to improve working conditions.
- Strengthened safety aspects and environmental governance.

Year on year movement

Risk category

Strategic, operational

Time frame

Short to long-term

Capitals impacted

Impacted short to medium-term strategic priorities

Related stakeholders

Relevant GRI and boundary

- 404: Training and education – within
- 403: Occupational health and safety - within

Impacted SDGs

Social

Cyberthreat and information security

Context/Description

A breach in cybersecurity poses a threat to our reputation and our ability to maintain operations.

Why it is material

- The increasing sophistication of hackers, digitalisation of banking services and automation of business processes have made cybersecurity a high priority.
- Disruption of banking services and loss of confidential data due to cyberattacks could cause significant damage to the Bank's reputation resulting in loss of customer confidence and poor regulatory outcomes.

Reasons for increase

Bank's information security risk has increased following COVID-19 due to the emergence of new technologies, increased use of digital channels, remote working arrangements and the sophistication of cyberattacks. Furthermore, cyberattacks have the potential to destabilise the financial system.

Our response/approach

- Continually strengthened our security controls.
- Increased focus on detection and monitoring, security configuration and vulnerability management.
- Collaborated with relevant organisations to strengthen our system resilience, minimise the probability of cyberattacks and mitigate the impact of fraud and scams on the community.
- Strengthened our data management framework to ensure the quality and integrity of data.
- Continued to create cybersecurity awareness, prevention and security best practices as part of our culture.

Year on year movement

Risk category

Operational, reputational,

Time frame

Short to long-term

Capitals impacted

Impacted short to medium-term strategic priorities

Related stakeholders

Relevant GRI and boundary

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

Impacted SDGs

8 DECENT WORK AND ECONOMIC GROWTH

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Social

Legal and regulatory compliance

Context/Description

Keeping abreast of relevant and emerging legislation in the current regulatory landscape which is changing at an unprecedented rate, to ensure associated risks are well understood and controls are embedded to Bank's business model.

Why it is material

We need to comply with numerous local and international regulations and applicable industry regulations. Sound governance and compliance are central to our business reputation and licence to operate. However, regulatory and policy developments remain a challenge across our markets, as the regulatory landscape continues to evolve at an unprecedented pace with increasingly stringent requirements.

Reasons for increase

- Rapid changes in the regulatory environment impact the cost of operations
- Increased regulatory and compliance requirements following COVID-19
- Non-compliance lead to financial and non-financial sanctions, which impact our sustainability as a going concern
- Failure to comply with applicable laws and regulations lead to reputational damage, financial penalties and/or suspension of our license to operate

Our response/approach

- Ensured a robust governance process and strong management of regulatory compliance across the Bank.
- Dedicated risk management and Compliance Departments to provide oversight to compliance.
- Maintained proactive relations with the Government and regulators.
- Participated in compliance forums through invitation.
- Designated legal teams and a robust compliance framework.
- Training and awareness programmes to educate staff on areas of compliance and ethical culture.
- Ongoing monitoring of regulatory and compliance requirements related to COVID-19.

Year on year movement

Risk category

Operational, reputational

Time frame

Short to long-term

Capitals impacted

Impacted short to medium-term strategic priorities

Related stakeholders

Relevant GRI and boundary

- 404: Training and education – within

Impacted SDGs

8 DECENT WORK AND ECONOMIC GROWTH

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Economic

Financial crime

Context/Description

Banks play a critical role in combating financial crime (bribery, corruption, fraud, anti-money laundering, terrorist financing) and protecting the integrity of the financial system.

Why it is material

Failure to detect or prevent financial crimes can have a significant impact on our customers and the community whilst being subject to material fines and penalties. The risk of financial crime has escalated due to the availability of financial support and the increase in vulnerable segments and businesses.

Reasons for increase

- Rapid changes in technological advancements
- Digital crimes

Our response/approach

- Comprehensive financial crime policies and procedures.
- Investment in new technology including enhanced transaction monitoring systems and processes to detect financial crime.
- Establishing processes to improve customer data integrity through core systems.
- Revision of the anti-bribery and corruption policy and standards, development of new tools and their implementation.
- Augmented the specialised financial crime compliance team and strengthened financial crime compliance education and staff training.

Year on year movement

Risk category

Operational, reputational, market

Time frame

Short to long-term

Capitals impacted

Impacted short to medium-term strategic priorities

Related stakeholders

Relevant GRI and boundary

- 205: Anti-corruption – within and outside
- 206: Anti-competitive behaviour – within and outside

Impacted SDGs

8 DECENT WORK AND ECONOMIC GROWTH

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Environment

Environmentally resilient

Context/Description

Contribute towards a low-carbon economy by reducing our ecological footprint and protecting our planet to ensure long-term sustainable value creation.

Why it is material

Preserving the planet and creating positive long-term outcomes for our stakeholders in our daily operations is essential for the long-term sustainability of the Bank. The interconnected and lasting impacts of climate change are placing pressure to minimise our environmental impact and ensure the relevance of our future operating model, as customers shift towards reducing their carbon impact.

Reasons for increase

Environmental challenges pose financial risks to customers and our business by causing damages to property and assets. Bank's assets include collaterals or investments that could become impaired due to physical damage or misalignment with policy or community expectations. The transition to a low carbon economy creates new opportunities for the Bank.

Our response/approach

- Implemented a policy framework considering environmental, social and governance (ESG) issues.
- Developing strategic responses to climate change by strengthening our due diligence processes, assessing our product range, and building internal and customer capabilities to support the transition to a low carbon economy.
- Ongoing engagement to understand stakeholder needs and concerns in investing in green technology.
- Prudent management of our resources focused on water, energy and waste management.
- Aligning our objectives with the Government and United Nations Sustainability Development Goals.

Year on year movement

Risk category

Strategic, operational, reputational

Time frame

Short to long-term

Capitals impacted

Impacted short to medium-term strategic priorities

Related stakeholders

Relevant GRI and boundary

- 302: Energy – within and outside
- 303: Water – within and outside
- 203: Indirect economic impacts – Outside

Impacted SDGs

6 CLEAN WATER AND SANITATION

7 AFFORDABLE AND CLEAN ENERGY

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

13 CLIMATE ACTION

14 LIFE BELOW WATER

15 LIFE ON LAND

17 PARTNERSHIPS FOR THE GOALS

95

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Financial capital

What it includes

Also known as "capital" or "equity", financial capital is an economic resource that is measured in terms of money, credit, and other forms of funding that build the wealth of a business and create value its stakeholders.

Sustainable value creation through financial capital

Our approach

We believe that the way we manage and utilise our financial capital is fundamental to our ability to create sustained value for our stakeholders. Hence, we are guided by financial principles that look to cost-effective, yet sustainable and responsible funding, as these are key to our success.

We have diverse revenue streams, follow stringent cost management and optimisation, uphold efficient structured funding, target asset returns that are equal to or higher than risk, and maintain credit rating. Added to this are our sound KPIs and ability to efficiently manage our total cost of capital, which makes significant contributions to our sustainability and ability to expand our distributable income-earning asset base.

These processes ensure that we are able to grant loans, fund our projects, build/acquire manufactured assets, invest in training and technology, and give back to the community.

Key inputs

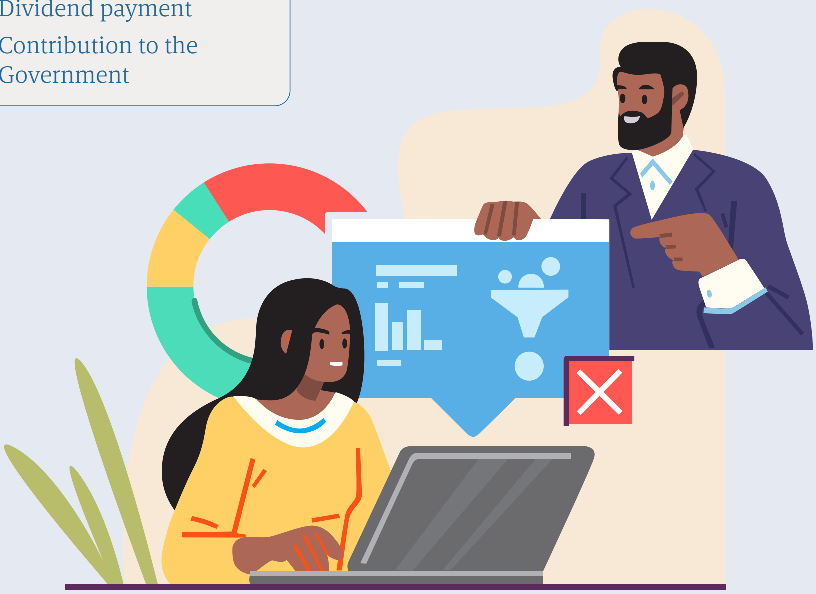
- Cash and cash equivalents
- Share capital and reserves
- Deposits from customers
- Long- and short-term borrowings

Key outputs

- Operating profit before tax
- Profit after tax
- Capital
- Gearing
- Capital investment
- Dividend payment
- Contribution to the Government

Strategies to enhance value

- A funding strategy determined by strategic priorities
- Capital investments which consider social and environmental factors when yielding financial results
- Maintaining financial stability and strength



What financial capital means to NSB

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

Value created

- Financial returns for:
  - Bank Shareholder Providers of capital
- Economic value created for:
  - Broader stakeholders Sri Lankan economy

Key challenges in 2021

- Slowdown in growth of credit to the private sector
- Economic slowdown
- Regulatory pressures on capital
- High trade-offs between income generated from mandatory investment in Government Securities and disbursement in loans and advances
- Growing low-cost funding
- Increased taxes

Key opportunities in 2021

Monetary policies targeted at:

- Reducing funding costs
- Inducing credit growth
- Improving profitability

Material matters

Related stakeholders

Short to medium-term strategic priorities

Scorecard

Strategic performance

Interest income growth	Interest income	Cost-to-income ratio
↑ 7.3%	↑ Rs. 131.4 Bn.	↑ 33.29%
2020 – 3.1%	2020 – Rs. 122.5 Bn.	2020 – 39.28%

Value for shareholder

Return on equity	Dividend per share
↑ 33.92%	↑ Rs. 3.72
2020 – 20.15%	2020 – Rs. 1.06

Growth in deposits and loans

Loans and advances (Net increase)	Deposits mobilised
↓ Rs. 22.1 Bn.	↓ Rs. 192.6 Bn.
2020 – Rs. 62.4 Bn.	2020 – Rs. 221.9 Bn.

Elevated risk profile

Provision coverage ratio (Stage 3)	NPL ratio
↑ 32%	↑ 2.97%
2020 – 30.38%	2020 – 2.79%

Strong capital and liquidity

Total CAR	All currency LCR
↑ 20.83%	↓ 240.43%
2020 – 16.45%	2020 – 307.22%

Linkage to other capitals

Investing in training and developments increases employee skills and efficiency

Funding initiatives to develop brand image and employee abilities creates strong intellectual capital

Supporting CSR activities strengthen ties between the Bank and the community, whilst investing in both physical and digital infrastructure creates strong customer ties and enable efficient supplier networks

Financially supporting sustainability initiatives reduces the Bank's carbon footprint

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

Contribution to SDGs

Investing in training and development to provide employees with education and equal opportunities that will bring about economic development and better living standards in the community

Supporting innovation in products and services through funding both digital and physical infrastructure.

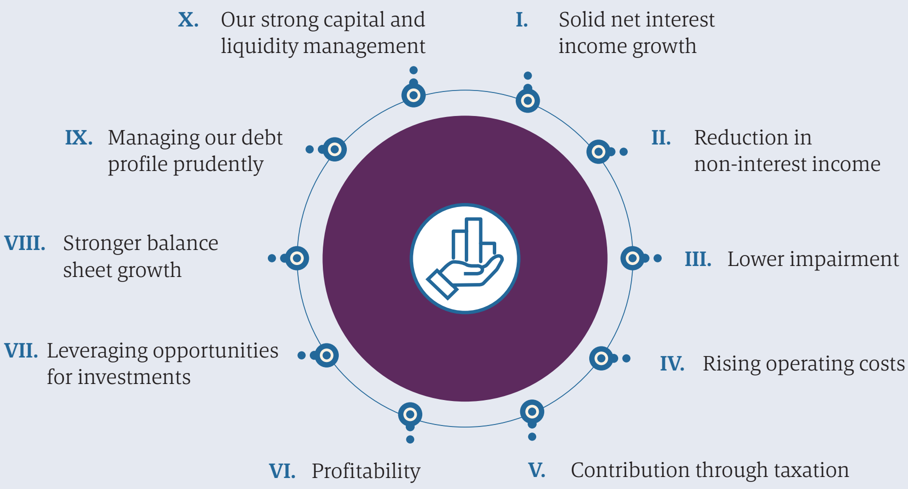
Trade-offs

	S	M	L	S	M	L	S	M	L	S	M	L	S	M	L	S	M	L
Capital investment in expanding physical and digital infrastructure																		
Investment spent	Decrease	Increase	Increase	Preservation	Preservation	Decrease	Increase	Increase	Increase	Increase	Increase	Increase	Preservation	Increase	Increase	Preservation	Increase	Increase
New equipment and systems	Decrease	Increase	Increase	Preservation	Preservation	Decrease	Increase	Increase	Increase	Increase	Increase	Increase	Preservation	Increase	Increase			
Waste/Natural resources used in digital initiatives																Decrease	Increase	Increase
Customer experience and service satisfaction													Preservation	Increase	Increase			
Investment in personnel cost																		
Investment spent	Decrease	Preservation	Preservation	Increase	Increase	Increase	Increase	Increase	Increase									
Employee competency pool	Decrease	Preservation	Preservation	Increase	Increase	Increase	Increase	Increase	Increase									
Employee engagement and loyalty				Increase	Increase	Increase												
Investment in skills development																		
Investment spent	Decrease	Increase	Increase	Increase	Increase	Increase	Increase	Increase	Increase					Increase	Increase			
Human productivity	Decrease	Increase	Increase	Increase	Increase	Increase								Increase	Increase			
More empowered and competent people	Decrease	Increase	Increase	Increase	Increase	Increase	Increase	Increase	Increase					Increase	Increase			
Innovation in products and services and ways of doing work	Decrease	Increase	Increase	Increase	Increase	Increase								Increase	Increase			
Investment in community development projects																		
Investment spent	Decrease												Increase	Increase	Increase			
Social development and reputational goodwill	Decrease												Increase	Increase	Increase			
Positive impact on environment																Increase	Increase	Increase

S – Short-term M – Medium-term L – Long-term Increase – Value increase Decrease – Value decrease Preservation – Value preservation

Drivers of Sustainable Value Creation (DSVC)

Figure 11



Direct economic value generated and distributed GRI 201-1

Table 5

	2021 Rs. Mn.	2020 Rs. Mn.
Direct economic value generated to:	**134,939**	127,547
Operating expenses	**10,297**	10,207
Depositors	**76,809**	87,622
Employees	**12,970**	9,967
Providers of capital	**3,500**	1,000
Government (excluding dividends)	**12,965**	9,745
Direct economic value retained	**18,398**	9,007
Direct economic value distributed	**116,541**	118,540

Summarised statement of income

Table 6

	2021 Rs. Mn.	2020 Rs. Mn.	2019 Rs. Mn.	(2021 vs 2020) YoY change of percentage
A Net interest income	**54,629.6**	34,890.2	28,832.0	56.6
B Net non-interest income	**3,293.5**	4,880.5	3,067.3	(32.5)
Total operating income	**57,923.1**	39,770.7	31,899.3	45.6
C Impairment charges	**4,304.4**	4,873.8	565.5	(11.7)
Net operating income	**53,618.6**	34,896.9	31,333.8	53.6
D Operating expenses	**19,074.9**	15,465.6	15,674.9	23.3
Operating profit	**34,543.8**	19,431.3	15,658.9	77.8
E Tax on financial services	**6,162.4**	3,786.7	5,197.2	62.7
F Profit before income tax	**28,381.4**	15,644.6	10,461.6	81.4
Income tax expenses	**6,261.8**	5,536.7	4,080.5	13.1
F Profit for the year	**22,119.6**	10,107.9	6,381.2	118.8

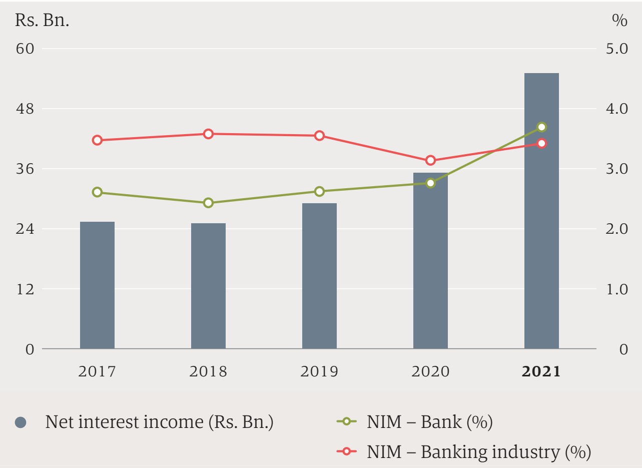
A. Solid net interest income growth (DSVC 1)

Interest income grew by 7.3% to Rs. 131.4 Bn. in 2021 over Rs. 122.5 Bn. recorded in 2020. This was supported by the 17.0% increase in investment in debt and other instruments such as Government Securities, debentures, and corporate debt instruments despite the 6.8% decline in interest income from loans and advances compared to the same period last year. Despite customer deposits growing by 15.5% in the year, interest expenses declined by 12.3% to Rs. 76.8 Bn. during the year under review against Rs. 87.6 Bn. reported in 2020. This could be mainly attributed to the lower interest rate regime that prevailed, the lower borrowing levels and the redemption of the Rs. 6.0 Bn. debenture.

Surge in interest income combined with reduction in interest expenses resulted in the net interest income growing significantly by 56.6% to Rs. 54.6 Bn. compared to the Rs. 34.9 Bn. reported in 2020. Due to 15.4% growth witnessed in interest earning assets recorded at Rs. 1,510.0 Bn. along with the exceptional increase in net interest income (NII), net interest margin (NIM) (net interest income as a percentage of average total assets) improved to 3.71% at the end of 2021 against 2.77% reported in 2020.

Graph 7

Net interest income and net interest margin



Impact of debt moratorium and deferment

The Bank provided debt moratorium and payment deferment to all customers except for those who declined the offers. The moratorium has been given:

- At the concessionary rate of 7.0%
- The moratorium period varied from two months to six months
- Deferred interest receivables from the customers will be collected at the end of the loan period
- In a very limited scenario, it has been extended beyond six months

While the Bank could have earned Rs. 4.8 Bn. during 2020 if interest had been collected at the contractual rate, the 7% concessionary rate has resulted in Rs. 2.6 Bn. interest income on accrual basis, with agreement to collect at the end of loan tenor. Accordingly, the Bank further incurred a Day One Loss on interest income of Rs. 1.4 Bn. in 2020. In aggregate, the Bank incurred a total loss of Rs. 3.6 Bn. due to moratorium imposed by the CBSL in 2020.

During 2021, the Bank recognised Rs. 288.4 Mn. interest income from deferred Day One Loss of Rs. 1,391 Mn. and deferred Day One Loss was recorded as Rs. 867.6 Mn. as at 31 December 2021. This was due to timing difference and early payments by customers.

Outlook	Key risks
As CBSL is expected to increase interest rates to combat inflationary pressures, NIM may see a squeeze due to the effect of interest expense increasing at higher magnitude than interest income.	Interest expense increases at higher magnitude compared to the increase in interest income due to repricing of lending and Government Securities portfolio at a slower pace compared to the deposits. Reduced NIM may directly have an impact on overall CAR and internally generated capital for investments and expansions.

B. Reduction in non-interest income (DSVC II)

Non-interest income include net fee and commission-based income, net gain or loss from trading activities, net gain or loss due to fair value changes in financial investments, other operating income such as gain/loss arising from sale of property, plant and equipment, gains and losses arising from changes in exchange rates, and dividend income.

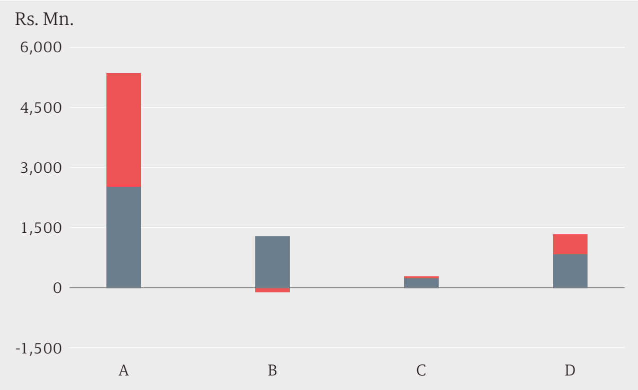
As a result of granting new loans as well as early settlement of existing loans, coupled with rapid growth in issuance of cards as well as increased transactions using cards, net fee and commission-based income rose by 11.2% to Rs. 2.8 Bn. against Rs. 2.6 Bn. reported during 2020.

On the other hand, mark-to-market gains/(losses) from trading portfolio recorded a loss of Rs. 96.2 Mn. compared to the gain of Rs. 1.3 Bn. recorded in 2020, primarily driven by rising interest rates leading to a reduction in prices of fixed income securities. Fixed income securities which recorded a loss of Rs. 900 Mn. against the gain of Rs. 578 Mn. reported in the same period last year has predominantly contributed to the loss of trading portfolio.

Losses arising from revaluation of foreign exchange and decline in dividend income were the main reasons for the 36% decline in net other operating income.

Graph 8

Analysis of non-interest income



Outlook	Key risks
Due to weak macroeconomic outlook, non-interest income may likely to remain low and grow at lower rate.	Low business confidence, low disposable income, exchange rate depreciation, high inflation, increase of building material prices, downturn of construction sector, interest rate increase, and impact on new borrowings, lower GDP growth have adverse impact on banking sector. For further details "Operating environment" on pages 26 to 37.

C. Lower impairment (DSVC III)

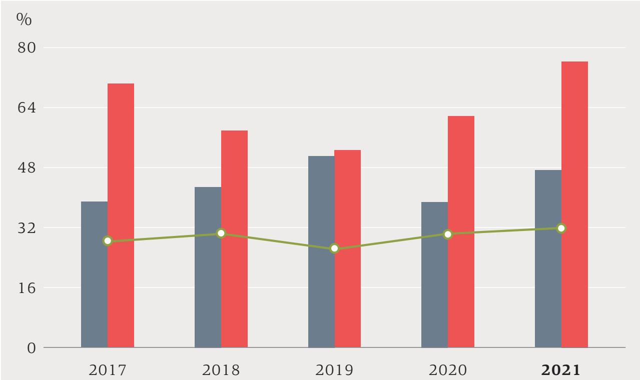
Reflecting the stress on the quality of the loan book, non-performing advances (NPA to gross loans) ratio deteriorated by 18bps to 2.97% at the end of 2021, compared to 2.79% reported at the end of 2020. This was mainly caused by the significant increase in non-performing loans in the corporate loan portfolio. Meanwhile, the NPL of the retail lending products declined owing to improvements in the loan approval process and recovery actions.

When calculating the impairment charge, the Bank followed a very prudent approach in 2021 by considering the higher provision already made during 2020 and 2019 with regard to corporate as well retail lending. Adverse impacts were expected on the credit quality triggered by uncertainty stemming from COVID-19 where the total NPA portfolio soar by 101.4% over the value reported in 2019. However, the Bank did not need to increase the impairment provision during the current period at a higher scale as it did in 2020 since the growth of NPA portfolio was Rs. 1.75 Bn. (12.4%) against the value reported in the year 2020. Consequently, positive inflows in the retail lending portfolio during 2021 brought the impairment charges down. As a result, the impairment charges for the year declined by 11.7% to Rs. 4.3 Bn. compared to higher impairment charges of Rs. 4.9 Bn. during the previous year. In 2021, the Bank recognised Rs. 3 Bn. against loans and advances and Rs. 1.3 Bn. against other financial instruments.

The provision coverage ratio – including both specific and general provisions – surged to 46.9% in 2021 against 38.6% in 2020 with the view to ensure that adequate provisions were made to capture the impact of the sluggish economic conditions prevalent in 2021 while the provision coverage ratio of the banking industry increased 75.7% from 61.3% reported in 2020. Stage 3 provision coverage ratio, which is Stage 3 impairment charge against Stage 3 loan exposure increased to 32.0% from 30.4% reported in the year 2020.

Graph 9

Provision coverage



Outlook	Key risks
The Bank will continue to place greater focus on collections and recovery processes to mitigate the impact of impairment charges on its profitability, making adequate provision after carefully reviewing the macroeconomic conditions at global and local level.	Pressure on Bank customers due to sustained COVID-19 impacts on the economy including salary reductions unemployment and increase in retail prices lead to reduction in repayment and borrowing capacity of the customers

D. Rising operating costs (DSVC IV)

Operating expenses comprising personnel cost, depreciation and amortisation, and other overhead expenses soared to Rs. 19.1 Bn. in 2021 from Rs. 15.5 Bn. in 2020, reflecting a rise of 23.3% despite various cost savings strategies and initiatives.

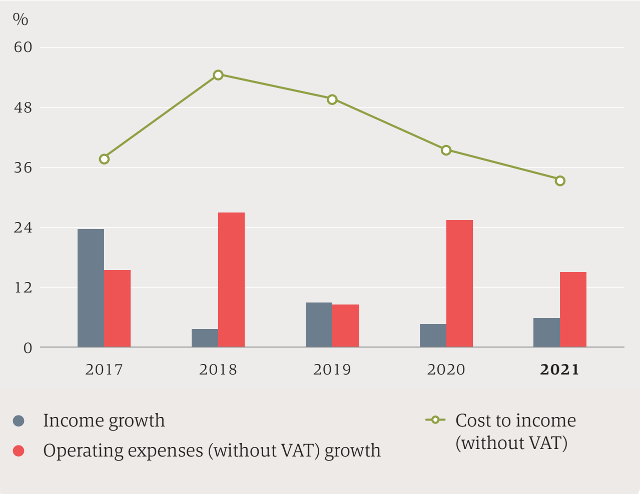
Personnel expenses – accounting for 68.0% of the operating expenses alone – increased to Rs. 13.0 Bn., up by 30.1% against the Rs. 10.0 Bn. reported in 2020 following the successful implementation of collective agreement on salary increase which came into effect from 1 January 2021.

Depreciation and amortisation expenses representing 7.3% of operating expenses surged by 11.7% to Rs. 1.4 Bn. against the Rs. 1.2 Bn. of the previous year. This was mainly due to investments made in new IT infrastructure to enhance digital customer experience while strengthening cybersecurity.

Other operating expenses including administration and establishment expenses and Directors' emoluments increased by 10.8% to Rs. 4.7 Bn. during 2021. Nevertheless, on the back of the growth in the income base, the Bank's cost to income ratio (without taxes) closed at 33.3%, notably lower than the 39.3% of 2020 as well as the banking industry of 48.1%.

Graph 10

Cost and income growth



Outlook

Expenses are expected to hike to double digits amidst hiking inflation scenarios. The Bank will continue its strong focus on cost management through streamlining the processes, automations, sustainable management practices, and resource conservation.

Key risks

Balancing the suppression of costs while maintaining investments in Systems, IT infrastructure, and digitalisation.

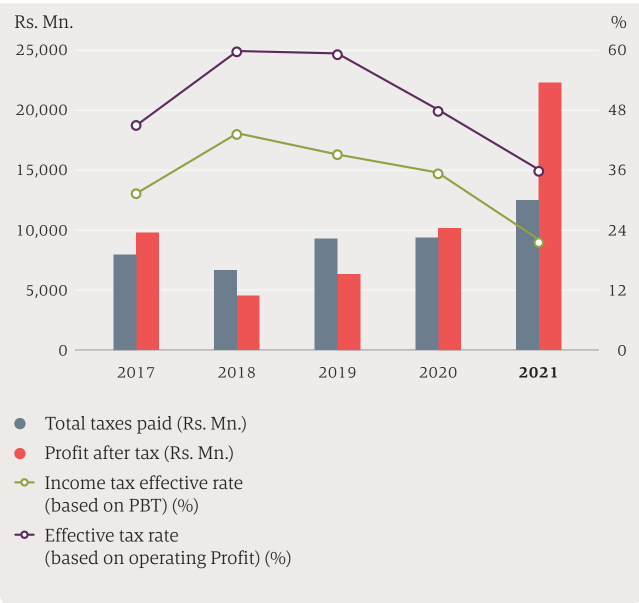
E. Contribution through taxation (DSVC V)

During the year, the Bank's contribution to the nation via taxes was Rs. 12.4 Bn. compared to Rs. 9.3 Bn. in 2020. Total taxes include Income Tax and Value Added Tax (VAT) on financial services. In line with the top line growth, income tax was Rs. 6.3 Bn. for the year, up by 13.1% over the Rs. 5.5 Bn. recorded during 2020, while value added tax (VAT) on financial services also hiked up by 62.7% to Rs. 6.2 Bn. during the year under review compared to Rs. 3.8 Bn. reported in 2020.

The total effective tax rate for 2021 decreased to 22.1% in 2021 from the 35.4% clocked in last year, as the income tax rate reduced to 24% from 28% as well as due to reversals of excess provisions (net) from previous years amounting to Rs. 771 Mn.

Graph 11

Tax impact on profitability



Outlook

Tax expenses are expected to rise on the back of the macroeconomic outlook.

Key risks

Low business confidence, low disposable income, exchange rate depreciation, high inflation, increase in interest rates have overall adverse impact on the banking industry.

For further details "operating environment" on pages 26 to 37.

F. Profitability (DSVC VI)

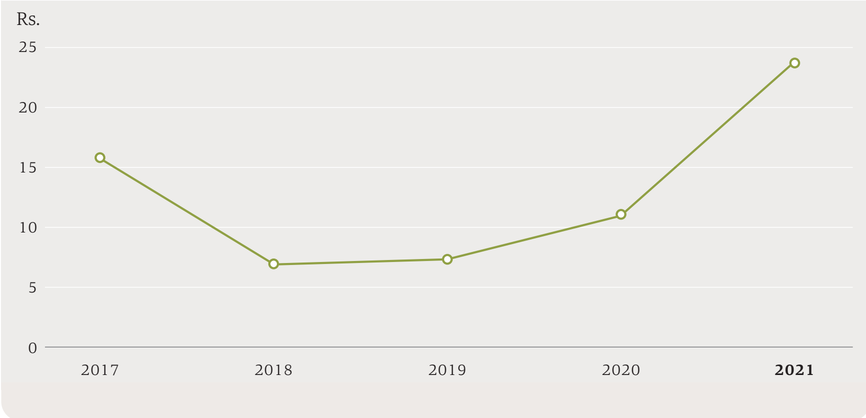
The Bank recorded a profit before tax of Rs. 28.4 Bn. for the year under review, growing by 81.4% from Rs. 15.6 Bn. reported in 2020 mainly driven by the reduction in interest expenses. The Bank posted noteworthy results against the backdrop of the COVID-19 impact on economic activities by registering Rs. 22.1 Bn. profit after tax compared to Rs. 10.1 Bn. recorded in 2020, a growth of 118.8%. Earnings per ordinary share also increased to Rs. 23.53 in 2021 from Rs. 10.75 in 2020.

In line with Bank's performance, the return on equity (ROE) improved to 33.92% as of 31 December 2021 from 20.15% as at the end of 2020. Similarly, return on assets (ROA) also increased to 1.93% at the end of 2021 against 1.24% reported a year ago.

We consider our profit after tax as an appropriate indicator of the sustainable operating performance of the Bank. The graph below summarises the factors that derive the earnings performance of 2021.

Graph 12

Earnings per share



Outlook

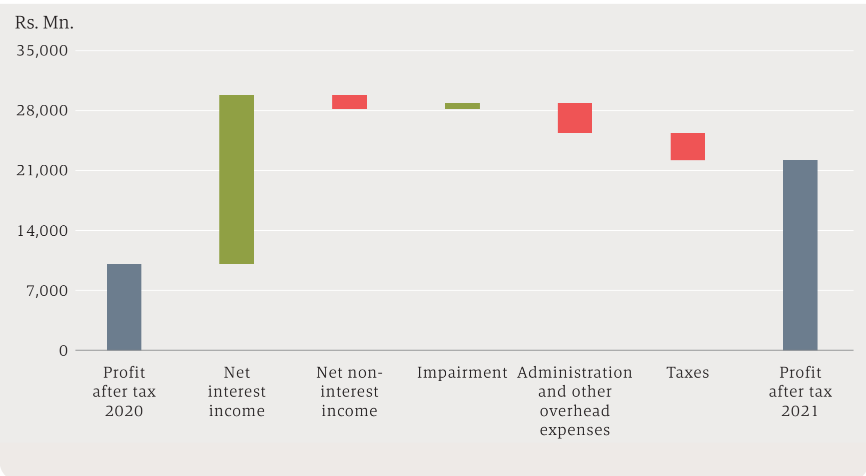
The Bank will strive to continue to sustain profitability amidst the high inflation environment and modest growth in the loans and advances portfolio.

Key risks

We expect positive but slower profit growth by managing a reasonable interest spread.

Graph 13

Impact on earnings



Changes in statement of comprehensive income

The main contributory factor for the increase in the gain in the Statement of Comprehensive Income was due to the items that will not be reclassified to the Income Statement. A gain of Rs. 3.3 Bn. occurred due to the re-measurement of post-employment benefit obligations at a higher discount rate compared to that of the year 2020. The Bank recorded a gain of Rs. 371 Mn. (net of taxes) from the changes in the revaluation surplus due to the reversal of deferred taxes resultant from reduction in tax rate from 28% to 24%.

Graph 14

ROE decomposition

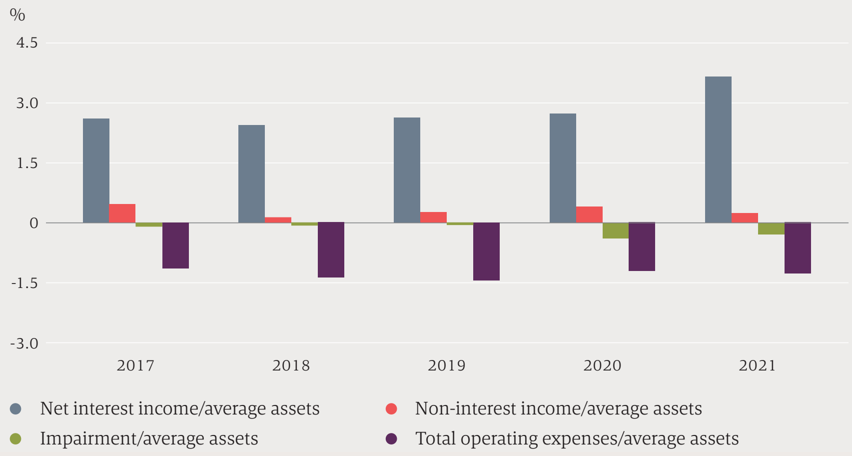
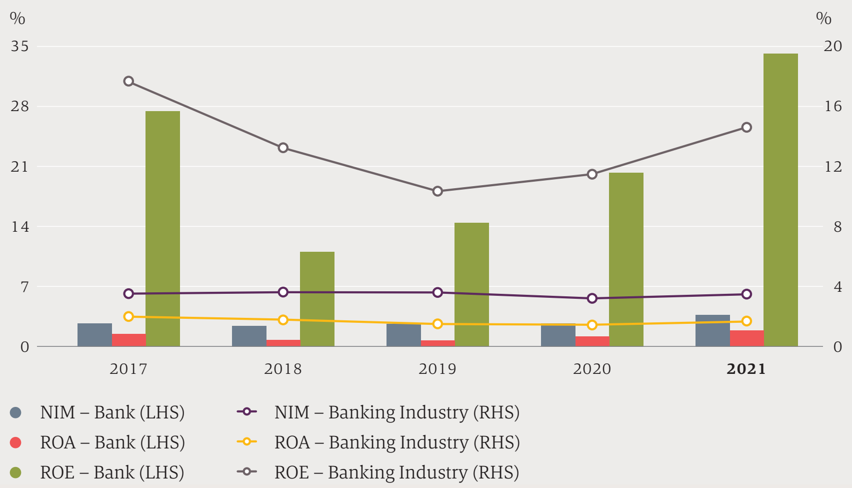


Table 7

	2017	2018	2019	2020	2021
Net interest income/average assets	2.6%	2.4%	2.6%	2.7%	**3.7%**
Non-interest income/average assets	0.4%	0.1%	0.3%	0.4%	**0.2%**
Impairments/average assets	-0.1%	-0.1%	-0.1%	-0.4%	**-0.3%**
Total operating expenses/average assets	-1.1%	-1.4%	-1.4%	-1.2%	**-1.3%**

Graph 15

Profitability ratios



Summarised statement of financial position

	As at 31 December
A	**Total assets**
E	Cash and cash equivalents
	Placements with banks
C	Derivative financial instruments
	Financial assets recognised through profit or loss measured at fair value
	Financial assets at amortised cost
B	Loans and advances
C	Debt and other instruments
	Financial assets measured at fair value through other comprehensive income
	Investments in subsidiaries
	Property, plant and equipment
	Right-of-use assets
	Goodwill and intangible assets
	Deferred tax assets
D	Other assets
F	**Total liabilities**
G	Due to banks
	Financial liabilities at amortised cost
H	Due to depositors
G	Due to other borrowers
I	Lease liability
G	Debt securities issued
I	Retirement benefit obligations
	Current tax liabilities
	Other liabilities
	Due to subsidiaries
J	**Total shareholder's equity**
	Stated capital/Assigned capital
	Statutory reserve fund
	Retained earnings
	Other reserves
	Total equity and liabilities
I	Contingent liabilities and commitments

Table 8

2021 Rs. Mn.	2020 Rs. Mn.	2019 Rs. Mn.	(2021 vs 2020) YoY change of %
1,579,097.7	1,363,808.4	1,157,966.7	
7,656.0	6,492.0	5,376.7	17.9
7,120.7	13,253.5	12,364.5	(46.3)
–	19.9	11.6	(100.0)
19,572.9	11,221.7	11,459.9	74.4
538,941.8	516,795.2	454,395.0	4.3
935,350.1	754,233.3	615,634.3	24.0
13,817.6	15,271.8	3,478.8	(9.5)
4,811.0	4,811.0	4,811.0	0.0
15,045.6	15,315.8	14,163.5	(1.8)
1,205.9	1,226.2	1,073.5	(1.7)
816.1	688.0	–	18.6
1,104.8	1,446.2	–	
33,655.3	23,033.8	35,197.9	46.1
1,503,085.0	1,309,394.5	1,113,589.3	14.8
7,686.6	12,862.3	35,045.3	(40.2)
1,428,467.4	1,237,123.8	1,016,574.3	15.5
7,719.5	8,159.6	21,203.2	(5.4)
1,292.1	1,274.7	1,066.9	1.4
37,529.0	31,773.8	26,691.7	18.1
8,590.6	11,600.4	6,508.7	(25.9)
4,596.2	612.2	–	650.7
7,200.0	5,983.9	5,951.5	20.3
3.5	3.8	0.5	(6.7)
76,012.8	54,413.9	44,377.3	39.7
9,400.0	9,400.0	9,400.0	0.0
5,174.2	4,068.3	3,562.9	27.2
13,727.8	14,399.6	4,464.4	(4.7)
47,710.7	26,546.1	26,950.0	79.7
1,579,097.7	1,363,808.4	1,157,966.7	15.8
13,023.2	25,787.1	10,355.2	(49.5)

A. Stronger balance sheet growth (DSVC VIII)

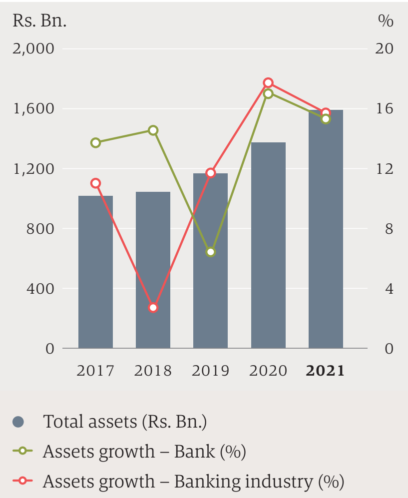
The Bank's asset base grew by 15.8% to reach Rs. 1.6 Tn. at the end of 2021 over the Rs. 1.4 Tn. reported at the end of 2020. The balance sheet growth was supported by the investments which increased by 23.0% to Rs. 980.7 Bn. against Rs. 798.8 Bn. in 2020, along with the expansion of net loans and advances by 4.3% to reach Rs. 538.9 Bn. against Rs. 516.8 Bn. at the end of 2020.

During the year the Bank reclassified Rs. 59.4 Bn worth of loans granted to Road Development Authority (RDA) to debt instruments. The growth in loans and advances accounted for Rs. 538.9 Bn. in 2021 with a growth of 17.8% while investments grew by 15.3% to Rs. 980.7 Bn. without considering the reclassification of RDA loans to debt instruments.

On the liability front, the Bank's deposit base increased to reach Rs. 1.4 Tn. at the end of the 2021, depicting a 15.5% growth over the previous year's base of Rs. 1.2 Tn. However, our borrowings continued to be at a steady level of Rs. 52.9 Bn. as at the end of 2021.

Graph 16

Assets growth



B. Growth in lending amidst challenges

Loans and advances accounted for 34.1% of total assets consisting of term loans such as housing and property loans, personal loans, auto loans, educational loans, syndication loans, loans to banks and financial institutions as well as pawning advances, staff loans, loans to Government and securities purchased under resale agreements (reverse repo).

Reclassification of Rs. 59.4 Bn. worth of loans from "Corporate Loans" to "Corporate Debt Instruments" led the total loans and advances portfolio to increase only by 4.3% to Rs. 538.9 Bn. as of December 2021 as discussed under "Stronger Balance Sheet Growth" above, against the Rs. 516.8 Bn. recorded over the preceding twelve months. Loans granted for personal consumption (49.5%), housing (30.1%), infrastructure (11.4%), and corporate loans (19.9%) dominated the loans and advances portfolio at the gross level as at the end of 2021.

The Bank's gross NPL ratio increased by 18bps to 2.97% in 2021 from 2.79% reported at end 2020, reflecting the deterioration of the asset quality. Stage 2 and Stage 3 loans advances increased by 10.2% and 16.3% respectively compared to the previous year and accumulated impairment for the Bank increased across all three stages, reflecting prudent provisioning. Impairment against Stage 2 and Stage 3 loans improved to 139.6% and 22.5% respectively. However, the credit quality of the Bank was maintained in a stable manner in comparison to the industry average of 4.47% as at the end of 2021.

C. Leveraging opportunities for investments (DSVC VII)

The Bank's total investment portfolio of equity and debt instruments witnessed a growth of 33.3%, achieving Rs. 980.7 Bn. at the end of 2021 against Rs. 798.8 Bn. reported in 2020. While debt instruments including

Government Securities, corporate debt instruments, and trust certificates represented 99.3% of the total portfolio, the rest comprised equity securities. The equity portfolio of the Bank grew by 17.5% to Rs. 5.2 Bn. at the end of 2021 from Rs. 4.2 Bn. in 2020 due to upward momentum that prevailed in the equity market.

Derivative financial instruments

The balance of derivative financial instruments shown in the financial position in 2020 represents the swaps entered into with DFCC Bank in order to hedge against the interest rate risk caused by the Rs. 2.0 Bn. term loan provided to Sri Lanka Telecom, with the agreement expiring on 20 February 2021.

Property, plant and equipment

Mainly driven by the increase in the purchase of other categories of property, plant, and equipment (except motor vehicles), these marginally declined by 1.8% to Rs. 15.0 Bn. from Rs. 15.3 Bn. recorded in the previous year.

Right-of-use assets

SLFRS 16 – "Leases" which was implemented from 2019 requires the lessee to recognise almost all lease contracts on the statement of financial position excluding certain short-term lease assets and low value assets while LKAS 17 – "Leases" requires a distinction to be made between a finance lease (on financial position) and an operating lease (off balance sheet). Accordingly, the Bank recognised a corresponding lease liability for all lease contracts amounting to Rs. 1. 2 Bn. as "right-of-use assets" in its financial position as at 31 December 2021.

Investment in subsidiaries

Due to there not being any acquisitions or mergers, investment in subsidiaries continued to remain at Rs. 4.8 Bn. as at the end of 2021. This includes the investment of Rs. 1.7 Bn. in the NSB Fund Management Co. Ltd. as well as Rs. 3.1 Bn. invested in Sri Lanka Savings Bank (SLSB) as a fully owned subsidiary.

D. Rise in other assets

Other assets – which are non-interest earning assets including receivables, prepayments, receivables from treasury on interest payment to senior citizens, advance payment to treasury, and Notional Tax/WHT receivable- represented 2.1% of the total assets at the end of 2021. These have increased by 46.1% to Rs. 33.7 Bn. in 2021 from Rs. 23.0 Bn. in 2020 due to the increase in interest receivable from the treasury which accounted for 50% of the other assets.

E. Managing cash and cash equivalents and placement with Banks

Cash and cash equivalents comprise cash in hand, balances with banks, and money at call and short notice. The Bank depicted figures of Rs. 7.7 Bn. caused by increase of cash in hand, increased by 17.9% when compared to 2020. Placements with the banks are short-term deposits placed in banks which plummeted by 46.3% to Rs. 7.1 Bn. in 2021 against Rs. 13.3 Bn. reported last year. Both cash and cash equivalents and placement with banks are used by the Bank for its short-term commitments and they are maintained to adequately meet arising liquidity needs.

F. Total liabilities

Total liabilities increased by 14.8% to Rs. 1.5 Tn. from Rs. 1.3 Tn. in 2020. This was primarily driven by the increase in customer deposits along with debt securities issued despite the 40.2% decrease in borrowings from banks which include foreign currency borrowings and repo borrowings and by the 25.9% decrease in retirement benefit obligations compared to the previous year.

G. Managing our debt profile prudently (DSVC IX)

Total borrowings of the Bank including borrowings from financial institutions, securities sold under repurchase (repo) agreements, and debt securities issued marginally increased by 0.3% to Rs. 52.9 Bn. as of December 2021 against the Rs. 52.8 Bn. recorded a year ago. This is mainly due to decrease in due to banks and increase in debt securities issued with the Bank's objective to move towards longer tenor low-cost funding sources by capitalising the prevailing interest rate regime.

Due to banks

Due to banks representing overdrafts, call money borrowings, borrowings from banks, and repos has plunged by 40.2% to Rs. 7.7 Bn. from Rs. 12.9 Bn. in 2020 owing to 92.0% reduction in securities sold under the repurchase (repo) agreement portfolio, despite the increase in foreign currency borrowings. This mainly on account of the excess cash prevailed during the year and increase in low-cost deposits. The obtainment of a term loan facility of USD 20 Mn. from Indian Bank and USD 15 Mn. from Indian Overseas Bank to invest in the Sri Lanka Development Bonds during the year brought the foreign currency borrowings up by 15.3% to reach Rs 7.1 Mn. over the Rs. 6.2 Mn. reported in 2020.

Due to other borrowers

Due to other borrowers containing only repo borrowings while excluding part of those recognised under "Due to banks", the borrowings decreased only by 5.4% to Rs. 7.7 Bn. in 2021 against Rs. 8.2 Bn. registered last year.

Debt securities issued

Debt securities issued encompasses unsecured subordinated redeemable debentures and unsecured subordinated perpetual debentures. The portfolio of debt securities issued at the end of December 2021 rose by 18.1% to Rs. 37.5 Bn. from Rs. 31.8 Bn. registered a year ago owing to issuance of Rs. 11.5 Bn. worth of unsecured debentures to enhance the lending activities of the Bank. Further, the portfolio contained Rs. 20.0 Bn. worth of debentures issued in 2019 to partly finance the funding requirement of unwinding the USD/LKR swap agreement with the CBSL and Rs. 5.0 Bn. worth of unlisted, unsecured, subordinated, perpetual rated debentures issued in 2020 to increase the Tier I capital of the Bank to enhance the capital adequacy ratio and reduce the mismatch in maturity between the assets and liabilities of the Bank.

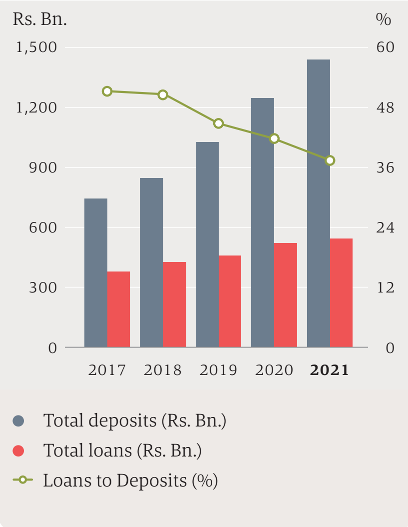
Further, Rs. 6.0 Bn. worth of rated, unsecured, subordinated, redeemable debentures issued in 2016 to enhance the Tier II capital adequacy ratio of the Bank and reduce the mismatch between the asset and liability portfolio of the Bank matured in 2021 and was redeemed accordingly.

H. Achieving higher deposit mobilisation

The Bank has mobilised Rs. 192.6 Bn. during the year. The Bank's deposit base extended by 15.5% to Rs. 1.4 Tn. as of end December 2021, compared to Rs. 1.2 Tn. reported as of end December 2020. Despite the prevailing low interest rate regime during the year, the bases of savings deposit and fixed deposit increased by 16.3% and 15.2% to reach Rs. 325.6 Bn. and Rs. 1.1 Tn. respectively as at the end of December 2021 amidst the high inflation environment. Accordingly, the savings deposit to total deposits remained at the same level of 23.0% at the end of 2021, while the rest constituted of fixed deposits.

Graph 17

Loans to deposits



Graph 18

Deposit growth

I. Rise in other liabilities retirement benefit obligation

Retirement benefit obligations have decreased by 25.9% to Rs. 8.6 Bn. at the end of December 2021 in comparison to Rs. 11.6 Bn. reported in the corresponding period last year. This was mainly due to the higher discount rate used in actuarial valuation compared to that of 2020.

Lease liability

As in 2020, Rs. 1.3 Bn. was recognised as a lease liability at the end of December 2021.

Other liabilities

Other liabilities – which includes provisions and payables made on account of fees, expenses, salary related, and other expenses –increased by 20.3% to Rs. 7.2 Bn. in 2021 against Rs. 6.0 Bn. in 2020.

Contingent liabilities and commitments

During the year, the Bank reported a 49.5% decline in its total commitments and contingencies to Rs. 13.0 Bn. compared to Rs. 25.8 Bn. in 2020. This is mainly attributable to the decrease in commitments for unutilised credit facilities.

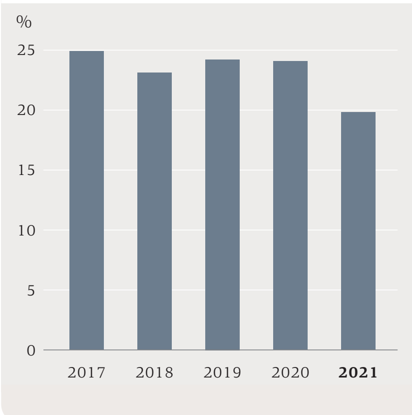
J. Our strong capital and liquidity management (DSVC X)

Shareholder's equity

Total shareholder's equity rose to Rs. 76.0 Bn. in 2021 from Rs. 54.4 Bn. in the previous year. During the year, the basic earnings per share increased to Rs. 23.53 from Rs. 10.75 in 2020, as a result of increased profit attributable to the shareholder. Given the limited avenues available for the Bank to enhance its capital base, we were compelled to curtail the dividend payout to 15.8%, thereby allowing the shoring up of internally generated funds during the year.

Graph 19

Debt to equity



Capital management

The Bank engages in capital management with the end-term goal of creating value for the shareholder by facilitating the achievement of long-term and short-term Bank goals. Capital levels are managed considering a number of factors which include internal assessment on risk levels, rating agency expectations, regulatory requirements, and returns expected by shareholder. At NSB, we apply the full range of capital instruments and capital management activities available to us to ensure that our capital structure optimises financial efficiency and the loss absorption capacity of the capital base.

Capital management objectives

The main purposes of capital management are twofold – to support the Bank's business strategy and to ensure sufficient levels of capital that can withstand severe downturns without breaching regulatory requirements.

A summary of the Bank's capital management objectives is as follows:

Ensure that the Bank maintains capital to achieve debt rating objectives and withstand the impact of potential stress events

Maintain sufficient capital to meet minimum regulatory capital requirements

Allocate capital to businesses to support the Bank's strategic objectives

Hold sufficient capital to support the Bank's risk appetite

Process

We follow a carefully planned capital management process that ensures maximum security for the Bank capital. The responsibility for setting capital management objectives lies on the Board of Directors (Board) who articulates this via capital targets. These are then pursued in tandem with the Bank's overall strategic plans and risk appetite and in a manner that ensures delivering returns to the shareholder whilst maintaining adequate capital resources for business growth and investment opportunities as well as adverse situations. Our dividend policy is to pay sustainable dividends over time, consistent with our capital management objective and long-term growth prospects. In line with our dividend policy, the Bank paid a final dividend of Rs. 3.5 Bn. in 2021.

Our capital management objective is executed via a capital management and planning process that is overseen by the Asset and Liability Management Committee (ALCO) chaired by the General Manager/CEO. The Committee is kept up to date through regular notifications on current and projected capital positions. The annual Internal Capital Adequacy Assessment Process (ICAAP) is a key tool for capital planning which helps us assess our projected capital supply and demand in relation to regulatory requirements and NSB capital targets. With a three-year horizon, the ICAAP covers various scenarios, including stress scenarios of differing scope and severity.

This year, the Bank assessed its capital requirements under the ICAAP using the following approaches:

Assessment for Pillar 1 risk – as directed by CBSL	• Standardised approach for credit • Standardised measurement approach for market risk • Basic indicator approach for operational risk
Assessment for Pillar 2 risk	• Internally generated models according to the industry best practices • (Taking into account a broader range of risks and the Bank's risk and capital management capabilities)

Capital allocations by business line are set as part of the budget process and monitored during the year. The Corporate Management of the Bank met periodically to assess capital adequacy and other capital-related issues, formulating and escalating strategy implementation suggestions. NSB has performed extensive and comprehensive stress testing during this period and concluded that the Bank remains well-capitalised in relation to its business activities, the Board approved strategic plan, risk appetite, risk profile, and the external environment in which it operates.

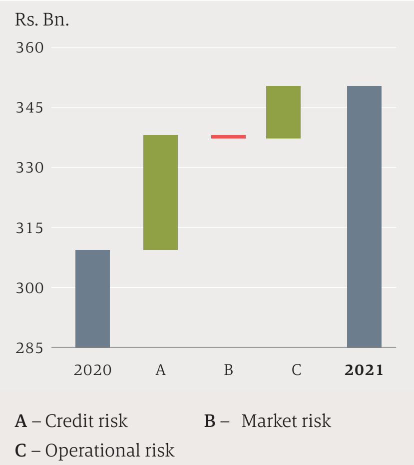
Capital adequacy ratios remain at comfortable level

Our risk weighted assets increased by 13.3% to Rs. 350.4 Bn. against the Rs. 309.4 Bn. recorded during 2020. This increase was in line with asset growth and largely due to 32.4% increase in Operational RWA on account of increased income along with

11.1% increase in Credit RWA, risk weighted assets in the Risk Review Report on pages 212 to 239 and Pillar 3 Disclosures under Basel III on pages 454 to 466).

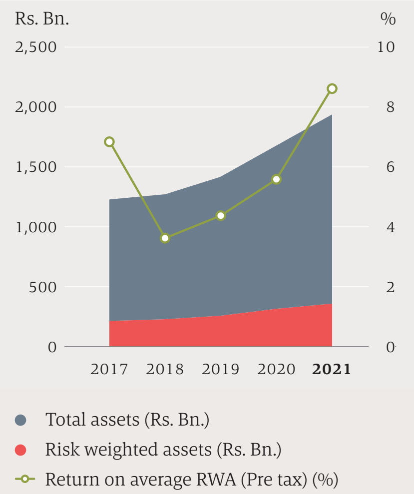
Graph 20

Risk weighted assets



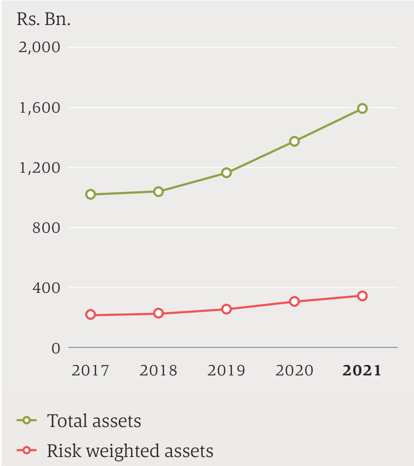
Graph 21

Return on average risk weighted assets



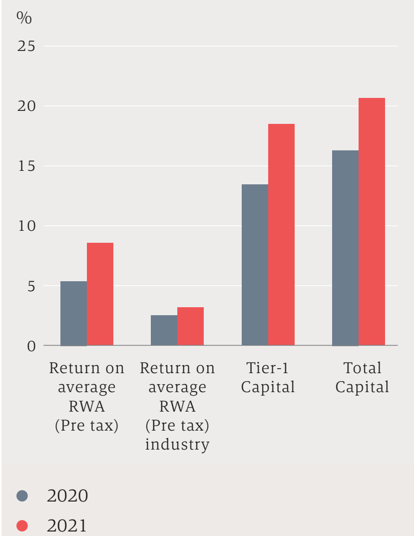
Graph 22

Total assets vs risk weighted assets



Graph 23

Basel III – Capital adequacy



The capital position of the Bank remained strong and stood well above the revised minimum statutory requirements imposed by the regulator consequent to the COVID-19 pandemic.

The Tier 1 Capital and the Total Capital ratios stood at 18.60% and 20.83% respectively at the end of December 2021, above the statutory requirements of 8.0% and 12.0% respectively. The leverage ratio of 8.92% was also well over the minimum requirement of 3.0%.

Outlook	Key risks
With the probable rate hikes by CBSL, profitability will marginally increase.	Heavily dependent upon GDP forecasts and interest rates. Capital generation to be expected at lower than anticipated levels or at higher increase in risk-weighted assets.

Cash flow management

Table 9

	2021 Rs Mn	2020 Rs Mn
Opening cash balance	6,174.1	5,293.9
Operating profit before change in operating assets and liabilities	38,837.1	20,835.3
(Increase)/ decrease in operating assets	(223,344.5)	(193,524.2)
Increase/ (decrease) in operating liabilities	199,164.1	186,754.7
Taxes paid	(2,752.8)	(2,889.0)
Net cash flows from operating activities	11,903.8	11,176.8
Net cash flows from investing activities	241.6	(13,516.6)
Net cash flows from financing activities	10,730.0)	3,220.0
Closing cash balance	7,589.5	6,174.1

Supplementary information
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Our sustainable value creation model
Preamble
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As a result of increase in operating activities, our cash and cash equivalents increased by 17.9% from the previous year, standing at Rs. 7.7 Bn. at the end of 2021. Financial activities of dividend paid of Rs. 3.5 Bn. – which was a 250% increase from last year – and the repayment of subordinated debt limited the positive cash flow generation.

Sources and utilisation of funds

We are actively managing our balance sheet and taking advantage of debt opportunities to ensure that we have a continued robust liquidity position, with funding primarily from customers' deposits and other sources.

The Bank continues to ensure that it has the appropriate amount, tenure and diversification of funding to support its current forecast asset base while minimising cost of funds. Funding markets are evaluated on an ongoing basis to ensure appropriate group funding strategies are executed depending on the competitive and regulatory environment. The Bank continued to focus on building its deposit base as a key component of the funding mix.

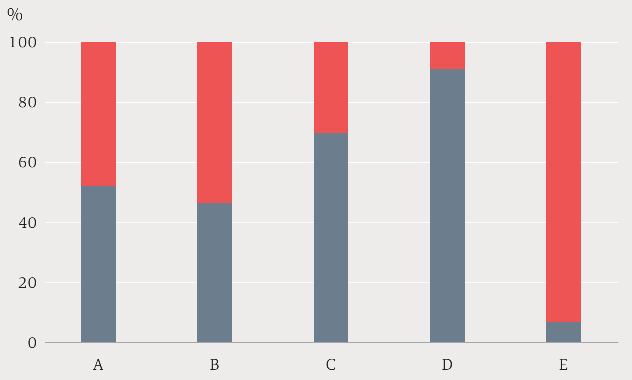
The Bank relies on deposits from customers, debt securities, term loans, securities sold under repurchase agreements, and subordinated liabilities as its primary sources of funding. Deposits from customers generally have shorter maturities and a large proportion of them are repayable on demand. The short-term nature of these deposits increases the Bank's liquidity risk, and the Bank actively manages this risk through maintaining competitive pricing and constantly monitoring market trends.

Table 10

Source of funds and utilisation of funds	2021 Rs. Mn.	2020 Rs. Mn.
Source of funds		
Income from operating activities	**136,559**	125,300
Deposits	**192,555**	221,910
Borrowings	**11,541**	5,000
Maturities in investments	**6,993**	665
Others	**890**	12,061
	348,538	364,935
Utilisation of funds		
Loans and advances	**89,026**	96,178
Debt and other instrument	**129,186**	122,222
Repayment of borrowings	**11,568**	35,016
Interest paid	**76,495**	87,823
Payment to employees	**11,591**	9,574
Payment on other operating activities	**4,510**	4,212
Capital expenditure	**922**	1,366
Dividends	**3,500**	1,000
Taxes paid	**9,108**	6,525
Other	**12,633**	1,019
	348,538	364,935

Graph 24

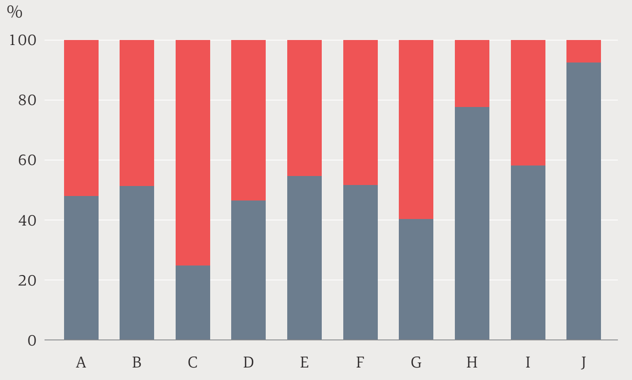
Source of funds



A – Income from operating activities
B – Deposits
C – Borrowings
D – Maturities in investments
E – Others
● 2021
● 2020

Graph 25

Utilisation of funds



A – Loans and advances
B – Debt and other instruments
C – Repayment of borrowings
D – Interest paid
E – Payment to employees
F – Payment on other operating activities
G – Capital expenditure
H – Dividends
I – Taxes paid
J – Other
● 2021
● 2020

The loans to total deposits ratio was at 37.7% at the end of 2021, lower than the 41.8% reported a year ago, largely attributable to the reclassification of Rs. 59.4 Bn. loans and advances under debentures. Also, the Bank is constrained by the statutory requirement needing 60% investment of deposits mobilised during the year in Government Securities at risk-free rate, which results in lower yields. The Bank maintained the Government Securities to total deposits ratio at a level of 67.4% at the end of December 2021, increasing from 62.7% reported in 2020.

Debt profile

Our long-term capital expansion projects are financed by a combination of floating and fixed rate long-term debt as well as through internally generated funds.

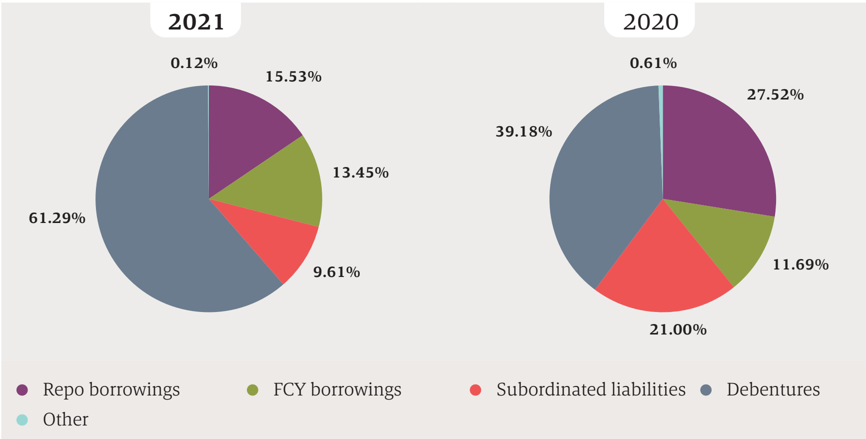
Table 11

Debt profile	2021 Rs. Mn.	2020 Rs. Mn.
Short-term (less than 1 year)	**8,974**	15,536
Medium-term (1 to 3 years)	**20,795**	19,849
Long-term (over 3 years)	**23,166**	17,411
	52,935	52,796

Composition of debt profile	2021 Rs. Mn.	2020 Rs. Mn.
Repo borrowings	**8,221**	14,532
FCY borrowings	**7,118**	6,172
Subordinated liabilities	**5,087**	11,088
Debentures	**32,442**	20,686
Other	**67**	318
	52,935	52,796

Graph 26

Components of debt profile



Credit rating

Our credit ratings are influenced not only by our own significant risks, but also due to systemic risks such as movements in the sovereign credit rating of Sri Lanka. The following downgrades have been made during the year:

- **August 2021**: S&P Global cut Sri Lanka's CCC+ sovereign rating outlook to negative from stable, warning the Government may find it increasingly difficult to finance itself over the next 12 months.
- **October 2021**: Rating agency Moody's downgraded Sri Lanka's debt rating to "Caa2" from "Caa1" as the country failed to come up with a comprehensive debt repayment plan while low foreign exchange reserves posed the risk of defaults.
- **December 2021**: Fitch Ratings downgraded Sri Lanka's sovereign rating to "CC" from "CCC", citing a growing risk of debt default in 2022 due to Sri Lanka's worsening external liquidity position, underscored by a drop in foreign exchange reserves, set against high external debt payments and limited financing inflows.
- **January 2022**: Standard & Poor's downgraded Sri Lanka to "CCC" from an earlier "CCC+" with the outlook negative at the lower level as the currency continued to be under pressure from liquidity injections – Sri Lanka's external financial position will deteriorate further over the coming quarters.

However, the ICRA Lanka Limited has assigned the issuer rating of [SL] AAA with stable outlook to the Bank during 2021, on the back of 100% Government of Sri Lanka (GoSL) ownership and the 100% explicit guarantee provided by the GoSL for money deposited with the Bank and the interest thereof through the National Savings Bank Act. Further, the Bank's investment portfolio is characterised by low risk, with the Bank mandated to invest a minimum of 60% of the total deposits in Government Securities.

Dividend

The Bank paid Rs. 3.5 Bn. as dividend to the Government during 2021, compared to Rs. 1.0 Bn. paid in the previous year. Dividend per share was Rs. 3.72 in 2021 against Rs. 1.06 in 2020. The dividend coverage ratio reduced in 2021 to 6.4x from 10.1x recorded in 2020 due to the increase in the dividend pay-out ratio.

Graph 27

Effective dividend rate and dividend cover

Table 12

Description	Bank		
	2021	2020	Change (%)
Statutory Liquid Assets Ratio (SLAR) – Minimum requirement 20%	**59.63**	69.10	-9.47
Rupee LCR – Minimum requirement (2020 – 90%, 2021 – 100%)	**240.84**	311.02	-70.8
All currency LCR – Minimum requirement (2020 – 90%, 2021 – 100%)	**240.43**	307.22	-66.79
NSFR – Minimum requirement (2020 – 90%, 2021 – 100%)	**160.78**	168.54	-7.76

Liquidity management

In line with the assessment of liquidity risk in stressed market conditions, NSB maintained the appropriate liquidity buffers and followed proactive liquidity management, thereby ensuring that adequate liquidity was maintained despite the unpredictable and stretched liquidity environment.

The Bank maintains portfolios of marketable and liquid instruments to meet regulatory and potential stress situations as a security in the event of sudden cash flow disruptions.

These are managed within defined limits on the basis of diversification and liquidity and represents unfettered profitable instruments including High Quality Liquid Assets (HQLA) eligible under Basel III Liquidity Coverage Ratio (LCR), which would provide sources of liquidity in a stress scenario.

LCR under Basel III promotes the short-term resilience of the Bank's 30 calendar day liquidity risk profile by ensuring it has appropriate High Quality Liquid Assets (HQLA) to meet potential outflows in a stressed situation. The Basel III Net Stable Funding Ratio (NSFR) is set up with the objective of promoting funding stability and resilience in the banking sector and does so by its requirement that banks maintain a stable funding profile in relation to the composition of assets and off-balance sheet activities. Accordingly, the available stable funding is defined as the portion of capital and liabilities expected to be available over the one-year time horizon considered by the NSFR.

We are pleased to be in possession of a healthy liquidity profile with the Statutory Liquid Asset Ratio (SLAR) for the Domestic Banking Unit being maintained well above the minimum requirement of 20% throughout the period, depicting 59.63% at the end of the reporting period. We sustained a 100% Liquidity Coverage Ratio throughout 2021 which was measured by total High-Quality Liquid Assets over 30 days Net Cash Outflow. Further, we depicted a 240.43%. liquidity coverage ratio for all currency at the end of 2021. The Net Stable Funding Ratio (NSFR) which is used to measure the long-term funding stability of the Bank stood at 160.78% at the end of 2021, well above the minimum requirement of 100%. Below are the Bank's liquidity ratios as at the end of 2021, all of which remain comfortably above the minimum requirements.

Graph 28

Liquid assets to liabilities

Managing funding and liquidity risk

The primary role of a bank in terms of financial intermediation is to transform short-term deposits into longer-term loans. When pursuing this, banks are innately at risk to liquidity mismatches and the consequent funding and market liquidity risks. To mitigate this, NSB operates a robust Liquidity Risk Management Framework which oversees funding and market liquidity risk to ensure uninterrupted banking operations in both normal and stressed conditions. The key objectives that underpin the Liquidity Risk Management Framework include maintaining financial market confidence at all times, protecting key stakeholder interests, and meeting regulatory liquidity requirements.

Funding and liquidity are given equal prominence to that of capital at the Bank, as they are key to providing sustainable sources of funding while maintaining adequate liquidity levels at all times, thereby upholding public trust in the Bank and the financial services system. While NSB is driven to generate returns for the shareholder, it never compromises its liquidity in the process.

The liquidity risk management process includes regular analysis and monitoring of the liquidity position by ALCO and the maintenance of market accessibility. The Bank uses analytical tools such as regular cash flow forecasts, liquidity ratios, and maturity gap analysis to study market accessibility, and liquidity and funding risk are measured using a range of metrics, including the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). the Risk Review Report from pages 212 to 239 for further details on liquidity risk management.

Financial performance outlook

Our vision for 2022 focuses on the prudent management of balance sheet in light of creating a platform for sustainable growth. Judging by the current trends, we expect to be operating within the confines of scarce and costly capital in the short- to medium-term and as such, will continue to prioritise efficiency in our funding model coupled with careful and cautious liquidity planning. We firmly believe that these measures will result in a sustainable capital base whilst simultaneously improving our access to cost-effective capital.

Table 13

KPI	2021 Performance	Outlook 2022	Medium to long-term targets
ROE	**33.92%**	in line with the target	25% - 30%
NIM	**3.71%**	in line with the target	3.0% - 4.0%
Growth in deposits	**15.5%**	in line with the target	12% - 15%
Growth in interest income	**7.3%**	in line with the target	10% - 12%
Total CAR	**20.83%**	Above the regulatory minimum	Above the regulatory minimum
Cost to income ratio (without taxes)	**33.3%**	in line with the target	35% - 40%

Outlook for 2022 and beyond

Short-term

- Improve the non-interest earnings
- Engage in optimum utilisation of capital while complying with all regulatory requirements

Medium-term

- Achieve the financial targets set out in the budget and Strategic Business Plan
- Continue stringent cost containment measures

Long-term

- Ability to provide sustainable financial returns to the stakeholders

Review of business lines

Retail banking

Retail banking provides a full range of products focused on meeting the needs of our individual customers at every stage of their lives through savings accounts, term deposits, mortgages, personal loans, small business lending, and everyday financial and investment advice. The overall focus is on providing customers with an exceptional experience in every interaction and helping them make real financial progress.

2021 operating environment

- Subdued economic activity following the pandemic induced disruptions and a weak macroeconomic outlook
- Impact of rising interest rates on the credit demand and the net interest margins

Strategic priority

Increasing market share while achieving the targeted growth in identified areas/products

Progress in 2021

- Increased retail lending portfolio by double digit growth
- Granted Rs. 1.23 Bn. worth of 382 housing loans to permanent employees in both the public and private sectors at the concessionary rate of 7.0%
- Provided Rs. 1.33 Bn. worth of 489 *"Gaurawa Prahhansa"* loans for pensioners at the rate of 6.75%
- Supported 972 entrepreneurs through SME loans worth Rs. 117.1 Mn.
- Granted Rs. 107.9 Mn. worth of 195 educational loans
- Granted Rs. 3.8 Mn. worth of nine solar loans

Focus for 2022

- Increasing market share, albeit with reasonable growth in some categories

Managing credit quality

Progress in 2021

- Managed the NPA ratio for retail lending at 3.7%, which was lower than the banking sector average of 4.5%

Focus for 2022

- Maintaining a strong focus on net interest income and transactional numbers
- Practising a conservative credit policy and focusing on collections and impairments

Drive efficiencies by simplifying and streamlining operations and investing in digital capabilities

Progress in 2021

- Added over 27,204 new customers to the internet banking network

Focus for 2022

- Delivering superior customer service through strengthened digital delivery channels
- Increasing focus on acquiring new customers by pursuing cross-selling opportunities

Financial review

Table 14

	2021 Rs. Mn.	Percentage of total
Interest income	37,966.6	28.9
Net interest income	17,308.9	31.7
Net fee and commission income	2,819.9	99.2
Net operating income before taxes	17,393.4	32.4
Assets of the segment	449,936.8	28.5
Liabilities of the segment	1,419,045.5	94.4

Compared to the previous year, deposits mobilised by retail banking during 2021 witnessed a 5.3% decline to Rs. 192.6 Bn. due to negative returns from Bank deposits coupled with soaring living expenses caused by hiking inflation. Another contribution to this sluggish growth in deposits was the cancellation of all planned promotional campaigns for 2021 due to the pandemic situation.

The retail lending portfolio comprising housing loans, personal loans, loans against deposits, pawning, auto loans, and other staff loans accounted for 80% of the Bank's total gross loan portfolio, increasing by 21.1% to Rs. 445.1 Bn. as of December 2021. Personal loans recorded an impressive growth of 29.6% to Rs. 62.3 Bn. which was primarily driven by a revival of credit appetite on the back of the higher liquidity and lower interest rate regime in early 2021. Similarly, pawning advances were also up by 23.1% from the previous year in light of continuing higher gold prices and prevailing lower interest rates during the year.

The pandemic environment had a greater influence on the unprecedented demand for cards, given the safety concerns. Frequent lockdowns and other restrictions created demand for cashless payment solutions, leading to increased card activity during the year. Unsurprisingly, income through card activities recorded an exponential increase of 625.5% to Rs. 40.1 Mn. compared to Rs. 5.5 Mn. reported in 2020.

Outlook with risk and opportunities

- The upward revision in the Standard Deposit Facility Rate is expected to attract more deposits while increase in the Standard Lending Facility Rate will cause a decrease in lending
- An environment of higher inflation will impact customer purchasing power, savings ability, and demand for loans
- Uncertainties around the repayment capacity of loans following the end of debt moratoria
- Higher digitalisation drives and continuous increase in customers' preference and demand

Corporate banking

Corporate banking comprises corporate lending, multiple finance, loan syndication, and debt origination as well as risk management products. The corporate finance division is in the business of providing sources of funding to large corporates, banks, financial institutions, and their subsidiaries as well as state-owned enterprises. The functions carried out by the business line are given below:

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

As one of the largest lenders to private sector organisations, Government state-owned-enterprises, and large-scale projects, the cluster plays a vital role in driving economic activity. We continued to finance large-scale infrastructure and mixed development projects in several sectors including manufacturing, pharmaceuticals, and sustainable energy.

Corporate banking personnel partner with clients to anticipate their financial needs and share expertise and knowledge to help them manage and grow their businesses. With the expertise and experience of our team of relationship managers and specialists in the industry, our commitment to client experience and trusted advice has earned us leading market share in business lending and deposits.

2021 operating environment

- A weak economic environment and pandemic induced challenges have limited lending opportunities to the corporate sector amidst the lower interest rate regime (slowdown in certain sectors such as construction, tourism, and agriculture)
- Continuation of rescheduling and restructuring plans following the extension of the CBSL's debt moratorium scheme

Strategic priority

Focus on key growth sectors through commercialisation capabilities, keeping an eye on high-risk exposure sectors (Power, utilities, infrastructure, renewable energy, green businesses, and financial institutions)

Progress in 2021

- Disbursed Rs. 28.5 Bn. worth of loans as project loans, out of which Rs. 14.1 Bn. and Rs. 13.2 Bn. were given to the NWSDB and RDA respectively
- Granted a loan facility of Rs. 750 Mn. to Techno Park Development Company for the development of a technology park in Kurunegala. The Park will be a commercial enterprise, with the company planning to register in the Colombo Stock Exchange and allow private investors to participate in the project in future. The Techno Park is expected to house domestic firms, joint ventures, and subsidiaries of foreign companies engaged in a wide variety of activities which include software development, enterprise resource planning (ERP), process control software design, engineering, and computer-aided design software development, IT Enabled Services (ITES), and E-business

Focus for 2022

- Lending to sectors with high growth and low to medium risk profiles
- Expected lending opportunities to the Power and Energy Sector for Combined Cycle Power Plants and Renewable Energy (solar and wind) due to Government policies on clean energy
- Expected lending opportunities to SMEs in apparel, agriculture, and mining industries due to the Government's active promotion of local manufacturing.
- Strengthening relationships and leveraging partners to expand our footprint in Sri Lanka

Managing credit quality

Progress in 2021

- Maintained the NPL ratio at the lower level of 2.1%

Focus for 2022

- Preserving credit portfolio quality

Seeking out low-cost funding opportunities

Progress in 2021

- Obtained a loan facility of USD 35 Mn. from the Indian Bank and Indian Overseas Bank, investing the same in Sri Lanka Development Bonds at the rate of 6.89% p.a.
- Issued Senior Debentures worth Rs. 11.5 Bn. in September 2021

Focus for 2022

- Actively seeking potential low cost funding opportunities

Drive efficiencies by simplifying and streamlining operations and investing in digital capabilities

Progress in 2021

- Initiative to implement the corporate loan module in T24 (core banking)
- Implementation of the audit checklist
- Implementation of a revised Corporate Loan Policy and Risk Based Pricing Policy

Focus for 2022

- The division has commenced measures to archive and digitise loan files and backup all data onto portable storage devices.
- Laptops with VPN licenses to be requested in the event that a remote working environment is required

Financial review

Table 15

	2021 Rs. Mn.	Percentage of total
Interest income	**18,729.6**	14.2
Net interest income	**6,849.6**	12.5
Net fee and commission income	**22.8**	0.8
Net operating income before taxes	**6.0**	11.3
Assets of the segment	**247,585.7**	15.7
Liabilities of the segment	**48,056.8**	3.2

On 1 January 2021, the Bank converted Rs. 59.4 Bn. worth of outstanding loans under the Road Development Authority as Debenture (covered by Treasury Guarantee). Therefore, it has been classified from "loan and advance" to "debt and other instruments" as of 31 December 2021. This was the main reason for the Rs. 111.4 Bn. decline in the corporate lending portfolio as of December 2021, which was a 31.6% decrease against the Rs. 162.9 Bn. reported in the previous year. The decline witnessed in the loans to banks and securities purchased under the repurchase agreement (rrepo) negatively contributed to the growth of corporate loans as well.

The Bank has provided flexible payment options, rebates on accrued interest, and extensions on existing moratoriums. The Bank has granted payment holidays and restructured capital repayment of such loans in order to ease cash flow pressure. Accordingly, Rs. 552 Mn. of capital and interest payments were deferred during the year.

Outlook with risk and opportunities

- With more emphasis on locally produced goods and services, the SME sector is expected to flourish
- Increase in national policies supporting power, infrastructure, renewable energy, and export-oriented sectors
- Continuing weak macroeconomic outlook and inconsistency in policy decisions

International banking

The segment offers an array of solutions in relation to foreign currency, engaging activities of foreign currency deposits (Savings and FD) in USD, EUR, GBP, AUD, SGD and JPY, inward and outward remittances, foreign currency exchange, issuance of import letter of credit, handling of import bills, and issuance of shipping and air freight guarantees

2021 operating environment

- Slowdown in global trade activities
- Measures taken to curtail imports
- Declining foreign exchange earnings from key source markets
- Frequent regulatory changes to foreign exchange

Until September 2020, the US Dollar (USD)-Sri Lanka Rupee (SLR) exchange rate was determined on the basis of a "managed float." This meant that the primary determinants of the exchange rate were the demand and supply of USD in the market. When needed, official (Central Bank) market intervention by way of sale or purchase of USD in limited quantities smoothened out any large fluctuations in the exchange rate.

In September 2021, the Central Bank (CBSL) set an upper limit of Rs. 203 per USD that authorised dealers in foreign exchange, including banks, must adhere to for all foreign exchange transactions. This restriction has had severe adverse impacts on the functioning of the Sri Lankan economy. Since the demand for USDs has been higher than the supply of USDs at the upper limit of Rs. 203 per USD, the CBSL restriction essentially resulted in the exchange rate being "fixed" at this rate. Banks have been compelled to address this shortage by restricting allocation of their inadequate USDs among customers for all permitted foreign expenditures, at this "fixed" rate. The shortage has worsened substantially over the past months. In response, the CBSL, while stubbornly maintaining the "fixed" rate, has issued several additional directives which have failed to address the adverse consequences of this shortage, as detailed below.

Considering the severity of external shocks and recent developments on the domestic front, the Monetary Board of the CBSL announced a comprehensive policy package on 4 March 2022 with the view to counter such economic headwinds. In that context, greater flexibility in the exchange rate was allowed to the markets and the rupee value depreciated to Rs. 260.

Strategic priority

Market penetration and market development in key source markets for remittances

Progress in 2021

- Commenced business operations with the Western Union Express Money Remittance Service.
- Entered a remittance relationship with Japan Remit Finance Co. Ltd which will offer
  - Account credits with NSB and other local banks
  - Over the counter payments

Focus for 2022

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

Financial review

Table 16

	2021 (Rs. Mn.)	Percentage of total
Interest income	1,186.0	0.9
Net interest income	614.0	1.1
Net fee and commission income	0.3	0.01
Net operating income before taxes	270.3	0.5
Assets of the segment	14,480.3	0.9
Liabilities of the segment	15,861.8	1.1

During 2021, the Bank's foreign current deposit base was stagnated and has mobilised only Rs. 16.4 Mn. against the Rs. 3.3 Bn. reported in 2020, as foreign exchange inflows into the country through banking channels dried up after the rupee was administratively revalued to Rs. 203.0 to the US dollar in the latter part of the third quarter in 2021. Accordingly, the market share of foreign currency deposits declined by 12bps to 0.72% from 0.84% reported in the same period last year.

Workers' remittances in 2021 via banking channels have declined to a 10-year low. However, the Bank has managed to receive Rs. 57.1 Bn. worth of remittances during 2021 compared to Rs. 56.2 Bn. reported during the same period last year. Consequently, the market share in the remittances increased from 4.24% in December 2020 to 5.25% as of December 2021.

Reflecting the industry trend, the volume of trade routed through the Bank was severely impacted due to the shortage of dollars in the market along with the Government's initiative to curtail non-essential imports in addition to the lockdown situation in the country. These measures prevented clients from conducting smooth trading businesses, thereby greatly affecting the trade finance business.

Outlook with risk and opportunities

- Following the CBSL's decision to allow free float of the exchange rate, the remittance business and foreign currency deposits are expected to revive
- However, the effect of depreciation combined with the introduction of new import restrictions due to depleting foreign currency reserves are expected to take a toll on import related trade finance activities.

Treasury and dealing

Treasury and dealing plays a vital role in managing the Bank's market risks such as interest rate and liquidity risk through the Asset Liability Management Committee. The segment engages in investment in Government Securities, equities, FX, repo borrowings, and reverse repo lending. It also carries out fund raising activities through debentures and bonds based on the liquidity requirement of the Bank.

2021 operating environment

- Upward rate revision as CBSL tightens its monetary policy to combat price instabilities
- Investor attraction towards more liquid short-term securities given the lower yield on one year and longer tenor securities
- Yields of Government Securities continued its upward momentum, albeit in a volatile manner
- Negative real interest rates amidst the hyper inflation

Strategic priority

Strategic management of investment in Government Securities and interest rate risk of the Bank, with due consideration given to the banking and trading books

Progress in 2021

- Made Rs. 170 Bn. in new investments to Government Securities

Focus for 2022

- Optimising return on investment and strengthening the asset liability management function

Drive efficiencies by simplifying and streamlining operations and investing in digital capabilities

Progress in 2021

- Initiatives taken to implement Treasury Management System
- finalised the RTGS system installation at the Bank

Focus for 2022

- Fully implementation of the Treasury Management System
- Launch Dealer Direct Participant status
- Significantly increased the capacity of our front-line branch employees by transforming the cash ecosystem and eliminating, simplifying. or centralising key administrative activities
- Implementation of RTGS system

Financial review

Table 17

	2021 (Rs. Mn.)	Percentage of total
Interest income	**73,556.0**	56.0
Net interest income	**29,857.1**	54.7
Net fee and commission income	**–**	–
Net operating income before taxes	**29,866.8**	51.6
Assets of the segment	**867,086.3**	54.9
Liabilities of the segment	**20,098.6**	1.3

Amidst passive trading activity in the secondary market for Government Securities due to the controlled interest rate regime, the Treasury was primarily focused on cash flow management. The second half of the year presented some challenges due to the combined effect of the upward rate revision and the increase in SRR. These moves led to a spike in interest rates with greater focus on the shorter tenor options based on the 3-6-month yield curve expectations.

When it came to foreign exchange liquidity, the main priority for the Treasury was to manage the Bank's Net Open Position (NOP), especially with the shortage in foreign exchange in the market. Throughout 2021 the Bank's foreign currency liquidity position remained strong.

The Bank's Treasury Division continued to make a significant contribution to the Bank's operating profit before tax of 51.6% during 2021 as well, mainly due to a significant increase in net interest income. The market volatilities that prevailed in 2021 amplified the importance of the Division's role in managing the Bank's liquidity levels and monitoring asset and liability maturity mismatches. The Division has strengthened liquidity buffers, successfully raised funds at lower cost and directed long-term investments towards Government Securities and Sri Lankan Development Bonds. At the end of 2021, the Government Securities portfolio was Rs. 834.1 Bn. in stature while the equity portfolio recorded a fantastic performance with a mark to market gain of Rs. 427.4 Mn. and a Rs. 5.2 Bn. worth of portfolio.

Outlook with risk and opportunities

- Challenges in accessing foreign funding, given the country's risk profile
- Depleting foreign reserves, rising foreign currency debt repayment requirements, restricted market funding sources, and recent adverse global developments coupled with surging commodity prices are expected to put more pressure on yields of Government Securities.
- The extremely weak economic indicators may press the Monetary Board to further tighten monetary policy
- The outlook for equity markets could further dampen if the economy is further impacted by supply-chain disruptions, rising inflation rates, and geopolitical factors

Manufactured capital

What it includes

Manufactured capital refers to the collection of physical, material, and technological objects that are owned, leased, or controlled by an organisation for use in the provision of service. It contributes to the production process rather than being the output itself.

Sustainable value creation through manufactured capital

Our approach

We believe that properly managed manufactured capital enables us to provide superior customer service through delivering seamless access to banking service via self-service channels that are optimally designed to ensure customer satisfaction. Further, manufactured capital has direct impacts on operational efficiency, cost efficiency, and Bank profitability and sustainability.

As such, we ensure that all investments in manufactured capital are determined by the overall value it offers towards achieving the Bank's strategic objectives. We have ongoing investments and always attempt to develop and maintain a high-quality asset base that not only gives us a competitive advantage but secures our long-term growth as well.

Key inputs

- Property, plant, and equipment – Rs. 15,046 Mn.
- Capital Expenditure – Rs. 1,306 Mn.
- Physical touchpoints
- Virtual touchpoints/ Digital channels
- Digital infrastructure

Key outputs

- 27,204 new internet banking customers
- 261 Branch Networks
- 292 ATMs
- 92 Cash Recycling Machines (CRMs)
- 4,064 Post offices and sub-post offices
- ICT systems, digital platforms and cloud services
- 42 solar panel installed branches/circuits

Strategies to enhance value

- Build a high-quality asset base for competitive advantage in long-term growth
- Ensure optimum maintenance of assets to reduce downtime/rework
- Engage in integrated capital projects for cost-reduction
- Expand and upgrade digital infrastructure to enrich customer experience
- Maintain sound balance between opening physical branches and increasing access to digital channels
- Strengthen information security
- Maximise operational excellence through automating front to end operations

What manufactured capital means to NSB

At NSB, our manufactured capital is understood to be all physical and digital infrastructure that aids us in successfully reaching our customers whilst achieving operational excellence. Our physical infrastructure includes property, plant and equipment, branch networks, ATMs, CRMs, merchant point of sale and handheld point of sale machines, post offices, sub-post offices, and mCash retailers while our digital infrastructure boasts of high-powered ICT systems and digital platforms such as internet banking, chatbox, and social media.

Value created

- Value propositions through self-service channels
- Digital transformation across the value chains
- Business continuity
- Physical and digital infrastructure reliability
- Operational efficiencies and improved productivity

Key challenges in 2021

- Myriad and shifting customer preferences
- Projects needing continuous investments and financial viability assessments
- Limitations on expanding geographically
- Maintenance of Information System Security
- Customer resistance to new technology

Key opportunities in 2021

- Able to improve operational efficiency
- Enhanced Bank productivity and customer experience
- Digital capabilities utilised as strategic differentiators
- Able to speedily move to digital banking
- Boost the agility of NSB

Material matters

Related stakeholders

Short to medium-term strategic priorities

Scorecard

Customer touchpoints

Number of branches	Number of Smart zones	Number of ATMs	Number of CRMs
↑ 261	↑ 40	↑ 292	↑ 92
2020 – 259	2020 – 39	2020 – 289	2020 – 72

Fixed assets

Net book value of property, plant and equipment	Investment in digital capital
↓ Rs. 15,046 Mn.	↓ Rs. 534.8 Mn.
2020 – Rs. 15,316 Mn.	2020 – Rs. 539.1 Mn.

Linkage to other capitals

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

Expansion of physical and digital infrastructure provide strong links with customers and suppliers

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

Investment in sustainable physical and digital infrastructure reduces the carbon footprint

Increased efficiency and productivity reduces overall costs

Contribution to SDGs

Provide easy access to banking services by expanding the branch network among a wider community coupled with increasing Smart zones across the island	Supporting innovation in products and services through funding both digital and physical infrastructure.	Harness solar energy for branch energy needs	Reduce paper consumption through the promotion of digital banking
10 REDUCED INEQUALITIES	11 SUSTAINABLE CITIES AND COMMUNITIES; 13 CLIMATE ACTION	7 AFFORDABLE AND CLEAN ENERGY	12 RESPONSIBLE CONSUMPTION AND PRODUCTION

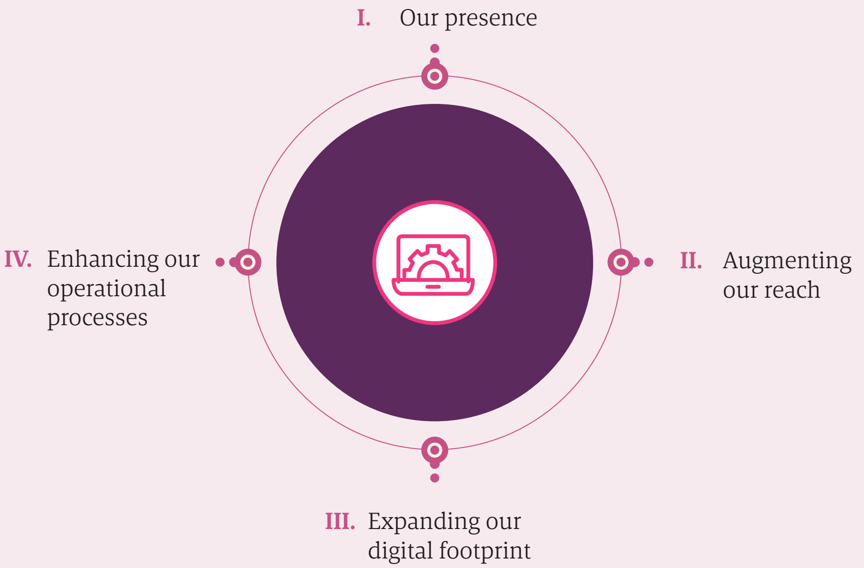
Trade-offs

	S	M	L	S	M	L	S	M	L	S	M	L	S	M	L	S	M	L
Expanding our physical network																		
Enhance customer convenience and accessibility		▲	▲										▲	▲	▲			
Increase the branch outlets and strategic relocations	▼	▲	▲								▲	▲		▲	▲			
Spend on investments	▼	▲	▲															
Investing in energy-efficient building	▼	▲	▲								▲	▲					▲	▲
Expanding our digital channels																		
Increase productivity and efficiency		▲	▲															
Improved customer experience	▲	▲	▲										▲	▲	▲			
Reduction of paper consumption	▲	▲	▲													▲	▲	▲
Spend on digital technology and infrastructure	▼	▲	▲										▲	▲	▲	▲	▲	▲
Cost savings due to operational excellence	▲	▲	▲															
Improve convenience and accessibility to financial services	▲	▲	▲										▲	▲	▲			
Investment in digital technology and infrastructure																		
Spend on digital technology and infrastructure	▼	▲	▲					▲	▲		▲	▲	▲	▲	▲			
Develop new skills and jobs	▼	▲	▲	▲	▲	▲												
Cost savings due to operational excellence (in the long run)			▲															
Develop new ICT competencies and digital skills	▼	▲	▲				▲	▲	▲				▲	▲	▲			
Some existing jobs may become redundant and replaced by technology	▲	▲	▲															

S – Short-term   M – Medium-term   L – Long-term   ▲ – Value increase   ▼ – Value decrease   – Value preservation

Drivers of Sustainable Value Creation (DSVC)

Figure 12



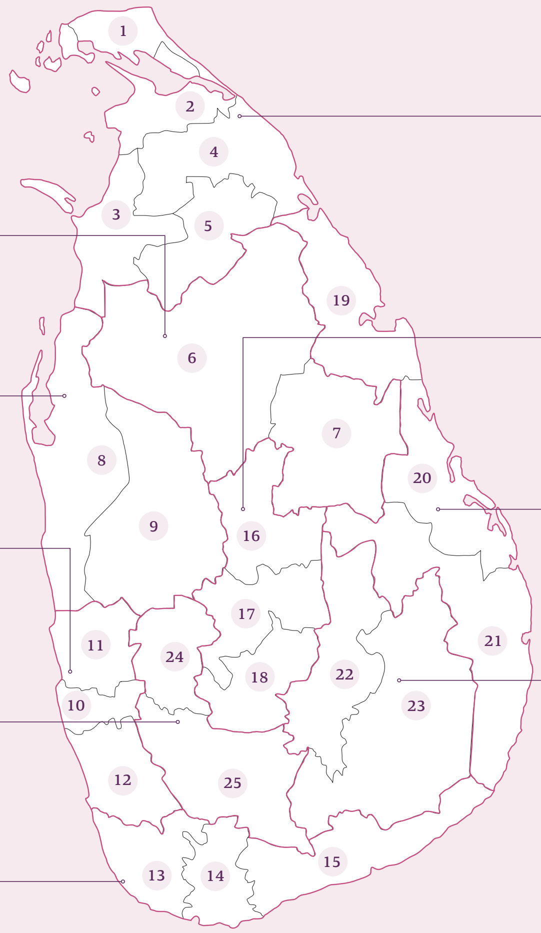
Our presence (DSVC I)

As a Bank, we boast of extensive island-wide coverage through our networks which cover every province and district in the island, bringing our products and services to every community and every stratum of society. This network includes 261 branches, 8 regional offices, and 384 ATMs/CRMs with Visa and Master debit card facilities. We have also partnered with LankaPay Common ATM Switch which gives us access to a network that connects over 5,400 ATMs including Cash Deposit Machines (CDMs) and Cash Recycle Machines (CRMs) across the country.

Scan to view more details on our branches and networks.

GRI 102-4 and 6

Figure 13



	Branches	ATM/CRM	Smart Zone
North Central Province	15	19	1
6. Anuradhapura	12	16	1
7. Polonnaruwa	3	3	–

	Branches	ATM/CRM	Smart Zone
North Western Province	26	36	5
8. Puttlam	8	13	4
9. Kurunegala	18	23	1

	Branches	ATM/CRM	Smart Zone
Western Province	82	151	24
10. Colombo	43	85	14
11. Gampaha	27	48	7
12. Kalutara	12	18	3

	Branches	ATM/CRM	Smart Zone
Sabaragamuwa Province	21	26	2
24. Kegalle	10	12	1
25. Ratnapura	11	14	1

	Branches	ATM/CRM	Smart Zone
Southern Province	39	51	1
13. Galle	15	19	–
14. Matara	13	17	1
15. Hambantota	11	15	–

	Branches	ATM/CRM	Smart Zone
Northern Province	20	27	4
1. Jaffna	14	20	4
2. Kilinochchi	1	1	–
3. Mannar	2	2	–
4. Mullaitivu	2	2	–
5. Vavunia	1	2	–

	Branches	ATM/CRM	Smart Zone
Central Province	28	36	3
16. Matale	4	6	1
17. Nuwara Eliya	7	8	1
18. Kandy	17	22	1

	Branches	ATM/CRM	Smart Zone
Eastern Province	17	20	0
19. Trincomalee	2	2	–
20. Ampara	8	9	–
21. Batticaloa	7	9	–

	Branches	ATM/CRM	Smart Zone
Uva Province	13	18	0
22. Badulla	6	11	–
23. Monaragala	7	7	–

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Augmenting our reach (DSVC II)

Given our coveted position as a state bank, we are keen to ensure that our banking services are not only widespread, but efficient and at the cutting edge of technology. We have achieved the following in 2021, which has brought us closer to our desire.

Island-wide networks

Branches play a strategic role in acting as physical touchpoints for customers while highlighting our brand. At the same time, there has been a digital shift in customer behaviour, displaying greater interest in digital platforms for banking. This has resulted in the Bank adapting to both the physical and digital demands by installing island-wide physical touchpoints as well as expanding digital infrastructure.

Our island-wide physical touchpoints is a key asset in our value creation process. Whilst building our digital infrastructure, we continue to augment our branch network by adding new branches in strategic locations. In 2021, we opened two new branches in Yakkalamulla and Ahangama. Branch relocation, expansion and renovations continued with full steam during the year to enhance customer experience and provide a pleasant work environment to our employees. Branches in Kelaniya, Kalubowila, Kahathuduwa, Dankotuwa, Buttala, Monaragala and World Trade Center (WTC) were relocated to new spacious locations.

"Model Branch" concept

Launched in 2017, the "Model Branch" concept is a banking initiative that seeks to provide customers with state-of-the-art banking services, where each branch holds a "Smart Zone" designed under the 5S standard branding and signage. These zones are equipped with ATM and CRM for digital banking with Integrated Digital Media Signage (IDMS) under the brand name of "NSB Connect".

At the end of 2021, NSB had installed 40 Smart Zones across the island, and hope to reach a target of 43 Smart Zones at the end of 2022.

Table 18

	Smart Zones
2018	5
2019	34
2020	–
2021	1
2022	3

Accessibility for the differently abled

As part of our endeavour towards equal access for all, the Bank has taken measures to provide disability access in branches across the island. As at 2021, 38 bank own branch buildings and 90% of the branches which are in rent basis have the disability access. All future branches will be built along this requirement while we seek to ensure that all NSB branches come equipped with equality of access.

Green buildings

We take our environmental responsibility very seriously and have implemented several energy-efficiency projects to reduce costs, conserve energy, and cut back our carbon footprint. Our green building concept ensures that all new branches are constructed optimising natural light and air to reduce energy consumption. 42 branches/circuits have been equipped with solar power systems, our branch premises has been fitted with glazed windows to reduce energy leakages, and our Kataragama circuit bungalow – identified as a Green Building – has minimal electricity consumption due to its optimisation of natural light and air, all contributing towards energy conservation. page 174 for further details on our green concepts.

Expanding our digital footprint (DSVC III)

The current trend is steadily in the direction of digitalisation in the banking sphere, with customers showing increased digital sophistication when engaging in banking. There has been a push for self-service channels that would make banking more efficient, convenient, and flexible. Employees have also found digital processes to be more efficient and generate higher productivity. To this end, we have invested in self-service propositions, payment and digital solutions, and bolstered information security. Given below are our undertakings.

Digital platforms

Given the increase of users online and the tech-savvy nature of young customers, we have moved our focus onto digital channels. This has enabled us to attract a younger clientele, communicate better with our existing clientele, and provide greater visibility to the Bank.

Secure card payments

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

- Commenced in-house printing of chip enabled EMV (Europe, Master Card and Visa) Debit Cards to combat fraud
- Converted over 450,000 "magnetic stripe only" cards to EMV cards
- Introduced the NFC (Near Field Communication) technology enabled Visa and Master Debit Cards which offer maximum protection against skimming and cloning of information
- Introduced the Green PIN issuance for EMV Cards – PIN issued through SMS which safeguards customer credentials
- Maintained the Card Management System (CMS) implemented in 2018
- Handled debit card related issues via the Automated Tracking Systems which integrates the card centre, call centre, and ATM support services unit

- Holder of the Data Security Standard PCI-DSS Certification which is an internationally accepted cardholder data security standard

"Intellectual capital: Robust systems and processes" on page 133 and "IT Risk" on page 235.

Mobile payment app

Introduced in 2021 under the brand name of "NSB Pay App", the NSB Mobile Payment App is available on leading mobile application platforms such as iOS, Android, and Huawei. The main objective of introducing this app is to encourage customers to accomplish their daily banking needs easily, safely, and speedily within. The facilities provided by the app include deposits, fund transfers to any other account at the Bank or other banks, payment of loan instalments relevant to loans obtained from the Bank, bill payments, payments under QR Code, instant connection with its call centre, and many more.

Other payment solutions

Since CBSL has taken a series of measures to foster migration to secured e-payments, the Bank has developed several payment solutions in the past such as LankaPay – CEFTS, Lanka Pay Online Payment Platform (LPOPP), JustPay, and USD online clearing system.

Enhancing our operational processes (DSVC IV)

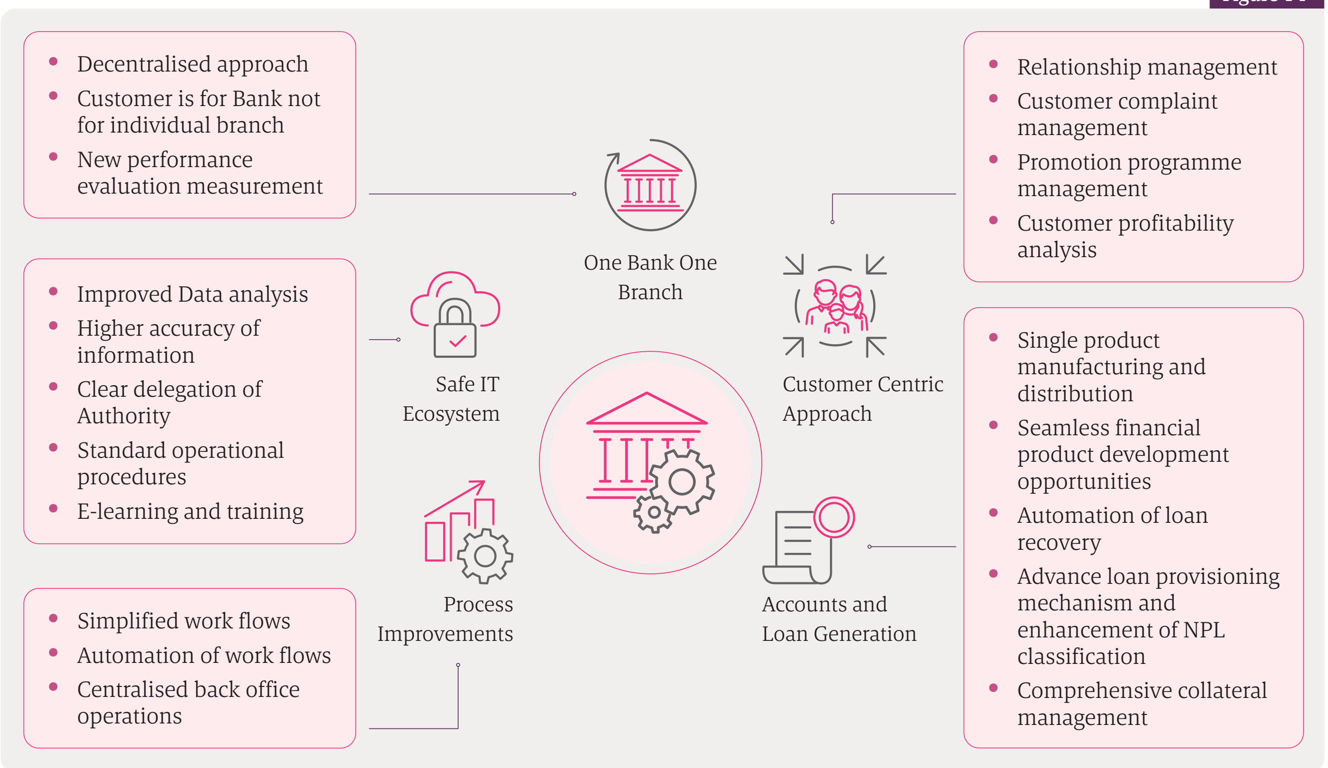
We understand that the world is evolving towards digitalisation and to this end, we have ensured that our digital and physical infrastructure work in tandem with each other, thereby providing the most seamless and efficient operational processes. We continue to upgrade our systems and processes, keeping ahead of the curve in our determination to quickly respond to customer needs and expectations in a digital age. Discussed below are our initiatives in this regard.

Procured in 2019, the Integrated Core Banking Solution covers deposits, credits, cheques, loans, collaterals, collections, and payments all on one platform. It focuses on:

Integrated core banking solution

- Updating IT architecture and systems to the latest software for customer flexibility
- Digitally transforming the delivery of products and services so that it can easily adapt to changes
- Using the latest technology as a foundation for daily operations and to understand customer needs
- Digitally updating back-end operations to automated process that improves the speed, efficiency, and strength of our operations

Figure 14



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The Core Banking Solution has resulted high levels of automation and risk-free deployment when handing sophisticated integrated banking requirements, is easy to use, provides high operational efficiency whilst complying with regulatory requirements and international best practices. Both employees and customers benefit from this in the immediate sense, whilst the Bank is transformed into a data-driven organisation with greater productivity levels and more time to market in the longer term. This system further strengthened by the integration of the Anti-Money Laundering Solution (AML), Treasury Management System (TMS), and Human Resource Management System which provides a holistic approach to managing processes.

Anti-money Laundering solution (AML)

E-KYC with blockchain technology

In 2018, CBSL identified the potential benefit for Sri Lanka's financial services through Blockchain Technology and initiated an inter-industry study with the voluntary participation of banks as well as the IT industry. CBSL decided to pave the way for Blockchain Technology based financial service solutions in Sri Lanka, developing a Shared KYC solution and entering into agreements to begin the process of developing Blockchain Technology Based Shared Know-Your-Customer (KYC). Accordingly, the Bank has taken initial steps relating to E-KYC with Blockchain Technology.

The AML complements the core banking system and has enabled the following functions:

- Monitoring and tracking of transactions to prevent fraud and money laundering activities
- Consistent lifecycle coverage for Know Your Customer (KYC) and customer due diligence
- Ability to screen customers/ transactions against sanctions lists
- Comply with all AML regulations
- Improved due diligence due to system-enabled tracking and monitoring of blacklisted customers

Human resource management system

With a view to automating human resource functions, this system completes the holistic managing process and bolsters the efficiency of HR functions in the following manner:

- Gathers, stores, and assesses employee information
- Manages recruitment and onboarding
- Tracks the payroll and performance evaluation
- Manages the administration of employee benefits
- Maintains records of employee learning and development

Cash@Ease system

The Cash@Ease system was introduced to streamline the cash management process of the Bank. It has allowed for greater operational efficiency in the Treasury Division and the cash management process across branches, and has enabled the following:

- Able to view daily cash positions
- Able to request cash from the Treasury
- Manage balances
- Send online confirmation of transactions
- Increased accuracy in cash management processes
- Greater levels of efficiency and customer service

Outlook for 2022 and beyond

Short-term

- Implementation of Postal Payment Application
- Implementation of Treasury Management System
- Establishment of Digital Banking Unit
- Adopting Blockchain Technology as per the CBSL Digital Road Map
- Widen customer accessibility via CRM's, SMART ATM areas, and digital platforms

Medium-term

- Be a comprehensive Digital Banking solution that can be easily accessed via digital devices
- Set up a strong Information Security Management System (ISMS) and obtain the ISO 27001 certification
- Integrate the Core Banking Solution with the HR and Treasury Management Systems
- Take up "online compliance assessments" to closely monitor branch networks

Long-term

- Become a nimble and data driven organisation

Intellectual capital

What it includes

Intellectual capital refers to the value of a company's collective knowledge and resources that can provide it with some form of economic benefit. It encompasses the technical expertise and process knowledge contained within an organisation and is also used to identify a firm's intangible assets and divide them into meaningful categories. As such, any institution that is determined to maximise its use of intellectual capital ensures that there are detailed plans in place for focused knowledge acquisition and employee training, whilst also looking to convert it into specific competitive advantages.

Sustainable value creation through intellectual capital

Our approach

We believe the source of our economic value does not depend solely on our bricks and mortar, income-earning asset base, but also on how we manage and use these assets and adapt to change to ensure we extract the highest value and most efficient use of our resources, while remaining relevant to stakeholder needs and being true to our mandate. In essence, it depends on our management of intellectual capital

We develop our intellectual capital through strong process flows, partnerships with other institutions, and encouragement for learning and innovation. As the next step, it is nurtured through efficiency via the development of new products and improvements to the systems and processes

Further, enhancing our corporate image and increasing consumer confidence reduces the environmental impact and operating costs, whilst creating a customer-centric business strategy enhances customer relationship management and business intelligence. We sustain all the above through attracting and retaining key skills which enable our strategy and increase value proposition through improvement

Key inputs

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

Key outputs

- Only state bank to achieve PCI DSS compliance
- 24/7 Security Operations Centre (SOC) under the Information Security Division and a third party, to keep incident response capabilities in line with international standards and next generation features
- Achieved all milestones for 2020 set in the "Direction on Technology Risk Resilience" prospectus by the Central Bank of Sri Lanka
- Mobile Payment App
- Implemented a Human Resource Information System by a leading provider

Strategies to enhance value

- Maximise intellectual capital through targeted sourcing of employee skills and expertise
- Enhance efficiencies in business processes and management systems
- Strengthen corporate image and customer loyalty through ethical practices, reliability, and responsibility
- Boost information technology assets
- Foster a working culture that promotes innovation
- Prioritise environmental sustainability through ecological business practices

What intellectual capital means to NSB

At NSB, intellectual capital refers to the broad knowledge and capability that is intrinsic to our Bank. We believe that intellectual capital is distinctive from human capital in that it can be reproduced and shared. It is the way we do business, what sets us apart, and it remains a key driver of sustainable growth. It is a culmination of all our capitals comprising intangible assets including our tacit knowledge, customer loyalty, brand and reputation, internal systems and process, business ethics, corporate values, policies, and our corporate culture that is essential to create value for our stakeholders.

Value created

- Strong brand position
- Consistently maintained AAA credit rating
- 100% Government guarantee for deposits and interest thereon

Key challenges in 2021	Key opportunities in 2021
• Rapidly changing operating context due to COVID-19 • Ensuring business continuity in a new operating context • Cyber resilience and information security • Mutually exclusive projects due to limitation in capital allocation • Resistance to change • Sustaining brand value	• Effective stakeholder engagement and collaboration • Improved decision-making • Innovation and agility • Digitalisation • Implementing effective ESG strategies

Material matters

Related stakeholders

Short to medium-term strategic priorities

Scorecard

Brand

Brand value
Rs. 30.73
2020 – Rs. 28.12 Bn.

Brand rating
AA
2020 – AA

Credit worthiness

Credit rating
AAA
2020 – AAA

Tacit knowledge

Employees with over 10 years service
1,469
2020 – 1,148

Linkage to other capitals

Enhancing infrastructure, systems, and processes results in improved business functions

Our values, business ethics, and risk management framework are fine-tuned through attention to detail, creating a reputation that instills confidence

Investment in training and development enhances the knowledge, skills, and experiences of our employees, contributing to operational excellence

Our attention to sustainability initiatives is bolstered by our science-based approach, thereby instilling stakeholder confidence

Increased investment in areas of brand and staff development lead to enhanced cooperate reputation and stakeholder confidence

Contribution to SDGs

Identify and develop intellectual capital of employees to increase living standards and economic growth

8 DECENT WORK AND ECONOMIC GROWTH

Encourage an innovation driven culture, investing in technology and infrastructure

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Invest in intellectual capital to reduce inequality among employees, thereby creating more equal opportunities for success

10 REDUCED INEQUALITIES

Promote ethical behaviour, good governance, and compliance across the Bank

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

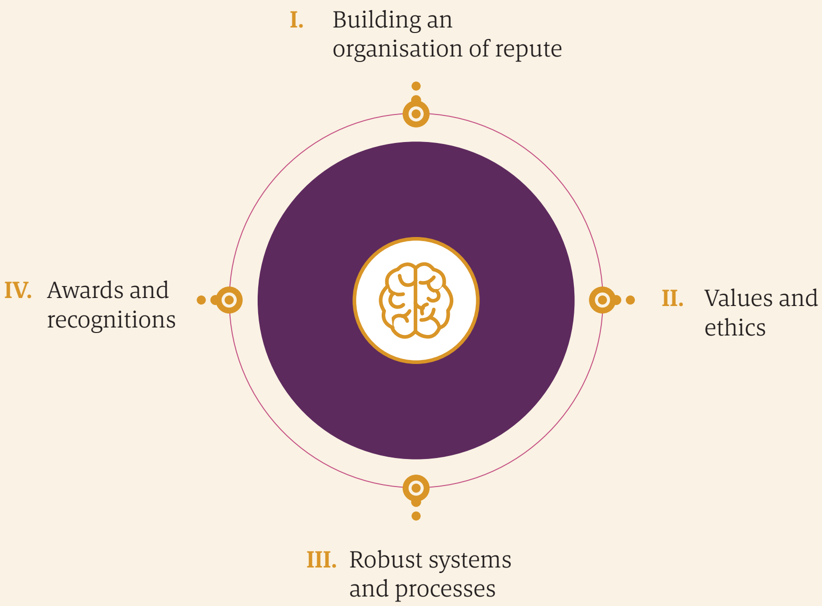
Trade-offs

	S	M	L	S	M	L	S	M	L	S	M	L	S	M	L	S	M	L
Investment in training and development																		
New skills and innovation	▼	▲	▲				▲	▲	▲					▲	▲			
Improved decision-making	▲	▲	▲				▲	▲	▲									
Spend on training and development	▼	▲	▲				▲	▲	▲									
Expanding digital infrastructure and network																		
Enhancing customer experience, convenience and accessibility	▼	▲	▲				▲	▲	▲					▲	▲			
Financial inclusion	▲	▲	▲															
Spend on investments in digital infrastructure	▼	▲	▲				▲	▲	▲					▲	▲			
New infrastructure equipment	▼	▲	▲				▲	▲	▲									
Investments in new and enhancing digital technology																		
Enhancement in systems, processes and equipment	▼	▲	▲				▲	▲	▲					▲	▲			
Efficiency and operational excellence	▲	▲	▲															
Spend on investments in digital technology	▼	▲	▲				▲	▲	▲					▲	▲	▲	▲	▲
Cost savings due to productivity	▲	▲	▲															
Reduction in paper consumption	▲	▲	▲													▲	▲	▲
New skills and innovation	▼	▲	▲				▲	▲	▲									
Reduction in manual operations	▲	▲	▲															

S – Short-term M – Medium-term L – Long-term ▲ – Value increase ▼ – Value decrease – Value preservation

Drivers of Sustainable Value Creation (DSVC)

Figure 15



Building an organisation of repute (DSVC I)

Deep-rooted INTEGRATED THINKING

INTEGRATED THINKING lies at the core of our business which brings together every function of the Bank. We understand that value creation does not happen in isolation and that our strategic choices have lasting impacts, which then affects our management of intellectual capital and gives us a differentiated competitive advantage. Intellectual capital comes to the forefront when considering the risks, opportunities, interrelatedness of each capital, and potential trade-offs inherent in our strategic choices. It guides the Bank to make sound short, medium, and long-term objectives and action plans in a highly volatile environment, where strategic impacts directly affect the Bank. Intellectual capital also considers our commitment to ESG within operations, identifying and working with the UN SDGs that have the highest impact in driving sustainable value creation. We monitor several measures to ensure that we hold ourselves accountable for the progress and impact made in our journey of value creation. These are measured against each of our strategic objectives, using meaningful KPIs.

pages 4 and 5 for a deeper understanding of our integrated approach to business.

The go-to brand

Since our inception in 1972 coupled with our banking legacy of 187 years from our predecessor – The Ceylon Savings Bank (CSB) – NSB has become a household name in Sri Lanka.

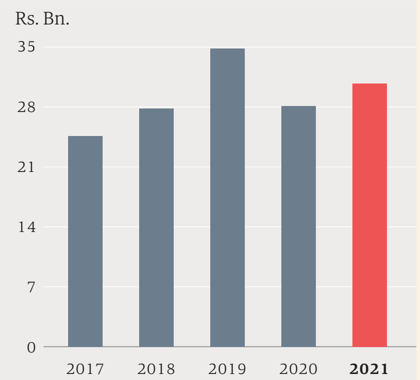
- Unique government guarantee to uphold claims on all deposits and interest thereon assures safety
- Brand is synonymous with trust as the premier savings bank in Sri Lanka
- Achieved many financial and non-financial milestones
- Wide network across the island provides wider reach

Increasing our brand value and ratings

We remained on track with our brand value as ICRA Lanka Limited reaffirmed the issuer rating of [SL] AAA with Stable outlook for 2021. This mirrors the 100% government ownership and guarantee on deposits and interests thereon as well as the sound lending portfolio and low risk investment portfolio. We were proud to be considered the 5th most valuable brand in Sri Lanka with a brand value of Rs. 30.73 Bn. in 2021, and our brand value has risen 9.3% YoY. The brand rating saw stability and remained at AA in 2021 according to the May 2021 Annual Report of "Brand Finance".

Graph 29

NSB brand value



Tacit knowledge

NSB has a rich heritage of technical know-how given our 49 years of service since 1972, and we consider this a fundamental part of our competitive advantage. Our tacit knowledge is a culmination of the following factors, and we continuously update database to be at the cutting edge of the Banking industry.

Processes and practices matured over decades

Experienced workforce:

- Over 32% of employees with more than 10 years service
- 90% of Corporate Management with more than 15 years service
- Diverse workforce with diverse knowledge and skills:
- Different geographies, generations, and backgrounds
- High staff retention rate of 98.6%

Tacit knowledge

Enrich via

- Identify stores of tacit knowledge in each employee
- Retain employees with high tacit knowledge
- HR policies that facilitate high levels of employee engagement
- Structured training programmes
- Knowledge sharing sessions
- Mentoring and other training tools
- Internal training and induction programmes by experienced staff members

Bolstering brand image

The Bank's promotion methods are targeted towards a wide demographic that includes all strata of society. As such, we have made use of both digital and physical advertising avenues to provide the highest possible visibility to our brand image. This has meant that we are present on mass media, social media, web-based platforms, billboards, and bus halts across the island. Added to this rigorous advertising is our range of publicity campaigns via various events, exhibitions, sponsorships, and special promotional campaigns where we have sponsored or co-sponsored various national, social, cultural, and religious events. These endeavours have resulted in NSB being a highly visible and well-known brand in Sri Lanka.

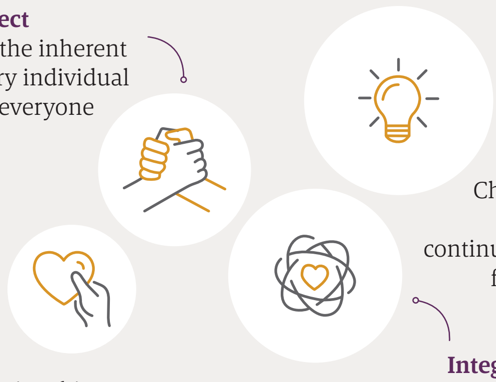
Values and ethics (DSVC II)

GRI 102-16

Image and advance public relations

We consider ourselves to be a value driven institution and have built our operations on a foundation of trust, mutual respect, integrity, and creativity. These values have been fine-tuned over the past 49 years and provide a clear indication of our corporate vision, mission, and what drives our actions. These values have not only shaped our corporate culture but contributed to our ethos, identity, and philosophy. These have come together to contribute to our overall goal of providing financial solutions to all whilst looking after stakeholder expectations.

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



Creativity
Challenging existing practices whilst continuously seeking out for novel concepts.

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

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

As much as we are driven by values, we are governed by ethics at NSB. Given our position as the premier savings bank in Sri Lanka, ethical integrity is an absolute in all our transactions, with our stakeholders being considered a social responsibility as well. The Board sets the bar for ethical conduct, while the enactment of policies and processes throughout the Bank ensures that employees abide by the set standards.

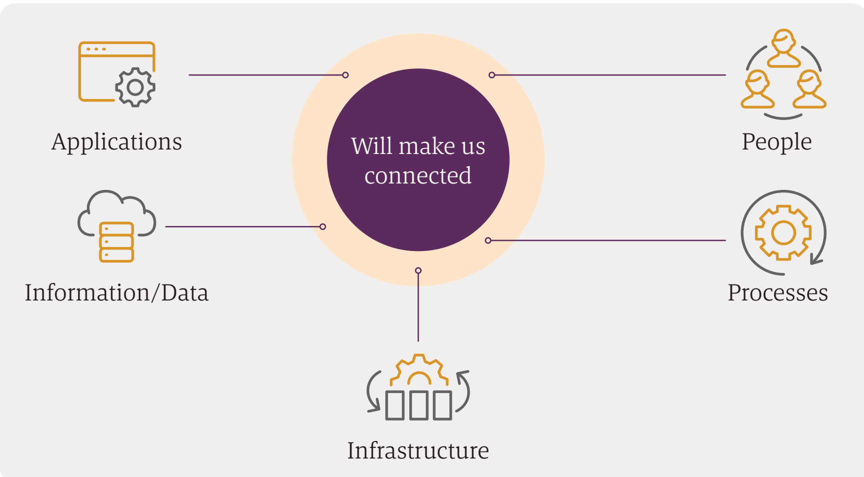
All staff at NSB are expected to showcase ethical behaviour in all transactions whilst the Bank itself periodically reviews internal standards, codes and control mechanisms, and regulatory and compliance requirements to ensure that they are in line with best practices and regulatory authority requirements. Risk management and compliance are given top priority by the Board who view these as integral strategic investments coupled with the goal of fostering a risk conscious culture at the Bank. The Three Lines of Defence at the Bank sets up a strong values-based risk awareness culture which forms the basis for compliance and accountability. These are systematically strengthened through improving corporate governance and maintaining a robust risk management framework and compliance.

Robust systems and processes (DSVC III)

Leveraging technology and innovation

Technology and innovation are key elements of our futuristic intellectual capital and determine how the "NSB of tomorrow" is delivered to our stakeholders. This operation is headed by our internal Information Technology Steering Committee (ITSC) with Board oversight. The ITSC aims to provide ICT services and infrastructure that meets current and future needs whilst simultaneously maintaining an effective level of operational management. As such, ICT governance standards and strategies are implemented throughout the Bank in a manner that follows regulatory requirements, serves Bank objectives/goals, and helps deliver the most relevant, secure, business-effective model and better end-user experience. Our commitment to technology and innovation is evident in "accelerating digitalisation" being included in our short to medium-term strategic objectives.

Our ICT strategic approach embraces technological innovation and reimagines the core of our business model along connectivity lines, re-envisioning how we operate and how customers experience us.



Technology based projects

Technology and innovation are major drivers of long-term value creation. We understand that being innovative is a strategic enabler that pave the pathway to ensure we remain relevant and agile. The Bank has engaged in several initiatives to expand technical aspects, manage existing digital functions, enhance systems and processes, and strengthen data security.

- **Core Banking initiative** – Begun in 2017, the new Core Banking System implementation is currently in progress and once complete, will re-engineer all IT enabled banking services to international standard industry and regulatory requirements
- **Mobile Payment app** – Implemented in 2021, the app is available on leading mobile application platforms such as iOS, Android, and Huawei
- **New Data Centre facility** – Initiative to build a primary data centre along TIA 942 (Tier 3) international standard lines, providing improved reliability and availability of IT enabled banking services, thus improving customer satisfaction and internal service excellence

Manufactured capital on pages 124 to 126.

- **PCIDSS Certification** – With its adherence to industry best practices, NSB has obtained the PCIDSS certificate in 2019 and continued its compliance status during 2021
- **Security Operations Centre (SOC)** – Continued services by the SOC during 2021
- **Human Resource Information System (HRIS)** – Implemented and operating a Human Resource Information System in 2021 from a leading provider
- **All milestones for 2020 as set out in the "Direction on Technology Risk Resilience" prospectus by the Central Bank of Sri Lanka were met by NSB** – enhanced the Information Security Management System of the Bank which will be supported through consistent maintenance of implemented controls through regular Management Committee and technical reviews

Striving for best practice governance and risk management

Our approach to governance and risk management forms part of our intellectual capital and supports our overall value creation process. The continuous pursuit of best practice governance remains vital for the Bank – not only to sustain and preserve value creation, but to ensure that value is not eroded through fundamental breaks in trust with our stakeholders.

To achieve sustained value, we need to establish and maintain trust with our stakeholders, which would be impossible without embracing governance as a business enabler. The Bank's appropriate governance structures and processes enable us to be well-managed and effectively controlled. Our rigorous and inclusive strategy review process considers the risks and opportunities connected to our broader operating context. These processes ensure that we deliver against the strategy to create value for ourselves and our stakeholders – now and into the future. Our commitment to good governance is reflected in our internal policy framework that entrenches ethics in how we do business. Further, through continuous training and development, we seek to enhance capabilities while developing collective learning, ensuring best-practice approaches move beyond the know-how of individuals to forming part of our organisational practices – thus forming part of our intellectual capital.

Governance on pages 188 to 202 and Human capital on pages 136 to 153 for more information on how we create value through our governance processes and training and development.

We maintain an active risk management approach – identifying both current and emerging risks. The risk strategy is developed along with the Bank's corporate strategy and the determined risk appetite defines the nature and amount of risk the Bank is willing to take in pursuit of strategy. Risk is managed through our Board-approved Integrated Risk Management Framework.

For details pages 212 to 239 for Risk Review Report.

Awards and recognitions (DSVC IV)

In our journey towards meeting banking excellence and satisfying our customer base, we have been presented with numerous awards and accolades. We believe that this is a clear indication of our success as a Bank, and we are encouraged to continue our journey and better the Bank even further.

Figure 16

- 5th most valuable brand in Sri Lanka (brand value of Rs. 30.7 Bn.)
- Selected one of the ten most admirable companies in Sri Lanka by CIMA Sri Lanka (first time in NSB's history)
- Most Outstanding ICT Achievement Award (in recognition and appreciation of the effort rendered towards the introduction, nurturing, and the development of its ICT environment to provide better quality services to the citizens of Sri Lanka through NSB Digital Banking initiative)
- Gold Award at National ICT Awards NBQSA 2021 for the NSBPay App (given under the Public Sector and Government Category for enabling Citizen Services and Digital Government Empowerment)
- Most Popular Banking and Finance Website
- Gold award for Best Tamil Website
- Bronze award for Best Banking and Finance Website
- Recognised as one of Sri Lanka's top 10 Women Friendly Workplaces by Satyn Magazine and CIMA Sri Lanka
- Silver Award for Annual Report 2020 at the 56th CA Sri Lanka Annual Report Ceremony

Outlook for 2022 and beyond

Short-term

- Introduction of a mobile device and digital account to the Postal Sector
- Implementation of Data Lake/ Warehousing and Business Intelligence Solutions
- Implementation of Digital Banking Platform and E-remittance solutions
- Postal banking System Amalgamate with Core Banking System
- Pawning System Migration to Oracle

Medium-term

- Achieve operational excellence in all operations by accelerating digital transformation
- Build a culture of innovation and exploration

Long-term

- Harness the potential of Big Data for the whole Bank
- Digital augmentation of human capabilities to create a semi-robotic organisation

Human capital

What it includes

Human capital is the intangible collective resources possessed by individuals and groups and include all the knowledge, talents, skills, abilities, experience, intelligence, training, judgement, and wisdom possessed individually and collectively. The cumulative total represents a form of wealth available to organisations to accomplish their goals and generate material wealth. As such, how human capital is developed and managed is one of the most important determinants of economic and organisational performance.

Sustainable value creation through human capital

Our approach

We believe that overall business performance and customer satisfaction are directly linked to employee engagement in the Bank. Therefore, we prioritise positive career experiences for all NSB employees by ensuring that they are functioning in a secure and inclusive work environment that provides opportunities for personal and professional growth

Our values are embedded in the Bank's policies, standards, and guidelines which guarantee diversity, equal opportunity, fairness, health, and safety. To this end, we equip all staff with the right knowledge, training, and skills which will help them thrive in their roles and experience professional growth. We firmly believe that our commitment to diversity in the workforce has led to fostering a strong team spirit, resulting in high levels of innovation and performance

Key inputs

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

Key outputs

- Greater number of professionally skilled employees
- Higher retention ratio
- Motivated and engaged employees
- Diverse and agile workforce

Strategies to enhance value

- Invest in employee professional development
- Offer career growth opportunities
- Base selections and internal processes on merit-based criteria
- Provide a range of health and wellness initiatives/ services to employees

What human capital means to NSB

We at NSB consider human capital to be our biggest asset, driving us towards our purpose by aligning with our strategic direction. Our people ambition is to create a thriving, future-fit organisation that attracts, develops, and retains the best people through a differentiated employee experience that brings out their innate abilities through a nurturing of intangible collective resources in the form of experience, skills, well-being, and engagement. This in turn leads to the Bank reaching its corporate objectives in an efficient manner whilst simultaneously adding value to our stakeholders.

Value created

- Highly skilled and engaged employees who:
- Improve our ability to understand and serve our customers, driving our business performance successfully
- Facilitate the effective implementation of our strategies to achieve corporate objectives and create value to our stakeholders
- Create value under pressures of a dynamic and unpredictable environment in which rapid and unexpected developments take place

Key challenges in 2021

- Adopting to new normal following the outbreak of COVID-19
- An aging workforce, coupled with a shortage of qualified talent, particularly in new trends of technology
- A New Generation workforce that is less traditional, more technologically savvy, and ambitious renders it difficult for the Bank to connect them to its goals
- Employees who become more qualified, multiskilled, and talented may expect higher wages and benefits, creating a challenge to the Bank to attract top talent
- The relentless pressure for profitability coupled with government policies propels organisational change through continued mergers, acquisitions, and strategic alliances
- Being a state bank, union and political influences may disrupt best practices of Human Resource Management
- Difficulty in holding capacity building and training development programmes in a COVID-19 environment
- Trade-off between health and safety priorities and ability to provide uninterrupted customer service

Key opportunities in 2021

- Able to attract and retain highly skilled and qualified young employees
- High productivity through quality employees who are engaged and retained
- Capacity to meet current and future needs through our diverse and experienced workforce
- Prospect of enhancing human capabilities and productive capacity so that our people are agile, adaptive, and remain relevant in a rapidly evolving environment and job market
- Developing HR processes and documentation to effectively utilise time and resources
- Enhancing employee experience and loyalty by supporting a healthy work-life balance

Material matters

Related stakeholders

Short to medium-term strategic priorities

Scorecard

Employee engagement

Number of employees	Average revenue per employee	Retention ratio	Employee turnover ratio
↓ **4,616**	↑ **Rs. 29.2 Mn.**	↓ **98.6%**	↑ **1.4%**
2020 – 4,641	2020 – Rs. 27.5 Mn.	2020 – 98.8%	2020 – 1.2%

Training and development

Investment in training and development	Average training hours per employee
↑ **Rs. 11.0 Mn.**	↑ **9.4**
2020 – Rs. 8.8 Mn.	2020 – 5.0

Equal opportunity

Number of female employees
↓ **2,518**
2020 – 2,522

Linkage to other capitals

Investment in building favourable workspaces, automating HR processes, and digitalising the Bank ensure employee contentment and higher performance for the Bank

Investment in training development enhances employee knowledge, skills, and business training that benefits the Bank

Investment in building human capital contributes to long-term financial gain through increased productivity, efficiency, and delivery of unparalleled customer experience

Provision of job opportunities create community links that are conducive to the Bank's brand image

Sustainability initiatives improve employee health and safety and promote a green conscious culture

Contribution to SDGs

Support economic development by providing employment opportunities	Improve employee quality of life of employees by providing direct employment opportunities	Develop skills through training and development to create new avenues of employment	Provide opportunities that encourage more female entrants into the workforce	Ensure a safe, conducive, and rewarding workplace for employees, so they can easily facilitate economic growth for local suppliers and service providers	Create a safe and supportive environment for more female participation in our workforce
1 NO POVERTY	2 ZERO HUNGER	4 QUALITY EDUCATION	5 GENDER EQUALITY	8 DECENT WORK AND ECONOMIC GROWTH	10 REDUCED INEQUALITIES

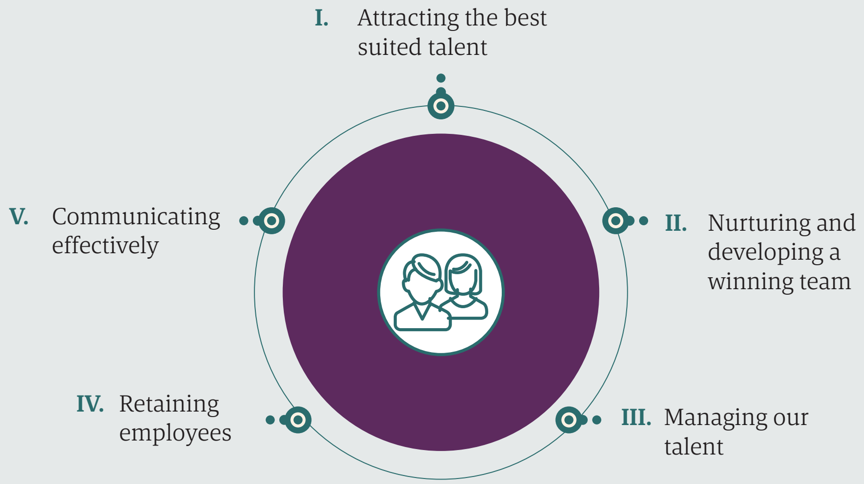
Trade-offs

	S	M	L	S	M	L	S	M	L	S	M	L	S	M	L	S	M	L
Providing job opportunities and recruiting new people																		
Remuneration and other benefits	▼	▲	▲	▲	▲	▲												
Influx of new knowledge and skills	▼	▲	▲	▲	▲	▲								▲	▲			
Increased employment opportunities in the community and attached benefits of it (Ex: Living standards, poverty reduction)	▼													▲	▲			
Training and development: building competencies around customer service, innovation, operational excellence and corporate culture, and value																		
Spent on training	▼	▲	▲	▲	▲	▲												
Improved productivity and innovation	▲	▲	▲															
More professional people				▲	▲	▲												
New employment opportunities opening up	▼			▲	▲	▲												
Performance driven culture	▲	▲	▲	▲	▲	▲												
Savings through productivity	▲	▲	▲															

S – Short-term M – Medium-term L – Long-term ▲ – Value increase ▼ – Value decrease ⊖ – Value preservation

Drivers of Sustainable Value Creation (DSVC)

Figure 17



Attracting the best suited talent (DSVC I)

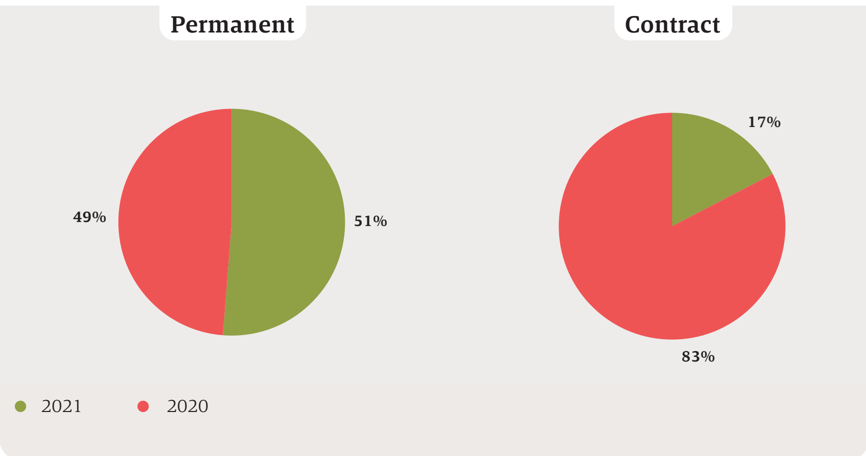
The NSB team GRI 102-8 and 401-1

Here at NSB, our employees are seen as the driving force of the Bank and are essential to our overall success and sustainability as an organisation. On 31 December 2021, our workforce was 4,616 strong and comprised 4,551 permanent staff and 65 contract staff. A total of 36 new employees joined our workforce with 20 new female employees. Our high retention rate of 98.6% is reflective of our successful HR policies and employee value proposition whilst our 32% rate of employees with over 10 years' service highlights the loyalty that we command as an institution.

Supplementary information
Financial reports
Governance
Management Discussion and Analysis
Our sustainable value creation model
Preamble
National Savings Bank | Annual Report 2021

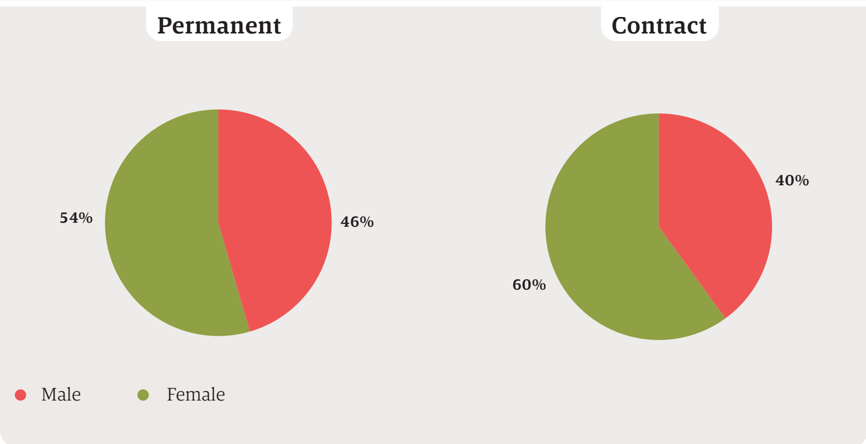
Graph 30

Employment category



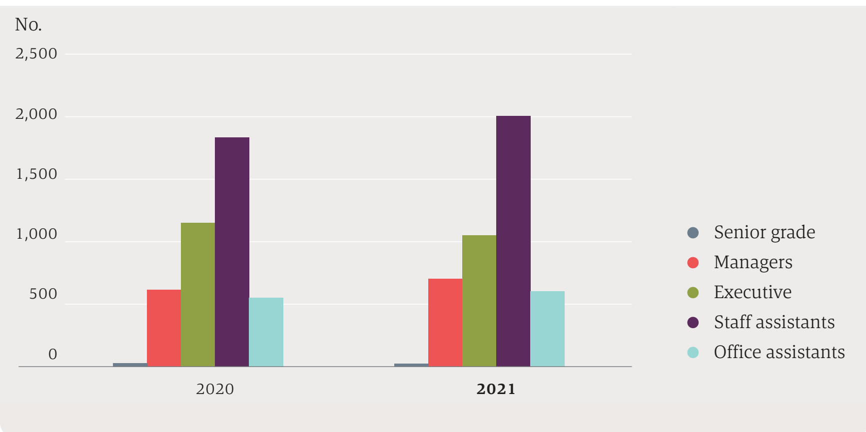
Graph 31

Employment category by gender 2021



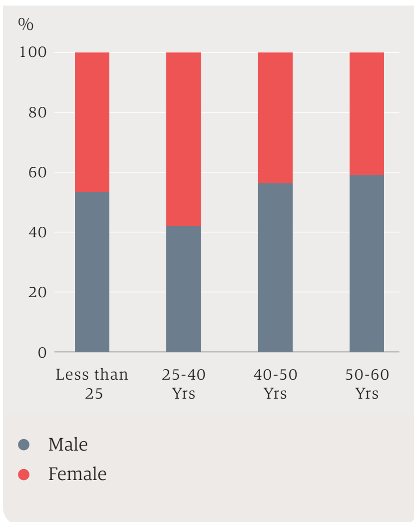
Graph 32

Staff grade composition



Graph 33

Age category by gender



Hiring the best fit

GRI 202-2 and 401-1

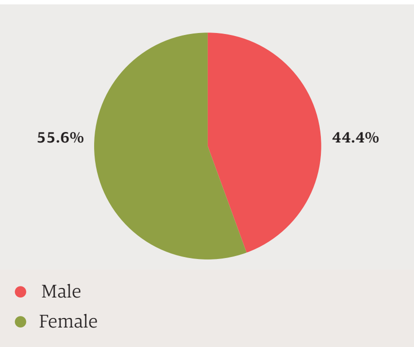
The long-term success of the Bank depends on its capacity to attract, retain, and develop employees who can ensure its growth on a continuing basis. As such, the Bank will always attempt to recruit the best personnel, regardless of gender, race, or religion, with key selection criteria being based on qualifications, skills, and experience. The recruitment and selection process seeks individuals who can integrate well with the existing team, are motivated performance-wise, and have the desire to strive continuously towards achieving the Bank's corporate objective with commitment, innovation, and professionalism. This selection method ensures that those recruited are those who can make the most of their potential for the Bank whilst also simultaneously developing their own careers to the fullest. This way, both the individual and the Bank progress in a positive manner.

Local recruitment continues to be a priority at NSB, and we boast of 100% locally hired Senior Management. Our overall staff recruitments come from a diverse group of people who represent our varied customer base, thereby maintaining our relevance and effectiveness in serving customer needs through association. We fully believe that this diversity provides holistic perspectives that result in sound decision-making, originality of thought, and ingenuity. In our bid to ensure that young people gain banking experience at an exemplary institution such as ours, we awarded 21 internships in 2021, which were begun with a compulsory induction programme that provided detailed insight into the Bank's culture, values, ethics, operational processes, systems, and practice.

Recruitment during the year was thought through and strictly needs driven, given the uncertain operating conditions that prevailed. COVID-19 impacted HR processes, with recruitments and promotions seeing some initial delays since holding physical interviews and examinations involved a risk of COVID-19 spread. However, interviews were conducted subsequently as per accepted health guidelines and maintaining social distancing, whilst also resorting to zoom. A total of 36 new employees were recruited in the areas of digitalisation, customer centricity, and organisational realignment.

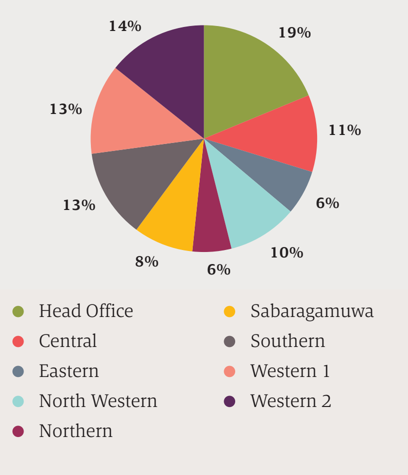
Graph 34

Composition of new recruits



Graph 35

Geographical distribution of employees

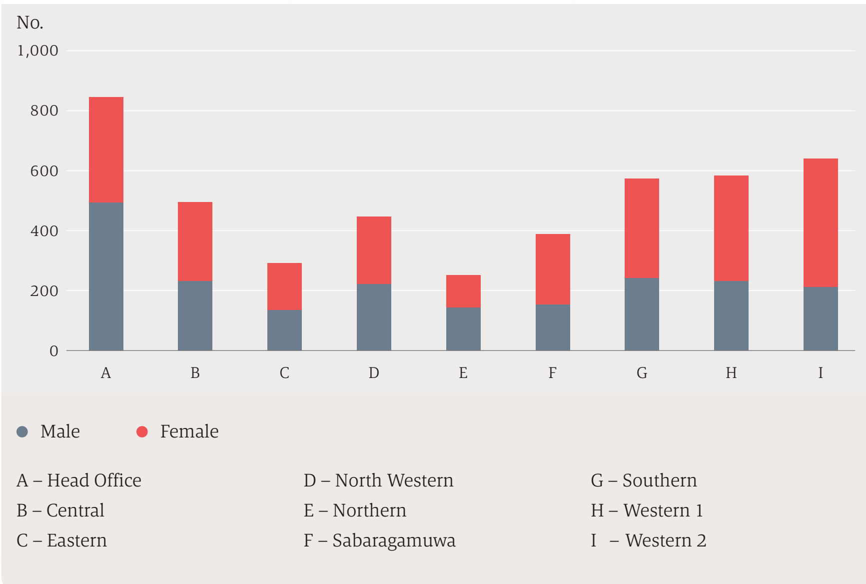


Graph 36

New recruits by grade and gender

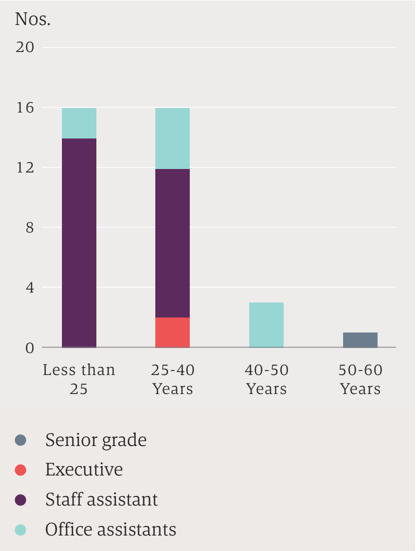
Graph 37

Geographical distribution of employees by gender



Graph 38

New recruits by age and grade



Nurturing and developing a winning team (DSVC II)

GRI 404-1 and 2

Evolving ways of working

COVID-19 has impacted the way in which we work, fundamentally changing the ways we nurture and develop our team to reach its highest potential. With health guidelines at the forefront of staff management, "remote working" or "working from home" became the most significant change to work patterns in 2020. While it required various tools and platforms to successfully navigate, NSB successfully equipped its staff to take on the change, resulting in the "work from home" concept becoming the new normal practice.

At the same time, branch operations staff were required to physically report for duty as their tasks were more operational and essential in nature. The Bank HR took on the massive responsibility of ensuring staff health and safety whilst supporting the smooth function of banking operations. To this end, staff were educated on health regulations and necessary precautions, with HR maintaining staff compliance with all guidelines. The Bank went above and beyond to ensure that staff felt secure and adopted the measures below as a health safety net:

- Arranged PCR tests at the Bank's premises in the event of first contacts of COVID-19
- Developed relationships with intermediate care centres and hospitals to arrange a quick healthcare facility for COVID-19 positive staff
- The Bank reimbursed staff any COVID-19 related medical expenses that exceeded their hospitalisation entitlement
- Granted quarantine leave for employees who contracted the virus and employees who were first contacts
- Facilitated "work from home" throughout the peak and consequent waves of the pandemic period for high-risk employees such as pregnant women and employees with critical illnesses whilst employees to worked on roster basis to minimise virus contact and spread
- Granted a travel allowance to employees who commuted to work in in private vehicles despite the travel restrictions and lockdowns
- Paid a risk allowance to employees who reported to work, even amidst the risk of exposing themselves to the virus during the lockdown period
- Arranged a special bus service that connected different locations to the Head Office, so that employees could easily travel to work
- Arranged curfew passes for employees
- Late attendance was not considered during the COVID-19 affected period and employees were allowed to leave work early
- Employees were allowed to wear the Bank T-shirt in lieu of formal attire
- Employees unable to report to work were placed on paid quarantine leave and no financial deductions were made
- Published circulars from time to time to increase employee awareness of COVID-19, workplace hygiene, preventive health practices, and social distancing etc.
- Training sessions were conducted by the Training Division through webinars
- Whenever possible, meetings and discussions were conducted online

HR has faced moments where area-based curfews have resulted in employees being unable to report to work, which has then affected the smooth functioning of branch operations. Also, keeping other supportive functions up to date proved challenging as employees worked on roster basis due to the risk of the pandemic. Accordingly, Branch Managers and Heads of Divisions were empowered to structure their own rosters in a way that was most optimal to them, and employees were allowed to avail their seven days compulsory leave of 2021 till 2022, even on staggered basis.

As these challenges may continue over the next few years, the Bank is in the process of looking at more digitalised options for HR operations in line with the Bank's main operations, to achieve the overall targets of the Bank.

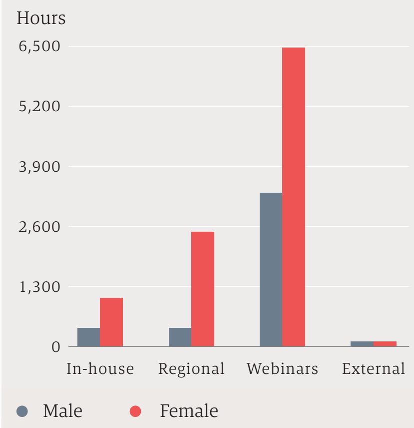
Delivering people development

The Bank undertakes a rigorous training schedule to ensure that staff are skilled, up to date, and efficient in their handling of day-to-day business. We believe that targeted training creates employees who are not only aware of their specific job requirements but are also equipped to dispense with said requirements in an efficient manner. Focused training also ensures that performance management becomes more efficient, as all employees have clear awareness of their roles and responsibilities within the Bank. Learning has accelerated towards an interactive, self-directed, primarily digital experience that employees can opt into anywhere, anytime, on any device and at any pace. While the primary objective remains reskilling and upskilling of employees for the future of work, we also aim to instil a mindset of lifelong learning.

By conducting a Training Needs Analysis, we identified the training and development needs of our employees using several methods. These included the annual training needs survey, interviews with the respective team leaders, consultations with the General Manager/Chief Executive Officer and DGMs, and reviews of customer complaints, performance appraisals, and questionnaires.

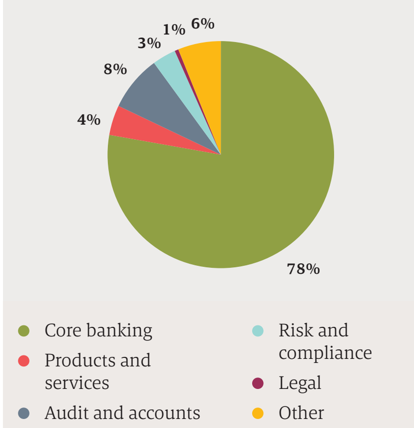
Graph 39

Training hours by gender and mode of training



Graph 40

Training hours by training categories (Disciplines)



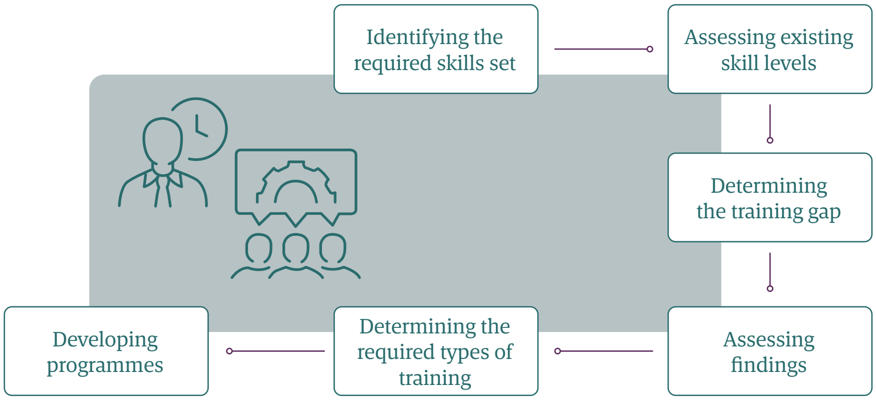
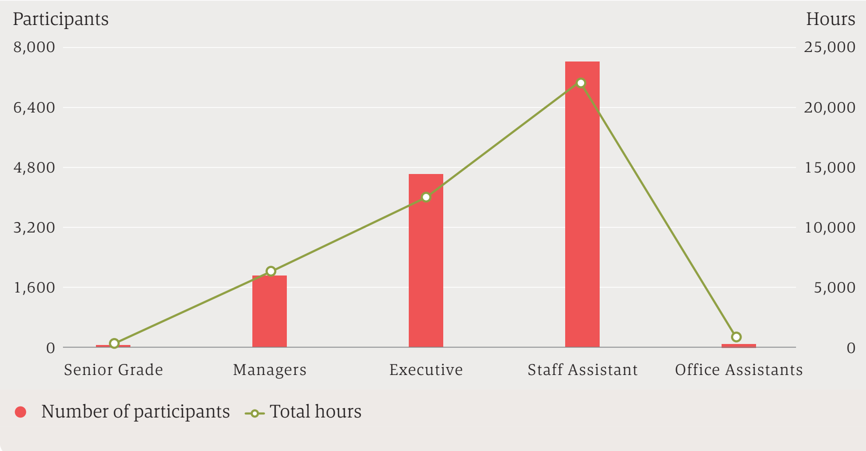


Table 19

Mode of training	Number of programmes	Total hours	Total participants	Male	Female	Grade category									
						Senior grade	Senior grade (Hrs)	Managers	Managers (Hrs)	Executives	Executive (Hrs)	Staff assistants	Staff assistants (Hrs)	Office assistants	Office assistants (Hrs)
In-house	35	8,989	1,425	392	1,033	20	86	306	1,707	276	1,675	728	4,767	95	755
Regional	15	11,579	2,864	397	2,467	2	10	408	1,656	826	3,346	1,616	6,519	12	48
Webinars	145	19,754	9,812	3,328	6,484	–	–	1,106	1,726	3,457	7,040	5,249	10,988	1	3
External	51	2,232	213	101	112	29	277	116	1,293	44	492	23	168	–	–
Total	246	42,553	14,314	4,218	10,096	51	373	1,936	6,382	4,603	12,552	7,616	22,442	108	806

Graph 41

Training hours by grade

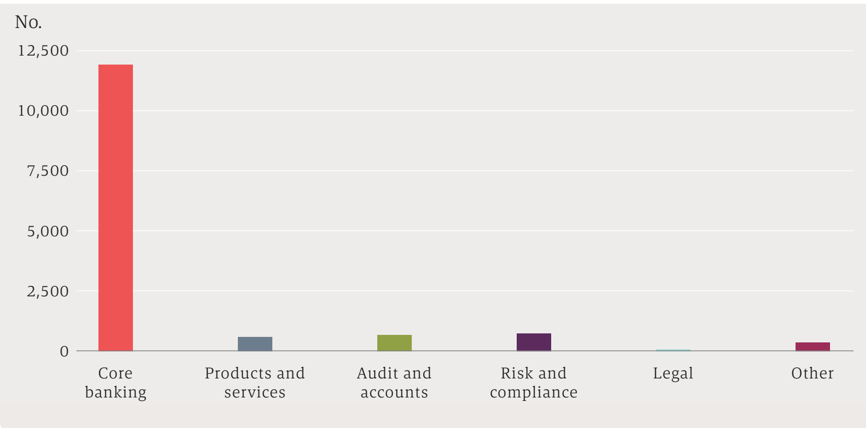


Graph 42

Training hours by training category (Disciplines)

Graph 43

Participants by training category (Disciplines)



Reflecting our commitment to supporting our employees to develop professionally and personally and advance their careers, we have made significant progress to consolidate our employee development programmes and to build a high performing bench of employees across the Bank. We provide our employees with a range of professional development opportunities including on-the-job, in-house, and external training in both local and foreign locations, sponsorships, and educational incentives. With the continuation of COVID-19, NSB increasingly moved onto digital platforms and webinars to conduct training programmes, thereby successfully adopting to the new normal. We are pleased to note that we saw equal success in our digital and physical training programmes, with staff showing a keenness to learn, even in the change of setting.

Different categories of training are offered to our employees throughout their career lifecycle to develop their functional and technical expertise. The following programmes focus on enabling new recruits to gain valuable experience and job-specific skills while enhancing the competencies of employees who have been in the Bank longer-term.

These includes:

- Induction
- Onboard training
- Learning through feedback
- Technical skills development
- Soft skills development
- Leadership skills development

During the year under review, the First-Time Manager Development training programme was organised for selected 30 branch managers. 260 change management champions were identified during the project named "Core-Banking training and implementation: creating a new learning culture and sharing experiences." A further nine training programmes were conducted through webinar sessions under "Knowledge sharing via E-learning" programme for greater employee awareness. This programme allows Head Office staff and the branches to connect, share information, and solve problems in real time no matter where in the country they may be stationed. The Bank established new training centre at Mount Lavinia in 2019 to accommodate more training programmes.

In 2021, we invested over Rs. 11.0 Mn. in local training programmes, up from Rs. 2.2 Mn. in the previous year. Together our employees logged in 42,553 training hours in 2021 and the average number of training hours per employee was 9.4 hours.

Managing our talent (DSVC III)

The HR Division is headed by a Deputy General Manager who directly reports to the General Manager/CEO. Matters pertaining to staff transfers, promotions, recruitments, and other human resource related matters are screened by the Human Resource Committee appointed by the Board of Directors. The Committee comprised five most senior officials in Corporate Management, and it makes required recommendations to the BHRRC and Board on the HR matters. As a key initiative for 2021, the HRD Division is in the process of implementing a new HR System in consultation with the IT Division. As the first phase of implementation, leave and attendance has been automated in the entire branch sector during 2021.

Quality based promotions

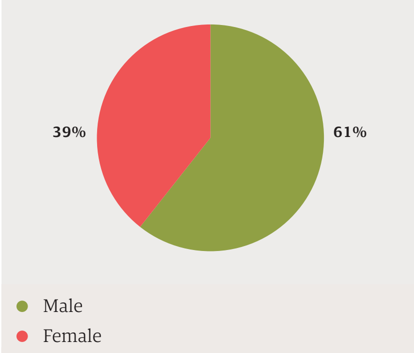
We support career growth and promotion within the Bank whenever possible. All promotions are based on a comparative review of interested applicant's qualifications, ability, and quality of past work performance. Only job-related factors are considered for promotion of employees. In all its selection and employment processes-including promotion decisions – the Bank makes every effort to ensure all individuals are granted equal employment opportunity.

Interviews for promotions to each grade in the Bank's hierarchy are scheduled as per the Bank's Promotion Calendar. If the Bank's Annual Manpower Plan consists of vacancies in relevant grades in both banking and non-banking streams which can be filled by internal promotions, applications will be called for respective promotions openly on the Bank's intranet. The schemes of promotions to each grade in both the banking sector and non-banking streams are separately stated in the circulars for reference. Candidates for promotion are selected in terms of the relevant schemes of promotions approved by the Board of Directors.

During the year 2021, the Bank recruited 36 employees as per the vacancies existing in the banking and non-banking streams. Further, 254 internal promotions were granted as per the vacancies existing in both the banking and non-banking streams. The numbers in recruitment and promotions are somewhat lower than previously seen as the Bank had to delay certain internal examinations and interviews due to the COVID-19 pandemic.

Graph 44

Composition of promotions

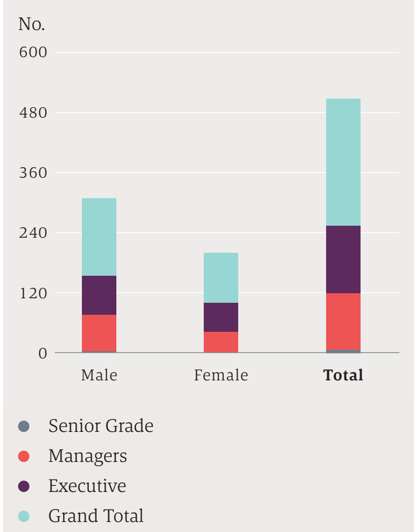


Graph 45

Promotions by age and grade

Graph 46

Promotions by grade and gender



Number of professionally qualified employees in the permanent cadre

Table 20

Description	2021
Information Technology	86
Technical	20
Accountancy	11
Legal	23
Others	4,411
Grand Total	**4,551**

Diversity and equal opportunity GRI 401-3, 405-2

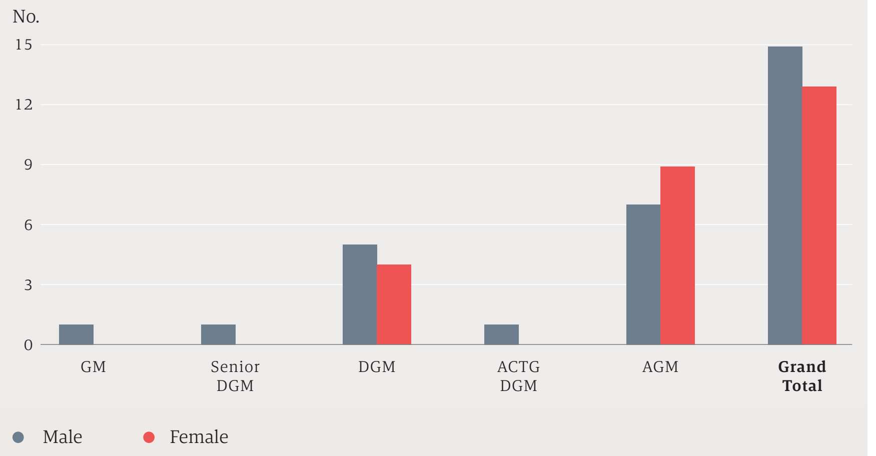
The Bank provides equal employment opportunities for all persons regardless of race, colour, religion, gender, age, marital status, national origin, or disability being true to our non-discrimination policy. In keeping with the intent of this policy, the Bank will adhere strictly to the following practices:

- Maintaining a workplace that is free from physical and verbal harassment
- Recruitment, hiring, compensation, benefits, transfers, training and development, educational assistance, recreational programmes, and promotion of individuals in all job classifications will be conducted without bias, considering only genuine occupational qualifications.
- While being based upon selection criteria that are job related, employment and promotional decisions – whenever possible – will also be made in a manner that further facilitates the principle of equal employment opportunity.
- Being an equal opportunity employer, the female representation in our team (permanent employees) amounted to 55% whilst 56% of new recruits were female in 2021. Women represented 54% and 56% of Senior Management and Middle Management respectively.
- All female employees are eligible for 84 working days of maternity leave with full benefits while all male employees can take three days of paternity leave. In 2021, 305 of female employees availed of maternity leave with 99.0% returning to work at point of completion while 105 male employees took paternity leave.
- All complaints on violations around the policy of equal employment opportunity are promptly investigated.

During the year 2021, the Bank did not receive a single complaint relating to violations of the policy of equal employment opportunity.

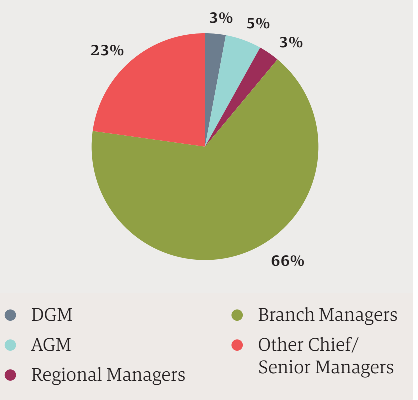
Graph 47

Senior Management by gender



Graph 48

Women leadership



Upholding the highest professional and ethical standards GRI 406-1

The NSB Code of Conduct sets out the principles of personal and professional conduct expected of our people with regard to ethics, conduct and compliance. The Code reflects our commitment to merit-based, equal employment opportunities and defines the standards we require to ensure a safe working environment free from discrimination and harassment. All new recruits are informed of their obligations and rights under the Code of Conduct upon joining the Bank.

The Bank's Disciplinary Code of Conduct provides guidance to employees in matters pertaining to discipline. The Disciplinary Code of Conduct was revised in 2017 based on the provisions of the Government Establishments Code Volume II and modified to suit the particular needs of the Bank, maintaining a "zero tolerance" for all forms of corruption, bribery, and extortion practices. Any inconsistency in individual behaviour with stipulated standards, policies, procedures, and practices and any dispute in relation to operations is handled formally and transparently in line with the Disciplinary Code.

Graph 49

Employee grade category by gender

Performance management

GRI 404-3

The performance management procedure is a continuous process of employee assessment through the Bank's performance evaluation system. It is the policy of the Bank to conduct performance appraisal with all employees periodically. The appraisal is intended to be an employee development activity to assist and motivate employees to attain their maximum potential. The Bank has a policy on performance management to establish and streamline the guidelines in relation to the performance appraisal management system of the Bank. This policy is drawn to ensure achievement of the following key elements:

- To identify performance gaps and improve employee performance in order to achieve the overall objectives of the Bank
- To identify the training and development needs of individual employees and teams
- To provide feedback on the performance appraisal used for increments, promotions, and reviews on remuneration packages of employees

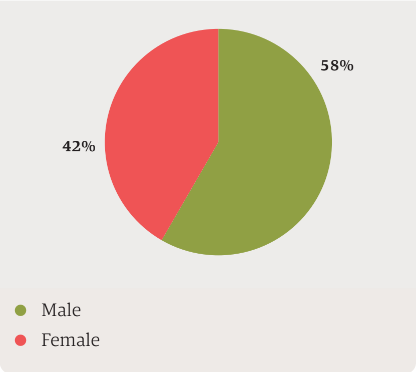
The Bank measures the performance of employees periodically on the basis of employee hierarchy. Therefore, there are separate forms for the executive staff, supervisory staff, operational staff, and minor staff. At NSB, we boast of an appraisal system that is both impartial and transparent, with employee evaluations taking place annually based on a set of predetermined criteria while Corporate Management are appraised on the Key Performance Indicators (KPI) via a balanced scorecard system. This Target Based Performance Management System is in place to eliminate possible biases that are subjective and to encourage objective evaluation.

Retaining employees (DSVC IV) GRI 401-1

The retention rate of 98.8% for permanent employees in 2022 decreased to 98.6% in 2021 due to increase in the employee turnover ratio of 1.2% in 2022 to 1.4% in 2021. However, NSB positions with one of the highest retention rates and lowest employee turnover rates in the industry. The total staff turnover for 2021 was 60 employees of whom 58% were male and 80% were in the over 55 age category, thereby retiring at the end of service. The highest turnover of 43% was in the managerial level in 2021. These figures are a strong reflection of our highly engaging, rewarding, and stable work culture which nurtures employees. We are committed to ensuring that we retain highly skilled and motivated employees which has led us to take a holistic approach in our employee care initiative, ensuring that their physical, social, psychological, and economic well-being is taken care of at the Bank.

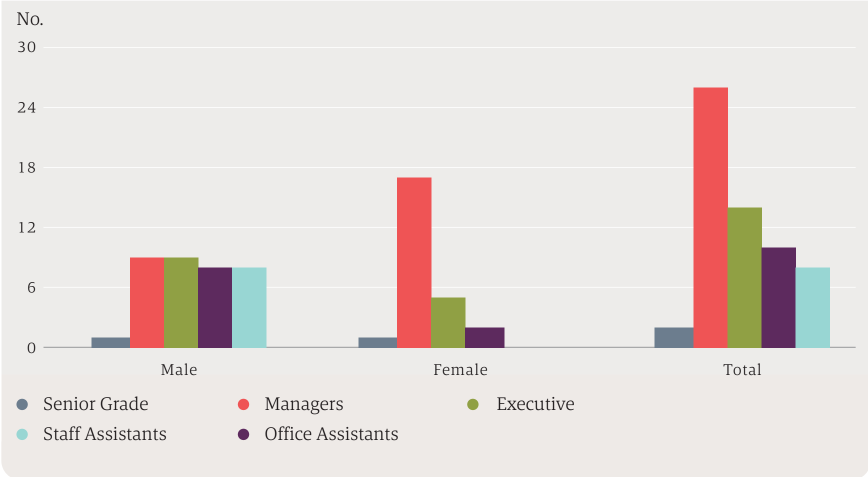
Graph 50

Composition of turnover



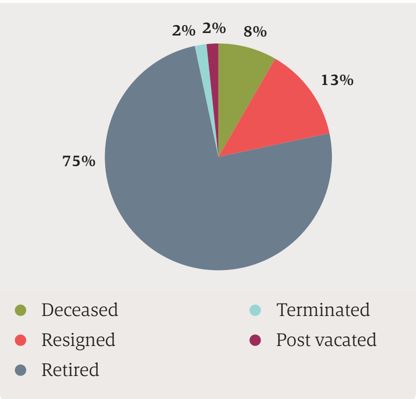
Graph 53

Turnover by grade and gender



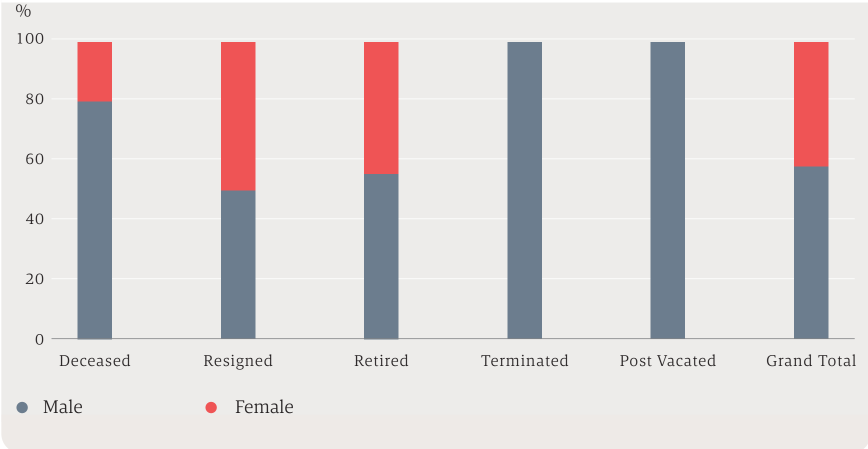
Graph 51

Reason for turnover



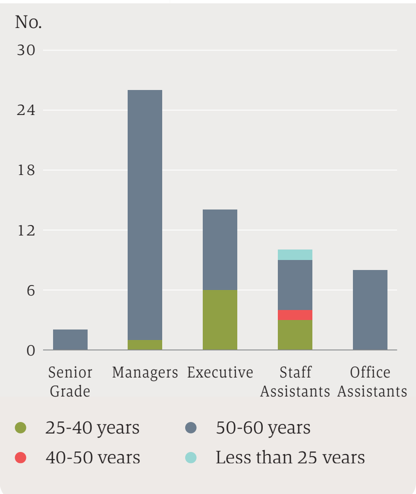
Graph 54

Reason for turnover by gender



Graph 52

Turnover by grade and age category



Focus on holistic employees GRI 401-2 and 403-9

A key part of our ability to retain our employees is our focus on work-life balance coupled with a commitment to employee health and safety. We believe that both these concepts go together to create happy employees who thrive at NSB. To this end, the Bank encourages social and recreational activities that assist in maintaining work-life balance and good working relationships among our employees. Social activities such as the NSB Colours Night, *Vesak Bakthi Gee*, Christmas Carols, and New Year Celebrations are key events in the Bank's social calendar while the fully equipped gym at the Bank's Head Office provides physical activities. While many of these activities have been curtailed due to the COVID-19 pandemic ensuing health restrictions, we have made the following efforts to ensure that are employees remain well looked after:

- Employees have availed themselves of medical sessions with specialist/ consultant advice through the 17 petitioners' session, with the participation of 251 employees.
- All new mothers are offered flexible working arrangements with an increase of nursing times to two hours a day which is split between a morning and evening session, until the child is one year
- In-house Medical Centre run by an approved leading private hospital with overall management by the Welfare Division
- Bimonthly visits by specialised doctors at the Medical Centre.
- Medical clinics conducted by leading private hospitals
- Seminars/lectures organised by the Welfare Division on areas of stress management, eye care, and cardiovascular disease prevention
- Annual felicitation ceremony recognising long-term service
- Annual "Achievers Award Ceremony" for employee's children
- Head Office Canteen with concessionary rates
- The NSB Sports Club and accompanying in-house Gym at the Head Office
- NSB Arts Circle
- Library facilities
- Maintaining 15 circuit bungalows in different locations of the country
- Extended monetary assistance for day outings organised by the branches and divisions

The Bank also maintains staff health and safety in line with its HR Policy Manual which oversees workplace safety to determine and set guidelines for the Bank to implement its commitment to Occupational Safety and Health (OSH). It specifically details the key actions and procedures required to meet this commitment, the responsibilities of Management and staff, and the special role and functions of the Health Committee in ensuring the safety and health of staff. The specific objectives of this policy are to:

- Establish an occupational safety and health system at National Savings Bank with adherence to the provisions of the National Occupational Safety and Health Policy and the Shop and Office Employees Act No. 19 of 1954
- To appoint two individuals from each branch/division to ensure a "health and safety" oriented work environment in the respective branch/division
- Secure the health, safety, and welfare of employees at work
- Identify potential health and safety risks to employees at the workplace
- Promote an office environment that is adapted to the health and safety needs of the employees

During the year under review, there were no incidents reported at our premises.

Fair and responsible remuneration and benefits

GRI 201-3, 202-1, 401-2 and 405-2

Another key feature of the Bank's ability to retain workers is its fair and responsible remunerations and benefits schemes. The Bank favours competitive, stimulating, and fair remuneration structures, offering an overall competitive and attractive compensation package. The Bank remunerates all staff fairly in terms of their roles and performance within the organisation.

Salaries and other financial benefits are determined by the agreed Terms and conditions set out in the collective agreement with trade unions. The collective agreement for salary benefits is signed for the employees in the Chief Manager Grade and below, and transparency is followed through publishing the salary scales on the Bank's intranet. Subsequent to discussions between the Management and the unions of the Bank regarding rates, both agreements – for salary and non-salary benefits – are revised once every three years in line with the agreed rates. It is a given that, all personnel with similar responsibilities are paid within the same salary range, whilst length of service will impact salaries within any salary range. In 2021, the Collective Agreement for salary revision for the period of 2021 – 2023 was successfully signed between the Corporate Management and the Trade Unions.

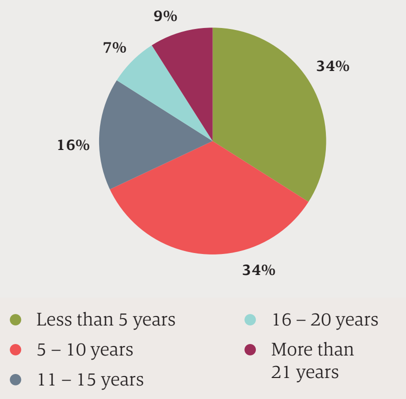
Benefits represent an important part of every employee's pay and financial benefits can be defined as all the financial payments an employee receives for continuing his/her employment at the Bank. All regular full-time employees are eligible to enjoy the following financial benefits after they are confirmed in their service.

Table 21

Benefits	Description
Fixed and variable cash benefits	• Competitive salary • Bonuses in April and December, subject to profit targets being achieved and Board approval • Encashment of Privilege and Medical leave up to a maximum of seven days at year end • Annual increment for employees with satisfactory performance in the preceding 12 months • Provision for fuel/travelling, accommodation assistance, subsistence, and duty travel • Job-specific allowance and overtime • Non-contributory pension scheme and contributory widow and orphans scheme
Reimbursements	• Reimbursement of Professional Institution Membership Fees Sponsorship for relevant study courses • Honoraria payment on completion of Certificate and Diploma Levels in Banking and Finance at the Institute of Bankers Sri Lanka (IBSL) • Entitlement to a non-contributory pension scheme and a contributory W&OP scheme
Subsidised loan benefits	• For housing, vehicle loans, consumption and distress loans, festival advances and other subsidised loans
Medical assistance schemes Registration in the "Bank's Staff Medical Assistance Scheme" provides:	• Permanent and probationary employees with coverage for specialist/OPD medical charges, hospitalisation, critical illnesses, eye, and dental care • Compensation scheme of up to a maximum of Rs. 1.5 Mn. in case of physical injury and death
Retirement benefits All permanent employees are entitled to participate in a non-contributory pension scheme, with applicable terms and conditions depending on the pension scheme in place at the date of appointment. Pension fund benefits are managed with strict investment principles along with care, diligence, prudence appropriate skills and knowledge	• Pension Fund (Scheme I and Scheme II) The above scheme is fully insured, with the cost of provision of benefits under the defined benefit pension plan ascertained on the projected unit credit actuarial valuation method. The Bank's Pension Fund (Scheme I) applies to employees recruited before 1 October 1995 to which a contribution of Rs. 326 Mn. was made by the Bank in 2021 while the unfunded liability stood at Rs. 4,921.4 Mn. 12% of the employee' s gross salary is contributed by the Bank to the Pension Fund (Scheme II) which is applicable to employees recruited on or after 1 October 1995. The pension scheme II has been funded with Rs. 397.7 Mn. in excess as per the actuarial valuation as at 31 December 2021. • Contributory Widows/Widowers and Orphans Fund (only for Scheme II) Contributions are determined by the basic salary of employees and members are required to contribute 5% of their basic monthly salary every month. • Contributory retirement medical Scheme Monthly contribution determined by age of the employee. The Bank contributed Rs. 196.5 Mn. to this Scheme while unfunded liability stood at Rs. 3,669.3 Mn. as at the year end.
New additions to employee benefits in 2021	Revision of contributory medical assistance scheme for retired employees, resulting in the granting of benefits on a par with the staff medical assistance scheme Increase in other staff welfare facilities such as the daily meal allowance, monthly allowance to branch managers, compensation paid on the demise of an employee whilst in service, and transport allowance for the annual staff trip

Graph 55

Service years of employees



Communicating effectively (DSVC V)

The Bank always encourages smooth channels of communication where required information is delivered clearly on time. Open two-way communication between the Management and Employees, and the establishment of a friendly, cooperative work atmosphere go a long way towards eliminating discrepancies, boosting happiness, and improving productivity. The Bank has employed several channels for communication as presented below and use all three languages – English, Sinhala, and Tamil- whenever possible:

- Webinars to facilitate live communication and open discussions between branches island wide
- Set up with the help of the Training and Development Division, the HRD Division initiated "Webinar" concept allows for live sessions that support open discussions and problem solving. This was of particular importance during the COVID-19 pandemic, enabling employees to be digitally connected during a time that brought about physical disconnects.
- Employee Surveys
- Intranet
- Circulars
- Staff notice board
- Emails from Management
- Formal letters from the HR Department

Graph 56

Service years by gender

Service years by grade

Table 22

Grade	Less than 5 yrs.	5-10 yrs.	11-15 yrs.	16-20 yrs.	More than 21 yrs.
Senior Grade	4	4	5	2	13
Managers	35	174	127	125	267
Executives	211	185	404	198	93
Staff Assistants	694	1,162	167	12	41
Office Assistants	608	5	0	1	14
Grand total	1,552	1,530	703	338	428

Relationship with unions – Freedom of association and collective bargaining GRI 102-41

The Bank believes that its relationship with unions and other representative associations is crucial to sustaining the long-term development of the Bank, and thereby benefits both employees and the Bank. As such, the Management ensures that direct and frequent communication is established with all its employees – both union members and non-members – to maintain a smooth and successful relationship. Being in regular contacts with union delegates creates greater opportunity to provide information, allow their members and other representative associations to acquire a full understanding of the business activities and the goals of the Bank, and thereby foster an atmosphere of mutual understanding.

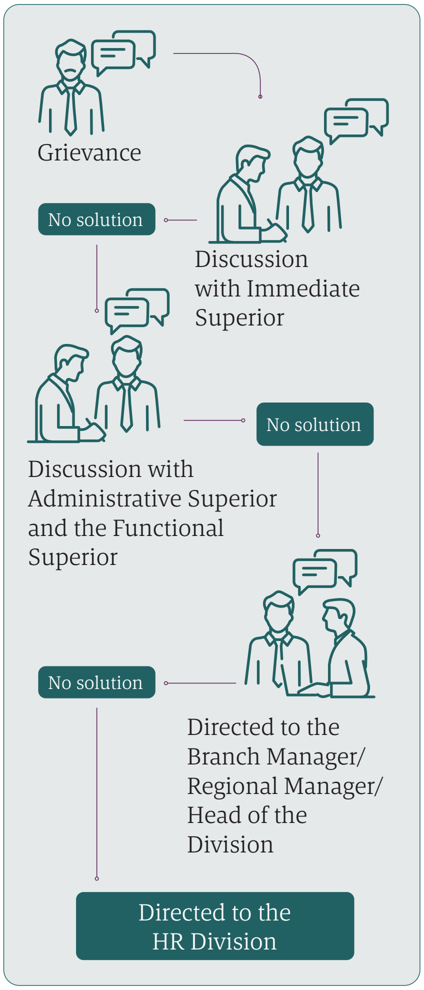
The Bank continues to have very healthy relationships with all trade unions operating within the Bank which include the Jathika Sevaka Sangamaya, Ceylon Bank Employees' Union, Sri Lanka Independent Bank Employees' Union, Executive Officers' Association, and All Ceylon Bank Employees' Union.

The Bank upholds the freedom of association of its employees and recognises their right to collective bargaining. Further, the Bank wishes to retain its positive relationship with unions and other representative associations with the knowledge that benefits to employees translate into benefits for the Bank, thereby sustaining its long-term development. Being in contact with union delegates create further opportunities to provide information, allowing union members and other representative associations to acquire a full understanding of the business activities and goals of the Bank. Salaries and other financial benefits are decided by the agreed Terms and Conditions set out in the Collective Agreement with Trade Unions. The Collective Agreement for salary and non-salary benefits for the period of 2021 – 2023 has been successfully signed between the Management of the Bank and the Trade Unions.

Employee grievance mechanisms

The Bank applies the "Step Ladder System" where a grievance can be resolved according to a hierarchy, whilst the "Open Door Policy" is pursued where the grievance can be directly forwarded to an independent party nominated by the HR Committee. Whenever possible, employees are encouraged to resolve their issues under the "Step Ladder System". Both systems are outlined below.

1. Step Ladder Systems



If an employee is of the opinion that his/her grievance cannot be sorted by the Step Ladder System mentioned above, it can be directly forwarded to the HRD Division, which will follow the "Open Door Policy" outlined below.

2. Open Door Policy

3. Whistle-blower Policy

Established to guarantee employee security in the event of discrimination or dismissal for reporting corruption and fraud, the policy covers prevention, early detection, reporting, monitoring, recovery, and follow-up actions. This has given employees the assurance that any whistle-blowing with regard to accounting, auditing, coercion, collusion, corruption, internal controls, irregularity, financial reporting, frauds, misappropriation, or any other misconduct will be heard with the highest ethical practices whilst providing the strongest security to the whistle-blower.

Outlook for 2022 and beyond

Short-term

- Ensure that all staff are well looked after in terms of health and wellness, both physical and emotional
- Engage in better recruitment solutions for fitting the right skills to the right place
- Create a "Learning Culture" with special focus on Employee Development and Engagement
- Train new entrants and existing staff on product knowledge, customer service techniques, and soft skills to maintain strong customer service
- Prioritise employee speed and accuracy with processing and transactions

Medium-term

- Implementation of the second phase of the HR System to automate HR functions, improving the overall efficiency and effectiveness of HR services
- Set up a target-based performance evaluation system (KPI Based) which eliminates biases and improves the effectiveness of evaluations
- Expedite the disciplinary inquiry process

Long-term

- Be the employer of choice for those wishing to pursue a banking career
- Create a work environment that upholds the physical and mental well-being of our staff at every juncture

Social and relationship capital

What it includes

Social and relationship capital within an organisation encapsulates the institutions and the relationships within and between communities, groups of stakeholders, and other networks coupled with the ability to share information to enhance individual and collective well-being.

Sustainable value creation through social and relationship capital

Our approach

We believe that our ability to share information and enhance individual and collective well-being is directly related to the strength of our relationships, which enable us to create value and benefit from that created value. As such, it is imperative that such connections are built on trust as they shape the societal perception of the Bank, which impacts the level of value the Bank produces. They are also key to retaining our social license to operate

Towards this end, we have bolstered customer relationships – through providing value propositions and exceeding expectations – provided community support –through engagement programmes, supported manufacturing and services – via our supply chain, created new market opportunities for workers – by enhancing skills, and complied with all legal and regulatory requirements

Key inputs

- Long-term customer relationships
- Constructive employee engagement
- Positive relationships with the Government and Regulators
- Proactive engagement with media and communities
- Collective operations with business partners and suppliers

Key outputs

- Maintain social license
- Customer-catered service delivery
- Fair and equitable tender process
- Collective agreements with labour unions
- Ethical management systems

Strategies to enhance value

- Look to long-term relationships with stakeholders for long-term business
- Create shared value for sustainable socio-economic development
- Prioritise sound governance to maintain sustainability of products and services

What social and relationship capital means to NSB

From the outset, NSB has given prominence to its social and relationship capital as its position as a state-owned bank comes with greater social obligations. As such, we have strived to maintain relationships that positively impact the wider community, our stakeholders, and other networks. We have formed relationships founded on trust, integrity, and value sharing with a key focus on community and environmental well-being. Hence, our social and relationship capital management is of paramount importance in sustaining healthy connections with our societal partners.

Value created
• Customer centric and reliable service delivery • Retain social license to operate • Fair and equitable tender process • Proactive and collaborative supplier development • Fair, transparent and ethical management

Key challenges in 2021	Key opportunities in 2021
• Evolving stakeholder expectations • Recognising and managing stakeholder conflict of interest • Efficiently allocating resources to fulfil varied stakeholder requirements • Potential reputational damage when cordial relationships are not maintained	• Able to build in stakeholder needs into our business and deliver successful commitments • Capacity to engage and respond to the varying concerns of stakeholders • Prospect of creating positive long-term impact in the community

Material matters

Related stakeholders

Short to medium-term strategic priorities

Scorecard

Customer acquisition

Total number of accounts

21.82 million

2020 – 21.27

Number of cards in use

2,041,842

2020 – 2,405,021

Responsible procurement

Number of registered suppliers

351

2020 – 351

Contribution to society

Funding for infrastructure

Rs. 28,045.4 Mn.

2020 – Rs. 31,415 Mn.

Supplementary information
Financial reports
Governance
Management Discussion and Analysis
Our sustainable value creation model
Preamble

Linkage to other capitals

CSR initiatives create awareness, strengthen teamwork, and provide work-life balance Regulatory compliance sustains natural resources and increases sustainability	CSR projects broaden the intellectual capacity of employees and generates new knowledge experiences	Digitalisation efforts enhance the potential of manufactured capital While CSR initiatives may initially deplete financial capital, the building of brand image leads to longer-term profitability

Contribution to SDGs

Reduce poverty and inequality by prioritising financial inclusion in projects	Support a health-conscious community through the "I'm Fit" programme	Promote literacy and education through scholarship programmes, community projects, and higher education related financial assistance	Support sustainable infrastructure projects that benefit both the environment and community	Maintain a rigorous procurement process which promotes responsible consumption and production
1 NO POVERTY 10 REDUCED INEQUALITIES	3 GOOD HEALTH AND WELL-BEING	4 QUALITY EDUCATION	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 11 SUSTAINABLE CITIES AND COMMUNITIES	12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Trade-offs

	S	M	L	S	M	L	S	M	L	S	M	L	S	M	L	S	M	L
Providing customer experience and exceeding customer expectation																		
Spend on investment	▼	▲	▲										▲	▲	▲			
Deploying right talent to serve the customers													▲	▲	▲			
Developing skills and competencies	▼																	
New business opportunities and new revenue streams		▲	▲															
Engaging in community development projects																		
Spend on investment	▼	▲	▲										▲	▲	▲			
Increase positive brand image and loyalty	▲	▲	▲				▲	▲	▲				▲	▲	▲			
Responsible corporate citizenship + goodwill created through sound community relationships	▲	▲	▲										▲	▲	▲			
Complying with regulatory requirements																		
Spend on systems and process to put in place	▼	▲	▲											▲	▲			
Developing necessary skills to apply	▼	▲	▲										▲	▲	▲			
Sound reputation management and best practices of governance													▲	▲	▲			
Spend on investments in digital technology	▼	▲	▲										▲	▲	▲			

S – Short-term M – Medium-term L – Long-term ▲ – Value increase ▼ – Value decrease – Value preservation

Drivers of Sustainable Value Creation (DSVC)

Figure 18

I. Building a loyal customer base – Customer capital

IV. Building thriving communities – Community capital

II. Building strong relationships with business partners – Business Partner capital

III. Strengthening regulatory compliance – Regulatory capital

The above discussion provides an overall analysis of our social and relationship capital, which is quite extensive at NSB as we see it as a key priority in our business operations. Hence, further detailed discussions relating to social and relationship capital can be found under "Stakeholder engagement" on page 75, "Human capital" on pages 136 to 153, and "Natural capital" on pages 170 to 176. The following sections provide a detailed discussion of four social and relationship capital elements – customer capital, business partner capital, regulatory capital, and community capital.

Building a loyal customer base – Customer capital (DSVC I)

Customer capital is the value – the contribution to current and future revenues – resulting from an organisation's relationships with its customers. In essence, it is the product of the customer relationship.

Material matters

Short to medium-term strategic priorities

Our approach to customer capital

We adopt an integrated approach and use multiple channels to deliver excellent customer service. Our extensive branch network and mobile/internet banking coupled with all other platforms provide our customers with the best possible access to banking services. The latest measurement methods of customer satisfaction are used to ensure speedy and effective responses to customer complaints, provide extensive product portfolios suiting all segments of society, and sustain the multigenerational relationships we have nurtured over the years.

Strategies to enhance value

Reimagine the distribution network with value creation as priority

Enhance the digital customer service model

Individual focus on customer journeys for targeted value creation

Value creating drivers → for building a loyal customer base

- Provide a superior customer experience
- Serve a diverse customer base
- Improve customer satisfaction
- Efficiently resolve customer complaints
- Safeguard customer data and privacy
- Increase customer awareness on banking practices

Supporting customers during COVID-19

The outbreak of COVID-19 and the urgent need to support domestic economic activity by enhancing credit flows to COVID-19 hit businesses led the CBSL to introduce broad-based stimulus packages including the "*Saubhagya*" COVID-19 Renaissance Facility and the debt moratorium scheme for COVID-19 affected individuals and businesses. Accordingly, the Bank has granted the debt moratorium and instalment deferment to all its customers except for those who refused to have debt moratorium or payment deferments.

- The moratorium was given to 90% of the retail loan portfolio at the concessionary rate of 7% and instalments were deferred till the end of the loan period
- The moratorium period varied from two months to six months, with one scenario seeing an extension of more than six months
- Provided interest rate reductions of up to 10% on existing loans for customers who requested relief
- NSB incurred a loss of Rs. 2.2 Bn. in interest income due to reduction of interest rates from contractual rates of the loans to 7% as directed by the CBSL
- In adhering to the above direction, NSB deferred such interest receivable at 7% to end of loan tenor, further incurring a "Day one loss" of Rs. 1.4 Bn. on interest income
- In aggregate, NSB incurred a total loss of Rs. 3.6 Bn. due to moratorium imposed by the CBSL

A place to call "home"

Complementing the concessionary loan schemes proposed by the Government in the 2021 Budget, the Monetary Board of the Central Bank of Sri Lanka (CBSL) introduced a maximum interest rate on mortgage-backed housing loans obtained by salaried employees from licensed banks. This was to support the expansion of home ownership in Sri Lanka whilst providing an additional stimulus to the domestic construction sector and its supply chains.

Accordingly, in 2021, the Bank introduced a special housing loan scheme for permanent employees in the public and private sector:

- At the lower rate of 7% per annum
- Disbursed 382 loans amounting to Rs. 1,331 Mn.
- Implemented the lower interest rate "*Sonduru Kedella*" Housing Loan Scheme for low and middle level income earners
- "*Sonduru Kedella*" facilitated the purchase of housing units from housing schemes developed by relevant government authorities

Financial facilities for low-income earners

The Bank has granted Rs. 1.0 Bn. under the Supplementary Festival Credit Facility for employees in the public and private sector, Pensioners, *Samurdhi* Holders, and self-employed individuals.

Rs. 156.4 Mn. worth of individual loans were disbursed among 5,878 customers during the year. Further, Rs. 893.3 Mn. was disbursed to 363 institutions under the Group Festival Advance Scheme.

Further, the Bank introduced a special loan scheme for pensioners during the year at the concessionary rate of 6.75% under the brand name "NSB *Gaurawa Prashansa*". Under this scheme, the advance limit was enhanced up to 85% from the monthly pension while the maximum age limit was increased to 75 years.

Appreciation of migrant workforce

Special Deposit Account (SDA)

The Government of Sri Lanka – in consultation with the Monetary Board of the CBSL– introduced a Special Deposit Account (SDA) with the objective of seeking assistance to overcome the effects of COVID-19 in the country. The Bank has mobilised Rs. 818.5 Mn. during 2021.

Increasing the influx of foreign remittances

Despite the industry experienced sharp decline in remittances, the Bank's foreign remittances increased to Rs. 57.1 Bn., increasing the market share for the remittances to 5.25% compared to 4.24% at the end of 2020. Currently, the Bank is looking to expand the market reach for remittances by entering new markets in Romania, Switzerland, and Malta in the next three years.

New products, services, and value-added features in 2021

- Special Housing Loan Scheme for Permanent Employees in the public and private sectors in line with the 2021 Budget
- "*Sonduru Kaddalle*" Housing Loan Scheme for low – and middle – income earners
- Housing loan scheme for Sri Lanka university staff members

- "*NSB Buddhi*" Personal Loan Scheme for Educational Purposes – for Students of the "Sri Lanka Technological Campus (SLTC)"
- *Buddhi* Educational Loan Facility for Medical Degrees (MBBS/MD) – Yerevan State University of Armenia

- Introduction of a Special Fixed Deposit Interest Rate for the Fixed Deposits of the Sri Lanka Army Welfare Fund

- Special Pension Loan Scheme – "*NSB Gaurawa Prashansa*"
- Special Personal Loan Scheme for the Three-Armed Forces, the Special Task Force, Sri Lanka Police, PSD, and all attached Defence Forces
- Granting loans to Government Employees under Probation Periods
- Special Loan Scheme for South Asia Gateway Terminal Employees
- Special Personal Loan Scheme

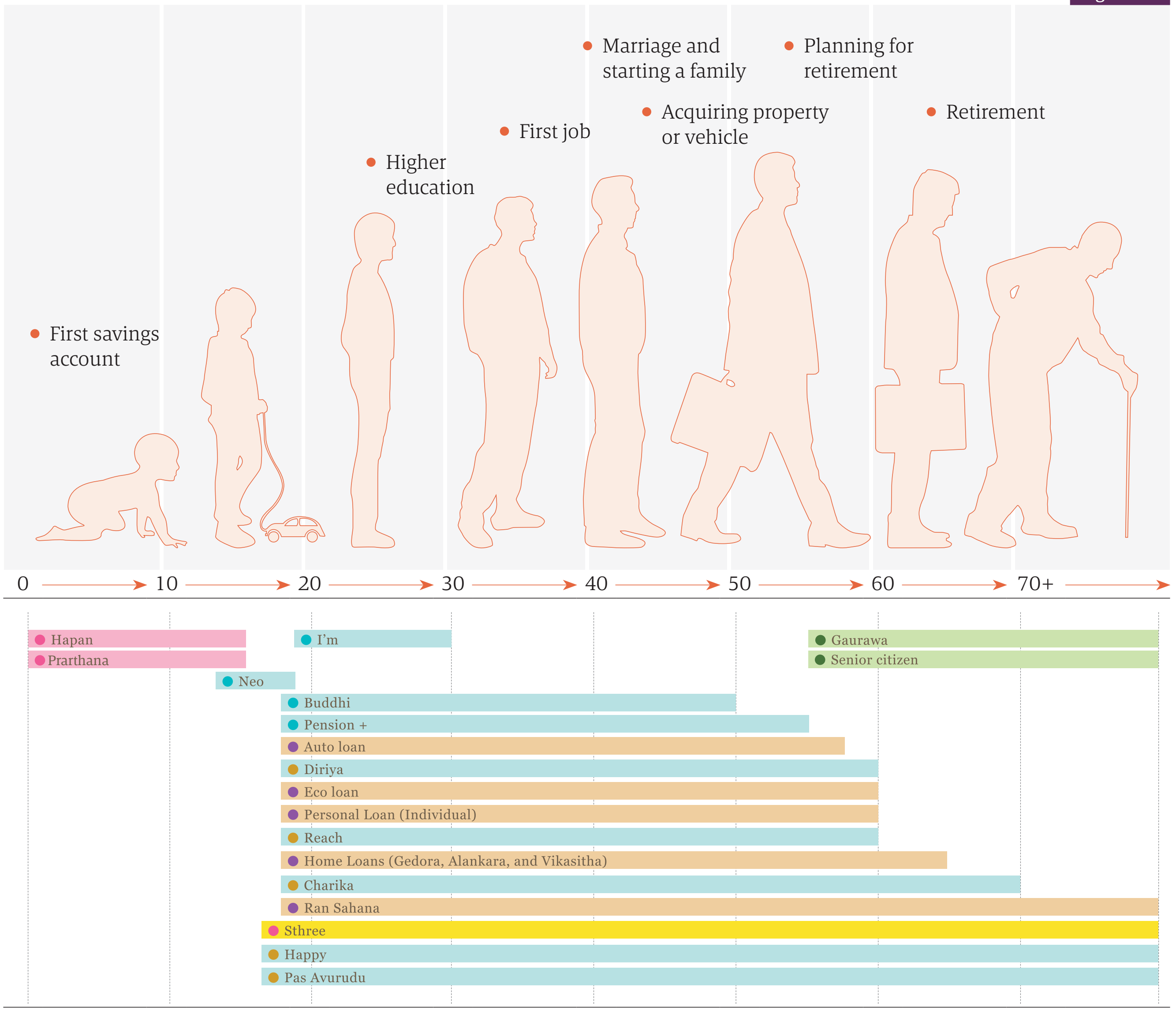
Future initiatives

- Family Product package named "Happy Family"
- Long-term Fixed scheme with monthly/annual pay backs
- Long-term compulsory savings scheme for children
- Scripless Fixed deposit scheme
- Lending scheme to seasonal Agriculture sector
- Collateralised Credit Card
- Short-term Gold Back Loan
- Group Loan scheme for Corporate Employees/Professionals
- Establish the Premier Banking Concept
- Reinstate NSB Counter at the Airport and Port City
- Obtain Credit Lines for Lending
- Appoint Brand Managers for Housing loans and Personal Loans

Multigenerational products, services, and value-added features at NSB – outline

We pride ourselves in having the widest range of products, services, and value-added features at NSB, with any segment of society finding a scheme that suits their age, gender, and lifestyle. The gird below exemplifies the wide-scale length and breadth of our offers.

Figure 19



Digital initiatives undertaken by the Bank

- Core Banking Solution
  - Procurement of a core banking solution was completed in mid-2019 and the project for implementation of the T24 Transact was subsequently begun and expected to be live in 2022
  - Enables the Bank to build powerful front-end digital platforms and create efficient end-to-end solutions where back-office processes are also automated and streamlined
  - The project has progressed amid varied challenges such as the non-availability of business and technical consultants on site due to COVID-19
  - the Core Banking Project Team carried out the initial awareness programme on the implementation of the T24 Transact core banking solution
  - Similar awareness creation and knowledge sharing sessions will be carried out prior to providing the end user training to Branch and Head Office staff.

- Increased branch network to 261, ATMS to 292, and CRMs to 92 by 2021, to encourage widespread saving
- Introduced a mobile payment application under the brand name of "NSB Pay" App to encourage customers to accomplish their daily banking needs safely and efficiently
- In line with the Department of Pensions fingerprint verification facility for pensioners, NSB launched a pilot project accepting fingerprint verification for pensioners at 10 main branches
- Signed an MoU with the Department for Registration of Persons to streamline and digitalise NSB's overall customer verification process to obtain accurate customer identification data promptly
- Enabled E-commerce Transactions through VISA EMV contactless (Dual Interface) debit cards
- Launched the "NSB Pay" state-of-the-art mobile application which is available on leading mobile application platforms such as iOS, Android, and Huawei
- Issued debit cards free of charge to customers during the first and second waves of COVID-19
- Added the pawning payment facility was to NSB E-connect anytime online banking
- Social media platforms – to strengthen our position as a digitally forward-looking Bank, we have continued to invest in our social media platforms.

Safeguarding customer data and privacy GRI 418-1

Protecting customer data and privacy is crucial to maintaining customers' trust. With the increase in digital banking, the risk of cybercrime has increased. That's why we have identified cybersecurity as a material issue at NSB. In our efforts to safeguard customer privacy, and protect our systems, we have invested in the latest technology. The security of our systems are further strengthened by the NSB Act, Customer Charter and our Information System Security Policy. Regular tests are conducted to assess and to ensure the security of our systems. The Bank's Information Security Officer (ISO) independently monitors and informs the Board on implementation and any exceptions if any with regard to cybersecurity risk management.

There were no complaints pertaining to the breach of customer privacy or loss of customer data, nor any fine or other sanction imposed on the Bank in 2021.

With the Bank's fast-paced advent into digitalisation, we are also aware of our responsibility towards our customers. Given this, the following steps have been taken to safeguard customer data and privacy on digital platforms.

- New Data Centre facility – to be based on TIA 942 (Tier III) international standard for data centres, it will improve the reliability and availability of IT enabled banking services, thereby improving both customer satisfaction and internal service excellence
- PCIDSS Certification – Adhering to industry best practices, the Bank obtained the PCIDSS certificate in 2019 and has continued the compliance status through to 2021
- Security Operations Centre (SOC)- implemented with the support of a competent third-party service provider in 2020, the SOC has continued its service in 2021
- Initiated E-KYC with Blockchain Technology

To know more about the measurements taken by the Bank to secure the customer data and privacy.

Marketing and labelling

Every advertisement published by the Bank is required by compliance to contain the following information:

- Contact details – Call Centre number, Web address
- Credit rating
- Distinct feature for NSB – 100% Government guarantee, Bank logo, and Slogan
- QR code

The Bank reported zero incidents of non-compliance concerning product and service information labelling.

The Bank reported zero Incidents of non-compliance concerning marketing communications.

Simplifying banking

We continue to focus on becoming efficient with the flexibility to respond to fast-changing customer needs and to provide a flawless and faster customer service. During the year, we re-engineered and simplified processes in relation to savings accounts, credit and payments to customers and suppliers by removing non-value adding activities and delegating authority levels which reduce waiting times and freeing up top level management to concentrate on what matters most. Furthermore, several projects are in pipeline to increase automation of end to end customer journeys through system enhancement and integration. (pages 124 to 126).

Serving customers with special needs

Treating all the people who come to our Bank with individual respect and courtesy is at the heart of excellent customer service. Taking an active role in championing more inclusive society, we understand the special needs of customers and providing a smooth banking experience for them in our branches. We strive to establish our branches with facility of access for differently abled persons, which is mandatory for all new branches and relocations of existing branches. So far, 38 bank own building branches and 90% of the branches which are on rent basis have the disability access.

Resolving customer concerns

The journey of experience begins with the customer's initial contact and extends to fulfilling their banking issues. We have implemented a robust system to address all customer complaints in an efficient manner. Numerous platforms including the Call Centre, online channels and branches have been established to forward customer grievances.

Customers can forward their queries, complaints, grievances, and other remarks to the NSB Call Centre which is operational 24/7, trained staff at our branches island-wide, suggestion boxes at branch premises, through social media, the website www.nsb.lk, and other digital methods such as email, skype, and web chat.

The primary mode of communication between the Bank and our customers, is our Call Centre which is dedicated to handling customer queries and grievances. All calls are handled by highly trained and skilled customer service representatives. A query is initially handled by the agent who directs it to the relevant department. A reference number is generated for each query, which is given to the customer to follow up on their query. A report on customer complaints and the actions taken to resolve them is compiled every month and is presented to the Management. We continued to equip our employees through the "Across the Bank" training programme, with the necessary skills to attend to customer complaints, to resolve issues and to turn difficult situations around.

Customer satisfaction statistics

Average time taken to answer a call
<30 seconds
(2020<30 sec.)

Number of customer complaints received
269
(2020 – 256)

Number of cards in use
2,041,842
(2020 – 2,405,021)

Number of enquiries received over the phone
441,569
(2020 – 434,174)

Number of customer complaints on breaching customer privacy and losses of customer data
Nil

Number of customer complaints resolved
228
(2020 – 212)

Number of complaints related to cards
4,506
(2020 – 3,393)

Number of complaints to CBSL
Nil
(2020 – Nil)

Number of complaints to Financial Ombudsman
Nil
(2020 – Nil)

Acting with responsibility towards customers GRI 417-2 and 3

Responsibility is deeply engrained in all aspects of our activities and relationship with customers from developing products and services to marketing and sales. We ensure responsibility through the following activities:

- Offering products and services that are suitable and safe for our customers
- Communicating clear, relevant and timely information to make informed decisions
- Dealing with feedback in an effective and prompt manner
- Building competency of our workforce to understand customers and provide quality service
- Displaying all relevant data on our loan and deposit products, such as interest rates, exchange rates, lending rates via displays at branches, electronic media and the corporate website.
- All terms and conditions applicable to products and services and the complaints handling procedures are properly communicated to customers according to the Customer Charter prepared in compliance with CBSL guidelines. The Bank's complaint redress process through the Financial Ombudsman is displayed at all branches in accordance with CBSL guidelines.

In compliance to the Right to Information Act, a public information officer has been appointed and we have set out the procedure to ensure the right to access the information for the public. In compliance with the regulations all our advertisements carry the following information:

- Contact details of our Call Centre and corporate web address
- Credit rating of the Bank – ICRA Lanka Ltd.

- Distinct feature for NSB – 100% Government guarantee, Bank logo and the slogan

There were no instances of non-compliance to any product and service labelling or marketing communication related regulations or other guidelines during the period under review.

Building strong relation with business partners – Business partner capital (DSVC II) GRI 102-9

Business partner capital encompasses the value that is created through mutually beneficial business relationships that facilitate smooth and seamless products and services. These partnerships include correspondent banks, exchange houses, suppliers, outsource service providers, and other business partners.

Material matters

Short to medium-term strategic priorities

Our approach to business partner capital

At NSB, business partners are considered an extension of our business, contributing to the overall profitability of the Bank. Hence, all transactions are conducted in an ethical and transparent manner with corporate policies governing the overall process. Our goal is to maintain long-term sustainable business relationships that derive mutual value through operational synergies, market access, and via new business opportunities.

Strategies to enhance value

Consistent and stable transactions

Transparent and sustainable procurement practices

Value creating drivers → for building strong business partner relationships

- Responsible procurement
- Two-way dialogue
- Providing value to outsource service providers
- Bolstering strategic alliances
- Industry memberships

Responsible procurement GRI 204-1

Our suppliers are considered strategic partners and in return, we expect adherence to highest standards of quality, service and ethics. Total procurement spend amounted to Rs. 1.3 Bn. in 2021 and 100% of our goods and services are procured from local suppliers by working closely with the local communities. We ensure that all our suppliers are adhered to National Procurement Guidelines set by the GOSL.

We have in place a transparent supplier selection process. Our procurement process revolves around non-discrimination and equality treatment, confidentiality, fairness, openness and accountability. To generate value in a balanced manner we have a diversified supply chain.

The key features of our robust procurement process:

- Maximise economic value and efficiency in procurement
- Adhere to prescribed standards, specifications, rules, and regulations maximise income in the disposal of acquired assets or in granting of rights, concessions, or exclusive benefits
- Provide fair and equal opportunity for interested parties to participate in procurement
- Expeditious execution of delivery of goods and services
- Compliance with local and international laws and regulations
- Ensure transparency and uniformity in the evaluation and selection procedure
- Retain confidentiality of information provided by bidder

We update our procurement plan annually in tandem with the changing needs. The services of outside suppliers are obtained for the purchase of fixed assets, consumable items, gift items, printing, marketing and promotional activities, maintenance and construction services, and consultancy assistance in special cases.

The policy of the Bank clearly stipulates the various procedures for different procurements. While Supply Division of the Bank carries out the procurements, the procurement procedures are overseen by the respective procurement committees, Technical Evaluation Committee, and Bid Opening Committee appointed by Board of Directors, General Manager/ CEO or delegated authority. The Procurement Division is responsible for monitoring and ensuring Initial

Environment Examinations (IEE), Environmental Impact Assessments (EIA) and obtaining necessary approvals from authorities when required. We have integrated sustainability into our procurement process by integrating economic, social, and environmental impacts into the process. The common selection criteria include the quality of services or products, competitive prices, experience and competence, financial soundness, flexibility and capacity and compliance with legal requirements.

Two-way dialogue

All internal and external communications outlined by our communication policy are handled with utmost responsibility, accountability, consistency, and transparency. Our communication policy has proved to be an effective framework that facilitate timely dissemination of information with accountability to enhance our brand image, customer loyalty, and stakeholder awareness.

Providing value to outsource service providers

During the year, we paid Rs. 464.6 Mn. to our outsourced service providers comprising employees on contract basis within the Bank. Our outsourcing policy which provides the guidelines on outsourcing and specifies the criteria to assess the need of an outsourced activity, service, process, or function and its implementation.

Bolstering strategic alliances

Remittance relationship with "Ria Financial Services Inc."

ria Money Transfer

With an extensive global network spanning 150 countries/territories, "Ria Money Transfer" is a leader company in global family remittances

- NSB collaborated with Ria with a view to expanding the Bank's remittance service to wider global capacity

EUROGIRO financial supermarket

- The EUROGIRO Financial Supermarket is a next-generation open payment platform that empowers postal organisations to actively engage in financial services
- NSB is in the final stages of discussions to form a partnership that would result in the lowest charges in remittance transfer services coupled with NSB becoming the very first agent in Sri Lanka

Cash back offer for NSB debit cards

- MoU with Sarasavi Bookshops (Pvt) Ltd. and M D Gunasena & Company (Private) Limited for cash back offers on Neo debit cards

Financial service providers

- Banks and other financial institutions
- Correspondent banks
- Exchange houses
- Eurogiro companies

Outsource service providers

- Security
- Food and drinking water
- Sanitary and cleaning services
- Transport and other
- Construction and maintenance services

IT related services

- IT Hardware suppliers
- IT Software developers and suppliers
- Network service security

Fixed assets and materials

- Vehicles
- Furniture
- Land and property
- Office equipment
- Stationery
- Other materials

Professional services

- Auditors
- Consultancy service providers

Utility providers

- Electricity/water/energy

Tie up with educational institutions for *Buddhi* loans

- Sri Lanka Technological Campus (SLTC)
- Medical Degree (MBBS/MD) at Yerevan State University at Armenia

Other loan partnerships

- Special Personal Loan Scheme for "*Jathika Sevaka Sangamaya* – Colombo Dockyard PLC Branch"
- Promotional Programmes- "U-Trust" and "*Salli EhenThegi Mehen* VII" – during the Festive Seasons of Sinhala and Tamil New Year and Christmas 2021, as well as at the Bank's Golden Jubilee Rewards

Industry memberships

GRI 102-13

As a key player in the financial services industry in Sri Lanka, we performed an important role in contributing to the progress of our nation's financial sector through our engagement with industry peers. We hold memberships in the following organisations to resolve industry challenges and create a conducive operating environment:

- The National Chamber of Commerce
- Lanka Clear Private Limited
- Employers' Federation of Ceylon
- Society for World-wide Interbank
- Financial Telecommunication (SWIFT).
- The Sri Lanka SWIFT User Group
- Eurogiro Global Payment Community
- The World Savings Banking Institute

Strengthening regulatory compliance – regulatory capital (DSVC III)

Regulatory capital has the overarching purpose of ensuring financial and social security. Especially in banks, regulatory capital performs several important functions such as absorbing losses, promoting public confidence, helping restrict excessive asset growth, and providing protection to depositors and the deposit insurance fund.

Material matters

Short to medium-term strategic priorities

Our approach to regulatory capital

As a state-owned licensed specialised bank, NSB is incorporated by the National Savings Bank Act No. 30 of 1971 and its amendments and the Banking Act No. 30 of 1988 and its amendments. Given this position of great responsibility, we are absolutely committed to following all regulatory requirements and follow sound governance practices that create customer trust and maintain a stable economy. Hence, we comply with all regulations and follow both national and international standards relating to business ethics and best practices. Such compliance ensures that we continue to operate whilst taxes paid to the government positively impacts economic development.

Strategies to enhance value

Put in place mechanisms to identify, assess, and respond to regulatory changes

Strengthen operational resilience

Improve stress testing standards

Review impact tolerances

Fine tune performance metrics

Value creating drivers → for strengthening regulatory compliance

- Consistent compliance with regulations
- Anti-money laundering, bribery and corruption
- Strong governance and prudent risk management
- Contributions to Government

GRI 205-2, 3 and 206-1

Consistent compliance with regulations

- Adhere to the provisions of the:
  - National Savings Bank Act No. 30 of 1971 and its amendments
  - Banking Act No. 30 of 1988 and its amendments
  - Financial Transactions Reporting Act
  - Exchange Control Act, NSB Act and all other regulations issued by the Central Bank of Sri Lanka (CBSL)
- Maintain close relationships with:
  - The Ministry of Finance
  - The Department of Inland Revenue
  - Auditor General's Department
  - Attorney General's Department
  - Sri Lanka Accounting and Auditing Standards Monitoring Board
  - Parliament

complying with all necessary regulatory requirements

- Submit periodic information related to the Bank's operations in compliance with the directives issued by the CBSL

Strong governance and prudent risk management

- Maintain a watertight governance system and strict risk management policy
- Reinforce a risk culture as a short to medium-term strategic priority
- Practice a strong risk culture that effectively anticipates, manages, and mitigates risks arising from internal and external environments

Additional discussions on risk management can be found on pages 212 to 239 of the Report under the Risk Management section.

Anti-money laundering, bribery, and corruption

- Identification of three principal risk areas in the age of digitisation:
  - Cybersecurity
  - Fraud prevention
  - Anti-money laundering
- Robust risk management system to protect customers from fraud
- Assist regulators to prevent cybercrime, money laundering, and funding of terrorism by identifying and reporting suspicious activities
- Zero instances of fines or non-monitory sanctions imposed due to non-compliance with laws and regulations relating to corruption, anti-competitive behaviour, anti-trust, monopoly practices, and use of product and services during the period under review

Contributions to the Government

- Pay and collect taxes on behalf of the Government
- Pay all relevant taxes payable on-behalf of and in respect of our employees
- Pay all applicable statutory dues to the Government and the other relevant regulatory and statutory authorities

Building thriving communities – community capital (DSVC IV) GRI 203-1 and 413-1

Community capital can be considered as the banked goodwill that helps build trust between various groups within a community. It is an important aspect of a strong society and is also a public good that cannot be provided on private markets alone. Instead, community capital in made up of non-profits and voluntary associations.

Material matters

Short to medium-term strategic priorities

Our approach to community capital

As a state-owned bank, we are mandated to give back to the community we operate in. As such, we heavily invest in community development projects which seek to uplift the socio-economic status of our communities. We use the National Development Agenda and the UN SDGs as guidelines when devising and staging community initiatives as we believe in working together to make lasting change.

Strategies to enhance value

Consider social, economic, and environmental factors for investments

Volunteer in the community

Support local people and businesses

Value creating drivers → to enhance community capital

- Contribute to national development
- Prioritise financial inclusion
- Give back to communities
- Strategic alliances to drive community development

Table 23

Programme	Objective	Coverage	Investment	Beneficiaries and number of beneficiaries	Staff engagement	Outcome
Contribute to national development						
Lending to SOE infrastructure facilities – Road Development Authority (RDA) and National Water Supply and Drainage Board (NWSDB)	Achieve government goal of developing transport networks for efficient and environment friendly public transport systems Ensure that the entire population in the country has access to clean and safe drinking water through increasing access to pipe borne water	Island-wide road infrastructure	Granted loans amounting to Rs. 27.3 Bn. for infrastructure projects to RDA and to NWSDB during 2021 Issued Rs. 31.8 Bn. worth of Debentures to the RDA during the year 2021	Sri Lankan community as whole	None	More efficient and environment friendly public transport systems Greater access to clean and safe drinking water
Investment in techno parks – establish four techno parks in the near future	Build a technology-centric economy	Futuristic	NSB is currently carrying out due diligence on Rs. 7 Bn. of investments for this project	Sri Lankan community as whole	None	A technology-centric economy at the cutting edge of innovation

Programme	Objective	Coverage	Investment	Beneficiaries and number of beneficiaries	Staff engagement	Outcome
Prioritise financial inclusion						
Sthree Women's Day celebration at Waters Edge, Battaramulla	Celebrate women and highlight their importance in society	Colombo	Rs. 2.6 Mn.	150	50	Participants were educated on the value of savings and the role of women in managing the savings of family. Ten outstanding female personalities were awarded for their contribution to uphold women's rights in Sri Lanka.
Launch of the QR initiative by the Bank in Kandy	Unique QR codes were distributed to selected merchants in Kandy to encourage cashless transactions	Kandy	Rs. 403,250	250	100	Promotion of cashless transactions leading to greater sustainability
World Environment Day 2021– tree planting activity in Viharamaha Devi Park Colombo and plant distribution drive at Elvitigala flats, Narahenpita	Make Colombo a greener city Plant native and valuable trees in Viharamaha Devi Park Enhance the recreational value of Colombo Plant distribution	Colombo	Rs. 262,380	• Commuters of Colombo city • Residents of Elvitigala Flats, Narahenpita • The Environment	20	Contributing to the greener environment sustainable society
GCE Ordinary Level 2020 excellence awards	Encourage top performers of the GCE (O/L) examination Inculcate the habit of saving amongst educated youth	Colombo	Rs. 152,500	61	10	Enhancing brand value Opening of new accounts
Strategic alliances to drive community development						
"English is Simple" Project	To improve Reading, Writing, Listening and Speaking Skills of the Target Group To help schools increase the results of English Language at the GCE Ordinary Level examination in 2020 and 2021 To increase existing English Language performance levels in at GCE Ordinary Level To increase the student engagement in English Language based competitions To train teachers by providing them with the materials and guidance needed to bring students up to the required level of language proficiency	MOU was signed on 11 October 2019 with the Ministry of Education Educational Directors across the country were briefed on the project by NSB on 29 October 2019 at the premises of the Ministry of Education. An expert panel of resource personnel prepared the content for textbooks – including activities, model papers, and past papers – during four workshops The content of the textbooks and model paper book have been proof checked twice and is ready to be printed	Rs. 8 Mn. for 3 years	Grades 8, 9,10 and 11 in 81 schools More than 40,000 students in the selected schools 500 teachers	Appointees of the Marketing Division liaise with officials of the English and Foreign Languages Branch in: • preparing the curriculum • organising teacher training sessions • setting up interactive student sessions At the point of implementation, Branch Managers located close to selected schools will participate in providing information for the periodical evaluation of the project	Improved pass rates for English Language at the GCE (O/L) examinations

COVID-19 implications

The pandemic and the consequent instability in the economy has meant that there have been several risks associated with the industry that have directly affected social and relationship capital. Primarily, the Bank's ability to market its products and services were curtailed due to the restrictions imposed by the pandemic, with the Bank being restricted to activities conducted indoors, via digital platforms, or based on debit cards. Budget cuts also resulted in minimum budgets for promotional activities, having a direct impact on the level at which brand image could be publicised.

These challenges were further compromised through staff contracting COVID-19, which further impacted the ability to successfully market the Bank.

Simultaneously, there was a greater drive towards digitalisation, providing new avenues of income via service fees on internet banking and the Pay app facility. The marketing team was ingenious in using social media platforms for spreading brand image and Bank initiatives. Further, the team were efficient in coordinating virtually with advertising and media institutions.

The unstable situation provided opportunities to market social security products such as pension funds and annuity schemes whilst there was an increased demand for credit products due to low interest rates.

Given these severe restrictions, we are immensely proud that NSB maintained its social and relationship capital ventures, coming up with creative ways in which to strengthen capital during a difficult time. We are confident in our ability to weather any storm and continue our service to the community.

Outlook for 2022 and beyond

Short-term

- Relaunch existing products with renewed value
- Highlight key products at branch levels initiatives
- Enhance youth related banking services
- Create attentive brand strategies to build positive brand image

Medium-term

- Implement a fully-fledged Digital Banking Solution for customer ease of transaction
- Provide financial inclusion for unbanked and underbanked people in the economy
- Adopt sustainable finance practices that will achieve the selected UNSDGs

Long-term

- Facilitate a secure and stable financial ecosystem
- Impact the community in a positive manner

Natural capital

What it includes

Natural capital can be defined as the world's stock of natural assets which include geology, soil, air, water, and all living things. These natural assets play a role in providing organisations with natural resource inputs and environmental services for economic production.

Sustainable value creation through natural capital

Our approach

Our approach to value creation via natural capital is one that is based on sustainability and longevity of natural resources. As such, we manage our natural capital to support a low-carbon economy, thereby ensuring sustainability both to the environment and the long-term value creation of the Bank

As the environmental footprint of the Bank invariably impacts the wider world, our strategies focus on reducing negative impacts while generating financial returns for the Bank. To this end, we continue to reduce our carbon footprint, promote green operations and sustainable finance, and focus on environmental conservation through our corporate policies, procedures, and practices in environmental management. We also strive to integrate environmental consciousness into all business processes

Key inputs

- Air
- Water
- Land
- Minerals
- Forests
- Biodiversity and ecosystems

Key outputs

- Responsible consumption
- Initiatives that are energy efficient and green
- Reliance on renewables
- Fast-paced digitalisation

Strategies to enhance value

- Long-term energy efficiency initiatives
- Increased use of renewables
- Invest in digitalisation and product development for efficient marketing of products
- Reduce consumption of natural resources over time

What natural capital means to NSB

Our operations at NSB are dependent on our stock of natural capital and ecosystem services which include air, water, energy, and the natural environment. We understand that natural capital is endangered and as such, have made every effort to conserve and sustain natural capital, looking to sustainable options for a low-carbon economy. We see protecting our planet and ensuring sustainable long-term value creation for the Bank as two sides of the same coin – a view which has influenced our management of natural capital.

Value created

- Business operations with a low-carbon footprint
- Identifying opportunities for green business
- Cost savings from energy efficiency improvements
- Environmental stewardship

Key challenges in 2021

- Green initiatives needing higher investment
- Difficulties in measuring the Bank's environmental impact
- Complexities behind lowering the Bank's carbon footprint
- Creating stakeholder awareness on the importance of green initiatives
- Customer and employee struggles with digital technology
- Natural disasters with undesirable outcomes

Key opportunities in 2021

- Able to promote green initiatives such as Green products, Green finance, and Green buildings
- The need to maintain long-term sustainability of the Bank provides reasons to reduce the environmental footprint
- Prior planning allows for lower environmental impacts of operations
- Efficient use of resources results in reduced costs and stronger financial sustainability

Material matters

Related stakeholders

Short to medium-term strategic priorities

Scorecard

Supporting low carbon economy

Branches/circuits connected to Net Metering	Number of eco loans granted	Value of eco loans granted
42	9	Rs. 3.80 Mn.
2020 – 42	2020 – 8	2020 – Rs. 5.41 Mn.

Responsible consumption

Per employee energy consumption	Energy consumption per branch	Water consumption	Transferred to the National Grid
7.27GJ	128.50GJ	88,986m³	277,328kWh
2020 – 7.69GJ	2020 – 122.78GJ	2020 – 105,515m³	2020 – 119,696kWh

Supplementary information
Financial reports
Governance
Management Discussion and Analysis
Our sustainable value creation model
Preamble
National Savings Bank | Annual Report 2021 →

Linkage to other capitals

The promotion of sustainability and green consciousness creates a workforce that is healthy and aware of the wider environment

Green initiatives provide the Bank with visibility, boosting brand image

Investments in sustainable buildings and renewable energy strengthen the Bank's physical assets

Investments in renewables and green concepts reduce costs in the long-term

Creating sustainable supply chains maintain long-term links with suppliers, creating stability

Contribution to SDGs

Promote clean water and sanitation through water conservation projects and responsible consumption

Construct green buildings and solar branches to generate affordable and clean energy

Promote the NSB Agroforestry programme to achieve environmentally friendly spaces

Reduce paper consumption through increased digitalisation of banking processes

Practice an overall responsible approach to managing natural capital through green initiatives, digitalisation, accountable lending, and sound resource management

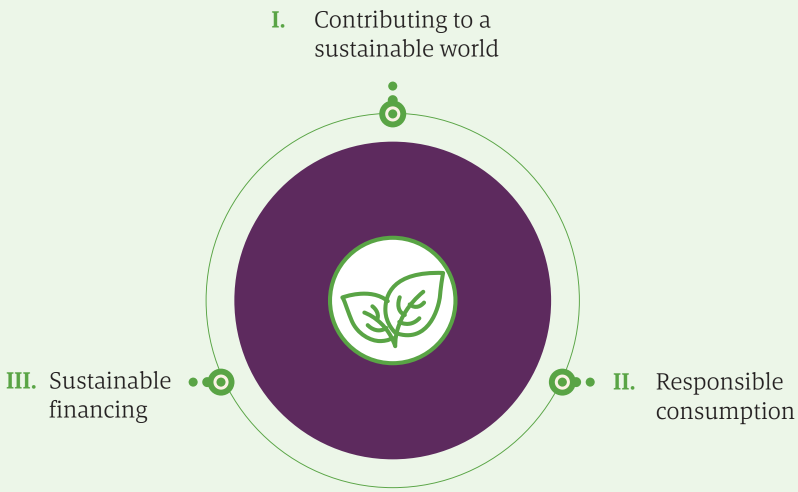
Trade-offs

	S	M	L	S	M	L	S	M	L	S	M	L	S	M	L	S	M	L
Natural resources used in operations																		
Increase the carbon footprint																▼	▼	▼
Infrastructure usage																▼	▼	▼
Revenue generated from usage of resources	▲	▲	▲													▼	▼	▼
Changes in the climate and natural disasters																		
Business volumes and revenues negatively affected	▼	▼	▼													▼	▼	▼
Negative impact on infrastructure																▼	▼	▼
Cost of maintenance and repairs	▼															▼	▼	
Investment on green initiatives																		
Operational excellence and capacity development	▼	▲	▲													▲	▲	▲
Innovation and capacity development																		
Spend on green initiatives	▼															▲	▲	▲

S – Short-term M – Medium-term L – Long-term ▲ – Value increase ▼ – Value decrease – Value preservation

Drivers of Sustainable Value Creation (DSVC)

Figure 20



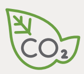
Contributing to a sustainable world (DSVC 1)

We see green buildings as the way forward in efficiently managing energy, water, and natural resources whilst enhancing employee well-being through green spaces. 15% of our branches/circuits function on renewable energy with 42 solar branches/circuits connected to Net Metering at the end of 2021. Our branches are equipped with glazed windows for optimum energy efficiency while all new branches are constructed along green concepts that prioritise natural light and air, resulting in pleasant workspaces. Our new circuit bungalow in Kataragama has followed similar architectural principles. All branches are equipped with energy efficient electrical appliances with a further layer of security through the installation of lightening arrestors. As planned, a wastewater treatment plant has been installed in the new building at Anuradhapura.

Green buildings

NSB Agroforestry project – making a difference for generations to come

Supporting a sustainable world through digitalisation



External endorsements

Aligning with the Kigali Amendment

The Kigali Amendment's objectives are to reduce the production and consumption of hydrofluorocarbons (HFCs) and potent greenhouse gases (GHGs) to avoid global warming by up to 0.4°C this century. Presented as an amendment to the Montreal Protocol on Substances that Deplete the Ozone Layer, it was ratified by 65 countries – including Sri Lanka – and enforced on 1 January 2019. Subsequent to the Bank attending a workshop organised by the Ministry of Environment and Wildlife Resources which sort to create awareness among corporates on the principle of the Kigali Amendment, NSB has made every effort to drive sustainability in its banking processes.

Supplementary information
Financial reports
Governance
Management Discussion and Analysis
Our sustainable value creation model
Preamble
National Savings Bank | Annual Report 2021 →

Responsible consumption (DSVC II) GRI 302-1 and 303-5

We have recognised the sustainability to be found in digitalisation, as it requires minimal natural resources, thereby reducing our carbon footprint. Our wide range of digital products and services act as incentives for our customers to move onto digital, mobile, and internet banking for business transactions. Paper usage has seen reductions through our E-renewal letter system as opposed to printed statements and PIN numbers issued via SMA, while the use of biodegradable materials in promotions – which are also increasingly moving onto social media and digital platforms – has aided this endeavour.

Energy consumption

The main sources of energy consumption at the Bank are electricity (through the national grid and generated through the solar panel system), diesel, and petrol. We are committed to responsible consumption with a view to conserving for future generations. To this end, we have taken the following steps:

Installing inverter operated AC units that are CFC-free which will save the power consumption as well as reduce the carbon emission

Limiting AC use to regular banking hours

Discouraging employees to work at Bank premises on holidays

Installing LED and CFL bulbs

Using LED screen computer monitors

Rigorously promoting recycling

Engaging in constant communication with employees on the importance of energy conservation

42 branches/circuits solar panels installed

42 branches/circuits connected to the grid through net metering

7.27 GJ per employee energy consumption

128.50 GJ energy consumption per branch

Water consumption

The Bank's water consumption during 2021 was 88,986 m^3 and every effort is being made to reduce this in the coming year. We have identified innovative ways to prudently use water and ensure that are employees are on board with our practices.

All new branches are equipped with rainwater harvesting as an alternative to fresh water from surface and ground water sources. We engage in responsible water disposal with public drainage being used for storm water while waste water is disposed through standard soakage pits in the premises.

19.28 m^3 per employee water consumption

340.9 m^3 per branch water consumption

Water management

Given the importance of proper waste management to safeguard biodiversity and human health, the Bank engages in a meticulous waste management system. We have created awareness among our employees through programmes that explain and highlight the importance of the systems below:

Waste segregation at all points of waste collection

Disposal via the relevant municipal/urban council and Central Environmental Authority endorsed third-party recycling service providers

Wastepaper submitted to the Paper Corporation for recycling

Food and polythene waste handed to the municipal Solid Waste Management

Other waste material auctioned through the Supplies Division

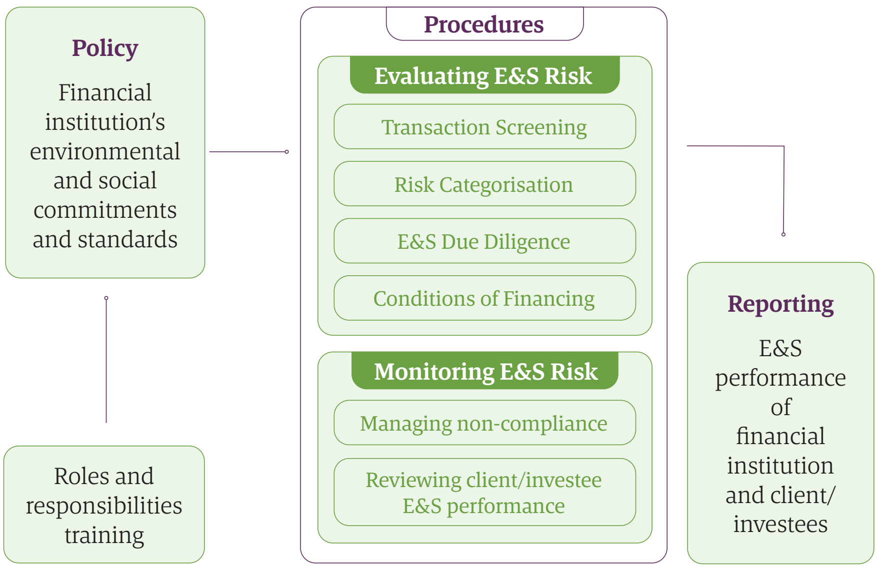
3,070 kg newspapers recycled through a recycling company

Sustainable financing (DSVC III)

As an organisation committed to sustainability, we engage in responsible lending with the understanding that our lending actions could negatively impact the environment. As long-term sustainable development is key to our success, we have integrated Environmental, Social, and Governance (ESG) considerations into our credit and risk evaluation process when it comes to lending practices, with higher ESG risk transactions requiring further evaluation. Our Corporate Credit Policy has an exclusion list highlighting activities that do not qualify for Bank lending to ensure that we do not finance any activity that has negative environmental impacts. All customers are required to meet local ESG-related laws and regulations while all borrowers are required to produce an environmental impact assessment when requesting for loans.

During the year, no loans or facilities were rejected on environmental grounds. It is our aim to gently nudge customers towards adopting practices that meet higher ESG industry expectations over time. All due diligence and governance guidelines under environmental factors are outlined in our detailed Environmental Social Risk Management (ESRM) Policy presented below.

Figure 21



In addition to rigorous evaluation, we also promote the concept of Green loans through the NSB Eco Loan which supports the community-based power generation project *Soorya Bala Sangramaya*. First set up in 2016, this project is a partnership with the Ministry of Power and Renewable Energy, the Ceylon Electricity Board, and the Lanka Electricity Company Private Limited. Its goal is to set up smaller solar power plants on rooftops ranging from households and religious places to hotels, commercial establishments, and industries. The concessionary loan scheme assists customers to switch to renewable energy, thereby reducing the carbon footprint. Customer can choose from the Net Metering Scheme, Net Accounting Scheme and Net Plus Scheme based on their electricity usage.

Table 24

Year	Number of loans granted	Amount granted Rs. Mn.
2018	781	656.61
2019	222	193.2
2020	8	5.41
2021	**9**	**3.80**

Climate change impact

Extreme weather conditions directly have an impact on our business. Climate change disasters lead to reduction in production level and income level. Also, there could be a known-on-effect on overall spending in the economy. This would affect the repayment capacity of the borrower which would lead to increase the overall NPL levels of the personal housing and business loans in the banking sector.

Outlook for 2022 and beyond

Short-term

- Encourage customer migration to digital channels
- Increase number of solar branches
- Finance environmental projects

Medium-term

- Strengthen environmental and social criteria in lending for greater sustainable finance
- Increase green lending for a low carbon economy
- Reduce carbon emissions through green buildings
- Reduce energy, water, and paper consumption through responsible conservation and management

Long-term

- Create environmentally and socially responsible products and services
- Invest in long-term ecosystem preservation projects

Statement on Corporate Governance

While governance is set up as a matter of compliance in the banking industry, we at NSB are of the view that governance transcends mere regulatory requirements and instead, represents the highest echelons of responsible and ethical management that impacts all levels of our value creation process. Governance is intrinsically linked to our ways of INTEGRATED THINKING and the subsequent set of operations that are derived from those initial concepts, thereby ensuring that NSB functions from a place of ethical, responsible, and moral choices that are driven by the Bank's values and strategic objectives, with long-term value creation as the ultimate goal. Overall, it is governance that ensures transparency in all interactions as well as accountability as an establishment.

In order to successfully achieve such a herculean task, the governance structure at NSB is supported by strong leadership, impartial oversight, and management accountability derived from a strong ethical foundation. Added to this is the NSB mandate which officially sets out the duties of the Board and Management, depicting clear boundaries within which governance takes place.

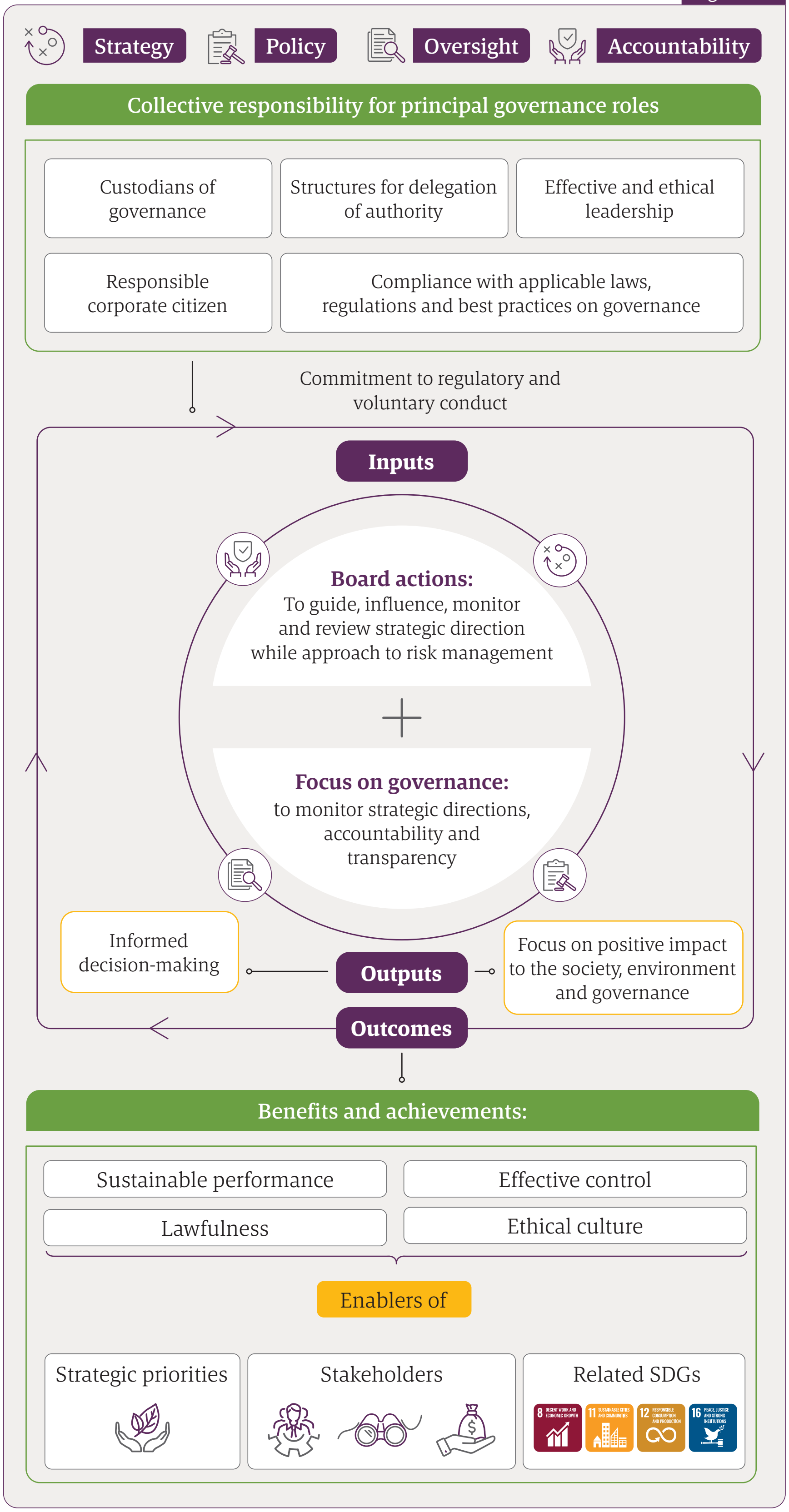
A greater share of governance falls on the shoulders of the Board, with a level of delegated authority related to strategic direction given to the Board Committees and Corporate Management headed by the General Manager/ CEO. The Board's main responsibility lies in directing and overseeing Bank affairs to ensure that they are socio-economically and environmentally sustainable whilst achieving shareholder interests. This is complemented through Board duties that engage in setting and approving Bank strategy and related operational objectives, which allows the Board to conceptualise a balanced value creation system that benefits all stakeholders.

Thus, the Board is required to maintain ethical and effective banking operations at NSB, embodying qualities of integrity, efficiency, accountability, impartiality, and openness. These qualities are explicitly visible in NSB's compliance with all rules, regulations, legislature, policy, laws, and codes which govern the banking industry, depicting its commitment to ethical corporate citizenry.

As such, the concept and implementation of governance at NSB is a multifaceted exercise which involves enabling business through the achievement of strategic goals, securing stakeholder interests, and providing an ethical and sustainable service to society at large. As such, governance will continue to be an area of priority for NSB.

For a detailed review of NSB's corporate governance and status of compliance, pages 188 to 202.

Figure 22



Statement on Risk Management

Sound risk management ensures both short and long-term sustainability of organisations. Hence, we at NSB view risk management as being a crucial function to our business model and corporate strategy, as it directly impacts our ability to create sustainable value over the time. The scope for risk management covers both NSB as well as its fully owned subsidiaries, namely, NSB Fund Management and Sri Lanka Savings Bank, thereby incorporating a broad yet well-informed risk assessment across the Group.

The Bank's risk management is driven by accuracy and transparency in a bid to achieve the overall objective of managing its operations and associated risks whilst upholding stakeholder interests. The function itself is set up to identity, assess, measure, aggregate, and manage risks while overseeing the optimisation of capital allocations. We are committed to ensuring that the trade-off between risk and return in value creation is well balanced, thereby upholding our brand image, solvency, and resilience in the industry while simultaneously complying with regulatory requirements. As such, we manage risks with the gravity and seriousness that it warrants within the banking industry.

Given this interconnectedness, the Bank's business strategy is in line with integrated risk management strategy and risk appetite which is set by the Board. A Board appointed subcommittee titled the Board Integrated Risk Management Committee (BIRMC) is tasked with assisting the Board of Directors on the efficiency and suitability of risk management strategies, thereby involving the entirety of NSB in its risk management process.

Outlook

The pandemic continued in waves and impacted risk landscape in the year 2021 along with the social and economic recessions resulted due to the foreign reserves dwindle.

We are committed to bolstering the integrated risk management framework through upgrading digital infrastructure which provides seamless support for strategic changes in business operations. This will ensure that all developments in the risk management framework of the Bank comply with both international best practices and the regulatory framework set by the CBSL.

Risk management at NSB

The continued stability of our Bank amidst a challenging year has been partly due to our cautious risk management framework, which has incorporated adequate measures to minimise risks in volatile environment. One of the key aspects is the dynamism of our framework, as it adapts to risks arising within an ever-changing operating environment. Well defined risk appetite levels enable us to regularly monitor financial and operational performance against predetermined risk appetite limits.

In the year 2021, Bank managed to achieve risk appetite levels with regard to the profitability and solvency indicators.

For further information on the Bank's risk management, please to pages 212 to 239.

COMPENDIUM

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→ *Governance*

Board of Directors

Ms Keasila Jayawardena

Chairperson
Non-Independent Non-Executive Director

Date of appointment
2 January 2020

Skills and experience
Ms Jayawardena is an Academic/University Lecturer, who has served as a Lecturer in Political Science at the University of Peradeniya for 15 years. She holds a Bachelor's (Honours) Degree and a Master's Degree in Political Science from the University of Peradeniya. She has served eight years as a chairperson of two development banks.

Other current appointments
Chairperson, NSB Fund Management Co. Ltd., Chairperson, Sri Lanka Savings Bank.

Previous key appointments
Chairperson – Kandurata Development Bank, Chairperson – Regional Development Bank, Provincial Council Member

Mr Eranga Jayewardene

Senior Director
Independent Non-Executive Director

Date of appointment
23 January 2020

Senior Director
15 June 2020

Skills and experience
Mr Jayewardene holds a Bachelor of Science Degree in Electrical Engineering from Rensselaer Polytechnic Institute, USA and a Master of Science (MSc) from Stanford University, USA in Electrical Engineering. Mr Jayewardene was awarded many Leadership Awards during his tenure at Apple Inc. Cupertino, CA, USA and Cisco Systems, San Jose, CA, USA.

Mr Jayewardene was the first Sri Lankan to be awarded the Bill and Melinda Gates Fellowship which further aided his academic career by awarding a full scholarship to Stanford University, USA to pursue a PhD in Electrical Engineering.

Mr Jayewardene is a published author and his research papers have been presented at the International Society for Optical Engineering (SPIE) annual international symposiums.

The research primarily focused on process control for Micro lithography which was conducted at the National Institute of Standard and Technology, Gaithersburg, MD, USA.

He was a founding member of a Silicon Valley based start-up that won the PayPal Innovation Award in 2010, which was also featured in several publications spanning from WIRED, NY Times, Boston Globe, CNBC and San Francisco Chronicle.

Mr Jayewardene has industry experience across local and international organisations and has spoken at international and local conferences.

Other current appointments
Chief Executive Officer (CEO) of Giga Foods (Pvt) Ltd.

Previous key appointments
Director, Digitalisation MAS Intimates (Pvt) Ltd., Chief Executive Officer, Silueta (Pvt) Limited, General Manager/Director, MAS Innovations, General Manager, Sourcing and Supply Chain, MAS Intimates (Pvt) Ltd., Senior Manager Supply Chain, Planning and Procurement, Apple Inc. Cupertino, CA, USA, Demand Planning Manager, Cisco Systems San Jose, CA., Research Scientist at National Institute of Standards and Technology, Gaithersburg, MD, USA.

Mr U G R Ariyaratne

Ex-officio Director
Non-Independent Non-Executive Director

Date of appointment
31 August 2018

Skills and experience
Mr Ariyaratne is a Sri Lanka Administrative Service (SLAS) Special Grade Officer, who counts over 28 years of experience in the Sri Lanka Administrative Service. He holds Bachelor of Commerce, Master in Sociology and Postgraduate Diploma in

Regional Planning from the University of Kelaniya. He has also completed a Postgraduate Diploma in Education from the University of Peradeniya. Mr Ariyaratne has obtained a Certificate of Public Administration, Certificate of General Management and Capacity Building Programme for SLAS Class I Officer from Sri Lanka Institute of Development Administration (SLIDA).

Other current appointments
Postmaster General, Department of Posts, Director NSB Fund Management Company Ltd., Member of CRIB.

Previous key appointments
District Secretary, District Secretariat, Polonnaruwa, Additional Secretary (Social Development), Additional Secretary (Rural Development) at the Ministry of Social Empowerment and Welfare, Additional Government Printer (Administration) at Department of Government Printing, Director General of Coconut Development Authority, Senior Assistant Secretary (Land) at the Ministry of Lands, Executive Director/Deputy Director General (Administration and Finance) of Mahaweli Authority of Sri Lanka, Deputy Postmaster General (North Western Province and Central Province) of Department of Posts, Divisional Secretary at the Divisional Secretariat, Mawathagama, Assistant/ Deputy Commissioner (Kurunegala) of Department of Agrarian Services, Secretary to the Corporative Employees Commission, North Western Province, Provincial Commissioner (North Central Province) of Department of Probation and Child Care Services, Assistant Divisional Secretary, Divisional Secretariat, Rajanganaya, Thirappane, Assistant Commissioner of Land, Department of Land Commissioner.

BIRMC BAC BNC

Dr M K C Senanayake
Ex-Officio Director
Non-Independent Non-Executive Director

Date of appointment
11 January 2020 to 2 March 2022

Skills and experience
Being an academic in addition to his career as a public servant, Dr Senanayake has contributed to many international and local publications relevant to his expertise. He has made presentations at international seminars and conferences held all over the world. He has gained teaching experience at the University of New South Wales, Australia. Dr Senanayake holds a PhD in Economics from University of New South Wales, Australia, Master of Public Policy from Graduate School of Business Strategy, Hitotsubashi University, Japan and Bachelor of Commerce (Special) Degree, with a Second Class (Upper Division) from University of Sri Jayewardenepura. He also holds an Advanced Diploma in Management and Administration from Sri Lanka Institute of Development Administration (SLIDA) and Sri Lanka Foundation Institute.

Other current appointments
Director General, Department of Fiscal Policy, Ministry of Finance, Observer (Treasury Representative) to the Board of Investment of Sri Lanka, Governing Board Member to the Institute of Policy Studies.

Previous key appointments
Director, Deputy Director (Acting) and Assistant Director, Department of Fiscal Policy, and Assistant Director, Department of National Planning, Ministry of Finance and Planning Commission member (Treasury Representative), University Grants Commission, Board member to Postgraduate Institute of English, Open University of Sri Lanka, Sri Lanka Institute of Local Governance, Sri Lanka Council for Agricultural Research Policy, National Science and Technology Commission

BAC BNC

Ms Manohari Abeyesekera
Director
Non-Independent Non-Executive Director

Date of appointment
14 January 2020

Skills and experience
Ms Manohari Abeyesekera holds a Bachelor of Science Degree in Biological Science (First Class Honours) and a Master of Business Administration (MBA) from the University of Colombo winning three gold medals. She is also a Fellow Member of Chartered Institute of Management Accounts (CIMA-UK) and The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka). She is a prize winner at CIMA finals and was the Chairperson of CIMA Sri Lanka Country Network Panel in 2019.
Ms Abeyesekera was elected to the CIMA Global Council for a three-year term commencing June 2021.
Ms Abeyesekera is a Council Member of Sri Lanka Institute of Directors, and a Council Member-Women Corporate Directors – Sri Lanka Chapter.
Ms Abeyesekera is an Alumna of KPMG. She possesses 20 years post-qualifying experience. She has successfully completed the Board Leadership Programme (GSLID) conducted by Sri Lanka Institute of Directors in partnership with International

Finance Corporation (IFC). She read for the Postgraduate Diploma in International Relations conducted by the Bandaranaike International Diplomatic Training Institute winning the Vernon Mendis Memorial Award. She has had Executive Education at Indian School of Business (ISB) Hyderabad, Asian Development Bank, Manila and BHF Bank, Germany. She had served as the President MBA Alumni Association of University of Colombo 2019/20. Previously she had served as an Executive Committee Member in the International Chamber of Commerce Sri Lanka.

Ms Abeyesekera represented Sri Lanka in the Fortune Mentoring Programme for Women Leaders by the Department of State USA. She is also an Alumna of the International Visitor Leadership Programme (IVLP) of the Department of State USA. She had Executive Education at ISB Hyderabad, ADB Manila and BHF Bank Germany. She received the AOTS Scholarship Japan in 2015.

Ms Abeyesekera has received many awards for Women Leadership – Women in Management SL (2012), World Women Leadership Congress – Mumbai (2015) and South Asian Partnership Summit – Dhaka (2017).

Other current appointments
Director – NSB Fund Management Co. Ltd., Council Member CIMA UK, Director – Kapruka Holdings PLC, Council Member – Women Corporate Directors – Sri Lanka Chapter, Council Member – Sri Lanka Institute of Directors

Previous key appointments
Held multiple leadership positions at HAYLEYS Group in an 18-year career from 2002-2020. Accountant Long Range Planning Unit. Head, Strategic Business Development, Hayleys PLC, Director HAYLEYS Group Services and Fentons Limited up to 31 October 2020.

Mr M T J Perera
Non-Independent Non-Executive Director

Date of appointment
11 April 2020

Skills and experience
Mr Perera had served in National Savings Bank for a period exceeding four decades and retired in 2016 as a Chief Manager. He has extensively involved in branch operations exposing him to wider spectrum of service delivery.

Other current appointments
Director of NSB Fund Management Co. Ltd., Director of Sri Lanka Savings Bank.

Previous key appointments
Member of the Board of Janatha Estates Development Board (JEDB) from 2010 to 2013.

Mr H K D Lakshman Gamini
Non-Independent Non-Executive Director

Date of appointment
7 January 2021

Skills and experience
Mr Gamini is an experienced banker who had served People's Bank for a period exceeding three decades and retired in 2014. He had widely involved in international banking and branch banking.

Other current appointments
Director at Three Star Logistics (PVT) Limited, Director – NSB Fund Management Co. Ltd.

Previous key appointments
Vice Chairman of State Printing Corporation, Director of Skills Development Fund, Ministry of Skills Development and Vocational Training.

Mr Jude Nilukshan
Ex-Officio Director
Non-Independent Non-Executive Director

Date of appointment
2 March 2022

Skills and Expertise
Mr Nilukshan holds a Master's Degree in International Trade & Economic Cooperation from Kyung Hee University, South Korea and a BSc Management special Degree, with a Second Class Upper Division pass from the University of Sri Jayawardenapura. He has training on Public Financial Management from various reputed local and international Institutions/ Universities. He obtained a certificate of Public Administration, Certificate of General Management and Capacity Building Programme from Sri Lanka Institute of Development Administration (SLIDA)

Mr Jude Nilukshan, is a special grade officer of Sri Lanka Administrative Service, having over 20 years of experience in the public sector. During his public service he held various senior managerial positions of the General Treasury and the Office of the Cabinet of Ministers.

Other Current appointments
Director General, National Budget Department, Board member, Sri Lanka Institute of Development Administration (SLIDA) and nominated to the Board of Directors of the National Film Corporation.

Previous key appointments
Senior Assistant Secretary to the office of the Cabinet of Ministers during 2015-2020. Director, Deputy Director/ Assistant Director of the National Budget Department, Director/Deputy Director and Director Excise Tax of the Sri Lanka Customs. Chairman, Board of *Shrama Vasana* Fund. Represented the General Treasury in several key state-owned institutions including Ceylon Electricity Board (CEB), Academy of Financial Studies (MILODA), Sri Lanka Pharmaceutical Manufacturing Corporation (SPMC), National Botanical Gardens Trust Fund, Independent Television Network Ltd. (ITN), Marine Environment Protection Authority, Local Government Loan Board, Sri Lanka Youth Corps, National Building Research Organisation (NBRO) and Public Servants Mutual Provident Association (PSMPA).

Mr M P A W Peiris

General Manager/CEO

Date of appointment
12 October 2020

Skills and experience
Mr Peiris is a First Class Honours BSc Degree holder in Physical Science from the University of Colombo and a Member of the Association of Professional Bankers, the Institute of Bankers of Sri Lanka, Sri Lanka Institute of Credit Management and the Sri Lanka Institute of Training and Development.

Other current appointments
Director, NSB Fund Management Co. Ltd., Director, Institute of Bankers of Sri Lanka (IBSL), Director, Sri Lanka Banks' Association (SLBA), Director, the Financial Ombudsman, Sri Lanka (FOSL).

Previous key appointments
Mr Peiris is a professionally qualified and sound banker with a proven track record. His banking career spans over 33 years at NSB since joining the Bank as a Management Trainee in 1988. He has served in many areas of the Bank, including Branch Operations, Branch Administration, Retail Credit, International Banking, Postal Banking in the capacity of Branch Manager, Zonal Manager, Assistant General Manager, and Deputy General Manager before his appointment as the General Manager/CEO.

Ms Anupama Muhandiram

Secretary to the Board

Date of appointment
6 December 2016

Skills and experience
Ms Anupama Muhandiram, an Attorney-at-Law holds Master of Laws Degree (LLM) from Cardiff Metropolitan University of UK, Master's in Business Administration (MBA) Degree from Manipal University and Post-Attorney Diploma in Banking and Insurance Law from the Incorporated Council of Legal education of Sri Lanka. Currently she is reading for Chartered Corporate Secretaries of Sri Lanka.

Prior to her appointment as the Secretary to the Board of Directors of National Saving Bank on 6 December 2016, she has served as Assistant Secretary to the Board of Directors from November 2015 to December 2016. She has served as the Company Secretary of NSB Fund Management Co. Ltd., from 2015 to 2017. Out of 25 years experience in Banking and Finance sector, she had served more than 18 years at People's Bank as a Senior Legal Officer and an Assistant Secretary to the Board of Directors.

Ms Muhandiram is also a visiting Lecturer (Commercial Law) at the University of Sabaragamuwa, and she is the Founder Secretary of Association of Board/Company Secretaries of Banks Sri Lanka.

BHRRC – Chairperson of Board Human Resources and Remuneration Committee
BAC – Chairperson of Board Audit Committee
BNC – Chairman of Board Nomination Committee
BIRMC – Chairman of Board Integrated Risk Management Committee
BHRRC – Member of Board Human Resources and Remuneration Committee
BAC – Member of Board Audit Committee
BNC – Member of Board Nomination Committee
BIRMC – Member of Board Integrated Risk Management Committee

Corporate Management

Mr M P A W Peiris
General Manager/CEO

Mr K Raveendran
Senior Deputy General Manager

Ms C S Jesudian
DGM (Credit and International)

Ms G V A D D Silva
DGM (Treasury)

Mr K K V V L W Karunatilaka
DGM (Marketing and Recoveries)

Mr G W E Jayaweera
DGM (Audit)

Ms M N A Fernando
DGM (Human Resource Development)

Mr A K L Illesinghe
Chief Information Officer/DGM (Information Technology)

Ms M A Gomes
DGM (Operations)

Mr W M R B Weerakoon
DGM (Administration)

Ms K D Jayatilake
DGM (Legal)

Mr T H S Athapattu
Acting DGM (Finance, Corporate Planning and MIS)

Executive Management

Mr K M W H Karunaratne
AGM (Engineering)

Mr J H T Chandraratne
AGM (Engineering)

Ms H M S L Fernando
AGM (Operations)

Mr A L A Haleem
AGM (Operations)

Ms W P U A de Silva
AGM (Operations)

Ms R A N N Wijesinghe
AGM (Operations)

Mr K S Weerasena
AGM (Human Resource Development)

Ms I K L Sasi Mahendren
Compliance Officer

Ms R P A M P Rajanayake
Chief Risk Officer

Ms D D Wickramasinghe
AGM (Operations)

Ms C W Pathirana
AGM (Support Services)

Mr M C Rajapaksha
AGM (Information Technology)

Ms S W A Weerasinghe
AGM (Treasury)

Mr L C Senanayake
AGM (IT)

Ms M A P Muhandiram
Secretary to the Board

Mr M D Suranjana
AGM (Audit)

Chief Managers

Ms H R Karunamuni
Regional Office (Western 2)
Regional Manager

Mr D C Olaboduwa
Regional Office (North Western)
Regional Manager

Ms C N Ekanayake
Regional Office(Western 1)
Regional Manager

Ms A M C Attanayaka
Regional Office (Sabaragamuwa)
Regional Manager

Mr S Sivasorupan
Regional Office (Eastern)
Regional Manager

Mr N Baheerathan
Regional Office (Northern)
Regional Manager

Mr S B Suranga
Regional Office (Southern)
Regional Manager

Ms G Hapuarachchi
Regional Office (Central)
Regional Manager

Mr H M G P J Herath
Credit Division
Chief Manager

Mr A B C R Wijayapala
Branch Management Division
Chief Manager – Pawning

Mr M V G Susil Kumara
International Banking Division
Chief Manager

Mr K T S S Gunawardena
Security Division
Chief Manager

Mr D L P Abayasinghe
NSB Fund Management Co. Ltd.
Chief Executive Officer

Mr M W K C De Silva
Treasury Division
Chief Manager

Mr K D K K Wijeyawardane
Card Centre
Chief Manager

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

Mr A P R De Zoysa
Information Technology Division
Chief Manager (IS Security)

Ms S S J P S De Silva
Finance and Planning Division
Chief Manager

Mr H S P Ranaweera
Finance and Planning Division
Chief Manager

Ms S A M A C J S K Senarathne
Legal Division
Chief Manager

Mr S A A Batuwanthudawa
Credit Division
Chief Manager

Ms D A V Wijewantha
Kiribathgoda Branch
Branch Manager

Ms S H A S Kumari
Superannuation Division
Chief Manager

Ms N I Gunathilake
Credit Division
Chief Manager

Mr H D U Susantha Kumara
Kandy Branch
Branch Manager

Mr P A G L Hemal
Wennappuwa Branch
Branch Manager

Ms J M A K Jayasinghe
City Branch
Branch Manager

Ms K B N C Kumari
Finance and Planning Division
Chief Manager

Mr A M G Alahakoon Banda
Gampaha Branch
Branch Manager

Mr T D P Perera
HR Division
Chief Manager (Personnel)

Mr M T Hussain
Information Tecnology Division
Chief Manager – ICT Operations

Ms K C Thayaananthan
Chunnakam Branch
Branch Manager

Ms M D T Perera
Marketing Division
Chief Manager

Ms W E C Perera
Risk Management Division
Chief Manager

Mr J L P Manjula
Risk Management Division
Chief Manager

Corporate Governance

Chairperson's message

The COVID-19 pandemic began in 2020 adversely affecting our business, our stakeholders and the world at large. It has undeniably been another year dominated by COVID-19 and we were still combating with its implications, while ensuring that we responded swiftly to adjust to the new normal. Since, COVID-19 has now become a part of the operating landscape, and way of life, we have changed our thinking to ensure business continuity and to respond proactively and positively.

As we look beyond the pandemic, we understand that our short-term strategy must be sensitive and responsive to the uncertainties, while positioning the business to thrive in the long term. Through our engagement with Management, the Board is confident that the executive leadership has proactively engaged in the decisions necessary to protect and enhance resilience and sustainability of our business; looking beyond our current context to the future we want to create.

The Board remains focused on good governance and stakeholder engagement as fundamental to being true to our mandate and help Sri Lanka to recover from the effects of the pandemic. Key corporate governance activities, that the Board engaged in are set out below.

Ensuring robust governance practices protect value

In times of crisis, sound governance has become of paramount importance. Crises can root a reactive approach that can be detrimental to an organisation's long-term sustainability. However, a clearly articulated, fit for-purpose governance framework that includes rigorous Risk Management supports informed decision-making. Our governance framework enables alignment between the Management and the Board regarding the Bank's direction towards value creation. This alignment is crucial in an environment that requires swift decision-making. I strongly believe that our corporate governance framework has shown itself to be resilient and supported us well as the pandemic unfolded. The governance framework supported agile decision-making to protect the Bank and its stakeholders from the immediate impacts and ensured that we have a strong strategic direction that guides us to be well-positioned for the future.

Bolstering Board diversity and independence

As the savings giant in the country with a strong mandate to inculcate the savings culture amongst Sri Lankans, NSB has been on a journey to enhance the Board's independence and diversity. We have a strong Board that comprises a diverse mix of skills, experience, and gender. We have also been able to spread the unique skills and experience of our Directors across our committees to support value creation most effectively. As chairperson, I am proud of the level of engagement and the quality of dialogue from the Board during the deliberations. There is robust debate on the issues, underpinned by deep mutual respect and an appreciation of the responsibility we bear to our stakeholders.

Stakeholder engagement

The Board recognises the importance of engaging with all its stakeholders in its process of value creation. Meeting the Bank's responsibilities and duties to the shareholder and the communities we serve is central to our purpose. Further details on how the Board takes account of stakeholder interests are set out on pages 67 to 75.

Board oversight of new strategy

The Board has been deeply involved with the development of the Bank's new strategy. Further information on the key Board discussions during 2021 can be found on page 50 and 66.

Leading on culture

This year the Board played an active role in leading the development of a healthy, values-led culture. Further information on the Board's role in assessing, monitoring and providing oversight of the development of the Bank's values-led culture can be found on page 189.

Board and Board Subcommittee evaluation

The Board carried out an annual evaluation of the Board and Board subcommittees during the year. Further, information on this process can be found on page 202.

Corporate Governance direction

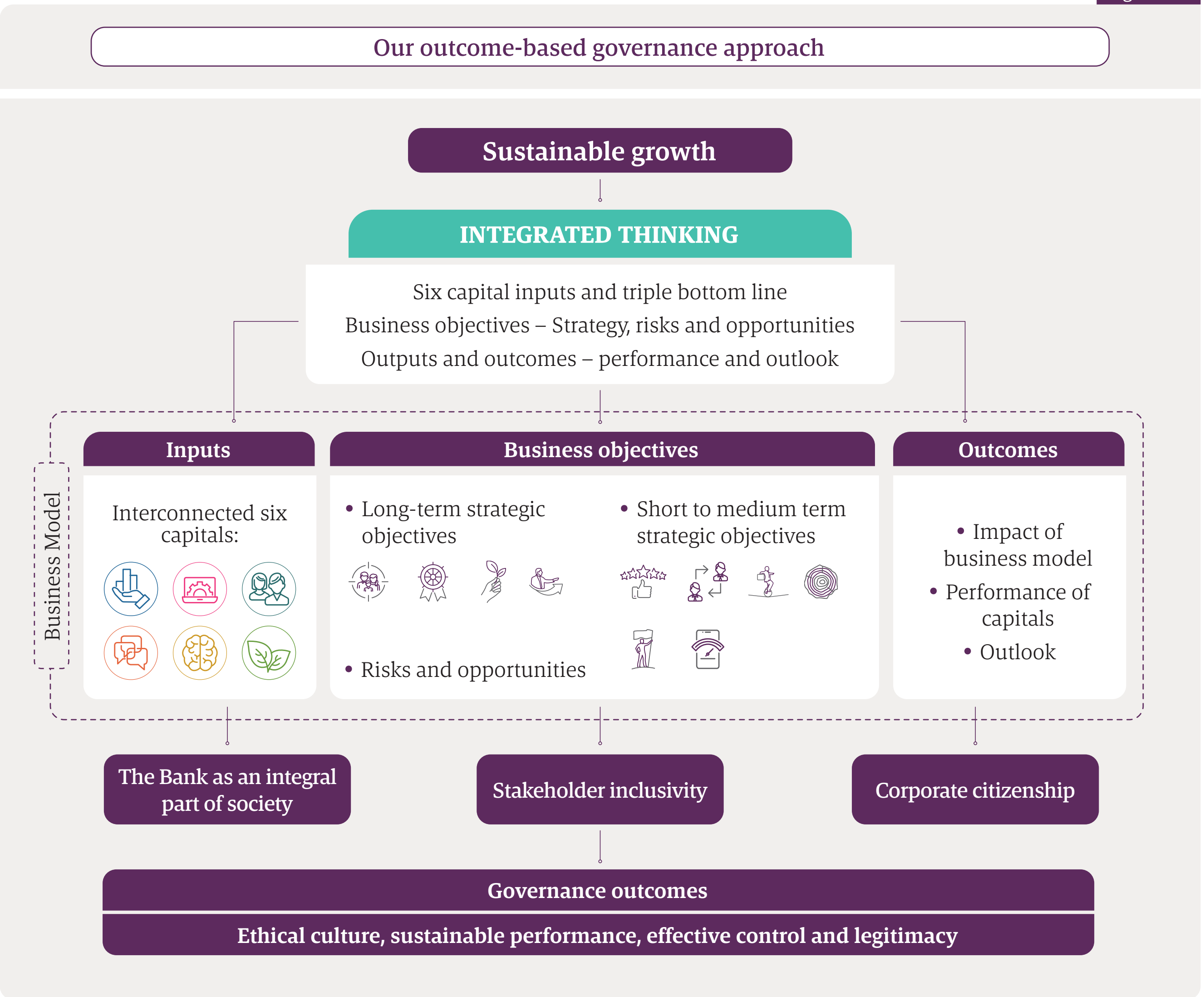
The Bank's compliance with the Banking Act Direction No. 12 of 2007 for Licensed Specialised Banks can be found on page 422 to 441. The Bank also voluntarily adopted the revised Code of Best Practice on Corporate Governance issued by The Institute of Chartered Accountants of Sri Lanka which is given on pages 442 to 446.

Keasila Jayawardana

Ms Keasila Jayawardena
Chairperson

24 March 2022
Colombo

Figure 23



Our Governance philosophy for value creation

NSB is committed to the highest standards of governance, ethics, and integrity in its journey of value creation and thereby reducing the value erosion. Our governance philosophy entails far more than legislative and regulatory compliance. We are committed to continuously improving our governance practices and ensuring that they are aligned with our business and stakeholder needs. In the way forward, we embrace benchmark banking practices, robust institutional governance, and Risk Management frameworks to ensure sustained value creation. The Board takes a multi-capital approach to governance, informed by an INTEGRATED THINKING philosophy and the overall objective of achieving sustainable development. Being mindful of the dynamic landscape of the factors such as economy, health (impact of the COVID-19 pandemic), digital transformation of the financial services industry, enhanced data security requirements and new normalcy, we review the practices adopted to ensure that we act in best interest of the stakeholders.

In an ever evolving and complex regulatory environment, banks are expected to adapt to those changes quickly to entrench good governance practices while being proactive to the changes in the regulatory landscape. NSB believes that good governance can contribute to living our values through enhanced accountability, strong Risk Management and performance culture, transparency, ethical and effective leadership, and improved value creation while being true to our mandate.

Our approach to Corporate Governance and framework

Our approach to corporate governance promotes INTEGRATED THINKING and decision-making that balances strategic outcomes over time, to reconcile the interests of the Bank, stakeholders and society in creating and protecting sustainable shared value. We follow a governance approach based on accountability, effective delegation, and adequate oversight to support sound decision-making. NSB's governance is strengthened by the tone at the top, the example the Board and the Corporate Management set, and the values and behaviours embraced by the employees of the Bank. The Board's role is to represent the shareholder by setting the strategic direction and instilling a culture that is reflective, risk aware and accountable to achieve stakeholder outcomes that are balanced. The Board gives high importance on overseeing the Bank's operations and ensuring that we remain well-positioned to continue supporting customers and achieving sustainable growth. The Board is conscious that a well governed Bank which has embraced best practices inspires the stakeholder confidence, lowers the cost of capitals, and builds an inclusive governance framework.

Our Board-approved governance framework is embedded in all the Bank's operations and is designed to provide a clear direction for responsive decision-making and support responsible behaviour. We implement our framework principles to:

- Ensure that we engage in strategic opportunities within the Board-approved risk appetite, supporting a prudent balance of risk and return.
- Provide effective control to avoid financial loss or reputational damage due to misconduct or unethical behaviour.
- Embed the principle of doing the right business, the right way to ensure ethical business practices are embedded within and across our markets.
- Support our legitimacy as a responsible corporate citizen that enhances the resources, effective allocation of resources and relationships we rely on today for the future benefit of the Bank, our stakeholders and society.

How we govern

We are committed to the highest level of governance and strive to foster a culture that values and rewards exemplary ethical standards, personal and corporate integrity and respect for others. In our aspiration to be a responsible corporate citizen, we follow regulatory requirements, voluntary codes and internal elements of corporate governance applicable to the Bank.

Regulatory framework

- NSB Act No. 30 of 1971 and the amendments thereto
- Banking Act No. 30 of 1988 and the amendments thereto
- All Directions issued to Licensed Specialised Banks by the Central Bank of Sri Lanka, particularly the Banking Act Direction No. 12 of 2007 on Corporate Governance (page 422 to 441)
- Inland Revenue Act No. 24 of 2017 and amendments thereto
- Shop and Office Employees Act No. 19 of 1954 and amendments thereto
- Code of Best Practice on Corporate Governance for Public Enterprises in Sri Lanka
- Guidance for Directors of Banks on the Directors' Statement on Internal Control issued by CA Sri Lanka

Voluntary codes relevant to the Bank

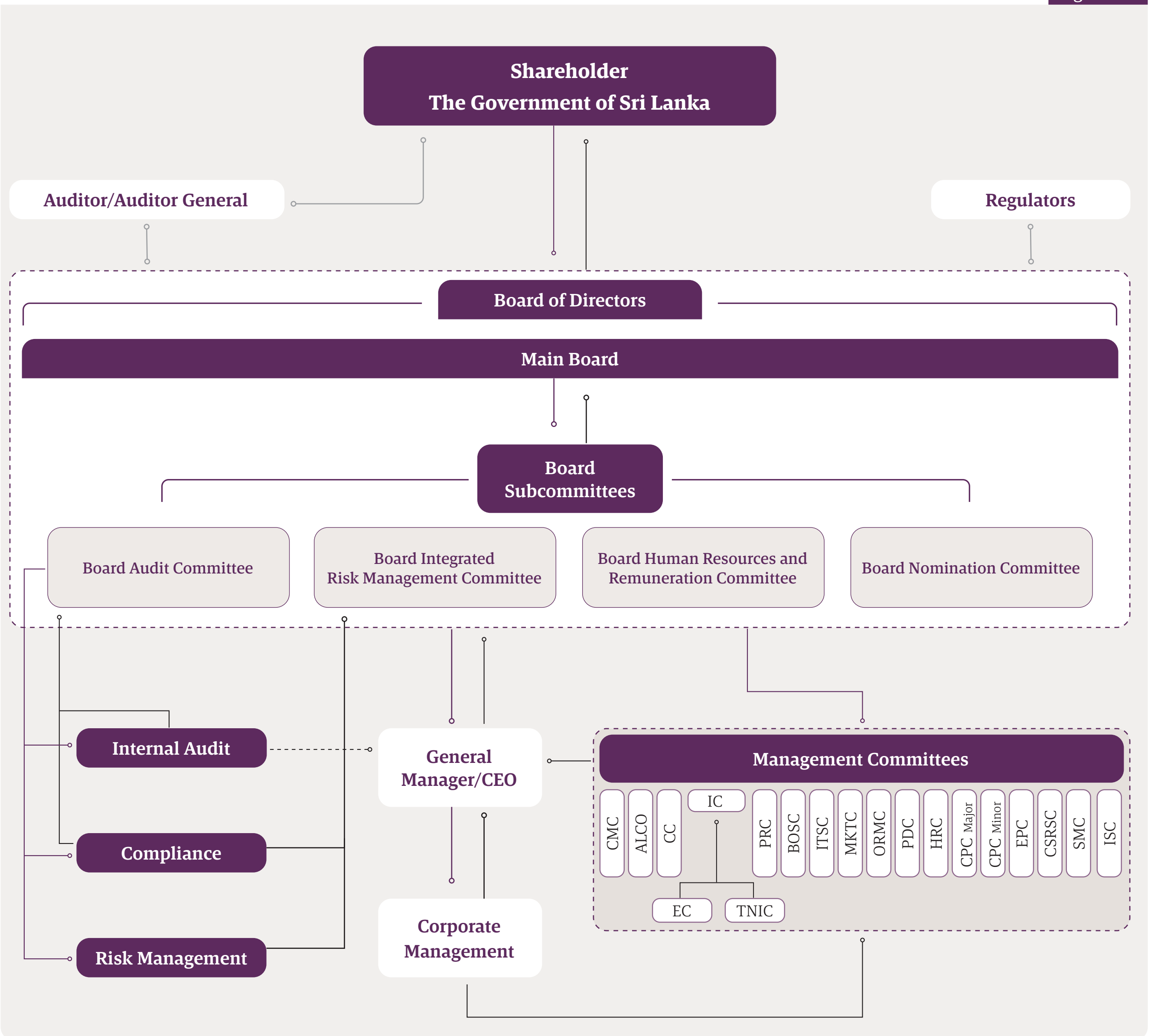
- Code of Best Practice on Corporate Governace issued by CA Sri Lanka (pages 442 to 446)

Internal elements

- Terms of Reference of Board and Board Subcommittees
- Code of Conduct for employees
- Code of Conduct for the Directors
- Board approved polices and operational procedures

Governance structure

Figure 24



Appointment flow
Responsibility flow – Direct
Administrative flow
Dialogue

CMC	Corporate Management Committee
ALCO	Assets Liability Management Committee
CC	Credit Committee
IC	Investment Committee
EC	Equity Committee
TNIC	Tender and New Investment Committee
PRC	Performance Review Committee
BOSC	Branch Operations Steering Committee
ITSC	IT Steering Committee
MKTC	Marketing Committee
ORMC	Operational Risk Management Committee
PDC	Product Development Committee
HRC	Human Resources Committee
CPC Major	Corporate Procurement Committee – Major
CPC Minor	Corporate Procurement Committee – Minor
EPC	Executive Procurement Committee
CSRSC	Corporate Social Responsibility and Sustainability Committee
SMC	Senior Management Committee
ISC	Information Security Committee

Our governance structures are well-defined and embedded to support the Bank's ability to create and protect value in the short, medium and long term. A well-architected governance structure and processes ensure that the Bank is well managed and controlled.

The Board of Directors provides leadership and strategic guidance to safeguard stakeholder value creation within a framework of prudent and effective controls. This makes it possible to assess and manage risk to ensure long-term sustainable development and growth. The Board has ultimate accountability and responsibility for the performance and affairs of the Bank and ensures that the Bank adheres to highest standards of ethical behaviour. The Board delegates certain functions to its committees according to clearly defined mandates and decision-making rights set by the framework making the Board Committee chairpersons are accountable for the effective functioning of Board committees. This allows the Board to allocate sufficient attention to the matters reserved for its decision-making, while also ensuring that delegated matters receive in-depth focus.

The Board delegates the management of the day-to-day business and affairs of the Bank to the General Manager/CEO. The Management and Management committees are entrusted with the execution and delivery of the strategies approved by the Board. Strategic business lines are responsible for carrying out operations assuming risk within agreed level.

The resilience of our governance structure was evident in 2021, where they ensured the Board's swift response to persistent COVID-19 pandemic.

Governance structure of the Bank is given in figure 24 on page 191.

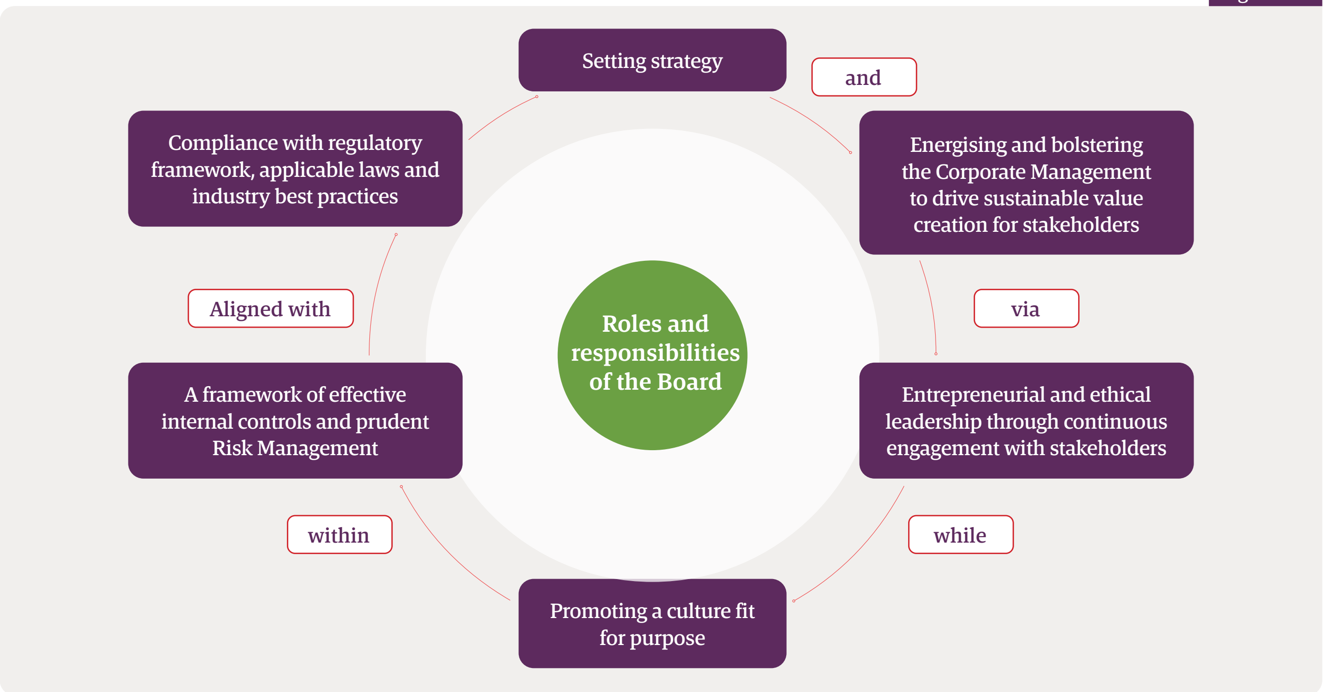
Board of Directors

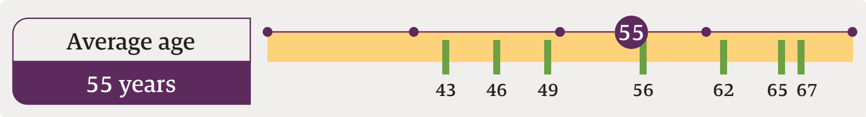
The Board as the apex authority level sets the strategy, oversees its delivery, and establishes the culture, values and standards of the Bank. The Board ensures that the Bank manages risk effectively, monitors financial performance and reporting and ensures that appropriate and effective succession planning arrangements are in place. It provides and encourages entrepreneurial leadership across the Bank within this framework. They meaningfully contribute to leading the Bank by bringing diversity to the Board deliberations and create sustained value through constructively challenging the Management. A clear division of responsibilities of the Board ensures that no Director has unfettered power in decisions-making.

The Board is constituted as per the provisions of National Savings Bank Act No. 30 of 1971 and the amendments thereto. The Board Charter details the roles and responsibilities and powers bestowed upon them. The Board holds Corporate Management accountable for the Bank's operational performance, financial performance, and internal control management systems and the Management is open and transparent with the Board, bringing all significant matters to their attention. In-depth interactions between the Board and the Corporate Management strengthen the Bank's decision-making and ensures an appropriate balance of power. These engagements take place with mutual respect and candour.

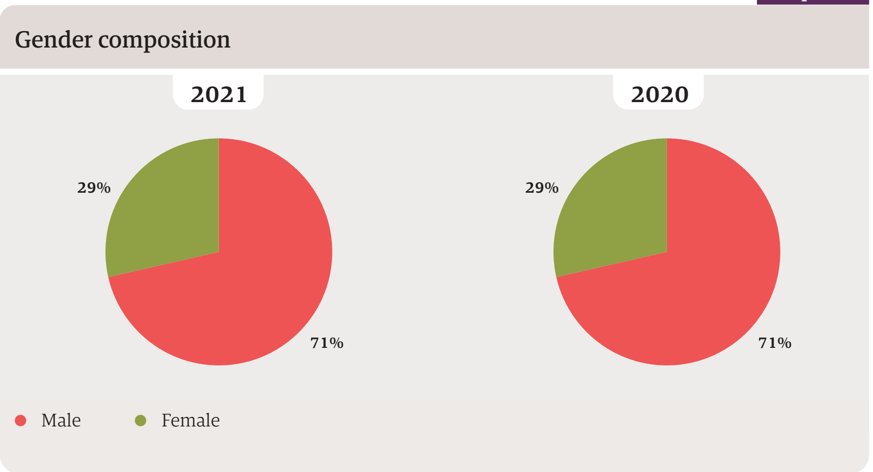
Roles, responsibilities, and powers of the Board

Figure 25





Graph 57



The roles and responsibilities and the powers reserved to the Board are given in the Board Charter as listed below.

Powers vested in the Board

- To act as the final decision-making authority with regard to any matter related to the Bank subject to restrictions contained in the Board Charter or any other laws/regulations in force.
- To arrive at suitable decisions on financial matters subject to provisions of the approved Procurement Manual of the Bank and other applicable laws/ regulations in force.
- To formulate policies and guidelines to govern all activities of the Bank in order to ensure that most favourable business initiatives are taken at all levels.
- To inquire into any matter pertaining to performance, management or administration of the Bank by way of calling for reports, appointment of a committee or any other suitable method as decided by the Board.

Roles and responsibilities of the Board

- Maintaining regular monitoring and supervision over overall functions of the Bank.
- Taking appropriate actions based on recommendations made by any Board subcommittee, a Director, General Manager/CEO or any other committee exercising power delegated by the Board.
- Monitoring and evaluating the performance of the organisation and Key Management Persons including General Manger/CEO
- Appointment of General Manager/ CEO and, placements and promotions of Key Management Personnel in line with the Terms of Reference of the Board Nominations Committee (BNC) and Board Human Resources and Remunerations Committee (BHRRC)
- Engage in any other macro level matter which requires direction/ guidance from the Board of Directors

Board composition

We have a diverse Board, ranging broadly in age, gender, culture, educational background, skills, experience, and knowledge. This provides a fertile environment for discussion, debate, input, challenge, and thoughtful outcomes. The Board is committed to ensuring that we meet our governance, social and regulatory obligations taking into consideration the environment in which we operate.

The Board comprise seven Non-Executive Directors who are eminent professionals of their chosen fields of expertise and skills to carry out deliberations on matters set before the Board. One Director is a Non-Executive Independent Director, and six Directors are Non-Executive Non-Independent Directors. The Chairman has overall responsibility for the leadership of the Board and for ensuring its effectiveness. The Board ensures that the Bank manages risk effectively, monitors financial performance and reporting and ensures that appropriate and effective internal controls and procedures are in place. It provides and encourages entrepreneurial leadership across the Bank within this framework.

Board skills and expertise

As a financial intermediary, the Bank needs a broad range of skills to ensure the value creation in the interest of all stakeholders. The collective background of the Board members provides a balanced mix of skills, demographics, genders, experience, and tenures to enable it to fulfil its governance role and responsibilities objectively and effectively. Having the right mix of skills and expertise ensures that a united Board as a united team is well equipped to guide and drive the Bank's strategy and the way forward in the process of value creation.
The members of the Board must have the highest levels of integrity, deep understanding of governance, appropriate technical, financial and non-financial knowledge and interpersonal skills. Our Board is equipped with skills and experience specifically in the fields of banking, finance, economics, research, planning, strategy development, IT, cybersecurity, humanities, management, administration and international relations.

Profiles of the members of the Board of Directors, including their qualifications and skills, other significant appointments and membership of the Board committees are given on pages 180 to 183.

Table 25

	Skills and experience	Relevance to NSB
Leadership 🟢🟢🟢🟢🟢🟢🟣	Held senior leadership roles such as Chairman, Director, Chief Executive Officer or similar position in an organisation of significant size and complexity	Setting strategy and evaluating the performance of Key Management Personnel
Financial services 🟢🟢🟢🟢🟢🟣🟣	Experience in the financial services sector and regulations, including retail and corporate banking services and adjacent sector	Understanding of the operational landscape, opportunities, and challenges in the sector
Financial acumen 🟢🟢🟢🟣🟣🟣🟣	Proficiency in financial accounting and reporting and capital management and reporting	Assessing complex financial and capital management initiatives
Corporate planning and strategy 🟢🟣🟣🟣🟣🟣🟣	Experience in leading, developing or executing strategic planning and business objectives	Reviewing and setting the organisational strategy and planning process
Governance 🟣🟣🟣🟣🟣🟣🟣	Experience as a Non-Executive Director of a State Bank or a listed company in Sri Lanka and/or understanding of legal and regulatory frameworks underpinning corporate governance principles	Understanding the legal and regulatory frameworks to effectively perform the role of a Director
Risk Management 🟢🟢🟣🟣🟣	Experience in identifying, assessing, and monitoring systemic, existing and emerging financial and non-financial risks	Monitoring risk appetite, assessing the overall risk profile and adapting to emerging trends
Digital and technology 🟣	Experience in technology and innovation and the impact on customer experience and value creation	Supporting the Bank's digital strategy
Enhanced customer outcomes 🟢🟢🟢🟣🟣🟣🟣	Understanding of the changing needs of customers with a focus on improving their financial well-being and enhancing their experience	Providing constructive challenge to ensure customer needs are met
Stakeholder engagement 🟢🟣🟣🟣🟣🟣🟣	Experience in building and maintaining trusted and collaborative relationships with government, regulators and community	Ensuring an effective engagement programme with regulators and other stakeholders in place
People and culture 🟢🟣🟣🟣🟣🟣🟣	Understanding organisational culture, succession planning, and remuneration and reward frameworks	Overseeing the culture of the Bank and upholding to the Code of Conduct
Environment and social sustainability 🟣🟢🟢🟢🟢	Understanding the potential risks and opportunities from an environmental, social and sustainability perspective	Influencing sustainable practices, policies and decisions that support environmental and social outcomes

🟢 Highly competency, knowledge and experience   🟣 Practical/Direct experience

Board process

The Board meets at least once in six weeks based on an agreed meeting schedule as per the NSB Act. Additional meetings are convened based on the requirements to do so. Directors regularly attend the meetings and actively participate in the deliberations. Details of attendance at Board meetings are given on pages 195 and 196. The Bank has a comprehensive and continuous agenda setting and escalation process in place to ensure that the Board has the right information at the right time and in the right format to enable the Directors to make the right decisions. The Chairman leads the process, assisted by the General Manager/CEO and Secretary to the Board. The process ensures that sufficient time is set aside for strategic discussions and business critical items. The Chairman ensures Board meetings are structured to facilitate open discussion, debate and challenge. Board members also can request certain items to be included in the agenda for discussion and decision-making. The agenda is circulated to the Board members along with the relevant Board papers electronically one week prior to the date of the Board meeting by the Secretary to the Board via the BoardPac. The Directors regularly attend the meetings, physically and/or virtually and actively participate in deliberations. On exceptional situations, urgent Board papers are submitted at short notice or tabled during the meetings. Adequately detailed minutes of the meetings and the decisions made therein are maintained and can be accessed by Directors.

Conflict of interest

The National Savings Bank Act and the Corporate Governance Direction No. 12 of 2007 (Amended) codify the fiduciary duties of Directors and prohibit the use of position and/or confidential information for personal gain or to benefit another person improperly.

Directors are required to inform the Board promptly of conflicts or potential conflicts of interest that they may have in relation to particular items of business. Where a Director has any direct or indirect personal or private business interest in a particular matter, that Director shall not take part in any deliberation or decision of the Board when the matter is considered and withdraw from such meetings while such deliberation is in progress or decision is being made.

A standard agenda item is included for members to declare whether any of them have any conflict of interest in respect of a matter on the agenda and minuted accordingly by the Secretary to the Board. Any changes in interests during the year necessitate the filing of a revised declaration of interest form.

The Board approved Related Party Transactions Policy of the Bank is established to ensure that transactions between the Bank and its related parties are based on principles of transparency and aims at preventing and providing guidance in situations of potential conflict of interests in respect of transactions involving such related parties. Any banking facilities provided to the Directors are in compliance with the authorisation given by the CBSL. During the year 2021, none of the Directors had a significant interest in any contract or arrangement entered into by the Bank or its subsidiaries other than as disclosed in Note 49.5.2 to the Financial Statements on page 368.

Board meetings

During the year, there were 27 scheduled Board meetings and 2 ad hoc meetings called at short notice to consider matters of a time-sensitive nature with details of attendance shown on pages 195 and 196. According to the NSB Act No. 30 of 1971 and its amendments, the Board shall meet as often to the Chairman may deem necessary, provided that a meeting of the Board shall held once at least every six weeks. The Board recognises the need to be adaptable and flexible to respond to changing circumstances, such as switching to virtual meetings because of the pandemic, and to emerging business priorities, while ensuring the continuing monitoring and oversight of core issues, such as the impact of, and the Bank's response to, the pandemic.

In the process of value creation, to deliver against the strategies, the Board dedicated their time in providing clear directions to the Corporate Management in formulation of the Bank's three-year Strategic Business Plan which was consequently reviewed and approved by the Board. During the year, the Board continued to devote time on capital management, reviewed the performance and implementation of Strategic Business Plan and deliberated on matters that require further attention, Risk Management, compliance and corporate governance.

Table 26

Name of the Director	Date of appointment	Age	Director status	Attended/Eligible to attend					Tenure in the Board (years)
				Board	BAC	BHRRC	BNC	BIRMC	
Ms Keasila Jayawardena Chairperson	2 January 2020	62	NED/NID	29/29		9/9			1+
Mr Eranga Jayawardene Senior Director	23 January 2020	43	NED/ID	24/29		7/8	2/2	1/1	1+
Mr U G R Ariyaratne Ex-officio Director	31 August 2018	56	NED/NID	23/29		9/9	2/2	3/4	3+

Name of the Director	Date of appointment	Age	Director status	Attended/Eligible to attend					Tenure in the Board (years)
				Board	BAC	BHRRC	BNC	BIRMC	
Dr M K C Senanayake Ex-officio Director	11 January 2020	49	NED/NID	22/29	12/13		1/1	5/5	1+
Ms Manohari Abeyesekera Director	14 January 2020	46	NED/NID	28/29	13/13		0/0		1+
Mr M T J Perera Director	11 April 2020	65	NED/NID	29/29				5/5	1+
Mr H K D Lakshman Gamini Director	7 January 2021	67	NED/NID	29/29	13/13	1/1	1/1		<1

NED – Non-Executive Director NID – Non-Independent Director ID – Independent Director

Board Subcommittees

The Board is empowered through its Charter to delegate its powers, discretions and authorities to any committee or committees as it thinks fit to ensure that delegation promotes independent judgement and assists with the balance of power and effective discharge of duties. This enables the Board to spend a greater proportion of its time on strategic, forward-looking matters. The Board committees are responsible for overseeing matters relating to their respective authorities within the remit of Terms of Reference which defines the roles and responsibilities of each committee and specific levels of discretion within which they can operate. The Board however continues to retain the responsibility for committee decisions. Four mandatory committees; Board Audit Committee (BAC), Board Human Resource and Remuneration Committee (BHRRC), Board Nomination Committee (BNC) and Board Integrated Risk Management Committee (BIRMC) were formed as required by the Banking Act Direction No. 12 of 2007. The Board committees report to the Board. The Secretary to the Board is also the Secretary to all subcommittees. Minutes of the meetings shall be submitted to the Board for information, review, comment, and required approval. Terms of Reference, composition, roles and responsibilities, attendance of members, activities carried out during the year 2021 and the focus for 2022 and beyond under each committee are given in respective committee reports on page 203 to 211.

Management committees

In addition to the Board committees, the Bank has constituted Management committees. These have been established under a Board approved Terms of Reference. The General Manager/CEO acts as the Chairman of all Management committees according to the Terms of Reference of those committees. The committees deliberate on matters which are critical to the operations of the Bank as described in the table below:

Table 27

Management committee	Objective and responsibilities	Composition
Corporate Management Committee (CMC)	Overseeing on matters relating to policy and strategy formulation, implementation of the policies and strategies at the operational level.	All officers serving the Bank in the capacity of Deputy General Manager and above.
Asset and Liability Management Committee (ALCO)	Maintaining the market and liquidity risk within the predetermined risk appetite level in order to optimise the return	General Manager/CEO, Senior DGM, KMPs from the Divisions of Finance and Planning, Research and Development, International, Operations, Credit, Treasury and Risk Management.
Credit Committee (CC)	Periodic review of the Credit Policies of the Bank, implementation of the policies and engaging in maintaining a healthy credit portfolio to optimise the returns within the risk appetite of the Bank.	General Manager/CEO, Senior DGM, KMPs from the Divisions of Finance and Planning, Research and Development, Operations, Credit, Treasury, Legal and Risk Management.

Management committee	Objective and responsibilities	Composition
Investment Committee (IC)	Periodic review of Investment Policy of the Bank and overseeing the investment activities of the Bank within the overall risk appetite level of the Bank.	General Manager/CEO, Senior DGM, KMPs from the Divisions of Finance and Planning, Research and Development, International, Credit, Treasury, Legal and Risk Management.
Performance Review Committee (PRC)	Review of financial performance, progress of ongoing activities, withdrawal activities and any other support functions of the Bank that facilitate the performance.	General Manager/CEO, Senior DGM, all DGMs, all Consultant and Heads of Divisions, all AGMs, Compliance Officer and any other Members appointed by the Committee.
Branch Operations Steering Committee (BOSC)	Overseeing the reinforcement of the branch operations within the delegated financial authority.	General Manager/CEO, Senior DGM, KMPs from the Divisions of Finance and Planning, Research and Development, Legal and Premises.
Information Technology Steering Committee (ITSC)	Ensuring that the IT strategies are aligned with the business strategy of the Bank.	General Manager/CEO, Senior DGM, KMPs from the Divisions of Finance and Planning, Research and Development, International, Operations, Credit, Treasury, Legal, Human Resource Development, Marketing, Information Technology, Compliance and Risk Management.
Marketing Committee (MKTC)	Providing marketing advice, expertise and assistance to the Board and the Corporate Management, reviewing and directing all aspects of marketing activities of the Bank	General Manager/CEO, Senior DGM, KMPs from the Divisions of Finance and Planning, Operations and Marketing.
Operational Risk Management Committee (ORMC)	Managing operational risk of the Bank while overseeing the implementation of the operational Risk Management techniques and maintaining the integrity of internal controls by taking relevant measures.	General Manager/CEO, Senior DGM, KMPs from the Divisions of Research and Development, Operations, Human Resource Development, Information Technology, Support Services, Premises, Legal, Risk Management, Compliance and Information Security.
Product Development Committee (PDC)	Overseeing the long-term value creation through innovative product development to face the increasing competition.	General Manager/CEO, Senior DGM, KMPs from the Divisions of Research and Development, Operations, International, Information Technology, Retail Credit, Marketing, and Planning.
Human Resource Committee (HRC)	Development of human resources in line with the Bank's strategic objectives.	General Manager/CEO, Senior DGM, KMPs from the Divisions of Finance and Planning, Human Resource Development, Credit and Legal.
Corporate Procurement Committee (Major)	Ensuring smooth functioning of the procurement process of the Bank	General Manager/CEO, KMPs from Finance and Planning, Operations, Representative from the Ministry of Finance
Corporate Procurement Committee (Minor)	Ensuring smooth functioning of the procurement process of the Bank	General Manager/CEO, KMPs from Finance and Planning, Operations, Representative from the Ministry of Finance
Executive Procurement Committee (EPC)	Ensuring smooth functioning of the procurement process of the Bank	Senior DGM, DGM (Credit), Chief Manager (Finance)

Management committee	Objective and responsibilities	Composition
Corporate Social Responsibility and Sustainability Committee (CSRSC)	Supporting value creation for key stakeholders by integrating ethical, social and environmental responsibility into daily business activities as defined by the Corporate objectives that is linked to sustainability performance and development.	General Manager/CEO, Senior DGM, all DGMs, all Consultant and Heads of Divisions, all AGMs.
Senior Management Committee (SMC)	Scrutinise the human resource related matters	General Manager/CEO, Senior DGM, DGM (Credit), DGM (HRD), DGM (Audit)
Information Security Committee (ISC)	Manage Information Security of the Bank and take measures to implement necessary controls and evaluate the effectiveness of such controls in order to improve the compliance status with regulatory requirements and to minimise Information Security of the Bank.	General Manager/CEO, Senior DGM, DGM (Operations), Chief Information Security Officer (CISO), KMPs from the Divisions of Information Technology, Human Resource and Security

Appointment, re-election and resignation of Directors

As a state-owned bank, the appointment of Directors to the National Savings Bank is done as per the NSB Act No. 30 of 1971 and amendments thereto. Accordingly, of the seven Directors five Directors are appointed by the Minister responsible for state banks while one shall be the Secretary to the Treasury or his nominee and the other shall be the Postmaster-General or his nominee as per the NSB Act. The Central Bank of Sri Lanka approves appointments made if the required criteria for fit and propriety are met. The maximum period a Director can serve is restricted to nine years as per the provisions of the Banking Act Direction No. 12 of 2007 on Corporate Governance.
The resignations and re-election of Directors are also done as per the NSB Act No. 30 of 1971 and amendments thereto where the Central Bank of Sri Lanka is duly informed. The details of the Directors and the changes are given on pages 195 and 196.

Board induction and training

The Bank identifies that Director development plays a pivotal role in enhancing Board effectiveness, enabling them to contribute fully to Board deliberations in an ever-changing business, economic, legislative and regulatory environment. Changes and precedents in innovation and in the way business is conducted require the Board to be up-to-date with these developments, thereby significantly reducing and managing the Bank's risks while capitalising on the opportunities. A well-focused induction and training process ensures new Directors are adequately briefed and have the requisite knowledge of the Bank and its operations. This further outlines the Directors' fiduciary and statutory duties and provides guidance on all legal and governance related obligations. Members of the Board of Directors of the Bank are provided with training and access to BoardPack Solution and the Board Manual which includes NSB Act No. 30 of 1971 and the amendments thereto, Directions issued by the Central Bank of Sri Lanka, Board Charter, Board Committee Charters, other relevant statutes, circulars and other relevant documents on appointment. Directors receive informative updates and training throughout their tenor from the Secretary to the Board who assists in keeping Directors abreast of economic, regulatory and industry trends. Directors participate in the training/ knowhow programmes organised by the regulator or other authorities.

Access to information

Directors have unrestricted access to all information, as well as the resources required to carry out their duties and responsibilities. Access to external specialist advice is available to Directors at the Bank's expense, in terms of the NSB Act No. 30 of 1971 and the amendments thereto on independent professional advice. The Directors are provided with an electronic BoardPac solution where the Board papers are circulated through the system allowing adequate time to Directors for the required deliberations.

Key focus areas in 2021

The challenges presented by COVID-19 crisis underscored the importance of corporate governance and how the Board executes its duties and necessitated a multipronged strategic approach to value creation. The embedded practices ensured that the Board maintained its commitment to achieving high standards of corporate governance, through transparency, good performance, effective controls, integrity and a sound ethical culture across the Bank's operations. The Board followed a pragmatic approach on the Bank's cohesive, comprehensive, and adaptable response to the pandemic, while managing business-as-usual governance requirements. Risk Management, along with the opportunities to reinvent, rescale and reposition the Bank, were monitored.

The table below shows some of the key focus areas of the Board during 2021 and highlights the stakeholder groups and short to medium-term strategic priorities central to those matters considered and decisions taken.

Table 28

Board activities in 2021	Outcomes	Short to medium-term strategic priorities	Stakeholder	2022 Governance objectives
Corporate Strategy, performance, and reporting				
• Deep dive session to discuss development of the Bank's strategy and approved Strategic Business Plan (SBP) 2022-2024, addressing the effects of COVID-19, to support customers and preserve capital and liquidity, considering the Bank's sustainability within our operating environment. As the effects of the pandemic are likely to remain dynamic for some time, the Board will oversee any consequential amendments to the strategy and plans, and their execution. Read more on pages 50 to 66. • Approved the Revised Budget 2021 and Budget 2022 • Approved interim financial statements and annual financial statements • Deep dive on ways of working post pandemic • Deep dive on economics and financial impacts	• A well-governed Bank that is operated for the purpose and committed for value creation and delivery • Achievement of the Bank's mission and values through its strategies • Stakeholder confidence that increases contribution to the value creation			• Oversee the execution of the approved SBP 2022-2024 within the framework of the operating environment, while considering the uncertainties of the macroeconomic factors. • Approve the SBP 2023-2025 • Approve the revised budget 2022 and budget 2023
Technology				
Oversaw the technology change and digital journey that is taking place in the Bank, with the objective of ensuring the constant delivery of services, an optimised customer experience and sustainable benefits realisation.	• Being agile in a tech-savvy environment			Oversee the technology and digital journey of the Bank to ensure the steady delivery of services, a safe and secure environment, an optimised and sustainable customer experience (recognising different customer segments) and sustainable value creation, within the context of an accelerated pace of change.

Board activities in 2021	Outcomes	Short to medium-term strategic priorities	Stakeholder	2022 Governance objectives
Customers				
• Considered customer support during the pandemic providing uninterrupted services and delivery channels • Discussed the Bank's approach to customer communications	• Being customer centric to achieve strategic objectives			Monitor and assess the Bank's progress with respect to customer centricity
Risk Management				
• Risk appetite • Risk appetite metrics • Integrated Risk Management framework • Cybersecurity risk assessment • Control effectiveness review • Regular risk reports • Reports from the Board Integrated Risk Management Committee • Approved the 2021 Internal Capital Adequacy Assessment Process (ICAAP) Report	• Risk and compliance management practices are inculcated in the Bank that supports achieving its strategic priorities • Responsible and ethical usage of information and technology			Oversee the Bank's approach to proactive Risk Management being cognisant about the macroeconomic factors of the economy
Stakeholder relations				
• Identified material stakeholders and directed the formulation and implementation of stakeholder engagement strategies • Directed the management facilitating regular and pertinent communication with the shareholder	• Adoption of a stakeholder inclusive approach in the execution of governance roles and responsibilities • Reasonable balance between the needs interests, and expectations of stakeholder needs and the best interest of the Bank • Integration of environmental, social and governance policies and practices into the Bank's strategy in order to enable long-term value creation			Oversee the stakeholder engagement process for required improvements

Board activities in 2021	Outcomes	Short to medium-term strategic priorities	Stakeholder	2022 Governance objectives
Corporate governance				
• Considered independent Board evaluation and Subcommittee evaluation • Considered the corporate governance directions issued by the regulatory authorities and assessed the status of compliance • Approved the Code of Conduct of the Board of Directors	• Continuous improvement in the performance and effectiveness of the Board • Compliance with regulatory directions and guidelines			• Ensure the Bank is 100% compliant with regulatory requirements and industry best practices • Oversee the Bank's compliance with best practice governance standards

Board's role in Risk Management

The Board identifies aligning Risk Management as an integral part of the business strategy of the Bank. Prudent oversight on Risk Management is deeply rooted within the Board and it has established and delegated its responsibility to the BIRMC in discharging its duties in relation to the Risk Management function of the Bank. Accordingly, the Bank has formulated a strong Risk Management framework, risk appetite limits and tolerance limits and mechanism to monitor the risk profile of the Bank. The Board monitors the risk profile of the Bank based on the reports submitted through BIRMC on a regular basis. Clarifications were sought from the Management for any deviations from the agreed risk appetite levels and required guidance was given to take mitigation actions. The risks involved in the business was considered and deeply discussed and reviewed during the deliberations on the Strategic Business Plan that ensured the risk relating to long-term strategic planning process was well addressed (Risk review report on pages 212 to 239 for further details).

Roles of Chairman and CEO

In line with the NSB Act of 1971 and the amendments thereto, directives of CBSL and industry best practices, the Bank ensures that the appointment and delegation to management contribute to role clarity and effective exercise of authority and responsibility. The roles of the Chairman and the General Manager/ CEO are separate, with their individual responsibilities clearly defined. The separation of responsibilities is designed to ensure that no single person has unfettered decision-making powers and that appropriate balances of power and authority exist.

The Chairman is a Non-Executive Non-Independent Director while the General Manager is a Key Management Personnel appointed by the Board who is the Chief Executive Officer and not a Board member. The Board Charter clearly defines the roles and responsibilities of the Chairman and the General Manager/CEO. Chairman is responsible for leading the Board, facilitating effective functioning of the Board, preserving order, ensuring the Board's effectiveness and highest standards of corporate governance within the Bank. Chairman sets the agenda in consultation with the General Manager/CEO and the Board Secretary. Chairman ensures that the Board receives adequate information to make informed decisions in discharging the Board's duties, effective participation of members at the Board meetings, maintains effective communication with the shareholder as well as open lines of communication with Key Management Personnel.

The General Manager/CEO is responsible for designing, developing and the execution of the Bank's strategy and day-to-day management of the business within the approved risk appetite levels as entrusted by the Board of Directors. The General Manager/CEO provides the leadership to the Corporate Management Team and delegates aspects of his/her own authority, as permitted in the corporate governance framework, to members of the Corporate Management. Also chairs the Management Committees and ensures that the Board receives accurate, timely and clear information about the Bank's performance. The General Manager/CEO also ensures that good corporate governance and the highest standards are applied and maintained when carrying out the affairs of the Bank.

Role of Board Secretary

The Secretary to the Board has a key role to play in ensuring that Board procedures are both followed and regularly reviewed to ensure good corporate governance within the Bank. The responsibilities of the Secretary to the Board are summarised below:

- Arrange required settings for all meetings of the Board and its subcommittees
- Maintain minutes of all meetings of the Board and its subcommittees
- Ensure regulatory and statutory compliance by the Board of Directors
- Ensure effective functioning of the Board
- Provide professional assistance to the Chairperson for all matters related to conducting the meetings of the Board and its subcommittees
- Provide professional advice to the Directors on relevant laws and regulations and also to ensure compliance with principles of corporate governance and other related regulatory framework
- Act as the custodian of all records, minutes and other documents related to Directors and meetings of the Board and its subcommittees
- Ensure timely circulation of Board Papers to Directors and timely communication of decisions of the Board to the management
- Make sure that the Board is well informed of the decisions made at Board subcommittees and their outcomes
- Follow-up over progress of implementation of Board's decisions by the Management, and report to the Board

The appointment and the removal of the Secretary to the Board is a matter involving the whole Board under the advice of BNC as it is a Key Management Personnel position.

Directors' remuneration and level and make up of remuneration

As per the NSB Act No. 30 of 1971 and the amendments thereto, the remuneration of the Directors is determined by the relevant Minister. No Director is involved in determining his/her own remuneration. The Board Human Resource and Remuneration Committee (BHRRC) makes recommendations to the Board regarding the remuneration of the General Manager/CEO and the Key Management Personnel on the basis of salaries determined by the Collective Agreement, which is reviewed once in three years. The Bank has put in place a Board approved Remuneration Policy for Key Management Personnel. Based on the recommendations by the Committee, the Board makes recommendations to the respective Minister responsible for state banks who grants final approval in accordance with the provisions of the NSB Act. No. 30 of 1971 and amendments therein. The BHRRC comprises three Non-Executive Directors.

Board and Board Subcommittee evaluation

The Board and the Board subcommittees annually conduct their own appraisal to ensure that the Board is discharging its duties according to the Board Charter which includes the responsibilities outlined in the Banking Act Direction No. 12 of 2007 and other applicable rules and regulations as well as best practices on corporate governance. In the process of evaluation, each Director fills a Board Performance Evaluation Form which is submitted to the Nomination Committee by the Secretary to the Board.

Board evaluations for 2020 and 2021 were taken up at the Board meetings held in February 2021 and February 2022 respectively.

Appraisal of the CEO

The Board assesses the performance of the General Manager/CEO with the assistance of the BHRRC on an annual basis based on the criteria according to financial and non-financial targets of the Strategic Business Plan agreed with the General Manager/CEO at the beginning of the year. Changes in the operating environment are given the due consideration when making the appraisal. The Chairman discusses with the General Manager/CEO and gives formal and informal feedback. The feedback to the appraisal by the General Manager/CEO is given due consideration prior to the approval.

Report of the Board Audit Committee

Ms Manohari Abeyesekera
Chairperson

Board Audit Committee

Composition of the Committee

During the year under review, the Board Audit Committee comprised the following Non-Executive Directors. Profiles of the members as at 31 December 2021 are given on pages 180 to 183.

Name	Membership status	Eligible to attend	Attended
Ms Manohari Abeyesekera*	Chairperson	13	13
Dr M K C Senanayake *	Member	13	12
Mr H K D Lakshman Gamini*	Member	13	13

*Non-Executive, Non-Independent Director

Regular Attendees by Invitation

Senior Deputy General Manager

Deputy General Manager (Audit)

Actg. Deputy General Manager (Finance, Corporate Planning and MIS)

Quorum

Two members

Secretary to the Committee

The Board Secretary functions as the Secretary to the Board Audit Committee.

Charter of the Board Audit Committee

The Board-approved Charter of the BAC (the Committee) clearly defines the Terms of Reference of the Committee. The Committee Charter is reviewed regularly by taking into consideration of the new developments in the banking sector and it was last reviewed in the year 2018.

The Board Audit Committee was constituted in accordance with the Banking Act Direction No. 12 of 2007 on "Corporate Governance for Licensed Specialised Banks" issued by the Central Bank of Sri Lanka under Section 3 (6) (ii) and its subsequent amendments, provision of the Public Enterprises Guidelines for Good Governance and "Code of Best Practice on Corporate Governance" issued by The Institute of Chartered Accountants of Sri Lanka.

The Committee is empowered by the Board of Directors in discharging its responsibilities and fulfilling its oversight responsibilities for:

(a) The integrity of the Bank's Financial Statements;

(b) The effectiveness of the Bank's Risk Management function;

(c) The performance of the Bank's internal audit function; and

(d) The performance of the Bank's external audit function.

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

Reporting

The Committee is directly reporting to the Board of Directors about its activities along with the minutes of the meetings. BAC provides Open Avenue of Communication between internal audit, external audit and the Board of Directors. The Committee is of the view that Terms of Reference (TOR) of the Committee were in compliance with all material aspects.

Activities in 2021

The Committee held thirteen (13) meetings during the financial year ended 31 December 2021. The Superintendent of Audit, National Audit Office as the representative of the Auditor General attended all thirteen (13) BAC meetings on invitation as an observer. The Senior Management including General Manager/CEO of the Bank participated the meetings by invitation on a need basis.

Supplementary information
Financial reports
Governance
Management Discussion and Analysis
Our sustainable value creation model
Preamble
National Savings Bank | Annual Report 2021 →

Financial Reporting

The Committee reviewed the Financial Statements of the Bank, in order to monitor the integrity of the Financial Statements and quarterly reports prepared for disclosure, and the significant financial reporting 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 to evidence the Financial Statements give a true and fair view on financial position and performance of the Bank.

The Committee reviewed the "Report on the review of Financial Statement for the year ended 2020" which was submitted along with findings by the Internal Audit Division and reviewed the draft Financial Statement submitted on quarterly basis.

Internal Capital Adequacy Assessment Process (ICAAP)

Section 10 (in Pillar II – Supervisory Review Process) of the Banking Act Direction No. 1 of 2016 requires an independent review on the integrity, accuracy and reasonableness of the capital assessment process of the Bank. The Committee has reviewed the effectiveness of the internal control mechanism to meet the regulatory requirements on ICAAP.

Identification of risks and control measures

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

BAC reviewed and assessed the Bank's Risk Management process, including the adequacy of the overall control environment and controls in areas of significant risks. Further, BAC reviewed and assessed the Bank's system of internal controls for detecting accounting and financial reporting errors and misappropriation of assets, legal violations, and non-compliance with the Corporate Code of Conduct. In this regard, reviews the related findings and recommendations of the External and Internal Auditors, together with Management's responses.

The Directors' Statement on Internal Control and the Auditor General's Report on Internal Control are provided on pages 251 to 253. In this regard, the Committee is of the view that necessary procedures and checks are in place to provide reasonable assurance and the Bank is in compliance with the aforesaid requirements.

Internal Audit and inspection

The BAC ensured that the internal audit function is independent of the activities it audited. It reviewed the adequacy of the scope, functions and resources of the Internal Audit Division, and also satisfied itself that the Division had the necessary authority to carry out its work.

The Internal Audit Division of the Bank carried out audit of Branches, Divisions and other Units as per the Annual Audit Plan. The frequency of audit was determined by the level of risk assessed. The Audit Plan was approved by the BAC for implementation. The approved audit plan for the year 2021 has been achieved by the end of 2021.

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

BAC reviewed findings of regular audit examinations and information system audits carried out by the Internal Audit Division. Further, the Committee reviewed the reports on internal investigations carried out during the period from December 2020 to August 2021, Report on Fraudulent Withdrawals of the Bank and reviewed the performance of senior staff members of the Audit and Vigilance Division for the year.

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

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

External Audit

By statute, the Auditor General is the External Auditor of the Bank. Meetings with the External Auditor, without Executive Management were held at least twice during the engagement. They were also provided with the opportunities of meeting the Committee independently, to discuss and express their views on any matter of significance.

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

The Committee during the year:

- Reviewed the Report of the Auditor General that was submitted to the Parliament on the Financial Statements of the Bank for the year ended 31 December 2020, the Management Letter and the responses made thereon by the Corporate Management of the Bank and followed up the required corrective measures.
- Reviewed and discussed the significant reports submitted by the Auditor General's Department where deemed necessary actions were initiated.

Monitoring of internal controls

Sections 3 (8) (ii) (b) and (c) of the Banking Act Direction No. 12 of 2007 (as amended) for Licensed Specialised Banks on Corporate Governance stipulate the requirements to be complied with by the Bank to ensure reliability of the financial reporting system of the Bank. The Committee assessed the effectiveness of the Bank's internal controls over financial reporting as of 31 December 2021 based on the above Direction.

The Auditor General has also issued an Assurance Report on the Directors' Statement on Internal Controls which is given on page 253 of the Annual Report.

The Committee also regularly reviewed the internal control procedures in place to ensure that necessary control and mitigating measures are available in respect of newly identified risks.

Ethics and good governance

The Committee continuously reviewed and emphasised on keeping up of Good Corporate Governance Practices in the Bank. In this regard, the Fraud Risk Management and Whistle-blowing Policy of the Bank are key element for safeguarding the Bank's integrity. It is aimed at enhancing the Bank's transparency and underpinning its system for combating practices that might damage its activities and reputation and provide a means for early detection of fraud and other problematic situations.

The BAC on a quarterly basis reviewed all the cases of frauds. During the quarterly review, the BAC scrutinised statistical information as well as details of each fraud, action taken thereon and issue directions on the punitive and preventive aspects of frauds, where necessary. The BAC had the right to, at any time: request a briefing regarding any preliminary investigation and findings.

Sri Lanka Accounting Standards

The Committee reviewed and revised the decisions on adoption of new and revised Sri Lanka Accounting Standards (LKASs)/Sri Lanka Financial Reporting Standards (SLFRS) applicable to the Bank and made required recommendations therein.

Compliance

The Committee reviewed the effectiveness of the system for monitoring compliance with laws and regulations and the results of Management's investigation and follow-up (including disciplinary action) of any instances of non-compliance.

Focus for 2022 and beyond

- Continue to focus on financial systems, processes, internal controls used by the Bank are responding to the complex requirements of the external and internal environment and operating effectively.
- Monitoring and making required developments based on the independent reviews of the Auditor General through assessing the impacts to the Bank.

Committee evaluation

The Committee completed the evaluation process with self-assessment for the year 2021 and concluded that its performance was effective where the results of evaluation are communicated to the Board.

MP Abeyesekera

Ms Manohari Abeyesekera
Chairperson
Board Audit Committee

24 March 2022
Colombo

Report of the Board Human Resource and Remuneration Committee

Ms Keasila Jayawardena
Chairperson

Board Human Resource and Remuneration Committee

Composition of the Committee

During the year under review, the Board Human Resource and Remuneration Committee comprised the following Non-Executive Directors: Profiles of the members as at 31 December 2021 are given on pages 180 to 183.

Name	Membership status	Eligible to attend	Attended
Ms Keasila Jayawardena*	Chairperson	09	09
Mr U G R Ariyaratne *	Member	09	09
Mr H K D Lakshman Gamini* (From 08.01.2021 to 08.03.2021)	Member	01	01
Mr Eranga Jayewardene** (From 28.10.2020 to 08.01.2021 and from 08.03.2021 to date)	Member	08	07

*Non-Executive, Non-Independent Director **Non-Executive, Independent Director

Regular Attendees by Invitation

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

The Deputy General Manager (Human Resource Development) and Senior Management of the Bank participated the meetings by invitation on a need basis.

Quorum

Minimum of two members.

Secretary to the Committee

The Board Secretary functions as the Secretary to the BHRRC.

Charter of the BHRRC

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

Role and responsibilities of the Committee

The role and responsibilities of the Committee as per the Charter includes the followings:

- Determine 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.
- Set goals and targets for General Manager/CEO and the Key Management Personnel.
- Evaluation of 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 if any.

Activities during the year 2021

The Committee held nine (9) meetings during the year under review and the proceedings of the Committee meetings were regularly reported to the Board of Directors with its comments and observations. Important activities attended and carried out by the Committee during the year 2021 were as follows:

- Evaluation of Key Performance Indicators (KPI) of Key Management Personnel (KMPs) for 2020(General Manager/CEO, Senior DGM, all DGMs, and all AGMs).
- Reviewed the recruitment and promotion of staff based on the requirement of the Bank.
- Consideration of appeals submitted by staff on human resource-related matters.
- Review of recruitment methodology.

Focus for 2022 and beyond

- Continue to assure the Bank is maintaining the relevance of Remuneration Policy.
- Continue to focus on development of human resource strategy to inculcate an engaged employee culture.
- Meeting the responsibilities of the Charter.

Committee evaluation

The Committee completed the evaluation process with self-assessment for the year 2021 and concluded that its performance was effective where the results of evaluation are communicated to the Board.

Keasila Jayawardana

Ms Keasila Jayawardena
Chairperson
Board Human Resource and Remuneration Committee

24 March 2022
Colombo

Report of the Board Nomination Committee

Mr U G R Ariyaratne
Chairman

Board Nomination Committee

Composition of the Committee

During the year under review, the Board Nomination Committee comprised the following Non-Executive Directors. Profiles of the members as at 31 December 2021 are given on pages 180 to 183.

Name	Membership status	Eligible to attend	Attended
Mr U G R Ariyaratne*	Chairman	02	02
Dr M K C Senanayake* (From 17.01.2020 to 20.07.2021)	Member	02	01
Mr Eranga Jayewardene**	Member	02	02
Mr H K D Lakshman Gamini* (From 20.07.2021 to date)	Member	01	01
Ms Manohari Abeyesekera* (From 16.09.2021 to date)	Member	00	00

*Non-Executive, Non-Independent Director **Non-Executive, Independent Director

Regular Attendees by Invitation

The General Manager/CEO provide information to the Committee and attends meetings of the Committee on invitation.

Quorum

Minimum of two members.

Secretary to the Committee

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

Charter of the Committee

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

Role and responsibilities of the Committee

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

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

Activities during the year 2021

During the year ended 31 December 2021 two (2) Nomination Committee meetings were held.

Important activities attended and carried out by the Committee during the year 2021 were as follows:

- Review and approval for proposed cadre for the Bank – 2021.
- Review the Succession Plan of the Bank. – 2021.
- Interviews for posts of Special Grades in banking and non-banking streams, and Key Management Personnel (KMPs).

Focus for 2022 and beyond

- Continuous monitoring of review on matters relating to KMPs and adherence to the compliance on regulatory requirements.
- Continuous monitoring of the succession plan and the Bank's adherence.
- Meeting the responsibilities of the Charter.

Committee evaluation

The Committee completed the evaluation process with self-assessment for the year 2021 and concluded that its performance was effective where the results of evaluation are communicated to the Board.

Mr U G R Ariyaratne
Chairman
Board Nomination Committee

24 March 2022
Colombo

Report of the Board Integrated Risk Management Committee

Dr M K C Senanayake
Chairman

Board Integrated Risk Management Committee

Composition of the Committee

During the year under review, the Board Integrated Risk Management Committee (BIRMC) comprised three Non-Executive Directors. Profiles of the members as at 31 December 2021 are given on pages 180 to 183.

Name	Membership status	Eligible to attend	Attended
Dr M K C Senanayake*	Chairman	05	05
Mr Eranga Jayewardene** (From 28.10.2020 to 08.03.2021)	Member	01	01
Mr M T J Perera*	Member	05	05
Mr U G R Ariyaratne* (From 08.03.2021 to date)	Member	04	03

*Non-Executive, Non-Independent Director **Non-Executive, Independent Director

Non-Board Members

General Manager/CEO
Chief Risk Officer (CRO)

Regular Attendees by Invitation

The Committee requested other DGMs, AGMs, Compliance Officer, and Chief Managers to be present at the meetings as and when required.

Quorum

Minimum of two Directors.

Secretary to the Committee

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

Charter of the Committee

The Board of Directors has established the Board Integrated Risk Management Committee (BIRMC) in compliance with the Banking Act Direction No. 12 of 2007, Corporate Governance for Licensed Specialised Banks in Sri Lanka, issued by the Monetary Board of Central Bank of Sri Lanka under the power vested in the Monetary Board, in terms of the Banking Act No. 30 of 1988. The Charter of the Committee was reviewed in the year 2021.

Roles and responsibilities of the Committee

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

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

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

Activities during the year 2021

BIRMC meets on a quarterly basis however based on the needs, meetings are being fixed accordingly. During the year 2021, NSB convened five meetings.

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

Effectiveness of the Risk Management process is annually audited by the Internal Audit Division of the Bank.

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

- Review of reports on Risk Appetite of the Bank, Tolerance Limits and other reports highlighting different aspects of risk of the Bank (i.e. credit risk, market risk, liquidity risk, operational risk, HR risk, technical risk, cybersecurity risk etc.).
- Review of different risk limits and grant necessary approvals.
- Reviewing of adequacy of measures and standards maintained by the Bank to meet internationally recognised norms in the industry, regulations/guidelines of the regulator – Central Bank of Sri Lanka and Internal Capital Adequacy Assessment Process (ICAAP) in line with audit concerns on ICAAP document.
- Follow-up 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.

Focus for 2022 and beyond

- Continue to focus on macro and microenvironmental factors, markets, local and international risk factors.
- Continuous oversight on the implementation of risk and compliance strategy of the Bank.
- Assessment of the local as well as international trends in the area of Risk Management.
- Continuous oversight on being a cyber resilient bank in the journey towards digitisation.
- Continue to focus on evolving regulatory requirements according to the trends in the market and the Bank’s approach to Risk Management and compliance.

Committee evaluation

The Committee completed the evaluation process with self-assessment for the year 2021 and concluded that its performance was effective where the results of evaluation are communicated to the Board.

Dr M K C Senanayake
Chairman
Board Integrated Risk Management Committee

24 March 2022
Colombo

Risk review

The report reviews National Savings Bank's approach to manage risks, and for fostering a strong risk culture in response to the volatile environment and complex risk landscape consequent to the continued spread of COVID-19 globally and challenges arising from pressure on foreign currency reserves locally. Hence, in 2021 the Bank experienced changes in the risk landscape. Adversities from the pandemic subsided in the latter part of the year due to the national immunisation programme implemented by the Government. However, it will take a few more years to recover the social and economic downturn caused by the COVID-19 pandemic.

During the year rating agencies downgraded Sri Lanka's sovereign rating mainly on the basis of increasing pressure on the country's foreign exchange reserves from large external debt redemptions. The Bank played a significant role by adhering to policy measures and regulatory directions to ensure stability of the financial system and by providing an uninterrupted service to the customers in the new normal conditions within the prolonged turbulent environment.

Though operational risk driven by staff health and safety related issues was a concern during the year, business disruptions were at a minimum. Increasing customer preference to access their accounts remotely increased information security risk exposure. Reduction in credit portfolio quality resulted in considerable provisioning for impairment.

Despite the changes in risk landscape, the Bank maintained a prudent growth strategy and achieved profitability targets and maintained the solvency indicators significantly above the regulatory minimum requirements. However, it is pertinent to note that maintaining this level in the medium to long-term will be challenging, intensifying the requirement of consistent implementation of Integrated Risk Management (IRM) practices.

Challenges emerged from COVID-19 and foreign reserve crisis

Figure 26

Solvency and resilience
- Capital and liquidity management
- Business continuity and managing principal and other risk within the risk appetite

Social
- Lockdown and social distancing
- Disruption to customers, suppliers and staff
- Reduced purchasing power

Strategic changes
- Modifications to SBP
- Digital transition
- Remote working
- Supporting Government and regulatory initiatives

Economy
- Widening BOP
- FX shortage
- Rupee depreciation
- Inflation

Policy uncertainty
- Measures to ensure economic stability

Regulatory developments
- Support the financial stability and borrowers

Risk culture

Risk culture is a collection of values, skills and habits that equip employees to understand the risks and make sound judgements towards achievement of objectives of the Bank.

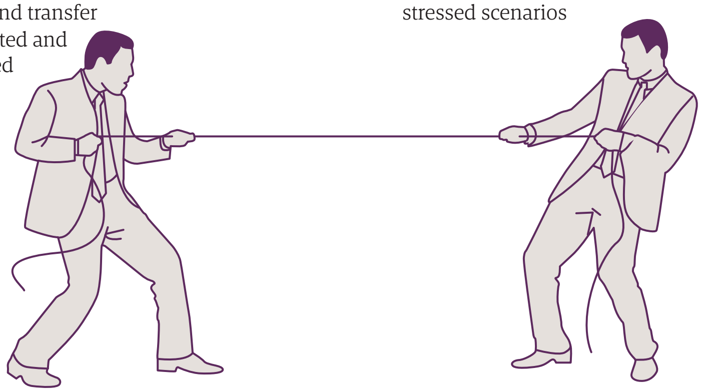
The employees at all levels understand the risk in respective business operations. Risk culture is a key driver to ensure risk and return trade off and managing of the risks and capital levels.

Risk return trade off

Figure 27

Risk
- Risk culture
- Regulatory compliance
- Risk Management best practices
- Risk mitigation and transfer
- Risks to be accepted and risks to be avoided

Return
- Financial stability and resilience
- Achievement of objectives
- Risk adjusted performance
- Projected performance under stressed scenarios

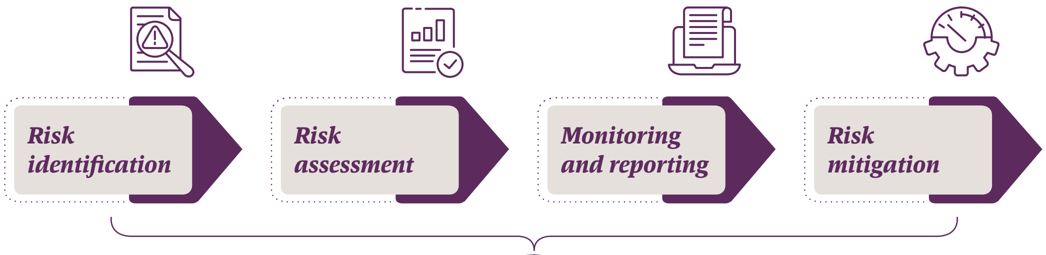


IRM sets the strategic approach for managing risks by defining standards, objectives, and responsibilities for all areas of the Bank. IRM framework is approved by the Board of Directors and adopted by the Bank supporting to inculcate a strong risk culture.

Risk Management framework

Figure 28

Risk Management framework enables appropriate development and implementation of strategies, policies and procedures to identify, assess, monitor, report and mitigate risks to ensure prudent Risk Management.



Policy framework
Guides the Bank on the Risk Management function. Set out principles and other core requirement with respect to Risk Management

Segregation of duties
Defines three lines of defence model

Risk models
Identification and assessment of risks

Risk register
Principal risks faced by the Bank

Risk appetite statement
Define the level of risk, the Bank is willing to undertake

Risk governance
Set out the accountabilities of the Board of Directors and the Management

Systems and processes
Ensure how the requirements set out in the policy are met and how controls are undertaken

Policies framework

Risk Management Policies Table 29

Policy	Coverage
Integrated Risk Management Policy	Integrated Risk Management framework of the Bank.
Credit Risk Management Policy	Framework for identification, assessment, monitor and mitigation of risks in credit.
Market and Liquidity Risk Management Policy	Framework for identification, assessment, monitor and mitigation of market and liquidity risks.
Operational Risk Management Policy	Framework for identification, assessment, monitor and mitigation of operational risks.
Stress Testing Policy	Outlines the stress testing framework of the Bank.
Risk Management Disclosure Policy	The disclosure requirements with respect to the Risk Management functions.
ICAAP Management Policy	Provides the framework for conducting the Internal Capital Adequacy Assessment Process (ICAAP) of the Bank.
Model Risk Management Policy	Policy to stipulate a procedure to manage risk of models used in financial and regulatory reporting and decision-making.

Segregation of duties

All staff members are responsible for understanding and managing risks within the context of their individual roles and responsibilities. The "Three Lines of Defence" model sets out a clear line of defence by segregating duties.

First line comprises all employees engaged in the revenue generating and client facing areas and associated support functions, including finance, treasury, human resources etc. The first line is responsible for identifying and managing the risks they assume, establishing a control framework, and escalating risk events to second line which comprise the Risk Management and compliance functions.

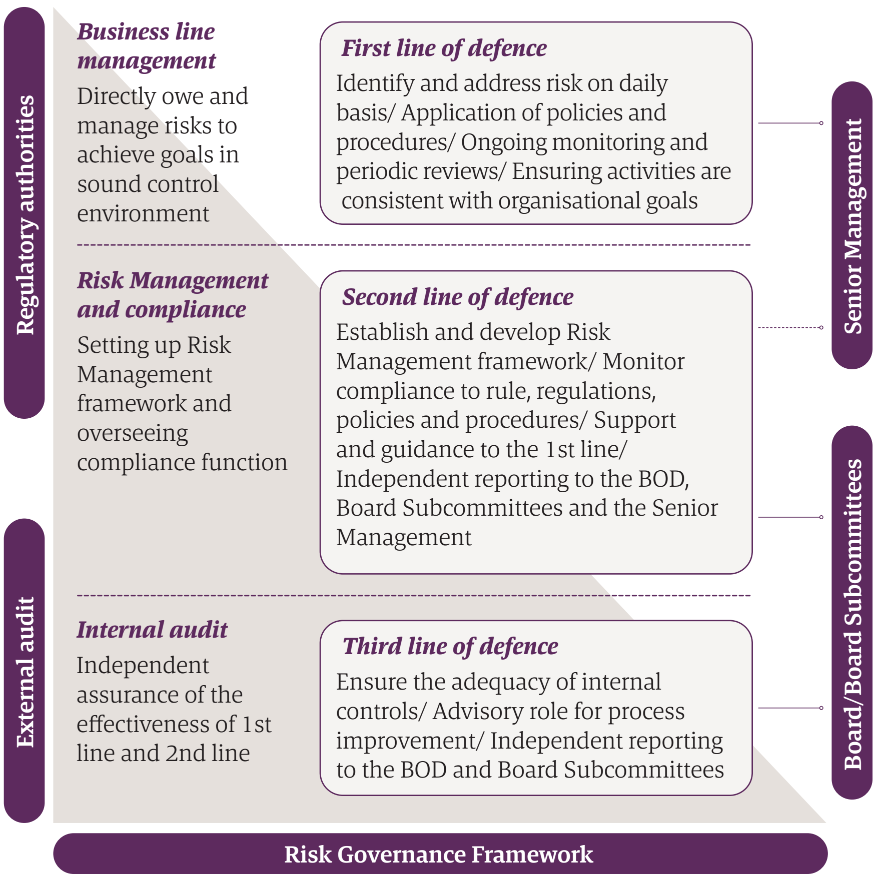
The role of the second line is to establish the limits, and rules under which first line activities shall be performed, consistent with the risk appetite of the Bank, and to monitor the performance of the first line against those limits and constraints.

Third line of defence is internal audit, and the role of the third line is to provide an independent assurance over the effectiveness of governance, Risk Management and control over current, systemic and evolving risks.

Inputs provide by the regulators and External Auditors facilitate strengthening of internal controls and Risk Management framework, which is an additional assurance to the stakeholders.

Lines of defence in Risk Management

Figure 29



Risk models

Model is a quantifiable method that uses to process input data into a quantifiable output for decision-making. Risk models are used repeatedly to identify and assess risks. ICAAP model, Value at Risk (VaR) model and internal rating model are the main models used by the Bank for the purpose of Risk Management. Risks that arise from assessment models are managed by adhering to best practices stipulated in Bank's Model Risk Management Policy.

Risk register

Risk register is a tool that identifies both existing and potential risks. This includes information on identified risks, level of risk, risk owners and measures taken to minimise risks.

Risk Management Division (RMD) periodically updates the risk register using the risk assessment models.

Risk appetite statement

The risk appetite statement is a key component of the Risk Management framework. It indicates desired forward looking risk profile which facilitates the policy, strategy and process.

Risk appetite is the level of risks the Bank is willing to accept for achieving its objectives. It reflects the key aspects of business and stakeholder expectations.

Risk appetite statement of the Bank enhances value by aligning business operations and risks. It acts as a guide to plan business activities to provide an appropriate balance of return for the risk assumed, while remaining within acceptable risk levels.

Key elements articulated in risk appetite statement approved by the Board of Directors include:

- Risks that the Bank assumes as a part of the business, which are controlled through active Risk Management.
- Risks that the Bank assumes as a part of the business, which are actively managed to be maintained within an acceptable appetite.
- Risks for which the Bank has zero risk tolerance.

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

The qualitative statements mainly include risks for which the Bank has zero risk appetite. At business line level, risk appetite limits are by risk types, namely credit, equity, interest rate, forex and operational. Convergence of top-down and bottom-up approach is used at divisional and product line level to set more prudent risk appetite levels using limit structures, budgeted levels and Key Operational Risk Indicators (KORIs).

Key risk appetite metric

Table 30

Focused area	Indicator	2021 – Actual (Bank) %	Performance Against Risk Appetite
Profitability	NIM	3.68	✔
	ROE	34.14	✔
	ROA	1.86	✔
Capital adequacy	CET 1	17.17	✔
	Tier 1	18.60	✔
	Total Capital	20.83	✔
Liquidity	LCR	240.43	✔
	SLAR	59.63	✔
	NSFR	160.78	✔
Leverage	Leverage Ratio	8.92	✔

Risk Levels

- ✔ (green) Within risk appetite limit
- ✔ (yellow) Within the maximum tolerance limit
- ✔ (red) Below maximum tolerance limit

The Bank remained within the risk appetite limits set for capital adequacy liquidity and leverage.

Profitability indicators of the Bank have improved in year 2021 against 2020 and remained within the risk appetite of the Bank.

Risk governance

The Bank is committed to ensure that Risk Management practices reflect a high standard of governance. This enables the Board of Directors and the Senior Management to effectively and prudently undertake risk taking activities. The Board of Directors operates as the highest level in the governance framework.

The Board of Directors through its risk oversight role, ensures that the Senior Management has established an integrated framework to manage various risk exposures and to ensure internal policies are appropriately established and complied with. All risk types, both financial and non-financial are managed and reported in accordance with the Bank's IRM framework.

Board level Risk Management Committees

Table 31

Committee	Responsibility
Board Integrated Risk Management Committee (BIRMC)	BIRMC assists the Board of Directors in fulfilling its risk related responsibilities to recommend an effective Risk Management framework. Key purpose of BIRMC is to establish risk appetite, evaluate the risk profile against risk appetite, recommend the ICAAP and oversee compliance function.
Board Audit Committee (BAC)	BAC 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 and regulatory compliance issues.

Senior Management has taken steps to improve the rigour of governance over both financial and non-financial risks by establishing management committee framework focusing on identifying and understanding existing and emerging risks, trends and issues across all the business lines providing better insights to informed decision making.

Management level Risk Management Committees

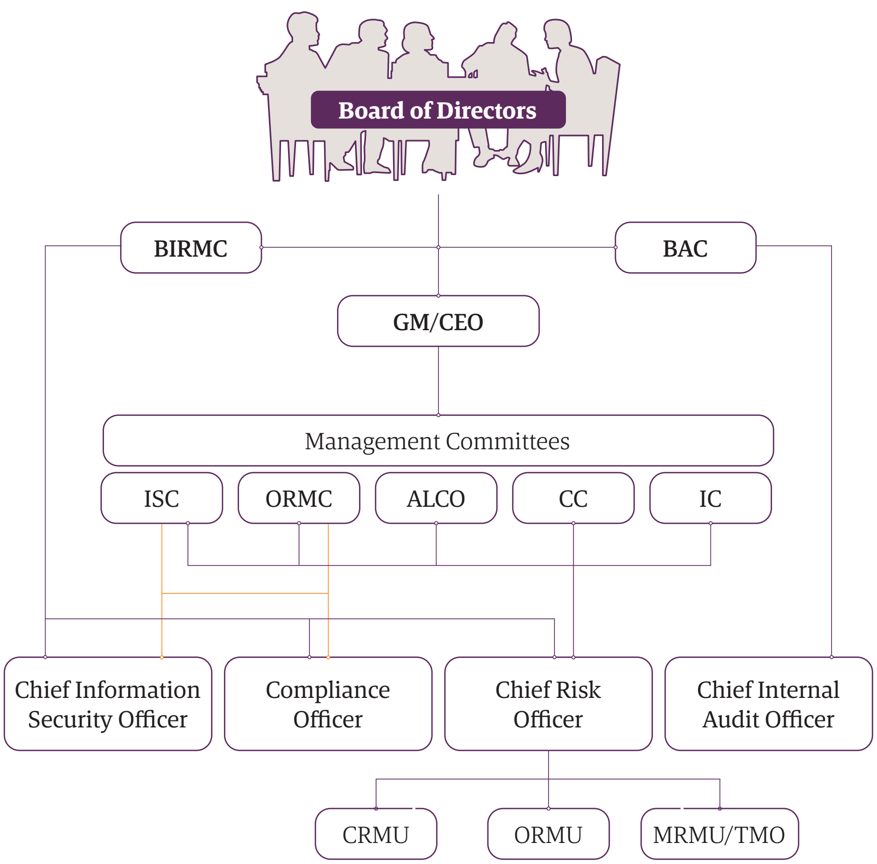
Table 32

Committee	Responsibility
Credit Committee (CC)	CC is the apex level management committee responsible to manage credit risks and operational risks in credit functions. CC periodically reviews/implements the Credit Policies of the Bank. The Committee engages in approving of credit within the delegated authority limits and to recommend credit facilities for the approval of the Board of Directors.
Asset and Liability Management Committee (ALCO)	ALCO is the apex level management committee responsible to manage the market risk and liquidity risk of the Bank. It aims to manage the volume, mix, maturity, rate sensitivity, quality and liquidity of assets and liabilities to attain a predetermined acceptable risk/reward ratio. The functions of ALCO include policy decisions with regard to management of on and off-balance sheet positions considering capital structure, product pricing, funding and investments with the aim of stabilising short-term profits, long-term earnings and long-term solvency of the Bank.
Operational Risk Management Committee (ORMC)	ORMC manages the operational risk of the Bank and implements operational Risk Management techniques and takes measures to maintain the integrity of internal controls, reduce errors in transaction processing, prevent frauds etc. to minimise the operational losses to the Bank.
Investment Committee (IC)	IC is the apex level management committee to manage the risks in Bank's investment portfolios. The Committee reviews and implements the Investment Policy Statement (IPS) of the Bank. The Committee engages in approving investments (i.e. Government Securities, equity securities and other financial instruments) within the delegated authority limits and recommends investments for the approval of the Board of Directors.
Information Security Committee (ISC)	ISC is an apex level management committee established to oversee the implementation of information security policy of the Bank. ISC monitors that all information systems and critical information are secure and safeguarded throughout the Bank and are in compliance with privacy and customer trust.

RMD headed by the Chief Risk Officer (CRO) reports to BIRMC and Management Committee meetings. RMD recommends the Risk Management framework to the BIRMC. RMD consists of three units namely, Credit Risk Management Unit (CRMU), Market Risk Management Unit (MRMU)/Treasury Middle Office (TMO) and Operational Risk Management Unit (ORMU). RMD independently monitors all risks, against policies, processes and limits approved by the Board of Directors. Independent findings from risk evaluations are reported to Management Committees, BIRMC and the Board of Directors to facilitate managing risks and to take preventive and corrective actions.

Compliance Division headed by the Compliance Officer is committed to ensure adherence to all applicable laws, rules and regulations. The Division is duly updated with the changing compliance environment and follows up with relevant divisions/branches to ensure that the new directions are properly communicated among relevant staff members.

Risk Management governance structure (functional reporting) Figure 30



Systems and processes

IRM framework identifies four principal risks and sets out associated responsibilities and expectations around Risk Management. These principal risks are credit risk, market risk (i.e. equity, foreign currency and interest rate), operational risk and liquidity risk. Risk reports to the Management and the Board committees discuss principal risks and all other existing and emerging risks. Details of the principal and other risks along with the systems and processes used to manage the risks are given below:

Credit risk

Credit risk is the potential for losses due to the failure of a borrower or counterparty to meet their financial or contractual obligations. These exposures mainly consist of loans and advances and commitments and contingencies.

Credit risk to the Bank mainly consists of counterparty default risk, concentration risk, settlement risk, and residual credit risk.

Credit exposure

Lending activities creates the largest credit risk exposure of the Bank. Amidst the challenging economic conditions that prevailed in the country as a result of the COVID-19 pandemic, loans and advances increased by 4.3% while the maximum exposure to credit risk increased by 14.6% which represent 97.2% of the Bank's total assets.

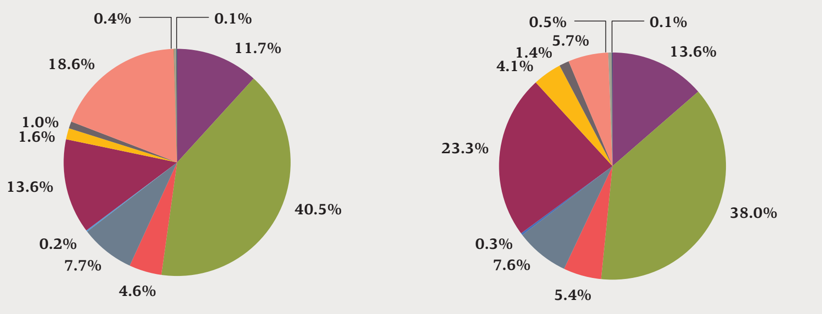
Table 33

As of 31 December,	2021 – Maximum exposure (Rs. '000)			2020 – Maximum exposure (Rs. '000)			Change (%)
	Gross carrying value	credit impairment	Net exposure	Gross carrying value	credit impairment	Net exposure	
Cash and cash equivalents	**7,656,263**	**225**	**7,656,038**	6,492,060	97	6,491,963	17.9%
Placements with banks	**7,122,376**	**1,678**	**7,120,698**	13,255,210	1,711	13,253,499	-46.3%
Derivative financial instruments	**–**	**–**	**–**	19,897	–	19,897	-100.0%
Financial assets recognised through profit or loss							
– measured at fair value	**19,572,933**	**–**	**19,572,933**	11,221,746	–	11,221,746	74.4%
Financial assets at amortised cost							
– loans and advances	**550,912,009**	**11,970,220**	**538,941,789**	525,786,983	8,991,823	516,795,160	4.3%
– debt and other instruments	**936,735,215**	**1,385,163**	**935,350,052**	754,336,347	103,002	754,233,344	24.0%
Financial assets measured at fair value through OCI	**13,817,594**	**–**	**13,817,594**	15,271,822	–	15,271,822	-9.5%
On-balance sheet maximum exposure (Gross basis)	**1,535,816,390**	**13,357,286**	**1,522,459,104**	1,326,384,065	9,096,633	1,317,287,431	15.6%
Off-balance sheet maximum exposure			**11,853,668**			22,004,476	-46.1%
Maximum credit exposure			**1,534,312,772**			1,339,291,907	14.6%

Loans and corporate debt instruments portfolio

Graph 58

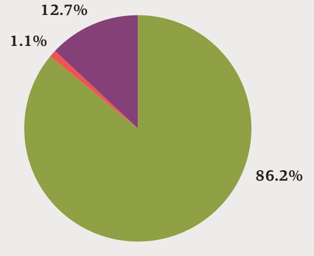
Exposure by product



- House and property loans
- Personal loans
- Loans against deposits
- Pawning
- Auto loans
- Term loans – SOEs and GOSL
- Term loans – Banks and Non-Bank Financial Institutions (NBFIs)
- Term loans – Corporates
- Investments in debt instruments – SOEs
- Investments in debt instruments – Banks and NBFIs
- Investments in debt instruments – Corporates

Graph 59

Composition of Bank and NBFI exposure by rating (2021)*

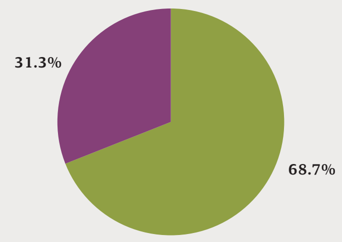


- Investment Grade
- Non-Investment
- Unrated

* Based on External Credit Assessment Institutions (ECAIs) ratings

Graph 60

Composition of corporate exposure by rating (2021)*



- Investment Grade
- Unrated

* Based on External Credit Assessment Institutions (ECAIs) ratings

The Bank's retail lending portfolio mainly contributed for the credit portfolio growth reported in 2021. Personal loan category continued to remain highest composition in the total lending portfolio with a share of 50.1%.

Counterparty risk

2021 was a challenging year as the third wave of the pandemic unfolded disrupting the economic activities, necessitating social distancing initiatives and island wide travel restrictions from mid-May to beginning of October. This aggravated the requirement of credit risk monitoring and management. Implications of the pandemic have notably increase counter party default risk and thereby credit loss provisioning. Despite the debt moratorium and concessionary interest rates offered, distressed customers were looking for more relief for loan settlements.

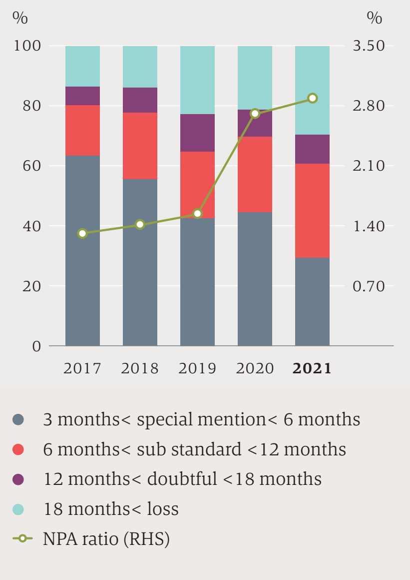
The Bank's gross NPA ratio of 2.97% as at 31 December 2021 compared to 2.79% in 2020. However, it is below the industry gross NPA ratio of 4.5%.

For the year 2021, the credit-impaired (Stage 3) loans and advances stood at Rs. 20.0 Bn. (Rs. 16.9 Bn. in 2020) which is 3.6% (3.2% in 2020) of the gross loans and advances of the Bank. Deterioration in the credit portfolio quality resulted in an impairment charge of Rs. 3.0 Bn. (against Rs. 4.7 Bn. in 2020) resulting in a total credit impairment provision of Rs. 12.0 Bn. with a Stage 3 provision coverage of 31.5% as at year end.

The enhanced credit assessments, loan approvals, Credit Risk Management framework, post-sanction monitoring and recovery efforts will assist the Bank to bring down NPA levels and contribute to maintain the quality of the loan book.

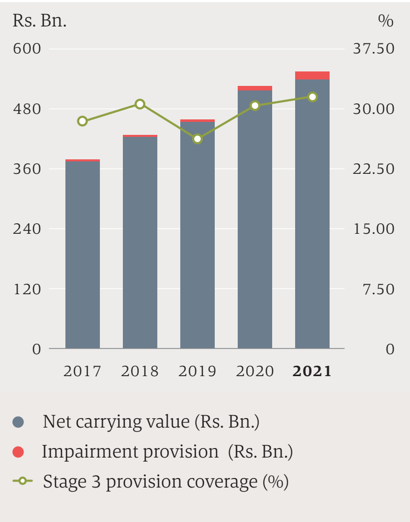
Graph 61

NPA trend and age analysis



Graph 62

Loans and advances vs provision for impairment



Concentration risk

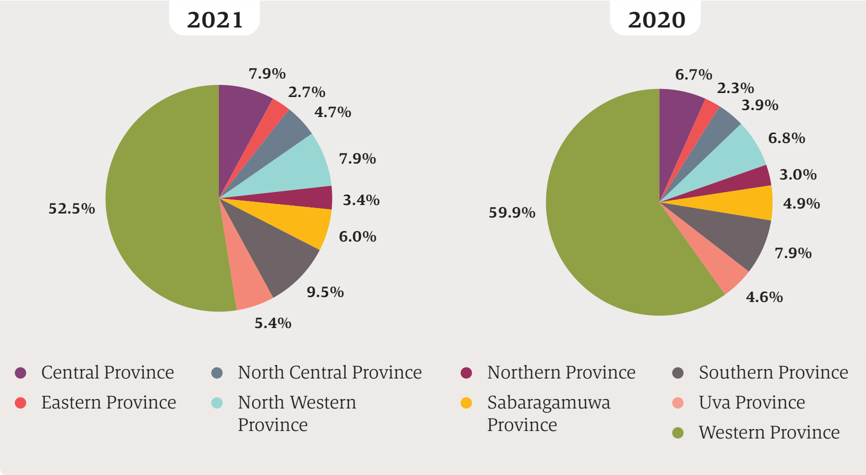
Concentration risk can be expressed as the risk of an imperfect diversification in a single exposure or multiple exposures with the potential to make losses large enough to threaten the Bank's well-being or capacity to sustain its core operations. Credit risk concentrations, by nature, are based on common or correlated risk factors, which have an adverse effect on the creditworthiness of each of the individual counterparties making up the concentration in times of stress. To maintain sound Risk Management process, managing credit portfolio's concentration risk has become an important phenomenon.

Considering the Bank's business model and its level of contribution in achieving the development goals of the Government, risk appetite towards sector is defined at a moderate level in the risk appetite statement. The Bank uses techniques such as HHI and stress testing to assess and monitor concentration risk levels to identify mutual dependence between exposures which may become visible only under stressed market conditions.

The Bank's credit exposures against counterparty limits are frequently monitored to ensure that the name concentration is within the risk appetite. High geographical concentration to the Western Province resulted due to all large loans being booked at the Credit Division.

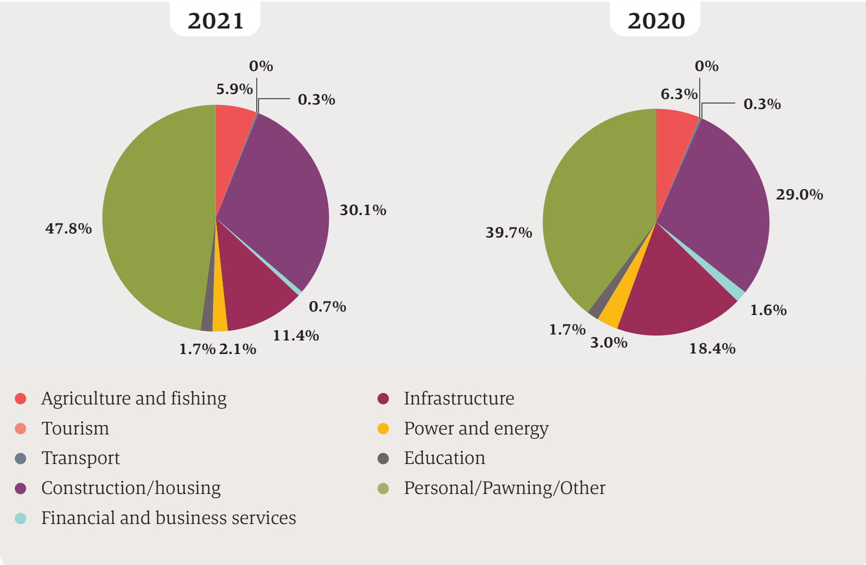
Graph 63

Exposure by geography



Graph 64

Exposure by industry sector



Residual credit risk

Residual credit risk can be identified as the amount of inherent risk which remains after considering all the credit risk mitigants and all risks that have been factored in.

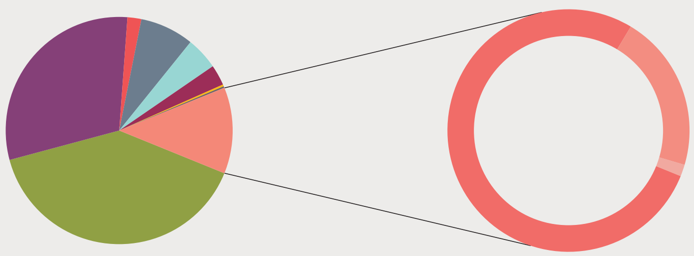
Risk governance framework embodies strong control mechanisms in terms of processes and procedures and Credit Risk Mitigation (CRM) techniques defined at policy level to ensure minimisation of residual risk exposure. Further, strong recovery procedures of the Bank facilitates in managing the residual credit risk. Increase in residual credit risk exposure resulted with the increased composition of personal loans backed by personal guarantors. In 2021, 39.7% of the total loan portfolio was backed by the personal guarantee.

However, 30.3% loan portfolio is backed by Government guarantee and 12.3% is backed by immovable property mortgages, among which 9.5% of the loans were backed by immovable property with less than 50% of LTV ratio. The immovable property mortgages accepted as collateral are revalued based on the Bank's policy on Valuation and Revaluation of Immovable Property developed in compliance with the CBSL Directions.

Cross border exposure of the Bank arisen from deposits with foreign banks, credit facilities and documentary credit was limited to 0.2% of the total assets.

Graph 65

Exposure by collateral and LTV cover



Personal guarantee	39.7%	Cash	4.6%	Corporate guarantee	0.0%
Treasury guarantee	30.3%	Other	2.9%	Immovable property	12.3%
Unsecured	2.0%	Lease receivables	0.3%	LTV less than 50%	77.5%
Gold	7.7%	Movable property	0.2%	LTV between 50%-75%	20.9%
				LTV more than 75%	1.6%

Credit risk review

Table 34

Risk component	Description	Monitoring/Management tools	Exposure	Impact*
Counterparty Risk	Possible default of financial obligations under agreed terms and conditions by a counterparty before the final settlement of borrower's contractual cashflows.	• Limit monitoring • Monitoring of early warning indicators, Non-performing advances trends • Loan Review Mechanism (LRM) • Credit rating • Stress testing	High	Increase in impact
Concentration Risk	Uneven distribution of counterparties in credit to an industry sector or geographical region.	• Herfindahl – Hirschman Index (HHI) • Limit monitoring • Stress testing	High	Increase in impact
Settlement Risk	Possible impact due to failure of delivering on the terms of a contract at the time of settlement.	• Limit monitoring • Monitoring of early warning indicators	Moderate	Increase in impact
Residual Risk	Possible impact from any remaining risks after all other risks have been eliminated, hedged or otherwise accounted.	• Collateralisation • Monitoring of valuation/revaluation • Monitoring of LTV ratios	Moderate	Increase in impact
Cross border Risk	Possible risk that otherwise solvent and willing counterparties are unable to meet their obligations due to direct sovereign intervention or policies.	• Collateralisation • Limit monitoring • Stress testing	Low	No change

* YoY change in impact on earnings and capital

Increase in impact No change Decrease in impact

COVID-19 impact areas and implications

Table 35

Impact areas	Implications
Portfolio growth and composition	• Increasing composition of personal loans • Reducing in lending to other sectors
Portfolio quality	• Increasing non-performing and under-performing loans • Reducing portfolio returns
Collections	• Providing debt moratorium • Rescheduling of loans • Postponement of recovery actions
Solvency indicators	• Impairment provisioning • Increasing credit risk-weighted assets, hence capital requirements • Reduction in expected cashflows from loan collections

Credit Risk Management

Credit Risk Management is embedded in each sub process of the Bank's credit process by using Credit Risk Management tools, controls and procedures.

Credit Risk Management process

Figure 31

Loan origination

- Credit application and evaluation
- Legal checks
- Internal risk rating
- Independent risk assessments/ Rating validation
- Property inspection and valuation
- Credit approval

Documentation and disbursement

- Loan agreement
- Terms and conditions
- Mortgage bonds
- Title/Fire insurance/DTA
- Disbursement
- LRM

Post disbursement management

- Loan collection monitoring and follow-up by business units (branches/credit division)
- Portfolio review
- Limit monitoring
- Recovery actions

Loan origination

The credit application and evaluation process followed in retail lending has a clear segregation of duties between credit officers and managers attached to branch network and Head Office Credit Division and the approval process supported by levels of authorisation.

Corporate lending is subject to stringent evaluation by the customer relationship officers and managers attached to Corporate Finance Division and assigned with an internal risk rating using the Internal Risk Rating model. These credit evaluations and rating assessments are subject to independent reviews and validations by the CRMU of the RMD.

The Bank obtains collateral as a second way-out through mortgages over movable/immovable properties or in the form of guarantees (treasury, corporate or personal). Regular revaluations are carried out for property mortgages in accordance with the internal policies developed based on regulatory directions.

Approval of retail credit facilities are delegated to authority levels approved by the Board of Directors. Approval of facilities above a specified threshold are assigned to the CC and the Board of Directors. Corporate credit facilities are recommended by the Deputy General Manager (DGM) – Credit and International to the CC and to the Board of Directors for approval.

Documentation and disbursement

Special attention is paid on credit documentation to minimise the operational risk in credit process. This includes ensuring the adequacy and completeness of loan applications, KYC documents, documents to facilitate income and collateral evaluations, mortgage/guarantee bonds, other legal documents and insurance policies prior to disbursement.

In the LRM process, reviews are made for corporate and retail credit facilities on a sample basis to ensure comprehensiveness of the credit documentation and credit process to enhance the quality of the loan book. Observations from the LRM are communicated to the credit officers for immediate rectification.

Disbursements are subject to dual controls. The process ensures availability of funds as per customer requirement within the set internal controls.

Post disbursement management

Monitoring of loan collection is a continuous process undertaken by the front-line staff. Concessions were provided for the borrowers affected from the COVID-19 pandemic for loan repayments within the year. However, soft recovery actions were conducted for non-performing loans of borrowers not affected from the pandemic to minimise adversities on portfolio quality and to be in line within the Bank's risk appetite.

The Bank has set credit exposure limits based on sectors and risk-weighted asset classes within the limit framework, while risk appetite levels have been set to monitor portfolio quality, concentrations and returns. Lending operations are frequently monitored against the limit framework to ensure lending activities are carried out within the risk appetite level and adhere to the single borrower limits set internally and by the regulator.

CRMU monitors credit portfolio to identify early warning signs that may deteriorate the quality of the Bank's credit portfolio. Product-wise analyses are conducted periodically and, on an *ad hoc* basis to identify possible adverse movements/concentrations. Observations of the reviews conducted are presented to the Senior Management for remedial actions and policy changes.

Credit Risk Management initiatives during 2021

Policy Framework

- Reviewed and updated Credit Risk Management policies of the Bank.
- Reviewed risk appetite limits and credit limits.

Monitoring

- Periodical submission of Credit Risk dashboards to the BIRMC and the Board of Directors.
- Periodical submission of Early Warning Indicators and Portfolio monitoring reports to CC.
- Validation of Impairment Assessments.
- Monitoring of revaluation progress.

Process improvements

- Recommend process and control improvements based on outputs generated through:
  - RCSA conducted for the retail credit and the recovery processes.
  - LRM.
  - Stress testing and scenario analysis.

Internal risk rating

- Validating the internal rating assessments of corporate borrowers.
- Review risk profile of the credit portfolio using internal risk rating.

Market risk

Market risk arises from the potential losses from changes in earnings, or future cash flows of a portfolio of financial instruments resulting from adverse movements in market variables such as interest rates, foreign exchange rates, share prices and commodity prices. CBSL strengthened the requirement for and the importance of market Risk Management function with the issuance of Direction No. 06 of 2019 – "Market Conduct and Practices for Treasury Operations". The Bank's exposure to market risk arises predominantly from the following sources:

Trading book

Traded Risk is the potential for loss resulting from trading activities undertaken by the Bank in financial markets. The Bank's trading book comprises investments in Government Securities and equities. The Bank is exposed to market risk due to holding positions in trading book. At the end of year 2021, the Bank's trading book amounted to Rs. 19.6 Bn., which accounts for 1.2% of the total assets of the Bank.

Interest rate risk: arising from changes in yield curves and credit spreads.

Equity price risk: arising from changes in the prices of equity investments.

Foreign exchange rate risk: arising from changes in currency exchange rates.

Commodity risk: The Bank has a negligible exposure to commodity price risk which is limited to the extent of the fluctuations in gold price on the pawning portfolio.

Non-trading book

The ALM Desk ensures that the Bank holds sufficient liquid assets buffer, much of which is held in high-quality marketable Government Securities. At the end of year 2021, total investments in Government Securities amounted to Rs. 835.4 Bn., that accounts for 52.9% of the total assets of the Bank and investments in corporate debt and other financial instruments amounted to Rs. 129.5 Bn., that accounts for 8.2% of the total assets of the Bank.

The Bank has exposures in foreign currency denominated assets, liabilities, and related income and expenses. The Bank ensures maintaining open positions to comply with internal and regulatory limits.

Mapping of market risk items in the balance sheet

Table 36

As at 31 December 2021	Amount as per Financial Statements Rs. '000	Exposure to Trading Risk Rs. '000	Exposure to Non-trading Risk Rs. '000	Market Risk Type
Financial Assets				
Cash and cash equivalents	**7,656,038**		**7,656,038**	**IRR, FX**
Placements with banks	**7,120,698**		**7,120,698**	**IRR,FX**
Financial assets measured at fair value	**19,572,933**	**19,572,933**		**IRR,Equity**
Financial assets at amortised cost – Loans and receivables	**538,941,789**		**538,941,789**	**IRR,FX**
Financial assets at amortised cost – Debt and other instruments	**935,350,052**		**935,350,052**	**IRR,FX**
Financial assets measured at fair value through OCI	**13,817,594**		**13,817,594**	**IRR,Equity**
Total	**1,522,459,104**	**19,572,933**	**1,502,886,171**	
Financial Liabilities				
Due to banks	**7,686,553**		**7,686,553**	**IRR, FX**
Financial liabilities at amortised cost – Due to depositors	**1,428,467,385**		**1,428,467,385**	**IRR,FX**
Financial liabilities at amortised cost – Due to other borrowers	**7,719,532**		**7,719,532**	**IRR,FX**
Lease Liability	**1,292,139**		**1,292,139**	**IRR**
Debt securities issued	**37,529,017**		**37,529,017**	**IRR**
Total	**1,482,694,626**		**1,482,694,626**	

In 2021, Government Securities secondary market yield curve witnessed upward shift compared to year 2020. Equity market turnover and volumes increased remarkably compared to the previous year due to low interest rates prevailed. Foreign investors remained as net sellers of Rs. 52.6 Bn. from listed equities and Rs. 5.1 Bn. from Government securities for the year under review.

In 2021, export earnings increased by 24.4% YoY while import expenditure increased by 28.5%YoY resulting trade balance to widened by USD 8.1 Bn. Further reduced earnings from tourism and worker remittances led the country's foreign currency reserves to decline to USD 1.0 Bn. at the end of November 2021. However, it improved to USD 2.77 Bn. at the end of the year with the receipt of swaps from friendly nations, India and China. Due to high demand for USD, USD/LKR depreciated by 7.55% (CBSL TT mid-rate) during the year. CBSL kept TT Mid-rate constant at USD/LKR 200.75 level from the beginning of September 2021.

(Data Source: CBSL)

During 2021, world gold prices increased almost by 2.9% (Source: CBSL) as investors shifted from risky assets to safe-haven investments due to uncertainties. Monitoring the price trends, the Bank revised the advance limits on pawning during the year.

Prudent risk limits, adherence to internal policies and procedures of the Bank, market best practices and continuous monitoring and reporting of market and liquidity risks resulted in minimising the possible losses.

The Bank gained from dealing in equity investments and foreign currencies during the period under review adhering to internal and regulatory requirements. However, the Bank managed the negative impact arose from increase of secondary market yields on Government Securities.

Market risk review

Table 37

Risk component	Description	Monitoring /Management tools	Exposure	Impact*
Interest Rate Risk				
Repricing 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 repricing gap limits. • Limits on Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL).	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	↑
Basis Risk	Risk from unequal movements in rate indices on RSAs and RSLs with the same maturity or repricing dates.	• Sensitivity of rate shocks on RSAs and RSLs.	High	↑
FX Risk	Possible impact on earnings and capital from adverse changes in exchange rates arising out of maturity mismatches in Foreign Currency positions.	• Limit monitoring. • FX VaR. • Stress testing.	Medium	↓
Equity Price Risk	Possible losses arising from changes in equity market prices.	• Limit monitoring. • Equity VaR. • Mark to market FVPL and FVOCI portfolio on a daily basis.	Medium	↑
Commodity Price Risk	Possible negative impact on earnings due to changes in prices of commodities (gold).	• Monitor LTV	Low	→

* YoY change in impact on earnings and capital

↑ Increase in impact → No change ↓ Decrease in impact

COVID-19 impact areas and implications

Table 38

Impact areas	Implications
Interest rates	• Low interest rates prevailed in the economy at the beginning of the year led the improved NIM. • Increasing secondary market trading yields later in 2021, increased unrealised losses on FVPL portfolio.
Equity prices	• Increased equity market performances, increased capital gains and unrealised gains.
Foreign exchange	• Stable CBSL TT-Mid rate at USD/LKR 200.75 from September 2021. • Increased remittance cost and declined remittances. • Increased demand for USD and shortage in USD funding.

Market Risk Management

The Treasury Front Office, acting as the First Line of Defence, is responsible for the effective management of both traded and non-traded market risks of the Bank within their scope of its direct responsibilities set as per the Risk Management framework. The Treasury Middle Office (TMO) functions as the second line control function, performing independent monitoring of the traded Risk Management practices of the First Line of Defence.

Under the IRM framework, the market Risk Management framework brings together all risk types exhibiting risk features common to traded risk and non-traded risk.

Interest rate risk

IRR in trading book

IRR in trading book arises from the Bank's interest rate sensitive investments held in FVPL portfolio. The Bank's rate sensitive FVPL investment was 2.1% of its total investments in Government Securities as at the end of 2021 which comprised both Treasury Bills and Bonds. Interest rate risk in Government Securities FVPL portfolio is assessed through monitoring M-duration against predetermined appetite limits, unrealised gains/losses and capital requirement calculated based on duration of the securities held in the trading book.

Interest Rate Risk in Banking Book (IRRBB)

Interest Rate Sensitivity Gap Table 39

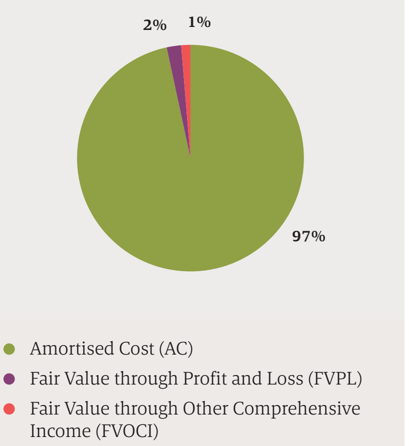
	<1 month	1-3 months	3-6 months	6-12 months	1-3 years	3-5 years	>5 years
RSA (Rs. Mn.)	35,361	52,240	42,769	138,127	428,017	383,775	429,696
RSL (Rs. Mn.)	268,601	461,057	270,169	436,608	16,737	23,230	5,000
Period GAP (RSA-RSL) – (Rs. Mn.)	(233,240)	(408,817)	(227,400)	(298,481)	411,280	360,544	424,696
Cumulative GAP – (Rs. Mn.)	(233,240)	(642,057)	(869,457)	(1,167,938)	(756,658)	(396,114)	28,583
Actual gap as a percentage of RSL – 2021	-86.80%	-88.70%	-84.20%	-68.40%	2,457.30%	1,552.10%	8,493.90%
Actual gap as a percentage of RSL – 2020	-82.40%	-82.50%	-79.50%	-67.00%	827.40%	2,509.30%	

The Bank's exposure to interest rate risk arises as a result of the net interest income being impacted by extreme fluctuations in market interest rates. This has a potential impact on the underlying interest-earning assets, interest-bearing liabilities and off-balance sheet items. The Bank's exposure to IRR can be identified in the form of repricing risk, yield curve risk and basis risk.

Adverse interest rate movements may also impact on the Bank's capital and earnings through changes in present value and the mismatch of future cash flows of banking book positions. This form of IRR arises from differences in the term structure of non-tradable assets and liabilities and the interest rate indices based on which the instruments are priced. IRRBB, if not managed properly, can pose a significant adverse impact on the capital base and future earnings of the Bank.

Graph 66

Government securities portfolio



Large negative mismatches in less than one year maturity buckets resulted in positive impacts on the Bank's NII during the year. Policy rates were marginally up during the mid of year 2021 thereby increasing interest rates. Hence, large negative maturities narrowed down compared to the previous year.

The management of IRR is crucial for the Bank since over 90% of the Bank's assets and liabilities are interest rate sensitive where Bank's NII or NIM is subject to interest rate volatilities. The Bank's IRR management initiatives therefore aim to minimise the mismatches in the maturities (fixed rated assets or liabilities) or to match repricing dates (floating rated assets or liabilities). The Bank measures IRR both in the earnings perspective and economic value perspectives.

The Bank assesses IRR 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.

Equity price risk

Equity price risk refers to the risk of depreciating the value of investments in the equity portfolio due to stock market dynamics exposing the Bank to potential variations in income and reserves. The Bank is exposed to equity price risk from its investments in listed equity instruments both ordinary shares and unit trusts.

The Bank's listed equity portfolio comprises both FVPL and FVOCI portfolios and the extent of investments in equities is determined considering risk limits framework, Investment Policy Statement (IPS) and market conditions.

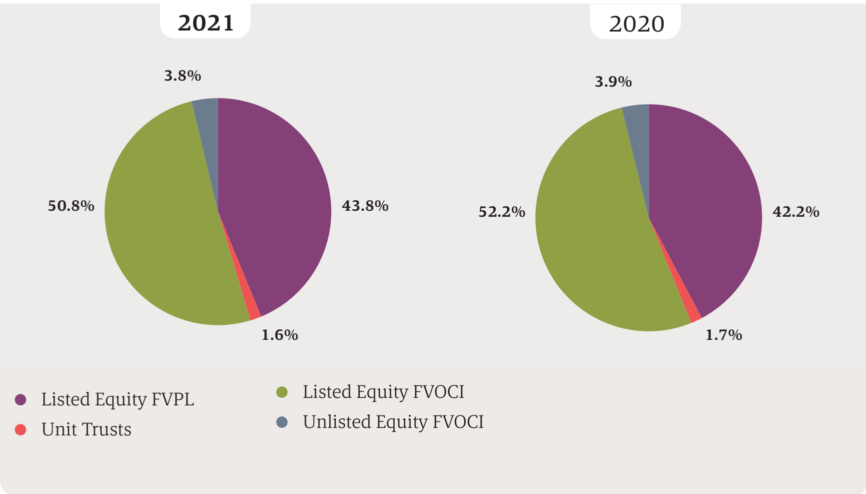
Equity Portfolio Position Table 40

Portfolio Type	2021 Book Value (Rs. '000)	2021 Market Value (Rs. '000)	2020 Book Value (Rs. '000)	2020 Market Value (Rs. '000)	Unrealised Gain/(Loss) (Rs. '000)
FVPL Portfolio	**2,683,677**	**2,329,980**	2,524,999	1,675,748	495,554
FVOCI Portfolio	**3,230,241**	**2,895,358**	3,228,106	2,769,948	123,274
Total	**5,913,918**	**5,225,337**	5,753,105	4,445,696	618,828

The main index of the CSE closed for the year 2021 at 12,226.01 with a gain of 80% or 5,452 index points while S&P index increased by 1,595 index points or 60% to close at 4,233.25. Market value of equity FVPL portfolio increased by 39%YoY to Rs. 2.3 Bn. at the end of 2021. With the active participation in the equity market, the Bank secured Rs.485.6 Mn. net gain from trading of equity securities for FY2021.

Graph 67

Equity portfolio composition (Book value of investments)



Foreign exchange risk

FX risk is the possible impact on earnings and capital resulting from unanticipated and unfavourable fluctuations in exchange rates. During 2021, USD/LKR average spot rate depreciated by 9.3% during 2021 and fluctuated in the range of Rs. 186.54 – Rs. 202.77 (Source: Bloomberg). During 2021, CBSL TT Mid-rate depreciated by 7.55% and was stagnant at USD/LKR 200.75 since September 2021. During the year under review, CBSL implemented several measures to improve the foreign currency liquidity from external sources. Further, CBSL continued to purchase foreign exchange from the domestic foreign exchange market to build-up reserves.

Table 41 Currency-wise Maturity Gaps for FX Operations (Rs.)

	<1 Month	1-3 Months	3-6 Months	6-12 Months	1-3 Years	3-5 Years	>5 Years	Total
USD	(18,163,065)	10,784,337	6,960,493	(11,560,806)	15,596,773	1,077,464	–	4,695,197
EUR	(2,200,737)	587,588	3,387,453	(1,937,815)	–	–	–	(163,511)
GBP	17,235	825,067	138,493	(690,238)	–	–	–	290,557
SGD	8,232	–	–	–	–	–	–	8,232
AUD	(413,175)	23,700	735,297	(165,665)	–	–	–	180,157
JPY	2,893,592	–	–	–	–	–	–	2,893,592
CHF	47,145	–	–	–	–	–	–	47,145
CAD	15,432	–	–	–	–	–	–	15,432
AED	7,328	–	–	–	–	–	–	7,328

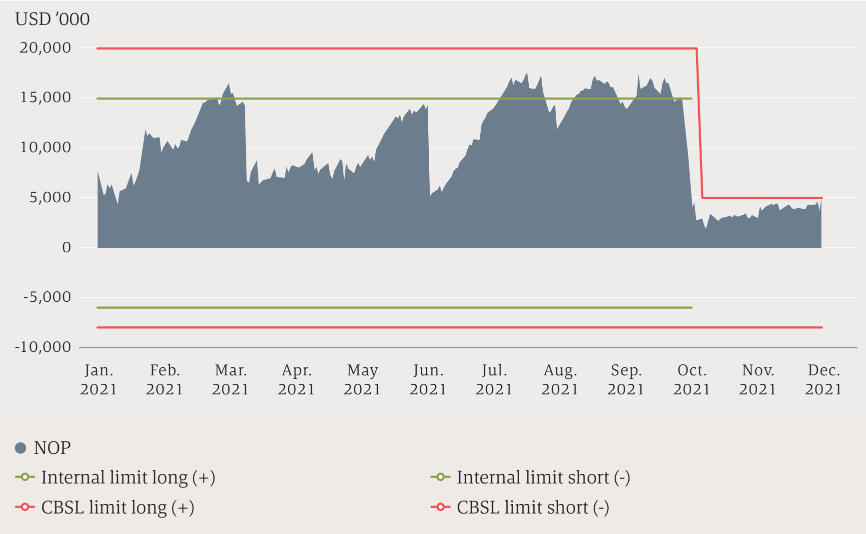
FX risk is associated with the unhedged positions in all the foreign currencies. Net Open Position (NOP) is monitored on a daily basis against regulatory and internal alert limits. At the end of the year 2021, Net Foreign Currency Exposure (NFCE) of the Bank was USD 2.62 Mn. which is 1.2% of the total regulatory capital of the Bank.

Table 42 Structural Foreign Exchange Exposures

Currency (Mn.)	2021	2020
USD	**2.259**	1.672
EUR	**(0.193)**	7.191
GBP	**0.298**	0.567
JPY	**2.736**	0.244
SGD	**0.008**	0.009

Graph 68

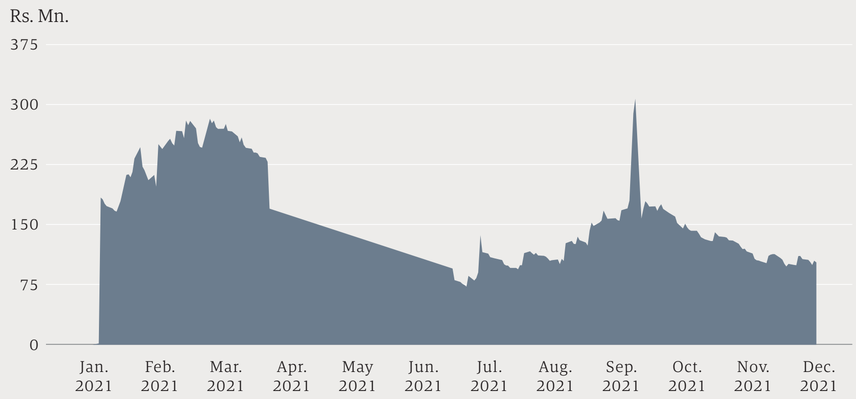
Daily NOP against internal and regulator limits



The Bank measures market risk changes using VaR for equity trading book and foreign currency open position. VaR remained within the Risk Tolerance Limit (RTL) of the Bank.

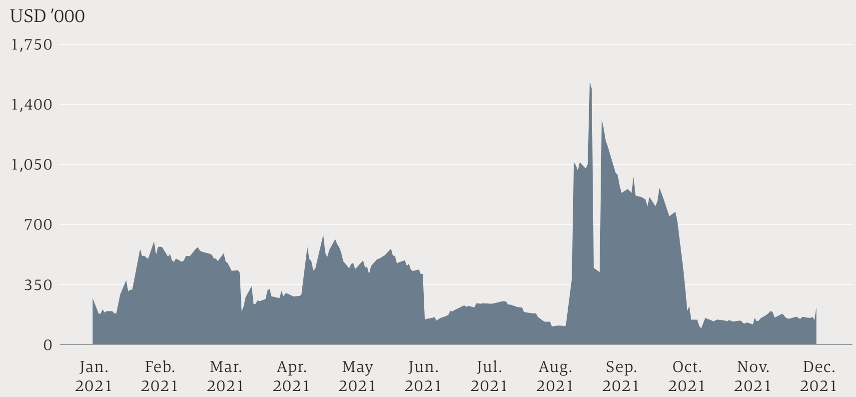
Graph 69

Equity VaR



Graph 70

FX VaR



Market Risk Management initiatives during 2021

Policy Framework

- Reviewed market risk and liquidity Risk Management policy of the Bank.
- Reviewed risk appetite limits and treasury limits.
- Reviewed and improved counterparty rating model.

Monitoring

- Daily treasury middle office functions.
- Periodical submission of market risk dashboards to the BIRMC and the Board of Directors.
- Monitoring of investment and trading portfolios, foreign currency exposures and treasury related transactions and report to IC/ALCO.
- Stress testing and scenario analysis.

Process improvements

- Recommend process and control improvements based on outputs generated through RCSA conducted for treasury operations and gap analysis.

Liquidity and funding risk

Liquidity and funding risk is the risk that the Bank may not have sufficient stable or diverse sources of funding to meet on or off-balance sheet obligations as they fall due without incurring unacceptable losses. The Bank's liquidity Risk Management framework requires to ensure that the Bank operates within predefined liquidity limits and remains in compliance with the Bank's liquidity policies, regulatory requirements and practices.

Liquidity risk review

The Bank maintained strong liquidity position during the year, which is supported by careful capital management, accommodative measures adapted by the regulator in response to the pandemic and strong deposit growth from both retail and institutional customers.

During the year, the Bank redeemed Tier II debenture which was issued in 2016. Capitalising the low interest rates prevailed in the economy, the Bank issued series of senior debentures with 5-7 year maturities during the year.

Liquidity Risk Management

The main objective of the liquidity and funding Risk Management is to access and ensure availability of funds required to meet obligations at correct time at correct cost under both normal and stressed scenarios.

Liquidity risk of the Bank is managed by monitoring key liquidity indicators under both regulatory requirements and requirements under stock approach and flow approach. Changes in both assets and liabilities are measured compared to the funding requirements to ensure that the desired level of liquidity is maintained at each point of time and is in line with the Bank's risk appetite. Internal limits for liquidity gaps are in place and monitored on frequent basis for both rupee and major foreign currencies to ensure that the Bank's liquidity profile is managed at healthy level.

Liquidity risk is mitigated by maintaining adequate buffers in high quality liquid assets and diverse funding sources. Further, strategies/options are in place ensuring availability of sufficient liquidity buffers in accordance with the Bank's Contingency Funding Plan.

Regulatory ratios

The Bank's regulatory liquidity indicators lowered compare to the previous year, however comfortably remained above the minimum regulatory requirements.

Flow approach

Under the flow approach, Liquidity gap analysis is one of the methods used by the Bank to assess liquidity risk. Liquidity gaps are periodically monitored against limits and used for sensitivity analysis and stress testing.

High negative liquidity gap can be observed in less than one-year maturity bucket is mainly due to categorisation of savings deposits and term deposits in less than one year. However, adverse impact on liquidity is low considering the tendency to rollover based on historical behaviour.

At the end of year 2021, negative gaps that prevailed in less than 12 months maturity buckets further widened while positive gaps prevailed in more than three year buckets increased compared to the last year.

Regulatory Liquidity Ratios **Table 43**

	2021	2020	Regulatory Minimum %
SLAR – DBU	**59.6**	69.1	20
LCR – Rupee	**240.8**	311.0	100
LCR – All currency	**240.4**	307.2	100
NSFR	**160.8**	169.0	100

Stock approach

The Bank monitors following liquidity ratios under stock approach to monitor the adequacy of funding requirements and ensure funding and liquidity risks is managed within the Bank's appetite to ensure no excessive cost is incurred for unanticipated liquidity constrains.

Ratios under Stock Approach **Table 44**

	2021 (%)	2020 (%)
Net loans to total assets	**34.1**	33.5
Loans to customer deposits	**38.6**	38.5
Liquid assets to short-term liabilities	**56.4**	64.5
Purchased funds to total assets	**20.8**	20.5
(Large liabilities – temporary investments) to (earning assets – temporary investments)	**20.7**	11.2
Commitments to total loans ratio	**1.7**	4.6

Maturity profile of assets and liabilities

Bank – Rs. Mn.	0-3 months	3-12 months	1-3 years	3-5 years	>5 years	Total
Assets with contractual maturity	98,548	189,694	438,361	393,126	459,369	1,579,098
Liabilities with contractual maturity	733,847	713,693	17,949	23,519	90,089	1,579,098
Maturity gap	(635,299)	(523,999)	420,412	369,607	369,280	–
Cumulative gap	(635,299)	(1,159,299)	(738,887)	(369,280)	–	–
Actual gap as a percentage of RSL – 2021	-87%	-73%	2,342%	1,572%	410%	0%
Actual gap as a percentage of liabilities – 2020	-82%	-71%	831%	2,489%	514%	0%

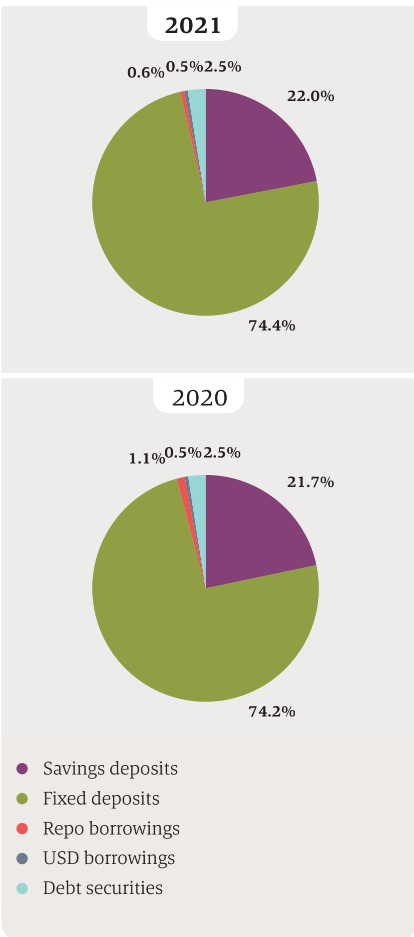
Monitoring of maturity gap analysis of assets and liabilities enables foreseeing adverse liquidity levels. The Bank was able to manage funding requirements during the year with minimum reliance on market repo borrowings.

Funding Diversification by Products

On the backdrop of COVID-19 crisis and low interest rate regime prevailed in the country, the Bank's deposit base reached Rs. 1.43 Tn. with a notable growth of 15.5% as at end of year 2021. This has resulted due to the customer confidence as a safer bank for customer deposits owing to 100% Government guarantee explicitly provided on the Bank's deposits. No major changes in the deposit mix was witnessed during the year.

Graph 71

Funding mix



The Bank has access to a wider spectrum of retail deposits and institutional deposits through its branch network and counts on that as the primary source of stable funds. Access to retail deposits (i.e. Savings and FDs) through island wide network of branches enables reducing concentration risk in funding.

Liquidity and funding risks are managed by ALM unit of Treasury Division using policies and procedures approved by the Board of Directors.

Operational risk

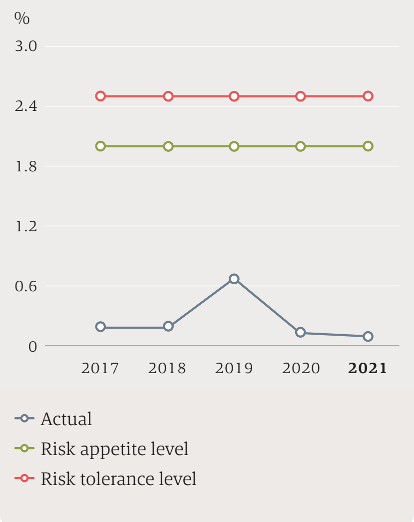
Operational risk is the risk of an adverse impact resulting from inadequate or failed internal processes and systems, people or external events. Operational risk includes legal risk but excludes reputational risk and strategic risk. It is inherent in all products and processes in the Bank and includes business interruptions, fraudulent acts, unethical business practices, employer-employee conflicts, non-compliances to laws and regulations, cyberattacks and failure of vendor management etc.

Operational risk exposure

Operational losses for the financial year 2021 was 0.1% of the average audited gross income for the last three years, which is comfortable within risk appetite levels.

Graph 72

Actual operational losses against risk appetite and tolerance limit



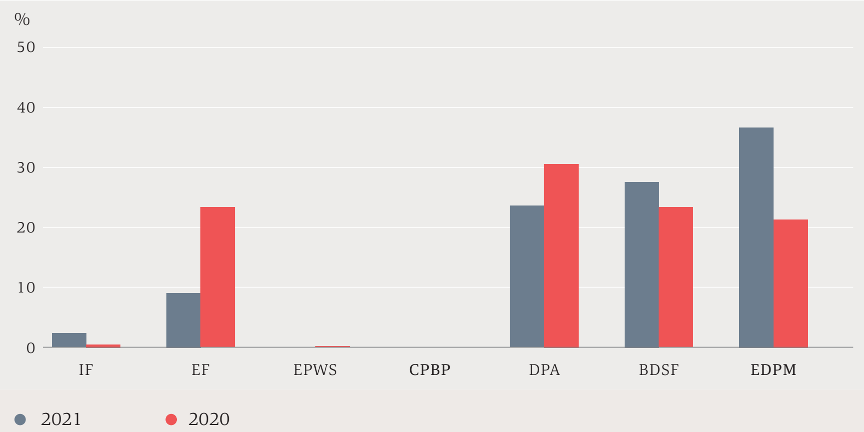
The trend line demonstrates the Bank's consistency in maintaining losses at minimal levels over the last five-year period. This reflects the effectiveness of the governance structure, policies, internal control structures, processes and procedures in place to manage operational risk.

From the internal loss event data collected for the year 2021, the highest frequency and the severity were reported from execution, delivery and process management failures and internal fraud categories respectively.

The frequency and the severity of the events were managed within the tolerance limits.

Graph 73

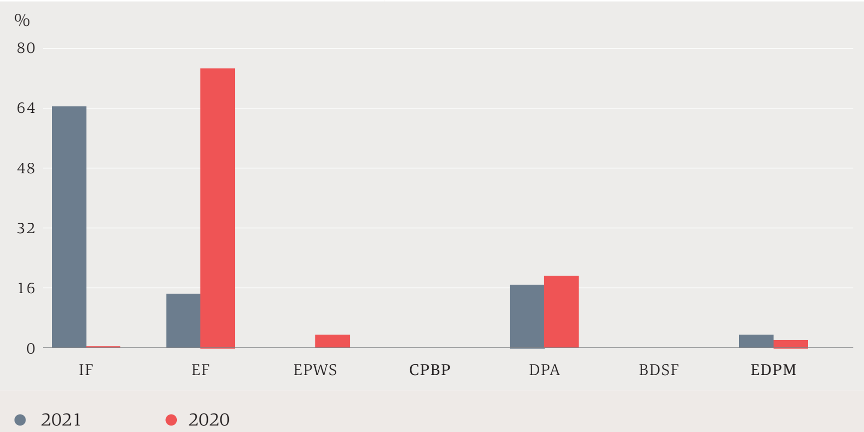
Frequency of loss event data



IF – Internal fraud
EF – External fraud
EPWS – Employment practices and workplace safety
CPBP – Clients, products and business practices
DPA – Damage to physical assets
BDSF – Business disruption and system failures
EDPM – Execution, delivery and process management

Graph 74

Severity of loss event data



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DPA – Damage to physical assets
BDSF – Business disruption and system failures
EDPM – Execution, delivery and process management

Supplementary information
Financial reports
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Management Discussion and Analysis
Our sustainable value creation model
Preamble

Operational risk review

Table 45

Risk component	Description	Monitoring/Management tools	Exposure	Impact*
Fraud Risk	Risk as the result of fraudulent action of persons internal or external to the Bank	• Fraud Risk Management and whistle-blowing process • Internal controls • Key Operational Risk Indicators (KORIs) monitoring • Loss event monitoring • Risk Control Self-Assessment (RCSA) • ABC risk assessment	Moderate	Increase in impact
IT Risk	Technology/information security risk	• Internal controls • Information security management system • KORIs monitoring • Incident reporting	High	No change
Business Continuity Risk	Risk of losses arising from the disruption of business or system failures	• KORIs monitoring • Business Continuity Management System (BCMS) implementation	High	No change
Compliance/ Regulatory Risk	Failure to comply with laws, regulations	• Compliance programme and examinations • KORIs monitoring • Compliance risk scorecard	Moderate	No change
Legal Risk	Inadequacy/failure to comply with legal requirements	• Legal clearance on all contractual obligations • KORIs monitoring	Moderate	No change

* YoY change in impact on earnings and capital

Increase in impact   No change   Decrease in impact

COVID-19 impact areas and implications

Impact of the pandemic for Bank's operations reduced compared to the year 2020. Government immunisation programme and adhering to the precautions imposed by local health authorities minimised the spread among staff members. Hence, the Bank provided uninterrupted service to customers with business continuity arrangements and contingency plans along with proactive decisions.

Improvements made in IT and information security infrastructures, processes and procedures contributed to minimise the risk exposure resulted from customers shifting to remote channels such as online and mobile banking.

Operational Risk Management

Operational risks are managed in light of the nature of business, the regulatory environment and financial position in a cost-effective manner as per the Bank's operational risk appetite.

Management of operational risk is an ongoing process which includes identification, measurement of operational risks and use controls to mitigate or avoid such risks through monitoring and a timely reporting mechanism. The operational Risk Management framework of the Bank is defined in the operational Risk Management policy approved by the Board of Directors.

Base for operational Risk Management is established through an internal control structure including system controls, access controls, segregation of duties, clear lines of authority and responsibility, dual checks for authorisation and verification of transactions, physical controls over assets, record keeping, reconciliations, audit trails and audit logs.

ORMU in RMD uses several techniques and processes to identify and assess operational risks within the operational Risk Management framework.

Collection and analysis of operational loss event data is a key components of the Bank's Operational Risk Management Framework. Consistent gathering of data improves the integrity of data analysis to derive more meaningful and effective decisions. Bank has a documented procedure for identification and collection of internal loss data from all geographic locations to facilitate timely regulatory reporting and recognition. Further, the Bank's external loss event data base captures published information on operational loss events in similar institutions. Collected data is classified into Basel level II loss event categories and used to identify the nature, root causes and the probability of occurrence. Process improvements and risk mitigation actions are recommended based on loss event data analysis.

KORIs are used to inform the Senior Management about operational risk exposures. The Bank identifies and assesses operational risk profile using a KORI 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.

RCSA is a process by which the management and the process owners at all levels collectively identify and assess risks and associated controls. It adds value by increasing risk owners' involvement in identifying risk exposures, designing and maintaining controls and determining corrective actions. The aim of RCSA is to inculcate the Risk Management culture into daily operations of the Bank in achieving objectives.

The Bank recognises customer complaints analysis as a free feedback on customer experience with the Bank. ORMU periodically analyses customer complaints and the findings are used for process improvements and to minimise operational risk vulnerabilities.

Legal risk

Legal risk is an inherent part of operational risk. Legal risk is the risk of financial or reputational loss that can result from lack of awareness or misunderstanding or ambiguity in or reckless indifference to the way and law and regulation apply to business, its relationships, processes, procedures and services.

This may include losses resulting from non-enforceability of contracts due to incorrect documentation and deficiencies in drafting, which may result in fines, penalties and punitive damages or a claim being made against the Bank, which may result in a liability or loss.

Legal Risk Management identifies the underlying drivers that will undermine the Bank's operations and reputation. The Legal Division provides guidance to the business divisions and engages in strategic management of the legal risk of the Bank. The Legal Division proactively engages in identifying potential legal risks and issues in collaboration with other business divisions and ensuring that adequate and appropriate mitigatory measures are adopted to safeguard the Bank's interest.

The Legal Division also ensures that the Bank complies with applicable laws and regulations when entering into contractual relationships as well as in the conduct of its business operations and making decisions based on the best available information that will reduce the frequency and severity of legal risks and responding efficiently to meet the Bank's expectations.

Compliance and regulatory risk

Compliance risk is the Bank's potential exposure to legal penalties, financial forfeiture and material loss, resulting from its failure to act in accordance with industry laws and regulations, internal policies or prescribed best practices. This may lead to regulatory sanctions, financial penalties, disruptions in business, operational and reputational damages.

The compliance landscape is changing rapidly and the Bank needs to develop and integrate risk strategies, methodologies and frameworks. Hence, relying on traditional approaches to address compliance risk is ineffective against the increasing diversity of the industry's compliance ecosystem.

Therefore, the Bank embraces modern and innovative strategies for risk assessment together with an effective governance framework to address the compliance risk. The Compliance Division is headed by the Compliance Officer and directly reports to the Board of Directors through the BIRMC.

During the year 2021, the following actions were taken to minimise the compliance and regulatory risk of the Bank:

- Providing the data relating to suspicious financial transactions to facilitate the prevention, detection, investigation and prosecution of money laundering and financing of terrorism as stipulated in the Financial Transaction Reporting Act No. 6 of 2006.
- Compliance to Direction No. 12 of 2007 on corporate governance in the exercise of the powers conferred by Section 76 (J) (1) of the Banking Act No. 33 of 1988 to determine the allocation of authority and the responsibility by which the business and affairs of the Bank are carried out by its Board and Corporate Management. Thus, the Bank ensures safety and soundness to keep the financial stability and the manner in which they conduct their business.
- Ensure timely review of applicable policies and procedures.
- Conduct compliance assessments on branches, divisions and products of the Bank.
- Creating awareness through training sessions.

The Bank took and identified the necessity of critical compliance teams that can function effectively in the new remote working environment and facilitated with new technology equipment to carry out the compliance function.

Business continuity risk

The potential threat to the continuity of the Bank's operations due to man-made or natural disasters that has a detrimental impact is known as business continuity risk.

Business Continuity Management (BCM) ensures the continuous service delivery to customers and stakeholders without interruptions. It has a paramount importance in an IT driven banking environment.

The Bank has in place a governance structure, policy documents, processes and systems for BCM to ensure business continues with minimum interruptions from natural, man-made or IT driven disasters.

BCP unit is assigned with the responsibilities for effective implementation, testing and monitoring of the BCM framework and to manage the disaster recovery site of the Bank. Tier III Design Certification (TCDD) awarded Data Centre is an additional strength to the business continuity infrastructure.

IT risk

Technology advancement within the financial services systems has changed the Bank's business model to a greater extent. The banks increasingly adopt IT for service delivery, hence operational risk events such as cyberattacks, system failures, system errors, system manipulation and frauds, technological obsolescence can have a significant impact.

Considering the materiality in terms of severity and frequency, IT risks are managed within the Operational Risk Management Framework focussing Information Security Management (ISM) requirements as stipulated in regulatory directions. ORMU assesses and monitors IT risks using techniques discussed above.

In order to provide a safer banking service to the customers in terms of confidentiality, integrity and availability of the information from the ever-emerging vulnerabilities in Information Communication Technology (ICT), the Bank has put in place a Board-approved Information Security Governance Framework to protect the Bank's critical information assets.

Information Security Division (ISD) is responsible for implementing Information Security Risk Management Framework. ISD carries out independent risk assessments on information systems with the assistance of external expertise service providers and assessment results are used to recommend risk treatments or risk mitigants.

Payment Card Industry-Data Security Standard (PCI DSS), Next Generation Security Operations Centre (NG-SOC) and Data Leakages Prevention (DLP) are the main implementations of information security measures by the end of 2021.

PCI DSS is an information security standard for organisations that handle branded credit/debit cards from the major card schemes. It is one of the most accepted international standards for payment card security and is based on specific technical and operational controls for card operations and related information systems. Presently the Bank provides Mastercard and Visa branded debit cards for customers and PCI DSS assures the safety of cardholders' data. The Bank is the only state-owned bank to achieve PCI DSS compliance since 2019.

The Bank, with the assistance of an expert, has implemented 24x7x365 operated SOC to enhance incident response capabilities to meet the international best practices and next generation features.

ISD with the support of IT Division implemented the Data Leakages Prevention (DLP) and data classification solution during the year 2020 to protect and secure data and comply with regulations

The Bank takes steps towards achieving CBSL direction on the "Regulatory Framework on Technical Risk Management and the Resilience of Licensed Banks" to enhance the IT and Information Security Management System and maintenance of implemented controls through regular reviews.

Bribery and corruption related risks

Bribery and corruption can take place in a variety of ways and areas including accepting of gifts and hospitality, facilitation payments, political contributions, cash payments and commissions, sponsored travel and lodging, and charitable contributions.

The Bank has zero tolerance towards bribery and corruption to minimise reputational risk and financial losses. Accordingly, employees, directors and third parties acting for or on behalf of the Bank and subsidiaries of the Bank are prohibited from:

- Engaging in any kind of bribe and corrupt behaviour, regardless of whether a benefit is given to or received by another person, and regardless of the value of the benefit.
- Carrying out any dishonest accounting or concealment of complete and accurate financial activity.

The Bank has developed an Anti-Bribery and Corruption (ABC) Policy in year 2020. Accordingly, RMD conducts ABC risk assessment annually from 2021 onwards with the aim of identifying areas vulnerable for bribery and corruption risk to strengthen internal controls.

Risk transfer

Outsourcing arrangements of the Bank are identified and managed through the Outsourcing Monitoring Unit of the Administration Division. Outsourcing is an effective cost-saving and risk transfer strategy for the Bank. Outsourcing operations are conducted in accordance with Outsourcing Policy approved by Board of Directors and in compliance with the guidelines issued by the CBSL.

Due diligence tests on outsourced vendors are carried out prior to executing new agreements or renewal of existing agreements to ensure the capabilities of service providers to perform the outsourced activities as per the requirements in line with the internal policies of the Bank.

Insurance plays a key role as an operational risk mitigation technique to transfer key insurable risks to an insurance service provider. The adequacy of the insurance policies is continuously reviewed considering the existing and emerging risks to the Bank. RMD monitors and reports the progress of insurance recovery for the operational losses. Insurance function is centralised within the Administration Division.

Reputational risk

Reputational risk is the risk of adverse impact on brand value due to negative stakeholder perception of the Bank's activities, business practices, products, services etc. Reputational risk indirectly impacts on the Bank's earnings and assets. Hence, management of reputational risk is imperative for financial institutions to maintain the public confidence in its operations.

The Bank has maintained an immaculate reputation for five decades as a premier licensed specialised state bank in Sri Lanka. A sound reputation reflects the integrity of the Bank. As a financial service provider, staff competence and products and services which satisfy customer requirements create the foundation for customer confidence.

Bank has a zero-risk appetite for reputational losses. Thus, RMD closely monitors the reputational risk through early warning indicators. The Bank uses various channels to communicate with the customers, other stakeholders and to safeguard the reputation from adverse communications.

A scorecard-based model is used to assess the reputational risk based on the ICAAP guidelines.

Strategic risk

Strategic risk refers to the events or decisions that may make it difficult for the Bank to achieve the objectives and strategic goals. This may include the Bank's strategic choices being incorrect, or not responding effectively to changing environments.

Strategic planning and budgetary process which aligns the Bank's vision, mission, and the risk appetite with the Board of Directors oversight along with the monitoring of Senior Management facilitate the management of strategic risk.

The inputs from the Research Division are incorporated in formulating business strategies for the Bank. The Bank has taken necessary steps to ensure availability of right talent, capabilities, infrastructure and technology to minimise the strategic execution risk. To minimise the strategic risk, management reviews the progress of the strategic decisions made on a regular basis.

A detailed scorecard-based model aligned with ICAAP guidelines is used to assess the strategic risk of the Bank.

Operational Risk Management initiatives during 2021

Policy Framework

- Reviewed Integrated Risk Management policy framework including operational Risk Management policy of the Bank.
- Reviewed risk appetite and KORIs threshold limits.

Monitoring

- Monitoring of Key Operational Risk Indicators.
- Monitoring of Operational loss events and customer complaints.
- Periodical submission of operational risk dashboards to the BIRMC and the Board of Directors.
- Anti-Bribery Corruption Risk Assessment.
- Stress testing.

Process improvements

- Recommended process and control implementations based on RCSA conducted for card operations and other critical branch operations.
- Introduction of automated workflow for reporting of operational loss event data.

Capital review

The Bank requires a strong capital position in order to satisfy regulatory capital requirements, provide financial security to its depositors/creditors, maintain leeway for future business expansion and generate adequate return to its shareholders.

Managing capital assures resilience of the Bank while generating stakeholder return. Hence, the Bank strives to manage capital more efficiently by achieving the optimum balance between performance and risk and conduct stringent monitoring of the Risk Weighted Asset (RWA) mix and changes in the risk profile. Capital management process is in line with the guidelines issued by the CBSL.

As per the Banking Act Directions No. 11 of 2019 and amendments to Directions on Capital Requirements under Basel III for Licensed Commercial Banks and Licensed Specialised Banks, it is required to maintain the minimum capital ratios as prescribed in the Table 46.

As NSB is no longer considered as a D-SIB, maintaining of higher loss absorption is not required.

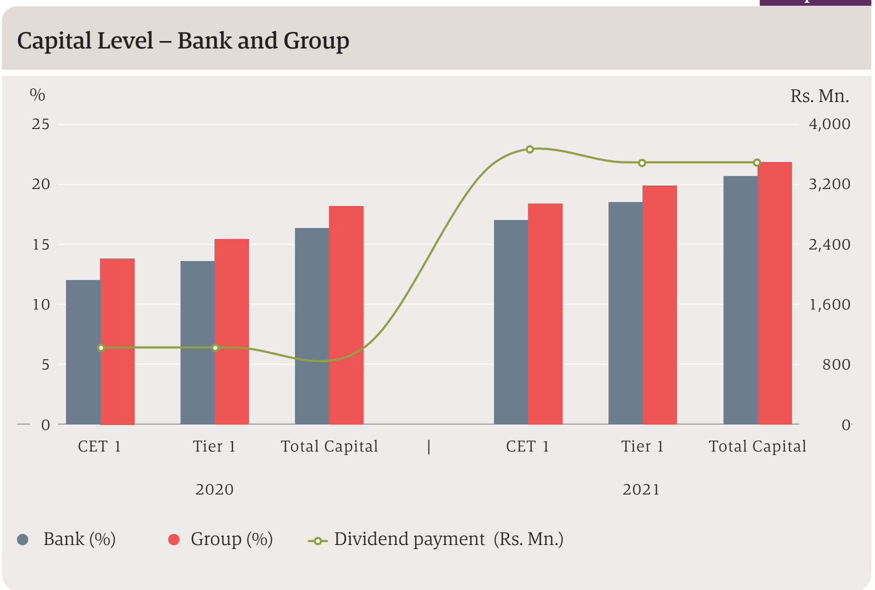
CBSL has allowed Non-D-SIBs to draw down their Capital Conservation Buffer (CCB) by 50bps in the context of the downturn in economic activities following COVID-19. Further, extraordinary regulatory measures facilitated for the improvement of RWAs.

Improvement in profits contributed to improve capital adequacy above the risk appetite set for the year 2021. This is with an adequate buffer on regulatory minimum requirement set. CET1 ratio position increased during the year to 17.17% as at 31 December 2021, from 12.03% as at 31 December 2020. The Bank's Tier 1 capital ratio increased to 18.60% as at 31 December 2021. Total capital ratio increased to 20.83% as at 31 December 2021 against 16.45 % as at 31 December 2020.

The total capital ratio for the Group is 22.0% in 2021 against 18.30% as at December 2020. As the 100% state owned savings bank, there are limited options available to raise regulatory capital externally. Hence, the Bank used most preferable source (i.e. retained earnings) to augment the capital in year 2021.

Capital Level – Bank and Group

Graph 75



Capital Adequacy Ratio

Table 46

Ratios (%)	Regulatory Minimum	Actual as at 31 December 2021		Actual as at 31 December 2020	
		Bank	Group	Bank	Group
CET 1 plus CCB	7.00	**17.17**	**18.54**	12.03	13.96
Tier 1 plus CCB	8.50	**18.60**	**19.96**	13.65	15.57
Total Capital	12.50	**20.83**	**22.00**	16.45	18.30

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 ensure the level of internal capital commensurate with the Bank's risk profile.

The Bank has a Board-approved ICAAP Management Policy which is in line with the CBSL Directions on Basel III Pillar II guidelines issued to banks on the supervisory review process and international best practices.

The 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 risks with the oversight responsibility of the Board of Directors through BIRMC.

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.

The Bank has internal models to assess and quantify the risk profile and internal capital requirements. Internal limits have been set covering the internal capital requirement to provide effective assessment with regard to capital adequacy. Comprehensively documented ICAAP is discussed and approved by ALCO and the Board of Directors through BIRMC prior to submitting to the regulator.

Stress testing

Stress testing is an integral part of ICAAP under Pillar II. The Bank's stress testing framework is governed by the stress testing policy approved by the Board of Directors and guidelines issued by the CBSL. The Bank's stress testing framework includes stress tests on all the material risks such as credit risk, interest rate risk in trading book and banking book, operational risk, liquidity risk, concentration risk and residual credit risk. The Bank has defined three levels of increasing adversity, i.e. minor, medium and major (or Low, Medium and High) for stress testing purposes.

Stress testing provides an understanding on the ability of the Bank to withstand unforeseen scenarios of varying severity under adverse economic, political and physical changes in the environment in which it operates.

The Bank stress tested the COVID-19 scenario and the change in regulations to understand the impact on solvency indicators in order to support decision-making.

Sensitivity analysis is used to measure the impact of individual market factor movements on specific instruments or portfolios, including interest rates, foreign exchange rates and equity prices.

The Bank mainly uses sensitivity analysis to identify the impact on trading and banking book due to adverse interest rate fluctuations and reports are submitted to ALCO on a periodic basis.

These reports are instrumental in asset and liability management, and pricing decisions of the Bank.

Sensitivity Analysis – Interest Rate Risk – Government Securities portfolio **Table 47**

	FVPL (Rs. '000)	FVOCI (Rs. '000)	Total (Rs. '000)
Unrealised gain/(loss) against cost at the end of 2021	(745,907)	(616,663)	(1,362,570)
Change in M2M value			
100bps increase in yield	(212,120)	(170,469)	(382,589)
200bps increase in yield	(416,913)	(335,805)	(752,718)
100bps decrease in yield	219,838	175,848	395,686
200bps decrease in yield	447,802	357,324	805,126

Sensitivity Analysis – Assessment of Yield Curve Risk in Banking Book **Table 48**

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	(233,254)	(410,128)	(235,684)	(301,337)	410,555	353,153	423,718	7,025
	Impact on NII (Rs. Mn.)	(2,243)	(3,427)	(1,485)	(784)				(7,940)
Consolidated Level	Gap	(239,476)	(425,886)	(232,062)	(301,001)	412,454	358,225	427,703	(45)
	Impact on NII (Rs. Mn.)	(2,303)	(3,559)	(1,462)	(783)				(8,107)

The results obtained from stress testing exercise are used in setting of risk appetite and risk limits, capital planning, strategic business planning and to manage the risks in critical business operations to support proactive decision-making.

Impact to the Capital Adequacy at different stress levels

Table 49

Risk area	Scenario	Impact to CAR		
		Low (%)	Medium (%)	High (%)
Credit Risk	Credit Risk - Increase in PD due to an economic downturn (Low 10%. Medium – 20% High -30%)	-0.207	-0.414	-0.621
Market Risk	Interest Rate Risk: Increase in market yield (Low 50bps, Medium 100bps, High 200bps)	-0.051	-0.101	-0.199
	Equity Price Risk: Decline in Market prices (Low 10%, Medium 20%, High 30%)	0.144	0.169	0.193
	FX Risk: LKR depreciation (Low 10%, Medium 15%, High 20%)	0.035	0.040	0.045
Liquidity Risk	Premature withdrawal of deposits beyond <3M maturity bucket (Low 30%, Medium 40%, High 50%)	-0.526	-0.701	-0.877
	Default of loan instalments in <3M maturity bucket (Low 30%, Medium 40%, High 50%)			
Operational Risk	Increase in operational losses classified under Basel II loss event categories	-0.016	-0.021	-0.031

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. pages 454 to 466 for minimum disclosure requirements as per Banking Act Directions No. 01 of 2016.

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→ Financial reports

Financial calendar

Financial calendar 2021	
Publication of Interim Financial Statements for the quarter ended 31 March 2021	31 May 2021
Publication of Interim Financial Statements for the quarter ended 30 June 2021	30 August 2021
Publication of Interim Financial Statements for the quarter ended 30 September 2021	30 November 2021
Publication of Financial Statements (Audited) for the quarter ended 31 December 2021	30 March 2022
Proposed financial calendar 2022	
Publication of Interim Financial Statements for the quarter ended 31 March 2022	31 May 2022
Publication of Interim Financial Statements for the quarter ended 30 June 2022	31 August 2022
Publication of Interim Financial Statements for the quarter ended 30 September 2022	30 November 2022
Publication of Financial Statements (Audited) for the quarter ended 31 December 2022	31 March2023

Annual Report of the Board of Directors

General

The Board of Directors of the National Savings Bank have pleasure in presenting their Integrated Annual Report on the affairs of the Bank together with the Audited Financial Statements of the Bank and Consolidated Financial Statements of the Group for the year ended 31 December 2021. 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 Annual Financial Statements were reviewed and recommended by the Board Audit Committee (BAC) and approved by the Board of Directors on 24 March 2022. The Audited Financial Statements were authorised to be issued on 24 March 2022. The Report also includes certain disclosures required to be made under the Banking Act No. 30 of 1988 and amendments thereto and the Banking Act Direction No. 12 of 2007 on Corporate Governance for Licensed Specilised Banks issued by the Central Bank of Sri Lanka (CBSL) and subsequent amendments thereto. 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 2022 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 SL AAA (Stable) long-term credit rating by the ICRA Lanka Limited.

Review of Business

Principal Activities of the Bank

The principal activity of the Bank is promotion of savings among the people of Sri Lanka and profitable investments of savings so mobilised. Accordingly, during the year under review, the principal activities of the Bank were, retail banking, corporate banking, trade financing, treasury dealing and investments, correspondence banking and money remittance facilities, pawning, foreign currency operations and other financial services.

Vision, Mission and Values

The Bank's Vision, Mission and Values are given on page 8 of this Annual Report. All permanent employees are being abided by the Code of Conduct of the Bank and the Government Oath with the view of maintaining the highest ethical standards in achieving the Vision and Mission of the Bank.

Government Guarantee

The Government of Sri Lanka guarantees the repayment of the monies deposited with the Bank together with interest thereon.

Subsidiaries of the Bank

NSB Fund Management Company Ltd., and Sri Lanka Savings Bank Limited are the Bank's two subsidiaries. The principal activity of the NSB Fund Management Company is dealing in Government Securities as a primary dealer authorised by the Central Bank of Sri Lanka.

Sri Lanka Savings Bank's principal activities are mobilising savings and time deposits, providing loans, lease, hire purchase, pawning and other credit facilities, and settling of the deposit liabilities of defaulted Pramuka Saving and Development Bank Limited (PSDBL) with reconstruction of loan accounts of PSDBL

Details of the transactions are given in Note 24 to the Financial Statements on page 324.

Changes to the Group Structure

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

Review of Business Performance

The overall review of financial performance of the Bank and the Group for the financial year 2021 are provided in the Chairman's Message (pages 14 to 17), General Manager/ CEO's Review (pages 18 to 22), "Management Discussion and Analysis" on pages 95 to 178 and Audited Financial Statements (page 260) provide a comprehensive and a fair review on key business lines and the state of affairs of the Bank. These reports form an integral part of the Annual Report.

Branch Network Expansions

Widening the Bank's presence in the island, two (2) branches were added to the network during the year under review. At the end of the year the Bank has 261 branches in its network. The ATMs/CRMs network was further expanded enhancing customer convenience. The Bank installed 20 CRMs and 3 ATMs during the year across the island bringing out the total ATMs/CRMs to 384 excluding peer banks' ATMs through which customers of NSB can transact.

Preparation of Financial Statements

The Financial Statements are prepared in accordance with the Sri Lanka Accounting Standards (SLFRSs/LKASs) laid down by The Institute of Chartered Accountants of Sri Lanka and comply with the requirements of Banking Act No. 30 of 1988 and amendments thereto and regulatory requirements inclusive of specific disclosures. The Financial Statements of the Bank and the Group for the year ended 31 December 2021 duly certified by the Senior Deputy General Manager – Finance and Planning and approved and signed by the General Manager/ CEO and two Directors including Chairperson of the Bank are given on page 260 which form an integral part of the Annual Report of the Bank.

Accounting Policies and Changes during the Year

The Bank and the Group prepared its Financial Statements in accordance with Sri Lanka Accounting Standards (SLFRSs/LKASs). The accounting policies adopted in preparation of Financial Statements are given on pages 270 to 288 in this report. There were no changes to the accounting policies of the Bank and the Group in the year under review.

Directors' Responsibilities for Financial Reporting

The Directors are responsible for the preparation of the Financial Statements that will reflect a true and fair view of the state of affairs of the Bank as of 31 December 2021 and its profit for the year then ended. The Directors are of the view that the Financial Statements appearing on pages 260 to 263 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards (SLFRs/LKASs) and the Banking Act No. 30 of 1988 and its amendments, the NSB Act No. 30 of 1971 and amendments thereto. The Statement of Directors' Responsibility for Financial Reporting appearing on pages 249 to 250 of this Annual Report describes in detail the Directors' Responsibilities in relation to Financial Statements, which form an integral part of the Annual Report of the Board of Directors.

Auditor's Report

The Auditor General is the Auditor of the National Savings Bank in terms of the provisions of the Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Auditor General had carried out the audit of the Financial Statements of the Bank and the Consolidated Financial Statements of the Group for the year ended 31 December 2021. Further, the Auditor General has carried out the audit of NSB Fund Management Company and Sri Lanka Savings Bank Limited. In 2021, 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 pages 256 to 258 of this Annual Report.

Future Developments

An overview of the future developments of the Bank is given in the Chairman's Message (pages 14 to 17), General Manager/CEO's Review (pages 18 to 22) and "Management Discussion and Analysis" on pages 96 to 178 in the Integrated Annual Report 2021.

Gross Income

The gross income of the Bank for 2021 was Rs. 134,939 Mn. (2020 – Rs. 127,547 Mn.) while the Group's income was Rs. 136,060 Mn. (2020 – Rs. 130,039 Mn.). Analysis of the gross income are given in Note 3 to the Financial Statements on page 289.

Dividends and Reserves

Results and Appropriation

The profit before income tax of the Bank and the Group amounted to Rs. 28,381 Mn. and Rs. 28,425 Mn. (2020 – Rs. 15,645 Mn. and Rs. 16,791 Mn.).

The profit after tax of the Bank and the Group stood at Rs. 22,120 Mn. and Rs. 22,131 Mn. respectively (2020 – Rs. 10,108 Mn. and Rs. 10,821 Mn.). Details of profit relating to the Bank are given in the following Table:

	2021 Rs. Mn.	2020 Rs. Mn.
Profit for the year after payment of all expenses and providing for depreciation, possible loan losses and contingencies before VAT and income tax	**34,544**	19,431
VAT on financial services	**6,162**	3,787
Provision for income tax	**6,262**	5,537
Net profit after tax	**22,120**	10,108
Other comprehensive income for the year, net of tax	**2,183**	(4,498)
Total comprehensive income for the year	**24,303**	5,610
Appropriations:		
Transfer to statutory reserve	**(1,106)**	(505)
Contribution to the National Insurance Trust Fund (NITF)	**(221)**	(101)
Contribution to the Consolidated Fund/dividend	**(3,500)**	(1,000)
Transfers to reserves	**20,582**	4,509

Provision for Taxation

The Income Tax Rate applicable for the Bank and the Group on its operation was 24%. The Bank and the Group's operations were liable for Value Added Tax on Financial Services at the rate of 15%.

The Bank and the Group provided deferred tax on all known temporary differences under the liability method in accordance with Sri Lanka Accounting Standard (LKAS) 12 – "Income Taxes". Information of Income Tax expenditure and Deferred Taxation are given in Notes 13 and 30 respectively on pages 299 to 300 and 336 to 338.

Dividends, Taxes, and Levies/Contribution to Nation

The Bank contributed Rs. 16,465 Mn. by way of taxes and levies to the Government in 2021 (2020 – Rs. 10,745 Mn.). This consisted of:

	2021 Rs. Mn.	2020 Rs. Mn.
Income tax	6,262	5,537
Value added tax	6,162	3,787
Special fee	320	320
Contribution to the Consolidated Fund	3,500	1,000
Contributions to National Insurance Trust Fund	221	101
Total contribution to the Nation	**16,465**	10,745

Reserves

The total reserves of the Bank stood at Rs. 76,013 Mn. as of 31 December 2021 (2020 – Rs. 54,414 Mn.). The Bank's Reserves consist of:

	2021 Rs. Mn.	2020 Rs. Mn.
Statutory reserve fund	5,174	4,068
Revaluation reserve	7,050	6,679
Retained earnings	13,728	14,400
Other reserves	40,661	19,867
Total reserves	**66,613**	45,014

Information on changes of reserves is given in the Statement of Changes in Equity on pages 264 to 267.

Service charges to Postmaster General (PMG)

Service charges to the PMG for 2021 amounting to Rs.170 Mn. has been provided for on the same basis as in 2020.

Retirement Benefits and Obligations

The Bank maintains two Pension Funds namely: Staff Pension Fund I and Staff Pension Fund II. Further the Bank maintains a Widows'/Widowers' and Orphans Pension Fund as well as a Post-Employment Medical Scheme. Details are given in Note 38 on Retirement Benefit Obligation on pages 346 to 357 in Notes to the Financial Statements.

Property, Plant and Equipment and Capital Expenditure

The total Net Book Value of Property, Plant and Equipment of the Bank and the Group as at the year-end 2021 was Rs. 15,046 Mn. and Rs. 15,950 Mn. respectively (2020 – Rs. 15,316 Mn. in the Bank and Rs. 16,198 Mn. in the Group). Details are given in Notes to the Financial Statements as follows:

- Note 26 to the Financial Statements: Property, Plant and Equipment on pages 325 to 331.
- Note 29 to the Financial Statements: Goodwill and Intangible Assets on pages 334 and 335.
- Note 48.1 to the Financial Statements: Capital Commitments on page 363.

The total capital expenditure incurred by the Bank on the acquisition of property, plant and equipment, and Intangible Assets (Including capital work-in-progress) during the year amounted to Rs. 1,306 Mn. (2020 – Rs. 2,159 Mn.) and Group amounted to Rs. 1,336 Mn. (2020 – Rs. 2,169 Mn.), the details of which are given in Notes 26. (a) and 26. (b) to the Financial Statements on pages 327 to 330 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 in December 2020 by professionally qualified independent valuers and brought in to the Financial Statements in the same year. The revaluation process was carried out as per the Central bank of Sri Lanka Direction No. 1 of 2014 on "Valuation of Immovable Property of Licensed Specialised Banks". The Board of Directors is on the view that revalued amounts are not in excess of the current market values.

Stated Capital and Shareholding

Stated Capital

The authorised share capital of the Bank is Rs. 10 Bn. which is made of One Billion ordinary shares of Rs. 10/- each. The issued share capital of the Bank as at 31 December 2021 stood at Rs. 9.4 Bn. The Secretary to the Treasury in his official capacity holds the entirety of the issued share capital. The details are given on page 358 in Note 43 on Stated Capital/Assigned Capital and Note 46.1 on Unclaimed Deposit Reserve on page 361.

Shareholding

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

Issue of Subordinated Debenture/Bond

Outstanding subordinated liabilities of the Bank as at 31 December 2021 consisted Rs. 5 Bn. unlisted, rated, unsecured, subordinated, Perpetual Debentures of Rs. 100 issued on 27 October 2020 on Private Placement eligible for additional Tier I Capital. The Bank had also issued Rs. 6 Bn. Debenture eligible for the Tier II Capital of the Bank which matured on 29 December 2021. The details of debentures outstanding as at the date of Financial Position are given in Note 37.1 of the Financial Statements on pages 343 and 344 on subordinated liabilities.

Issue of Senior Debenture

Outstanding debenture of the Bank as at December 31 2021 consisted of Rs.11.5 Bn. Unlisted, Rated, Redeemable, Senior Debentures of Rs. 100 each issued on 24 September 2021 as Private Placement and Rs. 20.0 Bn. Unlisted, Rated, Senior, Unsecured, Redeemable debenture of Rs. 100 each issued on 10 September 2019. Information on Senior Debenture is given in Note 37.2 on pages 345 to 346 of this Annual Report.

Share Information

The basic earnings per share and net assets value per share of the Bank 2021 were Rs. 23.53 (2020 – Rs. 10.75) and Rs. 80.86 (2020 – Rs. 57.89) respectively for the period under review. The details are given in Note 14 on Basic Earnings Per Ordinary Share on page 300 and Note 50 on Net Assets Value Per Ordinary Share on page 371.

Corporate Sustainability and Responsibility (CSR)

The programmes carried out under the Corporate Social Responsibility are detailed on pages 167 and 168 in this Annual Report.

Board of Directors

Information of the Directors during the year 2021

The Board of Directors of the Bank comprise seven Directors including the Chairman and two Ex-Officio Members representing the Ministry of Finance and the Postmaster General as per the Section 11(1) of the NSB Act No. 30 of 1971 as amended by Act No. 28 of 1995. The Minister of Finance appoints the Chairman and other four Directors. The following were the Directors during the year and their brief profiles appear on pages 180 to 183 of this Annual Report.

Name	Date of appointment	Membership status
Ms Keasila Jayawardena – Chairperson	02 January 2020	NED/NID
Mr U G R Ariyaratne – Ex-officio Director	31 August 2018	NED/NID
Mr M K C Senanayake – Ex-officio Director	11 January 2020	NED/NID
Mr Eranga Jayawardene – Senior Director (From 15 June 2020 to date)	23 January 2020	NED/ID
Ms Manohari Abeyesekera	14 January 2020	NED/ NID
Mr M T J Perera	11 April 2020	NED/NID
Mr H K D Lakshman Gamini	07 January 2021	NED/NID

List of Directors of the Subsidiaries of the Bank

Names of the Directors of NSB Fund Management Co. Ltd. are as follows:

Ms Keasila Jayawardena – Chairperson

Mr U G R Ariyaratne – Director

Ms Manohari Abeyesekera – Director

Mr M T J Perera – Director

Mr W O Rodrigo – Director

Mr H K D Lakshman Gamini – Director

Mr M P A W Peiris – Director

Names of the Directors of Sri Lanka Savings Bank Limited are as follows:

Ms Keasila Jayawardena – Chairperson

Mr Saliya Dharmawardena – Director

Mr Hemantha Gamage – Director

Mr Prasad Imbulgoda – Director

Mr M T J Perera – Director

Mr Janaka Arunashantha – Director

Board Subcommittees

The Board of Directors while assuming the overall responsibility and accountability has also appointed four mandatory Board subcommittees namely, Board Audit Committee, Board Human Resource and Remuneration Committee, Board Nomination Committee, Board Integrated Risk Management Committee as required by the Banking Act Direction No. 12 of 2007 on "Corporate Governance for Licensed Specialised Banks in Sri Lanka" issued by the CBSL to ensure oversight control over affairs of the Bank.

The Terms of Reference of these Board subcommittees conform to the recommendations made by the regulator; CBSL and NSB Act as well as voluntary codes issued by the CA Sri Lanka.

The composition of Board subcommittees as at 31 December 2021 and the details of the attendance by Directors at meetings are disclosed in pages 195 and 196 and the Reports of these subcommittee are given on pages 203 to 211.

Directors' Meetings

The details of Directors' meetings which comprise Board Meetings and Board Subcommittee Meetings and the attendance are given in the Corporate Governance Report on pages 195 to 196 of the Annual report.

Directors' Interests in Contracts

Directors' interests in contracts with the Bank, both direct and indirect are referred to in Note 49.5.2 to the Financial Statements on page 368. These interests have been declared at the Board Meetings. The Directors do not have any direct or indirect interest in other contracts or proposed contracts with the Bank.

Directors' Interest in Debentures Issued by the Bank

There were no Debentures registered in the name of any Director.

Directors' Remuneration and Other Benefits

Details of Directors' emoluments and other benefits in respect of the Bank and the Group for the financial year 2021 are given in Note 49.5.1 to the Financial Statements on page 367.

Related Party Transactions

The Directors have also disclosed the transactions if any, that could be classified as related party transactions in terms of Sri Lanka Accounting Standard (LKAS) 24 – "Related Party Disclosures" which is adopted in the preparation of the Financial Statements. Those transactions disclosed by the Directors are given in Note 49.5.3 on page 368 to the Financial Statements forming part of the Annual Report of the Board of Directors.

Environmental Protection

The Group and the Bank has not, to the best of their knowledge, engaged in activity, which was detrimental to the environment. Specific measures taken to protect the environment are given on pages 170 to 176.

Statutory Payments

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

Events after the Reporting Date

No circumstances have arisen since the reporting date which would require adjustments to, or disclosure in the accounts, other than those disclosed in Note 52 to the Financial Statements in page 371.

Going Concern

The Board of Directors have reviewed and satisfied that the Bank has ample resources to continue its operations in the foreseeable future. Furthermore, the Directors are not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern, such as restrictions or plan to curtail operations.

Risk Management, Internal Controls and Management Information Systems

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 212 to 239 in Risk Management Report and Board Integrated Risk Review Report on pages 210 to 211 of this Report.

Appointment of Auditors, their Remuneration

The Auditor General is the Auditor of National Savings Bank in terms of the provisions of Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka.

The expenses incurred in respect of audit fees and other services rendered during the accounting period are given in Note 12 to the Financial Statements on page 298.

Regulatory Supervision

As the regulatory supervisory body, the Central Bank of Sri Lanka carried out a periodic examination of the records and affairs of the Bank to ascertain compliance with directives issued by the Central Bank of Sri Lanka. It also determines whether required financial indicators are being maintained at the required level so that the interests of the stakeholders, particularly depositors are safeguarded.

Corporate Governance

In the Management of the Bank, the Directors have placed emphasis on conforming with, the best Corporate Governance Practices and Procedures. Accordingly, the Directors have declared that:

a) The Bank has complied with applicable laws and regulations in conducting its business and have not engaged in any activity breaching the relevant laws and regulations.

b) They have declared all material interest in contracts involving the Bank and refrained from involving any matter which they have a material interest.

c) The business is a going concern and the Board of Directors have reviewed the Strategic Business Plan and is satisfied that the Bank is having adequate resources to accelerate the future momentum of NSB in foreseeable future. Thus, the Financial Statements of the Bank and its subsidiaries are prepared based on the going concern assumption.

d) The Bank has disclosed in the Financial Statements on Related Party Transactions.

e) The Bank has conducted a review on internal controls which covers financial, operational, and compliance controls, risk management and have obtained a reasonable assurance of their effectiveness and adherence.

Sustainability

When formulating its business strategies, the Bank has considered the sustainability aspects, the details of which are disclosed in pages 469 to 472 under GRI Index.

Human Resources

The Bank continued to develop and maintain dedicated and highly motivated employees who are committed to create sustainable value through high quality service. Significant investments have been made in the development of quality of Human capital of the Bank. The policies and procedures adopted by the Bank to upgrade Human Capital is described in the Annual Report 2021 on pages 136 to 153.

Outstanding Litigation

In the opinion of the Directors and the Bank's lawyers, outstanding litigation against the Bank disclosed in Note 51 to the Financial Statements in page 371 will not have a material impact on the financial position of the Bank or its future operations.

Acknowledgement of the Contents of the Report

The Board of Directors hereby acknowledge the contents of this Annual Report.

By Order of the Board,

Keasila Jayawardana

Ms Keasila Jayawardena
Chairperson

Ms M A P Muhandiram
Secretary to the Board

24 March 2022
Colombo

Statement of Directors' Responsibility for Financial Reporting

The responsibility of the Directors in relation to the Financial Statements of the National Savings Bank (Bank) and Consolidated Financial Statements of the Bank and its subsidiaries (Group) is set out in this statement.

Financial Statements

The Directors of the Bank are responsible for ensuring that the Bank and the Group keep proper books of accounts of all the transactions and prepare Financial Statements in accordance with Generally Accepted Accounting Principles, Sri Lanka Accounting Standards and Sri Lanka Financial Reporting Standards that give a true and fair view of the financial position of the Bank and the Group at the end of each financial year in compliance with the relevant statutory requirements. The Financial Statements comprise Income Statement, Statement of Comprehensive Income, Statement of Financial Position as at 31 December 2021, Statement of Changes in Equity, Statement of Cash Flows, Significant Accounting Policies and Notes thereto.

The Financial Statements of the Bank and its subsidiaries give a true and fair view of:

1. Financial Position of the Bank and its subsidiaries as at 31 December 2021; and
2. Financial performance of the Bank and its subsidiaries for the financial year ended 31 December 2021.

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 on page 270 were appropriate according to the existing financial reporting framework. These policies were consistently applied and adequately disclosed.
2. Reasonable and prudent judgements have been made where necessary to ensure the proper reflection of the form and substance of transaction when preparing the Financial Statements.
3. All applicable accounting standards as relevant have been followed.

As per the provisions of the Finance Act No. 38 of 1971, the Banking Act No. 30 of 1988 and Section 7 (i) of NSB Act No. 30 of 1971, the Board of Directors is required to control and administer the affairs and the business of the Bank.

The Board of Directors ensures that the Financial Statements comply with the prescribed format issued by the Central Bank for licensed banks.

The Board of Directors are also responsible for ensuring that proper accounting records which correctly record and explain the Bank's financial position, with reasonable accuracy at any point of time is determined by the Bank, enabling preparation of the Financial Statements.

The Board of Directors accepts the responsibility for the integrity and objectivity of the Financial Statements presented in this Annual Report.

(Financial Statements are exhibited on pages 260 to 269). The Financial Statements for the year 2021 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 251 of this Annual Report and Auditor General's Assurance Report on the Bank's Internal Control is given on page 253.

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 256 of this Annual Report.

Compliance Report

The Directors confirm that to the best of their knowledge and belief that all taxes payable by the Bank and the Group and all contributions and taxes payable on behalf of and in respect of employees of the Bank and the Group, and all other known statutory dues to the Government and the other relevant regulatory and statutory authorities which were due and payable by the Bank and the Group as at the date of Statement of Financial Position have been paid or where relevant provided for. Further, the Directors have confirmed that after considering the financial position, operating conditions and regulatory and other factors required to be addressed in the "Corporate Governance Code" issued jointly by CA Sri Lanka and the SEC, the Bank and the Group have adequate resources to continue in operation for the foreseeable future and to justify the application of the going concern basis in preparing these Financial Statements and the Board has taken all necessary measures to comply with the directives issued by the Central Bank of Sri Lanka.

By Order of the Board,

Ms M A P Muhandiram

Secretary to the Board

30 March 2022
Colombo

Directors' Statement on internal control over Financial Reporting

Responsibility

This report has been issued in line with the Banking Act Direction No. 11 of 2007, Section 3 (8) (ii) (b), and prepared based on principles D.1.5 of Code of Best Practice on Corporate Governance 2017 issued by CA Sri Lanka (Code) the Board of Directors presents this report on internal control

The Board of Directors (The Board) is responsible for ensuring that an adequate and effective system of internal control is established and maintained at the National Savings Bank. However, such a system is designed to manage the Bank's significant risk areas within acceptable risk parameters, rather than eliminating the risk of failure to achieve business objectives of the Bank. Accordingly, the system of internal controls can only provide reasonable but not absolute assurance against material misstatement of management and financial information and records or against financial losses or frauds.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Bank and this process includes enhancing the system of internal controls as and when there are changes to business environment or regulatory requirements and other guidelines. The process is regularly reviewed by the Board and confirmed the compliance with the Guidance for Directors of the Bank on the Directors' Statement on Internal Controls issued by The Institute of Chartered Accountants of Sri Lanka. The Board has assessed the internal control system taking into account all main principles for the assessment of internal Control System as given in that guidance.

The Board is of the view that the system of internal controls over financial reporting is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and the preparation of Financial Statements for external purposes and is in accordance with the relevant accounting principles and regulatory requirements.

The Management assists the Board in the implementation of the Board's policies and procedures on risks and controls by identifying and assessing the risks faced by the Bank, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

Key features of the process adopted in applying and reviewing the design and effectiveness of the internal control system on financial reporting

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

- The Board 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, policies, and business directions that have been approved.
- The Board Audit Committee (BAC) reviews periodically the internal control issues identified by the Internal Audit Division of the Bank, the External Auditors, Regulatory Authorities and corrective actions are taken to rectify such deficiencies. The Auditor General carries out the external audit of the Bank. The Superintendent of the Government Audit is generally invited to BAC meetings.
- The BAC reviews the internal audit function with particular emphasis on the scope of audits and quality of the same. The activities attended to by the BAC during the year 2021 are set out in the Board Audit Committee report appearing on page 203 of this Annual Report. The Internal Audit Division of the Bank carries out audit of branches, divisions, and other units as per the Annual Audit Plan. The frequency of audit is determined by the level of risk assessed. The Audit Plan is approved by the BAC for implementation. The Internal Audit Division carries out audit checks to ensure compliance with policies and procedures and the effectiveness of the internal control systems and reports its findings in respect of any non-compliance. Audits are carried out to provide an independent and objective report on operational and management activities. The findings of the audits are submitted to the BAC for review at their periodic meetings. The activities of the BAC, along with minutes of the Committee meetings are submitted for information of the Board on a periodic basis.

- The Board Integrated Risk Management Committee (BIRMC) has been established by the Board to assist the Board to oversee the overall management of principal areas of risk of the Bank. The Board has also established an independent Compliance Unit which ensures that Bank's activities are conducted in accordance with applicable laws, regulations and regulatory directives and any issues of non-compliance are reported to BIRMC periodically. The report on the Risk Assessment is submitted by the BIRMC to the Board periodically.
- Management level committees have also been functioning with appropriate empowerment to ensure effective management and supervision of Bank's core areas in the day-to-day business operations. The assessment covered only the process applied by the Bank and did not include the processes carried out by its subsidiaries.

The Bank adopted the new Sri Lanka Accounting Standards Comprising LKAS and SLFRS in 2012. Since adoption of such Sri Lanka Accounting Standards, continue monitoring and progressive enhancement on processes to comply with new requirements of recognition, measurement, classification and disclosure are being made.

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 has reviewed the above Directors' Statement on Internal Control over financial reporting for the year ended 31 December 2021 and report to the Board of Directors that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control system over financial reporting of the Bank. Their Report on the Statement of Internal Control over Financial Reporting is given on page 253 of this annual report.

By Order of the Board,

Ms Keasila Jayawardena
Chairperson

Ms Manohari Abeysekera
Chairperson – Board Audit Committee/
Director

M T J Perera
Director

30 March 2022
Colombo

Independent Assurance Report on internal control

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NATIONAL AUDIT OFFICE

මගේ අංකය / எனது இல. / My No. BAN/A/NSB/IC/2021/15 | ඔබේ අංකය / உமது இல. / Your No. | දිනය / திகதி / Date 26 April 2022

The Chairperson

National Savings Bank

Independence Assurance Report of the Auditor General to the Board of Directors on the Directors' Statement on Internal Control of National Savings Bank

Introduction

This report is to provide assurance on the Directors' Statement on Internal Control over financial reporting ("Statement") of National Savings Bank included in the Annual Report for the year ended 31 December 2021.

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 (Revised)

My responsibility is to assess whether the statement is both supported by the documentation prepared by or for Directors and appropriately reflects the process the Directors have adopted in reviewing the design and effectiveness of the internal control of the Sri Lanka Savings Bank.

I conducted this engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3050 (Revised) – Assurance Report for Banks on Directors' Statement on Internal Control issued by The Institute of Chartered Accountants of Sri Lanka.

This standard required that I plan and perform procedures to obtain limited assurance about whether management has prepared, in all material aspects, the statement on internal control.

For the purpose of this engagement, I am not responsible for updating or reissuing any reports, nor have I, in the course of this engagement, performed and audit or review of the financial information.

Summary of Work Performed

I conducted my engagement to assess whether the statement is supported by the documentation prepared by or for Directors; and appropriately reflected the process the Directors have adopted in reviewing the system of internal control over financial reporting of the Bank.

The procedures performed were limited primarily to inquiries of Bank personnel and the existence of documentation on a sample basis that supported the process adopted by the Board of Directors.

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

The procedures selected depend on my judgement, having regard to my understanding of the nature of the Bank, the event or transaction in respect of which the statement has been prepared.

I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

My Conclusion

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

W P C Wickramaratne
Auditor General

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව. இல. 306/72, பொல்தூவ வீதி, பத்தரமுல்லை, இலங்கை. No. 306/72, Polduwa Road, Battaramulla, Sri Lanka.
+94 11 2 88 70 28 - 34 | +94 11 2 88 72 23 | ag@auditorgeneral.gov.lk | www.naosl.gov.lk

General Manager/CEO's and Senior Deputy General Manager's (Finance and Planning) statement of responsibility

Compliance

The Financial Statements of the National Savings Bank (the Bank) and the Consolidated Financial Statements of the Bank and its subsidiaries (the Group) as at 31 December 2021 are prepared and presented in compliance with following:

- National Savings Bank Act No. 30 of 1971 and amendments thereto.
- Finance Act No. 38 of 1971.
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995.
- Banking Act No. 30 of 1988 and amendments thereto and Directions, Determinations and Guidelines issued by the Central Bank of Sri Lanka (CBSL) there under relating to Financial Statements formats and disclosure of information.
- Sri Lanka Financial Reporting Standards/Sri Lanka Accounting Standards (SLFRSs/LKASs) issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).
- Code of Best Practices on Corporate Governance 2017 issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).
- The Banking Act Direction No. 12 of 2007 on Corporate Governance issued by the CBSL.

The formats used in the preparation of the Financial Statements and disclosures made, comply with the specified formats prescribed by the CBSL which are also in compliance with the disclosure requirements of the Sri Lanka Accounting Standard 1 (LKAS 1) – "Presentation of Financial Statements". The Bank and the Group presents the financial results to its users on a quarterly basis.

The Accounting Policies used in the preparation of the Financial Statements are appropriate and are consistently applied by the Bank and the Group. The Significant Accounting Policies and estimates that involved a high degree of judgement and complexity were discussed with the Bank's External Auditors and the Board Audit Committee.

There were no changes to the Accounting Policies and methods of computation since the publication of the Annual Report for the year ended 31 December 2021. Accordingly, there was no necessity to amend comparative information to comply with the current presentation.

We confirm that to the best of our knowledge, the Financial Statements, Significant Accounting Policies and other financial information included in this Annual Report, fairly present in all material aspects of the assets, liabilities, results of the operations and the cash flows of the Bank and the Group during the year under review and given a true and fair view of the Financial Statements. We also confirm that the Bank and the Group has adequate resources to continue in operation and have applied the going concern basis in preparing these Financial Statements.

Responsibility of Internal Control and Procedures

We are responsible for establishing, implementing and maintaining Internal Controls and Procedures of the Bank and its subsidiaries. We ensure that effective Internal Controls and Procedures are in place ensuring material information relating to the Bank and the Group is made known to us for safeguarding assets, preventing and detecting fraud and/or error as well as other irregularities, which are reviewed, evaluated, and updated on an ongoing basis. We are satisfied that there were no significant deficiencies and weaknesses in the design or operation of the Internal Controls and Procedures, to the best of our knowledge. We confirm, based on our evaluations, that there were no significant deficiencies and material weaknesses in the design or operation of internal controls and procedures, to the best of our knowledge. We confirm, based on our evaluations, that there were no significant deficiencies and material weaknesses in the design or operation of internal controls and any fraud that involved Management or other employees. The Bank's Internal Auditors also conduct periodic reviews to ensure that the established Internal Controls over Financial Reporting and Procedures are consistently followed. However, there are inherent limitations that should be recognised in weighing the assurance provided by any system of internal control and accounting.

Directors' Statement on Internal Control over Financial Reporting is provided on pages 251 and 252 of this Annual Report. The Auditor General have audited the effectiveness of the Internal Controls over financial reporting adapted by the Bank and have given an unqualified opinion is provided on page 253 of this Annual Report.

External Audit

The Financial Statements of the Bank and its subsidiaries were audited by the Auditor General. The Auditor General's Report on the Bank's Consolidated Financial Statements is given on pages 256 to 258 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 203 to 205 of this Annual Report. To ensure complete independence, the Auditor General and the Internal Auditors have full and free access to the members of the Board Audit Committee to discuss any matter of substance.

Confirmation

We confirm that to the best of our knowledge –

- The Bank and the Group have complied with all applicable laws and regulations and prudential requirements.
- There are no material non-compliances and no material litigations that are pending against the Bank and the Group other than those disclosed in Note 51 on page 371 of the Financial Statements.
- All taxes, duties, levies and all statutory payments payable by the Bank and the Group and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Bank and the Group as at 31 December 2021 have been paid, or where relevant, provided for.

M P A W Peiris
General Manager/CEO

K Raveendran
Senior Deputy General Manager (Finance and Planning)

24 March 2022
Colombo

Auditor General's Report

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NATIONAL AUDIT OFFICE

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දිනය / திகதி / Date } 21 March 2022

Chairperson,

National Savings Bank

Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the National Savings Bank and its subsidiaries for the year ended 31 December 2021 in terms of Section 12 of the National Audit Act, No. 19 of 2018.

1. Financial Statements

1.1 Opinion

The audit of the financial statements of National Savings Bank (the "Bank") and the Consolidated Financial Statements of the Bank and its Subsidiaries (the "Group") for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Finance Act, No. 38 of 1971. My report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

In my opinion, the accompanying financial statements of the Bank and the Group give a true and fair view of the financial position of the Bank and the Group as at 31 December 2021 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Other information included in the Bank's 2021 Annual Report.

The other information comprises the information included in the Bank's 2021Annual Report but does not include the financial statements and my auditor's report thereon, which is expected to be made available to me after the date of this auditor's report. Management is responsible for the other information.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated.

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව. இல. 306/72, பொல்தூவ வீதி, பத்தரமுல்லை, இலங்கை. No. 306/72, Polduwa Road, Battaramulla, Sri Lanka.
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தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

When I read the Bank's 2021 Annual Report, if I conclude that there are material misstatements therein, I am required to communicate that matter to those charged with governance for correction. If further material uncorrected misstatements are existed those will be included in my report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution that will be tabled in due course.

1.4 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's and the Group's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Bank and Group are required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Group.

1.5 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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NAOSL

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. Report on Other Legal and Regulatory Requirements

2.1 National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

2.1.1 I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Bank as per the requirement of section 12 (a) of the National Audit Act, No. 19 of 2018.

2.1.2 The financial statements presented is consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.

2.1.3 The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

2.2 Based on the procedures performed and evidence obtained was limited to matters that are material, nothing has come to my attention;

2.2.1 to state that any member of the governing body of the Bank has any direct or indirect interest in any contract entered into by the Bank which are out of the normal cause of business as per the requirement of section 12 (d) of the National Audit Act, No. 19 of 2018.

2.2.2 to state that the Bank has not complied with any applicable written law, general and special directions issued by the governing body of the Bank as per the requirement of section 12 (f) of the National Audit Act, No. 19 of 2018.

2.2.3 to state that the Bank has not performed according to its powers, functions and duties as per the requirement of section 12 (g) of the National Audit Act, No. 19 of 2018

2.2.4 to state that the resources of the Bank had not been procured and utilised economically, efficiently and effectively within the time frames and in compliance with the applicable laws as per the requirement of section 12 (h) of the National Audit Act, No. 19 of 2018.

W P C Wickramaratne
Auditor General

Content of Financial Statements

Income Statement

For the year ended 31 December	Note	Page	Bank 2021 Rs. '000	Bank 2020 Rs. '000	Bank Change %	Group 2021 Rs. '000	Group 2020 Rs. '000	Group Change %
Gross income	3	289	134,939,422	127,547,060	6	136,059,789	130,039,494	5
Interest income			131,438,283	122,512,049	7	133,342,449	124,608,182	7
Less: Interest expenses			76,808,674	87,621,868	(12)	77,560,111	88,425,490	(12)
Net interest income	4	289	54,629,609	34,890,181	57	55,782,338	36,182,692	54
Fee and commission income			3,050,649	2,710,487	13	3,058,444	2,723,087	12
Less: Fee and commission expenses			207,676	154,486	34	210,604	160,556	31
Net fee and commission income	5	292	2,842,973	2,556,001	11	2,847,840	2,562,531	11
Net gain/(loss) from trading	6	293	(96,226)	1,273,676	(108)	(711,612)	1,745,329	(141)
Net fair value gains/(losses) from financial instruments at fair value through profit or loss	7	293	–	–	–	–	–	–
Net gains/(losses) from de-recognition of financial assets	8	294	28,269	241,284	(88)	28,269	241,284	(88)
Net other operating income	9	294	518,447	809,564	(36)	342,239	721,612	(53)
Total operating income			57,923,072	39,770,707	46	58,289,074	41,453,448	41
Less: Impairment charges	10	295	4,304,444	4,873,768	(12)	4,228,450	4,932,840	(14)
Net operating income			53,618,628	34,896,939	54	54,060,624	36,520,608	48
Less: Expenses								
Personnel expenses	11	296	12,970,355	9,966,786	30	13,229,242	10,152,485	30
Depreciation and amortisation expenses			1,385,835	1,240,503	12	1,401,623	1,256,826	12
Other expenses	12	298	4,718,673	4,258,307	11	4,771,613	4,313,367	11
Operating profit before value added tax (VAT) on financial services			34,543,765	19,431,342	78	34,658,146	20,797,931	67
Less: VAT on financial services			6,162,351	3,786,717	63	6,233,194	4,006,877	56
Operating profit after VAT on financial services			28,381,414	15,644,625	81	28,424,952	16,791,054	69
Share of profits of associates and joint ventures			–	–	–	–	–	–
Profit before income tax			28,381,414	15,644,625	81	28,424,952	16,791,054	69
Less: Income tax expenses	13	299	6,261,790	5,536,709	13	6,294,134	5,969,936	5
Profit for the year			22,119,624	10,107,916	119	22,130,818	10,821,118	105
Profit attributable to:								
Equity holders of the Bank			22,119,624	10,107,916	119	22,130,818	10,821,118	105
Non-controlling interests			–	–	–	–	–	–
Profit for the year			22,119,624	10,107,916	119	22,130,818	10,821,118	105
Earnings per share on profit								
Basic earnings per ordinary share (Rs.)	14	300	23.53	10.75	119	23.54	11.51	105
Diluted earnings per ordinary share (Rs.)			23.53	10.75	119	23.54	11.51	105
Profit for the year			22,119,624	10,107,916	119	22,130,818	10,821,118	105

The Notes to the Financial Statements disclosed on pages 270 to 420 are integral parts of these Financial Statements.

Statement of Comprehensive Income

For the year ended 31 December	Bank 2021 Rs. '000	Bank 2020 Rs. '000	Bank Change %	Group 2021 Rs. '000	Group 2020 Rs. '000	Group Change %
Profit for the year	22,119,624	10,107,916	119	22,130,818	10,821,118	105
Items that will be reclassified to income statement						
Exchange differences on translation of foreign operations	–	–	–	–	–	–
Net gains/(losses) on cash flow hedges	–	–	–	–	–	–
Net gains/(losses) on investments in debt instruments measured at fair value through other comprehensive income	–	–	–	–	–	–
Share of profits of associates and joint ventures	–	–	–	–	–	–
Debt instruments at fair value through other comprehensive income	(432,450)	273,544	(258)	(578,542)	329,820	(275)
Fair value gains/(losses) transferred to income statement on disposal of debt instrument at fair value through other comprehensive income	(28,269)	(241,284)	(88)	(28,269)	(241,284)	(88)
Deferred tax effect on above	111,863	(9,033)	(1,338)	111,863	(9,033)	(1,338)
Total items that will be reclassified to income statement	(348,856)	23,227	(1,602)	(494,948)	79,503	(723)
Items that will not be reclassified to income statement						
Change in fair value on investments in equity instruments designated at fair value through other comprehensive income	125,410	(776,162)	(116)	152,594	(774,791)	(120)
Change in fair value attributable to change in the Bank's own credit risk on financial liabilities designated at fair value through profit or loss	–	–	–	–	–	–
Re-measurement of post-employment benefit obligations	3,335,147	(6,684,417)	(150)	3,327,395	(6,681,422)	(150)
Deferred tax effect on above	(1,299,365)	1,871,637	(169)	(1,299,365)	1,871,637	(169)
Re-measurement of post employment benefit obligations (net of taxes)	2,035,782	(4,812,780)	(142)	2,028,031	(4,809,785)	(142)
Changes in revaluation surplus	–	1,482,472	(100)	–	1,921,578	(100)
Deferred tax effect on above	371,032	(415,092)	(189)	371,032	(415,092)	(189)
Changes in revaluation surplus (net of taxes)	371,032	1,067,380	(65)	371,032	1,506,486	(75)
Share of profits of associates and joint ventures	–	–	–	–	–	–
Total items that will not be reclassified to income statement	2,532,224	(4,521,563)	(156)	2,551,656	(4,078,090)	(163)
Other comprehensive income for the year, net of taxes	2,183,367	(4,498,336)	(149)	2,056,709	(3,998,586)	(151)
Total comprehensive income for the year	24,302,991	5,609,580	333	24,187,527	6,822,532	255
Attributable to:						
Equity holders of the Bank	24,302,991	5,609,580	333	24,187,527	6,822,532	255
Non-controlling interests	–	–	–	–	–	–
Total comprehensive income for the year	24,302,991	5,609,580	333	24,187,527	6,822,532	255

The Notes to the Financial Statements disclosed on pages 270 to 420are integral parts of these Financial Statements.

Statement of Financial Position

As at 31 December	Note	Page	Bank 2021 Rs. '000	Bank 2020 Rs. '000	Bank Change %	Group 2021 Rs. '000	Group 2020 Rs. '000	Group Change %
Assets								
Cash and cash equivalents	16	304	7,656,038	6,491,963	18	7,721,532	6,598,595	17
Balances with central banks	17	304	–	–	–	7	6	17
Placements with banks	18	305	7,120,698	13,253,499	(46)	9,323,663	17,456,660	(47)
Derivative financial instruments	19	305	–	19,897	(100)	–	19,897	(100)
Financial assets recognised through profit or loss	20	306						
– measured at fair value			19,572,933	11,221,746	74	40,392,152	23,617,944	71
– designated at fair value			–	–	–	–	–	–
Financial assets at amortised cost								
– loans and advances	21	310	538,941,789	516,795,160	4	538,600,866	517,833,067	4
– debt and other instruments	22	318	935,350,052	754,233,344	24	940,536,328	758,594,934	24
Financial assets measured at fair value through other comprehensive income	23	320	13,817,594	15,271,822	(10)	15,993,803	16,059,841	(0.4)
Investments in subsidiaries	24	324	4,811,000	4,811,000	–	–	–	–
Investments in associates and joint ventures	25	325	–	–	–	–	–	–
Property, plant and equipment	26	325	15,045,618	15,315,772	(2)	15,949,505	16,197,837	(2)
Right-of-used assets	27	331	1,205,916	1,226,183	(2)	1,244,138	1,271,525	(2)
Investment properties	28	332	–	–	–	210,577	237,077	(11)
Goodwill and intangible assets	29	334	816,058	687,961	19	821,420	694,160	18
Deferred tax assets	30	336	1,104,779	1,446,249	(24)	1,105,653	1,446,249	(24)
Other assets	31	338	33,655,272	23,033,780	46	33,905,753	23,192,936	46
Total assets			1,579,097,748	1,363,808,376	16	1,605,805,398	1,383,220,728	16
Liabilities								
Due to banks	32	339	7,686,553	12,862,337	(40)	10,470,191	13,339,705	(22)
Derivative financial instruments	33	340	–	–	–	–	–	–
Financial liabilities recognised through profit or loss	34	340	–	–	–	–	–	–
Financial liabilities at amortised cost	35	340						
– due to depositors			1,428,467,385	1,237,123,791	15	1,426,724,704	1,237,669,284	15
– due to debt securities holders			–	–	–	–	–	–
– due to other borrowers			7,719,532	8,159,591	(5)	27,087,920	19,656,090	38
Lease liability	36	342	1,292,139	1,274,713	1	1,333,623	1,320,877	1
Debt securities issued	37	343	37,529,017	31,773,753	18	37,618,575	31,908,279	18
Retirement benefit obligations	38	346	8,590,642	11,600,431	(26)	8,637,425	11,631,775	(26)
Current tax liabilities	39	357	4,596,190	612,239	651	4,914,918	1,189,133	313
Deferred tax liabilities	30	336	–	–	–	1,939	1,121	73
Other provisions	40	338	–	–	–	–	–	–
Other liabilities	41	358	7,200,032	5,983,870	20	7,566,892	6,538,643	16
Due to subsidiaries	42	358	3,500	3,750	(7)	–	–	–
Total liabilities			1,503,084,991	1,309,394,475	15	1,524,356,185	1,323,254,907	15

As at 31 December	Note	Page	Bank 2021 Rs. '000	Bank 2020 Rs. '000	Bank Change %	Group 2021 Rs. '000	Group 2020 Rs. '000	Group Change %
Equity								
Stated capital/assigned capital	43	358	**9,400,000**	9,400,000	–	**9,400,000**	9,400,000	–
Statutory reserve fund	44	359	**5,174,249**	4,068,268	27	**5,209,101**	4,090,363	27
Retained earnings	45	359	**13,727,801**	14,399,572	(5)	**17,918,992**	18,601,588	(4)
Other reserves	46	360	**47,710,707**	26,546,061	80	**48,921,120**	27,873,870	76
Total shareholders' equity			**76,012,757**	54,413,901	40	**81,449,213**	59,965,821	36
Non-controlling interests	47	362	**–**	–	–	**–**	–	–
Total equity			**76,012,757**	54,413,901	40	**81,449,213**	59,965,821	36
Total equity and liabilities			**1,579,097,748**	1,363,808,376	16	**1,605,805,398**	1,383,220,728	16
Contingent liabilities and commitments	48	362	**13,023,207**	25,787,099	(49)	**13,027,749**	25,350,325	(49)
Memorandum information								
Number of employees			**4,616**	4,641				
Number of branches			**261**	259				

Note: Amounts stated are net of impairment and depreciation.

The Notes to the Financial Statements disclosed on pages 270 to 420 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 2021 and its profit for the year ended.

K Raveendran
Senior Deputy General Manager

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,

Ms Keasila Jayawardena	**M T J Perera**	**M P A W Peiris**
Chairperson	Director	General Manager/CEO

15 March 2022
Colombo
Sri Lanka

Statement of Changes in Equity

Bank

	Stated capital/ assigned capital Rs. '000	Statutory reserve fund Rs. '000	Revaluation reserve Rs. '000
Balance as at 1 January 2020	9,400,000	3,562,872	5,611,188
Prior year Adjustment*	–	–	–
Restated opening balance as at 1 January 2020	9,400,000	3,562,872	5,611,188
Profit for the year 2020	–	–	–
Other comprehensive income (net of tax)	–	–	1,067,380
Total comprehensive income for the year	–	–	1,067,380
Transactions with equity holders, recognised directly in equity			
Transfers to/from reserves during the year	–	505,396	–
Contribution to consolidated fund – dividend/levy	–	–	–
Contribution to national insurance trust fund	–	–	–
Transfers to unclaimed deposits reserve	–	–	–
Total transactions with equity holders	–	505,396	–
Balance as at 31 December 2020	9,400,000	4,068,268	6,678,568
Profit for the year 2021	–	–	–
Other comprehensive income (net of tax)	–	–	371,032
Total comprehensive income for the year	–	–	371,032
Transactions with equity holders, recognised directly in equity			
Transfers to/from reserves during the year	–	1,105,981	–
Contribution to consolidated fund – dividend/levy	–	–	–
Contribution to national insurance trust fund	–	–	–
Transfers to unclaimed deposits reserve	–	–	–
Total transactions with equity holders	–	1,105,981	–
Balance as at 31 December 2021	9,400,000	5,174,249	7,049,600

The Notes to the Financial Statements disclosed on pages 270 to 420 are integral parts of these Financial Statements.

*Please refer Note 53 for comparative figures.

OCI reserve Rs. '000	Cash flow hedging reserve Rs. '000	Other reserves Rs. '000	Retained earnings Rs. '000	Total equity Rs. '000
318,006	–	18,838,685	8,194,507	45,925,261
–	–	–	2,516,404	2,516,404
318,006	–	18,838,685	10,710,911	48,441,665
–	–	–	10,107,916	10,107,916
(752,935)	–	–	(4,812,780)	(4,498,336)
(752,935)	–	–	5,295,136	5,609,580
–	–	–	(505,396)	–
–	–	–	(1,000,000)	(1,000,000)
–	–	–	(101,079)	(101,079)
–	–	1,463,736	–	1,463,736
–	–	1,463,736	(1,606,475)	362,657
(434,929)	–	20,302,421	14,399,572	54,413,901
–	–	–	22,119,624	22,119,624
(223,447)	–	–	2,035,782	2,183,367
(223,447)	–	–	24,155,406	24,302,991
–	–	20,000,000	(21,105,981)	–
–	–	–	(3,500,000)	(3,500,000)
–	–	–	(221,196)	(221,196)
–	–	1,017,061	–	1,017,061
–	–	21,017,061	(24,827,177)	(2,704,135)
(658,376)	–	41,319,482	13,727,801	76,012,757

Group

	Stated capital/ assigned capital Rs. '000	Statutory reserve fund Rs. '000	Revaluation reserve Rs. '000
Balance as at 1 January 2020	9,400,000	3,571,214	5,611,188
Prior year Adjustment*	–	–	–
Restated opening balance as at 1 January 2020	9,400,000	3,571,214	5,611,188
Profit for the year 2020	–	–	–
Other comprehensive income (net of tax)	–	–	1,506,486
Total comprehensive income for the year	–	–	1,506,486
Transactions with equity holders, recognised directly in equity			
Transfers to/from reserves during the year	–	519,149	–
Contribution to consolidated fund – dividend/levy	–	–	–
Contribution to national insurance trust fund	–	–	–
Transfers to unclaimed deposits reserve	–	–	–
Total transactions with equity holders	–	519,149	–
Balance as at 31 December 2020	9,400,000	4,090,363	7,117,674
Profit for the year 2021	–	–	–
Other comprehensive income (net of tax)	–	–	371,032
Total comprehensive income for the year	–	–	371,032
Transactions with equity holders, recognised directly in equity			
Transfers to/from reserves during the year	–	1,118,738	–
Contribution to consolidated fund – dividend/levy	–	–	–
Contribution to national insurance trust fund	–	–	–
Transfers to unclaimed deposits reserve	–	–	–
Total transactions with equity holders	–	1,118,738	–
Balance as at 31 December 2021	9,400,000	5,209,101	7,488,706

The Notes to the Financial Statements disclosed on pages 270 to 420 are integral parts of these Financial Statements.

*Please refer Note 53 for comparative figures.

OCI reserve Rs. '000	Cash flow hedging reserve Rs. '000	Other reserves Rs. '000	Retained earnings Rs. '000	Total equity Rs. '000
283,501	–	19,552,207	11,846,116	50,264,229
–	–	–	2,516,404	2,516,404
283,501	–	19,552,207	14,362,520	52,780,633
–	–	–	10,821,118	10,821,118
(695,287)	–	–	(4,809,785)	(3,998,586)
(695,287)	–	–	6,011,332	6,822,531
–	–	152,037	(671,185)	–
–	–	–	(1,000,000)	(1,000,000)
–	–	–	(101,079)	(101,079)
–	–	1,463,736	–	1,463,736
–	–	1,615,773	(1,772,264)	362,657
(411,786)	–	21,167,980	18,601,588	59,965,821
–	–	–	22,130,818	22,130,818
(342,354)	–	–	2,028,031	2,056,709
(342,354)	–	–	24,158,849	24,187,527
–	–	20,001,512	(21,120,251)	–
–	–	–	(3,500,000)	(3,500,000)
–	–	–	(221,196)	(221,196)
–	–	1,017,061	–	1,017,061
–	–	21,018,574	(24,841,447)	(2,704,135)
(754,140)	–	42,186,553	17,918,991	81,449,213

Statement of Cash Flow

For the year ended 31 December	Bank 2021 Rs. '000	Bank 2020 Rs. '000	Group 2021 Rs. '000	Group 2020 Rs. '000
Cash flows from operating activities				
Interest receipts	132,863,575	121,217,294	134,736,715	123,222,195
Interest payments	(75,265,118)	(87,043,414)	(75,971,651)	(87,905,761)
Net commission receipts	2,842,973	2,556,001	2,847,840	2,562,531
Trading income	614,665	1,073,229	662,488	1,475,091
Payment to employees	(11,591,122)	(9,573,701)	(11,852,427)	(9,784,100)
VAT on financial services	(6,355,337)	(3,635,577)	(6,590,152)	(3,875,451)
Receipts from other operating activities	237,873	453,266	308,147	481,659
Payment on other operating activities	(4,510,411)	(4,211,774)	(4,564,223)	(4,292,547)
Operating profit before change in operating assets and liabilities	38,837,098	20,835,323	39,576,736	21,883,617
(Increase)/decrease in operating assets				
Placements with banks	6,054,307	(878,260)	7,860,026	(1,631,768)
Derivative financial instrument	29,801	29,615	29,801	29,615
Financial assets at FVPL	(8,989,495)	635,258	(18,026,283)	(970,781)
Financial assets at amortised cost – loans and advances	(89,025,979)	(96,177,753)	(87,586,523)	(94,958,436)
Financial assets at amortised cost – debt and other instrument	(120,196,025)	(109,017,140)	(120,882,521)	(109,529,470)
Proceeds from the sale and maturity of financial investments	–	–	–	–
Other assets	(11,217,126)	11,884,067	(11,308,450)	11,896,995
	(223,344,516)	(193,524,215)	(229,913,950)	(195,163,845)
Increase/(decrease) in operating liabilities				
Due to bank	(5,107,293)	(22,288,937)	(2,793,759)	(22,912,312)
Derivative financial instrument	–	–	–	–
Financial liabilities at amortised cost – due to depositors	192,554,680	221,909,528	190,266,099	223,397,260
Financial liabilities at amortised cost – due to debt securities holders	–	–	–	–
Financial liabilities at amortised cost – due to other borrowers	(460,533)	(12,727,496)	7,358,686	(12,773,875)
Debt securities issued	11,541,000	–	11,541,000	–
Other liabilities	636,233	(138,401)	618,840	(140,530)
	199,164,087	186,754,695	206,990,866	187,570,543
Net cash generated from operating activities before income tax	14,656,669	14,065,803	16,653,652	14,290,315
Income tax paid	(2,752,838)	(2,889,044)	(3,043,406)	(3,271,758)
Net cash (used in)/from operating activities	11,903,831	11,176,759	13,610,246	11,018,557

For the year ended 31 December	Bank 2021 Rs. '000	Bank 2020 Rs. '000	Group 2021 Rs. '000	Group 2020 Rs. '000
Cash flows from investing activities				
Purchase of property, plant and equipment	(461,960)	(976,972)	(490,543)	(994,063)
Proceeds from the sale of property, plant and equipment	4,219	6,504	7,736	6,504
Net (increase)/decrease in finance instruments at fair value through other comprehensive income	909,103	(12,326,936)	(544,756)	(11,927,988)
Proceeds from the sale and maturity of financial investments	–	–	–	–
Net purchase of intangible assets	(459,757)	(389,202)	(460,828)	(395,250)
Net purchase/improvement to investment properties	–	–	26,500	–
Net cash flow from acquisition of investment in subsidiaries and associates	–	–	–	–
Dividends received from investment in subsidiaries and associates	250,000	170,000	–	–
Net cash (used in)/from investing activities	241,604	(13,516,606)	(1,461,890)	(13,310,796)
Cash flows from financing activities				
Net proceeds from the issue of ordinary share capital	–	–	–	–
Net proceeds from the issue of subordinated debt	–	5,000,000	–	5,000,000
Repayment of subordinated debt	(6,000,000)	–	(6,032,140)	(92,454)
Interest paid on subordinated debt	(1,229,984)	(780,000)	(1,242,812)	(817,007)
Contribution to consolidated fund – dividend/levy	(3,500,000)	(1,000,000)	(3,500,000)	(1,000,000)
Net cash from financial activities	(10,729,984)	3,220,000	(10,774,951)	3,090,539
Net increase/(decrease) in cash and cash equivalents	1,415,451	880,153	1,373,405	798,300
Cash and cash equivalents at the beginning of the year	6,174,060	5,293,907	6,280,307	5,482,007
Exchange difference in respect of cash and cash equivalent	–	–	–	–
Cash and cash equivalents at the end of the year	7,589,511	6,174,060	7,653,712	6,280,307
Reconciliation of cash and cash equivalents				
Cash in hand	3,687,059	1,901,551	3,691,618	1,906,210
Balances with banks	3,968,959	4,590,397	4,029,894	4,692,371
Money at call and short notice	245	112	245	112
Balances with Central Bank	–	–	7	6
Due to banks	(66,752)	(318,000)	(68,052)	(318,391)
	7,589,511	6,174,060	7,653,712	6,280,307

The Notes to the Financial Statements disclosed on pages 270 to 420 are integral parts of these Financial Statements.

Notes to the Financial Statements

1 Reporting Entity

1.1 Corporate Information

National Savings Bank (NSB) is a licensed specialised Bank incorporated in 1972 under the National Savings Bank Act No. 30 of 1971 and domiciled in Sri Lanka. It is a licensed specialised bank regulated under the Banking Act No. 30 of 1988 and amendments thereto. The registered office of the Bank is located at No. 255, "Savings House", Galle Road, Colombo 03, Sri Lanka.

The staff strength of the Bank as at 31 December 2021 was 4,616. (2020 – 4,641)

The Bank possesses 261 Branches, 292 ATMs, and 92 CRMs of its Service Outlets and 654 Post Offices and 3,410 Sub-Post Offices as its agency network.

1.2 Consolidated Financial Statements

The Consolidated Financial Statements for the year ended 31 December 2021 comprise the Bank (Parent) and its two fully owned Subsidiaries, NSB Fund Management Company Ltd., and Sri Lanka Savings Bank Limited.

The Bank is fully owned by the Government of Sri Lanka. The Bank is the ultimate parent of the Group. The Financial Statements of the Bank and its Subsidiaries have a common financial year which ends on 31 December. The Financial Statements of the "Bank" and the "Group" are prepared for the twelve months period ended 31 December each year to be tabled in Parliament.

1.3 Principal Activities and Nature of Operations

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, loan to Government project, pawning, internet banking, SMS banking etc. As per the National Savings Bank Act No. 30 of 1971, the Bank is required to invest in Government Securities a minimum of 60% out of its deposits.

Subsidiaries

NSB Fund Management Company Ltd.

NSB Fund Management Company Ltd., acts as a primary dealer and engaged in dealing in Government Securities.

Sri Lanka Savings Bank Limited

The principal activities of the Bank are mobilising savings and time deposits, providing loans, lease, hire purchase, pawning and other credit facilities, and settling of the deposit liabilities of defaulted Pramuka Saving and Development Bank Limited (PSDBL) with reconstruction of loan accounts of PSDBL.

2 Accounting Policies

The accounting policies set out below have been applied consistently in all periods when presenting the Financial Statements, unless otherwise indicated. These policies of the Bank are also consistently applied by the Group where applicable and deviations if any have been disclosed accordingly.

2.1 Basis of Preparation

2.1.1 Statement of Compliance

The Consolidated Financial Statement of the group and the separated Financial Statements of the Bank which comprise the Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and Notes to the Financial Statements have been prepared and presented in accordance with the Sri Lanka Accounting Standards (LKASs and SLFRSs) issued by the Institute of Chartered Accountants of Sri Lanka and are in compliance with the information required by the Banking Act No. 30 of 1988 and subsequent amendments thereto. These Financial Statements, except for the information in Cash Flow have been prepared following the accrual basis of accounting.

The formats used in the preparation of Financial Statements and the disclosures made therein also comply with the specified formats prescribed by the Central Bank of Sri Lanka in the Circular No. 02 of 2019 dated January 18, 2019, on "Publication of Annual and Quarterly Financial Statements and Other Disclosures by Licensed Banks" for the preparation, presentation and publication of Annual Audited Financial Statements of Licensed Banks.

2.1.2 Responsibility for Financial Statements

The Board of Directors is responsible for the preparation and presentation of the Financial Statements of the Group and the Bank as per the provisions of the National Savings Bank Act No. 30 of 1971 and amendments thereto and the Sri Lanka Accounting Standards.

The Board of Directors acknowledges their responsibility for Financial Statements as set out in the "Annual Report of the Board of Directors", "Statement of Directors' Responsibility" and the certification on the Statement of Financial Position.

These Financial Statements include the following components:

i. an Income Statement and Other Comprehensive Income providing the information on the financial performance of the Group and the Bank for the year under review. (pages 260 and 261)

ii. a Statement of Financial Position (SOFP) providing the information on the financial position of the Group and the Bank as at the year end. (pages 262 and 263)

iii. a Statement of Changes in Equity depicting all changes in shareholders' funds during the year under review of the Group and the Bank. (pages 264 and 267)

iv. a Statement of Cash Flows providing the information to the users, on the ability of the Group and the Bank to generate cash and cash equivalents and utilisation of those cash flows. (page 268)

v. Notes to the Financial Statements comprising Significant Accounting Policies and other explanatory information. (pages 270 to 420)

2.1.3 Approval of Financial Statements by the Board of Directors

The Financial Statements of the Bank and the Group for the year ended 31 December 2021 were approved on 15 March 2022, by the Board of Directors.

2.1.4 Basis of Measurement

The Consolidated Financial Statements have been prepared on a historical cost basis, except for the following material items in the Statement of Financial Position, which are measured at fair value.

(i) Financial assets measured at Fair Value through Other Comprehensive Income, (Note 23)

(ii) Derivative financial instruments, (Notes 19 and 33)

(iii) Financial assets and liabilities recognised through profit or loss, (Notes 20 and 34)

(iv) Financial assets and liabilities designated at fair value through profit or loss, (Note 20)

(v) Land and buildings which are measured at cost at the time of acquisition subsequently measured at revalued amounts, which are the fair values at the date of revaluation, (Note 26)

(vi) Investment properties are initially recognised at cost and subsequently measured at fair value, (Note 28)

(vii) Liability for employee defined benefits obligations are recognised at the present value of the defined benefit obligation less the fair value of the plan assets, (Note 38)

2.1.5 Functional and Presentation Currency

The Consolidated Financial Statements are presented in Sri Lankan Rupees (Rs.) which is the currency of the primary economic environment in which Group operates and all values are rounded to the nearest thousand Rupees, unless indicated otherwise. There was no change in the Group's presentation and functional currency during the year under review.

2.1.6 Presentation of Financial Statements

The assets and liabilities of the Bank and the Group presented in the Statement of Financial Position are grouped by their nature and listed in an order that reflects their relative liquidity and maturity pattern.

No adjustment has been made for inflationary factors affecting the Financial Statements. An analysis of maturity patterns of assets and liabilities of the Bank and the Group is presented in Note 55 on pages 406 to 409.

2.1.7 Going Concern

The Board of Directors/Management of the Bank has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the Management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the Financial Statements are prepared on the going concern basis.

2.1.8 Materiality and Aggregation

Each material class of similar items are presented separately in the Financial Statements. Items of dissimilar nature or functions are presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standard – LKAS 01 on "Presentation of Financial Statements".

2.1.9 Comparative Information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period in the Financial Statements in order to enhance the understanding of the current period's Financial Statements and to enhance the inter period comparability. The comparative information is re-classified where necessary for the better presentation and to conform to the current year's presentation. Comparative information is presented in Note 53 on page 372.

2.1.10 Rounding

The amounts in the Financial Statements have been rounded-off to the nearest rupees thousands, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard – LKAS 01 on "Presentation of Financial Statements" (LKAS 01).

2.1.11 Offsetting

Financial assets and financial liabilities are offset, and the net amount reported in the Statement of Financial Position (SOFP), only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously. Income and expenses are not offset in the Income Statement, unless required or permitted by an Accounting Standard or

Interpretation (issued by the IFRS Interpretations Committee and Standard Interpretations Committee) and as specifically disclosed in the Significant Accounting Policies of the Bank.

2.1.12 Significant Accounting Judgements, Estimates and Assumptions

The preparation of Financial Statements of the Bank and the Group in conformity with Sri Lanka Accounting Standards requires the Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The significant areas of estimation, critical judgements, and assumptions in applying accounting policies that have most significant effect on the amounts recognised in the Financial Statements of the Bank and the Group are as follows:

A. Significant accounting judgement

Information about judgements made in applying Accounting Policies that have the most significant effects on the amounts recognised in these Financial Statements is included in Notes 2.1.12.1 below:

2.1.12.1 Classification of financial assets and liabilities

As per SLFRS 9, the Significant Accounting Policies of the Group provides scope for financial assets to be classified and measured into different categories, namely, at Amortised Cost, Fair Value through Other Comprehensive Income (FVOCI) and Fair Value Through Profit or Loss (FVPL) based on the following criteria:

- The entity's business model for managing the financial assets as set out in Note 2.5.1.4.1 on page 277.
- The contractual cash flow characteristics of the financial assets as set out in Note 2.5.1.4.2 on page 277.

B. Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments are included in Notes 2.1.12.2 to 2.1.12.9 below:

2.1.12.2 Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the Statement of Financial Position cannot be derived from active markets, they are determined using the valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgement is required to establish fair values.

Methodologies used for valuation of financial instruments and Fair Value Hierarchy are described in more detail in Note 56 to the Financial Statements on page 410.

2.1.12.3 Impairment losses on financial assets

The measurement of impairment losses both under SLFRS 9 and LKAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future Cash Flows and collateral values when determining impairment losses.

Accordingly, the Group reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be provided in the Income Statement. In particular, the Management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and hence actual results may differ, resulting in future changes to the impairment allowance made.

The individual impairment provision applies to financial assets evaluated individually for impairment and is based on Management's best estimate of the present value of the future cash flows that are expected to be received. In estimating these cash flows, Management makes judgements about a borrower's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable.

A collective impairment provision is established for:

- groups of homogeneous loans and advances that are not considered individually significant; and
- groups of assets that are individually significant but that were not found to be individually impaired.

As per SLFRS 9, the Group's Expected Credit Loss (ECL) calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's criteria for qualitatively assessing whether there has been a significant increase in credit risk and if so allowances for financial assets measured on a Life Time Expected Credit Loss (LTECL) basis;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various statistical formulas and the choice of inputs;

- Determination of associations between macro-economic inputs, such as GDP growth, inflation, interest rates, exchange rates and unemployment and the effect on Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD);
- Selection of forward-looking macro-economic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

2.1.12.4 Revaluation of property, plant and equipment

The freehold land and buildings of the Bank and the Group are reflected at revalued amounts. The Group engaged independent professional valuers to determine the fair value of freehold land and buildings in terms of Sri Lanka Accounting Standard (SLFRS 13) "Fair Value Measurement".

The methods and key assumptions used to determine the fair value of the freehold land and buildings are further explained in Note 2.3 to the Financial Statements.

2.1.12.5 Useful lifetime of property, plant and equipment

The Group reviews the residual values, useful lives and methods of depreciation of property, plant and equipment at each reporting date. Judgement of the Management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

2.1.12.6 Impairment of non-financial assets

The Group assess at each reporting date whether there is an indication that an asset other than deferred tax asset, may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

2.1.12.7 Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profits will be available against which such tax losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with the future tax-planning strategies.

2.1.12.8 Defined benefit obligation

The cost of the defined benefit plans and the present value of their obligations are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases.

In determining the appropriate discount rate, Management considers yield of a high-quality corporate bond similar to the remaining weighted average duration of the pension fund. If matching high quality corporate bonds are not available in the market, similar tenure risk adjusted Government bond yield has been used as the discount rate.

The mortality rate is based on publicly available mortality tables. Future salary increases, and pension increases are based on expected future inflation rates and expected future salary increase rate of the Bank.

Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

2.1.12.9 Provisions, commitments and contingencies

The Group receives legal claims against it in the normal course of business. Management makes judgements as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depend on the due process in respective legal jurisdiction.

2.1.12.10 Sri Lanka Accounting Standard (SLFRS 16) – Leases

This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

Set out below are the accounting policies of the Bank upon adoption of SLFRS 16, which have been applied from the date of initial application of 1 January 2019.

2.1.12.10.1 Identifying a lease

A contract is a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Hence, at inception of a contract, the Bank assesses whether the contract is, or contains, a lease by considering following aspects:

1. Availability of identified asset
2. Bank's right to control the use of the identified asset
3. Bank's right to obtain substantially all economic benefits from use of the identified asset
4. Bank's right to direct the use of the identified asset

Accordingly, Bank identifies all the Rent Agreements (except short-term agreements, less than twelve months and low value agreements) entered by the Bank for operating a branch and for using machineries contain a lease under SLFRS 16: Leases.

2.1.12.10.2 Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date as specified in the Lease Agreement). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, and lease payments made at or before the commencement date less any lease incentives received. Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

2.1.12.10.3 Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating a lease, if the lease term reflects the Bank exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs. Calculating the present value of lease payments, the Bank uses the Treasury Bond rate (The tenure of the Treasury Bond should be identical to the lease term) at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

2.1.12.10.4 Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term. The Bank considers the leases of low value assets, if the value of the underlying asset is less than or equal to Rs. 1 Mn.

2.1.12.10.5 Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew. The Group uses hindsight in determining the lease term where the contract contains options to extend or terminate the lease. Accordingly, Group identified the lease term as the number of years based on the period covered by the Rent Agreement signed by the Group and the lessor.

2.1.12.10.6 Measurement

The Group adopted SLFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. Since the Group applies SLFRS 16 using the modified retrospective approach.

- the Group leaves comparatives as previously reported
- any difference between asset and liability recognised in opening retained earnings at transition
- measure ROU asset as if SLFRS 16 had been applied from lease commencement (but using discounting rate at date of transition)

Initial Measurement of the Right-of-use Asset and the Lease Liability

The Right-Of-Use (ROU) Asset is initially measured at the present value of all the lease rentals adjusted to any advances made outstanding as at 1 January 2019. The lease liability is initially measured at the present value of the future lease rentals over the remaining lease period at commencement date.

Subsequent Measurement of the Right-of-use Asset and the Lease Liability

After the commencement date the Bank measure the ROU asset applying a cost model. The assets are amortised to the balance lease term as at 1 January 2019, using the straight-line method. The Lease liability subsequently measure by increasing with the lease interest and reducing with the lease payments.

Discount rate

The lessee has to apply the Incremental borrowing rate to discount the future rental payments. That is "The rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment". The Group applies a single discount rate for leases with similar lease periods.

Separating Components of a Contract

The Group elects to consistently apply as a practical expedient not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

Initial Direct Costs

The Group excludes the initial direct costs from the measurement of the right-of-use asset at the date of initial application as a practical expedient.

2.2 Changes in Accounting Policies

There is no major change in accounting policies during the year 2021 except followings:

2.2.1 Interest Rate Benchmark Reform (IBOR) (Amendments to SLFRS 9, LKAS 39 and SLFRS 7)

IBOR reform is expected to result in a change to the basis for determining contractual cash flows of impacted assets and liabilities of the Group. The amendments provide a practical expedient to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate. The Group is in the process of assessing the impact of the new standard on its Financial Statements.

The exposure of the Group which is subject to benchmark reform is USD 9 Mn. as at 31 December 2021, from Loan given to a Foreign company.

2.2.2 Amendments to SLFRS 16 – COVID-19 – Related Rent Concessions

The amendments provide relief to lessees from applying SLFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 Pandemic.

This amendment is not expected to have a material impact on the Financial Statements of the Group/Bank in the foreseeable future.

2.3 Fair Value Measurement

"Fair value" is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

The Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted pricing in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would consider in pricing a transaction.

The fair value of an asset or a liability is measured using the assumptions that market participants would use the fair value hierarchy when pricing the asset or liability, if market participants act in their economic best interest.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

A fair value measurement of a non-financial asset considers a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. External professional valuers are involved for valuation of significant assets such as land and building.

An analysis of fair value measurement of financial assets and liabilities is provided in Note 56 on pages 410 to 417.

2.4 Significant Accounting Policies – General

2.4.1 Basis of Consolidation

The Financial Statements of the Bank and the Group comprise the Financial Statements of the Bank and its Subsidiaries in terms of the SLFRS 10 – "Consolidated Financial Statements" and LKAS 27 – "Consolidated and Separate Financial Statements".

2.4.1.1 Business combinations

Business combinations are accounted for using the acquisition method when control is transferred to the Group as per Sri Lanka Accounting Standard – SLFRS 3 on "Business Combinations" (SLFRS 3). The consideration transferred in the acquisition and identifiable net assets acquired are measured at fair value. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that

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meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

2.4.1.2 Non-Controlling Interests (NCI)

Details of NCI are given in Note 47 on page 362.

2.4.1.3 Subsidiaries

The Financial Statements of the subsidiary is fully consolidated from the date on which control is transferred to the Bank and continued to be consolidated until the date when such control ceases. The Control exists where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The Financial Statements of the Bank's subsidiaries for the purpose of consolidation are prepared for the same reporting period as that of National Savings Bank, using consistent accounting policies.

2.4.1.4 Loss of control

When the Group loses control over a subsidiary, it de-recognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

2.4.1.5 Associates

Details are given in the Note 25 on page 325.

2.4.1.6 Transactions Eliminated on Consolidation

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full in preparing the Consolidated Financial Statements. Refer Notes 49.3 and 49.4 – Transaction with subsidiary companies on pages 366 and 367 respectively.

2.4.2 Foreign Currency Transactions and Balances

All foreign currency transactions are translated into the functional currency, which is Sri Lankan Rupees, using the exchange rates prevailing at the dates on which the transactions were affected.

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

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

The Statement of Financial Position of Foreign Currency Banking Unit is translated to Sri Lankan Rupees at the middle rate of exchange ruling at the reporting date. The transactions of the Foreign Currency Banking Unit have been recorded in accordance with the above policy and the resulting gains/losses are recognised in the Income Statement.

2.5 Significant Accounting Policies – Recognition of Assets and Liabilities

Financial Instruments

SLFRS 9 – "Financial Instrument" replaces LKAS 39 for annual periods on or after 1 January 2018. The Bank elected, as a policy choice permitted under SLFRS 9, to continue to apply hedge accounting in accordance with LKAS 39.

2.5.1 Financial Instruments – Initial Recognition, Classification and Subsequent Measurement

2.5.1.1 Date of recognition

The Group initially recognises loans and advances, deposits and subordinated liabilities, etc., on the date on which they are originated. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Bank recognises balances due to depositors when funds are transferred to the Bank. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

2.5.1.2 Recognition and Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Notes 2.5.1.4.1 and 2.5.1.4.2

Financial instruments are initially measured at their fair value (as defined in Note 56), except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank and the Group accounts for the Day 1 profit or loss, as described below:

2.5.1.3 "Day 1" Profit or Loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or fair value based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a "Day 1" profit or loss). In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the Statement of Comprehensive Income when the inputs become observable, or when the instrument is de-recognised the difference between transaction price and fair value is recognised in Income Statement. The "Day 1 loss" arising in the case of loans granted to employees at concessionary rates under uniformly applicable schemes is deferred and amortised using Effective Interest Rates (EIR) in "Interest Income and Personnel Expenses" over the remaining service period of the employees or tenure of the loan whichever is shorter.

2.5.1.4 Classification and Subsequent measurement of financial assets

The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost,
- Fair Value Through Other Comprehensive Income (FVOCI),
- Fair Value through Profit or Loss (FVPL)

The Bank and the Group classifies and measures its derivative and trading portfolio at FVPL as explained in Note 2.5.1.6. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

2.5.1.4.1 Business model assessment

The Bank and the group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's Key Management Personnel,
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed.
- How managers of the business are compensated, (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

The business model assessment is based on reasonably expected scenarios without taking "worst case" or "stress case" scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

2.5.1.4.2 Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI test)

As a second step of its classification process, the Bank assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

"Principal" for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than "deminimise" exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Refer Notes 2.5.1.4.3 to 2.5.1.4.5 below for details on different types of financial assets recognised on the Statement of Financial Position:

2.5.1.4.3 Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- Financial assets measured at amortised cost are given below:

(a) Cash and cash equivalents
Details of "Cash and cash equivalents" are given in Note 16 on page 304.

(b) Balances with central banks
Details of "Balances with central banks" are given in Note 17 on page 304.

(c) Placement with banks
Details of "Placement with banks" are given in Note18 on page 305.

(d) Financial assets at amortised cost – Loan and advances
Details of "loan and advances" are given in Note 21 on page 310.

(e) Financial assets at amortised cost – Debt and other instruments
Details of "debt and other instruments" are given in Note 22 on page 318.

2.5.1.4.4 Financial assets measured at FVOCI

Financial assets measured at FVOCI include debt and equity instruments measured at Fair Value through Other Comprehensive Income.

Financial assets measured at FVOCI are given in Notes (a) and (b) below:

(a) Debt instruments measured at FVOCI
Debt instruments are measured at FVOCI if they are held within a business model whose objective is to hold for collection of contractual cash flows and for selling financial assets, where the asset's cash flows represent payments that are solely payments of principal and interest on principal outstanding.

Details of "Debt instruments at FVOCI" are given in Note 23 on pages 320 to 324.

(b) Equity instruments designated at FVOCI
Upon initial recognition, the Group elects to classify irrevocably some of its equity investments held for strategic and statutory purposes as equity instruments at FVOCI. Details of "Equity instruments at FVOCI" are given in Note 23 on pages 320 to 324.

2.5.1.4.5 Financial assets measured at FVPL

As per SLFRS 9, all financial assets other than those classified at amortised cost or FVOCI are classified as measured at FVPL. Financial assets at fair value through profit or loss include financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis as they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets and financial assets designated upon initial recognition at fair value through profit or loss which are discussed in below.

(a) Financial assets designated at fair value through profit or loss
Financial assets designated at Fair Value through Profit or Loss are recorded in the SOFP at fair value. Changes in fair value are recorded in "Net gain or loss on financial assets and liabilities designated at fair value through profit or loss". Interest earned is accrued in "Interest Income", using the EIR, while dividend income is recorded in "Other operating income" when the right to receive the payment has been established.

The Group do not have any designated financial assets upon initial recognition as fair value through profit or loss as at the end of the reporting period.

2.5.1.5 Classification and Subsequent Measurement of Financial Liabilities

As per SLFRS 9, the Group classifies financial liabilities, other than financial guarantees and loan commitments into one of the following categories:

- Financial liabilities at fair value through profit or loss, and within this category as:
  - Held-for-trading; or
  - Designated at fair value through profit or loss:
- Financial liabilities measured at amortised cost.

The subsequent measurement of financial liabilities depends on their classification. SLFRS 9, largely retains the existing requirements in LKAS 39 for the classification of financial liabilities.

2.5.1.5.1 Financial liabilities at fair value through profit or loss

The Group do not have any designated financial liabilities as at fair value through profit or loss as at the end of the reporting period.

2.5.1.5.2 Financial liabilities at amortised cost

Financial liabilities issued by the Group that are not designated at FVPL are classified as financial liabilities at amortised cost under "Due to banks", "Due to depositors", "Due to debt securities holders", "due to other borrowers", or "Debt security issued" as appropriate, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument

After initial recognition, such financial liabilities are subsequently measured at amortised cost using the EIR (Effective Interest Rate) method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

The EIR amortisation is included in "Interest expense" in the Income Statement. Gains and losses too are recognised in the Income Statement when the liabilities are de-recognised as well as through the EIR amortisation process.

(a) Due to banks
Details of "Due to banks" are given in Note 32 on page 339.

(b) Due to depositors
Details of "Due to depositors" are given in Note 35 on page 340.

(c) Due to debt securities holders
Details of "Due to debt securities holders" are given in Note 35 on page 340.

(d) Due to other borrowers
Details of "Due to other borrowers" are given in Note 35 on page340.

(e) Debt security issued
Details of "Debt security issued" are given in Note 37 on page 343.

2.5.1.6 Derivative asset and liabilities

Derivatives assets and liabilities are broadly classified into derivative recorded at fair value through profit or loss and derivatives held for risk management purposes.

2.5.1.6.1 Derivative recorded at fair value through profit or loss

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract (i.e., the "underlying").
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.
- It is settled at a future date.

The Bank enters into derivative transactions with various counterparties. These include interest rate swaps, credit default swaps, cross-currency swaps, forward foreign exchange contracts and foreign currencies. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. The notional amount and fair value of such derivatives are disclosed separately in Note 19. Changes in the fair value of derivatives are included in net trading income unless hedge accounting is applied. Hedge accounting disclosures are provided in Note 19 on pages 305 and 306.

2.5.1.6.2 Derivative held for risk management purposes and hedge accounting

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets and liabilities. Derivatives held for risk management purposes are measured at fair value in the SOFP.

2.5.1.6.2.1 Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect the profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss in the same line item as the hedged item that is attributable to the hedged risk.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a central counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those are necessary for the novation, then the derivative is not considered as expired or terminated.

Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortised to profit or loss as part of the recalculated EIR of the item over its remaining life. The Group do not have any fair value hedge as at the end of the reporting period.

2.5.1.6.2.2 Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability that could affect the profit or loss, the effective portion of changes in the fair value of the derivative are recognised in OCI and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the Statement of Profit or Loss and OCI.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a central counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those are necessary for the novation, then the derivative is not considered as expired or terminated. The Group do not have any cashflow hedge as at the end of the reporting period.

2.5.1.6.3 Embedded derivatives

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative cause some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

As per SLFRS 9, Derivatives may be embedded in another contractual arrangement (a host contract). The Group treats derivatives embedded in financial liabilities and non-financial host contracts as separate derivatives if:

- The host contract is not itself carried at FVPL;
- The terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

As at the reporting date the Group do not have embedded derivatives.

2.5.1.7 Reclassification of financial assets and liabilities

As per SLFRS 9, Financial assets are not reclassified subsequent to their initial recognition, except and only in those rare circumstances when the Group changes its objective of the business model for managing such financial assets which may include the acquisition, disposal or termination of a business line.

Financial Liabilities are not reclassified as such reclassifications are not permitted by SLFRS 9.

2.5.1.7.1 Measurement of reclassification of financial assets

2.5.1.7.1.1 Reclassification of Financial Instruments at Fair value through profit or loss

- **to Fair value through other comprehensive income**
  The fair value on reclassification date becomes the new gross carrying amount. The EIR is calculated based on the new gross carrying amount. Subsequent changes in the fair value is recognised in OCI.
- **to Amortised Cost**
  The fair value on reclassification date becomes the new carrying amount. The EIR is calculated based on the new gross carrying amount.

2.5.1.7.1.2 Reclassification of Financial Instruments at "Fair value through other comprehensive income"

- **to Fair value through profit or loss**
  The accumulated balance in OCI is reclassified to profit and loss on the reclassification date.
- **to Amortised Cost**
  The financial asset is reclassified at fair value. The cumulative balance in OCI is removed and is used to adjust fair value on the reclassification date. The adjusted amount becomes the amortised cost.

EIR determined at initial recognition and gross carrying amount are not adjusted as a result of reclassification.

2.5.1.7.1.3 Reclassification of Financial Instruments at "Amortised Cost"

- **to Fair value through other comprehensive income**
  The asset is re-measured to fair value, with any difference recognised in OCI. EIR determined at initial recognition is not adjusted as a result of reclassification.
- **to Fair value through profit or loss**
  The fair value on the reclassification date becomes the new carrying amount. The difference between amortised cost and fair value is recognised in profit and loss.

Bank and the Group do not have any reclassification of financial instrument for the reporting period.

2.5.1.8 De-recognition of financial assets and financial liabilities

2.5.1.8.1 Financial assets

The Group de-recognises a financial asset (or where applicable a part thereof) when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all risks and rewards of ownership and it does not retain control of the financial asset.

On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset de-recognised) and the sum of the consideration received (including any new asset obtained less and new liability assumed) and any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

However, cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on de-recognition of such securities as per SLFRS 9. Any interest in transferred financial assets that qualify for de-recognition that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its SOFP, but retains either all or substantially all risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not de-recognised.

When the Group has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on the basis that reflected the rights and obligations that the Group has retained.

2.5.1.8.2 Financial liabilities

The Group de-recognises a financial liability when its contractual obligations are discharged, cancelled or expired.

2.5.1.9 Modification of financial assets and financial liabilities

2.5.1.9.1 Financial Assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is de-recognised, and a new financial asset is recognised at fair value.

As per SLFRS 9, if the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in de-recognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

2.5.1.9.2 Financial Liabilities

Where an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

2.5.1.10 Offsetting of financial instruments

Financial assets and financial liabilities are offset, and the net amount reported in the SOFP if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Bank and the Group do not offset any financial instrument for the reporting period.

2.5.1.11 Amortised cost and gross carrying amount

The "amortised cost" of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the EIR method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any ECL allowance.

The "gross carrying amount of a financial asset" is the amortised cost of a financial asset before adjusting for any ECL allowance.

2.5.1.12 Fair value of financial instruments

Fair value measurement of financial instruments including the fair value hierarchy is explained in Note 2.3 and 56 on pages 275 and 410.

2.5.2 Impairment of Financial Assets

2.5.2.1 Individual assessment of impairment

For financial assets above a pre-determined threshold (i.e. for individually significant financial assets), if there is objective evidence that an impairment loss had been incurred, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that had not been incurred).

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure was probable. Detail of Individual assessment of impairment are given in Note 21. (d) on page 312.

2.5.2.2 Individually significant assessment and not impaired individually

Loans which are individually significant but not impaired will be assessed collectively for impairment either under Stage 1 or Stage 2 based on the criteria whether there has been significant credit deterioration since origination.

While establishing significant credit deterioration the Bank will consider the following criterias':

- Other changes in the rates or terms of an existing financial instrument that would be significantly different if the instrument was newly originated.
- Significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instrument.
- Other Information related to the borrower, such as changes in the price of a borrower's debt/equity instrument.
- An actual/expected internal credit rating downgrade for the borrower or decrease in behavioural score used to assess credit risk internally.
- Existing or forecast adverse changes in business, financial or economic condition that are expected to cause significant change in the borrower's ability to meet its obligation.
- An Actual or expected significant change in the operating results of the borrower in relating to actual/expected decline in revenue, increase in operating risk, working capital deficiency, Decrease in Asset quality, Increase in gearing, liquidity management problems.
- Significant increase in credit risk on other financial instruments of the same borrower.
- An Actual or expected significant adverse change in the regulatory, economic or technological environment of the borrower that result in a significant change in the borrower's ability to meet the debt obligation.

2.5.2.3 Overview of the ECL principles

From 1 January 2018, the Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as "financial instruments". Equity instruments are not subject to impairment under SLFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Bank's policies for determining if there has been a significant increase in credit risk are set out in Note 2.5.2.7 on page 283.

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Bank groups its loans into Stage 1, Stage 2 and Stage 3 as described below:

Stage 1

- When loans are first recognised, the Bank recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved, but not originally credit impaired on initial recognition and the loan has been reclassified from Stage 2.

Stage 2

- When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved, and the loan has been reclassified from Stage 3.
- Credit facilities, where contractual payments of a customer are more than 30 days past due, other than the credit facilities categorised under Stage 3 below, subject to the rebuttable presumption as stated in SLFRS 9.

Stage 3

- Credit facilities where contractual payments of a customer are more than 90 days past due, subject to the rebuttable presumption as stated in SLFRS 9.
- All restructured loans, which are restructured more than twice.
- All rescheduled loans.
- All credit facilities/customers classified as non-performing as per CBSL Directions.
- When the risk rating of a customer or an instrument has been downgraded to B+ by an external credit rating agency and/or when there is a two-notch downgrade in the banks internal rating system.
- Credit facilities/customers in which Significant Increase in Credit Risk (refer Note 2.5.2.7).

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) de-recognition of the financial asset.

2.5.2.4 The calculation of ECL

The Group calculates ECL to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanism of the ECL calculations is outlined below and the key elements are, as follows:

- **Probability of Default (PD)**
  The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously de-recognised and is still in the portfolio.
- **Exposure at Default (EAD)**
  The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected draw downs on committed facilities, and accrued interest from missed payments.
- **Loss Given Default (LGD)**
  The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

The maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier. Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value

The mechanics of the ECL method are summarised below:

Stage 1

- The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Group calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR.

Stage 2

- When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

Stage 3

- For loans considered credit-impaired, the Bank recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

2.5.2.5 Debt instruments measured at fair value through OCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the SOFP, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon de-recognition of the assets. Bank and the Group do not have any debt instrument measured at fair value through OCI subject to impairment as at reporting period.

2.5.2.6 Forward looking information

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as:

- GDP growth
- Unemployment rates
- Inflation rates
- Exchange rates
- Interest rates

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the reporting date. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

2.5.2.7 Significant Increase in Credit Risk

The Group continuously monitors all assets subject to ECL, in order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assess whether there has been a significant increase in credit risk since initial recognition. The Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis based on the Banks historical experience and expert credit assessment and including forward looking information. Accordingly, the Group considers the significant increase in credit risk when one of the following factors/conditions are met.

- When contractual payments of a customer are more than 30 days past due (subject to the rebuttable presumption in the SLFRS 9)
- When the risk rating of a customer or an instrument has been downgraded to B+ by an external credit rating agency
- 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.
- When reasonable and supportable forecasts of future economic conditions directly affect the performance of a customer/group of customers, portfolios or instruments.
- When there is a significant change in the geographical locations or natural catastrophes that directly impact the performance of a customer/group of customers or an instrument.
- When the value of collateral is significantly reduced and/or realisability of collateral is doubtful.
- When a customer is subject to litigation, that significantly affects the performance of the credit facility.
- Frequent changes in the Senior Management of an institutional customer
- Delay in the commencement of business operations/projects by more than two years from the originally agreed date.
- Modification of terms resulting in concessions, including extensions, deferment of payments, waiver of covenants etc.
- When the customer is deceased/ insolvent
- When the Bank is unable to contact or find the customer
- A fall of 50% or more in the turnover and/or profit before tax of the customer when compared to the previous year; and
- Erosion in net-worth by more than 25% when compared to the previous year.

2.5.2.8 Definition of default and credit-impaired assets

The Group considers loans and advances to other customers be defaulted when:

The borrower is unlikely to pay its obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or

The borrower becomes 90 days past due on its contractual payments.

In addition, the Group classifies the financial investments under Stage 3 when the external credit rating assigned to the particular investment is “default”.

2.5.3 Property, Plant and Equipment (PPE)

Details of Property, Plant and Equipment are given in Note 26 on page 325.

2.5.3.1 Depreciation

Details of “Depreciation” are given in Note 26 on page 325.

2.5.3.2 Borrowing costs

As per the Sri Lanka Accounting Standard – LKAS 23 on “Borrowing Costs”, the Group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of the asset. A qualifying asset is an asset which takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are recognised in the profit or loss in the period in which they occur. Bank and the Group do not capitalise any borrowing cost for the reporting period.

2.5.4 Intangible Assets

Details of Intangible assets are given in Note 29 on page 334.

2.5.5 Impairment of Non-Financial Assets

The Group assess at each reporting date whether there is an indication that an asset other than deferred tax asset, may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset’s recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

2.5.6 Retirement Benefit Obligation

2.5.6.1 Defined Benefit Pension Plans

2.5.6.1.1 Staff Pension Fund – I

The Bank operates a defined benefit pension plan, for the permanent staff members who have joined the Bank prior to 1 October 1995, which requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit pension plan – I is determined using the Projected Unit Credit actuarial valuation method. Actuarial gains and losses are recognised in the Other Comprehensive Income in the period in which they arise.

The defined benefit asset or liability is calculated as the present value of the defined benefit obligation less past service costs not yet recognised and less the fair value of planned assets out of which the obligations are to be settled directly, less actuarial losses not yet recognised. The value of the defined benefit liability is borne by the Bank and recognised in the profit or loss. The value of any asset is restricted to the sum of any actuarial losses and past service cost not yet recognised and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

The latest actuarial valuation was carried out as of 31 December 2021, by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional Actuaries.

The principal financial assumptions used in the valuation as at 31 December 2021 are as follows:

Interest/Discount Rate	11.50 % p.a.
Increase in Cost of Living Allowances	5.50 % p.a.
Increase in Average Basic Salary	8.00% p.a.

The assets of the fund are held separately from these of the Bank and are independently administrated by the Trustees as per the provisions of the Trust Deed and are subject to annual audit by Independent External Auditors. The Financial Statements of the pension I as well as the Auditor's Report are tabled and reviewed by the Board of Trustees and Board of directors of the Bank. They are also submitted for review of the disclosure of the Bank, as the Bank has an obligation of ensuring that funding is made at optimum levels. Pension is payable monthly as long as the participant is alive.

Details of Staff pension fund I are given in Note 38. (a) 1. on pages 347 to 350.

The past service cost not funded is recognised in Other Comprehensive Income immediately upon actuarial valuation. The actuarial valuation as at 31 December 2021 indicated a past service cost deficit of Rs. 4,921.4 Mn. which has been provided in full. The details of Unfunded Pension Liability are given in Note – 38(a).1. on pages 347 to 350.

2.5.6.1.2 Staff Pension Fund – II

The Bank established and operated a defined benefit pension plan, for the permanent staff members who have joined the Bank on or after 1 October 1995, which requires the Bank to monthly contribute 12% of members' gross salary to a separately administered fund. The cost of providing benefits under the defined benefit pension plan is determined using the Projected Unit Credit actuarial valuation method. Actuarial gains and losses are recognised in the Other Comprehensive Income in the period in which they arise.

The defined benefit asset or liability is calculated as the present value of the defined benefit obligation less past service costs not yet recognised and less the fair value of planned assets out of which the obligations are to be settled directly, less actuarial losses not yet recognised. The value of the defined benefit liability is borne by the Bank and recognised in the profit or loss. The value of any asset is restricted to the sum of any actuarial losses and past service cost not yet recognised and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

The latest actuarial valuation was carried out as of 31 December 2021, by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional Actuaries.

The principal financial assumptions used in the valuation as at 31 December 2021 are as follows:

Interest/Discount Rate	11.50 % p.a.
Increase in Cost of Living Allowances	5.50 % p.a.
Increase in Average Basic Salary	8.00% p.a.

The assets of the fund are held separately from these of the Bank and are independently administrated by the Trustees as per the provisions of the Trust Deed and are subject to annual audit by Independent External Auditors. The Financial Statements of the pension II as well as the Auditor's Report are tabled and reviewed by the Board of Trustees and Board of Directors of the Bank. They are also submitted for review of the disclosure of the Bank, as the Bank has an obligation of ensuring that funding is made at optimum levels. Pension is payable monthly as long as the participant is alive.

Details of Staff pension fund II are given in Note 38. (a) 2 on pages 350 to 353.

The past service cost not funded is recognised in Other Comprehensive Income immediately upon actuarial valuation. The actuarial valuation as at 31 December 2021 indicated a past service cost excess of Rs. 397.7 Mn. which has been recognised as an advance payment. The details of advance payment to Pension II are given in Note 38.(a).2 on pages 350 to 353.

2.5.6.1.3 Widows'/Widowers' and Orphans' Pension Fund

Effective from 2013 December, the Bank has established a "Widows'/ Widowers' and Orphans" Pension Scheme for the members of Pension scheme – II. Members of Pension Scheme II are opting for be members of the Widows'/Widowers' and Orphans' Pension Scheme. The Bank does not contribute to the Fund while Bank's employees monthly contribute 5% of their basic salary, to the Fund.

2.5.6.2 Gratuity

With the establishment of Staff Pension Scheme II, employees who joined the Bank on or after 1 October 1995 become members of the Pension Scheme II, thus they are not entitle to the rights and privileges under Service Gratuity Scheme. However, a minimum period of 120 months uninterrupted active service in the Bank at the time of retirement is required to be eligible for any retirement benefit under this pension scheme. Therefore, employees who retire before 10 years of service and whose services are terminated after five years other than by retirement are eligible to receive a terminal gratuity under the Payment of Gratuity Act No. 12 of 1983, at the rate of half of the gross salary applicable to the last month of the financial year, for each year of continuous service.

Probability of occurrence of such event is rare according to Management's judgement and past experiences. A gratuity provision is not maintained in the Financial Statements unless a significant liability is estimated at reporting date. Where a gratuity is paid to an employee in such event under Payment of Gratuity Act No. 12 of 1983, it is recognised as a gratuity expense in the Income Statement in the same year.

2.5.6.3 Post-Employment Medical Benefits

The Bank has a contributory medical assistance scheme for the retired employees. The assets of the plan are held independently of the Bank's assets and administered by Boards of Trustees, representing the Management and the employees, as provided in the trust deed of the fund. The cost of providing benefits under the defined benefit pension plan is determined using the Projected Unit Credit actuarial valuation method. Actuarial gains and losses are recognised in the Other Comprehensive Income in the period in which they arise.

The Bank contributes to the contributory medical scheme an amount determined by the Management of the Bank based on actuarial recommendation made from time to time. Accordingly, a sum of Rs. 196.5 Mn. has been provided from the profit of 2021.

The latest actuarial valuation was carried out as of 31 December 2021, by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional Actuaries. The principal financial assumptions used in the valuation as at 31 December 2021 are as follows:

Interest/Discount Rate	11.50 % p.a.
Medical cost inflation rate	7.00 % p.a.

The assets of the fund are held separately from these of the Bank and are independently administrated by the Trustees as per the provisions of the Trust Deed and are subject to annual audit by Independent External Auditors.

Details of Post-employment medical benefits are given in Note 38.(a).3 on page 353.

The past service cost not funded is recognised in Other Comprehensive Income immediately upon actuarial valuation. The actuarial valuation as at 31 December 2021 indicated a past service cost deficit of Rs. 3,669.3 Mn. which has been provided in full. The details of Unfunded Liability are given in Note 38.(a).3 on pages 353 to 355.

2.5.6.4 Defined Contribution Plans

Details of Defined contribution plans are given in Note 11 on page 296.

2.5.7 Other Liabilities

Details of Other liabilities are given in Note 41 on page 358.

2.5.8 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expenses relating to any provision is presented in the Income Statement net of any reimbursement.

2.5.8.1 Provision for Fraudulent Withdrawals

The total value of fraudulent withdrawals identified as at 31 December 2021 was Rs. 96.5 Mn. And ex-gratia payment Rs. 15 Mn. received from insurance. A provision of Rs. 73.5 Mn. has provided for the balance fraudulent withdrawals as at as at 31 December 2021.

2.5.9 Contingent Liabilities and Commitments

This includes Bank guarantees, Letter of credit, undrawn credit facilities, other indirect credit facilities and capital commitment. The Bank guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Undrawn loan commitments and Letters of Credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer.

Effective from 1 January 2018, these contracts are subject to the assessment of impairment under SLFRS 09.

Details of Contingent liabilities and Commitments are given in Note 48 on page 362.

2.5.10 Earnings Per Share (EPS)

Details of "Basic and Diluted EPS" are given in Note 14 on page 300.

2.6 Significant Accounting Policies – Recognition of Income and Expenses for Financial Instruments

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. Details of "income and expenses" are given in Notes 3 to 14 on pages 289 to 301.

2.6.1 Interest Income and Expenses

Details of "interest income and expenses" are given in Note 3 to 4 on pages 289 to 291.

2.6.2 Fee and Commission Income

Details of "Commission income and expenses" are given in Note 5 on page 292.

2.6.3 Net Trading Income

Details of "Net gains/(losses) from trading" are given in Note 6 on page 293.

2.6.4 Dividend Income

Dividend income is recognised when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities. Details of "Dividend income" is given in Note 9 on page 294.

2.6.5 Rent Income

Rent income is recognised in profit or loss on an accrual basis. Details of "Rent income" is given in Note 9 on page 294.

2.7 Significant Accounting Policies – Taxation

2.7.1 Current Taxation

Details of Current taxation are given in Note 13 on page 299.

2.7.2 Deferred Taxation

Details of Deferred taxation are given in Notes no 13 and 30 on pages 299 and 336.

2.7.3 Value Added Tax on Financial Services (VAT)

VAT on financial services is calculated in accordance with Section 25A of Value Added Tax Act No. 14 of 2002 and subsequent amendments thereto. VAT on financial services is payable at 15% on operating profit before value added tax and nation building tax on financial services adjusted for emoluments of employees and economic depreciation.

2.7.4 Economic Service Charge (ESC)

As per the provisions of the Economic Service Charge (ESC) Act No. 13 of 2006 and subsequent amendments there to, ESC is payable on liable gross turnover of the Bank at 0.5% and is deductible from the income tax payments. Unclaimed ESC can be carried forward and set off against the income tax payable in the two subsequent years. As approved by the cabinet and instructed by the ministry of Finance, Esc has been abolished with effect from 1 January 2020.

2.8 Statement of Cash Flows

The Statement of Cash Flows has been prepared by using the "Direct Method" of preparing cash flows in accordance with the LKAS 7. Cash and cash equivalents comprise short-term, highly liquid investment that is readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalents include cash in hand, balances with banks and money at call and short notice. The Statement of Cash Flows is given on page 268.

2.9 Regulatory Provisions

2.9.1 Deposit Insurance Scheme

The Bank calculates the insurance premium on eligible deposit base at the rate of 0.10% which is the applicable statutory rate based on capital adequacy ratio of the Bank. The Bank has remitted the applicable premium within a period of 15 days from the end of each quarter as stipulated by the Direction.

2.9.2 Crop Insurance Levy (CIL)

As per the provisions of the Section 14 of the Finance Act No. 12 of 2013, the CIL was introduced with effect from 1 April 2013 and is payable to the National Insurance Trust Fund. Currently, the CIL is payable at 1% of the profit after tax.

2.10 Events after the Reporting Period

Details of Events after reporting date are given in Note 52 on page 371.

2.11 Accounting Standards Issued but not yet Effective as at Reporting Date

The following new accounting standards and amendments/ improvements to the existing standards were issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka). A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted; however, the Group has not early adopted these new standards/amendments when preparing these Consolidated Financial Statements.

2.11.1 Amendment to SLFRS 9

This amendment clarifies that – for the purpose of performing the "10 per cent test" for de-recognition of financial liabilities – in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment

2.11.2 Amendment to LKAS 37

The changes in Onerous Contracts — Cost of Fulfilling a Contract (Amendments to LKAS 37) specify that the "cost of fulfilling" a contract comprises the "costs that relate directly to the contract". Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

2.11.3 Amendment to LKAS 16

Property, Plant and Equipment — Proceeds before Intended Use (Amendments to LKAS 16) amends the standard to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by Management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.

2.11.4 Amendment to SLFRS 1

The amendment to SLFRS 1 simplifies the application of SLFRS 1 by a subsidiary that becomes a first-time adopter after its parent in relation to the measurement of cumulative translation difference.

2.11.5 Amendment to LKAS 41

LKAS 41 "Agriculture" sets out the accounting for agricultural activity – the transformation of biological assets (living plants and animals) into agricultural produce (harvested product of the entity's biological assets). The standard generally requires biological assets to be measured at fair value less costs to sell. This standard is not applicable to the Bank and the Group as at 31 December 2021.

2.11.6 Amendment to SLFRS 3

The changes in Reference to the Conceptual Framework (Amendments to IFRS 3):

- update SLFRS 3 so that it refers to the 2018 Conceptual Framework;
- add to SLFRS 3 a requirement that, for transactions and other events within the scope of LKAS 37 or IFRIC 21, an acquirer applies IAS 37 or IFRIC 21 (instead of the Conceptual Framework) to identify the liabilities it has assumed in a business combination; and
- add to SLFRS 3 an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

3 Gross income

Accounting policy

Gross revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The specific recognition criteria must also be met before revenue recognition is discussed under respective income notes.

For the year ended 31 December	Bank		Group	
	2021 Rs. '000	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Interest income	**131,438,283**	122,512,049	**133,342,449**	124,608,182
Fee and commission income	**3,050,649**	2,710,487	**3,058,444**	2,723,087
Net gain/(loss) from trading	**(96,226)**	1,273,676	**(711,612)**	1,745,329
Net fair value gains/(losses) from financial instruments at fair value through profit or loss	**–**	–	**–**	–
Net gains/(losses) from de-recognition of financial assets	**28,269**	241,284	**28,269**	241,284
Net other operating income	**518,447**	809,564	**342,239**	721,612
Gross income	**134,939,422**	127,547,060	**136,059,789**	130,039,494

4 Net interest income

Accounting policy

Recognition of interest income and interest expenses

For all financial instruments measured at amortised cost, interest-bearing financial assets classified as fair value through other Comprehensive Income and financial instruments measured at fair value through profit or loss, interest income or expense is recorded using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, pre-payment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as interest income for financial assets and interest expense for financial liabilities. However, for a reclassified financial asset for which the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase are recognised as an adjustment to the EIR from the date of the change in estimate.

When calculating the EIR for financial instruments other than credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses (ECLs). For credit-impaired financial assets which are classified under Stage 3, a credit-adjusted EIR is calculated using estimated future cash flows including ECLs. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost.

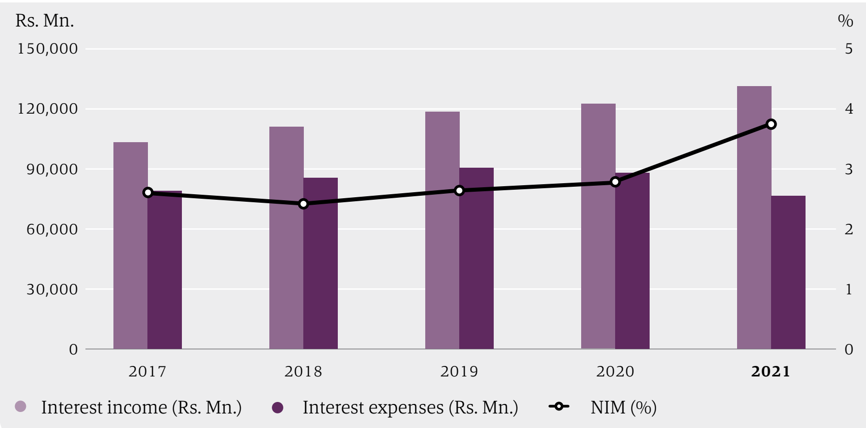
Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

4. Net interest income (contd.)

For the year ended 31 December	Bank 2021 Rs. '000	Bank 2020 Rs. '000	Group 2021 Rs. '000	Group 2020 Rs. '000
4. (a) Interest income				
Cash and cash equivalents	26,159	45,288	27,997	47,754
Balances with central banks	–	–	–	–
Placements with banks	684,522	670,783	899,308	1,014,739
Derivative financial instruments	–	–	–	–
Financial assets recognised through profit or loss				
– Measured at fair value	795,397	746,742	1,743,769	1,686,296
– Designated at fair value	–	–	–	–
Financial assets at amortised cost				
– Loans and advances	47,028,936	50,453,489	47,243,444	50,683,407
– Debt and other instruments	82,235,311	70,275,947	82,683,650	70,740,943
Financial assets measured at fair value through other comprehensive income	667,958	319,800	744,279	435,042
Total interest income	131,438,283	122,512,049	133,342,449	124,608,182
4. (b) Interest expenses				
Due to banks	666,226	1,500,550	958,418	1,745,125
Financial liabilities recognised through profit or loss	–	–	–	–
Financial liabilities at amortised cost				
– Due to depositors	72,176,726	82,272,680	72,128,147	82,207,530
– Due to debt securities holders	–	–	–	–
– Due to other borrowers	305,667	771,380	808,862	1,395,577
Debt securities issued	3,660,055	3,077,258	3,664,684	3,077,258
Total interest expenses	76,808,674	87,621,868	77,560,111	88,425,490
Net interest income	54,629,609	34,890,181	55,782,338	36,182,692

Graph 76

Interest income vs interest expense



4. Net interest income (contd.)

4. (c) Net interest income from Sri Lanka Government Securities

Interest income and interest expenses on Government Securities given below have been extracted from interest income and interest expenses given in Notes 4. (a) and 4. (b) respectively and disclosed separately, as required by the Guidelines issued by the Central Bank of Sri Lanka.

	Bank		Group	
For the year ended 31 December	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Interest income				
Financial assets recognised through profit or loss				
– measured at fair value	**795,397**	746,742	**1,743,087**	1,680,925
– designated at fair value	**–**	–	**–**	–
Financial assets at amortised cost				
– loans and advances (Securities purchased under resale agreements)	**287,808**	365,666	**287,808**	365,666
– debt and other instruments	**72,524,511**	66,105,095	**72,937,934**	66,561,963
Financial assets measured at fair value through other comprehensive income	**667,958**	319,800	**744,279**	435,042
	74,275,674	67,537,303	**75,713,108**	69,043,597
Less: Interest expenses				
Due to banks (Securities sold under repurchase agreements)	**151,421**	1,041,680	**425,381**	1,286,255
Due to other borrowers (Securities sold under repurchase agreements)	**305,667**	771,380	**825,463**	1,406,036
	457,088	1,813,060	**1,250,844**	2,692,291
Net interest income from Sri Lanka Government Securities	**73,818,586**	65,724,243	**74,462,264**	66,351,306

4. (d) Debt Moratorium and Deferment impact to Interest Income

The Bank has given its debt moratorium and payment deferment to all of its customers other than who refused to have debt moratorium or payment deferments. The moratorium has been given at the concessionary rate of seven percent and the payments are deferred until the end of the loan period. The moratorium period has been varied from two months to six months and in a very limited scenario it has been extended to more than six months

If the interest has been collected at the contractual rate , Bank could have earned Rs. 4,805 Mn. during the last financial year. However, at 7% concessionary rate bank has recorded Rs. 2,585 Mn. interest income on accrued basis and agree to collect at the end of loan tenor. Therefore bank further incurred Day one loss on interest income Rs. 1,391 Mn. on Day one in 2020. In aggregate Bank incurred total loss of Rs. 3,611 Mn due to moratorium imposed by CBSL in 2020.

During the Financial year the Bank has recognised Rs, 288.4 Mn. interest income from deferred day one loss of Rs. 1,391 Mn. and deferred day one loss recorded as at 31 December 2021 was Rs. 867.6 Mn.

5 Net fee and commission income

Accounting policy

The Group earns fee and commission income from range of services it provides to customers which can be divided into the following two categories.

(a) Fee and commission income earned from services that are provided over a certain period of time:

Fee and commission earned for the provision of services over a period of time are accrued over that period.

(b) Fee and commission income from providing transaction services:

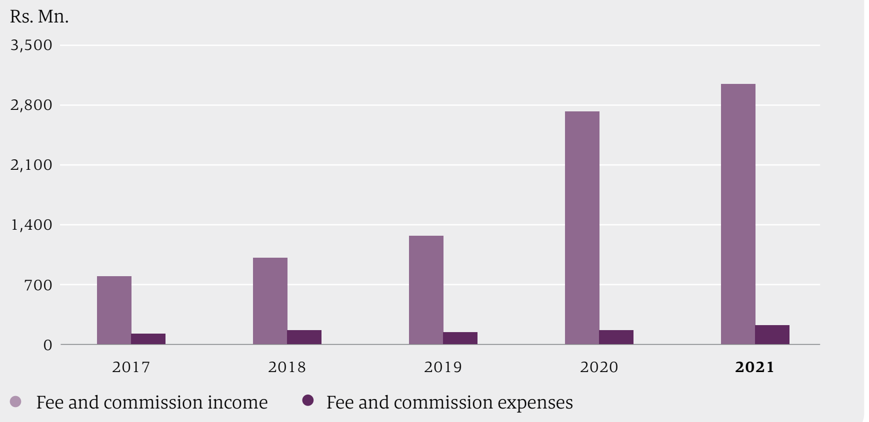
Fee and commission income arising from renegotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised as the related services are performed.

Fees and commission expenses relating to transaction and service 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	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Fee and commission income	**3,050,649**	2,710,487	**3,058,444**	2,723,087
Fee and commission expenses	**(207,676)**	(154,486)	**(210,604)**	(160,556)
Net fee and commission income	**2,842,973**	2,556,001	**2,847,840**	2,562,531
Comprising				
Loans	**2,724,154**	2,491,151	**2,725,326**	2,494,441
Cards	**40,121**	5,530	**40,121**	5,530
Trade and remittances	**15,284**	–	**15,284**	–
Corporate banking	**4,756**	9,937	**4,756**	9,937
Deposits	**28,840**	27,964	**28,840**	27,964
Guarantees	**11,808**	7,528	**11,808**	7,650
Others	**18,010**	13,891	**21,705**	17,009
Net fee and commission income	**2,842,973**	2,556,001	**2,847,840**	2,562,531

Graph 77

Fee and commission income vs fee and commission expenses



6 Net gain/(loss) from trading

Accounting policy

Net trading income includes all gains and losses and related dividend for "financial assets recognised through profit or loss" other than interest income and include income from foreign exchange.

Dividend income is recognised when the Group's right to receive the payment is established.

For the year ended 31 December	Bank		Group	
	2021 Rs. '000	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Foreign exchange				
From banks	**–**	–	**–**	–
From other customers	**308,036**	211,796	**308,036**	211,796
Fixed income securities	**(899,795)**	578,353	**(1,515,180)**	1,050,006
Equity securities	**485,628**	445,637	**485,628**	445,637
Derivative financial instruments	**9,904**	37,889	**9,904**	37,889
Total	**(96,226)**	1,273,676	**(711,612)**	1,745,329

7 Net fair value gains/(losses) from financial instruments at fair value through profit or loss

Accounting policy

Net fair value gains/(losses) includes all unrealised gains and losses from changes in fair value of "financial assets and financial liabilities recognised through profit or loss".

For the year ended 31 December	Bank		Group	
	2021 Rs. '000	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Gains on financial assets at fair value through profit or loss	**–**	–	**–**	–
Losses on financial assets at fair value through profit or loss	**–**	–	**–**	–
Gains on financial liabilities at fair value through profit or loss	**–**	–	**–**	–
Losses on financial liabilities at fair value through profit or loss	**–**	–	**–**	–
Total	**–**	–	**–**	–

8 Net gains/(losses) from de-recognition of financial assets

Accounting policy

"Net gains/(losses) from de-recognition of financial assets" comprise gains less losses related to financial assets measured at fair value through other Comprehensive Income and de-recognised asset at amortised cost.

For the year ended 31 December	Bank		Group	
	2021 Rs. '000	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Recognised at:				
Fair value through profit or loss	**–**	–	**–**	–
Amortised cost	**–**	–	**–**	–
Fair value through other comprehensive income	**28,269**	241,284	**28,269**	241,284
Total	**28,269**	241,284	**28,269**	241,284

9 Net other operating income

Accounting policy

i. Gain/(Loss) on disposal of property, plant and equipment

The gains or losses on the disposal of property, plant and equipment is determined on the difference between the carrying amount of the assets at the time of disposal and the proceeds of disposal, net of disposal costs. This is recognised in other operating income in the year in which significant risks and rewards of ownership are transferred to the buyer.

ii. Foreign exchange gain/(loss)

Foreign currency positions are revalued at each reporting date. Gains and losses arising from changes in exchange rates are included in Income Statement in the period in which they arise.

iii. Dividend income

Dividend earned from financial assets measured at fair value through other comprehensive income is recognised when the Group's right to receive the payment is established.

For the year ended 31 December	Bank		Group	
	2021 Rs. '000	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Gain/(Loss) on investment properties	**–**	–	**17,312**	53,762
Gain/(Loss) on sale of property, plant and equipment	**1,765**	593	**5,283**	593
Gain/(Loss) on revaluation of foreign exchange	**(311)**	185,750	**(311)**	185,750
Recovery of loans written off	**–**	–	**23,891**	14,831
Less: Loans written off	**–**	–	**–**	–
Dividend income	**395,666**	421,681	**146,309**	252,993
Rent income	**21,350**	21,158	**21,415**	21,158
Other income	**99,977**	180,382	**128,341**	192,525
Total	**518,447**	809,564	**342,239**	721,612

10 Impairment charges

Accounting policy

The Group recognises the changes in the impairment provisions for all financial instruments, which are assessed as per Sri Lanka Financial Reporting Standard – SLFRS 9 on "Financial Instrument". The measurement of impairment losses under SLFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The methodology adopted for impairment is explained in Note 21 (d) to the Financial Statements.

		Bank		Group	
For the year ended 31 December	Note	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Impairment charge	10.1	**4,260,652**	4,847,692	**4,184,658**	4,906,764
Loan write-off/waive-off		**43,792**	12,358	**43,792**	12,358
Other write-off		**–**	13,718	**–**	13,718
Total		**4,304,444**	4,873,768	**4,228,450**	4,932,840

10.1 Impairment charges

		Bank		Group	
For the year ended 31 December	Note	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Cash and cash equivalents					
Stage 1		**128**	(692)	**128**	(696)
Placement with banks					
Stage 1		**(33)**	(275)	**901**	1,408
Financial assets at amortised cost – loans and advances					
Stage 1	21.(d)	**567,234**	1,346,820	**537,994**	1,351,953
Stage 2	21.(d)	**1,253,154**	626,810	**1,195,147**	659,654
Stage 3	21.(d)	**1,158,009**	2,751,251	**1,168,266**	2,770,675
Financial assets at amortised cost – debt and other instruments					
Stage 1	22.4	**(100,784)**	92,711	**(100,722)**	92,705
Stage 2	22.4	**1,382,944**	(4,162)	**1,382,944**	(4,162)
Stage 3	22.4	**–**	–	**–**	–
Financial assets measured at fair value through other comprehensive income	23.(b)	**–**	–	**–**	–
Contingent liabilities and commitments	48	**–**	–	**–**	–
Investments in subsidiaries	24.3	**–**	–	**–**	–
Investments in associates and joint ventures	25	**–**	–	**–**	–
Property, plant and equipment	26	**–**	35,228	**–**	35,228
Investment properties	28	**–**	–	**–**	–
Others	31.1	**–**	–	**–**	–
Total		**4,260,652**	4,847,692	**4,184,658**	4,906,764

10. Impairment charges (contd.)

10.2 Impact of Management Overlay to impairment charges

Impact to ECL due to Management Overlay

Retail loans and advances of selected sectors which were initially group under Stage 1 moved to Stage 2. As a result, Loans and Advances amounting to Rs. 15,529 Mn. were moved from State 1 to Stage 2 and provision for impairment was increased by Rs. 1,544 Mn. for the year ended 31 December 2021.

Move loans and advances From Stage 1 to Stage 2

	Stage 1	Stage 2	Net Impact
Exposure (Rs. '000)	(15,528,834)	15,528,834	–
Impairment provision (Rs. '000)	(170,259)	1,714,236	1,543,978

Retail loans and advances of selected sectors which were initially group under Stage 2 moved to Stage 3. As a result, Loans and Advances amounting to Rs. 496.4 Mn. were moved from State 2 to Stage 3 and provision for impairment was increased by Rs. 107.4 Mn. for the year ended 31 December 2021.

Move loans and advances from Stage 2 to Stage 3

	Stage 1	Stage 2	Net Impact
Exposure (Rs. '000)	(496,377)	496,377	–
Impairment provision (Rs. '000)	(53,063)	160,465	107,402

Refer Note 21.(f) Impact of COVID-19 to Loan and Advances and ECL provision for more detail on page 315.

11 Personnel expenses

Accounting policy

i Defined contribution plans

The Group operates a defined contribution plan. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Group by the employees and is recorded as an expense under "Personnel expenses". Unpaid contributions are recorded as a liability. The Group contributes to the following defined contribution plans:

(a) Employees' Provident Fund

The Bank and employees contribute 12% and 8% respectively of the employee's monthly gross salary (excluding overtime) to the Provident Fund. The Bank's Provident Fund is an approved fund under the Employees' Provident Fund Act. The Bank guarantees 8% p.a. return to the members of the Employees' Provident Fund.

Subsidiary companies and its employees contribute 12% and 8% respectively to the Employees Provident Fund (EPF) maintained by Central Bank of Sri Lanka.

(b) Employees' Trust Fund

The Group contributes 3% of the employee's monthly gross salary (excluding overtime) to the Employees' Trust Fund maintained by the Employees Trust Fund Board.

ii Defined benefit plans

Contribution to defined benefit plans are recognised in the Income Statement based on an independent actuarial valuation carried out separately for each defined benefit plan in accordance with Sri Lanka Accounting Standard LKAS – 19 on "Employee Benefits".

11. Personnel expenses (contd.)

	Bank		Group	
For the year ended 31 December	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Salary and bonus	**10,393,684**	7,758,229	**10,619,006**	7,918,431
Contributions to defined contribution plans	**930,447**	762,496	**952,177**	778,724
Contributions to defined benefit plans [Note (11. a, b, c, d) and (38)]	**1,414,649**	1,220,620	**1,423,259**	1,227,783
Share based expenses	**–**	–	**–**	–
Others	**231,575**	225,441	**234,800**	227,547
Total	**12,970,355**	9,966,786	**13,229,242**	10,152,485

11. (a) Contribution – Staff pension fund – I

	Bank		Group	
For the year ended 31 December	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Amount recognised as expense	**325,985**	489,286	**325,985**	489,286

The latest actuarial valuation was carried out as of 31 December 2021, by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional Actuaries. (Refer Note 38. (a) 1 on page 347)

11. (b) Contribution – Staff pension fund – II

	Bank		Group	
For the year ended 31 December	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Amount recognised as expense	**892,145**	429,015	**893,069**	429,817

Pension scheme II has been established for the employees who joined the Bank on or after 1 October 1995. Actuarial valuation was carried out by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional Actuaries, on 31 December 2021. (Refer Note 38. (a) 2 on page 350)

11. (c) Contribution – Retired staff medical scheme

	Bank		Group	
For the year ended 31 December	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Amount recognised as expense	**196,519**	302,320	**196,519**	302,320

Retired staff medical scheme has been established for the all employees of the Bank. Actuarial valuation was carried out by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional Actuaries, on 31 December 2021. (Refer Note 38. (a) 3 on page 353)

11. Personnel expenses (contd.)

11. (d) Contribution – Gratuity

For the year ended 31 December	Bank 2021 Rs. '000	Bank 2020 Rs. '000	Group 2021 Rs. '000	Group 2020 Rs. '000
Amount recognised as expense	–	–	7,687	6,360

The staff members of the subsidiary companies are not entitled for pension scheme and hence they are continue to the members of Gratuity Plan as per the provision of Gratuity Act No. 12 of 1983. (Refer Note 38. (a) 4 on page 356)

12 Other expenses

Accounting policy

Other operating expenses are recognised in the Income Statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and maintaining the property, plant and equipment in a state of efficiency has been charged to the Income Statement in arriving at the profit of the year. Provisions in respect of other expenses are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Expenses of depreciation and amortisation of property, plant and equipment and intangible assets are separated from other expenses and disclosed in the face of Income Statement.

For the year ended 31 December	Bank 2021 Rs. '000	Bank 2020 Rs. '000	Group 2021 Rs. '000	Group 2020 Rs. '000
Directors' emoluments	2,425	2,350	5,977	5,984
Auditors' remunerations	5,976	5,014	8,810	7,745
Non-audit fees to auditors	–	–	–	–
Professional and legal expenses	22,512	23,331	31,585	31,776
Deposit insurance premium paid to the CBSL	1,273,321	975,605	1,273,914	976,453
Special fees paid to Treasury	320,000	320,000	320,000	320,000
Office administration and establishment expenses	2,439,372	2,336,658	2,466,599	2,357,209
Others	655,067	595,350	664,728	614,201
Total	4,718,673	4,258,307	4,771,613	4,313,367

13 Tax expenses

Accounting policy

As per Sri Lanka Accounting Standard – LKAS 12 on "Income Taxes", tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxes. Income tax expense is recognised in Income Statement, except to the extent it relates to items recognised directly in Equity or Other Comprehensive Income (OCI).

Current taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current as well as prior years. The tax rates and tax laws used to compute the amount are those that are enacted or subsequently enacted at the reporting date. Accordingly, provision for taxation is made on the basis of the accounting profit for the year as adjusted for taxation purpose in accordance with the provision of the Inland Revenue Act No. 24 of 2017 and the amendment thereto, at the rates specified in Note 13. (a).

Deferred taxation

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

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which they can be used.

The carrying amount of a deferred tax asset is reviewed at each reporting date and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax asset are reassessed at each reporting date and are recognise to the extent that is probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply in the year when the assets are realised or the liabilities are settled, based on tax rates and tax laws that have been enacted or subsequently enacted at the reporting date.

		Bank		Group	
For the year ended 31 December	Note	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Current tax expenses					
Current year		**7,587,940**	6,017,687	**7,682,037**	6,449,560
Prior year's (over)/under provision		**(851,151)**	–	**(912,847)**	659
Deferred tax expenses					
Effect of change in tax rates		**–**	–	**–**	–
Temporary differences	13.(b)	**(554,999)**	(480,978)	**(554,913)**	(480,284)
Prior year's (over)/under provision	13.(b)	**80,000**	–	**79,858**	–
Total		**6,261,790**	5,536,709	**6,294,134**	5,969,936
Effective tax rate (%)		**22.06**	35.39	**22.14**	35.55
Effective tax rate (excluding deferred tax) (%)		**23.74**	38.46	**23.81**	38.41

13. Tax expenses (contd.)

13. (a) Reconciliation of tax expenses

For the year ended 31 December	Bank		Group	
	2021 Rs. '000	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Profit before tax	**28,381,414**	15,644,625	**28,424,952**	16,791,054
Income tax for the period (Accounting profit @ tax rate)	**6,811,539**	4,380,495	**6,821,989**	4,701,495
Adjustment in respect of current income tax of prior year	**(851,151)**	–	**(912,847)**	–
Add: Tax effect of expenses that are not deductible for tax purposes	**2,932,271**	2,853,538	**3,035,202**	2,926,713
(Less): Tax effect of expenses that are deductible for tax purposes	**1,557,873**	739,430	**1,577,157**	749,332
: Tax effect of exempt income	**597,996**	476,916	**597,996**	429,316
Tax expense for the year	**6,736,789**	6,017,687	**6,769,190**	6,449,560
Tax rate	**24%**	28%	**24%**	28%

13. (b) The deferred tax (credit)/charge in the Income Statement comprises the following:

For the year ended 31 December	Bank		Group	
	2021 Rs. '000	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Deferred tax assets	**(383,185)**	(621,711)	**(384,186)**	(621,711)
Deferred tax liabilities	**(91,815)**	140,733	**(90,870)**	141,427
Deferred tax (credit)/charge to Income Statement	**(475,000)**	(480,978)	**(475,056)**	(480,284)

Change of the Income Tax Rate from 28% to 24%

The Bank applied the revised rate of 24% to calculate the income tax and deferred tax liabilities of the Bank/Group , in line with the Inland Revenue Amendment Act No. 10 of 2021 certified on 13 May 2021. There the tax rate revised to 24% w.e.f. 1 January 2020. Income tax/deferred tax liabilities for the comparative periods have been calculated using the tax rate of 28% and the impact on reduction of income Tax rate for the previous financial year has been adjusted to current financial year resulting to decreased current tax expense by Rs. 771 Mn. This includes a reversal of Rs. 851 Mn. against current tax expense and charged Rs. 80 Mn. to deferred tax expense. In addition, the deferred tax expense reversal to OCI would have reduced by Rs. 127 Mn.

14 Earnings per share

Accounting policy

The Group presents basic and diluted Earnings per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss for the year attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any. The Bank does not have dilutive potential ordinary shares as at 31 December 2021.

14. Earnings per share (contd.)

For the year ended 31 December	Bank 2021 Rs. '000	Bank 2020 Rs. '000	Group 2021 Rs. '000	Group 2020 Rs. '000
Net profit attributable to ordinary equity holders	**22,119,624**	10,107,916	**22,130,818**	10,821,118
Net profit attributable to ordinary equity holders adjusted for the effect of dilution	**22,119,624**	10,107,916	**22,130,818**	10,821,118
Weighted average number of ordinary shares for basic earnings per share	**940,000**	940,000	**940,000**	940,000
Effect of dilution	**–**	–	**–**	–
Weighted average number of ordinary shares adjusted for the effect of dilution	**940,000**	940,000	**940,000**	940,000
Basic earnings per ordinary share	**23.53**	10.75	**23.54**	11.51
Diluted earnings per ordinary share	**23.53**	10.75	**23.54**	11.51

14. (a) Weighted average number of ordinary shares for basic and diluted earnings per share

For the year ended 31 December	Outstanding number of shares 2021 Rs. '000	Outstanding number of shares 2020 Rs. '000	Weight average number of shares 2021 Rs. '000	Weight average number of shares 2020 Rs. '000
Number of shares in issue as at 1 January	**940,000**	940,000	**940,000**	940,000
Add: Number of shares issued during the year	**–**	–	**–**	–
Number of ordinary shares basic and diluted earnings per share	**940,000**	940,000	**940,000**	940,000

15 Analysis of financial instruments by measurement basis

Accounting policy

The carrying amounts of financial instruments by category as defined in Sri Lanka Accounting Standard – SLFRS 9 on "Financial Instruments" under headings of the Statement of Financial Position are summarised below:

15. (a) Bank – 2021

	Note	AC Rs. '000	FVPL Rs. '000	FVOCI Rs. '000	Total Rs. '000
Assets					
Cash and cash equivalents	16	7,656,038	–	–	7,656,038
Balances with central banks	17	–	–	–	–
Placements with banks	18	7,120,698	–	–	7,120,698
Derivative financial instruments	19	–	–	–	–
Loans and advances	21	538,941,789	–	–	538,941,789
Debt instruments	20,22 and 23	935,350,052	17,242,953	10,922,236	963,515,242
Equity instruments	20 and 23	–	2,329,980	2,895,358	5,225,338
Total financial assets		1,489,068,577	19,572,933	13,817,594	1,522,459,104

15. Analysis of financial instruments by measurement basis (contd.)

	Note	AC Rs. '000	FVPL Rs. '000	Total Rs. '000
Liabilities				
Due to banks	32	**7,686,553**	–	**7,686,553**
Derivative financial instruments	33	–	–	–
Financial liabilities				
– Due to depositors	35	**1,428,467,385**	–	**1,428,467,385**
– Due to debt securities holders	35	–	–	–
– Due to other borrowers	35	**7,719,532**	–	**7,719,532**
Debt securities issued	37	**37,529,017**	–	**37,529,017**
Total financial liabilities		**1,481,402,487**	–	**1,481,402,487**

AC – Financial assets/liabilities measured at amortised cost
FVPL – Financial assets/liabilities measured at fair value through profit or loss
FVOCI – Financial assets measured at fair value through other comprehensive income

15. (b) Bank – 2020

	Note	AC Rs. '000	FVPL Rs. '000	FVOCI Rs. '000	Total Rs. '000
Assets					
Cash and cash equivalents	16	6,491,963	–	–	6,491,963
Balances with central banks	17	–	–	–	–
Placements with banks	18	13,253,499	–	–	13,253,499
Derivative financial instruments	19	–	19,897	–	19,897
Loans and advances	21	516,795,160	–	–	516,795,160
Debt instruments	20,22 and 23	754,233,344	9,545,998	12,501,874	776,281,216
Equity instruments	20 and 23	–	1,675,748	2,769,948	4,445,696
Total financial assets		1,290,773,966	11,241,643	15,271,822	1,317,287,431

	Note	AC Rs. '000	FVPL Rs. '000	Total Rs. '000
Liabilities				
Due to banks	32	12,862,337	–	12,862,337
Derivative financial instruments	33	–	–	–
Financial liabilities				
– Due to depositors	35	1,237,123,791	–	1,237,123,791
– Due to debt securities holders	35	–	–	–
– Due to other borrowers	35	8,159,591	–	8,159,591
Debt securities issued	37	31,773,753	–	31,773,753
Total financial liabilities		1,289,919,472	–	1,289,919,472

15. Analysis of financial instruments by measurement basis (contd.)

15. (c) Group – 2021

	Note	AC Rs. '000	FVPL Rs. '000	FVOCI Rs. '000	Total Rs. '000
Assets					
Cash and cash equivalents	16	7,721,532	–	–	7,721,532
Balances with central banks	17	7	–	–	7
Placements with banks	18	9,323,663	–	–	9,323,663
Derivative financial instruments	19	–	–	–	–
Loans and advances	21	538,600,866	–	–	538,600,866
Debt instruments	20,22 and 23	940,536,328	38,062,172	12,931,250	991,529,750
Equity instruments	20 and 23	–	2,329,980	3,062,553	5,392,533
Total financial assets		1,496,182,396	40,392,152	15,993,803	1,552,568,350

	Note	AC Rs. '000	FVPL Rs. '000	Total Rs. '000
Liabilities				
Due to banks	32	10,470,191	–	10,470,191
Derivative financial instruments	33	–	–	–
Financial liabilities				
– Due to depositors	35	1,426,724,704	–	1,426,724,704
– Due to debt securities holders	35	–	–	–
– Due to other borrowers	35	27,087,920	–	27,087,920
Debt securities issued	37	37,618,575	–	37,618,575
Total financial liabilities		1,501,901,390	–	1,501,901,390

15. (d) Group – 2020

	Note	AC Rs. '000	FVPL Rs. '000	FVOCI Rs. '000	Total Rs. '000
Assets					
Cash and cash equivalents	16	6,598,595	–	–	6,598,595
Balances with central banks	17	6	–	–	6
Placements with banks	18	17,456,660	–	–	17,456,660
Derivative financial instruments	19	–	19,897	–	19,897
Loans and advances	21	517,833,067	–	–	517,833,067
Debt instruments	20,22 and 23	758,594,934	21,638,390	13,149,882	793,383,206
Equity instruments	20 and 23	–	1,979,554	2,909,959	4,889,513
Total financial assets		1,300,483,262	23,637,841	16,059,841	1,340,180,943

15. Analysis of financial instruments by measurement basis (contd.)

15. (d) Group – 2020 (contd.)

	Note	AC Rs. '000	FVPL Rs. '000	Total Rs. '000
Liabilities				
Due to banks	32	13,339,705	–	13,339,705
Derivative financial instruments	33	–	–	–
Financial liabilities				
– Due to depositors	35	1,237,669,284	–	1,237,669,284
– Due to debt securities holders	35	–	–	–
– Due to other borrowers	35	19,656,090	–	19,656,090
Debt securities issued	37	31,908,279	–	31,908,279
Total financial liabilities		1,302,573,358	–	1,302,573,358

16 Cash and cash equivalents

Accounting policy

Cash and cash equivalents includes cash in hand, balances with banks, money at call and short notice that are subject to an insignificant risk of change in their value. They are recorded in the Financial Statements at their gross values less impairment. The Group has calculated impairment provision as per SLFRS 9 – "Financial Instrument" based on external rating of particular bank.

	Bank		Group	
For the year ended 31 December	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Cash in hand	**3,687,059**	1,901,551	**3,691,618**	1,906,210
Balances with banks	**3,968,959**	4,590,397	**4,029,894**	4,692,371
Money at call and short notice	**245**	112	**245**	112
Gross cash and cash equivalents (*)	**7,656,263**	6,492,060	**7,721,757**	6,598,693
Impairment for expected credit losses	**(225)**	(97)	**(225)**	(98)
Net cash and cash equivalents (*)	**7,656,038**	6,491,963	**7,721,532**	6,598,595

(*) Gross cash and cash equivalents are reported in the Statement of Cash Flows.

17 Balances with central banks

	Bank		Group	
For the year ended 31 December	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Non-statutory balances with central banks				
Central Bank of Sri Lanka	**–**	–	**7**	6
Total	**–**	–	**7**	6

18 Placements with banks

Accounting policy

Placement with banks include short-term deposits placed in banks that are subjected to insignificant risk of changes in fair value, and are used by the Bank and the Group in the management of its short-term commitments. They are recorded in the Financial Statements at their face values or the gross values less impairment, where appropriate. The Group has calculated impairment provision as per SLFRS 9 on "Financial Instrument" based on external rating of particular bank.

	Bank		Group	
For the year ended 31 December	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Placements with banks – Sri Lanka				
Sri Lankan Rupee (LKR)	**–**	–	**2,207,489**	4,206,751
American Dollar (USD)	**3,601,110**	8,809,168	**3,601,110**	8,809,168
EURO (EUR)	**1,232,755**	1,940,426	**1,232,755**	1,940,426
Great British Pound (GBP)	**1,308,872**	1,345,015	**1,308,872**	1,345,015
Australian Dollar (AUD)	**979,639**	1,160,601	**979,639**	1,160,601
Gross placements with banks	**7,122,376**	13,255,210	**9,329,865**	17,461,961
Impairment for expected credit losses	**(1,678)**	(1,711)	**(6,202)**	(5,301)
Net placements with banks	**7,120,698**	13,253,499	**9,323,663**	17,456,660

19 Derivative financial instruments

Accounting policy

Derivatives are financial instruments that derive their value in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and indices. Derivatives are categorised as "trading" unless they are designated as hedging instruments. The Group uses derivatives such as interest rate swaps and forward foreign exchange contracts.

Derivatives recorded at fair value through profit or loss

Derivatives except for derivatives used as hedging instruments are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in "Net trading income".

Derivatives used as hedge instruments

The Group entered into derivative 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 gain/(loss). Any gain or losses in fair value relating to an ineffective portion is recognised immediately in the Income Statements.

19. Derivative financial instruments (contd.)

The accumulated gains and losses recognised in Other Comprehensive Income are reclassified to the Income Statement in the periods in which the hedged item will affect profit or loss. However, when the forecast transaction that is hedged result in the recognised of a non-financial assets or a non-financial liability, the gains and losses previously recognised in Other Comprehensive Income are removed from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meet the criteria for hedge accounting, any cumulative gain or loss recognised in Other Comprehensive Income at that time remains in equity until the forecast transaction is eventually recognised in the Income Statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in Other Comprehensive Income is immediately reclassified to the Income Statement.

19.1 Derivative assets

Bank and Group

As at 31 December	Note	Assets 2021 Rs. '000	Notional amount – 2021 Rs. '000	Assets 2020 Rs. '000	Notional amount – 2020 Rs. '000
Interest rate derivatives					
Interest rate swaps	19.2	–	–	19,897	2,000,000
Foreign currency derivatives					
Currency swaps		–	–	–	–
Total		–	–	19,897	2,000,000

19.2 Swap agreement

Details	Description of the swaps
Swap Instrument	Counter party – DFCC Bank
	Notional amount – LKR 2,000 Mn.
Swap Item	2,000 Mn. Term Loan to Sri Lanka Telecom (SLT) by DFCC
The period when the cash flows are expected to occur	Semi annual interest payment
Termination of agreement	Expired on 20 February 2021
Base interest rate	6 months AWPLR (Average Weighted Prime Lending Rate)

20 Financial assets recognised through profit or loss

Accounting policy

Financial assets are classified as financial assets recognised through profit or loss if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short-term profit or position taking and recorded to fair value. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships. Financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost or fair value through other comprehensive income as per SLFRS 9 on "Financial Instruments".

Financial assets recognised through profit or loss are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognised in "Net gain/(loss) from trading" while interest income and expenses are recorded in "Net interest income" according to the terms of the contract, or when the right to the payment has been established. Dividend income and realised gain or losses are recorded in "Net gain/(loss) from trading".

The Group evaluates its financial assets recognised through profit or loss, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and Management's intention to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets, in rare circumstances.

		Bank		Group	
For the year ended 31 December	Note	2021 Rs. '000	2020 Rs. '000	2021 Rs. '000	2020 Rs. '000
Measured at fair value					
Sri Lanka Government Securities					
Treasury Bills		9,421,673	3,940,500	16,343,128	9,879,603
Treasury Bonds		7,821,281	5,605,498	21,719,045	11,758,787
Equity securities	20.(b)	2,069,513	1,485,655	2,069,513	1,485,655
Unit Trust		260,466	190,093	260,466	493,899
Subtotal		19,572,933	11,221,746	40,392,152	23,617,944
Designated at fair value		–	–	–	–
Total		19,572,933	11,221,746	40,392,152	23,617,944

20. (a) Analysis

	Bank		Group	
For the year ended 31 December	2021 Rs. '000	2020 Rs. '000	2021 Rs. '000	2020 Rs. '000
By collateralisation				
Pledged as collateral	–	–	20,622,579	9,355,916
Unencumbered	19,572,933	11,221,746	19,769,573	14,262,028
Total	19,572,933	11,221,746	40,392,152	23,617,944
By currency				
Sri Lankan Rupee	19,572,933	11,221,746	40,392,152	23,617,944
United States Dollar	–	–	–	–
Total	19,572,933	11,221,746	40,392,152	23,617,944

20. Financial assets recognised through profit or loss (contd.)

20. (b) Equity securities (quoted) – Bank and Group

As at 31 December	2021			2020		
	Number of shares	**Cost Rs. '000**	**Market value Rs. '000**	Number of shares	Cost Rs. '000	Market value Rs. '000
1. Banks						
Commercial Bank of Ceylon PLC	**1,054,474**	**143,015**	**83,620**	1,030,963	143,015	83,405
Commercial Bank of Ceylon PLC (NV)	**293,166**	**34,889**	**21,108**	285,726	34,889	20,029
DFCC Bank	**453,088**	**86,002**	**27,185**	432,556	86,002	28,246
Hatton National Bank PLC (NV)	**–**	**–**	**–**	300,837	30,652	30,264
Sampath Bank PLC	**2,757,478**	**201,346**	**143,665**	556,917	147,608	75,518
Nation Trust Bank PLC	**2,284,901**	**141,097**	**125,670**	2,331,061	143,948	139,864
National Development Bank PLC	**745,611**	**52,715**	**51,372**	–	–	–
Subtotal		**659,064**	**452,620**		586,113	377,326
2. Capital Goods						
Aitken Spence PLC	**–**	**–**	**–**	2,493,516	294,681	144,125
Access Engineering PLC	**1,825,023**	**69,788**	**58,218**	3,470,023	132,692	85,363
ACL Cables PLC	**717,331**	**71,274**	**71,912**	–	–	–
Browns & Company PLC	**–**	**–**	**–**	811	259	85
Colombo Dockyard PLC	**774,494**	**172,877**	**61,495**	1,212,327	270,607	103,411
Renuka Holdings PLC (NV)	**–**	**–**	**–**	466,438	11,307	5,131
Lanka Ceramic PLC	**25,589**	**3,463**	**3,838**	89,190	12,069	12,308
Hemas Holdings PLC	**1,799,843**	**148,975**	**120,409**	673,843	47,288	67,317
Hayleys PLC	**711,159**	**67,966**	**92,451**	–	–	–
John Keells Holdings PLC	**3,194,987**	**458,997**	**479,248**	1,361,630	190,726	203,700
Vallibel One PLC	**–**	**–**	**–**	2,485,454	57,397	64,622
Richard Pieris & Company PLC	**1,604,084**	**31,939**	**39,460**	–	–	–
Subtotal		**1,025,279**	**927,033**		1,017,027	686,062
3. Consumer Services						
Asian Hotels and Properties PLC	**1,208,119**	**94,278**	**53,278**	1,366,132	106,609	58,607
Aitken Spence Hotel Holdings PLC	**2,035,726**	**182,935**	**86,111**	2,102,133	188,903	67,899
Ceylon Hotels Corporation PLC	**–**	**–**	**–**	3,975,017	128,776	53,663
John Keells Hotels PLC	**2,011,205**	**37,557**	**29,565**	2,011,205	37,557	22,123
Lighthouse Hotels PLC	**1,175,667**	**71,492**	**41,031**	1,175,667	71,492	41,854
Marawila Resorts PLC	**–**	**–**	**–**	699,556	5,915	1,469
The Kingsbury PLC	**3,669,712**	**41,556**	**34,862**	2,871,666	65,038	34,173
Jetwing Symphony PLC	**1,300,000**	**19,500**	**16,380**	1,300,000	19,500	12,480
Subtotal		**447,318**	**261,227**		623,791	292,268
4. Consumer Durables and Apparel						
Teejay Lanka PLC	**2,029,737**	**79,646**	**90,120**	–	–	–
Subtotal		**79,646**	**90,120**		–	–

20. Financial assets recognised through profit or loss (contd.)

20. (b) Equity securities (quoted) – Bank and Group (contd.)

As at 31 December	2021			2020		
	Number of shares	Cost Rs. '000	Market value Rs. '000	Number of shares	Cost Rs. '000	Market value Rs. '000
5. Diversified Financials						
LOLC Finance PLC	–	–	–	3,628,769	40,148	13,064
Subtotal		–	–		40,148	13,064
6. Food Beverage and Tobacco						
Browns Investments PLC	–	–	–	2,327,153	11,636	10,007
Melstacorp PLC	1,356,817	71,652	76,117	–	–	–
Subtotal		71,652	76,117		11,636	10,007
7. Materials						
Tokyo Cement Company (Lanka) PLC	714,762	41,817	42,743	–	–	–
Tokyo Cement Company (Lanka) PLC (NV)	1,135,906	62,334	56,455	–	–	–
Dipped Products PLC	1,136,337	59,363	57,612	–	–	–
Subtotal		163,514	156,810		–	–
8. Insurance						
Janashakthi Insurance Company PLC	881,521	24,785	27,063	–	–	–
Subtotal		24,785	27,063		–	–
9. Real Estate						
Overseas Reality (Ceylon) PLC	–	–	–	943,473	23,777	13,586
Subtotal		–	–		23,777	13,586
10. Telecommunication Services						
Dialog Axiata PLC	3,738,360	81,332	40,748	3,738,360	81,332	46,356
Subtotal		81,332	40,748		81,332	46,356
11. Utilities						
LVL Energy Fund PLC	3,597,704	35,977	37,776	4,606,600	46,066	46,987
Subtotal		35,977	37,776		46,066	46,987
Total		2,588,567	2,069,513		2,429,889	1,485,655

21 Financial assets at amortised cost – Loans and advances

Accounting policy

Loans and advances include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Group intends to sell immediately or in the near term and those that the Group, upon initial recognition, designates as at fair value through profit or loss
- Those that the Group, upon initial recognition, designates financial assets measured at fair value through other comprehensive income

"Loans and advances" include amounts due from banks and other customers. After initial measurement, loans and advances are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in "Interest income" in the Income Statement. The losses arising from impairment are recognised in "Impairment charge for loans and other losses" in the Income Statement.

From 1 January 2018, the Bank only measures loans and advances at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding

Details of business model and SPPI test are given in Notes 2.5.1.4.1 and 2.5.1.4.2 on page 277.

	Bank		Group	
For the year ended 31 December	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Gross loans and advances				
Non subject to ECL*	**33,230,530**	34,409,823	**32,045,317**	33,396,807
Stage 1**	**475,181,540**	453,892,412	**475,946,193**	455,676,339
Stage 2	**22,500,946**	20,543,620	**22,608,174**	20,842,025
Stage 3	**19,998,993**	16,941,127	**21,449,544**	18,489,542
Gross loans and advances	**550,912,009**	525,786,983	**552,049,228**	528,404,713
(Less): Accumulated impairment under:				
Stage 1	**3,515,327**	2,948,093	**3,597,035**	3,059,041
Stage 2	**2,150,965**	897,811	**2,168,833**	973,686
Stage 3	**6,303,928**	5,145,919	**7,682,494**	6,538,919
Total Impairment	**11,970,220**	8,991,823	**13,448,362**	10,571,646
Net loans and advances	**538,941,789**	516,795,160	**538,600,866**	517,833,067

*This mainly includes Loan against deposit and Securities purchased under resale agreements.

** Stage 1 loans for the year 2021 includes treasury guaranteed loans of Rs. 74, 466.4 Mn. for which impairment provision amounted to zero, as the LGD applied for such loans is zero.

21. Financial assets at amortised cost – Loans and advances (contd.)

21. (a) Analysis by product

As at 31 December	Note	Bank 2021 Rs. '000	Bank 2020 Rs. '000	Group 2021 Rs. '000	Group 2020 Rs. '000
By product					
Trade finance		–	–	–	–
Central Bank Treasury Bills		–	–	–	–
Lease rental and hire purchase receivable	21.(e)	–	–	276,606	521,293
Pawning		52,193,260	42,398,950	52,195,389	42,437,557
Staff loans		13,348,092	11,330,749	13,641,981	11,479,896
Term loans					
Short-term		434,945	595,322	980,569	1,112,147
Long-term		477,330,159	462,663,155	478,545,545	465,085,825
Others					
Sri Lanka Government Securities		–	–	–	–
Loan to Government		2,075,000	2,075,000	2,075,000	2,075,000
Securities purchased under resale agreements		5,530,553	6,723,807	4,334,138	5,692,995
Gross total		550,912,009	525,786,983	552,049,228	528,404,713

21. (b) Analysis by currency

As at 31 December	Bank 2021 Rs. '000	Bank 2020 Rs. '000	Group 2021 Rs. '000	Group 2020 Rs. '000
By currency				
Sri Lankan Rupee	549,105,259	520,402,382	550,242,478	523,020,112
United States Dollar	1,806,750	5,384,601	1,806,750	5,384,601
Gross total	550,912,009	525,786,983	552,049,228	528,404,713

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21. Financial assets at amortised cost – Loans and advances (contd.)

21. (c) Analysis by industry

	Bank		Group	
As at 31 December	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
By industry				
Agriculture and fishing	**32,357,760**	33,067,190	**32,802,339**	33,728,060
Manufacturing	**–**	–	**754,033**	767,442
Tourism	**65,237**	63,691	**132,859**	162,693
Transport	**1,438,822**	1,643,128	**1,495,766**	1,720,111
Construction/housing	**165,772,167**	152,457,313	**166,260,959**	152,905,473
Traders	**–**	–	**540,111**	623,817
New economy	**–**	–	**36,459**	40,889
Others				
Financial and business services	**3,856,637**	8,540,220	**3,461,528**	8,775,528
Infrastructure	**62,602,215**	96,579,186	**62,711,714**	96,742,844
Power and energy	**11,906,155**	15,963,463	**11,906,155**	15,963,463
Education	**9,369,970**	9,071,736	**9,378,569**	9,084,023
Personal/pawning/other	**263,543,047**	208,401,056	**262,568,737**	207,890,370
Gross total	**550,912,009**	525,786,983	**552,049,228**	528,404,713

Note: Bank has converted Rs. 59,365.66 Mn. worth of outstanding Loans of RDA as Debentures (covered by Treasury Guarantee) on 1 January 2021. Therefore it has been classified from Loans and advances to debt and other instruments as at 31 December 2021.

21. (d) Movements in impairment during the year

Accounting policy

Individual assessment of impairment

For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers as well as financial assets at amortised cost – debt and other instruments), the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of a impairment provision account and the amount of the loss is recognised in the Income Statement. Interest income continues to be accrued on the carrying amount at the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of "Interest and similar income".

21. Financial assets at amortised cost – Loans and advances (contd.)

21. (d) Movements in impairment during the year (contd.)

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. If the Group has reclassified trading assets to loans and receivables, the discount rate for measuring any impairment loss is the new EIR determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increased or decreased because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the "Credit loss expense".

Collective assessment of impairment

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of expected loss experience for assets with credit risk characteristics similar to those in the Group. Expected loss experience is adjusted on the basis of current observable data to reflect the effect of current conditions on which the historical loss experience is based and to remove the effect of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Write-off of loans and advances

The Group's accounting policy for write-off under SLFRS 9 remains the same as it was under LKAS 39. Loans (and the related impairment allowance accounts) are normally written off, either partially or in entirety, when there is no realistic prospect of recovery and all possible steps have been exhausted in recovering dues. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. If a write-off is later recovered, the recovery is credited to "other operating income".

Collateral valuation

The Group uses collateral where possible to mitigate the risk on financial assets. The collateral comes in various forms such as cash, gold, Government Securities. To the extent possible, the Group uses active market data for valuing financial assets held as collaterals.

Details of impairment policy are given in Note 2.5.2 on page 281.

21. Financial assets at amortised cost – Loans and advances (contd.)

21. (d) Movements in impairment during the year (contd.)

As at 31 December	Bank 2021 Rs. '000	Bank 2020 Rs. '000	Group 2021 Rs. '000	Group 2020 Rs. '000
Stage 1				
Balance as at 1 January	**2,948,093**	1,601,273	**3,059,041**	1,707,088
Charge/(Write back) to Income Statement	**567,234**	1,346,820	**537,994**	1,351,953
Write-off during the year	**–**	–	**–**	–
Other movements	**–**	–	**–**	–
Balance as at 31 December	**3,515,327**	2,948,093	**3,597,035**	3,059,041
Stage 2				
Balance as at 1 January	**897,811**	271,001	**973,686**	314,032
Charge/(Write back) to Income Statement	**1,253,154**	626,810	**1,195,147**	659,654
Write-off during the year	**–**	–	**–**	–
Other movements	**–**	–	**–**	–
Balance as at 31 December	**2,150,965**	897,811	**2,168,833**	973,686
Stage 3				
Balance as at 1 January	**5,145,919**	2,394,667	**6,538,919**	3,783,076
Charge/(Write back) to Income Statement	**1,201,801**	2,763,609	**1,212,058**	2,783,032
Write-off during the year	**(43,792)**	(12,358)	**(44,593)**	(12,358)
Other movements	**–**	–	**(23,891)**	(14,831)
Balance as at 31 December	**6,303,928**	5,145,919	**7,682,494**	6,538,919
Total impairment provision as at 31 December	**11,970,220**	8,991,823	**13,448,362**	10,571,646

21. (e) Lease and hire purchase receivables

As at 31 December	Bank 2021 Rs. '000	Bank 2020 Rs. '000	Group 2021 Rs. '000	Group 2020 Rs. '000
Gross lease and hire purchased receivables	**–**	–	**276,877**	521,565
Unearned interest asset	**–**	–	**67,669**	148,555
Unearned interest liability	**–**	–	**(67,940)**	(148,827)
Net lease and hire purchased receivables	**–**	–	**276,606**	521,293

21. Financial assets at amortised cost – Loans and advances (contd.)

21. (f) Impact of COVID-19 to Loan and Advances and ECL provision

Overview

CORONAVIRUS (COVID-19) The COVID-19 pandemic continues to cause major disruptions to community health and economic activities with wide-ranging impacts across many business sectors in Locally and Globally. During the 2021 financial year, the spread of the Delta variant resulted in new and extended lockdowns in Sri Lanka. The Bank continues to offer support to our customers to counteract the impact of COVID-19, however loan deferrals at 31 December 2021 were less significant than the previous financial year. Facilities which transitioned to interest-only or took up term extensions offered as a result of COVID-19, are now subsumed within the normal loan population and are managed accordingly. The ramifications of COVID-19 remain uncertain and it is difficult to predict the ongoing impact or duration of the pandemic and relaxation of restrictions. In preparing the Financial Statements, we made various accounting estimates for future events based on forecasts of economic conditions which reflect expectations and assumptions as at 31 December 2021 that we believe are reasonable under the circumstances.

We continue to operate in an uncertain macroeconomic environment. Impact on estimates and assumptions as disclosed in Note 2, the preparation of the Consolidated Financial Statements in accordance with SLFRS requires Management to make estimates and assumptions that affect the recognised and measured amounts of assets, liabilities, net income, comprehensive income and related disclosures. Significant estimates and assumptions are made in the areas of the valuation of financial instruments, allowance for credit losses, asset impairment, income taxes, provisions and contingent liabilities, post-employment and other long-term benefit plan assumptions. Actual results could differ from these estimates and assumptions. The COVID-19 pandemic gives rise to heightened uncertainty as it relates to accounting estimates and assumptions and increases the need to apply judgement in evaluating the economic and market environment and its impact on significant estimates. This particularly impacts estimates and assumptions relating to allowance for credit losses, valuation of financial instruments, and asset impairment.

While pervasive across the Financial Statements, the estimation uncertainty is predominantly related to expected credit losses (ECL) where we recognised a reduction of credit impairment of Rs. 4,224 Mn. pre-tax in the 2021 financial year (2020: Rs. 4,874 Mn. charge). During 2020 the non-Performing loans increase was Rs. 7,168 Mn. (NPL was Rs. 14,532 Mn. in 2020) and 2021 non-performing loan increase was only Rs. 1,750 Mn. (NPL was Rs. 16,282 Mn. 2021). This has directly impacted on the reduction of incurred loss (impairment) part during 2021 financial year.

Valuation of financial instruments

Estimating fair value requires the application of judgement. The type and level of judgement required is largely dependent on the amount of observable market information available. The COVID-19 pandemic has increased market volatility and has negatively impacted the trading levels of certain financial instruments. As a result and as part of our process to determine the fair value of financial instruments, since the onset of the pandemic, we have applied a heightened level of judgement to a broader population of financial instruments than would otherwise generally be required with the objective of determining the fair value that is most representative of those financial instruments. For further details of the valuation of our financial assets and liabilities, see Note 56.

Allowance for credit impairment

The determination of whether a SICR has occurred in the COVID-19 pandemic required a heightened application of judgement in a number of areas, including with respect to the evaluation of the evolving macroeconomic environment, the various client relief programmes we have provided to our clients and the unprecedented level of Government support being provided to individuals and businesses. Interest or principal deferments pursuant to various relief programmes provided to both our retail and business and Government clients have not automatically resulted in a SICR that would trigger migration to Stage 2 by reason only that a deferral under the programme was granted.

21. Financial assets at amortised cost – Loans and advances (contd.)

21. (f) Impact of COVID-19 to Loan and Advances and ECL provision (contd.)

Allowance for credit impairment (contd)

However, the inclusion of a loan in a relief programme did not preclude its migration to Stage 2 if we determined that there was a SICR based on our assessment of the changes in the risk of a default occurring over the expected life of a loan. We applied judgement in the determination of the industries most impacted by the COVID-19 pandemic and assessed the associated impact on risk ratings after considering the benefit of Government support measuring both 12-month and lifetime expected credit losses. Our ECL models leverage the PD, LGD, and EAD parameters. For standardised business and Government portfolios, available long-run PDs, LGDs and EADs are also converted to point-in-time parameters through the incorporation of forward-looking information for the purpose of measuring ECL under SLFRS 9.

Significant judgement is involved in determining which forward-looking information variables are relevant for portfolios and in determining the extent by which through-the-cycle parameters should be adjusted for forward-looking information to determine point-in-time parameters. While changes in the set of forward-looking information variables used to convert through-the-cycle PDs, LGDs and EADs into point-in-time parameters can either increase or decrease ECL allowances in a particular period, changes to the mapping of forward-looking information variables to particular portfolios are expected to be infrequent. However, changes in the particular forward-looking information parameters used to quantify point-in-time parameters will be frequent as our forecasts are updated on a quarterly basis. Increases in the level of pessimism in the forward-looking information variables will cause increases in ECL, while increases in the level of optimism in the forward-looking information variables will cause decreases in ECL. These increases and decreases could be significant in any particular period and will start to occur in the period where our outlook of the future changes. With respect to the lifetime of a financial instrument, the maximum period considered when measuring ECL is the maximum contractual period over which we are exposed to credit risk.

Impact of the COVID-19 pandemic the measurement of ECL in the COVID-19 pandemic required a heightened application of judgement in a number of areas, including with respect to our expectations concerning the degree to which forward-looking information would correlate with credit losses in the current environment characterised by unprecedented levels of Government support relative to the historical experience in our models. We applied judgement with respect to the degree that certain industries and portfolios would be negatively impacted by the COVID-19 pandemic and the degree that various Government support programmes are expected to limit credit losses. Forecasting forward-looking information for multiple scenarios and determining the probability weighting of the scenarios as indicated above, forward-looking information is incorporated into both our assessment of whether a financial asset has experienced a SICR since its initial recognition and in our estimate of ECL.

Key forward-looking information variables include GDP growth, Inflation, Interest rate , Exchange rates and unemployment. For most of our loan portfolios, our forecast of forward-looking information variables is established from a “base case” or most likely scenario that is used internally by Management for planning and forecasting purposes. In forming the base case scenario, we consider the forecasts of international organisations and monetary authorities such as the International Monetary Fund (IMF), and the Central Bank of Sri Lanka, as well as private sector economists. We then derive reasonably possible “upside case” and “downside case” scenarios using external forecasts that are above and below our base case and the application of Management judgement. A probability weighting is assigned to our base case, upside case and downside case scenarios based on Management judgement. In general, a worsening of our outlook on forecasted forward-looking information for each scenario, an increase in the probability of the downside case scenario occurring, or a decrease in the probability of the upside case scenario occurring will increase the estimated ECL allowance.

In contrast, an improvement in our outlook on forecasted forward-looking information, an increase in the probability of the upside case scenario occurring, or a decrease in the probability of the downside case scenario occurring will have the opposite impact. It is not possible to meaningfully isolate the impact of changes in the various forward-looking information variables for a particular scenario because of both the interrelationship between the variables and the interrelationship between the level of pessimism inherent in a particular scenario and its probability of occurring. The forecasting of forward-looking information and the determination of scenario weightings in the COVID-19 pandemic required a heightened application of judgement in a number of areas as our forecast reflects numerous assumptions and uncertainties regarding the economic impact of the COVID-19 pandemic. The following table provides weightage used for the base case, upside case and downside case scenario forecasts for select forward-looking information variables used to estimate our ECL.

21. Financial assets at amortised cost – Loans and advances (contd.)

21. (f) Impact of COVID-19 to Loan and Advances and ECL provision (contd.)

Scenario probability weighting (Bank)

As at 31 December	2021 %	2020 %
Base case	**25**	25
Upside case	**15**	25
Downside case	**60**	50

Use of Management overlays

Management overlays to ECL allowance estimates are adjustments which we use in circumstances where we judge that our existing inputs, assumptions and model techniques do not capture all relevant risk factors. The emergence of new macroeconomic, microeconomic or political events, along with expected changes to parameters, models or data that are not incorporated in our current parameters, internal risk rating migrations, or forward-looking information are examples of such circumstances.

Impact of the COVID-19 pandemic to address the uncertainties inherent in the current environment, we utilised Management overlays with respect to the impact that the COVID-19 pandemic will have on the migration of certain business and Government exposures that we believe are the most susceptible to these risks and the resulting measurement of the ECL for those exposures. The mitigating impact of Government support measures was considered in the determination of these overlays to the extent not already reflected in our models. In addition, Management overlays were applied with respect to the impact of Government support and client relief measures on the migration of retail exposures and the resulting measurement of the ECL for those exposures. The use of Management overlays requires the application of significant judgement that impacts the amount of ECL allowances recognised. Actual credit losses could differ materially from those reflected in our estimates. The forward PDs are applied to all the customers despite of their category in the debt moratorium or payment deferment.

All the Corporate clients were assessed individually based on their historical payment patterns, COVID-19 economic impact to their sector and geographical area, expected recovery of the sector, financial strength of the entity, Government and CBSL support, and other holistic factors. Based on the assessment some borrowers were moved from Stage 1 to Stage 2 (SICR) and some borrowers were moved from stage two to stage three (due to expected cashflow impairment) despite of their past due status.

The portfolio level impairment assessments were carried out for the individual borrowers. The borrowers were allocated between stages based on their sector and Management judgement. Based on the assessment some borrowers were moved from stage one to stage two (SICR) and some borrowers were moved from Stage 2 to Stage 3 (due to expected cashflow impairment) despite of their past due status.

Impact to ECL due to Management Overlay

Retail loans and advances of selected sectors which were initially group under Stage 1 moved to Stage 2. As a result, Loans and Advances amounting to Rs. 15,529 Mn. were moved from State 1 to Stage 2 and provision for impairment was increased by Rs. 1,544 Mn. for the year ended 31 December 2021.

21. Financial assets at amortised cost – Loans and advances (contd.)

21. (f) Impact of COVID-19 to Loan and Advances and ECL provision (contd.)

Move loans and advances from Stage 1 to Stage 2

	Stage 1 Rs. '000	Stage 2 Rs. '000	Net impact Rs. '000
Exposure	(15,528,834)	15,528,834	–
Impairment provision	(170,259)	1,714,236	1,543,978

Retail loans and advances of selected sectors which were initially group under Stage 2 moved to Stage 3. As a result, Loans and Advances amounting to Rs. 496.4 Mn. were moved from State 2 to Stage 3 and provision for impairment was increased by Rs. 107.4 Mn. for the year ended 31 December 2021.

Move loans and advances from Stage 2 to Stage 3

	Stage 1 Rs. '000	Stage 2 Rs. '000	Net impact Rs. '000
Exposure	(496,377)	496,377	–
Impairment provision	(53,063)	160,465	107,402

22 Financial assets at amortised cost – Debt and other instruments

Accounting policy

Financial assets at amortised cost – debt and other instruments are non-derivative financial assets with fixed or determinable payments and fixed maturities, for which, the Group has the intention and ability to hold to maturity. After initial measurement, financial assets at amortised cost – debt and other instruments are subsequently measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in "Interest and similar income" in the Income Statement. The losses arising from impairment of such investments are recognised in the Income Statement under "Impairment charges".

		Bank		Group	
As at 31 December	Note	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Sri Lanka Government Securities					
Treasury Bills		**20,183,054**	30,153,175	**20,183,054**	30,153,175
Treasury Bonds		**772,929,966**	684,825,110	**777,131,964**	688,509,857
Sri Lanka Development Bonds (SLDB)		**14,165,804**	3,893,458	**14,165,804**	3,893,458
Debentures (Treasury Guarantee)		**126,305,334**	32,147,086	**126,305,334**	32,147,086
Corporate debt instruments	22.1	**2,696,232**	2,041,261	**3,680,708**	2,407,970
Trust certificates	22.2	**454,826**	1,276,258	**454,826**	1,276,258
Commercial papers		**–**	–	**6,000**	316,270
Other investments		**–**	–	**165,595**	165,595
Gross total		**936,735,215**	754,336,347	**942,093,284**	758,869,668
Impairment for expected credit losses		**(1,385,163)**	(103,002)	**(1,556,956)**	(274,734)
Net total		**935,350,052**	754,233,344	**940,536,328**	758,594,934

22. Financial assets at amortised cost – Debt and other instruments (contd.)

22.1 Corporate Debt Instruments

	Bank			
As at 31 December	**2021 Number of debentures**	**2021 Carrying value**	2020 Number of debentures	2020 Carrying value
People's Leasing PLC	**7,064,900**	**757,901**	5,000,000	543,825
Commercial Leasing & Finance PLC	**7,500,000**	**771,380**	7,500,000	769,722
Hayleys PLC	**7,000,000**	**724,049**	7,000,000	727,714
Commercial Credit and Finance PLC	**1,000,000**	**107,447**	–	–
Nations Trust Bank PLC	**3,212,800**	**335,455**	–	–
Net total		**2,696,232**		2,041,261

22.2 Trust Certificates

	Bank		Group	
As at 31 December	**2021 Carrying value**	2020 Carrying value	**2021 Carrying value**	2020 Carrying value
Arpico Finance PLC	**–**	57,126	**–**	57,126
Commercial Leasing & Finance PLC	**328,515**	844,690	**328,515**	844,690
Prime Finance PLC	**–**	59,070	**–**	59,070
Senkadagala Finance PLC	**–**	17,523	**–**	17,523
Trade Finance & Investments PLC	**–**	32,343	**–**	32,343
Vallibel Finance PLC	**126,311**	265,505	**126,311**	265,505
Net total	**454,826**	1,276,258	**454,826**	1,276,258

22.3 Analysis

	Bank		Group	
As at 31 December	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
By collateralisation				
Pledged as collateral	**8,191,410**	13,119,100	**11,632,510**	16,989,266
Unencumbered	**928,543,805**	741,217,247	**930,460,774**	741,880,402
Gross total	**936,735,215**	754,336,347	**942,093,284**	758,869,668
By currency				
Sri Lankan Rupee	**922,569,411**	750,442,889	**927,927,480**	754,976,210
United States Dollar	**14,165,804**	3,893,458	**14,165,804**	3,893,458
Gross total	**936,735,215**	754,336,347	**942,093,284**	758,869,668

22. Financial assets at amortised cost – Debt and other instruments (contd.)

22.4 Movements in impairment during the year

As at 31 December	Bank 2021 Rs. '000	Bank 2020 Rs. '000	Group 2021 Rs. '000	Group 2020 Rs. '000
Stage 1				
Opening balance as at 1 January	101,312	8,601	101,450	8,745
Charge/(Write back) to Income Statement	(100,784)	92,711	(100,722)	92,705
Write-off during the year	–	–	–	–
Other movements	–	–	–	–
Balance as at 31 December	528	101,312	728	101,450
Stage 2				
Balance as at 1 January	1,690	5,852	1,690	5,852
Charge/(Write back) to Income Statement	1,382,944	(4,162)	1,382,944	(4,162)
Write-off during the year	–	–	–	–
Other movements	–	–	–	–
Balance as at 31 December	1,384,634	1,690	1,384,634	1,690
Stage 3				
Balance as at 1 January	–	–	171,595	171,595
Charge/(Write back) to Income Statement	–	–	–	–
Write-off during the year	–	–	–	–
Other movements	–	–	–	–
Balance as at 31 December	–	–	171,595	171,595
Total impairment provision as at 31 December	1,385,163	103,002	1,556,956	274,734

23 Financial assets at fair value through other comprehensive income

Accounting policy

Financial Assets at Fair Value through Other Comprehensive Income include equity and debt securities. Equity investments classified as Fair Value through Other Comprehensive Income are those which are held as strategic investment. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, financial assets at fair value through other comprehensive income are subsequently measured at fair value. Financial assets at fair value through other comprehensive income can be divided into two categories as follows:

i. Equity instruments fair value through other comprehensive income

Upon initial recognition, the Group occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under LKAS 32 on “Financial Instruments: Presentation” and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

23. Financial assets at fair value through other comprehensive income (contd.)

Unrealised gains and losses are recognised directly in equity (Other Comprehensive Income) in the "OCI reserve". Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

Equity investments under FVOCI that do not have quoted market price and whose fair value cannot be reliably measured shall be measured at cost.

ii. Debt instruments at fair value through other comprehensive income

The Group applies the new category under SLFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets.
- The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income, ECL and reversals are recognised in profit or loss. On de-recognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

		Bank		Group	
As at 31 December	Note	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Sri Lanka Government Securities					
Treasury Bills	23.(c)	**–**	1,475,952	**–**	1,475,952
Treasury Bonds	23.(c)	**10,922,236**	11,025,922	**12,931,250**	11,673,930
Equity securities					
Quoted equity securities	23.(d)	**2,674,004**	2,514,374	**2,839,035**	2,652,221
Unquoted equity securities	23.(e)	**221,354**	255,574	**265,994**	300,215
Impairment for expected credit losses		**–**	–	**(42,476)**	(42,476)
Net financial assets at fair value through other comprehensive income		**13,817,594**	15,271,822	**15,993,803**	16,059,841

23. Financial assets at fair value through other comprehensive income (contd.)

23. (a) Analysis

	Bank		Group	
As at 31 December	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
By collateralisation				
Pledged as collateral	**–**	–	**1,928,959**	524,981
Unencumbered	**13,817,594**	15,271,822	**14,064,844**	15,534,860
Gross total	**13,817,594**	15,271,822	**15,993,803**	16,059,841
By currency				
Sri Lankan Rupee	**13,817,594**	15,271,822	**15,993,803**	16,059,841
United States Dollar	**–**	–	**–**	–
Gross total	**13,817,594**	15,271,822	**15,993,803**	16,059,841

23. (b) Movements in impairment during the year

No impairment movement during the year.

23. (c) Sri Lanka Government Securities

	2021 – Bank			2020 – 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 Bills	**–**	**–**	**–**	1,500,000	1,401,869	1,475,952
Sri Lanka Government Securities – Treasury Bonds	**10,950,000**	**11,342,019**	**10,922,236**	10,450,000	10,852,162	11,025,922
		11,342,019	**10,922,236**		12,254,031	12,501,874

	2021 – Group			2020 – 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	**–**	**–**	**–**	1,500,000	1,401,869	1,475,952
Sri Lanka Government Securities – Treasury Bonds	**12,927,200**	**13,433,931**	**12,931,250**	11,016,666	11,482,250	11,673,930
		13,433,931	**12,931,250**		12,884,119	13,149,882

23. Financial assets at fair value through other comprehensive income (contd.)

23. (d) Quoted investments – Equity securities – Bank and Group

	2021 – Bank			2020 – Bank		
	Number of shares	Cost Rs. '000	Fair value Rs. '000	Number of shares	Cost Rs. '000	Fair value Rs. '000
Hatton National Bank PLC	12,075,700	1,730,274	1,630,220	11,773,268	1,730,274	1,489,318
Sri Lanka Telecom PLC	13,158,700	445,643	510,558	13,158,700	445,643	440,816
People's Leasing & Finance PLC	49,834,269	832,312	533,227	47,116,037	830,177	584,239
		3,008,229	2,674,004		3,006,094	2,514,374

	2021 – Group			2020 – Group		
	Number of shares	Cost Rs. '000	Fair value Rs. '000	Number of shares	Cost Rs. '000	Fair value Rs. '000
Hatton National Bank PLC	12,075,700	1,730,274	1,630,220	11,773,268	1,730,274	1,489,318
Sri Lanka Telecom PLC	13,158,700	445,643	510,558	13,158,700	445,643	440,816
People's Leasing Company PLC	49,834,269	832,312	533,227	47,116,037	830,177	584,239
National Development Bank	16,397	1,283	1,130	16,397	1,283	1,281
Commercial Bank PLC	220	10	17	216	10	17
Lanka ORIX Leasing Company	200	1	232	200	1	27
Sampath Bank PLC	10,827	311	564	3,609	311	489
Watawala Plantation PLC	4,046	21	526	4,046	21	229
Trans Asia Hotel PLC	4,000	35	220	4,000	35	264
Lanka Ceramic PLC	917	24	138	917	24	126
Lanka Walltile PLC	585	2	73	117	2	17
Kelani Valley Plantations PLC	11,000	198	967	5,500	198	435
Hapugastenna Plantations PLC	100	3	4	100	3	2
Aitken Spence PLC	18,000	160	1,483	18,000	160	1,040
Pan Asia Bank PLC	10,298,499	96,012	159,627	10,298,499	96,012	133,880
Hatton Plantations PLC	4,000	30	50	4,000	30	40
		3,106,320	2,839,035		3,104,184	2,652,221

23. (e) Unquoted investments – Equity securities

	2021 – Bank			2020 – 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 of Ceylon Limited	20,000	127	127	20,000	127	127
Investment – Regional Development Bank (RDB)	16,452,126	164,521	163,863	16,452,126	164,521	198,083
Impairment Provision		–	–		–	–
		222,012	221,354		222,012	255,574

23. Financial assets at fair value through other comprehensive income (contd.)

23. (e) Unquoted investments – Equity securities (contd.)

	2021 – Group			2020 – 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	32,093	57,528	57,528	32,093	57,528	57,528
Investment – Associated Newspapers of Ceylon Limited	20,000	127	127	20,000	127	127
Investment – Regional Development Bank (RDB)	16,452,126	164,521	163,863	16,452,126	164,521	198,083
Investment – Sri Lanka Financial Services Bureau Ltd.	200,000	2,000	2,000	200,000	2,000	2,000
Pramuka Merchant Corporation	500,000	5,000	5,000	500,000	5,000	5,000
Prime Development & Constructions	230,000	2,300	2,300	230,000	2,300	2,300
Janashakthi Life	2,500,000	25,000	25,000	2,500,000	25,000	25,000
Janashakthi Holding	1,000,000	10,000	10,000	1,000,000	10,000	10,000
Vanik Incorporation	17,000	176	176	17,000	176	176
Gross Total		266,652	265,994		266,652	300,215
Impairment provision		–	(42,476)		–	(42,476)
Net Total		266,652	223,518		266,652	257,739

All unquoted equities in financial assets measured at fair value through other comprehensive income (except RDB) are recorded at cost, since its fair value can not be reliably estimated. There is no active market for these investments and Group intends to hold it for the long term. The investment in RDB shares have been fair valued using a valuation model based on observable data.

24 Investments in subsidiaries GRI 102-10

Accounting policy

Investments in subsidiary companies are accounted at cost less allowance for impairment in Financial Statements of the Bank. The net assets of subsidiary companies are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of investment is estimated and the impairment loss is recognised to the extent of its loss in net assets.

As at 31 December	2021	2020	2021		2020	
	%	%	Cost Rs. '000	Valuation* Rs. '000	Cost Rs. '000	Valuation* Rs. '000
Unquoted equity investments						
NSB Fund Management Co. Ltd. (170,000,000 ordinary shares of Rs. 10.00 each)	100	100	1,700,000	3,440,451	1,700,000	3,833,071
Sri Lanka Savings Bank Limited (8,204,464 ordinary shares)	100	100	3,111,000	6,807,004	3,111,000	6,529,849
Impairment provision [refer 24. (d)]			–	–	–	–
Net total			4,811,000	10,247,456	4,811,000	10,362,920

* The Valuation of investments in subsidiaries have been carried out on net asset basis as at 31 December 2021 based on audited Financial Statements.

24. Investments in subsidiaries (contd.)

24.1 Acquisition and disposal of subsidiary

No acquisition or disposal have been occurred during the year 2021.

24.2 Interest Income and profit of acquire

No acquisition or disposal have been occurred during the year 2021.

24.3 Movements in impairment during the year

No impairment movements during the year 2021.

25 Investment in associates and joint ventures

Accounting policy

Associates are those entities in which the Group has significant influence, but not control, over the variable returns through its power over the investee. Significant influence is presumed to exist when the Group holds 20% or more of the voting power of another entity.

Investments in associates are accounted for using the equity method and are recognised initially at cost, in terms of Sri Lanka Accounting Standards – LKAS 28 on "Investments in Associates and Joint Ventures". Under the Equity Method, investments in associates are carried at cost plus post-acquisition changes in the Group's share of net assets of the associates and are reported as a separate line item in the Statement of Financial Position. The Income Statement reflects the Group's share of the results of operations of the associates. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in Equity through OCI. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in associate.

The Group discontinues the use of the Equity Method from the date that it ceases to have significant influence over an associate and accounts for such investments in accordance with the Sri Lanka Accounting Standard – SLFRS 9 on "Financial Instruments". Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

No investment in associates and joint ventures as at 31 December 2021.

26 Property, plant and equipment

Accounting policy

Basis of recognition

Property, plant and equipment are recognised if it is probable that future benefits associated with the asset will flow to the Group and cost of the asset can be reliably measured. Property, plant and equipment are initially measured at cost including costs directly attributable to the acquisition of the asset.

Basis of measurement

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and subsequent costs. The self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bring the asset to a working condition for its intended use and the cost of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Purchased software which is integral to the functionality of the related equipment is capitalised as part of computer equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

26. 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 revaluation reserve or used to reverse a previous revaluation decrease relating to the same asset, which was charged to Income Statement. In this circumstance, the increase is recognised as income to the extent of the previous write down. Any decrease in the carrying amount is recognised as an expense in the Income Statement or debited in the Other Comprehensive Income to the extent of any credit balance existing in the revaluation reserve in respect of that asset. The decrease recognised in Other Comprehensive Income reduces the amount accumulated in equity under revaluation reserves. Any balance remaining in the Revaluation Reserve in respect of an asset is transferred directly to Retained Earnings on retirement or disposal of the asset.

De-recognition

Property, plant and equipment are de-recognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in "Other operating income" in the Income Statement in the year the asset is de-recognised.

Capital work in progress

These are expenses of capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation. These are stated in the Statement of Financial Position at cost less any accumulated impairment losses. Capital work in progress is transferred to the relevant asset when it is in the location and condition necessary for it to be capable of operating in the manner intended by Management.

Borrowing costs

There were no capitalised borrowing costs related to the acquisition of property, plant and equipment by the Group.

Improvement to rent/leasehold building

Effective from 1 January 2017 the Bank has decided to capitalised the improvement to rent/leasehold building. The improvement will be amortised over the lease period effective from same date.

Depreciation

Depreciation is recognised in profit or loss on the straight–line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Land is not depreciated. Depreciation rates for the identified classes of assets are as follows:

26. Property, plant and equipment (contd.)

Category of asset	Depreciation period
Leasehold properties, improvement to rent/leasehold	over the period of lease
Freehold buildings	20 - 40 years
Office, sundry equipment and furniture and fittings	5 - 10 years
Motor vehicles	5 years
Computer hardware	4 - 5 years
Computer software	4 - 5 years

The Group provides depreciation of an assets commencing from the date when they are available for use to the date of disposal of the asset.

26. (a) Property, plant and equipment – Bank – 2021

	Land and buildings Rs. '000	Leasehold properties, improvement to rent/ leasehold buildings* Rs. '000	Computer hardware Rs. '000	Office sundry equipment, furniture and fittings** Rs. '000	Motor vehicle Rs. '000	Building work in progress Rs. '000	Total Rs. '000
Cost/fair value							
Opening balance as at 1 January 2021	12,427,043	784,662	3,339,213	2,440,999	454,448	176,414	19,622,780
Additions	141,425	158,321	259,418	200,743		49,572	809,479
Revaluation gain/(loss)	–	–	–	–	–	–	–
Write-off	–	–	–	–	–	–	–
Depreciation adjustment for revalued assets	–	–	–	–	–	–	–
Disposals	–	–	(106,470)	(19,831)	(5,700)	–	(132,001)
Transfers/Adjustment	–	(85,662)		(83,140)	–	(176,646)	(345,448)
Closing balance as at 31 December 2021	12,568,468	857,321	3,492,162	2,538,770	448,748	49,341	19,954,810
(Less): Accumulated depreciation							
Opening balance as at 1 January 2021	–	186,714	2,315,205	1,404,295	365,566	–	4,271,779
Charge for the year	96,557	62,750	378,555	159,637	32,161	–	729,660
Depreciation adjustment for revalued assets	–	–	–	–	–	–	–
Disposals	–	–	(104,524)	(17,252)	(5,700)	–	(127,476)
Transfers/Adjustment	–	–	–	–	–	–	–
Closing balance as at 31 December 2021	96,557	249,464	2,589,236	1,546,680	392,027	–	4,873,962
(Less): Impairment	–	–	–	–	–	35,228	35,228
Net book value as at 31 December 2021	12,471,910	607,857	902,926	992,090	56,721	14,112	15,045,618

26. Property, plant and equipment (contd.)

26. (a) Property, plant and equipment – Bank – 2020

	Land and buildings Rs. '000	Leasehold properties, improvement to rent/ leasehold buildings* Rs. '000	Computer hardware Rs. '000	Office sundry equipment, furniture and fittings** Rs. '000	Motor vehicle Rs. '000	Building work-in-progress Rs. '000	Total Rs. '000
Cost/fair value							
Opening balance as at 1 January 2020	10,672,859	703,401	2,994,552	2,237,731	459,285	408,370	17,476,198
Additions	543,035	191,574	424,316	230,431	863	258,524	1,648,743
Revaluation gain/(loss)	1,468,754	–	–	–	–	–	1,468,754
Depreciation adjustment for revalued assets	(188,845)	–	–	–	–	–	(188,845)
Disposals	(2,760)	–	(78,537)	(24,249)	(5,700)	–	(111,245)
Transfers/Adjustment	(66,000)	(110,313)	(1,118)	(2,915)	–	(490,480)	(670,826)
Closing balance as at 31 December 2020	12,427,043	784,662	3,339,213	2,440,999	454,448	176,414	19,622,780
(Less): Accumulated depreciation							
Opening balance as at 1 January 2020	114,505	135,408	2,058,621	1,268,960	334,128	–	3,911,621
Charge for the year	74,340	51,307	335,107	155,531	37,109	–	653,392
Depreciation adjustment for revalued assets	(188,845)	–	–	–	–	–	(188,845)
Disposals	–	–	(78,522)	(21,142)	(5,670)	–	(105,334)
Transfers/Adjustment	–	–	–	946	–	–	946
Closing balance as at 31 December 2020	–	186,714	2,315,205	1,404,295	365,566	–	4,271,779
(Less): Impairment	–	–	–	–	–	35,228	35,228
Net book value as at 31 December 2020	12,427,043	597,947	1,024,008	1,036,704	88,882	141,186	15,315,772

26. Property, plant and equipment (contd.)

26. (b) Property, plant and equipment – Group – 2021

	Land and buildings Rs. '000	Leasehold properties, improvement to rent/ leasehold buildings* Rs. '000	Computer hardware Rs. '000	Office sundry equipment, furniture and fittings** Rs. '000	Motor vehicle Rs. '000	Building work in progress Rs. '000	Total Rs. '000
Cost/fair value							
Opening balance as at 1 January 2021	13,300,456	789,738	3,387,446	2,498,947	498,688	176,414	20,651,691
Additions	141,425	158,321	274,287	202,557	11,900	49,572	838,062
Revaluation gain/(loss)	–	–	–	–	–	–	–
Write-off	–	–	–	–	–	–	–
Depreciation adjustment for revalued assets	–	–	–	–	–	–	–
Disposals	–	–	(106,470)	(19,831)	(12,695)	–	(138,996)
Transfer from investment properties	–	–	–	–	–	–	–
Transfers/Adjustment	–	(85,662)	–	(83,140)	–	(176,646)	(345,448)
Closing balance as at 31 December 2021	13,441,880	862,397	3,555,263	2,598,533	497,893	49,341	21,005,309
(Less): Accumulated depreciation							
Opening balance as at 1 January 2021	5,724	186,715	2,360,680	1,455,700	409,807	–	4,418,626
Charge for the year	96,933	62,750	380,976	161,221	34,541	–	736,420
Depreciation adjustment for revalued assets	–	–	–	–	–	–	–
Disposals	–	–	(104,524)	(17,252)	(12,695)	–	(134,471)
Transfers/Adjustment	–	–	–	–	–	–	–
Closing balance as at 31 December 2021	102,657	249,465	2,637,132	1,599,669	431,653	–	5,020,575
(Less): Impairment	–	–	–	–	–	35,228	35,228
Net book value as at 31 December 2021	13,339,223	612,932	918,131	998,864	66,240	14,113	15,949,505

26. Property, plant and equipment (contd.)

26. (b) Property, plant and equipment – Group – 2020

	Land and buildings Rs. '000	Leasehold properties, improvement to rent/ leasehold buildings* Rs. '000	Computer hardware Rs. '000	Office sundry equipment, furniture and fittings** Rs. '000	Motor vehicle Rs. '000	Building work in progress Rs. '000	Total Rs. '000
Cost/fair value							
Opening balance as at 1 January 2020	10,959,379	703,401	3,041,507	2,293,586	503,525	408,370	17,909,769
Additions	543,035	191,574	425,594	232,525	863	258,524	1,652,116
Revaluation gain/(loss)	1,907,860	–	–	–	–	–	1,907,860
Write off	–	–	–	–	–	–	–
Depreciation adjustment for revalued assets	(185,983)	–	–	–	–	–	(185,983)
Disposals	(2,760)	–	(78,537)	(24,249)	(5,700)	–	(111,245)
Transfer from investment properties	144,924	5,076	–	–	–	–	150,000
Transfers/Adjustment	(66,000)	(110,313)	(1,118)	(2,915)	–	(490,480)	(670,826)
Closing balance as at 31 December 2020	13,300,456	789,738	3,387,446	2,498,947	498,688	176,414	20,651,691
(Less): Accumulated depreciation							
Opening balance as at 1 January 2020	117,151	135,408	2,102,352	1,318,607	378,369	–	4,051,887
Charge for the year	74,556	51,307	336,850	157,289	37,109	–	657,110
Depreciation adjustment for revalued assets	(185,983)	–	–	–	–	–	(185,983)
Disposals	–	–	(78,522)	(21,142)	(5,670)	–	(105,334)
Transfers/Adjustment	–	–	–	946	–	–	946
Closing balance as at 31 December 2020	5,724	186,715	2,360,680	1,455,700	409,807	–	4,418,626
(Less): Impairment	–	–	–	–	–	35,228	35,228
Net book value as at 31 December 2020	13,294,731	603,023	1,026,766	1,043,247	88,881	141,186	16,197,837

* Leasehold Properties, Improvement to Rent/Leasehold Buildings include working progress of improvement to rent/leasehold building amounting Rs. 21.52 Mn. as at 31 December 2021.

** Office, Sundry equipment and furniture and fittings include working progress of office equipment amounting Rs. 61.29 Mn. as at 31 December 2021.

26. (c) Revaluation/fair valuation of the Bank

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 (before deferred tax), amounting to Rs. 1,482.47 Mn. had been credited to the Revaluation Reserve Account in 2020 and impairment 13.72 Mn. above the revaluation reserves previously recognised on individual assets basis has been charged to Income Statement during the year 2020.

26. (d) Land and buildings of the Bank

Land and building include freehold land value of Rs. 9,568.82 Mn. as at 31 December 2021.

26. (e) Property, plant and equipment pledged as security for liabilities

There were no items of property, plant and equipment pledged as securities for liabilities.

26. Property, plant and equipment (contd.)

26. (f) Fully-depreciated property, plant and equipment

The initial cost of fully depreciated property, plant and equipment (including Intangible Assets/Computer Software), which are still in use as at reporting date are as follows:

As at 31 December	Bank		Group	
	2021 Rs. '000	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Computer hardware	**1,579,322**	1,483,960	**1,619,617**	1,524,045
Office equipment, furniture and fittings	**474,734**	426,052	**508,250**	470,511
Intangible assets – Computer software	**894,846**	587,213	**894,846**	587,213
Sundry equipments/Motor vehicles and others	**668,912**	591,841	**722,685**	636,082

27 Right-of-used assets

Accounting policy

The Group's right-of-used assets consist of the value of capitalised lease agreement held.

Basis of recognition

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date as specified in the Lease Agreement), which is the present value of lease payments to be made over the lease term.

Basis of measurement

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, and lease payments made at or before the commencement date less any lease incentives received.

Useful economic life and amortisation

Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

27. (a) Capitalised value of right-of-used assets

As at 31 December	Bank		Group	
	2021 Rs. '000	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Opening balance	**1,751,761**	1,312,091	**1,818,010**	1,378,340
Addition	**305,120**	434,079	**305,120**	434,079
Adjustments	**–**	5,591	**–**	5,591
Less:				
Disposal	**–**	–	**–**	–
Termination/Transfers	**13,585**	–	**13,585**	–
Impairment	**–**	–	**–**	–
Closing balance	**2,043,296**	1,751,761	**2,109,545**	1,818,010

27. Right-of-used assets (contd.)

27. (b) Accumulated amortisation of right-of-used assets

As at 31 December	Bank		Group	
	2021 Rs. '000	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Opening balance	**525,578**	238,584	**546,485**	247,472
Charge for the year	**324,515**	286,994	**331,635**	299,013
Disposal	**–**	–	**–**	–
Adjustments	**872**	–	**872**	–
Termination/Transfers	**(13,585)**	–	**(13,585)**	–
Closing balance	**837,380**	525,578	**865,407**	546,485
Closing balance	**2,043,296**	1,751,761	**2,109,545**	1,818,010

28 Investment properties

Accounting policy

Investment on land or a building or part of a building or both, held to earn rentals or capital appreciation or both, are classified as investment property.

Cost model

Investment properties excluding Investment buildings are measured (initially) at cost (LKAS 40 Sec. 56), including transaction costs. Fair value of Investment Properties is measured by the Management on annual basis and is disclosed separately in notes to the financial statement.

Fair value

After recognition as Investment buildings, whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciations and subsequent accumulated impairment losses. Revaluation shall be made at every three (03) years to ensure that the carrying amount does not differ materially from that, which would be determined using fair value at the end of the reporting period. Rent receivable is spread on a straight-line basis over the period of the lease. Where an incentive (such as a rent-free period) is given to a tenant, the carrying value of the investment property excludes any amount reported as a separate asset as a result of recognising rental income on this basis.

28. Investment properties (contd.)

28. (a) Fair value of investment properties

As at 31 December	Bank 2021 Rs. '000	Bank 2020 Rs. '000	Group 2021 Rs. '000	Group 2020 Rs. '000
Land				
Opening balance	–	–	227,885	316,095
Addition	–	–	–	–
Disposal	–	–	(26,500)	–
Revaluation gain	–	–	–	56,714
Transfer from property, plant and equipment	–	–	–	–
Transfer to property, plant and equipment	–	–	–	(144,924)
Impairment	–	–	–	–
Closing balance	–	–	201,385	227,885
Building				
Opening balance	–	–	9,192	17,220
Addition	–	–	–	–
Revaluation gain	–	–	–	(2,952)
Transfer from property, plant and equipment	–	–	–	–
Transfer to property, plant and equipment	–	–	–	(5,076)
Impairment	–	–	–	–
Closing balance	–	–	9,192	9,192

28. (b) Accumulated depreciation of investment properties

As at 31 December	Bank 2021 Rs. '000	Bank 2020 Rs. '000	Group 2021 Rs. '000	Group 2020 Rs. '000
Opening balance	–	–	–	–
Change for the year	–	–	–	–
Transfer from property, plant and equipment	–	–	–	–
Transfer to property, plant and equipment	–	–	–	–
Closing balance	–	–	–	–
Net book value as at 31 December	–	–	210,577	237,077

Fair value gain of investment property has been recognised under other operating income.

SLSB has adopted policy to revalue investment properties by every three (3) years time, thus Investment properties are measured at Fair value as per the LKAS 40 and revaluation done every three years time.

29 Goodwill and intangible assets

Accounting policy

The Group's intangible assets consist of the value of purchased computer software.

Basis of recognition

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Basis of measurement

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Useful economic life and amortisation

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

De-recognition

Intangible assets are de-recognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in "Other operating income" in the Income Statement in the year the asset is de-recognised.

The Group does not possess intangible assets with indefinite useful economic life. The estimated economic life of the Group's computer software is four to five years (20% to 25% per annum).

Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed.

Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Computer software

Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses. Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally-developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and any accumulated impairment losses.

29. Goodwill and intangible assets (contd.)

The Bank and Group do not have any intangible assets except computer software purchased which has been disclosed below:

As at 31 December	Note	Bank 2021 Rs. '000	Bank 2020 Rs. '000	Group 2021 Rs. '000	Group 2020 Rs. '000
Computer Software	29.1	776,627	652,850	781,989	659,049
Software under development	29.2	39,431	35,111	39,431	35,111
Total		816,058	687,961	821,420	694,160

29.1 Computer Software

As at 31 December	Bank 2021 Rs. '000	Bank 2020 Rs. '000	Group 2021 Rs. '000	Group 2020 Rs. '000
Cost/Valuation				
Opening balance	1,959,135	1,542,038	1,978,509	1,555,363
Acquisition through business combinations	–	–	–	–
Additions during the year	455,438	417,097	456,508	423,146
Disposal during the year	–	–	–	–
Closing balance	2,414,573	1,959,135	2,435,016	1,978,509
Less : Accumulated amortisation				
Opening balance	1,306,285	1,006,168	1,319,460	1,018,758
Acquisition through business combinations	–	–	–	–
Charge for the year	331,661	300,117	333,567	300,702
Disposal	–	–	–	–
Closing balance	1,637,946	1,306,285	1,653,028	1,319,460
(Less): Impairment	–	–	–	–
Net Book Value	776,627	652,850	781,989	659,049

29.2 Software under development

As at 31 December	Bank 2021 Rs. '000	Bank 2020 Rs. '000	Group 2021 Rs. '000	Group 2020 Rs. '000
Cost/Valuation				
Opening balance	35,111	63,006	35,111	63,006
Additions during the year	41,144	93,304	41,144	93,304
Disposal during the year	–	–	–	–
Transfer/adjustment	(36,824)	(121,199)	(36,824)	(121,199)
Closing balance	39,431	35,111	39,431	35,111

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30 Deferred tax assets/liabilities

Accounting policy

Net Deferred tax (Asset)/Liability of an entity cannot be set-off against another entity's deferred tax (Asset)/Liabilities as there is no legally enforceable right to set-off. Detailed on deferred tax accounting policy is given in Note 13 on page 299.

The following table shows deferred tax recorded in the Statement Of Financial Position and changes recorded in the income tax expense:

		Bank		Group	
As at 31 December	Note	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Recognised under assets	30.(a)	**(1,104,779)**	(1,446,249)	**(1,105,653)**	(1,446,249)
Recognised under liabilities	30.(b)	**–**	–	**1,939**	1,121
Net deferred tax (Asset)/Liability	30.(c) and 30.(d)	**(1,104,779)**	(1,446,249)	**(1,103,714)**	(1,445,128)

30. (a) Deferred tax assets

		Bank		Group	
As at 31 December	Note	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Opening balance		**1,446,249**	(482,241)	**1,446,249**	(481,903)
Convert to deferred tax liabilities		**–**	–	**(126)**	(338)
Charge for the year recognised in					
– Income Statement	13. (b)	**554,999**	480,978	**555,858**	480,978
– Prior year adjustment		**(80,000)**	–	**(79,858)**	–
– Other comprehensive income		**(816,470)**	1,447,512	**(816,470)**	1,447,512
Closing balance		**1,104,779**	1,446,249	**1,105,653**	1,446,249

30. (b) Deferred tax liabilities

		Bank		Group	
As at 31 December	Note	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Opening balance		**–**	–	**1,121**	764
Convert to deferred tax assets		**–**	–	**(126)**	(338)
Charge for the year recognised in					
– Income Statement	13.(b)	**–**	–	**1,086**	694
– Prior year adjustment	13.(b)	**–**	–	**(142)**	–
– Other comprehensive income		**–**	–	**–**	–
Closing balance		**–**	–	**1,939**	1,121

30. Deferred tax assets/liabilities (contd.)

30. (c) Reconciliation of net deferred tax (assets)/liabilities – Bank

	Statement of Financial Position		Profit or Loss		Other Comprehensive Income	
As at 31 December	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Deferred tax liability on:						
Accelerated depreciation for tax purpose	**599,460**	691,823	**6,468**	144,574	**–**	–
Revaluation surplus/(loss) on freehold land and building	**2,222,897**	2,593,380	**–**	(3,841)	**–**	415,092
Unrealised gain/(loss) on financial assets measured at fair Value through other comprehensive Income	**–**	9,033	**–**	–	**–**	9,033
Prior year adjustment	**–**	–	**(98,283)**	–	**(1,290)**	–
	2,822,357	3,294,236	**(91,815)**	140,733	**(1,290)**	424,125
Deferred tax asset on:						
Retirement benefit obligations	**1,811,985**	3,047,824	**–**	(231,031)	**(800,435)**	1,871,637
Impairment provision	**2,012,320**	1,692,661	**561,468**	852,742	**–**	–
Unrealised gain/(loss) on financial assets measured at fair Value through other comprehensive Income	**102,830**	–	**–**	–	**110,573**	–
Prior year adjustment	**–**	–	**(178,283)**	–	**(127,898)**	–
	3,927,135	4,740,485	**383,185**	621,711	**(817,760)**	1,871,637
Deferred tax effect on profit or loss and other comprehensive income for the year	**–**	–	**475,000**	480,978	**(816,470)**	1,447,512
Net deferred tax (asset)/liability	**(1,104,779)**	(1,446,249)	**–**	–	**–**	–

30. Deferred tax assets/liabilities (contd.)

30. (d) Reconciliation of net deferred tax (assets)/liabilities – Group

	Statement of Financial Position		Profit or loss		Other Comprehensive Income	
As at 31 December	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Deferred tax liability on:						
Accelerated depreciation for tax purpose	**601,756**	693,452	**5,468**	144,951	**–**	–
Revaluation surplus/(loss) on freehold land and building	**2,222,897**	2,593,380	**–**	(3,841)	**–**	415,092
Unrealised gain/(loss) on financial assets measured at fair value through other comprehensive income	**–**	9,033	**–**	–	**–**	9,033
Prior year adjustment	**–**	–	**(98,283)**	–	**(1,290)**	–
	2,824,653	3,295,865	**(92,815)**	141,110	**(1,290)**	424,125
Deferred tax asset on:						
Retirement benefit obligations	**1,813,217**	3,048,332	**(1,086)**	(231,348)	**(800,435)**	1,871,637
Impairment provision	**2,012,320**	1,692,661	**561,468**	852,742	**–**	–
Unrealised gain/(loss) on financial assets measured at fair value through other comprehensive income	**102,830**	–	**–**	–	**110,573**	–
Prior year adjustment	**–**	–	**(178,141)**	–	**(127,898)**	–
	3,928,367	4,740,993	**382,241**	621,394	**(817,760)**	1,871,637
Deferred tax effect on profit or loss and other comprehensive income for the year	**–**	–	**475,056**	480,284	**(816,470)**	1,447,512
Net deferred tax (asset)/liability	**(1,103,714)**	(1,445,128)	**–**	–	**–**	–

31 Other assets

		Bank		Group	
As at 31 December	Note	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Cost					
Income tax receivable	39	**–**	–	**67,401**	–
Receivables	31.1	**6,475,128**	5,598,241	**6,602,799**	5,703,127
Receivable form treasury on interest		**16,726,231**	8,383,771	**16,728,172**	8,385,356
Deposits and prepayments		**1,151,118**	612,997	**1,154,859**	617,432
Advance payment to Treasury	31.2	**3,200,000**	3,520,000	**3,200,000**	3,520,000
Advance payment made to pension II	38	**397,716**	–	**397,716**	–
Sundry debtors		**18,196**	17,613	**18,218**	17,613
Unamortised cost on staff loans (Day 1 difference)		**5,547,868**	4,726,737	**5,547,869**	4,726,737
Other assets		**139,015**	174,420	**188,720**	222,670
Total		**33,655,272**	23,033,780	**33,905,753**	23,192,936

31. Other assets (contd.)

31.1 Receivables

As at 31 December	Bank		Group	
	2021 Rs. '000	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Cost				
Receivables	**6,599,500**	5,722,613	**6,747,645**	5,847,974
Impairment	**(124,372)**	(124,372)	**(144,847)**	(144,847)
Net receivables	**6,475,128**	5,598,241	**6,602,799**	5,703,127

31.2 Advance payment to Treasury

At the request of Treasury, the Bank paid an advance of Rs. 6,000 Mn. in 2012 and Rs. 2,000 Mn. in 2013 as confirmed by the Treasury to be set-off against the profit within a period of six years starting from 2014. Effective from 1 January 2016, Treasury has agreed to set-off the balance amount of Rs. 5,333 Mn. against the profit within a period of 10 years. Thereafter Treasury has agreed to set-off the balance amount of Rs. 4,800 Mn. against the profit within a period of 15 years effective from 1 January 2017.

32 Due to banks

Accounting policy

Due to banks represents overdrafts, call money borrowings, borrowing from banks and Repos by the subsidiaries. Subsequent to initial recognition deposits are measured at their amortised cost using EIR method. Interest paid/payable on these dues are recognised in the Income Statement under interest expense. Foreign currency borrowings as at the reporting date are translated to the functional currency at the middle exchange rate of the functional currency at that date. Foreign currency differences arising on retranslation at the reporting date are recognised in profit or loss.

As at 31 December	Note	Bank		Group	
		2021 Rs. '000	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Foreign currency borrowings	32.1	**7,118,359**	6,172,229	**7,118,359**	6,172,229
Securities sold under repurchase (Repo) agreements		**501,442**	6,372,108	**3,284,979**	6,849,085
Other facilities		**66,752**	318,000	**66,852**	318,391
Total		**7,686,553**	12,862,337	**10,470,191**	13,339,705

32 Due to banks (Contd.)

32.1 Foreign currency borrowings

USD 35 Mn. Term Loan Facility - Bank

The Bank has obtained a term loan facility of USD 35 Mn. from Indian Bank and Indian Overseas Bank on 17 February 2021.

Product	USD Term Loan Facility
Purpose	To invest in Sri Lanka Development Bonds (SLDBs)
Security	Mortgage of USD denominated SLDBs to the lenders
Tenure	1 Year
Interest rate	06M LIBOR + 3.50 p.a. to be paid semi-annually
Capital repayment	At maturity

Name of lender	Loan value (USD Mn.)	Capital outstanding as at 31.12.2021 (USD Mn.)	Date of borrowing	Date of maturity
Indian Bank	20	20	17 February 21	17 February 22
Indian Overseas Bank	15	15	17 February 21	17 February 22

33 Derivative financial instruments

The Bank and Group do not have any derivative financial instruments under the financial liabilities as at 31 December 2021.

34 Financial liabilities recognised through profit or loss

The Bank and Group do not have instruments under the financial liabilities recognised through profit or loss as at 31 December 2021.

35 Financial liabilities at amortised cost

Accounting policy

i. Due to depositors

Due to depositors include savings and term deposits. Subsequent to initial recognition deposits are measured at their amortised cost using EIR method. Interest paid/payable on deposits are recognised in the Income Statement under Interest Expense.

ii. Securities sold under repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not de-recognised from the Statement of Financial Position as the Group retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the Consolidated Statement of Financial Position as financial liability reflecting as a loan received by the Group, including accrued interest as a liability within "Securities sold under repurchase agreements", reflecting the transaction's economic substance. The difference between the sale and repurchase prices is treated as interest expenses and is accrued over the life of agreement using the EIR.

35. Financial liabilities at amortised cost (contd.)

As at 31 December	Note	Bank 2021 Rs. '000	Bank 2020 Rs. '000	Group 2021 Rs. '000	Group 2020 Rs. '000
Due to depositors	35.1	**1,428,467,385**	1,237,123,791	**1,426,724,704**	1,237,669,284
Due to debt securities holders		**–**	–	**–**	–
Due to other borrowers		**7,719,532**	8,159,591	**27,087,920**	19,656,090
Total		**1,436,186,917**	1,245,283,382	**1,453,812,624**	1,257,325,374

35.1 Analysis of amount due to depositors

35.1 (a) By product

As at 31 December	Bank 2021 Rs. '000	Bank 2020 Rs. '000	Group 2021 Rs. '000	Group 2020 Rs. '000
Savings deposits	**325,620,162**	280,033,076	**326,169,005**	280,656,851
Fixed deposits	**1,102,847,222**	957,090,715	**1,100,555,699**	957,012,433
Total	**1,428,467,385**	1,237,123,791	**1,426,724,704**	1,237,669,284

35.1 (b) By currency

As at 31 December	Bank 2021 Rs. '000	Bank 2020 Rs. '000	Group 2021 Rs. '000	Group 2020 Rs. '000
Sri Lankan Rupee	**1,412,804,951**	1,221,733,252	**1,411,062,270**	1,222,278,744
United State Dollar	**11,864,407**	11,578,610	**11,864,407**	11,578,610
Euro	**1,600,785**	1,566,382	**1,600,785**	1,566,382
Great Britain Pound	**1,248,984**	1,186,206	**1,248,984**	1,186,206
Australian Dollar	**947,398**	1,058,641	**947,398**	1,058,641
Japanese Yen	**860**	701	**860**	701
Total	**1,428,467,385**	1,237,123,791	**1,426,724,704**	1,237,669,284

36 Lease liabilities

Accounting policy

Initial measurement of lease liability

The lease liability is initially measured at the present value of the future lease rentals over the remaining lease period at commencement date.

Subsequent measurement of lease liability

The lease liability subsequently is measured by increasing the lease interest and reducing the lease payments.

Discount rate

The discount rate applied to determine the present value of future rentals is the Treasury Bond Rates for periods which are similar to lease periods published by the Central Bank. The period of the Treasury Bond is identical to lease tenure. If the Treasury Bond Rate is not available for the applicable tenure, the rate of the tenure which is lower than the lease tenure is applied.

36. (a) Lease liabilities

	Bank		Group	
As at 31 December	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Opening balance	**1,274,713**	1,066,882	**1,320,877**	1,121,441
Addition during the year	**268,189**	399,600	**268,189**	399,600
Lease interest for the year	**132,433**	122,637	**137,339**	128,399
Less: Paid during the year	**(378,885)**	(318,629)	**(388,471)**	(332,786)
Adjustment	**(4,311)**	4,223	**(4,311)**	4,223
Closing balance	**1,292,139**	1,274,713	**1,333,623**	1,320,877

36. (b) Maturity analysis – Lease liabilities

	Bank		Group	
As at 31 December	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Amount payable within one year	**255,704**	231,426	**259,413**	236,151
Amount payable within one to three years	**437,071**	566,662	**442,230**	573,072
Amount payable within three to five years	**277,434**	217,683	**283,621**	222,750
Amount payable after five years	**321,929**	258,942	**348,359**	288,904
Total	**1,292,139**	1,274,713	**1,333,623**	1,320,877

37 Debt securities issued

As at 31 December	Note	Bank 2021 Rs. '000	Bank 2020 Rs. '000	Group 2021 Rs. '000	Group 2020 Rs. '000
Subordinated liabilities					
Debenture issued by the Bank	37.1	5,087,337	11,087,763	5,087,337	11,087,763
Debenture issued by other subsidiaries		–	–	89,558	134,526
		5,087,337	11,087,763	5,176,895	11,222,289
Non-subordinated liabilities					
Debenture issued by the Bank	37.2	32,441,680	20,685,990	32,441,680	20,685,990
Total		37,529,017	31,773,753	37,618,575	31,908,279
Due within 1 year		773,327	6,773,753	862,885	6,812,208
Due after 1 year		31,755,690	20,000,000	31,755,690	20,096,071
Perpetual		5,000,000	5,000,000	5,000,000	5,000,000
Total		37,529,017	31,773,753	37,618,575	31,908,279

37.1 Subordinated liabilities

Accounting policy

These represent the funds borrowed by the Group for long-term funding requirements. Subsequent to initial recognition these are measured at their amortised cost using the EIR method, except where the Group designates them at fair value through profit or loss. Interest paid/payable is recognised in profit or loss.

As at 31 December	Note	Bank 2021 Rs. '000	Bank 2020 Rs. '000	Group 2021 Rs. '000	Group 2020 Rs. '000
Balance as at 1 January		11,000,000	6,000,000	11,000,000	6,000,000
Amount borrowed during the year		–	5,000,000	–	5,000,000
Repayments/redemptions during the year		(6,000,000)	–	(6,000,000)	–
Sub total		5,000,000	11,000,000	5,000,000	11,000,000
Exchange rate variance		–	–	–	–
Balance as at 31 December (before adjusting for amortised interest and transaction cost)		5,000,000	11,000,000	5,000,000	11,000,000
Unamortised transaction cost		–	–	–	–
Net effect of amortised interest payable		87,337	87,763	87,337	87,763
Adjusted balance as at 31 December		5,087,337	11,087,763	5,087,337	11,087,763
Subordinated liabilities					
Fixed rate subordinated liabilities	37.1.1	–	6,006,393	–	6,006,393
Floating rate subordinated liabilities	37.1.2	5,087,337	5,081,370	5,087,337	5,081,370
		5,087,337	11,087,763	5,087,337	11,087,763

37. Debt securities issued (contd.)

37.1 Subordinated liabilities (contd.)

37.1.1 Fixed rate subordinated liabilities

Detail of debenture Issue

Primary objective of issuing debenture is to increase the capital of the Bank in order to enhance the Tier II 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.

Outstanding subordinated liabilities of the Bank as at 31 December 2020 consisted of Rs. 6,000 Mn. Rated, Unsecured Subordinated and Redeemable debentures of Rs. 100/- issued on 29 December 2016 as Private Placement under the provision of the NSB Act No. 30 of 1971. NSB Fund Management Co. Ltd. is act as Trustee for the issue and carry AA+(lka) rating from the Fitch Rating Lanka at the time of issuing the debenture.

						Effective annual yield		Bank		Group	
Category	Face value	Interest rate %	Repayment terms	Issue date	Maturity date	**2021** %	2020 %	**2021** Rs. '000	2020 Rs. '000	**2021** Rs. '000	2020 Rs. '000
Issued by the Bank											
Fixed Rate – 13%	6,000,000	13 p.a.	At maturity	29 December 2016	29 December 2021	–	13.42	–	6,000,000	–	6,000,000
Interest payable								–	6,393	–	6,393
Total								–	6,006,393	–	6,006,393

* Interest payment term is semi-annual.

37.1.2 Floating rate subordinated liabilities

Detail of debenture Issue

Primary objective of issuing debenture is to increase the capital of the Bank in order to enhance additional Tier I Capital of the Bank and finance the lending activities of the Bank.

Outstanding subordinated liabilities of the Bank as at 31 December 2021 consisted of Rs. 5,000 Mn. Unlisted, unsecured, subordinated, perpetual, rated debentures of Rs. 100/- issued on 27 October 2020 as private placement under the provision of the NSB Act No. 30 of 1971. The debenture carry [SL] AA (hyb) rating from ICRA Lanka.

						Effective annual yield		Bank		Group	
Category	Face value	Interest rate %	Repayment terms	Issue date	Maturity date	**2021** %	2020 %	**2021** Rs. '000	2020 Rs. '000	**2021** Rs. '000	2020 Rs. '000
Issued by the Bank											
Floating rate	5,000,000	Six (06) Month T Bill rate + 1.50% p.a.	Perpetual	27 October 2020	Perpetual	**Floor rate 9.00**	Floor rate 9.00	**5,000,000**	5,000,000	**5,000,000**	5,000,000
Interest payable								**87,337**	81,370	**87,337**	81,370
Total								**5,087,337**	5,081,370	**5,087,337**	5,081,370

* Interest payment term is semi-annual.

In the event of the winding-up of the issuer, the above liabilities would be subordinated to the claims of depositors and all other creditors of the issuer.

37. Debt securities issued (contd.)

37.2 Non-subordinated liabilities

Accounting policy

These represent the funds borrowed by the Group for long-term funding requirements. Subsequent to initial recognition these are measured at their amortised cost using the EIR method, except where the Group designates them at fair value through profit or loss. Interest paid/payable is recognised in profit or loss.

As at 31 December	Note	Bank 2021 Rs. '000	Bank 2020 Rs. '000	Group 2021 Rs. '000	Group 2020 Rs. '000
Balance as at 1 January		20,000,000	20,000,000	20,000,000	20,000,000
Amount borrowed during the year		11,541,000	–	11,541,000	–
Repayments/redemptions during the year		–	–	–	–
Sub total		31,541,000	20,000,000	31,541,000	20,000,000
Exchange rate variance		–	–	–	–
Balance as at 31 December (before adjusting for amortised interest and transaction cost)		31,541,000	20,000,000	31,541,000	20,000,000
Unamortised transaction cost		–	–	–	–
Net effect of amortised interest payable		900,680	685,990	900,680	685,990
Adjusted balance as at 31 December		32,441,680	20,685,990	32,441,680	20,685,990
Non-subordinated liabilities					
Debenture issued in 2019 (20 Bn.)	37.2.1	20,685,990	20,685,990	20,685,990	20,685,990
Debenture issued in 2021 (11.5 Bn.)	37.2.2	11,755,690	–	11,755,690	–
		32,441,680	20,685,990	32,441,680	20,685,990

37.2.1 Debenture issued in 2019 (20 Bn.)

Detail debenture Issue

The objective of the issue of the Debenture is to partly finance the funding requirement of unwinding the USD/LKR Swap agreement with Central Bank of Sri Lanka. Outstanding debenture of the Bank as at 31 December 2021 consisted of Rs. 20,000 Mn. Unlisted, Rated, Senior, Unsecured, Redeemable debentures of Rs. 100/- issued on 10 September 2019 as Private Placement under the provision of the NSB Act No. 30 of 1971. NSB Fund Management Co. Ltd. is act as Trustee for the issue and carry (SL) AAA (Stable) rating from the ICRA Lanka.

Category	Face value Rs. '000	Interest rate %	Repayment terms	Issue date	Maturity date	Effective annual yield 2021 %	Effective annual yield 2020 %	Bank 2021 Rs. '000	Bank 2020 Rs. '000	Group 2021 Rs. '000	Group 2020 Rs. '000
Issued by the Bank											
Fixed rate 3 year	13,677,000	11% p.a.	At Maturity	10 September 2019	10 September 2022	11.00	11.00	13,677,000	13,677,000	13,677,000	13,677,000
Fixed rate 5 year	6,323,000	11.25% p.a.	At Maturity	10 September 2019	10 September 2024	11.25	11.25	6,323,000	6,323,000	6,323,000	6,323,000
Interest payable								685,990	685,990	685,990	685,990
Total	20,000,000							20,685,990	20,685,990	20,685,990	20,685,990

* Interest payment term is annual.

37. Debt securities issued (contd.)

37.2 Non-subordinated liabilities (contd.)

37.2.2 Debenture Issued in 2021 (11.5 Bn.)

Detail debenture Issue

The funds raised through the Debenture Issue will provide the necessary stable funding for five years and more and to further expand the lending portfolio of the Bank. Debenture proceeds will be disbursed in the ordinary course of business subject to all applicable regulations. Outstanding debenture of the Bank as at 31 December 2021 consisted of Rs. 11,541 Mn. Unlisted, Rated, Redeemable, Senior Debentures of Rs. 100/- issued on 24 September as Private Placement under the provision of the NSB Act No. 30 of 1971. NSB Fund Management Co. Ltd. is act as Trustee for the issue and carry (SL) AAA (Stable) rating from the ICRA Lanka.

Category	Face value	Interest rate	Repayment terms	Issue date	Maturity date	Effective annual yield		Bank		Group	
						2021	2020	2021	2020	2021	2020
	Rs. '000	%				%	%	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Issued by the Bank											
Fixed rate 5 year	1,016,000	8.50%	At Maturity	24 September 2021	23 September 2026	8.50	–	1,016,000	–	1,016,000	–
Floating rate 5 year	9,000,000	6 months AWPLR + 1%	At Maturity	24 September 2021	23 September 2026	6.70	–	9,000,000	–	9,000,000	–
Floating rate 7 year	1,525,000	6 months AWPLR + 1%	At Maturity	24 September 2021	22 September 2028	6.70	–	1,525,000	–	1,525,000	–
Interest payable								214,690	–	214,690	–
Total	11,541,000							11,755,690	–	11,755,690	–

* Interest payment term is annual.

38 Retirement benefit obligations

Accounting policy

The unfunded past service cost is recognised in Other Comprehensive Income immediately upon actuarial valuation.

As at 31 December	Note	Bank 2021 Rs. '000	Bank 2020 Rs. '000	Group 2021 Rs. '000	Group 2020 Rs. '000
Provision for pension scheme I	38.(a).1	4,921,358	7,461,212	4,921,358	7,461,212
Provision for pension scheme II	38.(a).2	–	316,854	–	316,854
Provision for retired medical assistance scheme	38.(a).3	3,669,284	3,822,365	3,669,284	3,822,365
Provision for gratuity	38.(a).4	–	–	46,783	31,345
Total		8,590,642	11,600,431	8,637,425	11,631,775

38. Retirement benefit obligations (contd.)

38. (a) Defined benefit plans

The Bank has two separate pension schemes established, Pension Scheme I for permanent employees joined before 1 October 1995 and Pension Scheme II for permanent employees joined on or after 1 October 1995 and a retired medical assistance scheme for retired employees.

The assets of these schemes are held independently of the Bank's assets and administered by Boards of Trustees/Managers, representing the Management and the employees, as provided in the trust deed/rules of the respective funds.

All the funds are subject to annual audits independent to the audit of the Bank, by a firm of Chartered Accountants appointed by the members and actuarial valuations are carried out at least once in every two years, as per the rules governing these funds.

A summary of retirement benefit obligations of the Bank as at 31 December 2021 are given below:

As at 31 December 2021	**Pension scheme I** Rs. '000	**Pension scheme II*** Rs. '000	**Retired medical assistance scheme** Rs. '000	**Total** Rs. '000
Present value of defined benefit obligation (PVDBO)	**(18,362,021)**	**(4,303,504)**	**(4,345,781)**	**(27,011,305)**
Fair value of plan assets	**13,440,663**	**4,701,219**	**676,497**	**18,818,379**
Net (liability) recognised in Statement of Financial Position	**(4,921,358)**	**397,716**	**(3,669,284)**	**(8,192,927)**

*Since net asset recognised for pension II, it was categorised under other assets in Note 31 on page 338.

A summery of retirement benefit obligations of the Bank as at 31 December 2020 are given below:

As at 31 December 2020	Pension scheme Rs. '000	Pension Rs. '000	Retired medical Rs. '000	Total Rs. '000
Present value of defined benefit obligation (PVDBO)	(22,586,463)	(4,411,190)	(4,431,651)	(31,429,304)
Fair value of plan assets	15,125,251	4,094,336	609,286	19,828,873
Net (liability) recognised in Statement of Financial Position	(7,461,212)	(316,854)	(3,822,365)	(11,600,431)

38. (a) 1 National Savings Bank Employees' Pension Scheme I

An actuarial valuation of the Pension Scheme I was carried out as at 31 December 2021 by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional Actuaries, on 31 December 2021.

Projected Unit Credit Method was used to allocate the actuarial present value of the projected benefits earned by employees to date of 31 December 2021.

38. Retirement benefit obligations (contd.)

38. (a) Defined benefit plans (contd.)

38. (a) 1 National Savings Bank Employees' Pension Scheme I (contd.)

	Bank		Group	
	2021 Rs. '000	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
(a) Net asset/(liability) recognised in Statement of Financial Position				
Present value of defined benefit obligation	**(18,362,021)**	(22,586,463)	**(18,362,021)**	(22,586,463)
Fair value of plan assets	**13,440,663**	15,125,251	**13,440,663**	15,125,251
Total	**(4,921,358)**	(7,461,212)	**(4,921,358)**	(7,461,212)
(b) Amount recognised in Income Statement				
Past service cost	**(339,925)**	–	**(339,925)**	–
Current service cost	**69,013**	109,101	**69,013**	109,101
Interest cost on benefit obligation	**596,897**	380,185	**596,897**	380,185
Net benefit expense	**325,985**	489,286	**325,985**	489,286
(c) Amount recognised in Other Comprehensive Income (OCI)				
Provision adjustment	**5,083**	29,561	**5,083**	29,561
Experience (gain)/loss	**464,316**	(140,412)	**464,316**	(140,412)
(Gain)/ loss due to changes in assumptions	**(4,189,720)**	4,392,552	**(4,189,720)**	4,392,552
Actuarial (gain)/loss on plan assets	**1,349,879**	40,149	**1,349,879**	40,149
Total	**(2,370,442)**	4,321,851	**(2,370,442)**	4,321,851
(d) Changes in fair value of plan assets are as follows:				
Opening fair value of plan assets	**15,125,251**	14,782,280	**15,125,251**	14,782,280
Provision adjustment	**–**	(29,325)	**–**	(29,325)
Expected return on plan assets	**1,210,020**	1,622,825	**1,210,020**	1,622,825
Actual employer contribution	**490,313**	776,589	**490,313**	776,589
Benefits paid	**(2,035,043)**	(1,986,969)	**(2,035,043)**	(1,986,969)
Actuarial gain/(loss) on plan assets	**(1,349,879)**	(40,149)	**(1,349,879)**	(40,149)
Closing fair value of plan assets	**13,440,663**	15,125,251	**13,440,663**	15,125,251
(e) Changes in present value of defined benefit obligation are as follows:				
Opening defined benefit obligation	**22,586,463**	18,209,182	**22,586,463**	18,209,182
Interest cost	**1,806,917**	2,003,010	**1,806,917**	2,003,010
Past service cost	**(339,925)**	–	**(339,925)**	–
Current service cost	**69,013**	109,101	**69,013**	109,101
Benefits paid	**(2,035,043)**	(1,986,969)	**(2,035,043)**	(1,986,969)
(Gain)/loss due to changes in assumptions	**(4,189,720)**	4,392,552	**(4,189,720)**	4,392,552
Actuarial (gain)/loss on obligation	**464,316**	(140,412)	**464,316**	(140,412)
Closing defined benefit obligation	**18,362,021**	22,586,463	**18,362,021**	22,586,463

38. Retirement benefit obligations (contd.)

38. (a) Defined benefit plans (contd.)

38. (a) 1 National Savings Bank Employees' Pension Scheme I (contd.)

As at 31 December	Bank 2021 Rs. '000	Bank 2020 Rs. '000	Group 2021 Rs. '000	Group 2020 Rs. '000
(f) Plan assets consists of followings:				
Treasury Bonds	6,725,955	7,436,992	6,725,955	7,436,992
Treasury Bills	738,509	258,143	738,509	258,143
Commercial Papers		–	–	–
Fixed Deposits	383,971	1,249,026	383,971	1,249,026
Securities purchased under resale agreements	1,497,120	245,432	1,497,120	245,432
Debentures	3,767,693	6,046,776	3,767,693	6,046,776
Trust Certificates	402,656	–	402,656	–
Cash at Bank	2,285	31	2,285	31
Other assets/(liabilities)	(77,526)	(111,148)	(77,526)	(111,148)
Total	13,440,663	15,125,251	13,440,663	15,125,251

	Bank and Group 2021 Rs. '000	Bank and Group 2020 Rs. '000
(g) Maturity profile of defined benefit obligation – present value of expected accrued benefit payments		
Distribution of present value of defined benefit obligation in future years		
Less than one year	1,905,908	1,955,517
Between 1-2 years	3,339,975	3,624,168
Between 3-5 years	4,077,969	4,615,085
Between 6-10 years	4,679,075	5,635,073
Beyond 10 years	4,359,094	6,756,620
Total	18,362,021	22,586,463

	Pension Scheme I 2021	Pension Scheme I 2020
(h) Actuarial assumption		
Future salary increment rate (%)	8.00	6.50
Discount rate (%)	11.50	8.00
Increase in future Cost of Living Allowance (COLA) (%)	5.50	4.50
Mortality	GA 1983 Mortality table	GA 1983 Mortality table
Retirement age	62 years	60 years
Normal form of payment	Monthly	Monthly

38. Retirement benefit obligations (contd.)

38. (a) Defined benefit plans (contd.)

38. (a) 1 National Savings Bank Employees' Pension Scheme I (contd.)

Turnover rate

Age	2021 %	2020 %
20	**0.3**	0.3
25	**0.3**	0.3
30	**0.3**	0.3
35	**0.3**	0.3
40	**0.3**	0.3
45	**0.3**	0.3
50	**0.3**	0.3
55	**0.3**	10.0
56	**0.3**	10.0
57	**0.3**	10.0
58	**0.3**	10.0
59	**0.3**	10.0

(i) Increase/decrease in the following assumptions will have an impact on the present value of defined benefit obligation as illustrated below:

	Pension Scheme I (Bank and Group)			
	2021		2020	
	1% increase	**1% decrease**	1% increase	1% decrease
Future salary increment rate	**18,453,211**	**18,275,791**	22,669,528	22,506,802
Discount rate	**17,202,669**	**19,672,818**	20,912,872	24,514,026

38. (a) 2 National Savings Bank Employees' Pension Scheme II

An actuarial valuation of the Pension Scheme II was carried out as at 31 December 2021 by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional Actuaries, on 31 December 2021.

Projected Unit Credit Method was used to allocate the actuarial present value of the projected benefits earned by employees to date of 31 December 2021.

	Bank		Group	
As at 31 December	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
(a) Net asset/(liability) recognised in Statement of Financial Position				
Present value of defined benefit obligation	**(4,303,504)**	(4,411,190)	**(4,303,504)**	(4,411,190)
Fair value of plan assets	**4,701,219**	4,094,336	**4,701,219**	4,094,336
Total	**397,716**	(316,287)	**397,716**	(316,287)

38. Retirement benefit obligations (contd.)

38. (a) Defined benefit plans (contd.)

38. (a) 2 National Savings Bank Employees' Pension Scheme II (contd.)

	Bank		Group	
	2021 Rs. '000	2020 Rs. '000	2021 Rs. '000	2020 Rs. '000
(b) Amount recognised in Income Statement				
Past service cost	473,813	–	473,813	–
Current service cost	392,324	446,634	392,324	446,634
Interest cost on benefit obligation	26,933	(16,817)	26,933	(16,817)
FMC contribution	(924)	(802)	–	–
Net benefit expense	892,145	429,015	893,069	429,817
(c) Amount recognised in Other Comprehensive Income (OCI)				
Provision adjustment	(644)	(26,987)	(644)	(26,987)
Experience (gain)/loss	688,343	(149,663)	688,343	(149,663)
(Gain)/ loss due to changes in assumptions	(1,995,530)	783,400	(1,995,530)	783,400
Actuarial (gain)/loss on plan assets	390,406	(39,101)	390,406	(39,101)
Difference in interest income on plan assets	–	–	–	–
Total	(917,426)	567,649	(917,426)	567,649
(d) Changes in fair value of plan assets are as follows:				
Opening fair value of plan assets	4,094,336	3,140,376	4,094,336	3,140,376
Provision adjustment	–	25,951	–	25,951
Expected return on plan assets	348,019	348,296	348,019	348,296
Actual employer contribution	690,858	554,717	690,858	554,717
Benefits paid	(41,587)	(14,105)	(41,587)	(14,105)
Actuarial gain/(loss) on plan assets	(390,406)	39,101	(390,406)	39,101
Closing fair value of plan assets	4,701,219	4,094,336	4,701,219	4,094,336
(e) Changes in present value of defined benefit obligation are as follows:				
Opening defined benefit obligation	4,411,190	3,013,446	4,411,190	3,013,446
Interest cost	374,951	331,479	374,951	331,479
Past service cost	473,813	–	473,813	–
Current service cost	392,324	446,634	392,324	446,634
Benefits paid	(41,587)	(14,105)	(41,587)	(14,105)
(Gain)/loss due to changes in assumptions	(1,995,530)	783,400	(1,995,530)	783,400
Actuarial (gain)/loss on obligation	688,343	(149,663)	688,343	(149,663)
Closing defined benefit obligation	4,303,503	4,411,190	4,303,503	4,411,190

38. Retirement benefit obligations (contd.)

38. (a) Defined benefit plans (contd.)

38. (a) 2 National Savings Bank Employees' Pension Scheme II (contd.)

	Bank		Group	
As at 31 December	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
(f) Plan assets consist of followings:				
Treasury Bonds	**2,970,723**	2,495,367	**2,970,723**	2,495,367
Treasury Bills	**397,163**	–	**397,163**	–
Debentures	**511,976**	–	**511,976**	–
Fixed Deposits	**532,920**	1,632,767	**532,920**	1,632,767
Trust Certificates	**193,289**	–	**193,289**	–
Securities purchased under resale agreements	**131,820**	–	**131,820**	–
Savings	**4,727**	328	**4,727**	328
Other assets/(liabilities)	**(41,400)**	(34,127)	**(41,400)**	(34,127)
Total	**4,701,219**	4,094,336	**4,701,219**	4,094,336

	Bank and Group	
	2021 Rs. '000	2020 Rs. '000
(g) Maturity profile of defined benefit obligation – present value of expected accrued benefit payments		
Distribution of present value of defined benefit obligation in future years		
Less than one year	**34,620**	22,699
Between 1-2 years	**76,629**	59,554
Between 3-5 years	**175,891**	137,637
Between 6-10 years	**461,785**	379,566
Beyond 10 years	**3,554,579**	3,811,734
Total	**4,303,504**	4,411,190

	Pension Scheme II 2021	Pension Scheme II 2020
(h) Actuarial assumption		
Future salary increment rate (%)	**8.00**	6.50
Discount rate (%)	**11.50**	8.50
Increase in future Cost of Living Allowance (COLA) (%)	**5.50**	4.50
Mortality	**GA 1983 Mortality table**	GA 1983 Mortality table
Retirement age	**62 years**	60 years
Normal form of payment	**Monthly**	Monthly

38. Retirement benefit obligations (contd.)

38. (a) Defined benefit plans (contd.)

38. (a) 2 National Savings Bank Employees' Pension Scheme II (contd.)

Turnover rate

Age	2021 %	2020 %
20	0.3	0.3
25	0.3	0.3
30	0.3	0.3
35	0.3	0.3
40	0.3	0.3
45	0.3	0.3
50	0.3	0.3
55	0.3	10.0
56	0.3	10.0
57	0.3	10.0
58	0.3	10.0
59	0.3	10.0

(i) Increase/decrease in the following assumptions will have an impact on the present value of defined benefit obligation as illustrated below:

	Pension Scheme II (Bank and the Group)			
	2021		2020	
	1% increase	1% decrease	1% increase	1% decrease
Future salary increment rate	4,902,212	3,813,165	4,964,045	3,955,513
Discount rate	3,530,257	5,310,197	3,534,381	5,581,385

38. (a) 3 Retired medical assistance scheme for the retired employees of NSB

An actuarial valuation of the retired medical assistance scheme for the retired employees was carried out as at 31 December 2021 by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional Actuaries, on 31 December 2021.

Projected Unit Credit Method was used to allocate the actuarial present value of the projected benefits earned by employees to date of 31 December 2021.

	Bank and Group	
As at 31 December	2021 Rs. '000	2020 Rs. '000
(a) Net asset/(liability) recognised in Statement of Financial Position		
Present value of defined benefit obligation	(4,345,781)	(4,431,651)
Fair value of plan assets	676,497	609,286
Total	(3,669,284)	(3,822,365)

38. Retirement benefit obligations (contd.)

38. (a) Defined benefit plans (contd.)

38. (a) 3 Retired medical assistance scheme for the retired employees of NSB (contd.)

As at 31 December	Bank and Group	
	2021 Rs. '000	2020 Rs. '000
(b) Amount recognised in Income Statement		
Past service cost	**(186,846)**	–
Current service cost	**77,575**	111,052
Interest cost on benefit obligation	**305,789**	191,268
Net benefit expense	**196,519**	302,320
(c) Amount recognised in Other Comprehensive Income (OCI)		
Provision adjustment	**–**	13,676
Experience (gain)/loss	**(266,746)**	607,484
(Gain)/loss due to changes in assumptions	**242,455**	1,188,619
Actuarial (gain)/loss on plan assets	**(6,350)**	666
Contribution from employees	**(16,640)**	(15,527)
Total	**(47,280)**	1,794,918
(d) Changes in fair value of plan assets are as follows:		
Opening fair value of plan assets	**609,286**	815,656
Provision adjustment	**–**	(13,676)
Expected return on plan assets	**48,743**	88,218
Actual employer contribution	**302,320**	–
Actual participants' contribution	**16,640**	15,527
Benefits paid	**(306,841)**	(295,773)
Actuarial gain/(loss) on plan assets	**6,350**	(666)
Closing fair value of plan assets	**676,497**	609,286
(e) Changes in present value of defined benefit obligation are as follows:		
Opening defined benefit obligation	**4,431,651**	2,540,783
Interest cost	**354,532**	279,486
Past service cost	**(186,846)**	–
Current service cost	**77,575**	111,052
Benefits paid	**(306,841)**	(295,773)
(Gain)/loss due to changes in assumptions	**242,455**	1,188,619
Actuarial (gain)/loss on obligation	**(266,746)**	607,484
Closing defined benefit obligation	**4,345,781**	4,431,651

38. Retirement benefit obligations (contd.)

38. (a) Defined benefit plans (contd.)

38. (a) 3 Retired medical assistance scheme for the retired employees of NSB (contd.)

	Bank and Group	
As at 31 December	**2021 Rs. '000**	2020 Rs. '000
(f) Plan assets consist of followings:		
Treasury Bonds	**351,782**	279,619
Treasury Bills	**131,910**	–
Fixed deposits	**264,877**	414,305
Securities purchased under resale agreements	**10,523**	–
Trust certificates	**58,846**	110,706
Debentures	**171,933**	116,040
Savings	**231**	180
Other payable	**(313,605)**	(311,564)
Total	**676,497**	609,286
(g) Maturity profile of defined benefit obligation – present value of expected accrued benefit payments		
Distribution of present value of defined benefit obligation in future years		
Less than one year	**307,847**	252,523
Between 1-2 years	**562,238**	482,338
Between 3-5 years	**730,371**	660,025
Between 6-10 years	**954,005**	916,599
Beyond 10 years	**1,791,320**	2,120,166
Total	**4,345,781**	4,431,651

	2021 %	2020 %
(h) Actuarial assumption		
Medical cost inflation rate	**7.00**	5.00
Discount rate	**11.50**	8.00

(i). Increase/decrease in the following assumptions will have an impact on the present value of defined benefit obligation as illustrated below:

	Bank and Group			
	2021		2020	
	1% increase	**1% decrease**	1% increase	1% decrease
Medical cost escalation rate	**4,901,198**	**3,887,002**	5,101,514	3,891,720
Discount rate	**3,924,263**	**4,862,417**	3,927,244	5,066,798

38. Retirement benefit obligations (contd.)

38. (a) 4 Gratuity plan – Bank and Group

Bank

With the establishment of Pension Scheme II, employees who joined the Bank on or after 1 October 1995 become members of the Pension Scheme II, thus are not entitled to the rights and privileges under Service Gratuity Scheme. However, where there are payments of termination gratuity before the entitlement of pension, the Bank recognises the expense on cash basis.

Group

The staff members of the subsidiary companies are not entitled for pension scheme and hence, they continue to be members of the Gratuity Plan as per the provisions of the Gratuity Act No. 12 of 1983.

	Bank		Group	
As at 31 December	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
(a) Net benefit expense (recognised under personal expenses)				
Current service cost	–	–	4,988	3,497
Interest cost on benefit obligation	–	–	2,699	2,863
Net benefit expense	–	–	7,687	6,360
(b) Provision for gratuity				
Defined benefit obligation as at 1 January	–	–	31,345	27,980
Interest cost	–	–	2,699	2,863
Current service cost	–	–	4,988	3,497
Benefits paid	–	–	–	–
Actuarial (gain)/loss on obligation (recognised in OCI)	–	–	7,752	(2,995)
Defined benefit obligation as at 31 December	–	–	46,783	31,345

	FMC		SLSB	
	2021 %	2020 %	**2021 %**	2020 %
(c) Actuarial assumption				
Future salary increment rate	5.20	1.87	6.50	6.50
Discount rate	10.5	7.98	8.50	9.00
Mortality	–	–	A67/70	A67/70

38. Retirement benefit obligations (contd.)

38. (a) 4 Gratuity plan – Bank and Group (contd.)

Staff turnover rate and average future working lifetime

	FMC – 2021		
Age group	25-34	35-44	45<
Staff turnover rate – %	0.15	–	–
Average future working lifetime – years	6.5	6	4.6

(d) Increase/decrease in the following assumptions will have an impact on the present value of defined benefit obligation (PVDBO) as illustrated below:

Values appearing in the Financial Statements are very sensitive to the changes in financial and non-financial assumptions used. Net impact to PVDBO has been illustrated below:

	FMC			
	2021		2020	
	1% increase	1% decrease	1% increase	1% decrease
Future salary increment rate	260	(249)	303	(258)
Discount rate	(235)	249	(242)	287

Assumptions

Financial assumptions – Rate of discount, salary increment rate

Demographic assumptions – Mortality, staff turn over, disability, Retirement age

39 Current tax liabilities

		Bank		Group	
As at 31 December	Note	2021 Rs. '000	2020 Rs. '000	2021 Rs. '000	2020 Rs. '000
Balance as at 1 January		612,239	–	1,189,133	565,704
Tax recoverable*		–	(2,695,348)	–	(2,695,348)
Prior year adjustment		–	(2,516,404)	–	(2,555,031)
Charge for the year		6,736,789	6,017,687	6,769,190	6,450,219
Payment during the year		(2,752,838)	(193,696)	(3,110,806)	(576,411)
Transfer to tax receivable	31	–	–	67,401	–
Balance as at 31 December		4,596,190	612,239	4,914,918	1,189,133

* Tax recoverable in 2019 which was recorded under other assets has been fully claimed from the income tax for the year of assessment 2020/21

40 Other provisions

No value to be disclosed under other provision as at 31 December 2021.

41 Other liabilities

Accounting policy

Other liabilities include provisions made in account of fees and expenses, salary-related, and other expenses. These liabilities are recorded at amounts expected to be payable at the reporting date.

	Bank		Group	
As at 31 December	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Sundry creditors	**189,096**	150,989	**190,446**	152,353
Salary-related payable	**2,040,270**	931,453	**2,041,958**	934,142
Other tax payable	**764,011**	916,650	**764,011**	1,278,707
Other payables	**4,206,655**	3,984,777	**4,570,477**	4,173,441
Total	**7,200,032**	5,983,870	**7,566,892**	6,538,643

42 Due to subsidiaries

	Bank		Group	
As at 31 December	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Payable to FMC	**3,500**	3,750	**–**	–
Total	**3,500**	3,750	**–**	–

Refer Note 49.3 and 49.4 – Related party transaction on pages 366 and 367.

43 Stated capital/Assigned capital

	Bank		Group	
As at 31 December	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Authorised				
1 Bn. ordinary shares of Rs. 10.00 each as at 1 January	**10,000,000**	10,000,000	**10,000,000**	10,000,000
Balance as at 1 January (issued and fully paid)				
940 Mn. ordinary shares of Rs. 10.00 each	**9,400,000**	9,400,000	**9,400,000**	9,400,000
Issue of ordinary shares during the year	**–**	–	**–**	–
Total	**9,400,000**	9,400,000	**9,400,000**	9,400,000

44 Statutory reserve fund

The statutory reserve fund is maintained as per the requirements under Section 20 (1) of the Banking Act No. 30 of 1988. Accordingly, the fund is built up by allocating a sum equivalent to not less than 5% of the profit after tax, but before declaring any dividend or any profit that are transferred to elsewhere until the reserve is equal to 50% of the Bank's stated capital and thereafter sum equivalent to 2% of such profit until the amount of said reserve fund is equal to the stated capital of the Bank.

The balance in the statutory reserve fund will be used only for the purposes specified in the Section 20 (2) of the Banking Act No. 30 of 1988.

	Bank		Group	
As at 31 December	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Opening balance	**4,068,268**	3,562,872	**4,090,363**	3,571,214
Transfer during the period – 5% of profit after tax*	**1,105,981**	505,396	**1,118,738**	519,149
Closing balance	**5,174,249**	4,068,268	**5,209,101**	4,090,363

* 5% of Profit after tax has been transferred to above fund during the financial year. However Since the statutory reserve fund exceeds 50% of the Bank's stated capital during the year 2021 , a sum equivalent to 2% will be transferred to said fund until new capital introduced from next year onward.

45 Retained earnings

	Bank		Group	
As at 31 December	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Balance as at 1 January	**14,399,572**	8,194,507	**18,601,588**	10,964,046
Opening balance adjustment*	**–**	2,516,404	**–**	3,398,474
Restated opening balance as at 1 January	**14,399,572**	10,710,911	**18,601,588**	14,362,520
Profit for the year	**22,119,624**	10,107,916	**22,130,818**	10,821,118
Other comprehensive income	**2,035,782**	(4,812,780)	**2,028,031**	(4,809,785)
Transfers to other reserves	**(21,105,981)**	(505,396)	**(21,120,251)**	(671,185)
Contribution to National Insurance Trust Fund	**(221,196)**	(101,079)	**(221,196)**	(101,079)
Withholding tax on dividend	**–**	–	**–**	–
Dividend/levy	**(3,500,000)**	(1,000,000)	**(3,500,000)**	(1,000,000)
Balance as at 31 December	**13,727,801**	14,399,572	**17,918,992**	18,601,588

* Please refer Note 53 comparative figures.

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46 Other reserves

	Bank 2021		
	Opening balance at 1 January 2021 Rs. '000	Movement/ transfers Rs. '000	Closing balance at 31 December 2021 Rs. '000
General reserve*	17,740,879	20,000,000	37,740,879
Revaluation reserve (net of tax)	6,678,568	371,032	7,049,600
OCI reserve	(434,929)	(223,447)	(658,376)
Cash flow hedging reserve	–	–	–
Foreign currency translation reserve	–	–	–
Other reserves (refer Notes 46.1 and 46.2)	2,561,544	1,017,061	3,578,605
Total	26,546,061	21,164,647	47,710,707

* A sum of Rs. 20,000 Mn. was transferred to General Reserve from Retained Earning as at 31 December 2021 as per the Section 20 of NSB Act No. 30 of 1971.

	Bank 2020		
	Opening balance at 1 January 2020 Rs. '000	Movement/ transfers Rs. '000	Closing balance at 31 December 2020 Rs. '000
General reserve	17,740,879	–	17,740,879
Revaluation reserve (net of tax)	5,611,188	1,067,380	6,678,568
OCI reserve	318,006	(752,935)	(434,929)
Cash flow hedging reserve	–	–	–
Foreign currency translation reserve	–	–	–
Other reserves (refer Notes 46.1 and 46.2)	1,097,810	1,463,736	2,561,544
Total	24,767,882	1,778,182	26,546,061

	Group 2021		
	Opening balance at 1 January 2021 Rs. '000	Movement/ transfers Rs. '000	Closing balance at 31 December 2021 Rs. '000
General reserve*	17,740,879	20,000,000	37,740,879
Revaluation reserve (net of tax)	7,117,674	371,032	7,488,706
OCI reserve	(411,786)	(342,354)	(754,140)
Cash flow hedging reserve	–	–	–
Foreign currency translation reserve	–	–	–
Other reserves (refer Note 46.1, 46.2, 46.3)	3,427,104	1,018,572	4,445,677
Total	27,873,870	21,047,250	48,921,120

* A sum of Rs. 20,000 Mn. was transferred to General Reserve from Retained Earning as at 31 December 2021 as per the Section 20 of NSB Act No. 30 of 1971.

46. Other reserves (contd.)

	Group 2020		
	Opening balance at 1 January 2020 Rs. '000	Movement/ transfers Rs. '000	Closing balance at 31 December 2020 Rs. '000
General reserve	17,740,879	–	17,740,879
Revaluation reserve (net of tax)	5,611,188	1,506,486	7,117,674
OCI reserve	283,502	(695,287)	(411,786)
Cash flow hedging reserve	–	–	–
Foreign currency translation reserve	–	–	–
Other reserves (refer Note 46.1, 46.2, 46.3)	1,811,331	1,615,773	3,427,104
Total	25,446,900	2,426,971	27,873,870

46.1 Unclaimed deposit reserve

	Bank		Group	
As at 31 December	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Opening balance	**2,559,362**	1,095,626	**2,559,362**	1,095,626
Transferred to share capital	**–**	–	**–**	–
Transferred during the year	**1,017,061**	1,463,736	**1,017,061**	1,463,736
Closing balance	**3,576,423**	2,559,362	**3,576,423**	2,559,362

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 2021, was Rs. 1,017.06 Mn.

46.2 Special reserve

	Bank		Group	
As at 31 December	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Opening balance	**2,183**	2,184	**2,183**	2,184
Transferred during the year	**(1)**	(1)	**(1)**	(1)
Closing balance	**2,182**	2,183	**2,182**	2,183

The Special Reserve represents the amount transferred from the dormant accounts of customers where the aggregate of the amount dormant is less than Rs. 10.00 (Ten rupees).

The whole or such part of the monies lying to the credit of "Special Reserve" and "Unclaimed Deposit Reserve" may be capitalised and shares to the value of money capitalised may be issued in the name of Secretary to the Treasury. The entirety of the issue and fully paid share capital of Rs. 9,400 Mn. reflected in the Statement of Financial Position was issued by capitalising the Unclaimed Deposit Reserve time to time.

46. Other reserves (contd.)

46.3 Special risk reserve – (NSB Fund Management Company Limited)

As at 31 December	Bank		Group	
	2021 Rs. '000	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Opening balance	**–**	–	**865,558**	713,521
Transferred during the year – 25% of profit after tax	**–**	–	**1,512**	152,037
Closing balance	**–**	–	**867,071**	865,558

In order to promote the safety, soundness and the stability of the primary dealer (PD) system and to build up PD capital base, primary dealers (PDs) are required to annually transfer a percentage of their profit after tax to a special risk reserve as follows, with effect from 1 July 2004:

I. 50% of the profit after tax annually by the PDs who maintain capital funds less than Rs. 400 Mn.

II. 25% of the profit after tax annually by the PDs who maintain capital funds in excess of Rs. 400 Mn.

Other reserves

As at 31 December	Bank		Group	
	2021 Rs. '000	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Total other reserves	**3,578,605**	2,561,544	**4,445,677**	3,427,104

47 Non-controlling interest

Bank has two fully-owned subsidiaries. Therefore no values to be disclosed under non-controlling interest.

48 Contingent liabilities and commitments

Accounting policy

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future event or present obligation where the transfer of economic benefit is not probable or cannot be reliably measured as defined in the Sri Lanka Accounting Standard – LKAS 37 on "Provisions, Contingent Liabilities and Contingent Assets".

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of finance guarantees, letters of credit, and other undrawn commitments to lend. Letters of credit and guarantees commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless its occurrence is remote.

48. Contingent liabilities and commitments (contd.)

		Bank		Group	
As at 31 December	Note	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Commitments					
Commitment for unutilised credit facilities		**7,571,686**	19,047,815	**7,576,228**	18,570,385
Other commitments indirect credit facilities		**726,879**	712,928	**726,879**	712,928
Capital commitments	48.1	**1,169,539**	1,782,622	**1,169,539**	1,811,829
Subtotal		**9,468,104**	21,543,365	**9,472,645**	21,095,142
Contingent liabilities					
Documentary credit		**452,690**	264,341	**452,690**	264,341
Guarantees		**3,102,414**	1,979,393	**3,102,414**	1,990,842
Other contingencies	48.2	**–**	2,000,000	**–**	2,000,000
Subtotal		**3,555,104**	4,243,733	**3,555,104**	4,255,183
Total commitment and contingencies		**13,023,207**	25,787,099	**13,027,749**	25,350,325

48.1 Capital commitments

Capital expenditure approved by the Board of Directors, for which provisions have not been made in the Financial Statements are detailed below:

	Bank		Group	
As at 31 December	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Commitments in relation to property, plant and equipment				
Approved and contracted for	**130,273**	232,546	**130,273**	261,752
Approved but not contracted for	**–**	–	**–**	–
Subtotal	**130,273**	232,546	**130,273**	261,752
Commitments in relation to intangible asset				
Approved and contracted for	**1,039,266**	1,550,076	**1,039,266**	1,550,076
Approved but not contracted for	**–**	–	**–**	–
Subtotal	**1,039,266**	1,550,076	**1,039,266**	1,550,076
Total	**1,169,539**	1,782,622	**1,169,539**	1,811,829

48. Contingent liabilities and commitments (contd.)

48.2 Other contingencies

		Bank		Group	
As at 31 December	Note	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Interest rate derivatives					
Interest rate swaps	19.1	–	2,000,000	–	2,000,000
Forward exchange contracts					
Forward exchange sales		–	–	–	–
Forward exchange purchases		–	–	–	–
Total		–	2,000,000	–	2,000,000

49 Related party disclosures

Accounting policy

The Bank carried out transactions in the ordinary course of business on an arm's length basis at commercial rates with parties who are defined as related parties as per the Sri Lanka Accounting Standard – LKAS 24 on "Related Party Disclosures" i.e. Government of Sri Lanka, subsidiaries, post-employment benefit plans for the Bank's employees, Key Management Personnel (KMPs). Those transactions include lending activities, placements, off-balance sheet transactions and provision of other banking and financial services that are carried out in the ordinary course of business on an arm's length basis at commercial rates, other than, transactions that the Key Management Personnel (KMP) have availed under schemes uniformly applicable to all staff at concessionary rates. Particulars of transactions with related parties are tabulated below:

49.1 Parent and ultimate controlling party

National Savings Bank is a Government-owned bank.

49. Related party disclosures (contd.)

49.2 Transactions with Government of Sri Lanka (Parent) and state-controlled entities

The financial dealings carried out with the Government of Sri Lanka and state-controlled entities for the year are disclosed below:

49.2.1 Transactions which are collectively significant

As at 31 December	Bank 2021 Rs. '000	Bank 2020 Rs. '000	Group 2021 Rs. '000	Group 2020 Rs. '000
Assets				
Loans to Government	**2,075,000**	2,075,000	**2,075,000**	2,075,000
Investments made on Government Securities	**835,444,013**	740,919,614	**862,474,244**	757,344,761
Investments on state and state-controlled entities	**229,144,509**	174,278,175	**231,254,543**	178,366,937
Securities purchased under resale agreements	**1,364,760**	2,503,527	**1,364,760**	2,503,527
Tax receivable	**–**	–	**67,401**	–
Postmaster-General's current account	**731,353**	541,300	**731,353**	541,300
Advance payment to Government	**3,200,000**	3,520,000	**3,200,000**	3,520,000
Other receivables from Government	**20,471,202**	11,981,394	**20,560,141**	12,070,334
Total	**1,092,430,836**	935,819,010	**1,121,727,442**	956,421,858
Liabilities				
Securities sold under repurchase agreements	**4,743,515**	10,698,992	**13,223,236**	10,698,992
Tax payable	**4,596,190**	3,128,643	**4,914,918**	3,705,537
Total	**9,339,705**	13,827,635	**18,138,154**	14,404,529
Commitment				
Undrawn loan commitment	**6,324,138**	17,563,612	**6,324,138**	17,563,612
Taxes paid				
Income tax	**6,736,789**	6,017,687	**6,769,190**	6,449,560
Value added tax	**6,162,351**	3,786,717	**6,233,194**	4,006,877
Contribution to consolidated fund – dividend/levy	**3,500,000**	1,000,000	**3,500,000**	1,000,000
Total	**16,399,140**	10,804,404	**16,502,384**	11,456,437

49.2.2 Transactions which are individually significant

Since the Bank is Government owned entity and as per NSB Act, Bank should invest 60% of its deposit in Government Securities. Therefore Bank has significant transactions with GOSL in day-to-day operation which are collectively represent on above. Individually significant transactions other than day-to-day operations are as follows:

- Bank has converted Rs. 59,365.66 Mn. worth of outstanding loans to RDA as debenture (covered by Treasury Guarantee) on 1 January 2021. Therefore it has been classified from loan and advance to debt and other instruments as at 31 December 2021.
- The Bank has received Rs. 8,439.5 Mn. worth of Treasury Bonds from Government Treasury as partial settlement of interest receivables on senior citizens.

49. Related party disclosures (contd.)

49.3 Transactions with subsidiary company (NSB Fund Management Company Limited)

The Bank has contributed Rs. 1,700 Mn. towards the share capital of the Company. The Company invested its funds in Treasury Bills, Treasury Bonds, and Repos during the year on a regular basis. All investment in Treasury Bills and Treasury Bonds of the Bank are being made through the NSB Fund Management Company Limited on which service charges/custodian fee of Rs. 42 Mn. has been made for the year 2021 (Rs. 42 Mn. service charges/custodian fee on fee in 2020).

The Bank holds following balances with NSB Fund Management Company Limited, at the reporting date:

	Bank	
As at 31 December	**2021 Rs. '000**	2020 Rs. '000
Assets		
Securities purchased under resale agreements	**1,206,998**	1,043,134
Loans and Advances	**500,198**	–
Other receivable	**1,127**	926
Total	**1,708,323**	1,044,059
Liabilities		
Other payable	**3,500**	3,750
Commitment		
Undrawn loan commitment	**–**	500,000

The above outstanding balances arose in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third-party counterparties. Particulars of income and expenses with related parties are tabulated below:

	Bank	
For the year ended 31 December	**2021 Rs. '000**	2020 Rs. '000
Income		
Legal Fee	**300**	–
Interest income on loans and advances	**1,185**	–
Dividend	**250,000**	170,000
Interest income reverse repo	**23,759**	43,175
Total	**275,244**	213,175
Expenses		
Service charges/custodian fees	**42,000**	42,000
Real Time Gross Settlement charges	**167**	762
Trustee fee	**1,550**	1,250
Interest expenses on repos	**1,505**	2,757
Total	**45,222**	46,769

49. Related party disclosures (contd.)

49.4 Transactions with subsidiary company (Sri Lanka Savings Bank Limited)

The Sri Lanka Savings Bank Limited (SLSBL) was established in July 2006 under the Banking Act and incorporated under the provision of the Companies Act. The Sri Lanka Savings Bank commenced business on 10 March 2008 as a state-owned Licensed Specialised Bank. The Bank has acquired SLSBL as a fully-owned subsidiary by paying Rs. 3,111 Mn. on 11 October 2019. The CBSL has given special approval to acquisition as budget proposal of 2016.

The Bank holds following balances with Sri Lanka Savings Bank Limited at the reporting date.

	Bank	
As at 31 December	**2021 Rs. '000**	2020 Rs. '000
Liabilities		
Securities sold under repurchase agreement	**711,225**	343,156
Securities sold under repurchase agreement – Interest payables	**5,813**	1,571
Due to depositors	**2,459,909**	482,404
Due to depositors – Interest payables	**47,436**	49,189
Total	**3,224,382**	876,320

The above outstanding balances arose in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third-party counterparties. Particulars of income and expenses with related parties are tabulated below:

	Bank	
For the year ended 31 December	**2021 Rs. '000**	2020 Rs. '000
Expenses		
Interest expenses on securities sold under repurchase agreement	**30,661**	24,220
Interest expenses on due to depositors	**83,593**	124,207
Total	**114,254**	148,427

49.5 Transactions with key managerial persons

49.5.1 Compensation to Key Management Personnel (KMPs)

As per the Sri Lanka Accounting Standard – LKAS 24 on "Related Party Disclosures", the KMPs include those who are having authority and responsibility for planning, directing, and controlling the activities of the Bank. Accordingly, Key Managerial Persons include members of the Board of Directors of the Bank and key employees of the Bank holding directorships in subsidiaries, NSB Fund Management Co. Ltd.. and Sri Lanka Savings Bank Limited, Ex. Chairperson's, Directors' GM/CEO's and DGM's.

49. Related party disclosures (contd.)

49.5 Transactions with key managerial persons (contd.)

49.5.1 Compensation to Key Management Personnel (KMPs) (contd.)

	Bank	
For the year ended 31 December	**2021 Rs. '000**	2020 Rs. '000
Compensation to KMPs of the Bank		
Short-term employee benefit	**116,508**	98,238
Post-employment benefit	**19,318**	16,393
Total	**135,826**	114,631

In addition to the above, the Bank has also provided non-cash benefits to the KMPs in line with the approved benefit plans of the Bank.

(iii) Chairperson's, Directors' GM/CEO's and DGMM's emoluments and fees amounted to Rs. 116.51 Mn. in 2021. (Rs. 98.24 Mn. in 2020).

49.5.2 Transactions, arrangements, and agreements involving Key Management Personnel (KMPs)

	Bank	
As at 31 December	**2021 Rs. '000**	2020 Rs. '000
Assets		
Loans and advances	**67,678**	55,699

49.5.3 Net accommodation granted to related parties

(Disclosure under Rule 3 (8) (ii) (e) of the Governance Direction of No. 12 of 2007 issued by the Central Bank of Sri Lanka).

	Bank	
As at 31 December	**2021 Rs. '000**	2020 Rs. '000
Key Managerial Persons		
Loan and advances	**67,678**	55,699
Total net accommodation	**67,678**	55,699
Regulatory capital	**72,984,005**	50,236,350
Net accommodation as a percentage of the Bank's regulatory capital (%)	**0.1**	0.1

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49. Related party disclosures (contd.)

49.6 Transactions with post-employment benefit plans of the Bank

Transactions (SOFP) which were taken place between the Bank and post-employment benefit plans of the Bank as at the year end are summarised below:

The Bank holds following balances with post-employment benefit plans at the reporting date.

	Bank		Group	
As at 31 December	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Liabilities				
National Savings Bank Employees' Provident Fund				
Due to depositors – (Fixed deposits)	**469,785**	254,000	**469,785**	254,000
Due to other borrowers (Securities purchased under resale agreements)	**–**	15,500	**–**	15,500
Debt securities issued (Debentures)	**1,250,000**	725,000	**1,250,000**	725,000
National Savings Bank Employees' Pension Scheme I				
Due to depositors - (Fixed deposits)	**365,710**	996,050	**365,710**	996,050
Due to other borrowers (Securities purchased under resale agreements)	**1,410,361**	243,705	**1,410,361**	243,705
Debt securities issued (Debentures)	**550,000**	2,000,000	**550,000**	2,000,000
National Savings Bank Employees' Pension Scheme II				
Due to depositors - (Fixed deposits)	**508,496**	1,264,274	**508,496**	1,264,274
Due to other borrowers (Securities purchased under resale agreements)	**20,118**	–	**20,118**	–
Debt securities issued (Debentures)	**500,000**	–	**500,000**	–
Medical Assistance Scheme for the Retired Employees of NSB				
Due to depositors - (Fixed deposits)	**252,151**	385,667	**252,151**	385,667
Debt securities issued (Debentures)	**25,000**	–	**25,000**	–
Widows'/Widowers' and Orphans' Pension Fund				
Due to depositors – (Fixed deposits)	**71,328**	156,181	**71,328**	156,181
Debt securities issued (Debentures)	**100,000**	–	**100,000**	–

49. Related party disclosures (contd.)

49.6 Transactions with post-employment benefit plans of the Bank (contd.)

Transactions (IS) which were taken place between the Bank and post-employment benefit plans of the Bank as at the year end are summarised below in view of Bank:

	Bank		Group	
For the year ended 31 December	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Interest Income				
National Savings Bank Employees' Provident Fund	**2,378**	18,566	**2,378**	18,566
National Savings Bank Employees' Pension Scheme I	**277**	3,340	**277**	3,340
Interest Expenses				
National Savings Bank Employees' Provident Fund	**103,988**	70,930	**103,988**	70,930
National Savings Bank Employees' Pension Scheme I	**321,504**	553,434	**321,504**	553,434
National Savings Bank Employees' Pension Scheme II	**73,701**	82,116	**73,701**	82,116
Medical Assistance Scheme for the Retired Employees of NSB	**21,358**	34,093	**21,358**	34,093
Widows'/Widowers' and Orphans' Pension Fund	**11,074**	13,286	**11,074**	13,286

49.7 Due from other related parties

	Bank		Group	
For the year ended 31 December	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Securities purchased under resale agreements – Entrust Securities PLC	**17,669**	9,084	**17,669**	9,084
Receivable from Entrust Securities PLC	**859,160**	859,160	**859,160**	859,160
Impairment	**(124,372)**	(124,372)	**(124,372)**	(124,372)
Total	**752,457**	743,872	**752,457**	743,872

49.8 Due to other related parties

	Bank		Group	
As at 31 December	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Other payable – Entrust Securities PLC	**734,788**	734,788	**734,788**	734,788
Securities sold under repurchase agreements – Entrust Securities PLC	**–**	–	**–**	351,194
Total	**734,788**	734,788	**734,788**	1,085,982

50 Net assets value per ordinary share

As at 31 December	Bank 2021 Rs. '000	Bank 2020 Rs. '000	Group 2021 Rs. '000	Group 2020 Rs. '000
Amount used as the numerator				
Shareholders' funds	**76,012,757**	54,413,901	**81,449,213**	59,965,821
Number of ordinary share used as the denominator				
Total number of shares	**940,000**	940,000	**940,000**	940,000
Net assets value per ordinary share (Rs.)	**80.86**	57.89	**86.65**	63.79

51 Litigation against the Bank and the Group

Litigation is a common occurrence in the banking industry due to the nature of the business. The Bank has an established protocol for dealing with such legal claims. Once professional advice has been obtained on the certainty of the outcome and the amount of damages reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. The unresolved court cases against the Bank as at the year end for which adjustments to the Financial Statements have not been made due to the uncertainty of its outcome are as follows:

As at 31 December	Bank 2021 Number	Bank 2020 Number
Tribunal/Court		
Labour Tribunal	**12**	11
Industrial Court	**1**	2
Magistrate's Court	**3**	2
District Court	**91**	82
High Court/Civil Appellate High Court/Provincial High Court	**4**	3
Court of Appeal	**3**	3
Supreme Court	**2**	1

52 Events occurring after the reporting date

Accounting policy

Events occurring after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the Financial Statements are authorised for issue.

Where necessary all material events after the reporting date have been considered and appropriate adjustments/ disclosures have been made in the Financial Statements as per the LKAS 10 on "Events after the Reporting Period".

Surcharge tax as proposed Budget 2022

The Government of Sri Lanka in its Budget for 2022 has proposed a one-time tax, referred to as a surcharge tax of 25% to be imposed on companies that have earned a taxable income in excess of Rs. 2,000 Mn. for the year of assessment 2020/21. Since the Bank's taxable income is exceeded Rs. 2,000 Mn., the proposed tax should be deemed an expenditure in the Financial Statements relating to the year of assessment 2020/21.

52. Events occurring after the reporting date (contd.)

The Bill introducing the proposed tax was published after the reporting period and it has not been placed on the Order Paper of the Parliament for its first reading before the date these Financial Statements were authorised for issue. The proposed tax has not been substantively enacted by the end of the reporting period. Therefore, the Financial Statements have not been adjusted to reflect the consequences of this proposal.

Change in rate of VAT on financial services

As per provisions of the Government Bill issued on 7 January 2022 it has been proposed to increase the VAT on financial services.

New NPL Direction

CBSL has recently issued a new set of directions pertaining to the classification, recognition and measurement of credit facilities to be effective from 1 January 2022. The classification of Non-Performing Loans (NPL), cessation of the interest in suspense, adoption of SLFRS 9 stage classification, changing the existing cross default rules, mandatory provisioning ratio for stage one loans, and new rules for moving the financial assets among the stages. However, the new direction is applicable only for the loans turn to NPL after 1 January 2022 while the old loans categorised as NPL under the earlier directions will remain as it is until it will get settled.

53 Comparative figures

The comparative information is reclassified wherever necessary, to comply with current year's classification in order to provide better presentation. Pension Fund payable balances which were classified under other liability have been re-classified to retirement benefit obligation.

		Bank		
	Note	2020 Audited balances Rs. '000	Reclassification Rs. '000	2020 Reclassified balances Rs. '000
Retirement benefit obligations	38	10,885,085	715,346	11,600,431
Other liabilities	41	6,699,216	(715,346)	5,983,870

		Group		
	Note	2020 Audited balances Rs. '000	Reclassification Rs. '000	2020 Reclassified balances Rs. '000
Retirement benefit obligations	38	10,916,429	715,346	11,631,775
Other liabilities	41	7,253,989	(715,346)	6,538,643

53. Comparative figures (contd.)

53.1 Prior year adjustments of the Bank and the Group

Following adjustments have been made due to current tax payable to effect prior year. The Bank has received a tax credit of Rs. 2,516 Mn. in finalisation of income tax assessment for the years 2016/17 and 2017/18 with Inland Revenue Department.

The detail is given below:

53.1.1 Prior year adjustments of the Bank

Statement of Changes in Equity	Balances as at 31 December 2019 Rs. '000	Adjustment Rs. '000	Opening balances as at 1 January 2020 Rs. '000
Statement of Changes in Equity			
Retained earnings	8,194,507	2,516,404	10,710,911
Total equity	45,925,261	2,516,404	48,441,665

	Note	2020 Audited balances Rs. '000	Adjustments Rs. '000	2020 Restated balances Rs. '000
Statement of Financial position				
Liabilities and Equity				
i. Current tax liabilities	38	3,128,643	(2,516,404)	612,239
ii. Retained earnings	45	11,883,168	2,516,404	14,399,572

53.1.2 Prior year adjustment of the Group

Statement of Changes in Equity	Balances as at 31 December 2019 Rs. '000	Adjustment Rs. '000	Opening balances as at 1 January 2020 Rs. '000
Statement of Changes in Equity			
Retained earnings	11,846,116	2,516,404	14,362,520
Total equity	50,264,229	2,516,404	52,780,633

	Note	2020 Audited balances Rs. '000	Adjustments Rs. '000	2020 Restated balances Rs. '000
Statement of Financial position				
Liabilities and Equity				
i. Current tax liabilities	38	3,705,537	(2,516,404)	1,189,133
ii. Retained earnings	45	16,085,184	2,516,404	18,601,588

54 Financial risk management

Overview

The Group is exposed to financial risk and non financial risks arising from its operations. The Group manages these risks through its Risk Management Framework, which evolves to accommodate changes in the business operating environment, best practices and regulatory requirements.

Risk management framework

Integrated Risk Management Framework of NSB encompasses policies and procedures covering various risks , mechanism to identify such risks, and effective measures to manage and mitigate risks.

Risk Management Framework of the Bank begins with the oversight of the Board of Directors. It has set up Board Integrated Risk Management Committee (BIRMC) to assist the Board of Directors in discharging its risk management responsibility. The Risk Management Division (RMD) independently reports to the Board through BIRMC. Bank's Management Committees review regular reports from respective Business Divisions and RMD, to ensure adequacy and effectiveness of Bank's risk management with meticulous focus.

The following Management Committees, are responsible for the coordination of risk matters for each of the areas of risk management with meticulous focus:

Management level risk Management Committees

- Credit Committee (CC)
- Asset and Liability Management Committee (ALCO)
- Operational Risk Management Committee (ORMC)
- Investment Committee (IC)
- Information Security Committee (ISC)

Other Management Committees

- IT Steering Committee
- Human Resource Committee (HRC)
- Branch Operation Steering Committee (BOSC)
- Performance Review Committee
- Marketing Committee
- Corporate Management Committee (CMC)

Internal Audit Division engages both regular and ad-hoc reviews of risk management controls and procedures and the findings are reported to the Board Audit Committee (BAC).

54. Financial risk management (contd.)

Material risk types

Description	Governing Policies and Key Management Committee	Key controls and mitigation strategies
Credit risk Credit risk is the potential for loss arising from the failure of a counterparty to meet their contractual obligations to the Group. The Group is primarily exposed to credit risk through: • Lending against property mortgage; • Other retail lending (Personal Guarantee); • Commercial lending; and • Large corporate (institutional) lending and markets exposures; • Large Lending for Government Institution; • Lending for companies incorporated in outside the Sri Lanka; • Pawning;	**Governing Policies** Credit Policies and Credit Risk Management Policy **Key Management Committee** Credit Committee	i. Credit Policies and Credit Risk Management Policy Framework. ii. Standardised credit evaluation using Credit Rating System (RAM). iii. Delegation of Authority for credit approval. iv. Obtain quality collateral and maintaining LTV at policy levels. v. Risk appetite Framework: Monitoring of KRIs/KPIs against risk appetite framework and reporting to BIRMC and Board. • Assets Quality limits: Retail NPA, Corporate NPA • Portfolio Return limits: Retail Credit Return, Corporate Credit Return • Concentration limits : sector concentration,Name concentration • Off-Balance sheet commitments to total assets vi. Credit Limit Monitoring Framework: Portfolio and transaction level monitoring and reporting to CC/IC/BIRMC/Board. • Sector Exposure Limits. • Limits for risk weighted asset classes • Concentration limits • Corporate Exposure limits to RWA classes. • Limits for Investments in Corporate Debt Instruments. vii. Credit Monitoring Framework: Portfolio and transaction level monitoring and reporting to CC/IC/BIRMC and Board. – Portfolio level monitoring. – Monitoring of early warning Indicators. – NPA monitoring. – Monitoring of Progress of the application of RAM system. – Stress testing and scenario Analysis. – Monitoring of revaluation progress. – Validation of Impairment assessments. – Validating internal rating assessment of corporate borrowers. – Review risk profile of the credit portfolio. viii. Loan Review Mechanism (LRM). ix. Capital allocation under Standardised Approach.

54. Financial risk management (contd.)

Material risk types (contd.)

Description	Governing Policies and Key Management Committee	Key controls and mitigation strategies
		x. Continuous training of credit staff at the Credit division and branch level. xi. Conducting Risk and Control Self-Assessment (RCSA) for credit process. xii. Computation of HHI and monitor against the Risk Appetite Levels.
Market risk (including equity risk) Market risk is the risk that market rates and prices will change and that this may have an adverse effect on the profitability and/or net worth of the Group. The Group is primarily exposed to market risk through: • Traded market risk; • Interest Rate Risk in the Banking Book (IRRBB); • Structural foreign exchange risk; • Non-traded equity risk.	**Governing Policies** Market Risk and Liquidity Risk Management Policy **Key Management Committee** Asset and Liability Management Committee (ALCO)	**Interest rate risk** i. Market Risk and Liquidity Risk Management Policy Framework. ii. Analyse the impact of interest rate movements and taking corrective actions by ALCO to minimise Impact on NIM. iii. ALCO is assigned with the responsibility to price the rate sensitive assets and liabilities. iv. ALCO assign with the responsibility to manage the rate sensitive assets and liabilities mix. v. ALCO requires the support of ALM Unit attached to Treasury Front Office. vi. Investments and trading in Government Securities are monitored within the Limits Framework. vii. Assess the vulnerability to interest rate risk on a continuous basis using tools such as Marking to Market, Duration and Stress Testing. Monitoring within the Risk Appetite and Limit Monitoring Framework and report to IC/ALCO/BIRMC/Board. **Equity risk** i. Equity risk is measured through limit monitoring equity VAR and Stress Testing. ii. Portfolio position, exposures and dealer limits and trading activities are monitored within the Limits Framework. iii. Equity VAR Id monitored against RAF iv. Dealing room voice recording are monitored daily basis to ensure sound market conduct. **Foreign exchange risk** i. Foreign currency dealing operation exposes and placements are monitored within the limits framework. ii. Foreign Exchange risk is measured using tools such as Net Open Position (NOP), Fx VaR and Stress testing and report to ALCO/BIRMC/Board

54. Financial risk management (contd.)

Material risk types (contd.)

Description	Governing Policies and Key Management Committee	Key controls and mitigation strategies
Liquidity and funding risk Liquidity risk is the combined risks of not being able to meet financial obligations as they fall due (funding liquidity risk), and that liquidity in financial markets, such as the market value for debt equity securities, may reduce significantly (market liquidity risk). The Group is exposed to liquidity risk primarily through: • The funding mismatch between the Group's loans, investments and sources of funding.	**Governing Policies** Market Risk and Liquidity Risk Management Policy **Key Management Committee** ALCO	i. Statutory requirement to maintain the investments in Government Securities (60% of deposits). ii. Cash flow management by Treasury Division. iii. Liquidity contingency planning. iv. Monitor statutory liquidity ratio such as SLAR, LCR, and NSFR against regulatory minimum requirements. v. Monitor ratios under stock approach and funding liquidity risk under liquidity risk monitoring tools as per Basel III report to ALCO/BIRMC and Board. vi. Monitor maturity gaps and sensitive gaps against Risk Limits.
Operational risk Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. The Group is exposed to operational risk primarily through: • Internal Frauds • External Frauds • Employment practices and workplace safety. • Client, Products and Business practices. • Damage to physical Assets. • Business Disruption and system failures. • Execution,Delivery and Process Management.	**Governing Policies** 1. Operational Risk Management (ORM) Policy 2. Model Risk Management Policy **Other Policies related to ORM** * Outsourcing Policy * Information Security Policy * Business Continuity Policy * Anti-Bribery and Corruption Policy **Key Management Committee** Operational Risk Management Committee (ORMC)	**Theft or fraud risk** i. Fraud risk management and whistle-blowing policies/procedures. ii. Internal control structure. iii. Daily checks/audits. iv. Key Operational Risk Indicators (KORIs) monitoring. v. Loss event data monitoring. vi. Risk Control Self-assessment (RCSA). vii. Root cause analysis. viii. Anti-Bribery and Corruption (AB&C) risk assessment. **IT disruptions and data security** i. IT strategic planning to minimise technical obsolescence and to identify process regard to automation/upgrading of systems. ii. Key information security-related implementation; • Payment Card Industry Data Security Standards (PCIDSS) • Next Generation Security Operation Center (NGSOC) • Data Leakage Prevention (DLP) iii. Disaster Recovery Planning (DRP) to avoid information loss. iv. Internal control/System Access controls : Access control/password protections etc.

54. Financial risk management (contd.)

Material risk types (contd.)

Description	Governing Policies and Key Management Committee	Key controls and mitigation strategies
		v. Establish system – based incident reporting. vi. Establish an Information Security Unit headed by a dedicated Chief Information Security Officer (CISO). vii. Continuous monitoring of Implementation of Information security policy , Baseline security standards (BSS) for Information security. **Cybersecurity risk** i. Conduct vulnerability assessments and Penetration testing to take preemptive actions to minimise risk from identified vulnerabilities. ii. Improve ICT infrastructure to eliminate identified vulnerabilities and continuous monitoring of cyberspace/external attacks through proper tools. **Legal Risk** i. Provide legal clearance by legal division when entering into business and contractual obligations. ii. Handling legal proceedings effectively. **Business Continuity Management (BCM) Risk** i. Established BCM unit and governance structure is in place to ensure effective implementation of BCM.
Compliance risk Compliance risk is the risk of sanctions and financial loss the Group may suffer as a result of the Group's failure to comply with laws, regulations, rules, statements of regulatory policy, and codes of conduct applicable to its business activities. The Group is exposed to compliance risk primarily through: • Regulatory and licensing obligations, including privacy and conflicts of interest obligations; • Financial crime [Anti-Money Laundering (AML), Counter Terrorism Financing (CTF), Anti-Bribery and Corruption (AB&C), and Sanctions]; and • Poor conduct (product design and distribution, market conduct and employee misconduct).	**Governing Policies** 1. Compliance Policy 2. AML Policy 3. Related Party Transaction Policy **Key Management Committee** Operational Risk Management Committee	i. Compliance Officer directly report to BIRMC/Board ii. In-house systems/processes for AML and KYC monitoring. iii. Monitor within RAF.

54. Financial risk management (contd.)

Material risk types (contd.)

Description	Governing Policies and Key Management Committee	Key controls and mitigation strategies
Insurance risk Insurance risk is the risk of loss due to the potential for events the Group has insured against occurring more frequently or with greater severity than anticipated.	**Governing Policies** Operational Risk Management Policy, Insurance policies obtained by the Bank 1. Bankers Indemnity Insurance Policy 2. Fire and Burglary Policy 3. Electronic Equipment Insurance Policy 4. Cyber Liability Insurance Policy 5. Electronic and Computer Crime Policy 6. Public Liability Policy 7. Vehicle Insurance Policy **Key Management Committee** Operational Risk Management Committee	i. Insurance recovery process is centralised under Administration Division and ensure the timely execution for necessary actions. ii. Policy itself set operational limits with regard to the implementation of insurance policies at branch level and Bank level. iii. Risk Management Division review insurance recovery status and reported to the Operational Risk Management Committee periodically. iv. Insurance recovery function subject to the internal audit function and prudent provisioning is assured in Financial Statements under Financial Statement Audit conducted by Internal Audit Division.
Strategic risk Strategic risk is the risk of material stakeholder value destruction or less than planned value creation. The Group is exposed to strategic risk primarily through: • Changes in the Group's external and internal operating environments (including macroeconomic conditions, competitive forces, technology, regulatory, political and social trends, customer expectations and the environment); and • Risk associated with the process for strategy development and monitoring of strategy implementation.	**Governing Policies** Integrated Risk Management Policy Strategic Business Plan **Key Management Committee** Operational Risk Management Committee Corporate Management Committee	i. Senior Management oversight. ii. Strategic Plan and Budgeting Process. iii. Establishment of Research and Development (R and D) Division to monitor general economic condition, competitor behaviour and report to support pre-emptive decision-making. iv. Monitor within RAF. v. Ensure Business Continuity Management System (BCMS).

54. Financial risk management (contd.)

Broad risk categories in focus

The Bank is exposed to the following key risks from financial instruments:

54.1 Credit risk
54.1.1 Credit quality analysis
54.1.1.(a) Net exposure to credit risk by class of financial assets
54.1.1.(b) Management of the credit portfolio
54.1.1.(c) Credit quality (past due) by classes of financial assets
54.1.1.(d) Credit quality by classes of financial asset – stage-wise
54.1.1.(e) Credit quality by rating of counterparty/obligor

54.2 Liquidity risk
54.2.1 Concentration of liquid assets
54.2.2 Remaining contractual period to maturity
54.2.3 Financial assets available to support future funding

54.3 Market risk
54.3.1 Market risk – Trading and non-trading exposure
54.3.2 Foreign exchange risk
54.3.3 Equity risk
54.3.4 Interest rate risk

54.4 Operational risk

54.1 Credit risk

Credit Risk is the risk of losses resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Bank which could materialise from both on or off-balance sheet. The on-balance sheet credit risk arises mainly from notional value of financial products such as retail loans, corporate loans, loans to banks and financial institutions, loans to State-Owned Enterprises (SOEs) and loans to the Government. The off-balance sheet credit risk arises from commitments and contingencies.

Credit risk exposures of the Bank

The total credit exposure which is 34.1% of the Bank's total assets is the second major line of business (The investment in risk free securities is 52.9% of total assets). Hence the magnitude of credit risk is comparatively moderate to the Bank, albeit the fact that the Bank considers credit risk as a major type of risk.

54.1.1 Credit quality analysis

54.1.1 (a) Net exposure to credit risk by class of financial assets

The following tables show the maximum exposure and net exposure (fair value of any collateral held, value of risk free investments, Government guarantees and impairment provision made were deducted in arriving the net exposure) to credit risk by class of financial assets:

54. Financial risk management (contd.)

54.1 Credit risk (contd.)

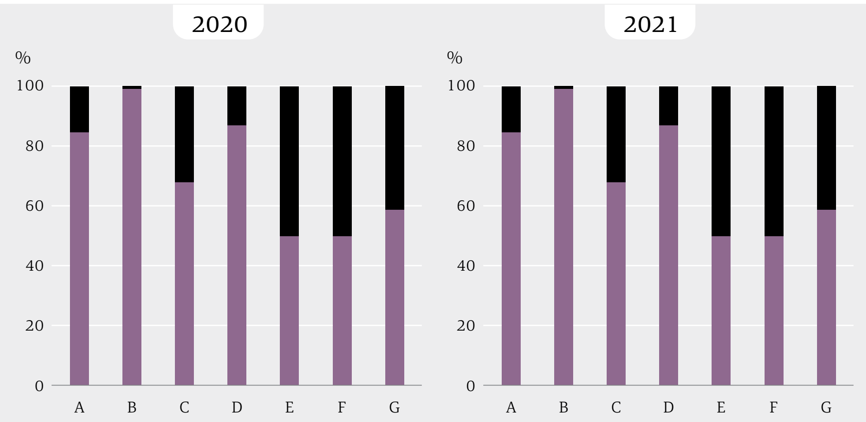
54.1.1 Credit quality analysis (contd.)

54.1.1 (a) Net exposure to credit risk by class of financial assets (contd.)

As at 31 December		2021		2020	
	Note	**Maximum exposure to credit risk Rs. '000**	**Net exposure Rs. '000**	Maximum exposure to credit risk Rs. '000	Net exposure Rs. '000
Bank					
Cash and cash equivalents	16	**7,656,038**	**3,968,979**	6,491,963	4,590,412
Balances with central banks	17	**–**	**–**	–	–
Placements with banks	18	**7,120,698**	**7,120,698**	13,253,499	13,253,499
Derivative financial instruments	19	**–**	**–**	19,897	19,897
Financial assets recognised through profit or loss	20				
– measured at fair value		**19,572,933**	**2,069,513**	11,221,746	1,675,748
– designated at fair value		**–**	**–**	–	–
Financial assets at amortised cost					
– loans and advances	21	**538,941,789**	**278,473,001**	516,795,160	242,449,962
– debt and other instruments	22	**935,350,052**	**3,150,350**	754,233,344	7,416,551
Financial assets measured at fair value through other comprehensive income	23	**13,817,594**	**2,895,357**	15,271,822	2,769,948
Total		**1,522,459,104**	**297,677,899**	1,317,287,431	272,176,018

Graph 78

Net exposure to credit risk – Bank



● Maximum exposure to credit risk ● Net exposure

A Financial assets measured at FVOCI
B Debt and other instruments
C Loans and advances
D Financial assets recognised through profit or loss
E Derivative financial instruments
F Placements with banks
G Cash and cash equivalents

54. Financial risk management (contd.)

54.1 Credit risk (contd.)

54.1.1 Credit quality analysis (contd.)

54.1.1 (a) Net exposure to credit risk by class of financial assets (contd.)

As at 31 December		2021		2020	
	Note	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	16	7,721,532	4,029,914	6,598,595	4,692,385
Balances with central banks	17	7	7	6	6
Placements with banks	18	9,323,663	9,323,663	17,456,660	17,456,660
Derivative financial instruments	19	–	–	19,897	19,897
Financial assets recognised through profit or loss	20				
– measured at fair value		40,392,152	2,329,980	23,617,944	1,979,554
– designated at fair value		–	–	–	–
Financial assets at amortised cost					
– loans and advances	21	538,600,866	279,828,307	517,833,067	242,776,238
– debt and other instruments	22	940,536,328	3,703,512	758,594,934	8,093,289
Financial assets measured at fair value through other Comprehensive income	23	15,993,803	3,062,553	16,059,841	2,909,959
Total		1,552,568,350	302,277,935	1,340,180,943	277,927,987

54.1.1 (b) Management of the credit portfolio

54.1.1. (b).1Collateral and other credit enhancement

The amount and type of collateral required depends as an assessment of the credit risk of the counterparty. Guidelines are in place covering the accessibility and valuation of each type of collateral.

The main type of collateral obtained are as follows:

a. for corporate lending – Government guarantees, mortgages over immovable and movable fixed assets, inventory, corporate, and personal guarantees

b. for retail lending – mortgage over residential property, gold, cash, personal guarantees, vehicles

The Bank also obtains guarantees from parent companies for loans to their subsidiaries.

Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement.

54. Financial risk management (contd.)

54.1 Credit risk (contd.)

54.1.1 Credit quality analysis (contd.)

54.1.1 (b) Management of the credit portfolio (contd.)

Collateral held

Loan-to-value ratio of residential mortgage lending

The table below stratifies eligible credit exposures by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the amortised cost of the loan to the value of the collateral, which is used for the computation of Capital Adequacy Ratios. The value of the collateral for residential mortgage loan is based on the forced sale value determined by professional valuers.

As at 31 December	2021		2020	
	Rs. '000	Composition %	Rs. '000	Composition %
LTV ratio				
Less than 50%	54,180,362	76.78	52,367,885	76.97
51% - 70%	11,726,954	16.62	10,891,686	16.01
71% - 90%	4,199,135	5.95	4,309,988	6.34
91% - 100%	199,994	0.28	200,186	0.29
More than 100%	260,292	0.37	263,551	0.39
Gross total	70,566,736	100.00	68,033,295	100.00

Assets obtained by taking the possession of collaterals

In its normal course of business, the Bank engages external agents to recover funds from repossessed properties or other assets in its retail portfolio, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the balance sheet and not treated as non-current assets held for sale.

54.1.1.(b).2 Concentration of credit risk by product and sector

By setting various concentration limits under different criteria within the established risk appetite framework (i.e. single borrower/group, industry sectors, name,concentration limits etc.), the Bank ensures that an acceptable level of risk diversification is maintained on an ongoing basis.

The Bank monitors the concentration of credit risk by product and sectors. An analysis of concentration risk of the Bank portfolio (Loan and advances) is given below:

54. Financial risk management (contd.)

54.1 Credit risk (contd.)

54.1.1 Credit quality analysis (contd.)

54.1.1 (b) Management of the credit portfolio (contd.)

Concentration by product

	Bank		Group	
As at 31 December	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Loans and Advances				
Lease rental and receivable	**–**	–	**276,606**	521,293
Pawning	**52,193,260**	42,398,950	**52,195,389**	42,437,557
Staff Loans	**13,348,092**	11,330,749	**13,641,981**	11,479,896
Term loans				
Short-term	**434,945**	595,322	**980,569**	1,112,147
Long-term	**477,330,159**	462,663,155	**478,545,545**	465,085,825
Others				
Sri Lanka Government Securities	**–**	–	**–**	–
Loan to Government	**2,075,000**	2,075,000	**2,075,000**	2,075,000
Securities purchased under resale agreement	**5,530,553**	6,723,807	**4,334,138**	5,692,995
Gross total	**550,912,009**	525,786,983	**552,049,228**	528,404,713

Concentration by sector

	Bank		Group	
As at 31 December	**2021 Rs. '000**	2020 Rs. '000	**2021 Rs. '000**	2020 Rs. '000
Loans and Advances				
Agriculture and fishing	**32,357,760**	33,067,190	**32,802,339**	33,728,060
Manufacturing	**–**	–	**754,033**	767,442
Tourism	**65,237**	63,691	**132,859**	162,693
Transport	**1,438,822**	1,643,128	**1,495,766**	1,720,111
Construction/housing	**165,772,167**	152,457,313	**166,260,959**	152,905,473
Traders	**–**	–	**540,111**	623,817
New economy	**–**	–	**36,459**	40,889
Others				
Financial and business services	**3,856,637**	8,540,220	**3,461,528**	8,775,528
Infrastructure	**62,602,215**	96,579,186	**62,711,714**	96,742,844
Power and energy	**11,906,155**	15,963,463	**11,906,155**	15,963,463
Education	**9,369,970**	9,071,736	**9,378,569**	9,084,023
Personal/Pawning/Other	**263,543,047**	208,401,056	**262,568,737**	207,890,370
Gross total	**550,912,009**	525,786,983	**552,049,228**	528,404,713

54. Financial risk management (contd.)

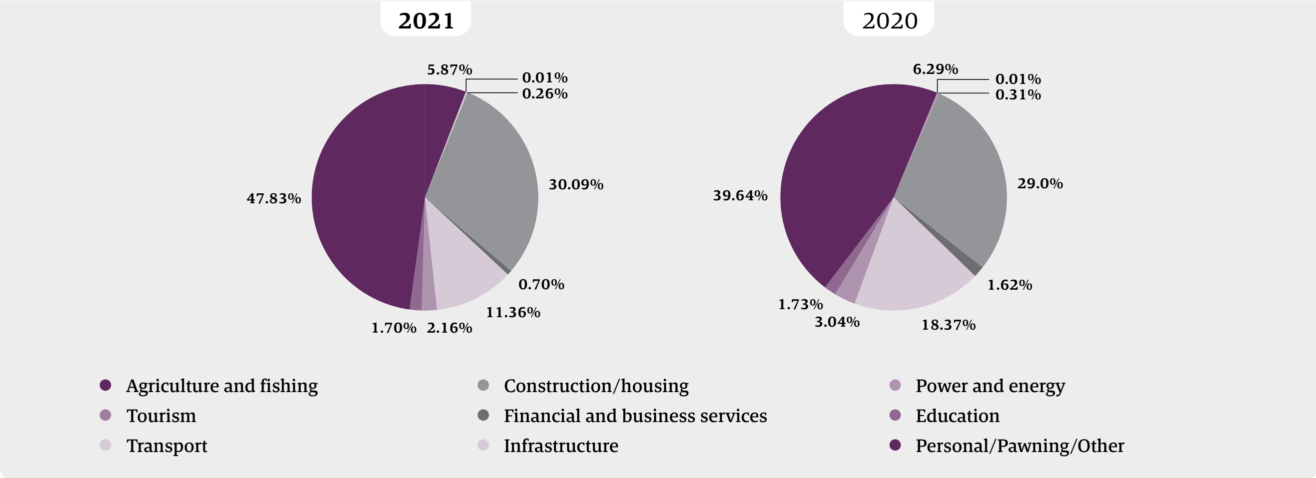
54.1 Credit risk (contd.)

54.1.1 Credit quality analysis (contd.)

54.1.1 (b) Management of the credit portfolio (contd.)

Graph 79

Sector classification of loans and advances – Bank



54.1.1 (c) Credit quality (past due) by classes of financial assets – Bank

As at 31 December 2021	Note	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 (gross)*	16	7,656,263	–	–	7,656,263
Balances with central banks	17	–	–	–	–
Placements with banks (gross)*	18	7,122,376	–	–	7,122,376
Derivative financial instruments	19	–	–	–	–
Financial assets recognised through profit or loss					
– measured at fair value	20	19,572,933	–	–	19,572,933
– designated at fair value		–	–	–	–
Financial assets at amortised cost					
– loans and advances (gross)*	21	490,582,034	58,292,713	2,037,262	550,912,009
– debt and other instruments (gross)*	22	936,735,215	–	–	936,735,215
Financial assets measured at fair value through other comprehensive income	23	13,817,594	–	–	13,817,594
Total		1,475,486,415	58,292,713	2,037,262	1,535,816,390

* Collectively assessed for the impairment.

54. Financial risk management (contd.)

54.1 Credit risk (contd.)

54.1.1 Credit quality analysis (contd.)

54.1.1 (c) Credit quality (past due) by classes of financial assets – Bank (contd.)

Aging analysis of past due (i.e. facilities in arrears of one day and above) but not impaired loans, by class of financial assets.

As at 31 December 2021	Past due but not impaired				
	1 to 30 days Rs. '000	31 to 60 days Rs. '000	61 to 90 days Rs. '000	More than 90 days Rs. '000	Total Rs. '000
Financial assets at amortised cost – loans and advances (gross)*	35,621,785	5,369,083	1,484,972	15,816,872	58,292,713
	61%	9%	3%	27%	100%

Facilities in arrears of one day and above considered as "past due".

As at 31 December 2020	Note	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 (gross)*	16	6,492,060	–	–	6,492,060
Balances with central banks	17	–	–	–	–
Placements with banks (gross)*	18	13,255,210	–	–	13,255,210
Derivative financial instruments	19	19,897	–	–	19,897
Financial assets recognised through profit or loss					–
– measured at fair value	20	11,221,746	–	–	11,221,746
– designated at fair value		–	–	–	–
Financial assets at amortised cost					–
– loans and advances (gross)*	21	457,987,540	65,759,758	2,039,685	525,786,983
– debt and other instruments (gross)*	22	754,336,347	–	–	754,336,347
Financial assets measured at fair value through other comprehensive income	23	15,271,822	–	–	15,271,822
Total		1,258,584,621	65,759,758	2,039,685	1,326,384,064

* Collectively assessed for the impairment.

Aging analysis of past due (i.e. facilities in arrears of one day and above) but not impaired loans, by class of financial assets.

As at 31 December 2020	Past due but not impaired				
	1 to 30 days Rs. '000	31 to 60 days Rs. '000	61 to 90 days Rs. '000	More than 90 days Rs. '000	Total Rs. '000
Financial assets at amortised cost – loans and advances (gross)*	40,083,253	9,333,643	1,441,421	14,901,441	65,759,758
	61%	14%	2%	23%	100%

Facilities in arrears of one day and above considered as "past due".

54. Financial risk management (contd.)

54.1 Credit risk (contd.)

54.1.1 Credit quality analysis (contd.)

54.1.1 (d) Credit quality by classes of financial asset – stage-wise – Bank

As at 31 December 2021	Note	Amortised cost					Impairment provision				
		Not subject to ECL Rs. '000	Stage 1* Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000	As per financial position Rs. '000
Assets											
Cash and cash equivalents	16	3,792,012	3,864,251	–	–	7,656,263	225	–	–	225	7,656,038
Balances with central bank	17	–	–	–	–	–	–	–	–	–	–
Placements with banks	18	–	7,122,376	–	–	7,122,376	1,678	–	–	1,678	7,120,698
Derivative financial instruments	19	–	–	–	–	–	–	–	–	–	–
Financial assets recognised through profit or loss	20										
– measured at fair value		19,572,933	–	–	–	19,572,933	–	–	–	–	19,572,933
– designated at fair value		–	–	–	–	–	–	–	–	–	–
Financial assets at amortised cost											
– loans and advances	21	33,230,530	475,181,540	22,500,946	19,998,993	550,912,009	3,515,327	2,150,965	6,303,928	11,970,220	538,941,789
– debt and other instruments	22	793,113,019	128,732,343	14,889,853	–	936,735,215	529	1,384,634	–	1,385,163	935,350,052
Financial assets measured at fair value through other comprehensive income	23	13,817,594	–	–	–	13,817,594	–	–	–	–	13,817,594
Total		863,526,089	615,059,075	37,532,313	19,698,913	1,535,816,390	3,517,759	3,535,599	6,303,928	13,357,286	1,522,459,104

* Stage 1 loans for the year 2021 includes treasury guaranteed loans of Rs. 74, 466.4 Mn. for which no impairment provision is calculated as the LGD applied for such loans is zero.

As at 31 December 2020	Note	Amortised cost					Impairment provision				
		Not subject to ECL Rs. '000	Stage 1* Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000	As per financial position Rs. '000
Assets											
Cash and cash equivalents	16	2,025,658	4,466,402	–	–	6,492,060	97	–	–	97	6,491,963
Balances with central bank	17	–	–	–	–	–	–	–	–	–	–
Placements with banks	18	–	13,255,210	–	–	13,255,210	1,711	–	–	1,711	13,253,499
Derivative financial instruments	19	19,897	–	–	–	19,897	–	–	–	–	19,897
Financial assets recognised through profit or loss	20										
– measured at fair value		11,221,746	–	–	–	11,221,746	–	–	–	–	11,221,746
– designated at fair value		–	–	–	–	–	–	–	–	–	–
Financial assets at amortised cost											
– loans and advances	21	34,409,823	453,892,412	20,543,620	16,941,127	525,786,983	2,948,093	897,811	5,145,919	8,991,823	516,795,160
– debt and other instruments	22	714,978,285	36,849,873	2,508,188	–	754,336,347	101,313	1,690	–	103,002	754,233,344
Financial assets measured at fair value through other comprehensive income	23	15,271,822	–	–	–	15,271,822	–	–	–	–	15,271,822
Total		777,927,231	508,463,898	23,051,809	16,941,127	1,326,384,064	3,051,214	899,501	5,145,919	9,096,633	1,317,287,431

* Stage 1 loans for the year 2020 includes treasury guaranteed loans of Rs. 105,749.8 Mn. for which no impairment provision is calculated as the LGD applied for such loans is zero.

54. Financial risk management (contd.)

54.1 Credit risk (contd.)

54.1.1 Credit quality analysis (contd.)

54.1.1 (e) Credit quality by rating of counter party/obligor 2021

	Cash at Banks			Placements with Banks		
Ratings	Exposure Rs. '000	ECL Provision Rs. '000	ECL Coverage %	Exposure Rs. '000	ECL Provision Rs. '000	ECL Coverage %
AAA	447,985.67	3.00	0.001	–	–	–
AA+	10,219.75	0.06	0.001	–	–	–
AA	–	–	–	–	–	–
AA-	3,119,382.26	167.04	0.005	3,381,607.96	175.51	0.005
A+	62,907.56	3.51	0.006	1,403,030.16	139.28	0.010
A	71,268.05	11.82	0.017	1,770,964.93	250.40	0.014
A-	5,622.24	0.56	0.010	–	–	–
BBB+	117,823.66	20.76	0	–	–	–
BBB	23,971.43	11.24	0.047	–	–	–
BBB-	–	–	–	566,772.72	1,112.48	0.196
BB+	5,070.20	7.21	0.142	–	–	–
BB	–	–	–	–	–	–
BB-	–	–	–	–	–	–
B+	–	–	–	–	–	–
B	–	–	–	–	–	–
B-	–	–	–	–	–	–
CCC	–	–	–	–	–	–
CC	–	–	–	–	–	–
DDD	–	–	–	–	–	–
D	–	–	–	–	–	–
Unrated	–	–	–	–	–	–
	3,864,250.84	225.19	0.006	7,122,375.77	1,677.67	0.024

Note:

1. Both Individually and Collectively assessed Corporate Loans have been considered for above rating based analysis.
2. Sovereign rating of the country has been used for cross boarder corporate loans for which rating is not available.
3. For USD denominator lending and investment , LGD is considered as 20% while PD applicable to sovereign rating is used.
4. Unless State Own Enterprises (SOE) does not have specific rating , those entities are considered as AAA rating Enterprises .
5. For Treasury guaranteed loans and debentures , zero LGD was applied to calculate ECL.

Loans and advances			Debt and other instruments		
Exposure Rs. '000	ECL Provision Rs. '000	ECL Coverage %	Exposure Rs. '000	ECL Provision Rs. '000	ECL Coverage %
84,103,393.15	94.07	0.000	126,305,333.66	–	–
440,809.31	–	–	–	–	–
–	–	–	–	–	–
15,950,689.38	498.60	0.003	–	–	–
–	–	–	1,481,950.36	252.04	0.017
–	–	–	1,435,350.07	261.13	0.018
–	–	–	–	–	–
4,846,445.92	3,536.19	0.073	126,311.24	76.75	0.061
253,310.95	275.73	0.109	107,446.58	117.95	0.110
1,634,440.99	3,158.06	0.193	–	–	–
332,000.00	1,101.59	0.332	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
492,796.37	4,097.24	0.831	–	–	–
–	–	–	–	–	–
1,806,750.00	354,502.25	19.621	–	–	–
–	–	–	–	–	–
151,756.36	151,756.36	100.000	14,165,803.71	1,384,454.71	9.773
–	–	–	–	–	–
–	–	–	–	–	–
78,755.42	78,755.42	100.000	–	–	–
110,091,147.84	597,775.53	0.543	143,622,195.62	1,385,162.59	0.964

54. Financial risk management (contd.)

54.1 Credit risk (contd.)

54.1.1 Credit quality analysis (contd.)

54.1.1.(e) Credit quality by rating of counter party/obligor 2020

	Cash at Banks			Placements with Banks		
Ratings	Exposure Rs. '000	ECL Provision Rs. '000	ECL Coverage %	Exposure Rs. '000	ECL Provision Rs. '000	ECL Coverage %
AAA	2,188.77	0.01	0.001	–	–	–
AA+	4,152,900.96	49.74	0.001	7,999,540.08	93.14	0.001
AA	–	–	–	–	–	–
AA-	6,554.07	0.28	0.004	–	–	–
A+	61,284.81	4.51	0.007	1,935,752.57	172.86	0.009
A	183,636.07	18.27	0.010	2,764,816.26	462.11	0.017
A-	7,161.48	1.22	0.017	–	–	–
BBB+	–	–	–	–	–	–
BBB	38,922.10	13.93	0.036	–	–	–
BBB-	7,120.62	3.63	0.051	555,100.36	982.44	0.177
BB+	6,633.20	5.87	0.088	–	–	–
BB	–	–	–	–	–	–
BB-	–	–	–	–	–	–
B+	–	–	–	–	–	–
B	–	–	–	–	–	–
B-	–	–	–	–	–	–
CCC	–	–	–	–	–	–
DDD	–	–	–	–	–	–
D	–	–	–	–	–	–
Unrated	–	–	–	–	–	–
	4,466,402.08	97.46	0.002	13,255,209.26	1,710.55	0.013

	Loans and advances			Debt and other instruments		
	Exposure Rs. '000	ECL Provision Rs. '000	ECL Coverage %	Exposure Rs. '000	ECL Provision Rs. '000	ECL Coverage %
	110,270,952.48	85.39	0.000	28,045,383.84	–	–
	21,196,403.06	221.82	0.001	–	–	–
	–	–	–	–	–	–
	–	–	–	–	–	–
	5,189,468.49	449.05	0.009	1,271,538.63	222.66	0.018
	–	–	–	5,716,114.12	1,237.09	0.022
	2,661,321.37	1,492.35	0.056	–	–	–
	802,975.64	1,538.81	0.192	17,523.01	9.49	0.054
	1,337,513.66	1,321.65	0.099	265,505.32	261.12	0.098
	5,415,242.81	9,258.72	0.171	91,413.06	154.28	0.169
	1,666,065.54	3,822.70	0.229	–	–	–
	–	–	–	–	–	–
	–	–	–	–	–	–
	152,087.78	22,425.66	14.745	57,126.20	784.27	1.373
	–	–	–	–	–	–
	–	–	–	–	–	–
	5,384,600.61	292,273.61	5.428	3,893,457.55	100,333.37	2.577
	–	–	–	–	–	–
	–	–	–	–	–	–
	74,881.22	46,538.17	62.149	–	–	–
	154,151,512.66	379,427.93	0.246	39,358,061.73	103,002.27	0.262

54. Financial risk management (contd.)

54.1 Credit risk (contd.)

54.1(f) Bank Guarantees , Letter of Credit and Other Undrawn Commitment

Bank Guarantees

A bank guarantee is a kind of guarantee from a lending organisation. The Bank guarantee signifies that the lending institution ensures that the liabilities of a debtor are going to be met. In other words, if the debtor fails to perform the obligation, the Bank will cover it.

Group issue bank guarantee with 100% or more cash back in savings accounts or fixed deposits. Therefore Bank guarantees are not expose to credit risk and not subject to ECL.

Letter of Credits

A letter of credit, also known as a documentary credit or bankers commercial credit, or letter of undertaking, is a payment mechanism used in international trade to provide an economic guarantee from a creditworthy bank to an exporter of goods.

Group issue letter of credit with 100% or more cash back in savings accounts or fixed deposits. Therefore letter of credits are not expose to credit risk and not subject to ECL.

Undrawn Credit Commitments

Undrawn Commitment refers to the loans that the lender has agreed to be made available to the borrower under a revolving credit facility or a delayed draw term facility that the borrower has either not drawn, or has drawn and repaid. Bank calculates ECL for undrawn credit commitment considering it as part and partial of the credit facility.

		Exposure				
As at 31 December 2021	Note	Not subject to ECL	Stage 1	Stage 2	Stage 3	Total
Bank Guarantees	48	452,690	–	–	–	452,690
Letter of Credit	48	3,102,414	–	–	–	3,102,414
Undrawn Credit Commitments	48	–	7,549,190	18,379	4,116	7,571,686
Total		3,555,104	7,549,190	18,379	4,116	11,126,790

		Expected Credit Loss (ECL)				
As at 31 December 2021	Note	Not subject to ECL	Stage 1	Stage 2	Stage 3	Total
Bank Guarantees		–	–	–	–	–
Letter of Credit		–	–	–	–	–
Undrawn Credit Commitments		–	7,681	2,087	1,297	11,065
Total		–	7,681	2,087	1,297	11,065

54. Financial risk management (contd.)

54.2 Liquidity risk

Liquidity risk is the Bank's inability to meet "on" or "off " balance sheet contractual and contingent financial obligations as they fall due, without incurring material losses.

54.2.1 Concentration of liquid assets

The Bank's regulatory requirement to invest 60% of its deposits in Government Securities forces the Bank to maintains a high Statutory Liquid Assets Ratio. Currently, the Bank maintains a liquidity ratio at 69.1% which is well above the statutory requirement of 20%. The investment in Government Securities represent 96.5% from the total liquid assets of the Bank.

	Bank	
As at 31 December	2021 Rs. '000	2020 Rs. '000
Liquidity assets ratio –		
Year end	59.6	69.1
30 June	68.0	68.1
Year beginning	69.1	60.2

Liquidity assets and liabilities of the Bank

	Domestic business unit	
	2021 Rs. '000	2020 Rs. '000
Total liquid assets		
Cash	**2,259,391**	1,509,919
Balances with licensed commercial bank	**13,744,633**	17,538,920
Money at call in Sri Lanka	**245**	112
Treasury bills and securities issued or guaranteed by the Government of Sri Lanka	**38,106,376**	38,749,538
Goods Receipts/Liquid assets permitted under Extraordinary policy measures due to COVID-19	**–**	7,857,999
Cash item in the process of collection	**162,451**	209,699
Balances with banks abroad	**297,669**	907,196
Treasury Bonds	**748,438,768**	734,666,337
Sri Lanka development bonds	**13,741,338**	3,802,701
Total liquid assets (Daily average statutory liquid assets during the month of December)	**816,750,871**	805,242,421
Total liability based subject to minimum liquid assets requirement	**1,369,731,300**	1,165,312,838
Liquidity asset ratio (%)	**59.63**	69.10

Details are given as per regulatory reporting.

54.2.2 Remaining contractual period to maturity – Bank and the Group

Disclosures are given in the Note 55 on pages 406 to 409.

54. Financial risk management (contd.)

54.2 Liquidity risk (contd.)

54.2.3 Financial assets available to support future funding

The table below sets out the availability of the Bank's financial assets to support future funding:

As at 31 December 2021	Note	Bank – Encumbered – Pledge as collateral Rs. '000	Bank – Encumbered – Other Rs. '000	Bank – Unencumbered – Available as collateral Rs. '000	Bank – Unencumbered – Other Rs. '000	Bank – Total * Rs. '000	Group – Encumbered – Pledge as collateral Rs. '000	Group – Encumbered – Other Rs. '000	Group – Unencumbered – Available as collateral Rs. '000	Group – Unencumbered – Other Rs. '000	Group – Total* Rs. '000
Cash and cash equivalents	16	–	–	7,656,263	–	7,656,263	–	–	7,721,757	–	7,721,757
Balances with central banks	17	–	–	–	–	–	–	7	–	–	7
Placements with banks	18	–	–	7,122,376		7,122,376	–	–	9,329,865	–	9,329,865
Derivative financial instruments	19	–	–	–	–	–	–	–	–	–	–
Financial assets recognised through profit or loss	20										
– measured at fair value		–	–	19,572,933	–	19,572,933	20,622,579	–	19,769,573	–	40,392,152
– designated at fair value		–	–	–	–	–	–	–	–	–	–
Financial assets at amortised cost											
– loans and advances	21	–	–	550,912,009	–	550,912,009	–	–	552,049,228	–	552,049,228
– debt and other instruments	22	8,191,410	–	928,543,805	–	936,735,215	11,632,510	–	930,460,774	–	942,093,284
Financial assets measured at fair value through other comprehensive income	23	–	–	13,817,594	–	13,817,594	1,928,959	–	14,064,844	–	15,993,803
Total		8,191,410	–	1,527,624,979	–	1,535,816,390	34,184,047	7	1,533,396,042	–	1,567,580,096

As at 31 December 2020	Note	Bank – Encumbered – Pledge as collateral Rs. '000	Bank – Encumbered – Other Rs. '000	Bank – Unencumbered – Available as collateral Rs. '000	Bank – Unencumbered – Other Rs. '000	Bank – Total * Rs. '000	Group – Encumbered – Pledge as collateral Rs. '000	Group – Encumbered – Other Rs. '000	Group – Unencumbered – Available as collateral Rs. '000	Group – Unencumbered – Other Rs. '000	Group – Total* Rs. '000
Cash and cash equivalents	16	–	–	6,492,060	–	6,492,060	–	–	6,598,693	–	6,598,693
Balances with central banks	17	–	–	–	–	–	–	6	–	–	6
Placements with banks	18	–	–	13,255,210	–	13,255,210	–	–	17,461,961	–	17,461,961
Derivative financial instruments	19	–	–	–	19,897	19,897	–	–	–	19,897	19,897
Financial assets recognised through profit or loss	20										
– measured at fair value		–	–	11,221,746	–	11,221,746	9,355,916	–	14,262,028	–	23,617,944
– designated at fair value		–	–	–	–	–	–	–	–	–	–
Financial assets at amortised cost											
– loans and advances	21	–	–	525,786,983	–	525,786,983	–	–	528,404,713	–	528,404,713
– debt and other instruments	22	13,119,100	–	741,217,247	–	754,336,347	16,989,266	–	741,880,402	–	758,869,668
Financial assets measured at fair value through other comprehensive income	23	–	–	15,271,822	–	15,271,822	524,981	–	15,534,860	–	16,059,841
Total		13,119,100	–	1,313,245,067	19,897	1,326,384,064	26,870,163	6	1,324,142,656	19,897	1,351,032,721

* Figures are stated before the impairment provisions.

54. Financial risk management (contd.)

54.3 Market risk

Market risk to the Bank stems from movements in market prices, in particular, changes in interest rates, foreign exchange rates and equity prices. Market risk is often propagated by other forms of financial risk such as credit and market liquidity risk. The risk of losses would arise from on-balance sheet as well as off-balance sheet activities.

Sources of market risk to NSB

The exposure to market risk arises to National Savings Bank from the following sources:

- Treasury securities portfolio (Government Securities and other permitted fixed income securities)
- Repo and reverse repo transactions
- Bank's operations in foreign currency
- Equity investments
- Derivatives
- Rate sensitive assets liabilities mismatch

54.3.1 Market risk – trading and non-trading exposure

Following table present the assets and liabilities subject to market risk between fair value through profit or loss and other than fair value through profit or loss:

		Bank			Group		
As at 31 December 2021	Note	Carrying amount Rs. '000	Amount exposure to trading Rs. '000	Non-trading exposure Rs. '000	Carrying amount Rs. '000	Amount exposure to trading Rs. '000	Non-trading exposure Rs. '000
Assets subject to market risk							
Cash and cash equivalents	16	7,656,038	–	7,656,038	7,721,532	–	7,721,532
Balances with central banks	17	–	–	–	7	–	7
Placements with banks	18	7,120,698	–	7,120,698	9,323,663	–	9,323,663
Derivative financial instruments	19	–	–	–	–	–	–
Financial assets recognised through profit or loss	20						
– measured at fair value		19,572,933	19,572,933	–	40,392,152	40,392,152	–
– designated at fair value		–	–	–	–	–	–
Financial assets at amortised cost							
– loans and advances	21	538,941,789	–	538,941,789	538,600,866	–	538,600,866
– debt and other instruments	22	935,350,052	–	935,350,052	940,536,328	–	940,536,328
Financial assets measured at fair value through other comprehensive income	23	13,817,594	–	13,817,594	15,993,803	–	15,993,803
Total		1,522,459,104	19,572,933	1,502,886,171	1,552,568,350	40,392,152	1,512,176,198

* Figures are stated after the impairment provisions.

54. Financial risk management (contd.)

54.3 Market risk (contd.)

54.3.1 Market risk – trading and non-trading exposure (contd.)

As at 31 December 2021	Note	Bank Carrying amount Rs. '000	Bank Amount exposure to trading Rs. '000	Bank Non-trading exposure Rs. '000	Group Carrying amount Rs. '000	Group Amount exposure to trading Rs. '000	Group Non-trading exposure Rs. '000
Liabilities subject to market risk							
Due to banks	32	7,686,553	–	7,686,553	10,470,191	–	10,470,191
Derivative financial instruments	33	–	–	–	–	–	–
Financial liabilities recognised through profit or loss	34	–	–	–	–	–	–
Financial liabilities at amortised cost	35						
– due to depositors		1,428,467,385	–	1,428,467,385	1,426,724,704	–	1,426,724,704
– due to debt securities holders		–	–	–	–	–	–
– due to other borrowers		7,719,532	–	7,719,532	27,087,920	–	27,087,920
Lease liability	36	1,292,139	–	1,292,139	1,333,623	–	1,333,623
Debt securities issued	37	37,529,017	–	37,529,017	37,618,575	–	37,618,575
Total		1,482,694,626	–	1,482,694,626	1,503,235,012	–	1,503,235,012

As at 31 December 2020	Note	Bank Carrying amount Rs. '000	Bank Amount exposure to trading Rs. '000	Bank Non-trading exposure Rs. '000	Group Carrying amount Rs. '000	Group Amount exposure to trading Rs. '000	Group Non-trading exposure Rs. '000
Assets subject to market risk							
Cash and cash equivalents	16	6,491,963	–	6,491,963	6,598,595	–	6,598,595
Balances with central banks	17	–	–	–	6	–	6
Placements with banks	18	13,253,499	–	13,253,499	17,456,660	–	17,456,660
Derivative financial instruments	19	19,897	–	19,897	19,897	–	19,897
Financial assets recognised through profit or loss	20						
– measured at fair value		11,221,746	11,221,746	–	23,617,944	23,617,944	–
– designated at fair value		–	–	–	–	–	–
Financial assets at amortised cost							
– loans and advances	21	516,795,160	–	516,795,160	517,833,067	–	517,833,067
– debt and other instruments	22	754,233,344	–	754,233,344	758,594,934	–	758,594,934
Financial assets measured at fair value through other comprehensive income	23	15,271,822	–	15,271,822	16,059,841	–	16,059,841
Total		1,317,287,431	11,221,746	1,306,065,685	1,340,180,943	23,617,944	1,316,562,999

54. Financial risk management (contd.)

54.3 Market risk (contd.)

54.3.1 Market risk – trading and non-trading exposure (contd.)

As at 31 December 2020	Note	Bank Carrying amount Rs. '000	Bank Amount exposure to trading Rs. '000	Bank Non-trading exposure Rs. '000	Group Carrying amount Rs. '000	Group Amount exposure to trading Rs. '000	Group Non-trading exposure Rs. '000
Liabilities subject to market risk							
Due to banks	32	12,862,337	–	12,862,337	13,339,705	–	13,339,705
Derivative financial instruments	33	–	–	–	–	–	–
Financial liabilities recognised through profit or loss	34	–	–	–	–	–	–
Financial liabilities at amortised cost	35						
– due to depositors		1,237,123,791	–	1,237,123,791	1,237,669,284	–	1,237,669,284
– due to debt securities holders		–	–	–	–	–	–
– due to other borrowers		8,159,591	–	8,159,591	19,656,090	–	19,656,090
Lease Liability	36	1,274,713	–	1,274,713	1,320,877	–	1,320,877
Debt securities issued	37	31,773,753	–	31,773,753	31,908,279	–	31,908,279
Total		1,291,194,186	–	1,291,194,186	1,303,894,234	–	1,303,894,234

* Figures are stated after the impairment provisions.

54.3.2 Foreign exchange risk

Foreign exchange rate risk arises from the movement of the rate of exchange of one currency against another, leading to an adverse impact on the Bank's earnings or capital. The Bank is exposed to foreign exchange risk that the value of a foreign currency denominated assets (financial instrument or the investment) or liabilities, may fluctuate due to changes in foreign exchange rates. This may arise in the form of transaction or transaction risk.

An impact analysis of the foreign currency Net Open Position (NOP) was carried out applying shock levels of 5%, 10% and 15%, for depreciation on the current exchange rate and the impact on the currency-wise NOP and the impact on Income Statement is shown in the tables below as at 31 December 2021:

	Bank 2021 USD '000	Bank 2021 Rs. '000	Bank 2020 USD '000	Bank 2020 Rs. '000
Net open position	**2,259**	**453,560**	1,672	312,114

Stress level	**2021 Effect on Income Statement Rs. '000**	**2021 Revised rupee position Rs. '000**	2020 Effect on Income Statement Rs. '000	2020 Revised rupee position Rs. '000
Shock of 5% on exchange rate (rupee depreciation)	**22,678**	**476,238**	15,606	327,720
Shock of 10% on exchange rate (rupee depreciation)	**45,356**	**498,916**	31,211	343,325
Shock of 15% on exchange rate (rupee depreciation)	**68,034**	**521,594**	46,817	358,931

54. Financial risk management (contd.)

54.3 Market risk (contd.)

54.3.2 Foreign exchange risk (contd.)

	Bank			
	2021		2020	
	JPY '000	Rs. '000	JPY '000	Rs. '000
Net open position	2,736	4,761	244	442

Stress level	Effect on Income Statement Rs. '000	Revised rupee position Rs. '000	Effect on Income Statement Rs. '000	Revised rupee position Rs. '000
Shock of 5% on exchange rate (rupee depreciation)	238	4,999	22	464
Shock of 10% on exchange rate (rupee depreciation)	476	5,237	44	486
Shock of 15% on exchange rate (rupee depreciation)	714	5,475	66	508

	Bank			
	2021		2020	
	GBP '000	Rs. '000	GBP '000	Rs. '000
Net open position	298	80,753	567	144,178

Stress level	Effect on Income Statement Rs. '000	Revised rupee position Rs. '000	Effect on Income Statement Rs. '000	Revised rupee position Rs. '000
Shock of 5% on exchange rate (rupee depreciation)	4,038	84,791	7,209	151,387
Shock of 10% on exchange rate (rupee depreciation)	8,075	88,828	14,418	158,596
Shock of 15% on exchange rate (rupee depreciation)	12,113	92,866	21,627	165,805

	Bank			
	2021		2020	
	EUR '000	Rs. '000	EUR '000	Rs. '000
Net open position	(193)	(44,148)	7,191	1,650,507

Stress level	Effect on Income Statement Rs. '000	Revised rupee position Rs. '000	Effect on Income Statement Rs. '000	Revised rupee position Rs. '000
Shock of 5% on exchange rate (rupee depreciation)	(2,207)	(46,355)	82,525	1,733,032
Shock of 10% on exchange rate (rupee depreciation)	(4,415)	(48,563)	165,051	1,815,558
Shock of 15% on exchange rate (rupee depreciation)	(6,622)	(50,770)	247,576	1,898,083

Supplementary information
Financial reports
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Our sustainable value creation model
Preamble
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54. Financial risk management (contd.)

54.3 Market risk (contd.)

54.3.3 Equity risk

Equity risk is the risk that one's investments will depreciate because of stock market dynamic causing one to lose money.

The investment in equity represent 0.33% of the total assets while investments in quoted and unquoted equity are 0.31% and 0.02% respectively. Hence, the Bank does not have a major exposure to equity risk. However, the adverse movements in the stock market affected the return on equity investments. The investment in unquoted companies are made due to policy decisions on market and economic development and strategic reasons.

The Bank conducts mark-to-market calculations on a monthly, quarterly and on a need basis to identify the impact due to changes in equity prices.

Risk of investing in equity may occurred in followings ways:

Risk of investing in equity

- Share price fall
- Receiving no dividend or receiving dividend lower than expected
- Risk that a company restructure may make it less profitable

Equity price shock

The table below summarises the impact (both to the Income Statement and to the Statement of Comprehensive Income):

		Bank and Group					
		2021			2020		
	Note	**Financial assets recognised through profit or loss Rs. '000**	**Financial assets measured at FVOCI Rs. '000**	**Total Rs. '000**	Financial assets recognised through profit or loss Rs. '000	Financial assets measured at FVOCI Rs. '000	Total Rs. '000
Market value of equity securities as at 31 December	20 and 23	**2,329,980**	**2,674,004**	**5,003,983**	1,675,748	2,514,374	4,190,122

Stress Level	**2021**			2020		
	Impact to P and L Rs. '000	**Impact to OCI Rs. '000**	**Impact to equity Rs. '000**	Impact to P&L Rs. '000	Impact to OCI Rs. '000	Impact to equity Rs. '000
Shock of 5% on equity prices (upward)	**116,499**	**133,700**	**250,199**	83,787	125,719	209,506
Shock of 5% on equity prices (downward)	**(116,499)**	**(133,700)**	**(250,199)**	(83,787)	(125,719)	(209,506)
Shock of 10% on equity prices (upward)	**232,998**	**267,400**	**500,398**	167,575	251,437	419,012
Shock of 10% on equity prices (downward)	**(232,998)**	**(267,400)**	**(500,398)**	(167,575)	(251,437)	(419,012)
Shock of 15% on equity prices (upward)	**349,497**	**401,101**	**750,598**	251,362	377,156	628,518
Shock of 15% on equity prices (downward)	**(349,497)**	**(401,101)**	**(750,598)**	(251,362)	(377,156)	(628,518)
Shock of 20% on equity prices (upward)	**465,996**	**534,801**	**1,000,797**	335,150	502,875	838,024
Shock of 20% on equity prices (downward)	**(465,996)**	**(534,801)**	**(1,000,797)**	(335,150)	(502,875)	(838,024)

54. Financial risk management (contd.)

54.3 Market risk (contd.)

54.3.3 Equity risk (contd.)

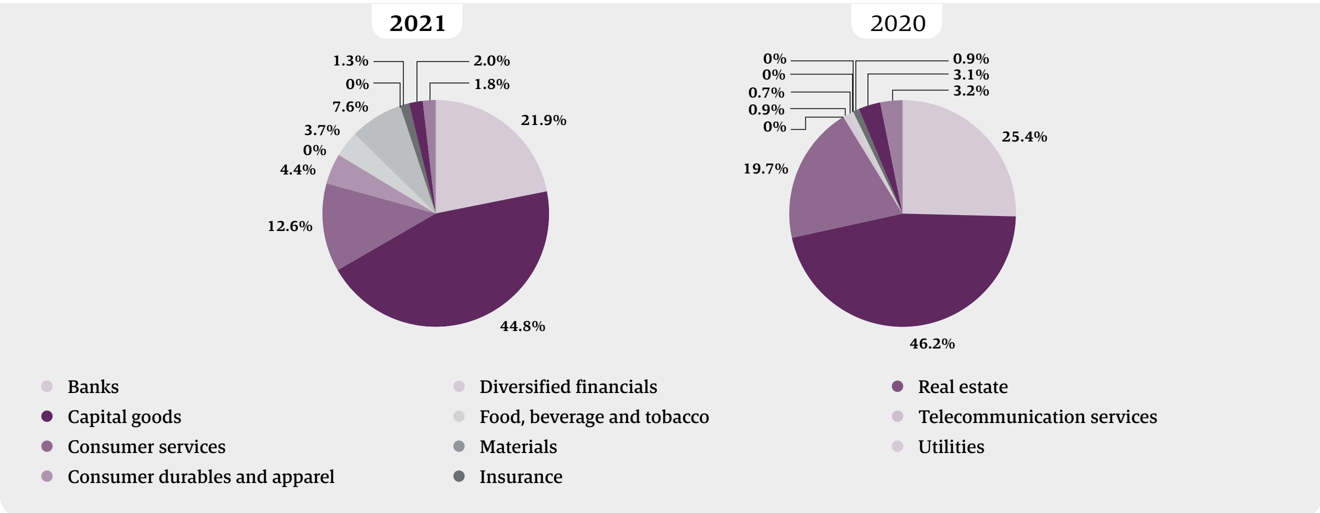
Investment in Equity Shares by Industry

Following table presents the Bank's diversification of trading portfolio to minimise the risk associated with particular sector:

As at 31 December	2021				2020			
Industry	Cost Rs. '000	As % of total cost %	Market value Rs. '000	As % of total market value %	Cost Rs. '000	As % of total cost %	Market value Rs. '000	As % of total market value %
1. Banks	659,064	25.5	452,620	21.9	586,113	24.1	377,326	25.4
2. Capital Goods	1,025,279	39.5	927,033	44.8	1,017,027	41.8	686,062	46.2
3. Consumer Services	447,318	17.3	261,227	12.6	623,791	25.7	292,268	19.7
4. Consumer Durables and Apparel	79,646	3.1	90,120	4.4	–	–	–	–
5. Diversified Financials	–	–	–	–	40,148	1.7	13,064	0.9
6. Food Beverage and Tobacco	71,652	2.8	76,117	3.7	11,636	0.5	10,007	0.7
7. Materials	163,514	6.3	156,810	7.6	–	–	–	–
8. Insurance	24,785	1	27,063	1.3	–	–	–	–
9. Real Estate	–	–	–	–	23,777	1.0	13,586	0.9
10. Telecommunication Services	81,332	3.1	40,748	1.9	81,332	3.3	46,356	3.1
11. Utilities	35,977	1.4	37,776	1.8	46,066	1.9	46,987	3.1
Total	**2,588,567**	**100.0**	**2,069,513**	**100.0**	**2,429,889**	**100.0**	**1,485,655**	**100.0**

Graph 80

Market value of investment in equity shares by industry – Bank and Group



54. Financial risk management (contd.)

54.3 Market risk (contd.)

54.3.4 Interest rate risk

Interest rate risk is the risk that the net interest income will be impacted by adverse fluctuations in interest rates. This may occur in the spread between two rates, in the shape of the yield curve or in any other interest rate relationships. The Bank's major source of funding is deposits which represent 90.81% of total on balance sheet liabilities. of this, 22.64% represent savings deposits where 77.36% represent term deposits.

54.3.4.1 Exposure to interest rate risk

The management of interest rate risk against interest rate sensitive gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and financial liabilities to various interest rate scenarios.

The following table demonstrates the sensitivity of the Bank's Income Statement as at the reporting date, due to change in interest rates with all other variables held constant in less than one year maturity bucket.

Sensitivity of projected net interest income

	2021		2020	
	Parallel increase Rs. '000	Parallel decrease Rs. '000	Parallel increase Rs. '000	Parallel decrease Rs. '000
Net Interest Income (NII)				
Change in 25 bps	**(1,967,221)**	**1,967,221**	(1,563,312)	1,563,312
Change in 50 bps	**(3,934,441)**	**3,934,441**	(3,126,623)	3,126,623
Change in 100 bps	**(7,868,882)**	**7,868,882**	(6,253,246)	6,253,246

54. Financial risk management (contd.)

54.3 Market risk (contd.)

54.3.4 Interest rate risk (contd.)

54.3.4.2 Interest rate risk – sensitivity analysis

Bank's interest rate sensitivity report as at 31 December 2021 is presented below:

	Bank			
	0-1 month Rs. '000	0-3 months Rs. '000	0-6 months Rs. '000	0-12 months Rs. '000
Interest-earning assets	35,360,821	87,600,826	130,369,531	268,496,844
Bank balances and placements	1,131,867	2,992,885	5,465,008	7,287,261
Financial assets recognised through profit or loss				
– measured at fair value	13,712	1,324,093	9,607,647	12,463,153
Financial assets at amortised cost				
– loans and advances	13,549,376	31,967,078	53,533,598	120,894,899
– debt and other instruments	20,578,683	51,152,956	61,566,394	123,307,761
Financial assets measured at fair value through other comprehensive income	87,183	163,814	196,884	4,543,770
Interest-bearing liabilities	268,600,766	729,657,969	999,826,819	1,436,435,200
Due to banks	61,801	7,686,553	7,686,553	7,686,553
Financial liabilities at amortised cost				
– due to depositors	263,555,459	714,764,733	984,844,753	1,406,364,098
– due to debt securities holders	–	–	–	–
– due to other borrowers	4,983,505	6,991,992	6,993,485	7,719,532
Debt securities issued	–	214,690	302,027	14,665,017
Net rate sensitive assets (liabilities)	(233,239,944)	(642,057,143)	(869,457,289)	(1,167,938,356)
Interest rate sensitivity ratio (%)	13	12	13	19

54. Financial risk management (contd.)

54.3 Market risk (contd.)

54.3.4 Interest rate risk (contd.)

54.3.4.2 Interest rate risk – sensitivity analysis (contd.)

Group's interest rate sensitivity report as at 31 December 2021 is presented below:

	Group			
	0-1 month Rs. '000	0-3 months Rs. '000	0-6 months Rs. '000	0-12 months Rs. '000
Interest-earning assets	36,913,026	88,944,126	139,090,459	280,633,832
Bank balances and placements	2,066,260	3,178,718	8,848,881	9,545,179
Financial assets recognised through profit or loss – measured at fair value	269,867	2,092,557	13,522,480	22,670,724
Financial assets at amortised cost – loans and advances	13,602,140	32,125,370	53,788,208	119,633,960
– debt and other instruments	20,860,892	51,303,612	62,586,215	123,956,933
Financial assets measured at fair value through Other comprehensive income	113,868	243,869	344,675	4,827,035
Interest-bearing liabilities	276,119,593	752,214,452	1,022,993,073	1,456,389,616
Due to banks	1,798,087	12,895,411	12,895,411	10,470,191
Financial liabilities at amortised cost – due to depositors	263,637,011	715,009,389	985,171,086	1,404,346,442
– due to debt securities holders	–	–	–	–
– due to other borrowers	10,654,643	24,005,404	24,534,990	26,818,409
Debt securities issued	29,853	304,248	391,585	14,754,575
Net rate sensitive assets (liabilities)	(239,206,567)	(663,270,326)	(883,902,614)	(1,175,755,784)
Interest rate sensitivity ratio (%)	13	12	14	19

54. Financial risk management (contd.)

54.3 Market risk (contd.)

54.3.4 Interest rate risk (contd.)

54.3.4.2 Interest rate risk – sensitivity analysis (contd.)

Bank's interest rate sensitivity report as at 31 December 2020 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-earning assets	39,467,619	105,935,030	153,215,641	286,246,008
Bank balances and placements	2,204,418	4,588,344	8,712,799	15,300,937
Financial assets recognised through profit or loss – measured at fair value	13,712	108,491	4,067,029	4,067,029
Financial assets at amortised cost – loans and advances	26,804,113	41,299,983	65,345,728	133,411,110
– debt and other instruments	10,363,460	59,799,166	73,439,812	131,816,658
Financial assets measured at fair value through Other comprehensive income	81,916	139,045	1,650,274	1,650,274
Interest-bearing liabilities	224,602,075	603,790,178	834,401,890	1,238,119,966
Due to banks	2,430,513	6,693,410	9,783,329	12,862,337
Financial liabilities at amortised cost – due to depositors	214,059,402	588,964,699	816,379,018	1,210,324,285
– due to debt securities holders	–	–	–	–
– due to other borrowers	8,112,160	8,132,070	8,151,779	8,159,591
Debt securities issued	–	–	87,763	6,773,753
Net rate sensitive assets (liabilities)	(185,134,456)	(497,855,149)	(681,186,248)	(951,873,958)
Interest rate sensitivity ratio (%)	18	18	18	23

54. Financial risk management (contd.)

54.3 Market risk (contd.)

54.3.4 Interest rate risk (contd.)

54.3.4.2 Interest rate risk – sensitivity analysis (contd.)

Group's interest rate sensitivity report as at 31 December 2020 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-earning assets	42,510,444	114,315,188	164,353,595	299,847,885
Bank balances and placements	3,231,949	6,957,136	12,168,612	19,336,015
Financial assets recognised through profit or loss – measured at fair value	1,661,488	5,051,819	10,166,302	12,478,192
Financial assets at amortised cost – loans and advances	26,813,821	41,329,107	65,449,180	132,620,086
– debt and other instruments	10,712,331	60,811,266	74,892,412	133,736,503
Financial assets measured at fair value through Other comprehensive income	90,855	165,861	1,677,089	1,677,089
Interest-bearing liabilities	228,424,642	615,257,881	846,770,175	1,250,369,964
Due to banks	3,052,256	8,558,640	11,648,559	13,339,705
Financial liabilities at amortised cost – due to depositors	214,236,794	589,496,874	817,046,404	1,210,730,499
– due to debt securities holders	–	–	–	–
– due to other borrowers	11,090,750	17,067,841	17,852,923	19,391,481
Debt securities issued	44,842	134,526	222,289	6,908,279
Net rate sensitive assets (liabilities)	(185,914,198)	(500,942,692)	(682,416,581)	(950,522,079)
Interest rate sensitivity ratio (%)	19	19	19	24

54.4 Operational risk

The BASEL Committee on Banking Supervision defines operational risk as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events".

Operational Risk Management Framework

Bank has a conducive Operational Risk Management (ORM) framework to achieve more efficient, transparent, profitable and sustainable business operations. It comprises with well structured Governance, Policy framework and Risk management processes. The operational risk of the Bank is reported to the ERMC, BIRMC and the Board by Operational Risk Management Unit of the Risk Management Division.

55 Maturity analysis

	Bank						
	Up to 3 months Rs. '000	3-12 months Rs. '000	1-3 years Rs. '000	3-5 years Rs. '000	More than 5 years Rs. '000	**Total as at 31 December 2021 Rs. '000**	Total as at 31 December 2020 Rs. '000
Assets with contractual maturity (interest earning asset)							
Cash and cash equivalents	407,442	–	–	–	–	**407,442**	2,047,439
Placements with banks	2,585,443	4,294,376	240,879	–	–	**7,120,698**	13,253,499
Financial assets recognised through profit or loss							
– measured at fair value	1,324,093	11,139,060	724,619	3,084,713	970,467	**17,242,953**	9,545,998
– designated at fair value	–	–	–	–	–	**–**	–
Financial assets at amortised cost							
– loans and advances	31,967,078	88,927,821	130,317,896	91,273,942	196,455,052	**538,941,789**	516,795,160
– debt and other instruments	51,152,956	72,154,805	292,697,264	287,677,780	231,667,247	**935,350,052**	754,233,344
Financial assets measured at fair value through other comprehensive income	163,814	4,379,956	4,036,633	1,738,135	603,698	**10,922,236**	12,501,874
	87,600,826	180,896,018	428,017,292	383,774,570	429,696,464	**1,509,985,171**	1,308,377,314
Other assets (non-interest-earning assets)							
Cash and cash equivalents	7,248,596	–	–	–	–	**7,248,596**	4,444,524
Derivative financial instruments	–	–	–	–	–	**–**	19,897
Financial assets recognised through profit or loss							
– measured at fair value	582,495	1,747,485	–	–	–	**2,329,980**	1,675,748
Financial assets measured at fair value through other comprehensive income	–	–	–	–	2,895,357	**2,895,357**	2,769,948
Investments in subsidiaries	–	–	–	–	4,811,000	**4,811,000**	4,811,000
Property, plant and equipment	–	–	–	–	15,045,618	**15,045,618**	15,315,772
Right-of-use assets	82,095	229,245	440,893	237,171	216,512	**1,205,916**	1,226,183
Investment properties	–	–	–	–	–	**–**	–
Goodwill and intangible assets	–	–	–	–	816,058	**816,058**	687,961
Deferred tax assets	–	–	–	1,104,779	–	**1,104,779**	1,446,249
Other assets	3,033,928	6,821,181	9,902,867	8,009,244	5,888,052	**33,655,272**	23,033,780
	10,947,114	8,797,911	10,343,760	9,351,194	29,672,598	**69,112,577**	55,431,062
Total assets	98,547,940	189,693,929	438,361,052	393,125,764	459,369,062	**1,579,097,748**	1,363,808,376

55. Maturity analysis (contd.)

	Bank						
	Up to 3 months Rs. '000	3-12 months Rs. '000	1-3 years Rs. '000	3-5 years Rs. '000	More than 5 years Rs. '000	Total as at 31 December 2021 Rs. '000	Total as at 31 December 2020 Rs. '000
Liabilities with contractual maturity (interest-bearing liabilities)							
Due to banks	7,686,553	–	–	–	–	7,686,553	12,862,337
Financial liabilities at amortised cost							
– due to depositors	714,764,733	691,599,364	16,737,209	5,366,078	–	1,428,467,385	1,237,123,791
– due to other borrowers	6,991,992	727,541	–	–	–	7,719,532	8,159,591
Debt securities issued	214,690	14,450,327	–	17,864,000	5,000,000	37,529,017	31,773,753
	729,657,969	706,777,232	16,737,209	23,230,078	5,000,000	1,481,402,487	1,289,919,472
Other liabilities (non-interest-bearing liabilities)							
Derivative financial instruments	–	–	–	–	–	–	–
Lease liabilities	58,319	197,384	437,071	277,434	321,931	1,292,139	1,274,713
Retirement benefit obligations	–	–	–	–	8,590,642	8,590,642	11,600,431
Current tax liabilities	–	4,596,190	–	–	–	4,596,190	612,239
Deferred tax liabilities	–	–	–	–	–	–	–
Other liabilities	4,127,513	2,122,451	774,672	11,713	163,683	7,200,032	5,983,870
Due to subsidiaries	3,500	–	–	–	–	3,500	3,750
Stated capital/Assigned capital	–	–	–	–	9,400,000	9,400,000	9,400,000
Statutory reserve fund	–	–	–	–	5,174,249	5,174,249	4,068,268
Retained earnings	–	–	–	–	13,727,801	13,727,801	14,399,572
Other reserves	–	–	–	–	47,710,707	47,710,707	26,546,061
	4,189,332	6,916,025	1,211,743	289,147	85,089,013	97,695,261	73,888,904
Total liabilities	733,847,301	713,693,257	17,948,952	23,519,225	90,089,013	1,579,097,748	1,363,808,376

*Represents the aggregate of the contractual maturities based on undiscounted cash flows.

55. Maturity analysis (contd.)

	Group						
	Up to 3 months Rs. '000	3-12 months Rs. '000	1-3 years Rs. '000	3-5 years Rs. '000	More than 5 years Rs. '000	**Total as at 31 December 2021 Rs. '000**	Total as at 31 December 2020 Rs. '000
Assets with contractual maturity (interest-earning asset)							
Cash and cash equivalents	462,395	–	–	–	–	**462,395**	2,138,439
Placements with banks	2,716,323	6,366,461	240,879	–	–	**9,323,663**	17,456,660
Financial assets recognised through profit or loss – measured at fair value	2,092,557	20,578,167	7,021,165	7,391,678	978,606	**38,062,173**	21,942,196
Financial assets at amortised cost							
– loans and advances	30,417,187	89,216,773	130,688,481	91,505,329	196,773,096	**538,600,866**	517,833,067
– debt and other instruments	51,282,545	72,674,388	294,587,000	288,330,562	233,661,832	**940,536,328**	758,594,934
Financial assets measured at fair value through other comprehensive income	243,869	4,583,166	4,036,633	1,801,262	2,268,320	**12,933,250**	13,151,882
	87,214,876	193,418,956	436,574,158	389,028,831	433,681,854	**1,539,918,674**	1,331,117,178
Other assets (non-interest-earning assets)							
Cash and cash equivalents	7,259,136	–	–	–	–	**7,259,136**	4,460,156
Balances with central bank	7	–	–	–	–	**7**	6
Derivative financial instruments	–	–	–	–	–	**–**	19,897
Financial assets recognised through profit or loss – measured at fair value	582,495	1,747,485	–	–	–	**2,329,980**	1,675,748
Financial assets measured at fair value through other comprehensive income	–	–	165,196	–	2,895,357	**3,060,553**	2,907,959
Investments in subsidiaries	–	–	–	–	–	**–**	–
Property, plant and equipment	–	–	–	–	15,949,505	**15,949,505**	16,197,837
Right-of-use assets	83,467	233,361	448,798	244,438	234,073	**1,244,138**	1,271,525
Investment properties	–	–	–	–	210,577	**210,577**	237,077
Goodwill and intangible assets	–	–	669	–	820,752	**821,420**	694,160
Deferred tax assets	–	–	–	1,104,779	875	**1,105,654**	1,446,249
Other assets	3,102,117	6,963,064	9,918,802	8,025,040	5,896,729	**33,905,753**	23,192,936
	11,027,222	8,943,910	10,533,465	9,374,257	26,007,868	**65,886,724**	52,103,550
Total assets	98,242,098	202,362,866	447,107,623	398,403,088	459,689,722	**1,605,805,398**	1,383,220,728

55. Maturity analysis (contd.)

	Group						
	Up to 3 months Rs. '000	3-12 months Rs. '000	1-3 years Rs. '000	3-5 years Rs. '000	More than 5 years Rs. '000	**Total as at 31 December 2021 Rs. '000**	Total as at 31 December 2020 Rs. '000
Liabilities with contractual maturity (interest-bearing liabilities)							
Due to banks	10,470,191	–	–	–	–	10,470,191	13,339,705
Financial liabilities at amortised cost							
– due to depositors	712,502,044	691,844,398	16,835,575	5,542,687	–	1,426,724,704	1,237,669,284
– due to other borrowers	24,506,589	2,311,820	263,587	5,925	–	27,087,920	19,656,090
Debt securities issued	304,248	14,450,327	–	17,864,000	5,000,000	37,618,575	31,908,279
	747,783,071	708,606,545	17,099,162	23,412,612	5,000,000	1,501,901,390	1,302,573,358
Other liabilities (non-interest-bearing liabilities)							
Derivative financial instruments	–	–	–	–	–	–	–
Financial liabilities recognised through profit or loss	–	–	–	–	–	–	–
Lease liabilities	59,216	200,223	442,203	283,621	348,359	1,333,623	1,320,877
Retirement benefit obligations	–	–	–	–	8,637,425	8,637,425	11,631,775
Current tax liabilities	–	4,914,918	–	–	–	4,914,918	1,189,133
Deferred tax liabilities	–	–	1,939	–	–	1,939	1,121
Other liabilities	4,151,365	2,228,344	807,820	185,207	194,155	7,566,892	6,538,643
Due to subsidiaries	–	–	–	–	–	–	–
Stated capital/Assigned capital	–	–	–	–	9,400,000	9,400,000	9,400,000
Statutory reserve fund	–	–	–	–	5,209,101	5,209,101	4,090,363
Retained earnings	–	–	–	–	17,918,992	17,918,992	18,601,588
Other reserves	–	–	–	–	48,921,120	48,921,120	27,873,870
	4,210,581	7,343,485	1,251,962	468,828	90,629,152	103,904,008	80,647,370
Total liabilities	751,993,652	715,950,030	18,351,125	23,881,440	95,629,152	1,605,805,398	1,383,220,728

*Represents the aggregate of the contractual maturities.

56 Fair value of financial instruments

56.1 Financial instruments recorded at fair value

Accounting policy

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives

i. Forward exchange purchases

The Bank values the forward exchange purchase contracts using the quoted prices available in the market for similar contracts.

ii. Foreign currency swaps

Derivative products (Foreign currency swaps/Cash flow hedges) valued using valuation techniques incorporating various inputs such as foreign exchange spot rates and foreign exchange forward rates.

Financial assets recognised through profit or loss

i. Government Treasury Bills and Bonds

Financial assets held for trading are valued using a valuation technique consists of Government Treasury Bills and Treasury Bonds. The Bank values the securities using discounted cash flow valuation models which incorporate observable data. Observable inputs include assumptions regarding current rates of interest, broker statements and market data published by Central Bank of Sri Lanka.

ii. Equity securities

The Bank values the equity securities using the quoted prices available for the identical securities in active market.

Financial assets measured at fair value through other comprehensive income

The Bank values the quoted equity securities using the quoted prices available for the identical securities in active market. The unquoted equity securities have been fair valued using a valuation model based on observable data.

56.2 Determination of fair value and fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1:	Inputs that are quoted market prices (unadjusted) in an active market for identical instruments. When available, the Group measures the fair value of an instrument using active quoted prices or dealer price quotations, without any deduction for transaction costs. A market is regarded as active if transactions for asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
Level 2:	Inputs other than quoted prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly(i.e., derived from prices). This category includes instruments valued using: (a) quoted prices in active markets for similar instruments; (b) quoted prices for identical or similar instruments in markets that are considered to be less active; or (c) other valuation techniques in which almost all significant inputs are directly or indirectly observable from market data.

56. Fair value of financial instruments (contd.)

56.2 Determination of fair value and fair value hierarchy (contd.)

Level 3: Inputs that are unobservable.

This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

This category includes instruments that are valued based on quoted prices of similar instruments for which significant unobservable adjustments or assumptions are required to reflect difference between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, risk premiums in estimating discount rates, bond and equity prices, foreign exchange rates, expected price volatilities and corrections.

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 2021	Note	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
Non-Financial Assets					
Property, plant and equipment					
Land and buildings	26	–	–	12,471,910	12,471,910
Investment properties	28	–	–	–	–
Total non-financial assets at fair value		–	–	12,471,910	12,471,910
Financial Assets					
Derivative financial instruments					
Interest rate swaps	19	–	–	–	–
Financial assets recognised through profit or loss	20				
Government Treasury Bills and Bonds		17,242,954	–	–	17,242,954
Equity securities		2,069,513	–	–	2,069,513
Unit Trust		260,466	–	–	260,466
Financial assets at fair value through other comprehensive income	23				
Other investments – Government Securities		10,922,236	–	–	10,922,236
Equity securities – quoted		2,674,004	–	–	2,674,004
Equity securities – unquoted		–	163,863	–	163,863
Total financial assets at fair value		33,169,173	163,863	–	33,333,036
Total assets at fair value		33,169,173	163,863	12,471,910	45,804,946

56. Fair value of financial instruments (contd.)

56.2 Determination of fair value and fair value hierarchy (contd.)

		Bank			
As at 31 December 2020	Note	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
Non-Financial Assets					
Property, plant and equipment					
Land and buildings	26	–	–	12,427,043	12,427,043
Investment properties	28	–	–	–	–
Total non-financial assets at fair value		–	–	12,427,043	12,427,043
Financial Assets					
Derivative financial instruments					
Interest rate swaps	19	–	–	19,897	19,897
Financial assets recognised through profit or loss	20				
Government Treasury Bills and Bonds		9,545,998	–	–	9,545,998
Equity securities		1,485,655	–	–	1,485,655
Unit Trust		190,093	–	–	190,093
Financial assets at fair value through other comprehensive income	23				
Other investments – Government Securities		12,501,874	–	–	12,501,874
Equity securities – quoted		2,514,374	–	–	2,514,374
Equity securities – unquoted		–	198,083	–	198,083
Total financial assets at fair value		26,237,994	198,083	19,897	26,455,974
Total assets at fair value		26,237,994	198,083	12,446,940	38,883,017

56. Fair value of financial instruments (contd.)

56.2 Determination of fair value and fair value hierarchy (contd.)

As at 31 December 2021	Note	Group			
		Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
Non-Financial Assets					
Property, plant and equipment					
Land and buildings	26	–	–	13,339,223	13,339,223
Investment properties	28	–	–	210,577	210,577
Total non-financial assets at fair value		–	–	13,549,800	13,549,800
Financial Assets					
Derivative financial instruments					
Interest rate swaps	19	–	–	–	–
Financial assets recognised through profit or loss	20				
Government Treasury Bills and Bonds		38,062,173	–	–	38,062,173
Equity securities		2,069,513	–	–	2,069,513
Unit Trust		260,466	–	–	260,466
Financial assets at fair value through other comprehensive income	23				
Other investments – Government Securities		12,931,250	–	–	12,931,250
Equity securities – quoted		2,839,035	–	–	2,839,035
Equity securities – unquoted		–	163,863	–	163,863
Total financial assets at fair value		56,162,438	163,863	–	56,326,300
Total assets at fair value		56,162,438	163,863	13,549,800	69,876,100

56. Fair value of financial instruments (contd.)

56.2 Determination of fair value and fair value hierarchy (contd.)

		Group			
As at 31 December 2020	Note	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
Non-Financial Assets					
Property, plant and equipment					
Land and buildings	26	–	–	13,294,731	13,294,731
Investment properties	28	–	–	237,077	237,077
Total non-financial assets at fair value		–	–	13,531,808	13,531,808
Financial Assets					
Derivative financial instruments					
Interest rate swaps	19	–	–	19,897	19,897
Financial Assets recognised through profit or loss	20				
Government Treasury Bills and Bonds		21,638,390	–	–	21,638,390
Equity securities		1,485,655	–	–	1,485,655
Unit Trust		493,899	–	–	493,899
Financial assets at fair value through other comprehensive income	23				
Other investments – Government Securities		13,149,882	–	–	13,149,882
Equity securities – quoted		2,652,221	–	–	2,652,221
Equity securities – unquoted		–	198,083	–	198,083
Total financial assets at fair value		39,420,047	198,083	19,897	39,638,027
Total assets at fair value		39,420,047	198,083	13,551,705	53,169,835

56.3 Reconciliation of movements between levels of fair value measurement hierarchy

Bank and the Group do not have movements between level of hierarchy during the year.

56.4 Level 3 fair value measurement

Property, plant and equipment (PPE)

Reconciliation from the beginning balance to the ending balance for the land and buildings in the Level 3 of the fair value hierarchy is given in Notes 26.(a) to 26.(b) on pages 327 to 330.

Reconciliation of Revaluation Reserve pertaining to land and buildings categorised as Level 3 in the fair value hierarchy is given in the Statement of Changes in Equity on pages 264 to 267.

Investment properties

Reconciliation from the beginning balance to the ending balance for the investment properties in the Level 3 of the fair value hierarchy is available in Note 28 on page 332.

Derivative financial instruments

Bank and the Group use Level 3 in fair value hierarchy to calculate fair value of derivative instruments and detail of those instruments are given in the Notes 19 and 33 on pages 305 and 340.

56. Fair value of financial instruments (contd.)

56.5 Fair value of financial instruments

As at 31 December	Note	Bank 2021 Carrying amount Rs. '000	Bank 2021 Fair value Rs. '000	Bank 2020 Carrying amount Rs. '000	Bank 2020 Fair value Rs. '000
Financial assets					
Cash and cash equivalents	16	**7,656,038**	**7,656,038**	6,491,963	6,491,963
Balances with central bank	17	**–**	**–**	–	–
Placement with banks	18	**7,120,698**	**7,120,698**	13,253,499	13,253,499
Derivative financial instruments	19	**–**	**–**	19,897	19,897
Financial assets recognised through profit or loss					
– measured at fair value	20	**19,572,933**	**19,572,933**	11,221,746	11,221,746
Financial assets at amortised cost					
– loans and advances	21	**538,941,789**	**539,346,454**	516,795,160	531,750,056
– debt and other instruments	22	**935,350,052**	**907,556,434**	754,233,344	820,266,932
Financial assets measured at fair value through other comprehensive income	23	**13,817,594**	**13,817,594**	15,271,822	15,271,822
Total financial assets		**1,522,459,104**	**1,495,070,151**	1,317,287,431	1,398,275,915
Financial liabilities					
Due to banks	32	**7,686,553**	**7,686,553**	12,862,337	12,862,337
Financial liabilities at amortised cost					
– due to depositors	35	**1,428,467,385**	**1,427,778,508**	1,237,123,791	1,237,281,915
– due to debt securities holders	35	**–**	**–**	–	–
– due to other borrowers	35	**7,719,532**	**7,719,532**	8,159,591	8,159,591
Debt securities issued	37	**37,529,017**	**38,411,518**	31,773,753	32,535,514
Total financial liabilities		**1,481,402,487**	**1,481,596,112**	1,289,919,472	1,290,839,357

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56. Fair value of financial instruments (contd.)

56.5 Fair value of financial instruments (contd.)

As at 31 December		Group			
		2021		2020	
	Note	Carrying amount Rs. '000	Fair value Rs. '000	Carrying amount Rs. '000	Fair value Rs. '000
Financial assets					
Cash and cash equivalents	16	7,721,532	7,721,532	6,598,595	6,598,595
Balances with central bank	17	7	7	6	6
Placement with banks	18	9,323,663	9,323,663	17,456,660	17,456,660
Derivative financial instruments	19	–	–	19,897	19,897
Financial assets recognised through profit or loss					
– measured at fair value	20	40,392,152	40,392,152	23,617,944	23,617,944
Financial assets at amortised cost					
– loans and advances	21	538,600,866	539,006,629	517,833,067	532,787,962
– debt and other instruments	22	940,536,328	912,742,709	758,594,934	824,628,522
Financial assets measured at fair value through other comprehensive income	23	15,993,803	15,993,803	16,059,841	16,059,841
Total financial assets		1,552,568,350	1,525,180,495	1,340,180,943	1,421,169,426
Financial liabilities					
Due to banks	32	10,470,191	10,470,191	13,339,705	13,339,705
Financial liabilities at amortised cost	35				
– due to depositors		1,426,724,704	1,426,035,827	1,237,669,284	1,237,827,407
– due to debt securities holders		–	–	–	–
– due to other borrowers		27,087,920	27,087,920	19,656,090	19,656,090
Debt securities issued	37	37,618,575	38,501,076	31,908,279	32,670,040
Total financial liabilities		1,501,901,389	1,502,095,014	1,302,573,358	1,303,493,242

56.6 Determination of fair value

Fair value of financial assets and liabilities not carried at fair value

The following describes the methodologies and assumptions used to determine the fair values for those financial instruments which are not recorded at fair value in the Financial Statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that have a short-term maturity (original maturities less than a year). It is assumed that the carrying amount approximate their fair values. This assumption is also applied to savings deposits without specific maturity.

Long-term deposits accepted from customers for which periodical interest is paid and loan and receivables granted to customers with a variable rate are also considered to be carried at fair value in the books.

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

56. Fair value of financial instruments (contd.)

56.6 Determination of fair value (contd.)

valued using market rates at which fresh loans were granted during the fourth quarter of the reporting year. Conversely, fixed deposits with original tenure above one year and interest paid at maturity were discounted using current market rates offered to customers during the fourth quarter of the reporting year. Debt security issued with fixed interest rate were discounted using variable interest rates offered to customers during the fourth quarter of the reporting year.

Unquoted equities in financial assets

All unquoted equities in financial assets measured at fair value through other comprehensive income (except RDB) are recorded at cost, since its fair value can not be reliably estimated. There is no active market for these investments and Group intends to hold it for the long term. The investment in RDB shares have been fair valued using a valuation model based on observable data. Refer Note 23 (e) on page 323.

57 Capital management (as per regulatory reporting)

Objective

The Bank is required to manage its capital in order to meet the regulatory requirements and hold sufficient capital buffers to meet the strategic objectives which are aligned with the risk appetite of the Bank.

Regulatory capital

Central Bank of Sri Lanka sets and monitors regulatory capital requirement on both consolidated and solo basis. The Bank is required to comply with the provisions of the Basel III Direction in respect of regulatory capital and capital to cover any additional risk. The Basel III capital regulations were fully implemented by 1 January 2019, and will continue to be based on the three-mutually reinforcing Pillars introduced under Basel II, i.e., minimum capital requirement, supervisory review process and market discipline. Bank was considered as a Domestic Systemically Important Bank (D-SIB) until the issuance of Banking Act Direction No. 12 of 2019 on 20 December 2019 which resulted in the Bank being no longer a D-SIB.

The Bank currently uses the standardised approach for credit risk, standardised measurement method for market risk and basic indicator approach for operational risk. Basel III emphasises on increasing the quality and quantity of capital especially the Core Capital, through redefining the common equity capital and introducing new capital buffers such as the Capital Conservation Buffer and a Capital Surcharge on Domestic Systemically Important Banks (D-SIBs). As per the CBSL Basel III Direction, the Bank and the Group are required to maintain a minimum Tier 1 Capital Ratio of 8.5% and a minimum Total Capital Ratio of 12.5% as at the end of year 2020.

However, with the outbreak of corona virus disease (COVID-19) under extraordinary regulatory measures taken by the Central Bank of Sri Lanka to provide flexibility to Licensed banks to support businesses and individuals affected by the COVID-19, the Monetary Board has given permission to D-SIBs and non D-SIBs to draw down their Capital Conservation Buffers by 100bps and 50bps out of the total of 250bps respectively.

Accordingly, the minimum requirement was reduced by 0.5% requiring the Bank to maintain a minimum Tier I capital Ratio of 8% and a minimum total capital ratio of 12% as at the end of year 2021.

Regulatory capital comprises Tier 1 capital and Tier 2 capital. The Bank and the Group have always complied with the minimum capital requirements imposed by the Central Bank of Sri Lanka.

Regulatory capital ratios

	Bank		Group	
As at 31 December	**2021**	2020 Restated	**2021**	2020 Restated
Common Equity Tier 1 capital ratio (minimum requirement – 6.5%)	**17.171**	12.032	**18.538**	13.956
Tier 1 capital ratio (minimum requirement – 8.0%)	**18.598**	13.649	**19.960**	15.572
Total capital ratio (minimum requirement – 12.0%)	**20.828**	16.446	**22.001**	18.302

58 Segmental Information

Accounting policy

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the chief operating decision-maker to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

For management purposes, the Bank is organised into four operating segments based on services offered as below:

- Retail banking
- Corporate banking
- Treasury and dealing
- International banking

Management monitors the operating results of its segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses. Income taxes are managed separately for the Bank.

For the year ended 31 December 2021	Retail banking Rs. '000	Corporate banking Rs. '000	Treasury and dealing Rs. '000	International banking Rs. '000	Unallocated Rs. '000	Total Rs. '000
Interest income	37,966,628	18,729,596	73,556,047	1,186,013	–	131,438,283
Less: Interest expenses	20,657,689	11,879,969	43,698,987	572,029	–	76,808,674
Net interest income	17,308,939	6,849,627	29,857,059	613,984	–	54,629,609
Fee and commission income	3,027,592	22,766	–	291	–	3,050,649
Less: Fee and commission expenses	207,676	–	–	–	–	207,676
Net fee and commission income	2,819,916	22,766	–	291	–	2,842,973
Net gain/(loss) from trading	–	–	(414,167)	317,941	–	(96,226)
Net gains/(losses) from de-recognition of financial assets	–	–	28,269	–	–	28,269
Net other operating income	68,522	–	395,666	332	53,927	518,447
Total operating income	20,197,378	6,872,393	29,866,828	932,546	53,927	57,923,072
Less: Impairment charges	2,803,961	838,277	–	662,206	–	4,304,444
Net operating income	17,393,417	6,034,116	29,866,828	270,341	53,927	53,618,628
Segment result	8,910,482	2,724,639	16,700,454	38,320	7,518	28,381,414
Profit before income tax						28,381,414
Less: Income tax expenses						6,261,790
Profit attributable to:						22,119,624
Equity holders of the Bank						22,119,624
Non-controlling interests						–
Profit for the year						22,119,624

58. Segmental Information (contd.)

As at 31 December 2021	Retail banking Rs. '000	Corporate banking Rs. '000	Treasury and dealing Rs. '000	International banking Rs. '000	Unallocated Rs. '000	Total Rs. '000
Other Information						
Segmental Assets	449,936,048	247,585,718	867,086,292	14,480,287	9,403	1,579,097,748
Segmental Liabilities	1,419,045,464	48,056,801	20,098,594	15,861,837	22,294	1,503,084,991

For the year ended 31 December 2021	Retail banking Rs. '000	Corporate banking Rs. '000	Treasury and dealing Rs. '000	International banking Rs. '000	Unallocated Rs. '000	Total Rs. '000
Information on cash flows						
Net cash from operating activities						11,903,831
Cash flows from investing activities						241,604
Cash flows from financing activities						(10,729,984)
Capital Expenditure –						
Purchase of property, plant and equipment						(461,960)
Net purchase of intangible assets						(459,757)
Net cash flows generated during the year						*1,415,451*

59 Repurchase and reverse repurchase transactions in scripless treasury bonds and scripless treasury bills

The following additional information on repurchase and reverse repurchase transactions are disclosed as required by the Local Treasury Bills Ordinance Direction No. 1 of 2019, issued by the Central Bank of Sri Lanka (CBSL).

59.1 Carrying value of securities allocated for repurchase transactions

	Bank	
As at 31 December	**2021** Rs. '000	2020 Rs. '000
Carrying value of securities allocated for repurchase transactions	**8,191,410**	13,119,100
Market value of securities received for reverse repurchase transactions	**5,961,028**	7,182,755

59.2 Haircuts for repurchase and reverse repurchase transactions

Minimum haircuts applicable for each maturity bucket as at 31 December 2021 are given below:

59. Repurchase and reverse repurchase transactions in scripless treasury bonds and scripless treasury bills (contd.)

As at 31 December	Minimum haircut	
	Repurchase transactions	Reverse repurchase transactions
Remaining term to maturity of the eligible security		
Up to 1 year	**4%**	4%
More than 1 year and up to 3 years	**6%**	6%
More than 3 years and up to 5 years	**8%**	8%
More than 5 years and up to 8 years	**10%**	10%
More than 8 years	**12%**	12%

59.3 Penalties imposed on the Bank for non-compliance

No penalties have been imposed on the Bank for non-compliance with the above mentioned Direction No. 1 of 2019 issued by the CBSL during the years ended 31 December 2021 and 2020.

→ Supplementary information

Compliance with Banking Act Direction

The Banking Act Direction No. 12 of 2007 and subsequent amendments thereto on Corporate Governance for Licensed Specialised Banks in Sri Lanka issued by the Central Bank of Sri Lanka

		Level of compliance in 2021
3 (1)	**The Responsibilities of the Board**	
3 (1) (i)	The Board shall strengthen the safety and soundness of the Bank, by ensuring the following:	
	a. Approve and oversee the Bank's strategic objectives and corporate values and ensure that these are communicated throughout the Bank.	The Bank's strategic objectives and corporate values are determined by the Board as stated on page 50. These are incorporated in the Board approved Strategic Business Plan for the period of 2022 – 2024 and communicated to all levels of employees through planned meetings, orientation programmes and reinforced at review meetings. The corporate values are included in the Bank's web page and page 8 of this Report.
	b. Approve the overall business strategy of the Bank, the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least the next three years.	Complied with. The Board provided guidance and direction for the preparation of three-year Strategic Business Plan for 2021 – 2023 that was approved by the Board after detailed discussion with the Corporate Management. The Strategic Business Plan is aligned with the overall risk management framework, procedures and the risk appetite of the Bank. The Strategic Business Plan is operationalised through an Action Plan with measurable goals for the next three years. Strategic Business Plan is a rolling plan that is updated and reviewed annually. The Strategic Business Plan for the period of 2022 – 2024 was approved by the Board of Directors in December 2021 at a special Board meeting.
	c. Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently.	Complied with. The BIRMC is entrusted with approving the Bank's risk policy, identifying principal risks, setting governance structures and implementing systems to measure, monitor and manage the principal risks. The following reports provide an insight in this regard: • Risk Review Report on pages 212 to 239. • Board Integrated Risk Management Committee Report on pages 210 and 211.
	d. Approve implementation of a policy of communication with all stakeholders, including depositors, borrowers, creditors, shareholders.	Complied with The Bank has a Board approved and implemented Communication Policy in place covering all stakeholders to ensure effective and timely communication.

		Level of compliance in 2021
	e. Review the adequacy and the integrity of the Bank's internal control systems and management information systems.	Complied with The BAC is assisting the Board which reviews the adequacy and integrity of the Bank's internal control system and management information system where the Board is satisfied with the same. The Internal Audit Division and the Government Audit Reviews on the same and those are reviewed by BAC and also the management responses on the same, during the year.
	f. Identify and designate Key Management Personnel, as defined in the International Accounting Standards.	Complied with Key Management Personnel (KMP) are defined in the International Accounting Standard – LKAS 24 on "Related Party Disclosures", as the persons who are in a position to significantly influence policy, direct activities and exercise control over business activities, operations and risk management. Appointment of all designated KMPs is recommended by the BNC and approved by the Board. The Bank has identified the General Manager, Senior Deputy General Managers, Deputy General Managers, Assistant General Managers and officers in allied grades as Key Management Personnel (KMP) of the Bank for Corporate Governance purposes as per the CBSL Direction on Corporate Governance.
	g. Define the areas of authority and key responsibilities for Directors themselves and for Key Management Personnel (KMP).	Complied with Areas of authority of the Board of Directors are governed by Section 7 of NSB Act. The Board Charter prepared in accordance with the NSB Act details the areas of authority and key responsibilities of the Board of Directors which was reviewed during the year. Board Human Resources and Remuneration Committee has defined the areas of authority and key responsibilities for the KMPs which are included in the job descriptions of each member of KMP.
	h. Ensure that there is appropriate oversight of the affairs of the Bank by Key Management Personnel (KMP) that is consistent with Board policy.	Complied with The Board reviews the performance of the Bank against the Strategic Business Plan and receives reports from Board Subcommittees on financial reporting, internal control, risk management and other relevant matters delegated to those committees. Further, KMPs are called by the Board to explain the matters under their purview as and when necessary.
	i. Periodically assess the effectiveness of the Board of Directors' own governance practices, including: the selection, nomination and election of Directors and Key Management Personnel; the management of conflicts of interests; and the determination of weaknesses and implementation of changes, where necessary.	Complied with Appointments to the Board are made by the shareholder, the Government of Sri Lanka through the Minister under whose purview the Bank comes in terms of the provisions of NSB Act No. 30 of 1971 and its amendments. A self-evaluation of the performance of the Board is carried out annually assessing its own governance practices. Self-evaluation of the performance of the Board for the year 2021 is completed. The NSB Act and Related Party Transaction Policy detail on the management of Conflict of Interest. Quarterly declarations of the Board of Directors in respect of related parties and their interests are obtained from Directors to monitor conflict, if any.

		Level of compliance in 2021
	j. Ensure that the Bank has an appropriate succession plan for Key Management Personnel.	Complied with A Board approved Succession Plan for the KMPs is in place.
	k. Meet regularly, on a need basis, with the Key Management Personnel to review policies, establish communication lines and monitor progress towards corporate objectives.	Complied with KMPs are regularly involved in discussions at the Board meetings and its Subcommittees on progress towards performance, strategy, policy and other matters pertaining to their area of responsibility. The Management is open and transparent with the Board, bringing all significant matters to its attention. Additionally, the KMPs make presentations on key items in the agenda under their purview and are called by the Board and its sub committees in relation to the material matters with regard to achievement of corporate objectives. Additionally, the Compliance Officer submit a monthly compliance report to Board on review of policies and Regulatory changes.
	l. Understand the regulatory environment and ensure that the Bank maintains an effective relationship with regulators.	Complied with The Directors are furnished with all the applicable regulatory requirements on appointment. The Compliance Officer brief on the regulatory developments to the Board of Directors enabling them to effectively discharge their duties.
	m. Exercise due diligence in the hiring and oversight of External Auditors.	Complied with The Auditor General is the External Auditor of the Bank in terms of the provisions of Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka and Section 37 in NSB Act as it is a State-Owned Bank. Further, the BAC is delegated with to review and monitor the independence, objectivity and the effectiveness of the audit process and make recommendations to Auditor General through Superintendent of Audit of any such external auditor appointed by the Auditor General to assist the Auditor General.
3 (1) (ii)	The Board shall appoint the Chairperson and the Chief Executive Officer and define and approve the functions and responsibilities of the Chairperson and the Chief Executive Officer in line with Direction 3 (5) of these Directions.	Complied with when read in conjunction with Section 3 (9) (ii) of this Direction. Under the provisions of Section 11(1) of the NSB Act No. 30 of 1971 as amended by Act No. 28 of 1995 the Chairperson is appointed by the Minister under whose purview the Bank falls in. Section 26 (1) of the NSB Act states that the Board shall appoint a fit and proper person to be the General Manager of the Bank who shall be the Chief Executive Officer of the Bank. Chairperson and CEO's functions and responsibilities have been defined and approved by the Board. The responsibilities of Chairperson and the CEO are defined and approved in line with the Section 3 (5) of this Direction which is given in the Board Charter.
3 (1) (iii)	The Board shall meet regularly, and Board meetings shall be held at least twelve times a year at approximately monthly intervals. Such regular Board meetings shall normally involve active participation in person of a majority of Directors entitled to be present. Obtaining the Board's consent through the circulation of written resolutions/papers shall be avoided as far as possible.	Complied with Regular Board meetings are held each month with the active participation of Directors and the attendance at Board meetings is given on page 195 along with the number of meetings. The Bank has taken every measure to minimise obtaining the approval through circulation where it is done on an exceptional basis and such resolutions are ratified by the Board at the next Board meeting.

		Level of compliance in 2021
3 (1) (iv)	The Board shall ensure that arrangements are in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the Bank.	Complied with Notice of meeting is circulated one week prior to the meeting and Directors may submit proposals for inclusion in the agenda on discussion with the Chairperson on matters relating to the business of the Bank.
3 (1) (v)	The Board procedures shall ensure that notice of at least seven days is given of a regular Board meeting to provide all Directors an opportunity to attend. For all other Board meetings, reasonable notice may be given.	Complied with Notice of meetings along with the agenda and the Board papers to be discussed are circulated seven days prior to the meeting to provide the Directors with additional time to attend on the matters through a secure E-solution except for urgent papers that may come up. Reasonable notice is given before any special meeting and consent of all Directors are obtained prior to scheduling a special meeting and submit any urgent proposals.
3 (1) (vi)	The Board procedures shall ensure that a Director, who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director.	Complied with The Directors are apprised of their attendance in accordance with the Banking Act Direction No. 12 of 2007. Details of Directors' attendance are given on page 195. No Director has been absent from two-thirds of the meetings in the immediately preceding 12 months or three consecutive meetings.
3 (1) (vii)	The Board shall appoint a Company Secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988.	Complied with The Secretary to the Board of National Savings Bank is an Attorney-at-Law whose credentials/qualifications are in compliance with the provisions of Section 43 of the Banking Act No. 30 of 1988 and its amendments.
3 (1) (viii)	All Directors shall have access to advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable rules and regulations are followed.	Complied with All the Directors have the full access, to obtain advice and services of the Secretary to ensure that the Board procedures are followed with, and the applicable rules and regulations are complied with.
3 (1) (ix)	The Company Secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any Director.	Complied with The Secretary to the National Savings Bank maintains the minutes of the Board meetings and circulates same to all Board members through a secure E-solution. The minutes are approved at the subsequent Board meeting. Additionally, the Directors have access to the past Board papers and minutes through the same E-solution.
3 (1) (x)	Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. The minutes shall also serve as a reference for regulatory and supervisory authorities to assess the depth of deliberations at the Board meetings. Therefore, the minutes of a Board meeting shall clearly contain or refer to the following: (a) a summary of data and information used by the Board in its deliberations;	Complied with Minutes of the meetings are kept covering the given criteria.

		Level of compliance in 2021
	(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.	
3 (1) (xi)	There shall be a procedure agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Bank's expense. The Board shall resolve to provide separate independent professional advice to Directors to assist the relevant Director or Directors to discharge his/her/their duties to the Bank.	Complied with Section 27 of the National Savings Bank Act states that the Board can obtain independent professional advice as and when required in discharging its duties. The Board Charter also details that the Directors upon reasonable request can seek independent professional advice in appropriate circumstances, at the Bank's expense.
3 (1) (xii)	Directors shall avoid conflicts of interests, or the appearance of conflicts of interest, in their activities with, and commitments to, other organisations or related parties.	Complied with The Directors make declarations of their interest at appointment and when there is a change. Related Party Disclosure Policy is in place that details on the conflict of interest and the matters and actions to be taken on such situations. Directors withdraw from the meeting, abstain from participating in discussions, voicing their opinion or approving in situations where there is a conflict of interest.
3 (1) (xiii)	The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the Bank is firmly under its authority.	Complied with The Board as the apex authority responsible for oversight of the Bank's activities ensures that direction and control of the Bank is firmly under its authority. The Board Charter details the powers reserved for the Board in discharging its duties effectively.
3 (1) (xiv)	The Board shall, if it considers that the Bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of Bank Supervision of CBSL of the situation of the Bank prior to taking any decision or action.	Complied with The Bank is solvent, and no such situation has arisen during the year to challenge its solvency.
3 (1) (xv)	The Board shall ensure that the Bank is capitalised at levels as required by the Monetary Board in terms of the capital adequacy ratio and other prudential grounds.	Complied with The Board monitors capital adequacy and other prudential measures to ensure compliance with regulatory requirements, and the Bank's defined risk appetite. The Bank complies with the minimum capital adequacy requirements. Refer Basel III – Disclosures under Pillar III as per Banking Act Direction No. 01 of 2016, on pages 454 to 466.

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		Level of compliance in 2021
3 (1) (xvi)	The Board shall publish in the Bank's annual report, an annual corporate governance report setting out the compliance with Direction No. 03 of these Directions.	Complied with This report forms part of the Corporate Governance Report of the Bank which is given from page 179 to 211.
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 The Bank has adopted a scheme of self-assessment to be undertaken by every Director, annually which is maintained by the Secretary to the Board. Each member of the Board carried out a self-assessment of his/her own effectiveness as an individual and the effectiveness of the Board as a whole. Further, each Director carries out an assessment of "fitness and propriety" to serve as a Director.
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 Chairperson. Details of the Board are given on pages 180 to 183 in this report.
3 (2) (ii)	a. The total period of service of a Director other than a Director who holds the position of Chief Executive Officer shall not exceed nine years.	Complied with The present Board of the Bank have been in the office for a period less than nine years. Details of their tenor are given on pages 195 to 196.
	b. A Director who has completed nine years as at 1 January 2008, or who completes such term at any time prior to 31 December 2008, may continue for a further maximum period of three years commencing 1 January 2009.	Complied with The present Board of the Bank have been in the office for a period less than nine years.
3 (2) (iii)	An employee of a bank may be appointed, elected or nominated as a Director of the Bank (hereinafter referred to as an "Executive Director") provided that the number of Executive Directors shall not exceed one third of the number of Directors of the Board. In such an event, one of the Executive Directors shall be the Chief Executive Officer of the Bank.	Not applicable National Savings Bank Act No. 30 of 1971 and the amendments therein does not have provisions for an Executive Director in National Savings Bank.
3 (2) (iv)	The Board shall have at least three Independent Non-Executive Directors or one third of the total number of Directors, whichever is higher.	The Board has one Independent Director while six Directors are Non-Independent. The category of Directorship is given on pages 180 to 183.
3 (2) (v)	In the event an alternate Director is appointed to represent an Independent Director, the person so appointed shall also meet the criteria that apply to the Independent Director.	Not applicable No alternate Director has been appointed to represent any Independent Director, as there is no provision for an alternative Director as per NSB Act
3 (2) (vi)	Non-Executive Directors shall be persons with credible track records and/or have necessary skills and experience to bring an independent judgement to bear on issues of strategy, performance, and resources.	Complied with The Directors' profiles including the necessary information are mentioned on pages 180 to 183.

		Level of compliance in 2021
3 (2) (vii)	A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless more than one-half of the number of Directors present at such meeting are Non-Executive Directors.	Complied with As per the National Savings Bank Act the quorum of the Board is four which is more than one-half of the Directors and all seven Directors are Non-Executive Directors.
3 (2) (viii)	The Independent Non-Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the Bank.	Complied with The Independent Non-Executive Directors are expressly identified as such in all corporate communications that disclose the names of the Directors of the Bank. The composition of the Board by category of the Directors, including the names of the Chairperson, Non-Executive Directors, Independent and Non-Independent Directors are given on pages 180 to 183.
3 (2) (ix)	There shall be a formal, considered and transparent procedure for the appointment of new Directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	Appointments of Directors are carried as per the NSB Act under Section 8 (1) (a). Accordingly, five Directors are appointed by the Minister under whose purview the Bank comes in. One Director shall be the Secretary to the Treasury, or his nominee and the other Director shall be the Postmaster General or his nominee.
3 (2) (x)	All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first General Meeting after their appointment.	Not applicable This does not arise since the Directors are appointed by the subject Minister.
3 (2) (xi)	If a Director resigns or is removed from office, the Board shall: a. announce the Director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant Director's disagreement with the Bank, if any and	Complied with The Government of Sri Lanka, the sole shareholder of the Bank makes the appointments as well as removal of Directors through the Minister under whose purview the Bank falls in. Any resignation is also referred to the same Minister. The Central Bank of Sri Lanka are kept informed of the resignations.
	b. Issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.	The shareholder of the Bank is the Government of Sri Lanka and the changes to five members of the Board of Directors except the Ex-Officio Directors is carried out by the Government through the subject Minister.
3 (2) (xii)	A director or an employee of a bank shall not be appointed, elected or nominated as a director of another bank except where such bank is a subsidiary company or an associate company of the first mentioned bank.	Neither Directors nor employees of the National Savings Bank are appointed as Directors of another bank, except for the appointment of Senior Deputy General Manager (Operation) to the Regional Development Bank (RDB) as per the requirement of the constitution of RDB, Pradeshiya Sanwardana Bank Act No. 41 of 2008.
3 (3)	**Criteria to Assess the Fitness and Propriety of Directors**	
3 (3) (i) (a) and (b)	The age of a person who serves as a director shall not exceed 70 years.	Complied with There are no Directors who are over 70 years of age.
3 (3) (ii)	A person shall not hold office as a director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the Bank.	Complied with No Director holds directorships of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the Bank.

		Level of compliance in 2021
3 (4)	**Management Functions Delegated by the Board**	
3 (4) (i)	The Directors shall carefully study and clearly understand the delegation arrangements in place.	Complied with Delegation of authority is in place. The Board reviews and approves the delegation arrangements and ensures that the extent of delegation addresses the needs of the Bank while enabling the Board to discharge its functions effectively without any hindrances.
3 (4) (ii)	The Board shall not delegate any matters to a Board Committee, Chief Executive Officer, Executive Directors or Key Management Personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	
3 (4) (iii)	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Bank.	
3 (5)	**The Chairman and Chief Executive Officer**	
3 (5) (i)	The roles of Chairman and Chief Executive Officer shall be separated and shall not be performed by the same individual.	Complied with There is a clear separation of duties between the roles of the Chairperson and the General Manager/CEO. A Board Charter is in place defining the responsibilities of the Chairperson and the General Manager/CEO.
3 (5) (ii)	The Chairman shall be a Non-Executive Director and preferably an Independent Director as well. In the case where the Chairman is not an independent Director, the Board shall designate an Independent Director as the Senior Director with suitably documented terms of reference. The designation of the Senior Director shall be disclosed in the Bank's Annual Report.	Chairperson of the Bank is a Non-Independent Non-Executive Director. Mr Eranga Jayawardena who is an Independent Non-Executive Director was appointed as Senior Director to comply with the Direction.
3 (5) (iii)	The Board shall disclose in its corporate governance report, the identity of the Chairman and the Chief Executive Officer and the nature of any relationship	Complied with The identity of the Chairperson and the General Manager/CEO are disclosed in Annual Report on page 201. The Board is cognisant that there are no relationships of any kind of financial, business, family, any other material/ relevant relationship between the Chairperson and the General Manager/CEO. Also, there are no relationships among the other Board members.
3 (5) (iv)	The Chairman shall: provide leadership to the Board; ensure that the Board works effectively and discharges its responsibilities; and ensure that all key and appropriate issues are discussed by the Board in a timely manner.	Complied with The Chairperson provides leadership to the Board and ensures that the Board functions effectively in discharging its responsibilities. The Board in a timely manner discusses all key issues.
3 (5) (v)	The Chairman shall be primarily responsible for drawing up and approving the agenda for each Board meeting,	Complied with The Secretary to the Board draws up the agenda for the meetings in consultation with the Chairperson.

		Level of compliance in 2021
3 (5) (vi)	The Chairman shall ensure that all Directors are properly briefed on issues arising at Board meetings and also ensure that Directors receive adequate information in a timely manner.	Complied with The Chairperson ensures that the Board is sufficiently briefed and informed regarding the matters arising at the Board meetings. The following procedures are in place to ensure that: *Circulation of Board papers including the minutes of the previous meeting seven days prior to the Board meeting giving them sufficient time to review and call for additional information and clarification and after the meeting to follow up on issues consequent to the meeting. *Clarification of matters by KMPs when required
3 (5) (vii)	The Chairman shall encourage all Directors to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the Bank.	Complied with The list of functions and responsibilities of the Chairperson is included in the Board charter.
3 (5) (viii)	The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relations between Executive and Non-Executive Directors.	Complied with The entire Board consists of Non-Executive Directors.
3 (5) (ix)	The Chairman shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	Complied with Chairperson is a Non-Executive Director, and not involved directly in executive functions to supervise KMPs or any other executive duties whatsoever.
3 (5) (x)	The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Complied with The Bank keeps effective communication with the shareholder; Government of Sri Lanka. The Ex-Officio Director appointed as per the National Savings Bank Act acts as the channel of communication between the Board and the shareholder.
3 (5) (xi)	The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day management of the Bank's operations and business.	Complied with The day-to-day operations of the Bank have been delegated to the General Manager/CEO. The Board Charter specifically details such authorities of the General Manager/CEO.
3 (6)	**Board Appointed Committees**	
3 (6) (i)	Each bank shall have at least four board committees as set out in Directions 3 (6) (ii), 3 (6) (iii), 3 (6) (iv) and 3 (6) (v) of these Directions. Each committee shall report directly to the Board. All committees shall appoint a secretary. The Board shall present a report of the performance on each committee, on their duties and roles at the Annual General Meeting.	Complied with The Board has established four mandatory Board committees as per the Banking Act Direction No. 12 of 2007 (Board Audit Committee, Board Human Resource Remuneration Committee, Board Nomination Committee, Board Integrated Risk Management Committee) with written Terms of Reference. All the committees report directly to the Board through the committee chairpersons. The Secretary of National Savings Bank/Secretary to the Board serves as the Secretary to all Board Committees who arranges the meetings and maintain minutes, records etc. under the Supervision of the Committee Chairperson. The reports of the Board committee are given on pages 203 to 211.

		Level of compliance in 2021
3 (6) (ii)	The following rules shall apply in relation to the Audit Committee:	
	a. The Chairman of the Committee shall be an Independent Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.	The Chairmen of the Audit Committee is a Non-Independent Non-Executive Director. The Chairperson of the Board Audit Committee holds required qualifications and experience. Profile of the present Chairperson of the Committee is given on page 181.
	b. All members of the Committee shall be Non-Executive Directors.	Complied with. All the Directors of the Bank are Non-Executive Directors, hence all members in the Committee are Non-Executive Directors.
	c. The Committee shall make recommendations on matters in connection with: (i) the appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes; (ii) the implementation of the Central Bank guidelines issued to Auditors from time to time; (iii) the application of the relevant accounting standards; and (iv) the service period, audit fee and any resignation or dismissal of the Auditor; provided that the engagement of the Audit partner shall not exceed five years, and that the particular audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.	Complied with As per the Terms of Reference, the Board Audit Committee makes the following recommendations among others: • Implementation of Central Bank guidelines issued to auditors from time to time • The application of relevant accounting standards Since the Auditor General is the External Auditor of the Bank as per the statutes. Hence, the Committee has no role to play in the engagement of the External Auditor.
	d. The Committee shall review and monitor the External Auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.	Complied with Since the Auditor General is the External Auditor, the independence and objectivity are maintained and guaranteed by the constitution of Sri Lanka. Effectiveness of the audit process is discussed with the Superintendent of the Government Audit at Board Audit Committee meetings.
	e. The Committee shall develop and implement a policy on the engagement of an External Auditor to provide non-audit services.	Not Applicable This does not arise since the Auditor General is the External Auditor of the Bank. However, as per the Board Audit Committee Charter, the Committee ensures that in the event the Auditor General appoints another External Auditor of assistance, it does not impair that firm's independence, objectivity or effectiveness. For the audit of the year 2021, the Auditor General has obtained the consultation of M/s Ernst & Young.
	f. The Committee shall, before the audit commences, discuss and finalise with the External Auditors the nature and scope of the audit.	Not Applicable The scope and the extent of audit have been determined by the Auditor General as the External Auditor.

		Level of compliance in 2021
	g. The Committee shall review the financial information of the Bank, in order to monitor the integrity of the Financial Statements of the Bank, its Annual Report, accounts and quarterly reports prepared for disclosure, and the significant financial reporting judgements contained therein. In reviewing the Bank's annual report and accounts and quarterly reports before submission to the Board, the Committee shall focus particularly on: (i) major judgemental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) the compliance with relevant accounting standards and other legal requirements.	Complied with The Board Audit Committee has reviewed the quarterly Financial Statements and Annual Report of the Bank prepared for the disclosure purposes as and when ready for the publication. The Internal Audit Division submits a separate review report on the Financial Statements on each instance including the deviation in major judgemental areas, change in accounting policies etc., in the review report to the attention of Board Audit Committee. The BAC makes recommendation to the Board on the above based on the requirement to do so.
	h. The Committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the Auditor may wish to discuss including those matters.	Complied with The BAC discusses issues, problems and reservations arising from the interim and final audits. The representative of the Auditor General was present at the Committee meetings throughout.
	i. The Committee shall review the External Auditor's management letter and the Management's response thereto.	Complied with The Board Audit Committee reviews the External Auditor's Report issued under the Sections 14 (2) (c) and 13 (7) (a) of the Finance Act annually and the management response thereon.
	j. The Committee shall take the following steps with regard to the internal audit function of the Bank: i. Review the adequacy of the scope, functions and resources of the Internal Audit Department, and satisfy itself that the Department has the necessary authority to carry out its work;	Complied with The Annual Audit Plan for the year 2021 prepared by the Internal Audit Division was submitted to the BAC was approved by the Committee which includes the scope, functions and resource requirements relating to the plan.
	ii. Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the Internal Audit Department;	Complied with The Committee reviews the internal audit plan and the results of the internal audit procedures and ensures that appropriate actions are taken for improvements.
	iii. Review any appraisal or assessment of the performance of the Head and senior staff members of the Internal Audit Department;	Complied with Performance appraisal of Chief Internal Auditor and the work process and results of the internal audit function are generally evaluated by the Audit Committee. Performance evaluation of senior staff is carried out according to the Board approved evaluation process by the Chief Internal Auditor and is tabled before the Board Audit Committee. The year 2021 evaluations were carried out.
	iv. Recommend any appointment or termination of the Head, senior staff members and outsourced service providers to the internal audit function;	Not applicable No such situation has arisen during the year.

	Level of compliance in 2021
v. Ensure that the Committee is appraised of resignations of senior staff members of the Internal Audit Department; including the Chief Internal Auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;	Not applicable No such situation has arisen during the year.
vi. Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency, and due professional care;	Complied with According to the governance structure of the Bank, Deputy General Manager (Audit) reports directly to the Board through BAC and is independent of any operations of the Bank.
k. The Committee shall consider the major findings of internal investigations and Management's responses thereto;	Complied with The Board Audit Committee has reviewed major findings and Management's responses thereto. It also ensures that the recommendations of such investigations were implemented.
l. The Chief Finance Officer, the Chief Internal Auditor and a representative of the External Auditors may normally attend meetings. The Committee has had at least two meetings with the External Auditors without the Executive Directors being present.	Complied with The General Manager/CEO, Senior Deputy General Manager, Deputy General Manager (Audit), Acting Deputy General Manager (Finance, Corporate Planning, and MIS) and a representative from Auditor General's Office normally attends the meetings. 13 meetings were held during the year 2021 and the representative of Auditor General's Office has attended 13 meetings with the GM/CEO.
m. The Committee shall have: i. explicit authority to investigate into any matter within its terms of reference; ii. the resources which it need to do so; iii. full access to information; and iv. Authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Complied with According to the Board Audit Charter, the Committee has been empowered with: • Explicit authority to investigate into any matter within its Terms of Reference • The resources which it needs to do so • Full access to information and • Authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary. Refer BAC report on pages 203 to 205.
n. The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities	Complied with The BAC has scheduled regular meetings. Additional meetings are scheduled when required. The Committee met 13 times during the year. Members of the BAC are served with due notice of issues to be discussed and conclusions in discharging its duties and responsibilities are recorded in the minutes of the meetings maintained by the Secretary to the BAC/Secretary to the Board of National Savings Bank.
o. The Board shall disclose in an informative way: i details of the activities of the Audit Committee; ii the number of Audit Committee meetings held in the year; and iii details of attendance of each individual Director at such meetings.	Complied with The Report of the BAC on pages 203 to 205 disclose the following: i. Details of the activities of the Audit Committee ii. The number of BAC meetings held during the year 2021 iii. Details of attendance of each individual director at such meetings.

		Level of compliance in 2021
	p. The Secretary of the Committee is the Company Secretary or the Head of the internal audit function and shall record and keep detailed minutes of the Committee meetings	Complied with The Secretary to the Board of National Savings Bank acts as Secretary to the BAC and detailed minutes are maintained.
	q. The Committee shall review arrangements by which employees of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the Committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the Bank's relations with the External Auditor.	Complied with The Bank has a Board approved Fraud Risk Management and Whistle-blowing Policy in place which covers these aspects. Significant findings are reported to the BAC for appropriate follow-up actions. The BAC is the key representative body for overseeing the Bank's relations with the External Auditor.
3 (6) (iii)	The following rules shall apply in relation to the Human Resources and Remuneration Committee:	
	a. The Committee shall determine the remuneration policy (salaries, allowances, and other financial payments) relating to Directors, Chief Executive Officer (CEO) and Key Management Personnel of the Bank.	Remuneration of the Directors is decided by the subject Minister as per the Section 10 of the NSB Act No. 30 of 1971 and the amendments therein. The remuneration of the General Manager/CEO and KMPs is determined by the BHRRC based on the collective agreement and approved by the Board of the Bank.
	b. The Committee shall set goals and targets for the Directors, CEO and the Key Management Personnel.	Complied with. All the Directors of the Bank are Non-Executive Directors of whom five are appointed by the subject Minister and the other two being Ex-Officio Directors according to the Section 8 of the NSB Act No. 30 of 1971 and the amendments therein. Therefore, specific goals and targets are not set for them. Goals and targets for the General Manager/CEO and the KMPs are set based on the Strategic Business Plan which are detailed in the Action Plan. These are linked to Key Performance Indicators of KMPs.
	c. The Committee shall evaluate the performance of the CEO and Key Management Personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.	Complied with Criteria for evaluations of the performance of the CEO and Key Management Personnel against the set targets and goals were submitted to the Committee by Board
	d. The CEO shall be present at all meetings of the Committee, except when matters relating to the CEO are being discussed.	Complied with The General Manager/CEO attends all meetings of the Committee, except when matters relating to the General Manager/CEO are being discussed.
3 (6) (iv)	The following rules shall apply in relation to the Nomination Committee:	
	a. The Committee shall implement a procedure to select/ appoint new Directors, CEO and Key Management Personnel.	The five Directors are appointed by the subject Minister while the other two Directors being the Ex-officio Directors as per the NSB Act. According to the Section 11, the Minster shall nominate one of the Directors of the Board to be its Chairperson.

		Level of compliance in 2021
		As per the Section 26, the Board shall appoint a fit and proper person to be the General Manager of the Bank who shall be the Chief Executive Officer of the Bank. Appointment of KMPs is compiled with. Board of Directors appoints KMPs with the recommendation of Board Nomination Committee.
	b. The Committee shall consider and recommend (or not recommend) the re-election of current Directors.	Not applicable. Five Directors are appointed by the Minister while two Directors are Ex-Officio as per the NSB Act.
	c. The Committee shall set the criteria for eligibility to be considered for appointment or promotion to the post of CEO and the key management positions.	Complied with The General Manager is appointed based on the accepted procedure with the approval of Board of Directors as per the NSB Act No. 30 of 1971 and the amendments therein. The Board approved promotion scheme is available which stipulates the attributes required to be eligible to or promoted to other key management positions.
	d. The Committee shall ensure that Directors, CEO and Key Management Personnel are fit and proper persons to hold office as specified in the criteria given in Direction 3 (3) and as set out in the statutes.	Complied with Signed affidavit and declarations of Directors and General Manager/CEO are obtained by the Board Secretary and the same are obtained from the KMPs by the Human Resource Development Division and forwarded to the Central Bank for assessing the fitness and propriety at the time of appointment.
	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 Chairperson, Directors and the CEO are carried out according to the NSB Act No. 30 of 1971 and the amendments therein. A Board approved Succession Plan for the KMPs is in place. Appointments of KMPs are made by the Board of Directors according to the Succession Plan based on the recommendations of BNC.
	f. The Committee shall be chaired by an Independent Director. The CEO may be present at meetings by invitation.	The Committee is chaired by a Non-Independent Non-Executive Director.
3 (6) (v)	The Board Integrated Risk Management Committee:	
	a. The Committee shall consist of at least three Non-Executive Directors, Chief Executive Officer and Key Management Personnel supervising broad risk categories, i.e. credit, market, liquidity, operational and strategic risks. The Committee shall work with Key Management Personnel very closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.	Complied with The Committee comprises three Non-Executive Directors, General Manager/CEO and the Chief Risk Officer who responsible for supervising broad risk categories, i.e. credit, market, liquidity, operational and strategic risks. Compliance Officer participate at all Committee meetings by invitation. Any other KMP and staff are invited based on the requirement. The Committee works closely with KMPs within the framework of authority and responsibility assigned.

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	b. The Committee shall assess all risks, i.e. credit, market, liquidity, operational and strategic risks to the Bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a bank basis and group basis.	Complied with The Board has approved the Policies on Credit Risk Management, Market and Liquidity Risk Management, Operational Risk Management on the recommendation of the BIRMC that provides the framework for assessment and management of risks. The Risk Management Division submits monthly reports on risk indicators both on a bank basis and group basis based on the predefined risk appetite levels which are reviewed by the Committee.
	c. The committee shall review the adequacy and effectiveness of all management level committees such as the credit committee and the asset-liability committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.	Complied with The Committee reviews reports of management levels committees such as the Credit Committee, Investment Committee and the Asset and Liability Management Committee (ALCO) to assess the adequacy and effectiveness in addressing specific risks and to ensure those risks are managed within quantitative and qualitative risk limits as specified by the risk appetite level of the Bank which is reviewed on a regular basis. The adequacy and effectiveness of all management level committees are reviewed by the BIRMC on an annual basis.
	d. The Committee shall take prompt corrective action to mitigate the effects of specific risks.	Complied with The Committee takes prompt corrective actions to mitigate the effects of specific risks in situations where such risks are beyond prudent levels decided by the Board on recommendations of the Committee based on the regulatory and policy level requirements.
	e. The Committee shall meet at least quarterly to assess all aspects of risk management including updated Business Continuity Plans (BCP).	Complied with During the year the Committee had five meetings. Details of meetings and attendance are given on page 210.
	f. The Committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the Committee, and/or as directed by the Director of Bank Supervision.	Complied with The Bank has established a disciplinary action procedure to address such issues. No necessities have arisen during the year.
	g. The Committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.	Complied with The detailed minutes of the meetings are submitted to the next immediate Board meeting along with the recommendations and the Risk Management Reports.
	h. The Committee shall establish a compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from Key Management Personnel shall carry out the compliance function and report to the committee periodically.	Complied with The Compliance function has been established to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on areas of business operations. This function is headed by a dedicated Compliance Officer (CO). CO submits reports periodically to the BIRMC and Board.

		Level of compliance in 2021
3 (7)	**Related Party Transactions**	
3 (7) (i)	The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the Bank with any person.	Complied with The Board approved Related Party Transactions Policy is in place covering related parties, their transactions and restrictions on offering more favourable treatment to related parties in order to avoid any conflict of interest by the Board of Directors. Directors are requested to declare their related party transactions individually. These transactions are monitored through an automated system.
3 (7) (ii)	The type of transaction with related parties that shall be covered by this Direction.	Complied with The Related Party Transactions Policy approved by the Board, covers the following transactions: (a) The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation; (b) The creation of any liabilities of the Bank in the form of deposits, borrowings and investments; (c) The provision of any services of a financial or non-financial nature to the Bank or received from the Bank; (d) The creation or maintenance of reporting lines and information flows between the Bank and any related parties, which may lead to sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties. Information in this regard is disclosed in Note 49.5 on "Related Party Disclosures" on page 367.
3 (7) (iii)	The Board shall ensure that the Bank does not engage in transactions with related parties as defined in Direction 3 (7) (i) above, in a manner that would grant such parties "more favourable treatment" than that accorded to other constituents of the Bank carrying on the same business.	Complied with The Bank's Related Party Transactions Policy forbids transactions, which would grant related parties more favourable treatment than that accorded to other customers. These include the following: (a) Granting of "total net accommodation" to related parties, exceeding a prescribed percentage of the Bank's regulatory capital; (b) Charging of a lower rate of interest than the Bank's best lending rate or paying more than the Bank's deposit rate for a comparable transaction with an unrelated comparable counterparty; (c) Providing of preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/ commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties; (d) Providing services to or receiving services from a related party without an evaluation procedure;

		Level of compliance in 2021
		(e) Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions. The Bank has implemented a Board approved process to monitor related party transactions which is monitored by the Compliance Division and compliance status is indicated in the monthly Compliance Report submitted to the Board. Further, any non-compliance brought to the notice of the Board would be addressed by the Board. Transactions (if any) carried out with Related Parties in the normal course of business are disclosed in Note 49.5 to the Financial Statements "Related Party Disclosures" on page 367.
3 (7) (iv)	A bank shall not grant any accommodation to any of its Directors or to a close relation of such Director unless such accommodation is sanctioned at a meeting of its Board of Directors, with not less than two-thirds of the number of Directors other than the Director concerned, voting in favour of such accommodation.	Complied with No such instances were recorded
3 (7) (v)	a. Where any accommodation has been granted by a bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a Director of the Bank, steps shall be taken by the Bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a Director.	Complied with The Secretary to the Board obtains declarations from all the Directors prior to the appointment as a Director and they are requested to declare any further transactions. Employees of the Bank are aware of the requirement to obtain the necessary security as defined by the Monetary Board, if a need arises.
	b. Where such security is not provided by the period as provided in Direction 3 (7) (v) (a) above, the Bank shall take steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such Director, whichever is earlier.	The Compliance Division monitors the processes with this regulation. And a quarterly report is submitted to the Board.
	c. Any Director who fails to comply with the above sub-directions shall be deemed to have vacated the office of Director and the Bank shall disclose such fact to the public.	
	d. This sub-direction, however, shall not apply to a Director who at the time of the grant of the accommodation was an employee of the Bank and the accommodation was granted under a scheme applicable to all employees of such bank.	
3 (7) (vi)	A bank shall not grant any accommodation or "more favourable treatment" other than on the basis of a scheme applicable to the employees of such bank.	Complied with No favourable treatment/accommodation provided to employees of the Bank other than staff benefits. Employees of the Bank are informed through circular instructions to refrain from granting favourable treatments to other employees or close relations.

		Level of compliance in 2021
3 (7) (vii)	No accommodation granted by a bank under Direction 3 (7) (v) and 3 (7) (vi) above, nor any part of such accommodation, nor any interest due thereon shall be remitted without the prior approval of the Monetary Board and any remission without such approval shall be void and of no effect.	Complied with No such instances were recorded.
3 (8)	**Disclosures**	
3 (8) (i)	The Board shall ensure that:	
	a. annual audited Financial Statements and quarterly Financial Statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that,	Complied with
	b. Such statements are published in the newspapers in an abridged form, in Sinhala, Tamil, and English.	Complied with
3 (8) (ii)	The Board shall ensure that the following minimum disclosures are made in the Annual Report:	
	a. A statement to the effect that the Annual Audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied with Disclosure on the compliance with applicable accounting standards and regulatory requirements, in preparation of the Annual Audited Financial Statements have been made on the "Statement of Directors' Responsibility for Financial Reporting" on pages 249 to 250 and "General Manager's/CEO and Senior Deputy General Manager's (Finance and Planning) Statement of Responsibility" on pages 254 to 255.
	b. A report by the Board on the Bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	Complied with The Annual Report includes the following reports where the Board confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements. Annual Report of the Board of Directors on pages 243 to 248. Statement of Directors' Responsibility for Financial Reporting on pages 249 and 250 Directors' Statement on Internal Control over Financial Reporting on pages 251 and 252.
	c. The External Auditor's certification on the effectiveness of the internal control mechanism referred to in Direction 3 (8) (ii) (b) above, in respect of any statements prepared or published after 31 December 2008.	Complied with The Bank has obtained a certificate on the effectiveness of Internal Controls over Financial Reporting, which is disclosed on page 253.

		Level of compliance in 2021
	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 pages 180 to 183. Refer Note 49.5 to the Financial Statements on page 367. Refer Note 49.5 to the Financial Statements on page 367.
	e. Total net accommodation as defined in 3 (7) (iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the Bank's regulatory capital.	Complied with The net accommodations granted as a percentage of Bank's regulatory capital are given in Note 49.5.3 to the Financial Statements on page 368.
	f. The aggregate values of remuneration paid by the Bank to its Key Management Personnel and the aggregate values of the transactions of the Bank with its Key Management Personnel, set out by broad categories such as remuneration.	Complied with Details are given in Note 49.5.1 to the Financial Statements on page 368.
	g. The External Auditor's certification of the compliance with these Directions in the annual corporate governance reports	Complied with The Bank has obtained a certificate from the Auditor General on the level of compliance with the Corporate Governance Direction No. 12 of 2007. All findings of the Auditor have been incorporated in this Corporate Governance Report
	h. A report setting out details of the compliance with prudential requirements, regulations, laws, internal controls and measures taken to rectify any material non-compliance.	Complied with The Statement of Directors' Responsibility for Financial Reporting on pages 249 to 250 clearly sets out the details regarding compliance with prudential requirements, regulations, laws and internal controls.
	i. A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision of CBSL if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns.	Not Applicable. There were no supervisory concerns on lapses in the Bank's risk management or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision of CBSL and therefore, the Monetary Board has not directed any disclosures to be made public during the year.
3 (9)	**Transitional and other general provisions**	
3 (9) (i)	Compliance with this Direction shall commence from 1 January 2008 onwards and all licensed commercial banks shall fully comply with the provisions of this Direction by or before 1 January 2009 except where extended compliance dates have been specifically provided for in this Direction.	Complied with The Bank has complied with the applicable transitional provisions.
3 (9) (ii)	In respect of the banks that have been incorporated by specific statutes in Sri Lanka, the Boards as specified in such statutes shall continue to function in terms of the provisions of the respective statutes, provided they take steps to comply with all provisions of this Direction that are not inconsistent with the provisions of the respective statutes.	Complied with. NSB takes all possible measures to comply with all applicable provisions of this Direction that are not inconsistent with the provisions of NSB Act No. 30 of 1971 and its amendments, the enabling enactment. Any instances of non-compliance and where NSB has continued to function in terms of the provisions of the statutes applicable to it has been specifically mentioned above against the relevant sections.

		Level of compliance in 2021
3 (9) (iii)	This Direction shall apply to the branches of the foreign banks operating in Sri Lanka to the extent that it is not inconsistent with the regulations and laws applicable in such bank's country of incorporation. The branch of a foreign bank shall also publish its parent bank's Annual Corporate Governance Report together with its Annual Report and accounts of the branch operations in Sri Lanka.	Not applicable
3 (9) (iv)	In the event of a conflict between any of the provisions of this Direction and the Articles of Association (or Internal Rules) pertaining to any bank, the provisions of this Direction shall prevail. However, if the Articles of Association of an individual bank set a more stringent standard than that specified in this Direction, such provisions in the Articles of Association may be followed.	Not applicable

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

The Auditor General has performed procedures in accordance with the principles set out in Sri Lanka Standards on Related Services 4,400 – Engagements to Perform Agreed – Upon Procedures Regarding Financial Information issued by The Institute of Chartered Accountants of Sri Lanka to meet the compliance requirement of the Direction No. 12 of 2007 on Corporate Governance issued by the Central Bank of Sri Lanka. His findings given on his report dated 9 May 2022 were not materially different to the matters disclosed above and did not identify any significant inconsistencies to those reported above by the Board.

Keasila Jayawardana

M A P Muhandiram
Secretary to the Board

Ms Keasila Jayawardana
Chairperson

9 May 2022
Colombo

Compliance with the code of best practice on Corporate Governance issued by CA Sri Lanka

Code reference	Principles
A	**Directors**
A.1	**The Board** The Board of National Savings Bank comprises seven (07) Non-Executive Directors including the Chairman which is laid down in the National Savings Bank Act No. 30 of 1971 and the amendments therein. Five Directors of the Bank are appointed by the Minister as per the NSB Act and the two Ex-officio Directors; one shall be the Secretary to the Treasury or his nominee and the other shall be the Postmaster General or his nominee. The Board headed by the Chairman is the apex decision-making body of the Bank. During the year the Board consisted of seven (07) Directors who are eminent professionals to direct and lead the Bank with effective controls. Details of the Directors during the year 2021 are given on pages 180 to 183.
A.1.1	**Regular meetings** The Board has met regularly during the year by adhering to the statute which stipulates the Board shall meet as often to the Chairman may deem necessary provided that, a meeting of the Board shall be held once at least in every six weeks. During the year, the Board has convened 29 meetings. Complying with the respective Charters, the Board Subcommittees met regularly during the year. The regularity of the Board meetings and the structure and process of submitting information had been agreed to and documented by the Board. Details of Board meetings and Subcommittee meetings are given on pages 195 and 196.
A.1.2	**Roles and Responsibilities of the Board** The Board Charter details the responsibilities entrusted to the Board and given on page 193. The Board charter was last reviewed in the year 2021. The Board is assisted by the secretary to the Board.
A.1.3	**The Board act in accordance with the laws of the country** The Board has an approved procedure in place to ensure that the Bank is in compliance with related laws, CBSL Directions and Guidelines and international best practices with regard to the operations. This includes procedures where by the Board can require the Bank to obtain independent professional advice and the expenses thereon are borne by the Bank.
A.1.4	**Access to advice and services of the Secretary and appointment or removal of the Secretary to the Board** All the Directors have the ability to obtain advices and services of the Secretary to the Board who is responsible for ensuring that the Board procedures are followed with and the applicable rules and regulations are complied with. The appointment and the removal of the Secretary to the Board is a matter involving the whole Board under the advice of BNC as it is a Key Management Personnel position. Refer page 202 on "Role of Board Secretary" for further details on the role of the Company of Secretary.
A.1.5	**Independent judgement** The Board of Directors of the Bank are experts in their fields and bring independent judgment in discharging their duties and responsibilities on matters relating to strategy, performance, resource allocation, risk management, compliance and standards of business conduct.
A.1.6	**Dedicate adequate time and effort to matters of the Board and the Company** Board meetings and Board Subcommittee meetings are scheduled well in advance and the relevant papers are generally circulated one week prior to the meeting through electronic means to ensure that the Directors are having sufficient time to review the papers and call for additional information and clarification, and after a meeting to follow up on issues consequent to the meeting. Given that, in exceptional situations there is a provision to circulate the papers closer to the meeting. This is supplemented by giving sufficient time to be familiarise with business operations, risks and controls.

Code reference	Principles
A.1.7	**Calls for resolutions** As per the NSB Act, Chairman shall upon written requisition from any two Directors, call a special meeting of the Board where they feel it is in the best interest of the Bank to do so. In case of a special meeting, notice should be given to all Directors prior to four days of the meeting.
A.1.8	**Training of Directors** The Board of Directors of the Bank gets adequate training on appointment. Refer page 198 for details.
A.2	**Division of responsibilities of Chairman and Chief Executive Officer (CEO)** The positions of the Chairman and the Chief Executive Officer have been separated in line with the best practices in order to maintain the balance of power and authority which is clearly defined in the Board Charter. Chairman of the Bank is a Non-Executive Director while CEO is not a member of the Board.
A.3	**Chairman's role** The Chairman provides a leadership role in order to preserve good governance and facilitates the effective functioning of the Board. Chairman is responsible for maintaining open lines of communication with KMPs and contributes on strategic and operational matters. The agenda of the meeting is developed in consultation with General Manager/CEO, Directors and the Secretary to the Board, taking into consideration the matters relating to strategy, performance, resource allocation, risk management, and compliance. Sufficiently detailed information of matters included in agenda is provided to Directors in a timely manner. All Directors are made aware of their duties and responsibilities and Board Subcommittee Structures. All Directors are encouraged to make an effective contribution and obtain information necessary to discuss matters on the agenda and arrive at an informed decision. The views of Directors on issues under considerations are ascertained and recorded in minutes.
A.4	**Financial acumen** The Board possesses the required financial acumen and knowledge to offer guidance on matters relating to finance where some of the Directors being professionally qualified in fields of finance/accounting and/or having Senior Management positions and/or directorships.
A.5	**Board balance** The Board of the Bank comprises seven Non-Executive Directors appointed as per the NSB Act. The Board of Directors annually submit a signed and dated deceleration of their independence/non-independence.
A.6	**Provision of timely information** The Management provides appropriate and timely information to the Board generally, seven days prior to the Board meetings or Board Subcommittee meetings to discharge their duties and responsibilities effectively. Chairman ensures that the Board is adequately briefed on the matters discussed and the KMPs are requested to be present during the meetings to be present where deemed necessary. Any Director who is unable to attend a meeting is updated on proceedings through formally documented minutes of the meeting, prior to the next meeting which are discussed at the same. The agenda of the meetings and papers required, are generally circulated prior to seven days and the minutes of the previous meeting are generally circulated at least two weeks after the meeting.
A.7	**Appointments to the Board** As a state-owned Bank, five Directors are appointed by the Minister in charge under whose purview the Bank comes in while two Directors are Ex-officios according to the NSB Act. The Bank has complied with the required regulatory requirements relating to appointment of new Directors. Refer Section Corporate Governance on page 198 for details.
A.8	**Re-appointment** As per the NSB Act, the term of a Directors is three years unless otherwise he vacates office early by death, resignation or removal of holding office. Refer Section Corporate Governance on page 198 for the details of Appointment and Re-election of Directors. No Director resigned during the year.

Code reference	Principles
A.9	**Appraisal of Board performance**
	The Board annually assess their own performance to ensure that the Board is discharging their responsibilities satisfactorily. The evaluation process requires each Director to fill a Board Performance Evaluation Form.
	The responses are gathered and submitted to the Board Nomination Committee which will be submitted to the Board post review of Board Nomination Committee. The Board Subcommittee also follow the same procedure. Refer section on "Board and Board Subcommittee evaluation" on page 202 in the Annual Report.
A.10	**Disclosure of information in respect of Directors in the Annual Report**
	The information specified in the Code with regard to Directors are disclosed in this Annual Report as follows.
	Name, qualifications, expertise, material business interest and brief profiles are given on pages 180 to 183.
	Details of whether a Director is Executive, Non-Executive and/or Independent, Non-Independent are given on pages 195 to 196.
	Related party transactions are given on Note 49.5 to the Financial Statements on page 367.
	Membership of Board Subcommittees and attendance at Board and Board Subcommittee are given on pages 195 to 196.
A.11	**Appraisal of Chief Executive Officer (CEO)/General Manager**
	Performance of the General Manager/CEO is assessed annually based on the financial and non-financial target given in the strategic business plan with the assistance of BHRRC. The final report is submitted to the Board.
B	**Directors' remuneration**
B.1	In accordance with the NSB Act and its amendments therein, the Directors' remuneration is decided by the relevant Minister.
	No Director is involved in deciding his/her own remuneration. Refer section "Directors' remuneration and level and make up of remuneration" on page 202 and Report of the BHRRC on pages 206 and 207.
B.2	**Level and make up of remuneration**
	As a state-owned Bank, the level and make up of remuneration is determined by the subject Minister according to the NSB Act. Refer section "Directors' remuneration and level and make up of remuneration" on page 202.
B.3	**Disclosure of remuneration**
	Section on "Directors' remuneration and level and make up of remuneration" on page 202.
	Details of Directors' total remuneration – Refer Note 49.5 to the Financial Statements on page 367 Members of the BHRRC and their Report – Refer pages 206 and 207.
C	**Relations with shareholder**
C.1	**Constructive use of AGM and conduct of General Meetings**
	As a state-owned Bank, NSB is conducting regular meetings with the subject Ministry. A representative of the Government (an officer from the Ministry of Finance) is in the Board representing the shareholder. The Annual Report is placed before the parliament of Sri Lanka and is open to question by the parliament.
C.2	**Communication with shareholder**
	The communication policy sets out the channels of communication with the shareholder. This includes web/e-responses, press releases etc. The issues and concerns of the shareholder (Government of Sri Lanka) are discussed with participation of the Government representative at the Board meeting. Issues that require further attention are elevated to the Ministry or higher officials as the necessity may be.
C.3	**Disclosure of major and material transactions**
	There were no "Major transactions" that would have materially affected the Bank's or the Group's net assets base, nor any material related party transactions except those disclosed in:
	Annual Report of Board of Directors on pages 243 to 248 and Note 49.5 to the Financial Statements on page 367.

Code reference	Principles
D	**Accountability and audit**
D.1	**Financial and business reporting (Annual Report)** This Annual Report presents a balanced and understandable review of the Bank's financial position, performance, business model, governance structure, risk management, internal controls and challenges, opportunities and prospects. The Bank has taken all measures to ensure Annual Report including the financial statements as well as interim financial statements which are reviewed by BAC prior to publication are giving a true and fair view and has been prepared in accordance with the relevant laws and regulations. The Annual Report contains following disclosures which are required by the Code: • Management Discussion and Analysis – refer pages 95 to 176. • Annual Report of the Board of Directors – refer pages 243 to 248. • Statement of Directors' Responsibility for Financial Reporting – refer pages 249 and 250. • Directors' Statement on Internal Controls – refer pages 251 and 252. • General Manager/CEO's and Senior Deputy General Manager's (Finance and Planning) Statement of Responsibility – refer pages 254 and 255. • Related Party Transactions – refer Note 49 on related party disclosures on pages 364 to 370. The net assets value of the Bank is disclosed in Note 50 to the Financial Statements on page 371.
D.2	**Bank's existing processes on Risk management and internal controls** The Board is responsible for determining the risk appetite in achieving its strategic objectives, formulating and implementing appropriate processes of risk management and sound system of internal control to safeguard shareholder's investments and the assets of the Bank. The BIRMC assist the Board in discharging its duties with regard to risk management while BAC assist in discharging the Board's duties relating to processed and effectiveness of risk management and internal control. The summary of responsibilities of respective Committees are given under each Subcommittee Report. The Committees are formulated according to the Banking Act No. 12 of 2007 on Corporate Governance, Code of Best Practice on Corporate Governance issued by The Institute of Chartered Accountants of Sri Lanka and the Bank's policies. The BIRMC is supported by the Risk Management Division and Risk Review Report on pages 212 to 239 and Report of the BIRMC on pages 210 to 211 include a comprehensive report on how the Bank is managing the risk.
D.3	**Audit Committee** The BAC comprises three Non-Executive Directors. A summary of the scope of the BAC as per the Terms of Reference are given in the Report of BAC on pages 203 to 205 in the Annual Report. The Terms of Reference is prepared in accordance with the Code. Review of the Internal Controls are done by the Internal Audit Division and reports are regularly reported to the BAC. The external assurance on effectiveness of Internal Controls was obtained from the External Auditor, which is Auditor General and produced on page 253 in this Annual Report.
D.4	**Related Party Transactions Review Committee** The Bank has a Board approved related party transactions policy in place which covers related parties, their transactions and restrictions on offering non-favourable treatment to related parties in order to avoid conflict of interest of Board of Directors. The Report on the related party transactions with Key Managerial persons are given on page 368 in Note 49.5.2 of this Annual Report.
D.5	**Code of business conduct and ethics** The Bank has Code of Business Conduct and Ethics that is internally developed and approved by the Board which applies to all employees of the Bank including KMPs and a separate code of conduct for the Directors. All officers of the Bank are required to furnish an annual asset liability declaration to the Human Resource Development Division. All the Directors furnish their annual assets and liability declaration to the relevant Ministry. The Bank has set applicable policies and procedures to identify and deal with any possible infringements. The Bank has put in place a Procurement Guidelines to ensure transparent procurement practices are applied.

Code reference	Principles
D.6	**Corporate governance disclosures**
	The Directors are required to disclose the extent to which the Bank adheres to established principles and practices of good corporate governance. The following reports includes the Bank's compliance with the good governance principles and practices. The Corporate Governance Report from pages 188 to 202. Compliance with the Code of Best Practice on Corporate Governance issued by The Institute of Chartered Accountants of Sri Lanka on pages 317 to 321.
E and F	**Shareholder and other investors**
	The Bank is incorporated under an Act of Parliament, the NSB Act and the Government of Sri Lanka is the sole shareholder. The Bank is having regular and structured dialogue with the GOSL based on the mutual understanding of objectives through the subject Ministry as and when required.
G	**Internet of things and cybersecurity**
	The Bank is certified under the globally accepted, de-facto standard, Payment Card Industry Data Security Standard (PCI DSS), focusing on ensuring confidentiality, integrity and availability of data/ information. Therefore, the Bank's ISMS is established adhering to the rigorous management, physical and technical controls pertaining to information security as well as the requirements stipulated in the Baseline Security Standard mandated by the CBSL, for protecting information systems of the Bank from cyber threats. The Bank has appointed a Chief Information Security Officer (CISO) reporting to the General Manager/CEO to provide direction to the Bank's overall information security function. The Management-level body responsible for the information security of the Bank that is chaired by the General Manager/CEO is the Information Security Committee (ISC) which reports to the Board of Directors through the BIRMC, entrusted with oversight responsibilities for information and cyber risk management. The Bank has in place a comprehensive, Board approved Information Security Policy (ISP) which defines all the security requirements to be fulfilled by employees, partners and other external parties as per the ISMS Framework. The ISP which is primarily aligned to the ISO/IEC 27001:2013 Standard includes policies for the areas covering organisation of information security, physical and logical access control, asset management, operations and communication security, HR security, supplier relationships, information security incident management, business continuity management, etc. Network security management controls and information transfer policies and procedures have been defined in the ISP to ensure protection of information/ supporting information processing facilities in the Bank's network/s and to maintain the security of information transferred within the organisation and with external entities. The Bank conducts technical security assessments such as vulnerability assessments, penetration tests, application security assessments, configuration assessments, etc periodically (monthly, quarterly, bi-annually and annually) as per the Bank's policies and compliance requirements (e.g.: PCI DSS, CBSL), in order to gauge the cyber risk profile of the Bank. The ISMS is independently validated on an annual basis by Qualified Security Assessors of the PCI Council. Performance of the ISMS and any deviations, information security incidents, results of internal and external information security audits, information security roadmap/ progress of cybersecurity projects as well as the information security risk profile of the Bank is regularly reported to the ISC, and the BIRMC is kept updated periodically through risk indicators and other reports.
H	**Environment, Society and Governance (ESG)**
H.1	**ESG Reporting**
	Sustainability business approach involves a holistic approach to value creation while embracing opportunities and managing risk. In its sustainability approach to the business, the Bank considers economic, social, and environmental values created through its strategy in the short, medium and long term. The sustainability reporting requires the Bank to recognise, measure and disclose and be accountable to internal and external stakeholders. Information required by the Code is given in the following sections of the Annual Report: • Management Discussion and Analysis – refer pages 96 to 176 • Corporate Governance – refer pages 188 to 202 • Stakeholders – refer pages 67 to 75 • Materiality – refer pages 36 to 94 • This Annual Report has been in accordance with IIRC Framework, and the GRI guidelines.

Other Disclosure requirements as required by CBSL

Disclosure requirements under the prescribed format issued by the Central Bank of Sri Lanka for preparation of Annual Financial Statements of licensed specialised banks.

	Disclosure requirements	Description	Page number/s
1.	**Information about the significance of financial instruments for financial position and performance**		
1.1	**Statement of financial position**		
1.1.1	Disclosures on categories of financial assets and financial liabilities.	Notes to the Financial Statements: Note 15 – Analysis of financial instruments by measurement basis	301
1.1.2	**Other disclosures**		
	i. Special disclosures about financial assets and financial liabilities designated to be measured at fair value through profit or loss, including disclosures about credit risk and market risk, changes in fair values attributable to these risks and the methods of measurement.	Significant accounting policies: Note 2.5.1.4.5 Financial assets measured at FVPL Note 2.5.1.5.1 Financial liabilities at fair value through profit or loss	278 278
	ii. Reclassifications of financial instruments from one category to another.	Significant accounting policies: Note 2.5.1.7 Reclassification of financial assets and liabilities	280
	iii. Information about financial assets pledged as collateral and about financial or non-financial assets held as collateral.	Notes to the Financial Statements: Note 22 – Financial assets at amortised cost – Debt and other instruments	318
	iv. Reconciliation of the allowance account for credit losses by class of financial assets.	Note 16 – Cash and cash equivalent Note 18 – Placement with banks Note 21 (d) – Movements in impairment during the year Note 22 (4) – Movement in impairment during the year	304 305 312 320
	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	289-299
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	289
	ii. Fee income and expense.	Notes to the Financial Statements: Note 5 – Net fee and commission income	292
	iii. Amount of impairment losses by class of financial assets.	Notes to the Financial Statements: Note 10 – Impairment charges	295
	iv. Interest income on impaired financial assets.	Notes to the Financial Statements: Note 4 (a) interest income	290

	Disclosure requirements	Description	Page number/s
1.3	**Other disclosures**		
1.3.1	Accounting policies for financial instruments.	Note 2.5.1 – Financial instruments – initial recognition, classification and subsequent measurement	276
1.3.2	Information on financial liabilities designated at FVPL.	The Bank/Group has not designated any financial liability at FVPL. Notes to the Financial Statements: Note 2.5.1.5.1 – Financial liabilities at fair value through profit or loss	278
1.3.3	**Investments in equity instruments designated at FVOCI** i. Details of equity instruments that have been designated as at FVOCI and the reasons for the designation.	Notes to the Financial Statements: Note 23 – Financial assets at fair value through other comprehensive income	320
	ii. Fair value of each investment at the reporting date.	Notes to the Financial Statements: Note 23 (d) – Quoted investments – Equity securities – Bank and Group Note 23 (e) – Unquoted investments – Equity securities	323 323
	iii. Dividends recognised during the period, separately for investments de-recognised during the reporting period and those held at the reporting date.	Notes to the Financial Statements: Note 9 – Net other operating income	294
	iv. Transfer cumulative gain or loss within equity during the period and the reasons for those transfers.	Income Statement, Statement of Other Comprehensive Income and Statement of Changes in Equity	260-261 264-267
	v. If investments in equity instruments measured at FVOCI are de-recognised during the reporting period: – reasons for disposing of the investments – fair value of the investments at the date of de-recognition – the cumulative gain or loss on disposal	Income Statement, Statement of Other Comprehensive Income and Statement of Changes in Equity	260-261 264-267
1.3.4	**Reclassification of financial assets** i. For all reclassifications of financial assets in the current or previous reporting period: – date of reclassification – detailed explanation of the change in the business model and a qualitative description of its effect on the financial statements – the amount reclassified into and out of each category	Note 2.5.1.7 – Reclassification of financial assets and liabilities During the period the Bank did not reclassify financial assets	280
	ii. For reclassifications from FVTPL to amortised cost or FVOCI: – the effective interest rate (EIR) determined on the date of reclassification – the interest revenue recognised	During the period, the Bank has not classified financial instruments from FVPL to amortised cost or FVOCI	

	Disclosure requirements	Description	Page number/s
	iii. For reclassifications from FVOCI to amortised cost, or from FVTPL to amortised cost or FVOCI: – The fair value of the financial assets at the reporting date – The fair value gain or loss that would have been recognised in profit or loss or OCI during the reporting period if the financial assets had not been reclassified.	Note 2.5.1.7 – Reclassification of financial assets and liabilities During the period, the Bank has not classified financial instruments from FVOCI to amortised cost, or from FVPL to amortised cost or FVOCI	280
1.3.5	Information on hedge accounting	Notes to the Financial Statements:	
		Note 2.5.1.6.2 – Derivative is held for risk management purposes and hedge accounting	279
		Note 19 – Derivative financial instruments	305
1.3.6	Information about the fair values of each class of financial asset and financial liability, along with:		
	i. Comparable carrying amounts.	Notes to the Financial Statements:	
		Note 56.5 – Fair value of financial instruments	415
	ii. Description of how fair value was determined.	Notes to the Financial Statements:	
		Note 2.1.12.2 – Fair value of financial instruments	272
		Note 2.3 – Fair value measurement	275
		Note 56.2 – Determination of fair value and fair value hierarchy	410
		Note 56.2 – Determination of fair value and fair value hierarchy	
	iii. The level of inputs used in determining fair value.	Notes to the Financial Statements:	
		Note 56.2 – Determination of fair value and fair value hierarchy	410
	iv. a. Reconciliations of movements between levels of fair value measurement hierarchy.	No movements between levels of fair value hierarchy during the year	
	b. Additional disclosures for financial instruments that fair value is determined using level 3 inputs.	Note 56.3 – Reconciliation of movements between levels of fair value measurement hierarchy	414
	v. Information if fair value cannot be reliably measured.	Notes to the Financial Statements:	
		Note 23 (e) – Unquoted investments – equity securities	323
		Note 56.2 – Determination of fair value and fair value hierarchy	410
2	**Information about the nature and extent of risks arising from financial instruments**		
2.1	**Qualitative disclosures**		
2.1.1	Risk exposures for each type of financial instrument.	Notes to the Financial Statements:	
		Note 54 – Financial risk management	374
		Risk review report	212-239

	Disclosure requirements	Description	Page number/s
2.1.2	Management's objectives, policies, and processes for managing those risks.	Notes to the Financial Statements: Note 54 – financial risk management Risk review report	 374 212-239
2.1.3	Changes from the prior period.	No major policy changes during the period under review	
2.2	**Quantitative disclosures**		
2.2.1	Summary of quantitative data about exposure to each risk at the reporting date.	Notes to the Financial Statements: Note 54 – Financial risk management Risk review report	 374 212-239
2.2.2	Disclosures about credit risk, liquidity risk, market risk, operational risk, interest rate risk and how these risks are managed. i. Credit risk (a) Maximum amount of exposure (before deducting the value of collateral), description of collateral, information about credit quality of financial assets that are neither past due nor impaired and information about credit quality of financial assets.	Notes to the Financial Statements: Note 54.1.1 – Credit quality analysis	380
	(b) For financial assets that are past due or impaired, disclosures on age, factors considered in determining as impaired and the description of collateral on each class of financial asset.	Notes to the Financial Statements: Note 54.1.1 – Credit quality analysis	380
	(c) Information about collateral or other credit enhancements obtained or called.	Notes to the Financial Statements: Note 54.1.1. (b) – Management of the credit portfolio	382
	(d) Credit risk management practices: – CRM practices and how they relate to the recognition and measurement ECL, including the methods, assumptions and information used to measure ECL.	Notes to the Financial Statements: Note 2.5.2.3 – Overview of the ECL principles Note 10 – Impairment charges	 282 295
	– Quantitative and qualitative information to evaluate the amounts in the Financial Statements arising from ECL, including changes and the reasons for those changes.	Note 10 – Impairment charges	295
	– How the Bank determines whether the credit risk of financial instruments has increased significantly since initial recognition	Note 2.5.2.7 – Significant increase in credit risk	283
	– The Bank's definitions of default for different financial instruments, including the reasons for selecting those definitions.	Note 2.5.2.8 – Definition of default and credit impaired assets	284
	– How instruments are grouped if ECL are measured on a collective basis.	Note 10 – Impairment charges	295

Disclosure requirements	Description	Page number/s
– How the Bank determines that financial assets are credit-impaired.	Note 2.5.2 – Impairment of financial assets (Policy applicable from 1 January 2019)	281
– The Bank's write-off policy, including the indicators that there is no reasonable expectation of recovery.	Note 21 (d) – Movements in impairment during the year	312
– How the modification requirements have been applied.	Note 2.5.1.9 – Modification of financial assets and financial liabilities	281
(e) ECL calculations:		
– Basis of the inputs, assumptions and the estimation techniques used when estimating ECL.	Note 2.5.2.4 – The calculation of ECL	283
– How forward-looking information has been incorporated into the determination of ECL.	Note 2.5.2.6 – Forward looking information	283
– Changes in estimation techniques or significant assumptions made during the reporting period.	Note 2.2 – Changes in accounting policies	275
(f) Amounts arising from ECL:		
– Reconciliation for each class of financial instrument of the opening balance to the closing balance of the impairment loss allowance.	Note 16 – Cash and cash equivalent	304
	Note18 – Placement with banks	305
	Note 21 (d) – Movements in impairment during the year	312
– Explain the reasons for changes in the loss allowances in the reconciliation.	Note 22 (4) – Movement in impairment during the year	320
(g) Collateral:	Notes to the Financial Statements:	
– Bank's maximum exposure to credit risk at the reporting date	Note 54.1.1 (a) – Net exposure to Credit risk by class of financial assets	380
– Description of collateral held as security and other credit enhancements	Note 54.1.1 (b) – Management of the credit portfolio	382
(h) Written-off assets	Notes to the Financial Statements:	
	Note 21 (d) – Movements in impairment during the year	312
i. Pillar III disclosures of the Banking Act Directions No. 1 of 2016 on Capital requirements under Basel III for Licensed Banks	Risk review report	212-239
ii. Liquidity risk		
(a) A maturity analysis of financial liabilities.	Notes to the Financial Statements:	
	Note 55 – Maturity analysis	406
(b) Description of approach to risk management.	Notes to the Financial Statements:	
	Note 54 – Financial risk management	374
	Risk review report	212-239
(c) Pillar III disclosures of the Banking Act Direction No. 1 of 2016 on capital requirements under Basel III for Licensed Banks.	Risk review report	212-239

Disclosure requirements	Description	Page number/s
iii. Market risk (a) A sensitivity analysis of each type of market risk to which the Bank exposed.	Notes to the Financial Statements: Note 54.3 – Market risk Risk review report	 395 212-239
(b) Additional information, if the sensitivity analysis is not representative of the Bank's risk exposure.	Risk review report	212-239
(c) Pillar III disclosures of the Banking Act Direction No. 1 of 2016 on capital requirements under Basel III for Licensed Banks.	Risk review report	212-239
iv. Operational risk Pillar III disclosures of the Banking Act Direction No. 1 of 2016 on capital requirements under Basel III for Licensed Banks	Risk review report	212-239
v. Equity risk in the banking book (a) Qualitative disclosures:		
• Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons.	Notes to the Financial Statements: Note 23 – Financial assets at fair value through other comprehensive income	 320
• Discussion of important policies covering the valuation and accounting of equity holdings in the banking book.	Notes to the Financial Statements: Note 23 – Financial assets at fair value through other comprehensive income	 320
(b) Quantitative disclosures: • Value disclosed in the statement of financial position of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value.	Notes to the Financial Statements: Note 20 – Financial assets recognised at through profit or loss Note 23 – Financial assets at fair value through other comprehensive income	 306 320
• The types and nature of investments • The cumulative realised gains/(losses) arising from sales and liquidations in the reporting period.	Notes to the Financial Statements: Note 6 – Net Gain/(loss) from trading Note 8 – Net Gain/(loss) from derecognition of financial assets	 293 294
vi. Interest rate risk in the banking book (a) Qualitative disclosures: • Nature of interest rate risk in the banking book (IRRBB) and key assumptions	Notes to the Financial Statements: Note 54 – Financial risk management Risk review report	 374 212-239

	Disclosure requirements	Description	Page number/s
	(b) Quantitative disclosures: • The increase/(decline) in earnings or economic value (or relevant measure used by Management) for upward and downward rate shocks according to Management's method for measuring IRRBB, broken down by currency (as relevant).	Risk review report	212-239
2.2.3	Information on concentrations of risk	Notes to the Financial Statements: Note 54 Financial risk management Risk review report	 374 212-239
3.	**Other disclosures**		
3.1	**Capital structure** i. Qualitative disclosures • Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of innovative, complex or hybrid capital instruments.	Basel III Disclosures as per schedule III of Banking Act Direction No. 1 of 2016 Risk review report	454-466 212-239
	ii. Quantitative disclosures (a) The amount of Tier 1 capital, with separate disclosure of – • Paid-up share capital/common stock • Reserves • Non-controlling interests in the equity of subsidiaries • Innovative instruments • Other capital instruments • Deductions from Tier 1 capital	Basel III Disclosures as per schedule III of Banking Act Direction No. 1 of 2016	454-466
	(b) The total amount of Tier 2 and Tier 3 capital		
	(c) Other deductions from capital		
	(d) Total eligible capital		
3.1.2	**Capital adequacy** i. Qualitative disclosures • A summary discussion of the Bank's approach to assessing the adequacy of its capital to support current and future activities.	Risk review report	212-239
	ii. Quantitative disclosures (a) Capital requirements for credit risk, market risk and operational risk.	Risk review report	212-239
	(b) Total and Tier 1 capital ratio.	Risk review report	212-239

Basel III disclosures as per schedule III of Banking Act Direction No. 1 of 2016

Basel III – Minimum Disclosure Requirements under Pillar III

Key Regulatory Ratios – Capital and Liquidity

	Bank		Group	
As at 31 December *Item*	**2021**	2020	**2021**	2020
Regulatory capital (Rs. '000)				
Common equity Tier 1	**60,170,042**	37,227,074	**65,194,032**	43,189,629
Tier 1 capital	**65,170,042**	42,227,074	**70,194,032**	48,189,629
Total capital	**72,984,005**	50,882,209	**77,370,432**	56,636,854
Regulatory capital ratios (%)	**–**	–	**–**	–
Common equity Tier 1 capital ratio (minimum requirement : 6.5%)	**17.171**	12.032	**18.538**	13.956
Tier 1 capital ratio (minimum requirement: 8.0%)	**18.598**	13.649	**19.960**	15.572
Total capital ratio (minimum requirement : 12.0%)	**20.828**	16.446	**22.001**	18.302
Leverage ratio (minimum requirement : 3%)	**8.92**	6.64	**8.95**	7.21
Regulatory liquidity	**–**	–		
Statutory liquid assets (Rs. '000)	**816,750,871**	805,242,421	**N/A**	N/A
Statutory liquid assets ratio (minimum requirement – 20%)	**–**	–		
Domestic banking unit (%)	**59.63**	69.10	**N/A**	N/A
Off-shore banking unit (%)	**–**	–		
Liquidity coverage ratio (%) – rupee (minimum requirement – 2021 – 100%, 2020 – 90%)	**240.84**	311.02	**N/A**	N/A
Liquidity coverage ratio (%) – all currency (minimum requirement – 2021 – 100%, 2020 – 90%)	**240.43**	307.22	**N/A**	N/A
Net stable funding ratio (NSFR) (%) – (minimum requirement – 2021 – 100%, 2020 – 90%)	**160.78**	169	**N/A**	N/A

Basel III – Computation of Capital Ratios

As at 31 December Item	Bank 2021 Rs. '000	Bank 2020 Rs. '000	Group 2021 Rs. '000	Group 2020 Rs. '000
Common equity Tier 1 (CET1) Capital after adjustments	**60,170,042**	37,227,074	**65,194,032**	43,189,629
Total common equity Tier 1 (CET1) capital	**65,384,549**	42,929,613	**69,514,833**	47,663,891
Equity capital (stated capital)/Assigned capital	**9,400,000**	9,400,000	**9,400,000**	9,400,000
Reserve fund	**5,174,249**	4,068,268	**5,209,101**	4,090,363
Published retained earnings/(Accumulated retained losses)	**8,376,790**	6,813,679	**12,567,994**	11,015,735
Published accumulated other comprehensive income (OCI)	**(658,376)**	(444,220)	**(754,142)**	(428,052)
General and other disclosed reserves	**43,091,885**	23,091,885	**43,091,877**	23,585,844
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	**5,214,505**	5,702,537	**4,320,799**	4,474,260
Goodwill (net)	**–**	–	**–**	–
Intangible assets (net)	**816,058**	687,961	**821,420**	694,160
Revaluation losses of property, plant and equipment	**32,902**	32,902	**32,902**	32,902
Deferred tax assets (net)	**1,104,779**	1,446,249	**1,105,653**	1,445,128
Cash flow hedge reserve	**–**	–	**–**	–
Investments in the capital of banking and financial institutions where the Bank does not own more than 10 percent of the issued ordinary share capital of the entity	**2,173,342**	2,220,843	**2,360,824**	2,302,071
Significant investments in the capital of financial institutions where the Bank owns more than 10 percent of the issued ordinary share capital of the entity	**1,087,425**	1,314,583	**–**	–
Additional Tier 1 (AT1) capital after adjustments	**5,000,000**	5,000,000	**5,000,000**	5,000,000
Total Additional Tier 1 (AT1) capital	**5,000,000**	5,000,000	**5,000,000**	5,000,000
Qualifying Additional Tier 1 capital instruments	**5,000,000**	5,000,000	**5,000,000**	5,000,000
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	**–**	–	**–**	–
Total adjustments to AT1 Capital	**–**	–	**–**	–
Investment in own shares	**–**	–	**–**	–
Tier 2 capital after adjustments	**7,813,965**	8,655,136	**7,176,402**	8,447,226
Total Tier 2 capital	**7,813,964**	8,655,136	**7,744,905**	8,615,002
Qualifying Tier 2 capital instruments	**–**	1,200,000	**–**	1,200,000
Revaluation gains	**4,243,803**	4,243,803	**4,243,803**	4,243,803
Loan loss provisions	**3,570,160**	3,211,332	**3,501,102**	3,171,199
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	**–**	–	**–**	–
Total adjustments to Tier 2 capital	**–**	–	**568,504**	167,777

Basel III Disclosures as per Schedule III of Banking Act Direction No. 1 of 2016

As at 31 December Item	Bank 2021 Rs. '000	Bank 2020 Rs. '000	Group 2021 Rs. '000	Group 2020 Rs. '000
Investment in own shares	–	–	–	–
Investments in the capital of financial institutions and where the Bank does not own more than 10 percent of the issued capital carrying voting rights of the issuing entity	–	–	568,504	167,777
CET 1 capital	60,170,042	37,227,074	65,194,032	43,189,629
Total Tier 1 capital	65,170,042	42,227,074	70,194,032	48,189,629
Total capital	72,984,005	50,882,209	77,370,432	56,636,854
Total risk weighted assets (RWA)	350,409,554	309,389,659	351,672,286	309,461,535
RWAs for credit risk	285,612,837	256,906,592	280,088,118	253,695,893
RWAs for market risk	10,720,942	11,658,100	16,125,350	13,702,867
RWAs for operational risk	54,075,775	40,824,967	55,458,817	42,062,775
CET 1 capital ratio (including Capital Conservation Buffer, countercyclical capital buffer and surcharge on D-SIBs (%)	17.171	12.032	18.538	13.956
of which: capital conservation buffer (%)	2.000	2.000	2.000	2.000
of which: countercyclical buffer (%)	0.000	0.000	0.000	0.000
of which: capital surcharge on D-SIBs (%)	0.000	0.000	0.000	0.000
Total Tier 1 capital ratio (%)	18.598	13.649	19.960	15.572
Total capital ratio (including capital conservation buffer, Countercyclical capital buffer and surcharge on D-SIBs) (%)	20.828	16.446	22.001	18.302
of which: capital conservation buffer (%)	2.000	2.000	2.000	2.000
of which: countercyclical buffer (%)	0.000	0.000	0.000	0.000
of which: capital surcharge on D-SIBs (%)	0.000	0.000	0.000	0.000

The difference arises between the retained earnings balance in Basel III Capital Adequacy Computation and the financial reporting are due to the following:

(1) The Bank's practice was to transfer the current year retained earnings to the General Reserve until end of 2015 and it was changed to maintain part of the current year retained earnings to a separately maintained Retained Earnings Reserve with effect from 31 December 2016. Therefore one of the differences between the retained earnings balance in the financial reporting and the Basel III Capital Adequacy Computation is the accumulated actuarial loss of Rs. 5.351 Bn. on Retirement Benefit Plan which has been adjusted to the General Reserve prior to 2016.

Computation of Leverage Ratio

As at 31 December Item	Bank 2021 Rs. '000	 2020 Rs. '000	Group 2021 Rs. '000	 2020 Rs. '000
Tier 1 Capital	**65,170,042**	42,227,074	**70,194,032**	48,189,629
Total exposures	**730,295,777**	635,552,006	**784,126,364**	668,821,873
On-balance sheet items (excluding derivatives, and securities financing transactions, but including collateral)	**711,305,160**	609,120,761	**741,607,140**	631,111,094
Derivative exposures	**–**	27,855	**–**	27,855
Securities financing transaction exposures	**14,253,906**	22,033,567	**37,780,243**	33,301,815
Other off-balance sheet exposures	**4,736,710**	4,369,823	**4,738,981**	4,381,108
Basel III leverage ratio (%) (Tier 1/Total Exposure)	**8.92%**	6.64%	**8.95%**	7.21%

Basel III – Computation of Liquidity Coverage Ratio (Bank) – All Currencies

As at 31 December Item	2021 Total unweighted value Rs. '000	 Total weighted value Rs. '000	2020 Total unweighted value Rs. '000	 Total weighted value Rs. '000
Total stock of high-quality liquid assets (HQLA)	**787,006,884**	**785,559,135**	787,769,145	785,407,233
Total adjusted Level 1A assets	**783,972,676**	**783,972,676**	783,105,664	783,105,664
Level 1 assets	**784,111,386**	**784,111,386**	783,045,321	783,045,321
Total adjusted Level 2A assets	**–**	**–**	–	–
Level 2A assets	**–**	**–**	–	–
Total adjusted Level 2B assets	**2,895,498**	**1,447,749**	4,723,824	2,361,912
Level 2B assets	**2,895,498**	**1,447,749**	4,723,824	2,361,912
Total cash outflows	**1,465,591,676**	**342,758,032**	1,284,821,024	268,722,079
Deposits	**1,085,163,072**	**108,516,307**	948,077,093	94,807,709
Unsecured wholesale funding	**355,165,322**	**224,569,932**	296,451,080	164,727,076
Secured funding transactions	**4,957,181**	**–**	10,198,687	–
Undrawn portion of committed (Irrevocable) facilities and other contingent funding obligations	**13,351,156**	**2,716,849**	23,773,255	2,879,601
Additional requirements	**6,954,945**	**6,954,945**	6,320,909	6,320,909
Total cash inflows	**29,945,556**	**16,029,594**	28,836,496	13,073,071
Maturing secured lending transactions backed by collateral	**8,735,872**	**3,224,142**	9,644,259	2,924,475
Committed facilities	**–**	**–**	–	–
Other inflows by counterparty which are maturing within 30 days	**17,153,970**	**12,804,048**	14,167,958	10,148,596
Operational deposits	**4,052,906**	**–**	5,024,278	–
Other cash inflows	**2,807**	**1,404**	–	–
Liquidity Coverage Ratio (%) (stock of high quality liquid assets/ total net cash outflow over the next 30 calendar days)*100	**–**	**240.43**	–	307.22

Basel III Computation of Net Stable Funding Ratio (NSFR)

As at 31 December *Item*	**2021** **Rs. '000**	2020 Rs. '000
Total available stable funding	**994,037,088**	862,500,205
Required stable funding – On balance sheet assets	**617,732,815**	510,653,406
Required stable funding – Off balance sheet items	**512,223**	1,089,405
Total required stable funding	**618,245,038**	511,742,811
Net stable funding ratio (NSFR) (%)	**160.78**	169

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	27thOctober2020
Par value of instrument	100
Perpetual or dated	Perpetual
Original maturity date	–
Amount recognised in regulatory capital (Rs. '000)	5,000,000
Accounting classification (equity/liability)	Liability
Issuer call subject to prior supervisory approval	
Optional call date, contingent call dates and redemption amount (Rs. '000)	N/A
Subsequent call dates	N/A
Coupons/dividends	
Fixed or floating dividend/coupon	Floating/Fixed
Coupon rate and any related index	Six (06) months treasury bill rate +1.50%/9.25% (Fixed)
Non-cumulative or cumulative	Non-Cumulative
Convertible or non-convertible	
If convertible, conversion trigger(s)	N/A
If convertible, fully or partially	N/A
If convertible, mandatory or optional	N/A
If convertible, conversion rate	N/A

Summary discussion on adequacy/meeting current and future capital requirements

For summary discussion on adequacy/meeting current and future capital requirements, refer Risk Review Report on pages 212 to 239.

Credit Risk under Standardised Approach (Bank)

Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects

As at 31 December 2021	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) %
Claims on Central Government and CBSL	849,321,638	2,433,035	843,791,085	1,216,517	1,278,135	0.2
Claims on foreign sovereigns and their central banks	–	–	–	–	–	–
Claims on public sector entities	206,779,843	1,891,103	6,008,147	–	1,856,147	30.9
Claims on official entities and multilateral development banks	–	–	–	–	–	–
Claims on banks exposures	15,080,279	2,000,000	15,080,279	1,000,000	6,057,922	37.7
Claims on financial institutions	3,901,317	–	3,901,317	–	2,201,252	56.4
Claims on corporates	5,746,990	–	5,746,990	–	1,796,689	31.3
Retail claims	347,347,322	3,102,414	316,828,832	–	198,760,818	62.7
Claims secured by residential property	79,907,398	1,247,548	79,907,398	623,774	29,175,737	36.2
Claims secured by commercial real estate	–	0	–	–	–	–
Non-performing assets (NPAs)(i)	11,159,592	0	11,159,592	–	10,505,718	94.1
Higher risk categories	3,723,575	0	3,723,575	–	9,308,939	250.0
Cash items and other assets	26,530,483	1,896,418	26,530,483	1,896,418	24,671,481	86.8
Total	**1,549,498,436**	**12,570,517**	**1,312,677,697**	**4,736,710**	**285,612,838**	**21.7**

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 2021	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) %
Claims on Central Government and CBSL	852,743,218	2,433,035	848,396,818	1,216,517	1,278,135	0.2
Claims on foreign sovereigns and their central banks	–	–	–	–	–	–
Claims on public sector entities	206,780,007	1,891,103	6,008,311	–	1,856,311	30.9
Claims on official entities and multilateral development banks	–	–	–	–	–	–
Claims on banks exposures	17,411,090	2,000,000	17,411,090	1,000,000	7,578,016	41.2
Claims on financial institutions	3,621,500	–	3,621,500	–	1,810,751	50.0
Claims on corporates	5,881,002	–	5,881,002	–	1,864,932	31.7
Retail claims	348,423,512	3,103,214	317,893,820	400	199,600,497	62.8
Claims secured by residential property	80,271,310	1,251,290	80,271,310	625,645	29,541,519	36.5
Claims secured by commercial real estate	–	–	–	–	–	–
Non-performing assets (NPAs)(i)	11,237,070	–	11,237,070	–	10,584,058	94.2
Higher risk categories	–	–	–	–	–	–
Cash items and other assets	27,837,459	1,896,418	27,837,459	1,896,418	25,973,899	87.4
Total	1,554,206,168	12,575,059	1,318,558,380	4,738,981	280,088,120	21.2

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 2021 Description	(Post CCF and CRM)								
Risk weight / Asset classes	0% Rs. '000	20% Rs. '000	35% Rs. '000	50% Rs. '000	75% Rs. '000	100% Rs. '000	150% Rs. '000	>150% Rs. '000	Total credit exposures amount Rs. '000
Claims on Central Government and CBSL	832,226,253	12,781,349	–	–	–	–	–	–	845,007,602
Claims on foreign sovereigns and their central banks	–	–	–	–	–	–	–	–	–
Claims on public sector entities	–	5,190,000	–	–	–	818,146	–	–	6,008,146
Claims on official entities and multilateral development banks	–	–	–	–	–	–	–	–	–
Claims on banks exposures	–	7,169,175	–	8,574,033	–	337,070	–	–	16,080,278
Claims on financial institutions	–	–	–	3,400,132	–	501,185	–	–	3,901,317
Claims on corporates	–	4,485,343	–	724,049	–	537,596	–	–	5,746,989
Retail claims	52,094,990	–	–	–	263,892,096	841,746	–	–	316,828,832
Claims secured by residential property	–	–	79,008,363	–	–	1,522,811	–	–	80,531,174
Claims secured by commercial real estate	–	–	–	–	–	–	–	–	–
Non-performing assets (NPAs)(i)	–	–	–	2,856,959	–	6,753,421	1,549,212	–	11,159,592
Higher risk categories	–	–	–	–	–	–	–	3,723,575	3,723,575
Cash items and other assets	3,676,984	98,044	–	–	–	24,651,873	–	–	28,426,900
Total	887,998,226	29,723,911	79,008,363	15,555,174	263,892,096	35,963,848	1,549,212	3,723,575	1,317,414,406

Credit Risk under Standardised Approach: Exposures by Asset Classes and Risk Weights (Group)

As at 31 December 2021 Description	(Post CCF and CRM)								
Risk weight / Asset classes	0% Rs. '000	20% Rs. '000	35% Rs. '000	50% Rs. '000	75% Rs. '000	100% Rs. '000	150% Rs. '000	>150% Rs. '000	Total credit exposures amount Rs. '000
Claims on Central Government and CBSL	836,831,979	12,781,349	–	–	–	–	–	–	849,613,328
Claims on foreign sovereigns and their central banks	–	–	–	–	–	–	–	–	–
Claims on public sector entities	–	5,190,000	–	–	–	818,310	–	–	6,008,310
Claims on official entities and multilateral development banks	–	–	–	–	–	–	–	–	–
Claims on banks exposures	–	8,157,569	–	8,614,036	–	1,639,484	–	–	18,411,089
Claims on financial institutions	–	–	–	3,621,500	–	(0)	–	–	3,621,500
Claims on corporates	–	4,485,343	–	855,588	–	540,069	–	–	5,881,001
Retail claims	52,095,201	417	–	–	264,792,753	1,005,850	–	–	317,894,220
Claims secured by residential property	–	–	79,008,363	–	–	1,888,593	–	–	80,896,955
Claims secured by commercial real estate	–	–	–	–	–	–	–	–	–
Non-performing assets (NPAs)(i)	–	–	–	2,859,756	–	6,823,583	1,553,732	–	11,237,070
Higher risk categories	–	–	–	–	–	–	–	–	–
Cash items and other assets	3,681,542	98,044	–	–	–	25,954,291	–	–	29,733,877
Total	892,608,722	30,712,722	79,008,363	15,950,880	264,792,753	38,670,180	1,553,732	–	1,323,297,359

Market Risk under Standardised Measurement Method

As at 31 December Item	Bank RWA Amount 2021 Rs. '000	Group RWA Amount 2021 Rs. '000
(a) RWA for interest rate risk	5,102,042	10,678,728
General Interest Rate Risk	5,102,042	10,678,728
(i) Net long or short position	5,102,042	10,678,728
(ii) Horizontal disallowance	–	–
(iii) Vertical disallowance	–	–
(iv) Options	–	–
Specific interest rate risk	–	–
(b) RWA for equity	5,049,399	4,877,116
(I) General equity risk	2,792,637	2,690,817
(Ii) Specific equity risk	2,256,762	2,186,300
(c) RWA for Foreign Exchange and Gold	569,508	569,508
Capital charge for market risk [(a)+(b)+(c)] *CAR	1,286,514	1,935,042

Operational Risk under Basic Indicator Approach

Bank

Capital Charge	Capital charge factor %	Gross income as at 31 December 2021 1st year Rs. '000	2nd year Rs. '000	3rd year Rs. '000	Rs. '000
The basic indicator approach	15	31,997,836	39,683,315	58,100,713	
Capital charge					6,489,093
Risk weighted amount for operational risk					54,075,775

Group

Capital Charge	Capital charge factor %	Gross income as at 31 December 2021 1st year Rs. '000	2nd year Rs. '000	3rd year Rs. '000	Rs. '000
The basic indicator approach	15	33,259,381	41,372,127	58,469,644	
Capital charge					6,655,058
Risk weighted amount for operational risk					55,458,817

Differences between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories

Bank

As at 31 December 2021	a	b	c	d	e
Item	Carrying values as reported in Published Financial Statements Rs. '000	Carrying values under Scope of Regulatory Reporting Rs. '000	Subject to Credit Risk Framework Rs. '000	Subject to Market Risk Framework Rs. '000	Not subject to Capital Requirements or subject to Deduction from Capital Rs. '000
Assets	1,579,097,748	1,584,180,978	1,311,733,204	30,445,432	242,002,343
Cash and cash equivalents	7,656,038	13,185,554	7,601,424	53,577	5,530,553
Balances with Central Bank	–	–	–	–	–
Placements with banks	7,120,698	6,886,904	6,886,904	–	–
Derivative financial instruments	–	–	–	–	–
Financial assets recognised through profit or loss measured at fair value/other financial assets held for trading	19,572,933	32,565,196	–	30,391,854	2,173,342
Financial assets designated at fair value through profit or loss	–	–	–	–	–
Financial assets at amortised cost:	–	–	–	–	–
– **Loans and advances**	–	–	–	–	–
– Loans and receivables to banks	6,330,913	3,757,619	3,757,619	–	–
– Loans and receivables to other customers	532,610,876	537,452,091	306,161,904	–	231,290,187
– **Debt and other instruments/financial Investments held to maturity**	935,350,052	912,051,209	912,051,209	–	–
Financial assets measured at fair value through OCI/financial investments available for sale	13,817,594	–	–	–	–
Investments in subsidiaries	4,811,000	4,811,000	3,723,575	–	1,087,425
Investments in associates and joint ventures	–	–	–	–	–
Property, plant and equipment	15,045,618	15,045,618	15,045,618	–	–
Investment properties	–	–	–	–	–
Intangible assets	816,058	816,058	–	–	816,058
Deferred tax assets	1,104,779	1,104,779	–	–	1,104,779
Other assets	34,861,188	56,504,951	56,504,951	–	–

Differences between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories (Contd.)

Bank (Contd.)

As at 31 December 2021	a	b	c	d	e
Item	Carrying values as reported in Published Financial Statements Rs. '000	Carrying values under Scope of Regulatory Reporting Rs. '000	Subject to Credit Risk Framework Rs. '000	Subject to Market Risk Framework Rs. '000	Not subject to Capital Requirements or subject to Deduction from Capital Rs. '000
Liabilities	1,503,084,991	1,494,838,225	–	–	–
Due to banks	7,686,553	7,588,051	–	–	–
Derivative financial instruments	–	–	–	–	–
Financial liabilities recognised through profit	–	–	–	–	–
Financial liabilities at amortised cost:	–	–	–	–	–
– Due to other customers	1,428,467,385	1,396,419,125	–	–	–
– Due to debt securities holders	–	–	–	–	–
– Due to other borrowers	7,719,532	7,691,410	–	–	–
Debt securities issued	25,773,327	31,541,000	–	–	–
Retirement benefit obligations	8,590,642	–	–	–	–
Current tax liabilities	4,596,190	–	–	–	–
Deferred tax liabilities	–	–	–	–	–
Other provisions	–	–	–	–	–
Other liabilities	8,492,170	46,595,139	–	–	–
Due to subsidiaries	3,500	3,500	–	–	–
Subordinated term debt	11,755,690	5,000,000	–	–	–
Off-balance sheet liabilities	13,023,207	13,023,207	4,736,710	–	3,555,104
Guarantees	3,102,414	3,102,414	–	–	3,102,414
Performance bonds	–	–	–	–	–
Letters of credit	452,690	452,690	–	–	452,690
Other contingent items	–	–	–	–	–
Undrawn loan commitments	7,571,686	7,571,686	2,840,292	–	–
Other commitments	1,896,418	1,896,418	1,896,418	–	–
Shareholders' equity	9,400,000	9,400,000	–	–	–
Equity capital (stated capital)/assigned capital	–	–	–	–	–
of which amount eligible for CET 1	9,400,000	9,400,000	–	–	–
of which amount eligible for AT 1	–	–	–	–	–
Retained earnings	13,727,801	–	–	–	–
Accumulated other comprehensive income	(658,376)	–	–	–	–
Other reserves	53,543,332	79,942,754	–	–	–
Total shareholders' equity	76,012,757	89,342,754	–	–	–

Explanations of Differences between Accounting and Regulatory Exposure Amounts (Bank)

The carrying value of loans and advances in the published financial statements has been subject to impairment provisions based on the principles of "expected credit loss" as per SLFRS 9 (Refer Note 21 of the Financial Statements for details) while the carrying value of regulatory reporting is as per the Banking Act Direction No. 4 of 2008 on "Classification of Loans and Advances, Income Recognition and Provisioning" issued by the CBSL are "time/delinquency based". Bank assess the impairment of loans and advances individually or collectively. The impairment allowance is based on the credit losses expected to arise by considering the change in the risk of default occurring over the remaining life of the financial instrument.

As per the Banking Act Direction on the prudential norms for classification, valuation and operation of the bank's investment portfolio, Financial assets recognised through profit or loss – measured at fair value and Financial assets measured at fair value through OCI are classified as Held for trading under regulatory reporting and accrued interest classified under other assets category. Financial assets at amortised cost – debt and other instruments are classified as Held to maturity investments (Banking Book) under regulatory reporting and accrued interest classified under other assets category. 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 56 of the Financial Statements for details on valuation methodologies.

Further, all financial instruments except equity considered in regulatory reporting differs with the published financial statements since impairment allowances based on expected losses under SLFRS 9 were netted off for publication purposes.

A "Day 1 difference" is recognised as per SLFRS 9 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 reporting 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. Derivatives are disclosed under Off Balance sheet in the regulatory reporting.

Bank's Risk Management Approach and Risk Management Related to Key Risk Exposures

Bank's Risk Management Approach and Risk Management Related to Key Risk Exposures are explained in Risk Management Report on pages 212 to 239.

D-SIB assessment exercise – 2021

(As per the Banking Act Direction No. 10 of 2020)	Group Rs. Mn.
Size indicator	
Section 1 – Total exposures	
Total exposures measure	1,639,702
Interconnectedness indicators	
Section 2 – Intra-financial system assets	
a. Funds deposited with or lent to other financial institutions (including unused portion of committed lines extended)	24,821
(i) Funds deposited	17,812
(ii) Lending	7,010
b. Holdings of securities issued by other financial institutions	5,157
c. Net positive current exposure of securities financing transactions (SFTs) with other financial institutions	1,346
d. Over-the-counter (OTC) derivatives with other financial institutions that have a net positive mark to market value	-
Intra-financial system assets	31,325
Section 3 – Intra-financial system liabilities	
a. Funds deposited by or borrowed from other financial institutions (including unused portion of committed lines obtained)	13,010
(i) Funds deposited	5,922
(ii) Borrowings	7,088
b. Net negative current exposure of securities financing transactions with other financial institutions	390
c. Over-the-counter derivatives with other financial institutions that have a net negative mark to market value	-
Intra-financial system liabilities	13,400
Section 4 – Securities outstanding	
Securities outstanding	36,631
Substitutability/Financial institution infrastructure indicators	
Section 5 – Payments made in the reporting year (excluding intragroup payments)	
Payments activity	225,118
Section 6 – Assets Under custody	
Assets under custody	–
Section 7 – Underwritten transaction	
Underwritten transaction	–
Section 8 – Trading volume	
Trading Volume (Number of shares)	51,997,474

(As per the Banking Act Direction No. 10 of 2019)	Group Rs. Mn.
Complexity indicators	
Section 9 – Notional amount of over-the-counter (OTC) Derivatives	
OTC derivatives	–
Section 10 – Level 2 assets	
Level 2 assets	2,899
Section 11 – Trading and available-for-sale (AFS) securities	
Trading and available for sale (AFS) securities	56,125
a. debt instruments	50,993
b. equity instruments	5,132
c. derivatives	–
Section 12 – Cross-jurisdictional liabilities	
Foreign liabilities (excluding derivatives and intragroup liabilities)	8,391
Cross-jurisdictional liabilities	
Section 13 – Cross-jurisdictional claims	
Foreign claims (excluding derivatives and intragroup claims)	1,807
Cross-jurisdictional claims	

GRI content index in Accordance with Core Criteria

GRI Standard	Disclosures	Page number/s	Remarks/Omission
Global Reporting Initiative (GRI) Content Index – "In Accordance Core"			
GRI Standard Disclosures			
102-1	Name of the organisation	03	
102-2	Activities, brands, products, and services	11, 270	
102-3	Location of headquarters	488	
102-4	Location of operations	123	
102-5	Ownership and legal form	488	
102-6	Markets served	123	
102-7	Scale of the organisation	08, 13	
102-8	Information on employees and other workers	139	
102-9	Supply chain	163	
102-10	Significant changes to the organisation and its supply chain	03, 324	
102-11	Precautionary principle or approach	38	
102-12	External initiatives	04	
102-13	Membership of associations	165	
102-14	Statement from senior decision-maker	14, 18	
102-16	Values, principles, standards, and norms of behaviour	132	
102-18	Governance structure	191	
102-40	List of stakeholder groups	67	
102-41	Collective bargaining agreements	151	
102-42	Identifying and selecting stakeholders	67	
102-43	Approach to stakeholder engagement	67	
102-44	Key topics and concerns raised	67	
102-45	Entities included in the consolidated financial statements	03	
102-46	Defining report content and topic Boundaries	03, 05	
102-47	List of material topics	77	
102-48	Restatements of information	03	
102-49	Changes in reporting	03	
102-50	Reporting period	03	
102-51	Date of most recent report	03	
102-52	Reporting cycle	03	
102-53	Contact point for questions regarding the report	06	
102-54	Claims of reporting in accordance with the GRI Standards	04	
102-55	GRI Content Index in accordance with core criteria	469	
102-56	External assurance	473	
GRI Specific Disclosures			
Economic			
Economic performance			
GRI 103: Management approach			
103-1	Explanation of the material topic and its boundary	79 – 93	
103-2	The management approach and its components	79 – 93	
103-3	Evaluation of the management approach	79 – 93	

GRI Content Index in Accordance with Core Criteria

GRI Standard	Disclosures	Page number/s	Remarks/Omission
GRI 201: Economic performance			
201-1	Direct economic value generated and distributed	99	
201-3	Defined benefit plan obligations and other retirement plans	149	
Market presence			
GRI 103: Management approach			
103-1	Explanation of the material topic and its boundary	76 – 93	
103-2	The management approach and its components	76 – 93	
103-3	Evaluation of the management approach	76 – 93	
GRI 201: Market presence			
202-1	Ratios of standard entry level wage by gender compared to local minimum wage	149	
202-2	Senior management hired from the local community	140	
Indirect economic impacts			
GRI 103: Management approach			
103-1	Explanation of the material topic and its boundary	76 – 93	
103-2	The management approach and its components	76 – 93	
103-3	Evaluation of the management approach	76 – 93	
GRI 203: Indirect economic impacts			
203-1	Infrastructure investments and services supported	167	
Procurement practices			
GRI 103: Management approach			
103-1	Explanation of the material topic and its Boundary	76 – 93	
103-2	The management approach and its components	76 – 93	
103-3	Evaluation of the management approach	76 – 93	
GRI 204: Procurement practices			
204-1	Proportion of spending on local suppliers	163	
Anti-corruption			
GRI 103: Management approach			
103-1	Explanation of the material topic and its Boundary	76 – 93	
103-2	The management approach and its components	76 – 93	
103-3	Evaluation of the management approach	76 – 93	
GRI 205: Anti-corruption			
205-2	Communication and training about anti-corruption policies and procedures	166	
205-3	Confirmed incidents of corruption and actions taken	166	
Anti-competitive behaviour			
GRI 103: Management approach			
103-1	Explanation of the material topic and its Boundary	76 – 93	
103-2	The management approach and its components	76 – 93	
103-3	Evaluation of the management approach	76 – 93	
GRI 206: Anti-competitive behaviour			
206-1	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	166	

GRI Standard	Disclosures	Page number/s	Remarks/Omission
Environmental			
Energy			
GRI 103: Management approach			
103-1	Explanation of the material topic and its boundary	76 – 93	
103-2	The management approach and its components	76 – 93	
103-3	Evaluation of the management approach	76 – 93	
GRI 302: Energy			
302-1	Energy consumption within the organisation	174	
Water and effluents			
GRI 103: Management approach			
103-1	Explanation of the material topic and its boundary	76 – 93	
103-2	The management approach and its components	76 – 93	
103-3	Evaluation of the management approach	76 – 93	
GRI 303: Water and effluents			
303-5	Water consumption	174	
Social			
Employment			
GRI 103: Management approach			
103-1	Explanation of the material topic and its boundary	76 – 93	
103-2	The management approach and its components	76 – 93	
103-3	Evaluation of the management approach	76 – 93	
GRI 401: Employment			
401-1	New employee hires and employee turnover	139, 140, 147	
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	149	
401-3	Parental leave	146	
Occupational health and safety			
GRI 103: Management approach			
103-1	Explanation of the material topic and its boundary	76 – 93	
103-2	The management approach and its components	76 – 93	
103-3	Evaluation of the management approach	76 – 93	
GRI 403: Occupational health and safety			
403-9	Work-related injuries	149	
Training and education			
GRI 103: Management approach			
103-1	Explanation of the material topic and its boundary	76 – 93	
103-2	The management approach and its components	76 – 93	
103-3	Evaluation of the management approach	76 – 93	

GRI Content Index in Accordance with Core Criteria

GRI Standard	Disclosures	Page number/s	Remarks/Omission
GRI 404: Training and education			
404-1	Average hours of training per year per employee	142	
404-2	Programmes for upgrading employee skills and transition assistance programmes	142	
404-3	Percentage of employees receiving regular performance and career development reviews	147	
Diversity and equal opportunity			
GRI 103: Management approach			
103-1	Explanation of the material topic and its boundary	76 – 93	
103-2	The management approach and its components	76 – 93	
103-3	Evaluation of the management approach	76 – 93	
GRI 405: Diversity and equal opportunity			
405-2	Ratio of basic salary and remuneration of women to men	147, 149	
Non-discrimination			
GRI 103: Management approach			
103-1	Explanation of the material topic and its boundary	76 – 93	
103-2	The management approach and its components	76 – 93	
103-3	Evaluation of the management approach	76 – 93	
GRI 406: Non-discrimination			
406-1	Incidents of discrimination and corrective actions taken	147	
Local communities			
GRI 103: Management approach			
103-1	Explanation of the material topic and its boundary	76 – 93	
103-2	The management approach and its components	76 – 93	
103-3	Evaluation of the management approach	76 – 93	
GRI 413: Local communities			
413-1	Operations with local community engagement, impact assessments, and development programmes	167	
Marketing and labelling			
GRI 103: Management approach			
103-1	Explanation of the material topic and its boundary	76 – 93	
103-2	The management approach and its components	76 – 93	
103-3	Evaluation of the management approach	76 – 93	
GRI 417: Marketing and labelling			
417-2	Incidents of non-compliance concerning product and service information and labelling	162	
417-3	Incidents of non-compliance concerning marketing communications	162	
Customer privacy			
GRI 103: Management approach			
103-1	Explanation of the material topic and its boundary	76 – 93	
103-2	The management approach and its components	76 – 93	
103-3	Evaluation of the management approach	76 – 93	
GRI 418: Customer privacy			
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	161	

Independent Assurance Report

KPMG

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Independent Assurance Report to National Savings Bank

We have been engaged by the Directors of National Savings Bank ("the Bank") to provide reasonable assurance and limited assurance in respect of the Sustainability Indicators as identified below for the year ended 31 December 2021. The Sustainability Indicators are included in the National Savings Bank's Integrated Annual Report for the year ended 31 December 2021 (the "Report").

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

Assured Sustainability Indicators as per statutory Financial Statements (audited) for the year ended 31 December 2021, dated 15 March 2022 and the audit report dated 24 March 2022 thereon (Comparative numbers for year ended 31 December 2020 not audited)	Integrated Annual Report page
Financial highlights	13

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

Limited Assurance Sustainability Indicators for the year ended 31 December 2021 (Comparative numbers for year ended 31 December 2020 not audited)	Integrated Annual Report page
Non-financial highlights	10
Information provided on following	
Financial capital	96-113
Manufactured capital	120-127
Intellectual capital	128-135
Human capital	136-153
Social and relationship capital	154-169
Natural capital	170-176

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 2021 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 2021, 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 include establishing such internal controls as management determines are necessary to enable the preparation of the Reasonable Assurance Sustainability Indicators and the Limited Assurance Sustainability Indicators that are free from material misstatement whether due to fraud or error.

Management is responsible for preventing and detecting fraud and for identifying and ensuring that the Bank complies with laws and regulations applicable to its activities.

Management is also responsible for ensuring that staff involved with the preparation and presentation of the description and Report are properly trained, information systems are properly updated and that any changes in reporting encompass all significant business units.

Our responsibility

Our responsibility is to express a reasonable assurance conclusion on the Bank's preparation and presentation of the Reasonable Assurance Sustainability Indicators and a limited assurance conclusion on the preparation and presentation of the Limited Assurance Sustainability Indicators included in the Report, as defined above.

We conducted our assurance engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information (SLSAE 3000) issued by The Institute of Chartered Accountants of Sri Lanka.

We have complied with the independence and other ethical requirements of the Code of Ethics issued by The Institute of Chartered Accountants of Sri Lanka.

SLSAE 3000 requires that we plan and perform the engagement to obtain reasonable assurance about whether the Reasonable Assurance Sustainability Indicators are free from material misstatement and limited assurance about whether the Limited Assurance Sustainability Indicators are free from material misstatement.

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 control relevant to the preparation and presentation of the Reasonable Assurance Sustainability Indicators in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of the Bank's internal control over the preparation and presentation of the Report.

Our engagement also included assessing the appropriateness of the Reasonable Assurance Sustainability Indicators, the suitability of the criteria, being the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines, used by the Bank in preparing and presenting the Reasonable Assurance Sustainability Indicators within the Report, obtaining an understanding of the compilation of the financial and non-financial information to the sources from which it was obtained, evaluating the reasonableness of estimates made by the Bank, and re-computation of the calculations of the Reasonable Assurance Sustainability Indicators.

Limited assurance on the Assured Sustainability Indicators

Our limited assurance engagement on the Limited Assurance Sustainability Indicators consisted of making enquiries, primarily of persons responsible for the preparation of the Limited Assurance Sustainability Indicators, and applying analytical and other procedures, as appropriate. These procedures included:

- interviews with Senior Management and relevant staff at corporate and selected site level concerning sustainability strategy and policies for material issues, and the implementation of these across the business;

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- enquiries of management to gain an understanding of the Bank's processes for determining material issues for the Bank's key stakeholder groups;
- enquiries of relevant staff at corporate and selected site level responsible for the preparation of the Limited Assurance Sustainability Indicators;
- 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.

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CHARTERED ACCOUNTANTS

Colombo
24 March 2022

Income Statement in US Dollars

For the year ended 31 December	Bank 2021 USD '000	Bank 2020 USD '000	Bank Change %	Group 2021 USD '000	Group 2020 USD '000	Group Change %
Gross income	672,176	683,349	(2)	677,757	696,702	(3)
Interest income	654,736	656,373	(0)	664,221	667,603	(1)
Less: Interest expenses	382,609	469,445	(18)	386,352	473,750	(18)
Net interest income	272,127	186,928	46	277,869	193,853	43
Fee and commission income	15,196	14,522	5	15,235	14,589	4
Less: Fee and commission expenses	1,035	828	25	1,049	860	22
Net fee and commission income	14,161	13,694	3	14,186	13,729	3
Net gain/(loss) from trading	(479)	6,824	(107)	(3,545)	9,351	(138)
Net fair value gains/(losses) from financial instruments at fair value through profit or loss	–	–	–	–	–	–
Net gains/(losses) from de-recognition of financial assets	141	1,293	(89)	141	1,293	(89)
Net other operating income	2,583	4,337	(40)	1,705	3,866	(56)
Total operating income	288,533	213,076	35	290,357	222,092	31
Less: Impairment charges	21,442	26,112	(18)	21,063	26,428	(20)
Net operating income	267,091	186,964	43	269,294	195,664	38
Less: Expenses						
Personnel expenses	64,609	53,398	21	65,899	54,393	21
Depreciation and amortisation expenses	6,903	6,646	4	6,982	6,734	4
Other expenses	23,505	22,814	3	23,769	23,109	3
Operating profit before VAT, on financial services	172,074	104,106	65	172,644	111,428	55
Less: Value Added Tax (VAT) on financial services	30,697	20,288	51	31,050	21,467	45
Operating profit after VAT, on financial services	141,377	83,818	69	141,594	89,960	57
Share of profits of associates and joint ventures	–	–	–	–	–	–
Profit before income tax	141,377	83,818	69	141,594	89,960	57
Less: Income tax expenses	31,192	29,664	5	31,353	31,985	(2)
Profit for the year	110,185	54,154	103	110,241	57,975	90
Profit attributable to:						
Equity holders of the Bank	110,185	54,154	103	110,241	57,975	90
Non-controlling interests	–	–	–	–	–	–
Profit for the year	110,185	54,154	103	110,241	57,975	90
Earnings per share on profit						
Basic earnings per ordinary share (USD)	0.12	0.06	103	0.12	0.06	90
Diluted earnings per ordinary share (USD)	0.12	0.06	103	0.12	0.06	90
Profit for the year	110,185	54,154	103	110,241	57,975	90

Statement of Comprehensive Income in US Dollars

For the year ended 31 December	Bank 2021 USD '000	Bank 2020 USD '000	Bank Change %	Group 2021 USD '000	Group 2020 USD '000	Group Change %
Profit for the year	110,185	54,154	103	110,241	57,975	90
Items that will be reclassified to income statement						
Exchange differences on translation of foreign operations	–	–	–	–	–	–
Net gains/(losses) on cash flow hedges	–	–	–	–	–	–
Net gains/(losses) on investments in debt instruments measured at fair value through other comprehensive income	–	–	–	–	–	–
Share of profits of associates and joint ventures	–	–	–	–	–	–
Debt instruments at fair value through other comprehensive income	(2,154)	1,466	(247)	(2,882)	1,767	(263)
Fair value gains/(losses) transferred to income statement on disposal of debt instrument at fair value through other comprehensive income	(141)	(1,293)	(89)	(141)	(1,293)	(89)
Deferred tax effect on above	557	(48)	(1,260)	557	(48)	(1,260)
Total items that will be reclassified to income statement	(1,738)	124	(1,496)	(2,465)	426	(679)
Items that will not be reclassified to income statement						
Change in fair value on investments in equity instruments designated at fair value through other comprehensive income	625	(4,158)	(115)	760	(4,151)	(118)
Change in fair value attributable to change in the Bank's own credit risk on financial liabilities designated at fair value through profit or loss	–	–	–	–	–	–
Re-measurement of post-employment benefit obligations	16,613	(35,813)	(146)	16,575	(35,797)	(146)
Deferred tax effect on above	(6,473)	10,028	(165)	(6,473)	10,028	(165)
Re-measurement of post-employment benefit obligations (net of taxes)	10,140	(25,785)	(139)	10,102	(25,769)	(139)
Changes in revaluation surplus	–	7,943	(100)	–	10,295	(100)
Deferred tax effect on above	1,848	(2,224)	(183)	1,848	(2,224)	(183)
Changes in revaluation surplus (net of taxes)	1,848	5,719	(68)	1,848	8,071	(77)
Share of profits of associates and joint ventures	–	–	–	–	–	–
Total items that will not be reclassified to income statement	12,614	(24,225)	(152)	12,711	(21,849)	(158)
Other comprehensive income for the year, net of taxes	10,876	(24,100)	(145)	10,245	(21,423)	(148)
Total comprehensive income for the year	121,061	30,054	303	120,486	36,553	230
Attributable to:						
Equity holders of the Bank	121,061	30,054	303	120,486	36,553	230
Non-controlling interests	–	–	–	–	–	–
Total comprehensive income for the year	121,061	30,054	303	120,486	36,553	230
US Dollars conversion rate (Rs.)	200.75	186.65		200.75	186.65	

Statement of Financial Position in US Dollars

As at 31 December	Bank 2021 USD '000	Bank 2020 USD '000	Bank Change %	Group 2021 USD '000	Group 2020 USD '000	Group Change %
Assets						
Cash and cash equivalents	38,137	34,781	10	38,463	35,353	9
Balances with central banks	–	–	–	–	–	–
Placements with banks	35,470	71,007	(50)	46,444	93,526	(50)
Derivative financial instruments	–	107	(100)	–	107	(100)
Financial assets recognised through profit or loss						
– measured at fair value	97,499	60,122	62	201,206	126,536	59
– designated at fair value	–	–	–	–	–	–
Financial assets at amortised cost						
– loans and advances	2,684,642	2,768,793	(3)	2,682,943	2,774,353	(3)
– debt and other instruments	4,659,278	4,040,897	15	4,685,112	4,064,264	15
Financial assets measured at fair value through other comprehensive income	68,830	81,821	(16)	79,670	86,043	(7)
Investments in subsidiaries	23,965	25,776	(7)	–	–	–
Investments in associates and joint ventures	–	–	–	–	–	–
Property, plant and equipment	74,947	82,056	(9)	79,450	86,782	(8)
Right-of-used assets	6,007	6,569	(9)	6,197	6,812	(9)
Investment properties	–	–	–	1,049	1,270	(17)
Goodwill and intangible assets	4,065	3,686	10	4,092	3,719	10
Deferred tax assets	5,503	7,748	(29)	5,508	7,748	(29)
Other assets	167,648	123,406	36	168,895	124,259	36
Total assets	7,865,991	7,306,769	8	7,999,031	7,410,774	8
Liabilities						
Due to banks	38,289	68,912	(44)	52,155	71,469	(27)
Derivative financial instruments	–	–	–	–	–	–
Financial liabilities recognised through profit or loss	–	–	–	–	–	–
Financial liabilities at amortised cost						
– due to depositors	7,115,653	6,628,041	7	7,106,973	6,630,963	7
– due to debt securities holders	–	–	–	–	–	–
– due to other borrowers	38,453	43,716	(12)	134,934	105,310	28
Lease Liability	6,437	6,829	(6)	6,643	7,077	(6)
Debt securities issued	186,944	170,232	10	187,390	170,952	10
Retirement benefit obligations	42,793	62,151	(31)	43,026	62,319	(31)
Current tax liabilities	22,895	3,280	598	24,483	6,371	284
Deferred tax liabilities	–	–	–	10	6	67
Other provisions	–	–	–	–	–	–
Other liabilities	35,866	32,059	12	37,693	35,032	8
Due to subsidiaries	17	20	(15)	–	–	–
Total liabilities	7,487,347	7,015,240	7	7,593,307	7,089,499	7
Equity						
Stated capital/Assigned capital	46,824	50,362	(7)	46,824	50,362	(7)
Statutory reserve fund	25,775	21,796	18	25,948	21,915	18
Retained earnings	68,383	77,147	(11)	89,260	99,660	(10)
Other reserves	237,662	142,224	67	243,692	149,338	63
Total shareholders' equity	378,644	291,529	30	405,724	321,275	26
Non-controlling interests	–	–	–	–	–	–
Total equity	378,644	291,529	30	405,724	321,275	26
Total equity and liabilities	7,865,991	7,306,769	8	7,999,031	7,410,774	8
Contingent liabilities and commitments	64,873	138,158	(53)	64,895	135,817	(52)
US Dollars conversion rate (Rs.)	200.75	186.65		200.75	186.65	

Statistical indicators 2012-2021

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Operating results (Rs. Mn.)										
Gross income	**134,939**	127,547	121,929	111,902	107,996	87,399	79,282	77,890	65,573	52,903
Interest income	**131,438**	122,512	118,730	110,507	103,579	86,390	78,128	74,023	64,248	52,531
Interest expenses	**76,809**	87,622	89,898	85,622	78,445	60,923	51,146	52,642	54,141	39,142
Net interest income	**54,630**	34,890	28,832	24,885	25,134	25,467	26,983	21,380	10,107	13,389
Other income	**3,293**	4,881	3,067	1,254	4,308	872	1,043	3,798	1,292	347
Operating expenses, impairment and VAT	**29,542**	24,126	21,438	18,197	15,307	13,036	14,991	14,706	9,120	7,396
Profit before tax	**28,381**	15,645	10,462	7,941	14,135	13,303	13,034	10,472	2,279	6,340
Income tax	**6,262**	5,537	4,080	3,441	4,419	3,805	4,361	3,606	1,095	2,578
Profit after tax	**22,120**	10,108	6,381	4,500	9,716	9,498	8,672	6,867	1,184	3,763
Contribution to the Government	**16,465**	10,745	11,665	7,536	13,440	19,251	11,016	11,043	4,731	5,900
Dividends paid	**3,500**	1,000	2,000	500	5,111	12,026	2,800	4,000	3,000	2,823
Assets (Rs. Mn.)										
Cash and short-term funds	**7,656**	6,492	5,377	3,435	3,850	4,620	3,240	1,927	1,546	1,466
Loans and advances	**538,942**	516,795	454,395	422,895	375,704	323,811	271,751	222,696	166,420	162,477
Investments	**980,672**	798,811	647,760	565,841	593,333	554,235	549,743	534,485	465,766	329,532
Property, plant and equipment	**17,068**	17,230	15,237	13,466	12,396	7,277	7,025	5,594	5,692	5,264
Other assets	**34,760**	24,480	35,198	31,209	25,696	21,761	16,320	14,764	14,943	10,075
Total	**1,579,098**	1,363,808	1,157,967	1,036,846	1,010,977	911,704	848,079	779,466	654,368	508,813
Liabilities and shareholders' funds (Rs. Mn.)										
Total deposits	**1,428,467**	1,237,124	1,016,574	839,574	737,213	657,280	595,776	554,060	501,890	457,650
Repo/borrowings/subordinated liabilities	**52,935**	52,796	82,940	144,313	224,143	213,162	207,101	191,192	120,561	22,958
Deferred taxation	**0**	0	482	582	507	416	504	270	143	123
Other liabilities	**21,683**	19,475	12,045	9,280	10,019	8,600	12,274	10,684	9,557	4,314
Shareholders' funds	**76,013**	54,414	45,925	43,095	39,096	32,246	32,424	23,260	22,217	23,767
Total	**1,579,098**	1,363,808	1,157,967	1,036,846	1,010,977	911,704	848,079	779,466	654,368	508,813
Performance ratios (%)										
Income growth	**5.80**	4.61	8.96	3.62	23.57	10.24	1.79	18.78	23.95	13.66
Interest margin	**3.71**	2.77	2.63	2.43	2.61	2.89	3.32	2.98	1.74	2.75
NIM/gross income	**40.48**	27.35	23.65	22.24	23.27	29.14	34.03	27.45	15.41	25.31
Personnel cost/gross income	**9.61**	7.81	8.33	8.28	6.38	7.13	7.46	6.16	6.42	7.71
Overheads (Excluding VAT and provision)/Gross income	**14.29**	12.25	12.96	12.72	10.33	11.99	13.28	11.89	10.85	11.98
Profit before tax/gross income	**21.03**	12.27	8.58	7.10	13.09	15.22	16.44	13.44	3.48	11.98
Contribution to the GOSL/gross income	**12.20**	8.42	9.57	6.73	12.44	22.03	13.89	14.18	7.22	11.96
Cost to deposits	**1.91**	1.72	2.26	2.22	2.10	2.12	2.25	2.14	1.61	1.65
Cost to income with financial taxes	**43.93**	48.80	65.84	66.83	49.76	50.39	46.26	44.88	67.90	52.89
Cost to income without financial taxes	**33.29**	39.28	49.55	54.47	37.89	39.79	37.56	36.80	62.42	46.15
Effective taxation rate	**35.97**	47.98	59.25	59.72	44.89	40.99	43.94	45.10	59.22	48.22
Return on average shareholders' funds (ROE)	**33.92**	20.15	14.34	10.95	27.24	29.37	31.15	30.20	5.15	16.07
Return on average assets (ROA)	**1.93**	1.24	0.95	0.78	1.47	1.51	1.60	1.46	0.39	1.30
NPL (Gross)	**2.97**	2.79	1.57	1.44	1.34	1.55	3.46	7.61	6.54	2.38
NPL (Net)	**1.70**	2.12	1.17	1.22	1.22	1.47	3.35	7.56	6.66	1.78
Provision coverage (Specific + General)	**46.95**	38.56	50.75	42.59	38.68	29.61	13.65	5.30	4.34	25.60
Provision coverage – IFRS	**73.02**	61.88	59.06	62.68	54.73	36.14	34.07	24.12	20.05	18.04
Stage 3 provision coverage	**32.00**	30.38	26.20	30.66	28.41	–	–	–	–	–

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Assets and liabilities related ratios (%)										
Assets growth	15.79	17.78	11.68	2.56	10.89	7.50	8.80	19.12	28.61	9.19
Loans growth	4.29	13.73	7.45	12.56	16.03	19.16	22.03	33.82	2.43	18.22
Deposits growth	15.47	21.70	21.08	13.88	12.16	10.32	7.53	10.39	9.67	8.49
Government securities to deposits – Bank	67.38	62.65	60.89	60.94	62.40	66.68	73.92	69.51	78.92	70.58
Loans to deposits	37.73	41.77	44.70	50.37	50.96	49.27	45.61	40.19	33.16	35.50
Deposits as a percentage of assets	90.46	90.71	87.79	80.97	72.92	72.09	70.25	71.08	76.70	89.94
Liquidity ratios (%)										
Liquid assets ratio	59.63	69.10	60.20	54.88	73.44	72.56	81.08	91.50	92.74	69.49
Rupee liquidity coverage ratio (Minimum 90%)	240.84	311.02	278.12	245.06	377.57	379.26	441.19	–	–	–
All currency liquidity coverage ratio (Minimum 90%)	240.43	307.22	276.64	321.29	376.18	393.96	445.88	–	–	–
Net stable funding ratio (Minimum 90%)	160.78	168.54	175.18	146.67	–	–	–	–	–	–
Capital and related ratios (%)										
Capital adequacy – Tier I (Minimum 5%)	–	–	–	–	–	12.53	17.90	20.46	18.50	20.40
Capital adequacy – Tier II (Minimum 10%)	–	–	–	–	–	14.68	16.40	18.98	16.72	19.10
Basel III – Tier I (Minimum 8%)	18.60	13.65	13.49	13.08	11.93	11.31	–	–	–	–
Basel III – Total Capital (Minimum 12%)	20.83	16.45	15.82	15.90	15.31	13.86	–	–	–	–
Employee statistics and ratios (%)										
Number of employees	4,616	4,641	4,715	4,512	4,470	4,384	3,636	3,358	2,943	3,129
Profit per employee (Rs. '000)	6,148	3,371	2,219	1,760	3,162	3,034	3,585	3,119	774	2,026
Deposit per employee (Rs. '000)	309,460	266,564	215,604	186,076	164,925	149,927	163,855	164,997	170,537	146,261
Other information (Nos.)										
Number of branches	261	259	256	255	253	250	245	236	229	219
Post offices/sub post offices	4,064	4,063	4,063	4,062	4,062	4,061	4,063	4,063	4,063	4,053
Number of accounts (Mn.)	21.8	21.3	20.9	20.4	19.9	19.3	18.8	18.3	17.9	17.4

Analysis of deposits

	2021 Rs. Mn.	2020 Rs. Mn.	2019 Rs. Mn.	2018 Rs. Mn.	2017 Rs. Mn.	2016 Rs. Mn.	2015 Rs. Mn.	2014 Rs. Mn.	2013 Rs. Mn.	2012 Rs. Mn.
Local currency deposits										
Savings	320,887	275,839	215,010	194,946	185,201	173,583	160,814	139,384	113,165	106,177
Time	1,091,918	945,650	789,540	633,632	542,647	475,220	427,588	408,309	379,969	345,794
	1,412,805	1,221,489	1,004,549	828,579	727,849	648,803	588,402	547,692	493,134	451,971
Growth %	15.7%	21.6%	21.2%	13.8%	12.2%	10.3%	7.4%	11.1%	9.1%	8.5%
Foreign currency deposits										
Savings	4,733	4,194	3,541	3,376	2,990	2,764	2,568	2,215	2,101	1,963
Time	10,930	11,441	8,484	7,620	6,373	5,714	4,806	4,153	6,654	3,717
	15,662	15,635	12,025	10,996	9,364	8,478	7,373	6,368	8,755	5,679
Growth %	0.2%	30.0%	9.4%	17.4%	10.5%	15.0%	15.8%	-27.3%	54.2%	9.8%
Total deposits	1,428,467	1,237,124	1,016,574	839,574	737,213	657,280	595,776	554,060	501,890	457,650
Growth %	15.5%	21.7%	21.1%	13.9%	12.2%	10.3%	7.5%	10.4%	9.7%	8.5%

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Commerz Bank – German
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Dollarco Exchange Co Ltd
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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 the global voluntary regulatory framework issued by the Basel Committee on Banking Supervision (BCBS) on Bank Capital Adequacy and Liquidity.

Basis point (BP)
One hundredth of a percentage point (0.01 per cent); 100 basis points is 1 percentage point. Used in quoting movements in interest rates or yields on securities.

Business model assessment
Business model assessment is carried out as the first step of the financial assets classification process. Business model refers to how an entity manages its financial assets in order to generate cash flows. It is determined at a level that reflects how groups of financial assets are managed rather than at an instrument level. SLFRS 9 identifies three types of business models: "hold to collect", "hold to collect and sell" and "other". In order to determine the business model, it is necessary to understand the objectives of each business model. An entity would need to consider all relevant information including, for example, how business performance is reported to the entity's Key Management personnel and how Managers of the business are compensated.

C

Capital adequacy ratio
The 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 Generating Unit (CGU)
The smallest group of assets that independently generates cash flow and the cash flow is largely independent of the cash flows generated by other assets.

Cash equivalents
Short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Collective agreement
A tripartite agreement entered into among the NSB, Ministry of Finance and Trade Unions.

Collectively assessed loan impairment provisions
Also known as portfolio impairment provisions. Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses that has been incurred but has not yet been identified at the reporting date. Loans (housing, personal, auto loans etc.) are assessed on a portfolio basis.

Commitments
Credit facilities approved but not yet utilised by the clients as at the reporting date.

Concentration risk
Risk arisen from uneven distribution of counterparty and portfolio exposures to business sector or geographic region.

Contingencies
A condition or situation 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.

Currency SWAPs

The simultaneous purchase of an amount of a currency for spot settlement and the sale of the same amount of the same currency for forward settlement.

Customer deposits

Money deposited by account holders. Such funds are recorded as liabilities.

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.

Delinquency

A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. Loans and advances are considered to be delinquent when consecutive payments are missed. Also known as "Arrears".

Derivative

Financial contract of which the value is derived from the value of underlined assets.

Documentary letters of credit (LCs)

Written undertakings by a bank on behalf of its customers, authorising a third party to draw on the Bank up to a stipulated amount under specific terms and conditions. Such undertakings are established for the purpose of facilitating international trade.

Domestic Systemically Important Banks (D-SIBs)

Systemically Important Banks (SIBs) are perceived as banks that are "Too Big To Fail". D-SIBs are critical for the uninterrupted availability of essential banking services to the country's real economy even during crisis. The CBSL has designated LCBs with total assets equal to or greater than Rs. 500 Bn. as D-SIBs.

E

Earnings per ordinary share (EPS)

Profit attributable to ordinary shareholders divided by the number of ordinary shares in issue.

Economic value added (EVA)

A measure of productivity which takes into consideration cost of total invested equity.

Effective income tax rate

Provision for taxation divided by the profit before taxation

Effective interest rate (EIR)

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate a shorter period to the net carrying amount of the financial asset or financial liability.

Equity instrument

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all its liabilities.

Equity method

The equity method is a method of accounting whereby the investment is initially 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.

Exposure at default (EAD)

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest and expected draw downs of committed facilities.

Expected credit losses (ECLs)

ECL approach is the loan loss impairment method under SLFRS 9 on "Financial Instruments". ECLs are the discounted product of the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). ECL measurements are unbiased and are determined by evaluating a range of possible outcomes.

Exchange gain/loss

Profit earned on foreign currency transactions arising from the difference in foreign exchange rates between the transaction/last reporting date and the settlement/ reporting date. Also arises from trading in foreign currencies.

F

Fair value

The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Financial asset

Financial asset is any asset that is cash, an equity instrument of another entity or a contractual right to receive cash or another financial asset from another entity.

Financial assets measured at amortised cost

A financial asset is measured at amortised cost if the asset is held within a business model whose objective is to hold assets to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at fair value through other comprehensive income (FVOCI)

FVOCI include debt and equity instruments measured at fair value through other comprehensive income. A debt instrument is measured at FVOCI, if it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Equity investments may be irrevocably classified as FVOCI when they meet the definition of Equity under LKAS 32 Financial Instruments: Presentation and are not held for trading.

Financial assets measured at fair value through profit or loss (FVPL)

All financial assets other than those classified at Amortised Cost or FVOCI are classified as measured at FVPL. These are held for trading or managed, and their performance is evaluated on a fair value basis as they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Financial instrument

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

Financial Liability is a contractual obligation to deliver cash or another financial asset to another entity.

Foreclosed properties

Properties acquired in full or partial; satisfaction of debts.

Foreign currency risk

Risk exists in transaction other than the local currency. Adverse movements in foreign exchange rates may decline the value of assets/liabilities held in terms of foreign currency.

Foreign exchange contract

Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

G

General provisions

These are provisions made on loans and advances for anticipated losses on aggregate exposures where credit losses cannot yet be determined on an individual facility basis.

Group

A group is a parent and all its subsidiaries.

Guarantees

Three party agreement involving a promise by one party (the guarantor) to fulfil the obligations of a person owing a debt if that person fails to perform.

Global Reporting Initiatives (GRI)

The GRI is an international independent standards organisation that helps businesses, governments and other organisations to understand and communicate their impacts on issues such as climate change, human rights and corruption. GRI promotes sustainability reporting as a way for organisations to become more sustainable and contribute to sustainable development.

H

Hedging

A strategy under which transactions are effected with the aim of providing cover against the risk of unfavourable price movements (interest rates and prices of commodities etc.).

Held-to-maturity investments (HTM)

Non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

Held-for-trading (HFT)

Debt and equity investments that are purchased with the intent of selling them within a short period of time (usually less than one year).

High quality liquid assets (HQLA)

Assets that are unencumbered, liquid in markets during a time of stress and, ideally, be central bank eligible. These include, for example, cash and claims on central governments and central banks.

I

ICCAP

Process by which the Bank ensures additional capital is provided for banking risks other than those covered in Pillar.

Impairment

This occurs when recoverable amount of an asset is less than its carrying amount.

Impaired assets portfolio

Impaired assets portfolio is the total of the individually significant impaired loans and individually insignificant loans which are overdue above 180 days.

Impairment allowances

Impairment allowances are provisions held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred loss. An impairment allowance may either be identified or unidentified as individual (specific) or collective (portfolio) impairment allowance.

Impairment charge/(reversal)

the difference between the carrying value of an asset and the sum of discounted future cash flows generating from the same asset.

Impaired loans

Loans where the Group does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

Individually assessed impairment

Exposure to loss is assessed on all individually significant accounts and all other accounts that do not qualify for collective assessment.

Intangible asset

An asset that is not physical in nature. Corporate intellectual property (items such as patents, trademarks, copyrights, business methodologies), goodwill software and brand recognition are all common intangible assets in today's marketplace.

Interest in suspense

Interest suspended on non-performing loans and advances.

Interest rate risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Interest spread

Represents the difference between the average interest rate earned and the average interest rate paid on interest earning assets and interest bearing liabilities, respectively. variables such as interest rates, exchange rates, credit spreads and other asset prices.

Investment properties

Investment property is property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use or sale.

Investment securities

Securities acquired and held for yield or capital growth purposes and are usually held-for-maturity.

Interest rate SWAP

An agreement between two parties (known as counter parties) where one stream of future interest payments is exchanged for another stream of future interest payments based on a specified principal amount.

K

Key Managerial Personnel (KMP)

Key managerial personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

L

Leverage ratio

A measure that is the ratio of tier 1 capital to total exposures. This supplementary measure to the risk-based capital requirements is intended to constrain the build-up of excess leverage in the banking sector.

Liquid assets

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, bills of exchange and Treasury Bills.

Liquid assets ratio

Assets that are held in cash or in a form that can be converted to cash readily (as prescribed by the Central Bank of Sri Lanka) divided by the total liabilities including contingent liabilities.

Lifetime expected credit losses (LTECL)

Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument. According to SLFRS 9 on "Financial instruments", the ECL allowance should be based on LTECL unless there has been no significant increase in credit risk since origination.

Liquidity coverage ratio – LCR

Refers to highly liquid assets held by Banks to meet short-term obligations. The ratio represents a generic stress scenario that aims to anticipate market-wide shocks.

Liquidity risk

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Loans and advances

Conventional loan assets that are unquoted (originated or acquired).

Loss given default (LGD)

LGD is the percentage of an exposure that a lender expects to loose in the event of obligor default.

Loan-to-value ratio (LTV)

The LTV ratio is a mathematical expression which expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The LTV ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower.

M

Market risk

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

Materiality

The relative significance of a transaction or an event, the omission or misstatement of which could influence the decisions of users of Financial Statements.

N

Net interest income (NII)

The difference between the amount a bank earns on assets such as loans and securities and the amount it pays on liabilities such as deposits, refinance funds and inter-bank borrowings.

Net interest margin (NIM)

The margin is expressed as net interest income divided by average interest earning assets.

Non-performing loans (NPL)

The loans which are in default for more than three months.

NOSTRO accounts

A bank account held in foreign country by a domestic bank, denominated in the currency of that country. Nostro accounts are used to facilitate the settlement of foreign exchange trade transactions.

NPL ratio

Total non-performing loans and advances (net of interest in suspense) divided by total loans and advances portfolio (net of interest in suspense).

Net stable funding ratio (NSFR)

Measures the amount of longer-term, stable sources of funding employed by a bank relative to the liquidity profiles of the assets funded and the potential for contingent calls on funding liquidity arising from off-balance sheet commitments and obligations.

O

Off-balance sheet transactions

Transactions that are not recognised as assets or liabilities in the Statement of Financial Position, but which give rise to contingencies and commitments.

Operational risk

This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events including legal risk.

Open credit exposure ratio

Total net non-performing loans and advances expressed as a percentage of regulatory capital base.

P

Parent

A parent is an entity that has one or more subsidiaries.

Portfolio

A pool of investments including investment in Government Securities, loans and advances, equities, etc.

Probability of default (PD)

PD is an internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation.

Projected Unit Credit Method (PUC)

An actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. Inclusion of a degree of caution in the exercise of judgement needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated, and liabilities or expenses are not understated.

R

Return on average assets (ROA)

Profit after tax expressed as a percentage of the average assets.

Return on average equity (ROE)

Net profit attributable to owners expressed as a percentage of average ordinary shareholders' equity.

Related parties

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

Related party transaction (RPT)

RPT is a transfer of resources, services or obligations between a reporting entity and a related party, regardless whether a price is charged.

REPOs

Repurchase agreements. Securities sold to lenders with the commitment to buy back on a later date at a fixed price plus interest.

Reverse repurchase agreement

Transaction involving the purchase of securities by a bank or a dealer and resale back to the seller at a future date at a specified price.

Revenue reserve

Reserves set aside for future distribution and investment.

Risk-weighted assets

The sum of assets as per the Statement of Financial Position and the credit equivalent of assets that are not on the Statement of Financial Position multiplied by the relevant risk-weighting factors.

Rupee loan

Rupee securities issued by the Central Bank of Sri Lanka on behalf of the Government of Sri Lanka.

S

Shareholders' funds

A capital reserve created as per the provisions of the Banking Act No. 30 of 1988.

Significant increase in credit risk (SICR)

According to SLFRS 9, an entity should assess whether the risk of default on a financial instrument has increased significantly since initial recognition. The assessment should consider reasonable and supportable information that is relevant and available without undue cost or effort. There is a rebuttable presumption in the Standard that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.

SPPI Test

Solely Payments of Principal and Interest Test (SPPI) is carried out as the second step of the classification process. "Principal" is defined as the fair value of the financial asset at initial recognition and may change due to repayments of principal or amortisation of the premium or discount. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding. If a financial asset passes the SPPI test, then it will either be classified at amortised cost if the "hold to collect" business model test is met, or at Fair Value Through Other Comprehensive Income (FVOCI) if the "hold to collect and sell" business model test is met. If a financial asset fails, the SPPI test it must be classified at Fair Value Through Profit or Loss (FVPL) in its entirety

Statutory reserve fund

A capital reserve created as per the provisions of the Banking Act No. 30 of 1988.

Subordinated liabilities

Liabilities that rank after the claims of other creditors of the issuer in the event of insolvency or liquidation.

Stress test

Integrated test that shows to varying degrees whether the Bank can withstand unforeseen scenarios of varying severity.

Subsidiary

An entity that is controlled by another entity.

Substance over form

The consideration that the accounting treatment and the presentation in Financial Statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

Swaps (currency)

The simultaneous purchase of an amount of a currency for spot settlement and the sale of the same amount of the same currency for forward settlement. Alternatively, a simultaneous spot sale and forward purchase of a currency.

T

Tier 1 capital

A component of regulatory capital, comprising common equity Tier 1 and additional Tier 1 capital. Core measure of financial strength of the Bank representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

Tier 2 capital

Tier 2 capital represents revaluation gains, general provisions and other capital instruments which combine certain characteristics of equity and debt such as subordinated term debts.

Total capital

Total Capital is summation of the Tier 1 and the Tier 2 capital.

Treasury Bill

A short-term debt instrument issued on auction basis by the Central Bank of Sri Lanka on behalf of the Government of Sri Lanka.

Treasury Bond

A long-term debt instrument issued on auction basis by the Central Bank of Sri Lanka on behalf of the Government of Sri Lanka.

Twelve-month expected credit losses (12-Month ECL)

The portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12-months after the reporting date.

U

Unit trust

An undertaking formed to invest in securities under the terms of a trust deed.

Useful life

Useful life is the period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity.

V

Value added

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.

Value at risk ("VaR")

A measure of the loss that could occur on risk positions as a result of adverse movements in market risk factors (e.g. rates, prices, volatilities) over a specified time horizon and to a given level of confidence.

Y

Yield to maturity (YTM)

Discount rate at which the present value of future cash flows would equal the security's current price.

Corporate information

Name of the Bank
National Savings Bank

Legal Form 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",
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Customer Care Hotline: +94 11 237 9379
Short Code: 1972
E-mail: nsbgen@nsb.lk
Website: http://www.nsb.lk
Swift Code: NSBALKLX
Bank Code: 7719
Tax Payer Identification Number (TIN): 409046266

Service Outlets
261 Branches
384 ATMs/CRMs

Agency Network
653 Post Offices and 3,411 Sub-Post Offices throughout the Island.

Local Ratings
[SL] AAA (Stable) credit rating by the ICRA Lanka

Board of Directors
Ms Keasila Jayawardena – Chairperson
Mr Eranga Jayewardene – Director
Mr U G R Ariyaratne – Director (Ex-officio)
Dr M K C Senanayake – Director (Ex-officio)
Ms Manohari Abeyesekera – Director
Mr M T J Perera – Director
Mr H K D Lakshman Gamini – Director

General Manager/CEO
Mr M P A W Peiris

Board Secretary
Ms Anupama Muhandiram

Board Audit Committee (BAC)
Ms Manohari Abeyesekera – Chairperson
Dr M K C Senanayake
Mr H K D Lakshman Gamini

Board Human Resource and Remuneration Committee (BHRRC)
Ms Keasila Jayawardena – Chairperson
Mr U G R Ariyaratne
Mr H K D Lakshman Gamini

Board Nomination Committee (BNC)
Mr U G R Ariyaratne – Chairperson
Dr M K C Senanayake
Mr Eranga Jayewardene

Board Integrated Risk Management Committee (BIRMC)
Dr M K C Senanayake – Chairperson
Mr Eranga Jayewardene
Mr M T J Perera

Compliance Officer
Ms I K L Sasi Mahendran

Auditors
Auditor General

Accounting Year
31 December

Subsidiaries of National Savings Bank
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Website: http://www.nsb.lk/fund-management
Swift Code: NSBFLKLXXXX
Tax Payer Identification Number (TIN): 134008512

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Ms Keasila Jayawardena – Chairperson
Mr U G R Ariyaratne – Director
Ms Manohari Abeyesekera – Director
Mr M T J Perera – Director
Mr W O Rodrigo – Director
Mr M P A W Peiris – Director

Chief Executive Officer
Mr D L P Abayasinghe

Auditors
Auditor General

Company Secretary
Ms Farzana Aniff

Name of the Company
Sri Lanka Savings Bank Limited

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Tax Payer Identification Number (TIN): 134013370

Board of Directors
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Mr Saliya Dharmawardena – Director
Mr Hemantha Gamage – Director
Mr Prasad Imbulgoda – Director
Mr M T J Perera – Director
Mr Janaka Arunashantha – Director

General Manager/CEO
Mr M A Sujith Fernando

Auditors
Auditor General

Company Secretary
Ms A R Ramya Piyasekara

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