NATIONAL SAVINGS BANK

INTEGRATED ANNUAL REPORT

2023

Shaping Our Mettle

with Fortitude

Shaping Our Mettle with Fortitude

National Savings Bank
Annual Report 2023

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Shaping Our Mettle with Fortitude

Fortifying our resolve with unwavering fortitude, NSB has thrived through a half-century legacy of weathering the harshest storms. Our portfolio of strength has been tested in adversity's crucible, yielding prosperity during times of abundance. Rooted in the Bank's inherent strength and the remarkable spirit of our workforce, our achievements stand tall. Looking ahead, we pledge to cultivate and amplify these strengths to confront the challenges that await. At NSB, fortifying our mettle is a perpetual journey—a testament to our enduring fortitude.

Contents

About our Integrated Report

National Savings Bank (NSB) is pleased to present its ninth Integrated Annual Report. It highlights the Bank's progress through an INTEGRATED THINKING approach that recognises how financial resources, manufactured capital, intellectual capital, human resources, social relationships, and environmental stewardship work in tandem to contribute to NSB's long-term success.

The focus of the Integrated Report (IR) is to provide a comprehensive overview of the Bank's strategy, financial performance, and its impact on the economy, society, and the environment to relevant stakeholders, including our shareholder and investors, customers, employees, business partners, regulators and government institutions, and the communities in which we operate.

Boundary and scope

Our Integrated Reporting Boundary

Covers the risks, opportunities and outcomes arising from our

Operating environment
pages **26** to **44**

Materiality and our sustainable value creation business model
pages **45** to **61**

Strategy and resource allocation
pages **62** to **80**

Use of and impact on the six capitals
pages **96** to **150**

Integrated stakeholder engagement
pages **81** to **93**

Our primary UN SDGs

1 No Poverty, 4 Quality Education, 5 Gender Equality, 7 Affordable and Clean Energy, 8 Decent Work and Economic Growth, 9 Industry, Innovation and Infrastructure, 11 Sustainable Cities and Communities, 12 Responsible Consumption and Production, 16 Peace, Justice and Strong Institutions

Our secondary UN SDGs

2 Zero Hunger, 3 Good Health and Well-Being, 6 Clean Water and Sanitation, 10 Reduced Inequalities, 13 Climate Action, 14 Life Below Water, 15 Life on Land, 17 Partnerships for the Goals

Our Financial Reporting Boundary

Aligns with our financial statements reporting boundary (defined by control) and includes

Subsidiaries

(Two wholly owned subsidiaries are outlined on page **9** of NSB at a glance)

Performance information covers NSB's financial year from 1 January 2023 to 31 December 2023. Any notable or material events after this date and up to the approval of this report are included and noted accordingly

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

The reporting period covered in the IR covers the financial year from 1 January to 31 December 2023, aligning with the annual reporting cycle for financial and sustainability reporting. Any significant events occurring after 31 December 2023, up until the Board approval date of 20 March 2024, are also included. While there have been no substantial changes in terms of the scope and boundaries compared to previous reporting periods, any reclassified or restated comparative information is disclosed and discussed in the relevant sections of the Report.

The IR also includes information on non-financial performance, opportunities, risks/outcomes related to stakeholders, strategy, business model, operating context, materiality, stakeholder interests, and governance.

Interactive PDF

NSB's Annual Report is provided as an interactive PDF featuring enhanced content navigation and hyperlinks for easy cross referencing, offering readers various pathways through the document.

Assurance

Our objective is to uphold the integrity of both our financial and non-financial data through a dual approach involving managerial oversight, internal audit, and external assurance providers. This rigorous process serves to fortify our reputation and augment shareholder value. We are dedicated to fostering a robust internal control framework throughout the Bank, which entails supervising the integrity of data utilised for internal decision-making by Management, the Board, and its committees, as well as ensuring the accuracy of external reports.

About our Integrated Report

Elements of our IR were assured as follows:

Integrated Reporting

Assurance status and provider

The IR was prepared in accordance with <IR> Framework of the IFRS Foundation (www.theiirc.org) and all regulatory and statutory requirements. The Financial Statements have been audited by the Auditor General, and the sustainability reporting has been assured by Messrs KPMG Sri Lanka. The Bank's social and environmental impacts are presented in full compliance with the GRI Standards. The Report highlights the Bank's significant contribution towards nine of the UN Sustainable Development Goals (UN SDGs) that are most relevant to the Bank as primary UN SDGs and the other eight which have a less impact as secondary UN SDGs.

National Savings Bank Act No. 30 of 1971 and its amendments

Financial information

Assurance status and provider

The summarised financial information is extracted from the Financial Statements prepared in accordance with the Sri Lanka Accounting Standards (SLFRSs/LKASs) of The Institute of Chartered Accountants of Sri Lanka, and is in compliance with the requirements of the Banking Act No. 30 of 1988. The statements have been certified by the Senior Deputy General Manager and approved and signed by the General Manager/CEO and two Directors including Chairman of the Bank.

Selected non-financial performance metrics

Assurance status and provider

Selected non-financial performance metrics contained in the IR have been verified by Messrs KPMG.

All other non-financial performance information

Assurance status and provider

Management has validated the methodologies for measuring all additional non-financial data and has subsequently furnished assurance on these processes. Information and data acquired adhered to the Bank's regulations and frameworks.

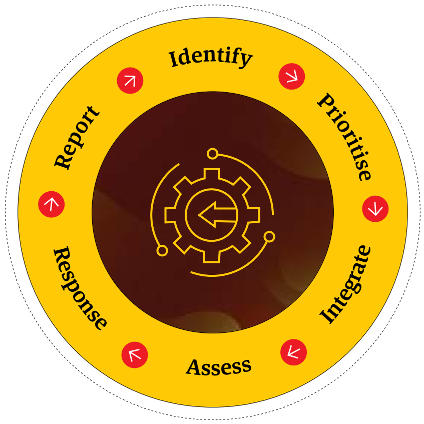
Materiality

The materiality assessment plays a crucial role in our INTEGRATED THINKING approach to decision-making, safeguarding the Bank's sustainability and fostering value for all stakeholders. We characterise material themes as elements significantly affecting our capacity to generate value across various time horizons, utilising an integrated perspective to recognise their short, medium, and long-term effects. The material matters relevant to the Bank have been categorised under these specific themes that are considered vital for the Bank's operational and strategic framework.

The Bank applies a double materiality approach to determine relevant matters that impact our ability to create or preserve value (financial materiality) and our impact on the environment, communities and society (impact materiality) in the short, medium and long-term. This Report provides the context for our material matters – those which can significantly affect our ability to create or preserve value, or lead to value erosion, over the short, medium, and long-term.

We have leveraged the primary risks and opportunities stemming from our operational environment and engagements with stakeholders to identify the material matters on which the Bank should report.

The process to determine our material themes is set out below:



Our material themes

Global and local socio-political and economic disruptions (SPE): Navigating economic, socio-political uncertainties while ensuring resilience across the realms of people, profit, and planet.

Changes in demographic and the evolving world of work (CD): Addressing the re-evaluation of skills and capabilities, and employee value proposition between generational and work expectations.

Digital disruptions and increased competition (DDC): Identifying the ways that new technologies will reshape customer service, spur innovation, and change experience.

Increased regulatory scrutiny (RC): Complying with regulations to reinforce the brand and protect the Bank and customers from cybersecurity threats and financial crimes.

Managing for climate change and sustainability (CCS): Incorporating sustainable measures and responsible financing to reduce our carbon footprint and encourage more environmentally friendly practices.

About our Integrated Report

Financial materiality → **Double materiality** ← **Impact materiality**

Financial reporting → **Integrated Reporting** ← **ESG and six capitals reporting**

Our material themes

Primarily discussed in the following sections of this Report

SPE	CD	DDC	RC	CCS
Operating environment Chairman's message General Manager/ CEO's review	Human capital Operating environment Chairman's message General Manager/ CEO's review	Manufactured capital Intellectual capital Strategy and resource allocation Chairman's message	Social and relationship capital Corporate governance Risk review	Natural capital Strategy and resource allocation

SPE – Global and local socio-political and economic disruption **CD –** Changes in demographic and the evolving world of work
DDC – Digital disruptions and increased competition **RC –** Increased Regulatory Scrutiny **CCS –** Managing for climate change and sustainability

Outlook

Outlook answers the question, "What challenges, opportunities and uncertainties will we face when executing our strategy, and what are the potential implications for the Bank's business model and future performance?"

The following sections provide information on outlook throughout this Report:

Chairman's message page **17**

General Manager/ CEO's review page **22**

Operating environment pages **26** to **41**

Strategy and resource allocation pages **70** to **80**

Financial capital page **105**

Manufactured capital page **117**

Intellectual capital page **123**

Human capital page **135**

Social and relationship capital pages **143, 144, 145**

Natural capital page **150**

Forward-looking statements

This Report contains forward-looking statements regarding NSB's future performance and outlook, based on our current assessments and expectations. However, it's crucial to recognise that evolving risks, uncertainties, and other important factors may lead to outcomes different from our initial expectations, potentially impacting the Bank's business and financial results adversely.

Board responsibility statement

As custodians of the governance framework of NSB, the Board of Directors acknowledge and affirm its responsibility for the integrity and transparency of the IR, believing it effectively communicates the Bank's performance, strategies, risks, and impacts on various stakeholders in a comprehensive and accurate manner, and their ability to create value in the short, medium and long-term. The Board confirms that the IR was prepared in accordance with the Integrated Reporting Framework.

The Board of Directors takes the responsibility for the integrity, accuracy, and effectiveness of the IR prepared under the Management's supervision and verified through internal and external review processes.

Board of Directors

Dr Harsha Cabral – Chairman/Independent Non-Executive Director

Jude Nilukshan – Ex Officio Director/ Non-Independent Non-Executive Director

S R W M Ruwan Palitha Sathkumara – Ex Officio Director/Independent Non-Executive Director

H K D Lakshman Gamini – (Retired 14 December 2023) Non-Independent Non-Executive Director

Dushyanta Basnayake – Non-Independent Non-Executive Director

Ashane Jayasekara – Independent Non-Executive Director

Queries

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

About our Integrated Report

Navigation of icons

Capitals

Financial capital

Manufactured capital

Intellectual capital

Human capital

Social and relationship capital

Natural capital

Short to medium-term strategies

Heightening customer experience

Enhancing employee engagement

Reinforcing risk culture

Promoting organic growth

Accelerating digitalisation

Leading by example

Material matters

Business resilience amidst economic, socio and political uncertainty

Financial stability and profitability

Skills and capabilities

Employee value proposition

Digital transformation

Innovation and agility

Customer service and experience

Governance and compliance

Cyberthreat and information security

Financial crime

Managing our carbon footprint

Responsible financing

Stakeholders

Shareholder/ Investors

Customers

Employees

Regulators and Government institutions

Business partners

Society and environment

Long-term strategies

Customer centric

Governing excellence

Sustainable growth

Transformative leadership

Types of risks

Risk 1 Financial risk

Risk 2 Strategic risk

Risk 3 Operational risk

Risk 4 Credit risk

Risk 5 Market risk

Risk 6 Liquidity risk

Risk 7 Reputational risk

Risk 8 ESG risk

Other

Page reference

Integrated Report

Preamble

NSB at a glance

Our vision

The most reliable and sought after choice for savings and investment solutions.

Our mission

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

Our values

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

NSB, a beacon of financial stability and empowerment in Sri Lanka, has dedicated over 50 years to fostering a culture of savings throughout the nation. Formed in 1972 through the consolidation of four esteemed savings institutions, NSB has emerged as a custodian of the country's financial heritage.

NSB traces its origins back to the founding of the Ceylon Savings Bank (CSB) in 1832, boasting over a century of expertise in savings. Under the Banking Act No. 30 of 1988, NSB was designated a Licensed Specialised Bank (LSB), aimed at enhancing inclusivity by promoting savings habits among all societal segments, irrespective of class, race or gender. Today, NSB stands as one of the most inclusive banks in Sri Lanka serving over 13 million active accounts.

The Bank remains committed to its founding principles and continues to evolve to meet the changing needs of its customers. Despite the challenging circumstances in the country over the past few years, the Bank has demonstrated resilience and steadfast commitment to its core mission of creating a positive impact on the lives of individuals. The Bank's ability to navigate such challenges has enabled it to better serve its stakeholders, helping them to flourish.

Brand rating

The Lanka Rating Agency (LRA) assigned the Bank with the issuer rating of [SL] AAA with Stable Outlook for 2023. Brand Finance Lanka Ltd. named the Bank the seventh most valuable brand in Sri Lanka.

Branch network

As the premier savings bank of Sri Lanka, the Bank has a large network to better serve its customers comprising of 262 branches and 417 ATMs/CRMs, as well as an agency network of 4,006 Agents (Post Offices and Sub-post Offices).

Our strength and stability

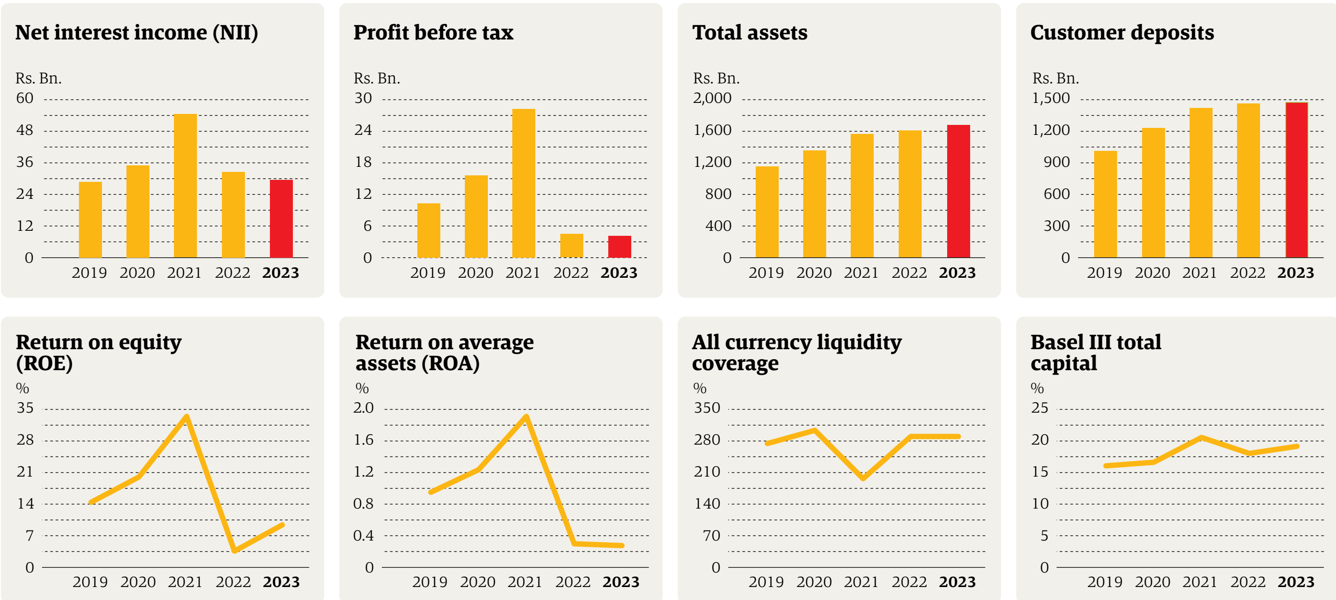


Figure 1

NSB at a glance

What distinguishes NSB

NSB, a prominent savings bank in the nation, prioritises purposeful business practices and upholds a culture that underscores its exceptional reliability.

With a mandate to allocate 60% of its deposits towards gilt-edged Government Securities, NSB stands as the sole bank in the country to provide 100% explicit Government guarantee on all deposits and accrued interests.

This commitment has fostered a strong sense of trust among customers, as evidenced by the substantial 13.0 million active accounts served by the Bank. Embracing a discerning approach to lending and upholding robust risk management protocols, NSB boasts for maintaining one of the lowest Impaired Loans (Stage 3) Ratios (net of Stage 3 impairment).

The Bank actively supports national progress by meeting financial commitments such as taxes, levies, fees and dividends to the General Treasury. NSB is instrumental in aiding the Government's long-term development plans and socio-economic projects, significantly enhancing nation building endeavours. Committed to upholding ethical standards that serve societal interests, NSB is steered by an experienced management team and operates on strong governance principles.

National Savings Bank

Branch banking
- Over 50 years of experience in the industry as the savings giant
- Personal banking (Full range of services including deposit taking, retail lending, bank guarantee, card solutions and transactional banking)

Corporate finance
- Direct lending to financial institutions and their subsidiaries
- Plays the role of agent for syndicated facilities who coordinates settlements between lenders and borrowers
- Investing in trust certificates, private placements, and debentures
- Lending industry expertise in funding for infrastructure projects
- Issuance of debt securities

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

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

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

Sri Lanka Savings Bank
- Savings
- Loans
- Leasing
- Corporate Finance
- Pawning

Areas of differentiation

Branch banking:
- Island-wide 262 branch network together with postal banking grid fully equipped with everyday banking solutions for every Sri Lankan citizen
- Significant customer base across all segments
- Leading industry expertise and financier in domestic house construction

Corporate finance:
- One of the leading infrastructure facilitators in government projects
- Effective credit and collections expertise, aiding clients facing financial challenges

International banking:
- Trusted partner in remitting money to Sri Lanka, especially from Europe and South Korea

Treasury:
- Fixed Income market maker
- Leading financier of Government debt
- Trend setting cash management

NSB Fund Management Company Ltd.:
- Wealth creation through personalised conversations and advice

Sri Lanka Savings Bank:
- Fully pledged licensed specialised banking

Figure 2

Milestones

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

1979
Introduction of Savings Certificate with a draw

1981
NSB implements Mobile Banking Unit to reach the rural population

1994
The first ATM machine was installed

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 celebrated its 40th Anniversary

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

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

2016
Opened its 250th branch at Kopay

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

Ventured into trade financing

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

2017
Became the first specialised bank to reach Rs. 1 Tn. asset base

2019
First Sri Lankan State Bank to receive PCI-DSS Certification

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

Surpassed the Rs. 1 Tn. deposit base

Successfully redeemed the USD 250 Mn. Senior Note

2020
Successful issuance of Hybrid debt instrument (perpetual debenture)

2021
Launch of "NSB Pay" mobile App

2022
NSB celebrated its 50th Anniversary

2023
Launched NSB NextGen digital banking service

Total investments surpassed Rs. 1 Tn.

Products and services

Savings deposits

- Ordinary savings
- Children's savings – *Kiriketi Hapan, Punchi Hapan, Hapan* Children's Savings Account
- Teen Savings – Neo Savings Account
- Youth Savings – I'm Savings Account
- Women Savings – *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
- NSB Wings
- Loans against Deposits – Speed Loans

Card services

- Shopping + ATM Card
- NSB Easy Card

Other services

- Remittances – NSB U-Trust
- POS device based savings mobilisation – NSB Reach
- Trade finance
- Guarantees
- Standing order
- Direct debit facility
- Safety deposit locker
- Nomination
- Utility bill payments
- SMS banking

Corporate lending

Digital/Electronic banking

- NSB Pay App
- Digital Banking
- Quick Response Code Banking

Collection centres at schools

Customer contact centre – NSB Call Centre

Treasury

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

Highlights

As at December 31	Bank			Group		
	2023	2022	Change %	**2023**	2022	Change %
Results for the year (Rs. Mn.)						
Gross income	**232,064**	174,530	32.97	**238,825**	174,977	36.49
Profit before financial VAT and taxation	**5,589**	7,763	(28.00)	**10,109**	5,738	76.18
Profit before taxation (PBT)	**4,287**	4,510	(4.93)	**8,022**	2,340	242.90
Income tax expenses	**(2,929)**	1,980	(247.94)	**(1,594)**	1,391	(214.65)
Profit after taxation (PAT)	**7,216**	2,530	185.27	**9,617**	949	913.37
Position at the year end (Rs. Mn.)						
Shareholders' funds (Total equity)	**81,374**	72,892	11.64	**87,788**	76,390	14.92
Due to other customers/deposits from customers	**1,482,532**	1,476,740	0.39	**1,482,951**	1,475,809	0.48
Financial assets at amortised cost – Debt and other instruments	**943,705**	919,129	2.67	**953,056**	927,916	2.71
Loans and receivable	**526,521**	553,027	(4.79)	**523,809**	553,052	(5.29)
Total assets	**1,686,965**	1,616,686	4.35	**1,712,308**	1,630,637	5.00
Information per ordinary share (Rs.)						
Earnings (Basic)	**7.68**	2.69	185.27	**10.23**	1.01	913.31
Earnings (Diluted)	**7.68**	2.69	185.27	**10.23**	1.01	913.31
Net assets value	**86.57**	77.54	11.64	**93.39**	81.27	14.92

	2023	2022	Change (bps)	**2023**	2022	Change (bps)
Ratios (%)						
Net interest margin (NIM)	**1.79**	2.03	(24)	**1.91**	2.08	(17)
Return on equity (ROE)	**9.36**	3.40	596	**11.72**	1.20	1,051
Return on average assets (ROA)	**0.26**	0.28	(2)	**0.48**	0.14	34
Year-on-year growth in earnings	**185.27**	(88.56)	27,384	**913.37**	(95.71)	100,908
Regulatory liquidity ratios (%)						
Statutory liquid assets – Minimum requirement 20%	**54.99**	40.62	1,437	**N/A**	N/A	–
Rupee – Minimum requirement – 100%	**299.20**	195.44	10,376	**N/A**	N/A	–
All currency – Minimum requirement – 100%	**293.71**	193.49	10,022	**N/A**	N/A	–
Net stable funding ratio – Minimum requirement 100%	**180.49**	180.51	(2)	**N/A**	N/A	–
Regulatory capital requirements: Basel III						
Tier 1– Minimum requirement (8.5%)	**16.91**	15.78	(112)	**19.94**	17.90	204
Total capital – Minimum requirement (12.5%)	**19.26**	18.00	(98)	**22.24**	19.96	228
Leverage ratio – Minimum requirement (3%)	**6.22**	7.43	(206)	**7.05**	8.14	(109)

Financial goals and achievements – Bank

Financial Indicator		Achievement				
	Goals	**2023**	2022	2021	2020	2019
Net interest margin (NIM) (%)	1.62	**1.79**	2.03	3.71	2.77	2.63
Return on average assets (ROA) (%)	0.14	**0.26**	0.28	1.93	1.24	0.95
Return on average shareholders' funds (ROE) (%)	7.36	**9.36**	3.40	33.92	20.15	14.25
Growth in income (%)	33.40	**32.97**	29.34	5.80	4.61	8.96
Growth in profit for the year (PAT)	122.88	**185.27**	(88.56)	118.83	58.40	41.80
Growth in total assets (%)	6.72	**4.35**	2.38	15.79	17.78	11.68
Capital requirements: Basel III						
Tier 1– Minimum requirement (8.5%)	Over 8.5%	**16.91**	15.78	18.60	13.65	13.49
Total capital – Minimum requirement (12.5%)	Over 12.5%	**19.26**	18.00	20.83	16.45	15.82

Table 1

Highlights

Performance highlights – Profit, people, and planet

People

Paid
Rs. 16.1 Bn.
to our
4,358 employees
(2022 – Paid Rs. 13.8 Bn. to 4,528 employees)

54.9%
of our total employees are women
(2022 – 54.8%)

Rs. 1,575.6 Mn.
Spent on procurement for our 256 suppliers
(2022 – Rs. 906.1 Mn. for our 184 suppliers)

96.3%
retention ratio
(2022 – 98.1%)

Invested
Rs. 13.2 Mn.
on skills developments
(2022 – Rs. 12.8 Mn.)

ATMs
295
(2022 – 293)

CRMs
122
(2022 – 97)

Post and Sub-post offices
4,006
(2022 – 3,996)

Planet

Consumed
29,697 GJ of energy
(2022 – 27,256 GJ)

461,584 kWh solar power
exported to the national grid
(2022 – 344,347 kWh)

Consumed
73,895 m³ of water
(2022 – 70,430 m³)

45 branches
connected to net metering
(2022 – 45)

Profit

Interest income
Rs. 227 Bn.
(2022 – Rs. 172.9 Bn.)

Investment in Government securities
Rs. 885.4 Bn.
(2022 – Rs. 821.5 Bn.)

Interest paid to customers
Rs. 197.4 Bn.
(2022 – Rs. 140.5 Bn.)

Chairman's message

GRI 102-14

At NSB, we uphold our commitment to engaging stakeholders with utmost seriousness, ensuring transparent communication with customers, employees, regulators, and the community regarding policy changes implemented within the Bank to nurture trust.

It is with great honour that I present this year's report, which highlights the remarkable resilience and adaptability demonstrated by the National Savings Bank (NSB/the Bank) amidst the challenges we encountered. As a state-owned savings bank with a rich history, we are deeply committed to upholding the trust bestowed upon us by a diverse array of stakeholders, ranging from the Government and banking sector to investors and the citizens of Sri Lanka.

In 2023, NSB navigated a myriad of challenges, grappling with the repercussions of a turbulent economic environment affecting multiple sectors, notably the banking industry. The onset of the COVID-19 pandemic, followed by the worst economic crisis since independence, precipitated sociopolitical uncertainty and monetary constraints, exacerbating financial burdens for our clientele. Furthermore, regulatory hurdles stemming from domestic economic shifts and global financial dynamics necessitated a nuanced approach to satisfying dual demands while undertaking pivotal structural reforms for future resilience.

As economic challenges persisted and the need for safe and convenient financial services surged amidst recovery efforts, we intensified our digital transformation endeavours to augment our online and mobile banking platforms. Concurrently, amid the evolving landscape of the banking sector, Sri Lanka grappled with a significant decrease in its workforce due to substantial emigration in pursuit of improved opportunities elsewhere.

Recognising the imperative to evolve with the changing times to sustain competitiveness and fulfil our commitments to stakeholders, NSB has embarked on a proactive journey. Amidst a dynamic financial landscape marked by economic crises and rapid digitalisation, the Bank has undertaken strategic measures to fortify its position as the foremost provider of dependable savings and investment solutions, reaffirming its commitment to reliability and excellence.

Journey of stakeholder engagement and social responsibility

In the dynamic realm of finance, characterised by economic turmoil and the rapid advance of digitalisation, NSB acknowledges the imperative to adapt in order to remain competitive and faithfully serve the trust vested in us by our diverse stakeholders. Recognising the evolving landscape, we are committed to embracing change to fulfil our obligations effectively.

At NSB, we uphold our commitment to engaging stakeholders with utmost seriousness, ensuring

Chairman's message

transparent communication with customers, employees, regulators, and the community regarding policy changes implemented within the Bank to nurture trust. This holistic approach necessitates a deep understanding of the intricate interplay and relationships among diverse stakeholders, while adeptly managing inevitable trade-offs arising when their interests intersect. It is incumbent upon the Bank to discern these trade-offs and make well-informed decisions that harmonise the complexities of its operational milieu, thus advancing the collective success of NSB.

Given that each stakeholder group harbours distinct perspectives on the Bank's value proposition, engages with NSB uniquely, and prioritises its own concerns, it is imperative to sustain continual dialogue with each faction. This entails employing market research and establishing regular feedback mechanisms to effectively address and harmonise the Bank's value proposition, ensuring satisfaction across all parties involved.

The Bank's INTEGRATED THINKING practices are guided by vigilant Board oversight, which carefully considers a myriad of potential impacts on stakeholders. This approach ensures that decisions are made only after a comprehensive assessment of their implications for employees, customers, the community, and the environment. Moreover, the Bank places a strong emphasis on ethical decision-making processes that prioritise the long-term interests of NSB and its stakeholders, ultimately striving to achieve optimal outcomes.

NSB plays a pivotal role in the Sri Lankan community, and is steadfast in fulfilling its responsibilities to support economic recovery as the Nation's savings bank. This commitment is demonstrated through contributing taxes and levies to bolster national and local economic resilience, as well as integrating Environmental, Social, and Governance (ESG) principles into operational and investment decisions, thereby generating value for society and the environment.

Recognising the financial hardships faced by many customers in the wake of the COVID-19 pandemic and economic downturn, NSB implemented a range of relief measures. These included loan moratoriums, reduced interest rates, and flexible repayment options, alleviating the financial burdens of customers.

Amidst its digital transformation journey, the Bank prioritised cybersecurity enhancements to safeguard customer data. Concurrently, efforts were intensified to reach underserved and unbanked populations, facilitated through initiatives such as leveraging the postal network, mobile banking units, and financial literacy programmes.

In alignment with its brand ethos, NSB remains committed to social responsibility, evidenced through various initiatives focusing on education and environmental sustainability.

Integrated stakeholder engagement

Our interactions with stakeholders are crucial for establishing trust, meeting compliance requirements, bolstering the Bank's reputation, and promoting long-term viability.

For details, please pages **81** to **93**

Finding balance amidst a shifting regulatory landscape

In 2023, NSB manoeuvred through a multifaceted regulatory environment necessitated by pressing structural reforms within the banking sector, shaped by both domestic economic conditions and global financial trends. In the face of these challenges, the Bank prioritised maintaining a delicate equilibrium between fostering stability, stimulating growth, and reinforcing resilience. Effectively addressing these hurdles and enacting essential structural reforms were imperative to sustain competitiveness, stability, and expansion.

Several regulatory challenges loom ahead, demanding attention to fortify the banking sector in both the short and the long term. These encompass ensuring capital adequacy and liquidity to weather economic downturns and bolster recovery endeavours; tackling non-performing loans to preserve lending capacity; navigating the regulatory landscape of digital banking while investing in tech-driven financial solutions; embedding ESG compliance into banking operations; and adeptly managing foreign exchange risks amidst currency volatility, in compliance with regulations aimed at maintaining stability in the local currency.

Confronting these regulatory challenges necessitates comprehensive structural reforms. Advanced risk management frameworks are essential for anticipating and mitigating various financial risks, including credit, market, and operational risks. Expanding digital banking services requires accelerating infrastructure development to enhance accessibility, minimise costs, and elevate customer experience. Regulatory directives and incentives play a crucial role in promoting financial inclusion, particularly among unbanked or underserved populations in Sri Lanka. Moreover, in response to escalating physical and cybersecurity threats, enhancing infrastructure, devising robust crisis management plans, and implementing effective recovery strategies are imperative to bolster operational resilience.

Chairman's message

A performance built on resilience

In 2023, NSB witnessed a 33.0% year-on-year increase in gross income totalling Rs. 232.1 Bn., primarily driven by interest income from investments in Government Debt Securities. However, rising interest rates led to a 40.5% increase in interest expense, resulting in a negative growth of 8.9% in net interest income (NII). Gains from trading and financial assets more than offset a drop-in net fee and commission income. Impairment charges were maintained below the previous year. Drop-in NII coupled with increase in personnel costs and other operating expenses due to inflation caused the profit before income tax to decrease by 4.9% to Rs. 4.3 Bn. Yet, a deferred tax credit of Rs. 2.9 Bn. increased the profit after taxation (PAT) to Rs. 7.2 Bn., significantly higher than 2022. Total assets grew by 4.4% to Rs. 1.69 Tn. as of 31 December 2023. The Bank maintained strong capital ratios, comfortably exceeding industry averages, and sustained high liquidity ratios, positioning itself as the "Safest Bank in Sri Lanka".

Financial capital

We prioritise the management of our financial resources and strive to maintain a robust financial standing at NSB.

For details, please pages **96** to **105**.

Building trust with our customer base

Escalating inflation and increasing interest rates have diminished the value of savings, thereby impacting the appeal of NSB's products and services. Depositors have redirected their focus towards more lucrative or stable investment avenues, resulting in reduced deposit mobilisation amidst a low interest rate environment. Conversely, while interest rates prevailed until June 2023, followed by the Central Bank of Sri Lanka (CBSL) adopting a monetary easing approach, private credit dwindled, consequently affecting growth in the lending portfolio.

Likewise, the depreciation of the Sri Lankan Rupee adversely affected NSB, resulting in escalated costs of foreign currency-denominated liabilities and operational expenditures, alongside potential losses from foreign exchange transactions. Liquidity constraints further dampened depositor confidence, potentially leading to increased withdrawals, while also impeding the Institution's ability to extend credit.

Nevertheless, NSB implemented a multifaceted strategy aimed at bolstering operational efficiency and enhancing customer support. This encompassed optimising liquidity management to adeptly address withdrawal demands without undue strain; conducting comprehensive reviews of asset quality, particularly loans and advances, to proactively identify and address potential non-performing assets; diversifying investment and loan portfolios to mitigate risk exposure, with a strategic focus on higher interest-earning Government securities to augment profitability; and expediting the rollout of digital banking services to enhance customer accessibility and reduce operational overheads, particularly in contexts where physical banking may pose challenges.

The rapid uptake of digital banking solutions among NSB customers transformed crises into opportunities, yielding enhanced operational efficiencies and unveiling potential new revenue streams. As a state-owned bank, NSB actively collaborates with organisations that align with its core values to enrich user experiences, pioneer innovative banking products, and deploy cutting-edge digital transformation tools, including robotics, AI, data analytics, and blockchain technology. Through strategic partnerships, NSB aims to leverage these advancements to achieve mutual benefits and maximise returns on digital investments. Additionally, NSB derived considerable support from government initiatives aimed at stabilising the banking sector.

Championing our employees

Undoubtedly, our employees are indispensable to the Bank's ongoing success, especially amidst the global digital transformation landscape. NSB places a premium on recruiting talent from the local communities where its branches operate, fostering a culture of innovation and adaptability. To remain abreast of evolving banking trends, the Bank actively encourages employees to participate in upskilling and reskilling programmes, emphasising digital literacy, customer service excellence, and analytical prowess. This commitment ensures that customers receive unparalleled service and advice, while also providing ample opportunities for career advancement within the Bank to keep our employees motivated.

NSB confronts the challenge of adapting to shifting workforce expectations, particularly among Millennials and Generation Z employees, who prioritise work-life balance and purpose-driven endeavours. Recognising these evolving needs, the Bank is revising its HR policies to attract and retain talent in these demographics, offering appealing compensation packages and fostering a supportive work environment. Moreover, their upbringing in a digitally immersive world positions them as ideal candidates for integrating digital tools into the banking landscape, ensuring NSB remains both relevant and competitive. The foundation of NSB lies in our dedicated workforce,

Chairman's message

enabling us to differentiate the Bank within the industry.

Human capital

The foundation of NSB lies in our dedicated workforce, enabling us to differentiate the Bank within the industry.

For details, please pages **124** to **135**.

Path to sustainable excellence

In an era characterised by accountability and sustainability, NSB remains steadfast in its commitment to robust governance, meticulous audit and internal controls, and pioneering sustainability and governance initiatives. This year, NSB broadened its audit coverage within its internal audit plan, encompassing areas of heightened risk to effectively audit and mitigate emerging risks stemming from the economic crisis. Additionally, the Bank has revised its policies and practices in alignment with structural reforms and regulatory changes, ensuring compliance while optimising operational flexibility.

Concurrently, the Bank devised adaptive risk management strategies to swiftly respond to fluctuations in the economic and regulatory landscape, mitigating potential adverse effects on operations and the Bank's financial health. Embracing the global shift towards sustainability, NSB has integrated green banking practices into its operations. By doing so, NSB positions itself to capitalise on future fiscal and regulatory incentives while contributing to the advancement of sustainability within the Sri Lankan banking sector.

Delivering high-quality service hinges on engaging suppliers in line with the Bank's ESG strategy. This entails fostering transparency in business transactions, proactively communicating strategic initiatives, operational updates, and matters pertinent to stakeholders. By sharing information, NSB enhances planning and collaboration with shareholder, lenders, and regulators.

Optimism for the future

Despite the macroeconomic challenges, we remain optimistic about the future, driven by our commitment to excellence, innovation, and stakeholder collaboration.

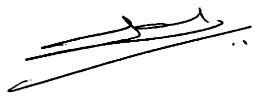
I extend my sincere gratitude to all our stakeholders for their unwavering support, which has been instrumental in our success. We have been successful due to the dedication and commitment of our employees, the loyalty of and trust placed in us by the stakeholders, and the sound advice and unwavering support provided by the Board of Directors, for which I am thankful. I would also like to thank the Corporate Management Team for their excellent work.

I am truly thankful for our customers who have continued to bank with us and maintained strong relationships over many years.

His Excellency the President, the Honourable Prime Minister, and the Honourable Minister of Finance, the Secretary to the Treasury, the Governor of the Central Bank of Sri Lanka, officials from relevant institutions, the Secretary to the President, the Attorney General, and the Auditor General have been unstinting in their support and guidance.

Our country-wide operations could not have been successful without the crucial support provided by the Postmaster General and officials of the Postal Department, and to them I extend my heartiest thanks.

In conclusion, I am confident that with such continued support, the Bank will continue to thrive and serve as a beacon of stability and reliability in the Sri Lankan banking sector for many years to come.



Dr Harsha Cabral
Chairman

25 March 2024

General Manager/ CEO's review

As the savings giant of the country, our responsibility involves staying abreast of the latest global financial opportunities to better serve our people.

As we entered 2023, the Bank confronted a host of challenges and an unpredictable environment due to the combined impacts of the COVID-19 pandemic and an economic downturn, which affected not only our customers, employees, and investors but also the wider community. I am proud to report that the Bank showed remarkable resilience in 2023, achieving impressive results despite facing numerous challenges. The Bank is proactively addressing the challenges and opportunities presented by the rapidly evolving global landscape through the development of a strategic business plan that is designed to leverage emerging technological advancements, adapt to shifting demographic patterns, and incorporate environmental considerations, ensuring that the Bank remains competitive and relevant in a dynamic world.

Navigating a complex operating environment

The challenges faced in 2023 spanned economic, social, and various other facets of the financial landscape where the Bank operates. Numerous customers experienced financial difficulties as a result of the compounded effects of the COVID-19 pandemic and the ensuing financial crisis. The banking sector has had to swiftly adapt to new circumstances and comply with evolving regulations. Concurrently, Sri Lanka has seen a significant reduction in its workforce, with many individuals migrating in search of better opportunities. Amidst growing uncertainty and risks, the need for transparency has become more critical than ever to keep customers, the shareholder, and other stakeholders abreast of the latest developments impacting the Bank.

Faced with regulatory hurdles, NSB implemented several strategies within the fiscal year to address urgent issues while laying out the groundwork for future challenges. These strategies included accelerating digital transformation projects to improve online and mobile banking services and implementing several relief measures such as loan moratoriums, lowering interest rates, and flexible payment options to alleviate financial burdens on customers. We invested in the training and development of both existing and new employees in order to encourage them to continue working at the Bank, and stem the labour shortage. The Bank ensured that stakeholders were kept well-informed about its financial status, risk management efforts, and future prospects through consistent and transparent communication.

General Manager/ CEO's review

In 2023, the banking sector grappled with numerous other challenges, including adhering to capital adequacy and liquidity requirements; reducing the proportion of non-performing loans; investing in technology-driven financial solutions; incorporating Environmental, Social, and Governance (ESG) standards into banking practices; and managing foreign exchange risks. The Bank was also required to enhance its ability to anticipate and mitigate various financial risks such as credit, market, and operational risks; expand digital banking offerings; improve service accessibility; lower costs; elevate the customer experience and serve the unbanked or underserved communities as a bank dedicated to serving the Nation and its people.

Strategy and resource allocation

Conducting careful risk assessments and proactively anticipating potential risks enable us to maintain the utmost security for the Bank.

For details, please pages **62** to **80**.

Strategies guiding our path

Recognising these challenges, we adopted a comprehensive strategy centered on resilience, operational efficiency, and enhanced customer support. The Bank improved its liquidity management to handle withdrawals smoothly under stress; conducted detailed assessments of asset quality, particularly loans and advances, to promptly identify potential non-performing assets and make necessary provisions; diversified its investment and loan portfolios to distribute risks and lessen the effects of the economic downturn on its financial results; and fast-tracked the expansion of digital banking services to increase customer accessibility, decrease operational expenses, and boost service efficiency.

We focused on investing in high-yield, zero-risk Government securities and upholding robust statutory liquidity ratios (Statutory Liquid Assets Ratio and Liquidity Coverage Ratio); integrated ESG factors into our risk management frameworks; supported the community through initiatives aimed at financial inclusion; and bolstered our cyber defences. These actions were implemented to manage the complexities and uncertainties of 2023 effectively, fostering stability and enhancing the sustainability of the Bank's operations, while providing support to customers and the broader community during a turbulent period.

Digital transformation and technology adoption

Our digital strategy is a comprehensive roadmap designed to embrace technological innovation, enhance customer experience, and streamline operations while navigating the complexities of integrating digital initiatives with traditional banking services. It encompasses strategies to assess Digital Experience from the stakeholders' perspective, fostering a digital-first mindset within the Bank, enhancing digital capabilities, transforming legacy systems into new technologies, and exploring opportunities in open banking. We intend such investments to improve operational efficiency, customer experience, and compliance management. We are optimistic that digital banking platforms, AI-driven advisory services, and the use of blockchain for secure transactions will be compatible with our regulatory framework and recognise that ongoing investments will be necessary to keep pace with technological advancements in the years ahead.

Product and service innovation

As the savings giant of the country, our responsibility involves staying abreast of the latest global and local financial opportunities to better serve our people. This year, NSB rolled out new products and services, including digital savings accounts and investment products catering to the changing needs of various customer segments. Additionally, the Bank extended its reach to underserved populations through the postal network, mobile banking units, and financial literacy programmes, aiming to elevate communities across different regions of the nation.

Customer experience and engagement

Customers serve as the backbone of a bank's operations. Acknowledging this fundamental truth, the Bank engaged in diverse initiatives focused on education, environmental sustainability, and financial literacy while investing in staff development to deliver exemplary customer service and actively sought customer feedback to consistently enhance its service portfolio, address inquiries, and ensure positive customer interactions at every touchpoint. Looking ahead, it will be increasingly crucial to uphold this standard of excellence by training employees to provide optimal service across digital platforms.

Operational efficiency and risk management

Among the myriad factors driving our success, both high efficiency and robust risk management stand out as crucial elements of NSB's strength. The Bank enhanced its operational efficiency by optimising branch networks and, reassessing branch locations. To address credit, market, operational, and cybersecurity risks, we bolstered

General Manager/ CEO's review

our risk management strategies by incorporating various analytical tools for risk assessment and implementing scenario planning to navigate economic uncertainties. These measures ensured the continuous protection of stakeholders around the clock.

Human capital development

The employees of the Bank are vital to its longevity, and NSB has taken into consideration a multitude of factors that can affect its human capital. From the upsurge in migration to newer generations of workers holding different expectations about work, and the rapid rate of technological upheaval taking place, it is crucial to recognise that various needs have to be met in order to sustain the human factor that ensures the Bank's culture of success. NSB has enrolled its employees into upskilling and reskilling programmes, particularly in digital literacy, customer service excellence, and analytical skills, and inculcated a culture of flexibility and innovation to create a motivating work environment that attracts and retains the best talent within the nation.

Strategic partnerships and collaboration

In its service to the country, NSB remains as a bank of choice for organisations and corporations that share the Bank's goals and visions. By partnering with the likes of fintech companies to use their technologies and business models that enhance NSB's product offerings, engaging with other banks and financial institutions to expand NSB's reach and capabilities (including payment systems, remittance services etc), and embracing digital transformation in the mid-term to unlock new revenue sources (such as fees from digital financial services and cross-selling through digital channels), NSB is proud to work with like-minded partners that benefit both the state and the people.

Financial performance summary of 2023

Despite facing numerous challenges stemming from macroeconomic factors, NSB demonstrated its resilience by achieving robust financial performance. Gross income surged by 33.0% year-on-year (YoY) to reach Rs. 232.1 Bn., compared to 29.3% and Rs. 174.5 Bn. in 2022. This growth was primarily driven by a 31.2% increase in interest income, attributable to the Bank's investment in Government Debt Securities, capitalising on the higher interest rates from 2022. The interest received from loans and advances also grew by 36.3%, an increment of Rs. 23.4 Bn.

Financial capital

Our financial capital is integral to our operations, and we are dedicated to maintaining robust financial performance.

For details, please see pages **96** to **105**.

However, given the substantially higher proportion of fixed deposits in the deposit mix, the rise in market interest rates led to a corresponding rise in the interest expense of the Bank by 40.5% YoY. This exceeded the growth rate of interest income, negatively impacting the Net interest income growth due to the lag effect of liability repricing, causing the net interest income to record a negative growth of 8.9%.

Owing to the subdued demand for loans and advances amid higher interest rates, there was a drop in net fee and commission income. Due to a loss on revaluation of foreign exchange and a drop in dividend income, net other operating income too recorded a drop, but was more than offset by an increase in net gains from trading and net gains from derecognition of financial assets.

The Bank managed to contain impairment charges at Rs. 4.3 Bn. for the year, 12.4% lower than Rs. 4.9 Bn. provided in 2022. This decrease is primarily attributed to the decrease in the loans and advances portfolio and the conversion of Sri Lanka Development Bonds into Sri Lanka Rupee-denominated bonds. Personnel cost and other expenses categories increased by 16.8% and 13.3%, respectively, due to inflationary pressure.

The combined effect of the above factors led to a decrease in profit before income tax to Rs. 4.3 Bn. for the year, a 4.9% decrease compared to Rs. 4.5 Bn. in 2022. Nevertheless, due to a deferred tax credit, income tax recorded a reversal of Rs. 2.9 Bn. compared to the income tax provision of Rs. 2.0 Bn. in 2022 and as a result, the Bank reported a profit after tax (PAT) of Rs. 7.2 Bn. for the fiscal year ended 31 December 2023, significantly higher than the Rs. 2.5 Bn. reported in 2022.

Despite the challenges posted by macro financial conditions, the Bank managed to grow the total assets by 4.3% to Rs. 1.69 Tn. as of 31 December 2023 from Rs. 1.62 Tn. a year ago. Despite the backdrop of the gradual move to low interest rate regime, the Bank grew its deposit base by Rs. 10.7 Bn. during the year. This was helped by customer confidence instilled based on the 100% ownership of the Bank by the Government of Sri Lanka (GoSL) and the 100% explicit guarantee provided by the GoSL, through the National Savings Bank Act, for the money deposited with the Bank and the interest thereof.

On the asset side, the growth was reflected mainly in placement with banks and financial assets measured at fair value through other comprehensive income while the net loans and advances portfolio contracted by

General Manager/ CEO's review

4.8%. The subdued demand for loans and receivables, coupled with the Bank's decision to allocate its interest-earning assets to more profitable alternatives led to a significant increase of Rs. 74.5 Bn. in the Bank's investment portfolio.

NSB continued to maintain its Stage 3 loans to total loans (net of impairment) at 2.41% (2.8% in 2022), much lower than the industry average. The Bank also sustained robust capital ratios with a Tier I capital ratio of 16.9% and a total capital ratio of 19.3%, surpassing the industry averages of 13.8% and 16.9%, respectively. These healthy capital positions underscored the Bank's financial strength and the ability to meet regulatory requirements without the need for capital infusions even through limitations placed on it by the regulations under which it is governed.

In 2023, NSB recorded an investments to total assets ratio of 62.4% and maintained a highly liquid assets portfolio with a statutory liquid assets ratio of 55.0%, compared to the industry average of 44.9%, thereby surpassing the minimum requirement of 20%. The liquidity coverage ratio (all currency) is 293.7% and far in excess of the minimum requirement of 100%. In terms of capital adequacy ratios, NSB holds an enviable position well above regulatory minimums; by the close of the financial year. The Bank successfully continued to stamp its position as the "Safest Bank in Sri Lanka" in every aspect such as liquidity, balance sheet management, performance and credit and market risk management.

Segmental performance

The Bank's four business divisions faced distinct challenges and opportunities in 2023, with retail banking encountering economic fluctuations, corporate finance adapting to client performance shifts, international banking seeing growth in remittances, and treasury dealing and navigating dynamic market conditions, as detailed below.

Business line review

Our business lines play a strategic role not only in serving the Bank's diverse customer base but also in aligning with broader economic objectives and adapting to global banking trends.

For details, please pages **106** to **111**.

Retail banking

The retail banking segment encountered challenges amidst economic revival, inflation, and fluctuating interest rates, impacting deposit mobilisation and loan portfolio. Despite these hurdles, the segment saw an increase in interest income, albeit accompanied by a rise in impairment charges due to the prevailing economic downturn. Efforts to boost deposit growth included digital initiatives and promotional campaigns, while a cautious approach was taken towards retail lending, focusing on collateral-based loans. The introduction of digital banking services under "NSB NextGen" aimed to enhance customer convenience and accessibility. Looking ahead to 2024, the Bank anticipates stabilising amid inflationary pressures, with a focus on digital expansion, customer service enhancement, and conservative credit policies. Maintaining market share, managing credit quality, and prioritising customer service remain key objectives, with a strong emphasis on acquiring new customers through cross-selling opportunities and strengthening digital delivery channels. The Bank remains committed to maintaining a prudent approach to lending, with a focus on collections and impairments to ensure asset quality and financial stability.

Corporate finance

The challenging operating environment negatively impacted the client performance of the corporate banking segment too, leading to difficulties in loan repayments and a notable decrease in the corporate loan portfolio. Nevertheless, the segment saw increased earnings from corporate debt security investments, driven by higher interest rates. To navigate the economic stress and maintain a healthy asset portfolio, the segment adopted a cautious lending approach, curbing lending to most sectors. Instead, it focused on sectors resilient to market conditions and prioritised astute portfolio management and sound asset quality. By analysing customers' cash flows and understanding their business operations, the Bank offered customised solutions, enabling timely recoveries and sustaining focus on credit quality. Looking ahead to 2024, the Bank's priorities include managing portfolio exposures by targeting sectors resilient under current market conditions. Opportunities in renewable energy lending is expected to materialise, aligning with the Government's promotion for green economy. Further, the Bank aims to strengthen relationships, expand its footprint in Sri Lanka, and preserve credit portfolio quality while enhancing digital capabilities to streamline operations.

International banking

The international banking segment of the Bank saw a notable increase in foreign currency deposits and remittances, driven by factors such as rupee depreciation and a revival in tourism and workers' remittances. The Bank received Rs. 128.5 Bn. worth remittances in 2023 compared to Rs. 71.8 Bn. in 2022, thereby recording an increase in the market share to 6.6% as of December 2023 from 5.7% in December 2022. Despite challenges like foreign exchange liquidity issues

General Manager/ CEO's review

affecting import-related businesses, the segment managed to increase its market share in remittances. Key highlights included earnings from placement interest due to the Bank's growing placement portfolio in foreign currency. Looking ahead to 2024, the international banking segment aims to strengthen its dollar liquidity position by increasing foreign currency deposits and remittances. Market penetration and development in key remittance source markets, along with a focus on untapped markets and new tie-ups, are key priorities. Additionally, plans are on board to concentrate more on export trade finance and enhance outward Telegraphic Transfer (TT) operations while driving efficiencies through digital capabilities and streamlined operations.

Treasury and dealing

The treasury and dealing segment of the Bank experienced dynamic market conditions, marked by declining yields in Government securities following the announcement of the Domestic Debt Optimisation (DDO). Despite this, the segment demonstrated resilience, with earnings steadily increasing under the high interest rate regime. Notably, investments in Government securities surged due to reduced demand for retail loans, while the reverse repo borrowings portfolio saw significant expansion. However, challenges persisted, including limited liquidity and market participants in fixed income trading, impacting trading opportunities. Looking ahead to 2024, priorities include leveraging low-cost funding avenues, enhancing asset and liability management, and bolstering digital capabilities to streamline operations further. Additionally, initiatives like obtaining dealer direct participant status and centralising administrative activities underscore the segment's commitment to innovation and efficiency in navigating the evolving financial landscape.

Engaging talent, embracing skill

In 2023, a significant surge in migration occurred, which led to a drain of skilled talent to the country. This situation underscored the critical importance of our human resources as our primary asset. Despite this challenge, the dedication, resilience, and talent of our team propelled the Bank forward. Together, we achieved organisational objectives, surmounted obstacles, embraced new roles, and collaborated effectively amidst considerable upheaval.

Human capital

Our employees are our biggest strength and we invest resources in training and developing them.

For details, please pages **124** to **135**.

These obstacles encompass divergent expectations of the workforce across four generations; Baby Boomers, Generation X, Millennials, and Generation Z alongside challenges in talent acquisition and retention amidst staff shortages, as well as the urgent necessity for technological and digital literacy skills. Staff members have embraced the Bank's digital transformation endeavours by adopting new technologies and platforms, participating in digital literacy and proficiency training initiatives provided by the Bank, which include training programmes, workshops, and e-learning courses. Additionally, the Bank is adjusting its HR policies to offer career advancement opportunities, flexibility, and purpose-driven roles tailored to the changing preferences of younger employees. This involves encouraging and supporting employees in obtaining professional qualifications and certifications relevant to their positions while fostering a culture of transparency and openness to facilitate the sharing of ideas, feedback, and concerns, thereby engaging them in the Bank's vision and objectives.

Looking ahead

With the advent of digital transformation in the banking sector, numerous untapped revenue streams are emerging. These encompass fees generated from digital financial services, strategic partnerships/ collaborations with fintech companies to innovate and co-create to penetrate new markets, and the digitisation of customer interactions to enhance targeted cross-selling initiatives by providing personalised product suggestions through digital platforms.

The introduction of these new offerings will undoubtedly bring its own set of challenges. Both local and global economic volatility, coupled with inflationary pressures, currency devaluation, and fluctuating interest rates, have the potential to influence the Bank's operations and overall financial performance. Regulatory changes may demand substantial changes to existing practices and policies to ensure compliance and competitiveness, while competitive disruptions could impact the quality of our assets. Effectively managing non-performing loans in the face of economic uncertainty will be paramount, necessitating robust risk management practices, proactive loan monitoring, and prudent lending strategies aimed at mitigating credit risk.

The banking sector is undergoing an unparalleled technological revolution, promising dynamic growth and profitability. Amidst this transformation, prioritising customer experience becomes imperative, necessitating a seamless, personalised journey across all interaction points. Investment in Government securities emerges as a key avenue for ensuring the Bank's stability, reassuring stakeholders. As we navigate these uncertain waters, the Bank remains steadfast in safeguarding its interests and those of its stakeholders, poised to seize forthcoming opportunities when the time is ripe.

General Manager/ CEO's review

Acknowledgements

As I reflect on the past fiscal year, I am deeply grateful for the collective efforts of all who have contributed to propelling the Bank towards continued success. I would like to extend my heartfelt appreciation to our valued customers and clients for entrusting us with their financial needs, inspiring our pursuit of excellence in serving Sri Lanka. To our devoted employees: your unwavering commitment and tireless dedication drive our progress forward each day.

On this note, I wish to extend my gratitude to the Chairman and the Board of Directors, for their support, advice, and guidance in steering NSB to achieve its collective goals during this trying financial period.

I am profoundly grateful to the governing bodies whose unwavering support has bolstered the Bank's endeavours. My heartfelt appreciation extends to the Hon. President, who serves as the Minister of Finance; the Hon. Prime Minister; the Secretary to the Treasury and Officials; and the Governor and Officials of the Central Bank of Sri Lanka. I also express my gratitude to the Attorney General, the Auditor General and their teams, as well as the Heads of other regulatory bodies and their teams. The invaluable contributions of the Postmaster General and all Officials of the Department of Posts throughout the year are also recognised and appreciated. Each of these parties has played a crucial role in advancing the Bank's objectives, and their support has been instrumental in our achievements.

I also express sincere gratitude to our esteemed partners and stakeholders for their unwavering collaboration and steadfast support, which are integral to our shared achievements. Together, we have navigated challenges and embraced opportunities, fortifying NSB's position as a trusted financial institution. I believe that as we move ahead on this journey together, NSB will continue to display the remarkable resilience that will carry the Bank into the future.

Ms Shashi Kandambi
General Manager/CEO

25 March 2024

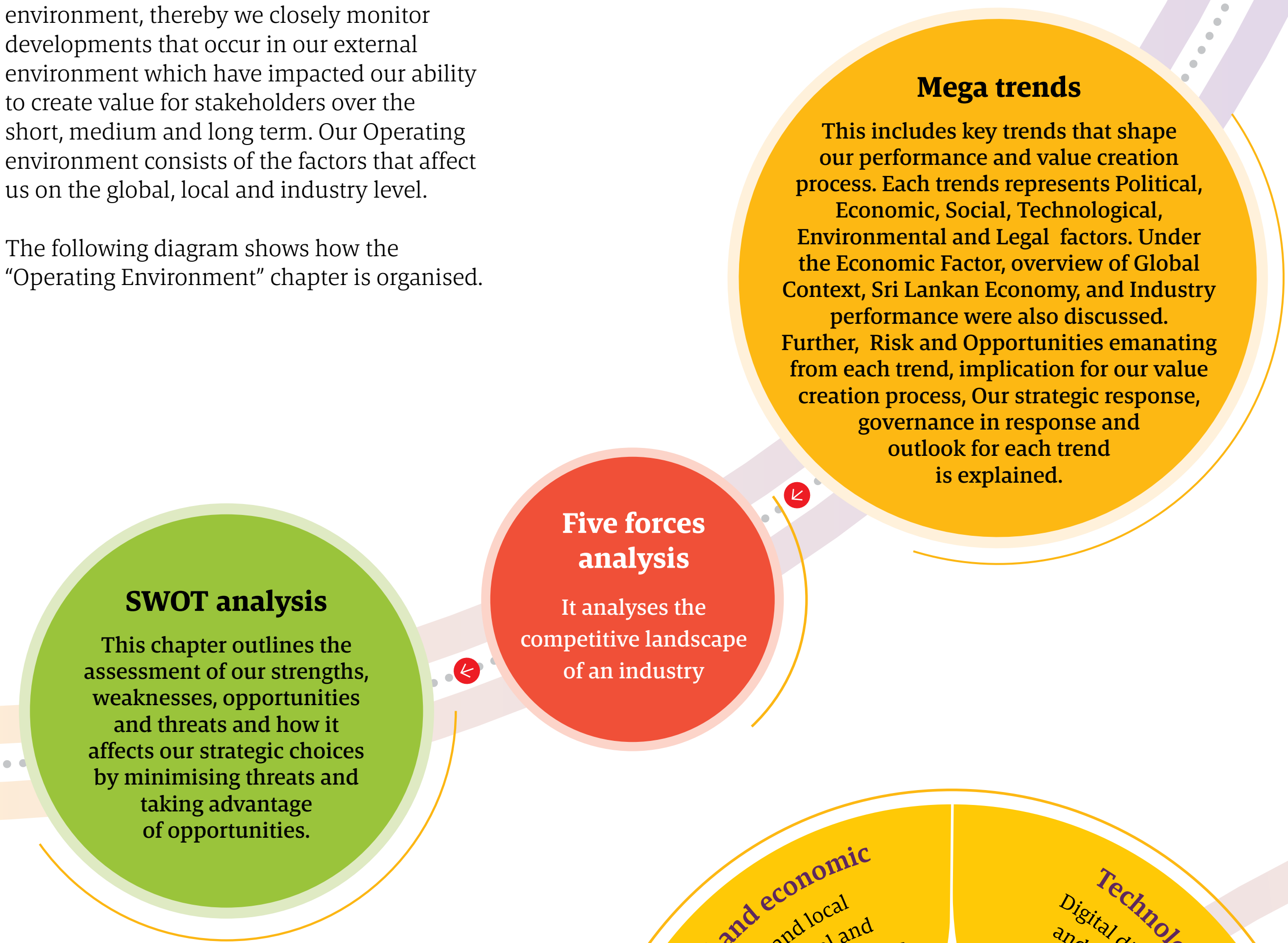
Integrated Report

Our sustainable value creation model

Operating environment and risks and opportunities

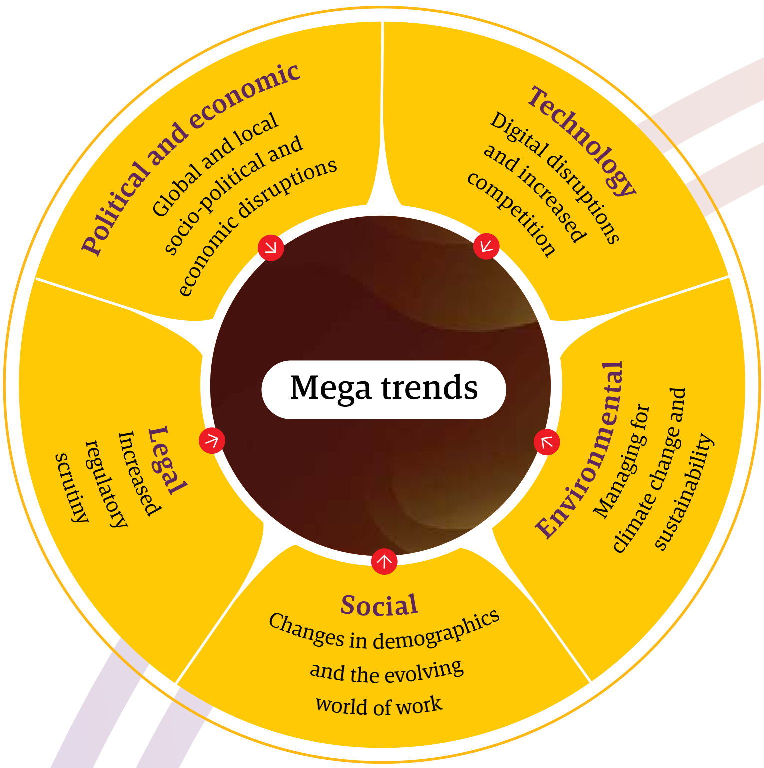
We continued to be impacted by our operating environment, thereby we closely monitor developments that occur in our external environment which have impacted our ability to create value for stakeholders over the short, medium and long term. Our Operating environment consists of the factors that affect us on the global, local and industry level.

The following diagram shows how the "Operating Environment" chapter is organised.



Mega trends

Mega trends represent transformative forces reshaping the industry's landscape, dictating strategic adjustments and innovation pathways. These trends not only include inbuilt risks but also offer unique opportunities for growth and differentiation. Overarching shifts in demographics, technology, and socio-economic dynamics tend to provide fertile ground for innovation and growth to unlock new markets and revenue streams. It can also disrupt traditional business models, require organisations to adapt their strategies and introduce unforeseen challenges. We have identified five mega trends that will reshape the landscape and our business in the years ahead. These trends are;



Operating environment and risks and opportunities

Mega trend

Global and local socio-political and economic disruptions

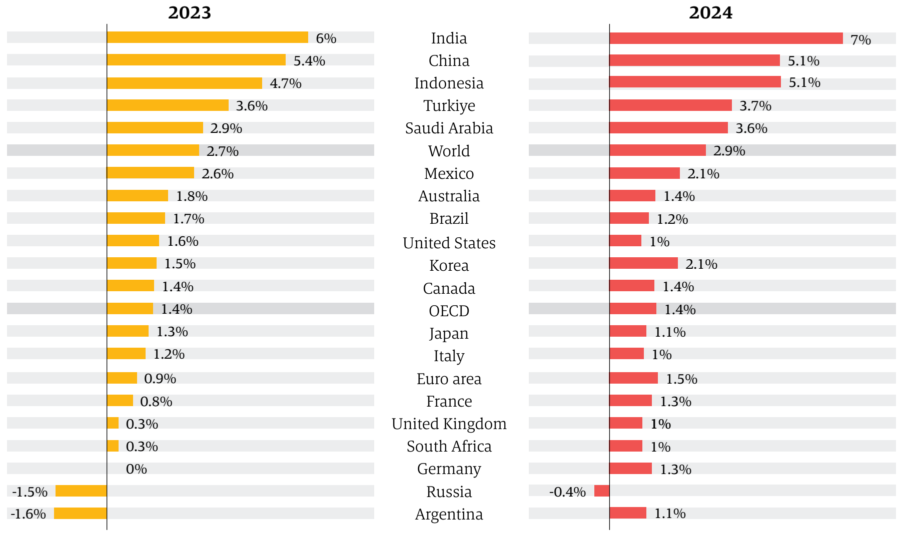
The global environment was shaped by multiple conflicts in 2023, with increased tensions among major powers and continued weakening of international institutions. The recent escalation of conflicts between Russia-Ukraine and Israel-Hamas has brought the issue of war back to the forefront of inter-state relations. Emerging technologies became the most important determinants of the global power balance, accelerating the fragmentation of the global economic order. However, the global economic recovery from the COVID-19 pandemic, Russia's invasion of Ukraine, Israel-Hamas conflict, and the cost-of-living crisis is proving surprisingly resilient.

Inflation is falling faster than expected from its 2022 peak, with a smaller-than-expected toll on employment and activity, reflecting favourable supply-side developments and tightening by central banks, which has kept inflation expectations anchored. Additionally, central banks worldwide raised interest rates in 2022 and 2023 to curb inflation while attempting to maintain growth.

Labour markets in many developed economies have continued to show resilience, with low unemployment rates and fewer instances of recurrent worker shortages. Overall, the likelihood of a hard landing has receded and risks to global growth are broadly balanced due to disinflation and steady growth.

Real GDP growth projections for 2023 and 2024

Graph 1

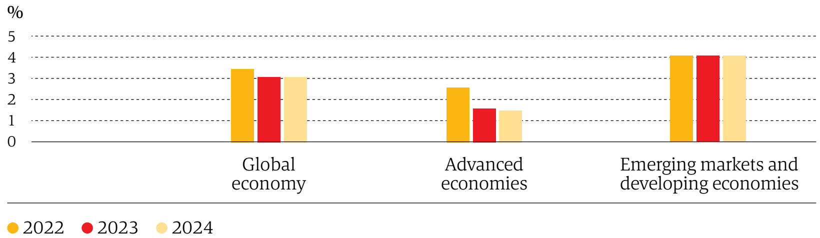


Global

Condition	2023	2024
GDP growth	Global growth was 3.1% due to tight monetary policies, weak global trade, restrictive financial conditions.	Global growth is projected at 3.1% in 2024 as a result of still-tight monetary policies, a related softening in labour markets, and pass-through effects from earlier and ongoing declines in relative energy prices.

Growth

Graph 2



Condition	2023	2024
Inflation	Inflation fell to 6.8% in 2023.	Global headline inflation is expected to further fall to 5.8% in 2024.
Interest rates	Central banks started relaxing their monetary policy stance since June 2023.	All central banks will cut rates in 2024. But will still remain far above pre-pandemic levels.
Exchange rate	Remained strong in 2023.	Uncertainty prevails as exchange rates can either get hiked or suffer due to the possibility of recession.
Trade	Global trade was expected to decline by nearly 5% in 2023 influenced by diminished demand in developed nations, under performance in East Asia economies and a decrease in commodity prices.	Global trade growth is projected at 3.3% in 2024 as rising trade distortions and geoeconomics fragmentation are expected to affect the level of global trade.

Operating environment and risks and opportunities

The Sri Lankan economic and political environment

In 2022 and 2023, Sri Lanka faced the worst economic and political crisis since its independence in 1948. However, the country's political and economic climate displayed tentative signs of stabilisation towards the end of 2023, helped by the Government's implementation of stabilisation measures such as hiking interest rates to control inflation, removing fuel subsidies, raising taxes, introducing market pricing for most of the essential items, and passing a law to improve the independence and accountability of the Central Bank of Sri Lanka (CBSL).

A Government-led tax reform package has been under implementation since May 2022, which includes the introduction of new taxes and a wide range of adjustments to the tax rates and bases, intending to improve the efficiency of tax collection and increase compliance. The resulting price adjustments for essential items such as electricity, fuel, gas, and food have raised concerns about potential social unrest due to the decline in disposable income.

The results of these measures were swift. Real GDP recorded positive growth of 1.6% (YoY) in 3Q2023, the first expansion in six consecutive quarters and showing the first signs of recovery. Inflation fell from a peak of 69.8% in September 2022 to 1.3% in November 2023.

Debt restructuring

The Government also conducted external debt restructuring talks with creditors, intensified discussions with the International Monetary Fund (IMF) on an economic bailout, sought Indian aid, and engaged in free trade agreement-led Asian regionalism. Following negotiations with the IMF, CBSL hiked the interest rates by 100bps, immediately ahead of the IMF Board approval in March 2023. However, with the accelerated decline in inflation, CBSL cut policy rates by 650 bps while also cutting Statutory Reserve Ratio (SRR) by 200bps to fasten the decline in market rates.

In March 2023, the IMF Board approved an Extended Fund Facility worth USD 2.9 Bn. over 48 months, which emphasises revenue-based fiscal consolidation and governance reforms. The first review by the IMF Board on 12 December 2023, rated "Sri Lanka's performance as satisfactory" meaning that the total IMF disbursement would be USD 670 Mn. (22%) in 2023. The IMF facility unlocked additional funding from the World Bank and the Asian Development Bank (ADB) for social protection, financial sector, and infrastructure development.

Reforms for state-owned enterprises (SOEs) have been a key element that the IMF has been focusing on and Sri Lanka has made major progress in some of the privatisation initiatives.

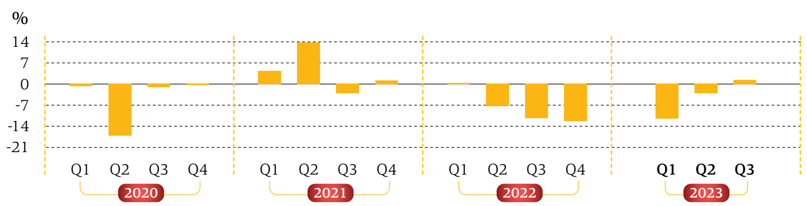
Foreign exchange

Foreign exchange liquidity pressures eased, with usable foreign reserves rising from USD 20 Mn. in April 2022 to USD 2 Bn. in October 2023. Queues for essential goods have disappeared. CBSL continued to allow the rupee to trade freely without influencing the direction of the rupee. CBSL continued to purchase dollars throughout the year in order to achieve the reserve targets for the year.

However, towards the latter part of the year, CBSL announced that it would refrain from transactions in the market, allowing the rupee to move based on the demand and supply of currency. Currency observed an initial depreciation pressure but subsequently registered appreciation pressure. However, it continued to hover within the targeted band of LKR 320 and 360 during the period under review.

Macro economic factors	2023	2024
GDP growth	GDP recorded positive growth of 1.6% by the third quarter of 2023, showing the first signs of recovery.	According to the World Bank, Sri Lanka's economy is expected to grow to 1.7% in 2024 after contracting by 3.8% in 2023.

Quarterly GDP growth – Sri Lanka Graph 3



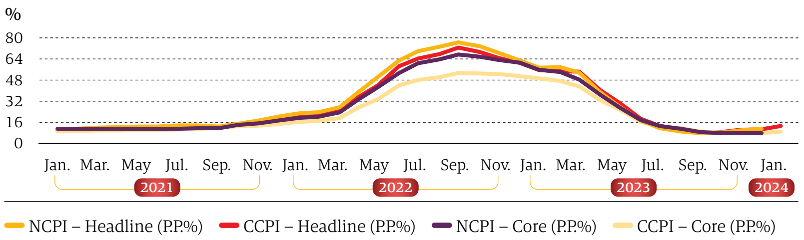
Inflation	Inflation fell to 4.0% by December 2023 against 57.2% recorded at the end of 2022.	Inflation is likely to remain on the high side as food inflation may further increase as well as be impacted by the potential impact of the VAT hike to 18%.

Operating environment and risks and opportunities

Macro economic factors	2023	2024

Inflation

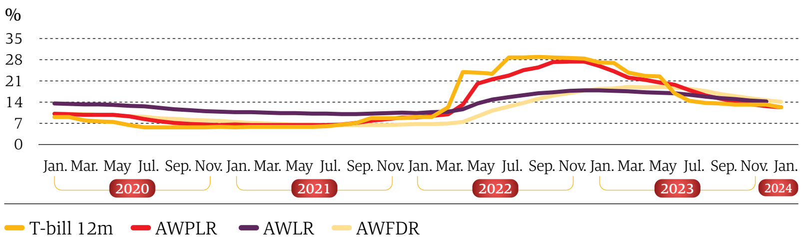
Graph 4



Macro economic factors	2023	2024
Interest rates	Interest rate caps were introduced to ensure the effective transmission of the monetary policy easing measures and to protect consumers.	Interest rates are expected to remain lower.

Interest rates

Graph 5



Macro economic factors	2023	2024
Exchange rate	Improved foreign exchange inflows eased liquidity pressures, with the exchange rate remaining stable. https://www.cbsl.gov.lk/en/news/external-sector-performance-2023-december	The exchange rate is likely to remain stable with possible marginal depreciation amidst trade relaxation.
Trade	Merchandise trade deficit was at the lowest level since 2010, due to import expenditure outpacing export earnings. The trade deficit grew in December 2023 but imports continued to be moderated despite recent relaxations of import restrictions. https://www.cbsl.gov.lk/en/news/external-sector-performance-2023-december	Economic recovery may lead to expansion in trade deficit.
Sri Lanka – fiscal consolidation	The budget deficit widened to Rs. 1,613.6 Bn. in the first nine months of 2023, while the primary deficit turned to a primary surplus of Rs. 123.8 Bn. in the first nine months. However, in the medium term, the overall balance is expected to reduce with the conclusion of debt restructuring and establishment of revenue-based fiscal consolidation.	The budget deficit is expected to moderate in 2024, as the implementation of cost-reflective pricing mechanisms helps improve the financial performance of State-Owned Business Enterprises (SOBEs) and after the Government successfully completed the Domestic Debt Optimisation (DDO) operation.

Banking industry analysis

The banking industry faced turmoil economic conditions throughout the year. The stormy economic conditions that started from 2019 after the Ester Sunday Attack, followed by the emergence of COVID-19 in 2020 and its prolonged repercussions on societal and economic activities throughout 2021 and compounded by the socioeconomic and political turmoil in 2022 amidst severe balance of payments (BOP) strains and unparalleled policy dilemmas, have greatly impacted economic operations, causing unprecedented challenges for individuals and enterprises. Jobs were lost, and real incomes experienced significant declines, resulting in immense hardships for many. After all these hardships, 2023 was the year where market participants could hope to rebuild their incomes and empires, marking 2023 as the start of the recovery. The painful policy measures including domestic debt curtails and interest rates cuts also have impacted the banking industry. Despite these hardships, the industry was able to mark Rs. 20 Tn. in total assets by the end of 2023.

Profitability

Earnings and profits were the more challenging component of a banks' financial position during 2023. Despite the interest rate downturn in the market, the industry was able to mark Rs. 2.8 Tn. in total income. It was a 19.31% increment from the last year. However, net interest income (NII) had decreased by 4.93% due to the asset and liability repricing effect. Total non-interest income also declined by 26.31%, reflecting the weak microeconomic conditions that prevailed during the year. Gains from net trading had also declined by 83.66% compared to last year given the stock market downturn during the year. VAT, NBT, and other taxes on financial services had increased by 46.96% compared to last year in

Operating environment and risks and opportunities

accordance with the tax changes during the year. Corporate tax also increased by 338.87% due to the recent tax reforms. Even with tough financial circumstances, the banking industry was able to earn Rs. 294 Bn. as profit before tax (PBT) and Rs. 189 Bn. as profit after tax (PAT). Impairment and other losses also decreased by 65.06% as the asset quality increased and due to corrective recovery measures taken by the banks.

Industry return on equity was 10.6%, which was a slight increase compared to last year. Return on assets (after tax) ended up at 0.9%, which was also a 15.59% increase from last year.

Loans and advances

Loans and advances deteriorated by 3.29% due to the higher interest rates that prevailed in the first half of 2023.

Deposits and funding

The total deposit base of the banking sector reached Rs. 16.6 Tn. at the end of 2023, which showcases a 12.63% increase compared to last year. The deposit mix was distributed as time deposits and savings deposits, at 66% and 26%, respectively.

Loans and Receivables

Industry
Rs. 10.1 Tn.

NSB
Rs. 0.5 Tn.

Investments

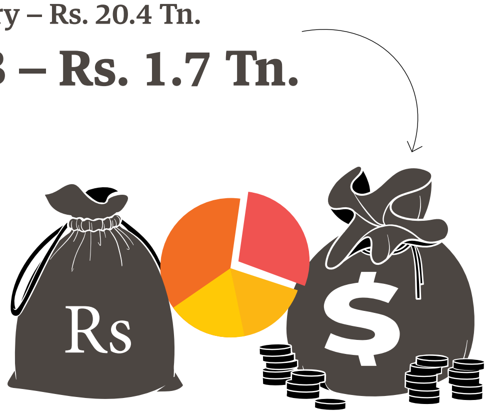
Industry
Rs. 7.3 Tn.

NSB
Rs. 1.1 Tn.

Total assets

Industry – Rs. 20.4 Tn.

NSB – Rs. 1.7 Tn.



Deposits

Industry
Rs. 16.6 Tn.

NSB
Rs. 1.5 Tn.

Borrowings

Industry
Rs. 1.39 Tn.

NSB
Rs. 0.09 Tn.

NIM

Industry – 3.6%
NSB – 1.8%

ROA

Industry – 1.5%
NSB – 0.3%

ROE

Industry – 10.6%
NSB – 9.4%

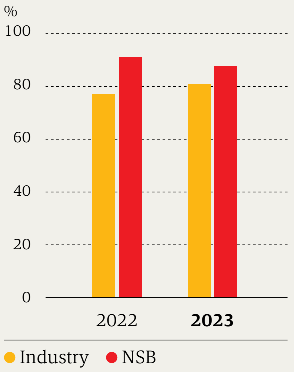
Stage 3 impairment coverage

Industry – 49.0%
NSB – 53.3%

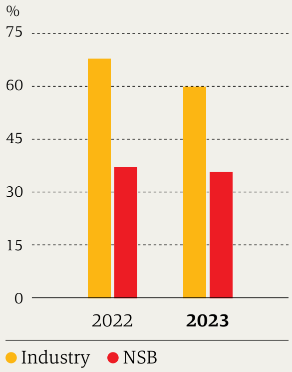
Total capital adequacy ratio

Industry – 16.91%
NSB – 19.26%

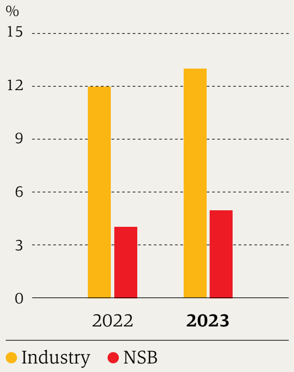
Deposits to assets Graph 6



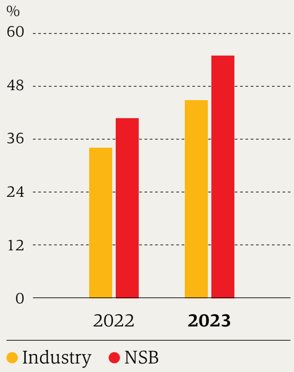
Loans to deposits Graph 7



Stage 3 loans to total loans Graph 8



Statutory liquid assets Graph 9



Operating environment and risks and opportunities

Investments

Investments in the banking industry increased by 23.3%, reaching Rs. 7.3 Tn. because of higher Treasury Bill and Treasury Bond rates during the first half of 2023.

Liquidity

Despite the tough policy measures and macroeconomic conditions, the banking sector was able to maintain a healthy liquid condition. Liquid asset to total asset ratio was 39.8%, which was a 46% increase compared to last year. Basel III statutory liquidity ratios were maintained well above the margins in the industry. Total capital adequacy ratio was 16.93% and Tier 1 capital adequacy ratio was 13.77%. Statutory liquid asset ratio was 46.7%. The banking industry showed higher resilience towards liquidity risk during 2023.

Implications for value

Global and local political and economic conditions have significant impacts on the banking industry.

Geopolitical and local political developments can disturb our business and our ability to create value for our stakeholders in terms of market continuity; regulatory, strategic, and operational objectives; and funding. The tensions in the Middle East and China are particularly salient for our business. The tensions in the Middle East result in continued oil and gas price volatility, which impact businesses and transport. Issues in China impact commodity exporters across the globe that export to the country. Tensions in both regions can significantly affect commodity prices.

Macroeconomic volatility impacts customers, business performance (revenue, costs, profit, cash flow generation), and investor confidence while sluggish gross domestic product (GDP) growth along with higher inflation, interest rates, and a weakening currency put pressure on consumers' disposable income, input costs, and funding.

Such challenging economic environments and uncertainty in the political climate impact the ability to execute our strategic initiatives.

Risk and opportunities

Our risks

- Multiple tax reforms have been implemented with market pricing of most of the SOE-related services, significantly impacting purchasing power of customers.
- Lower disposable income affected the customers' repayment capacity and impacted asset quality.
- Interest rates that remain elevated for longer have a material impact on the funding and operational costs.
- Access to funding due to sovereign rating downgrade.
- Market liquidity risk.
- Foreign exchange risk.

Our opportunities

- Develop a world-class business by capturing opportunities for innovation through addressing the macro-economic challenges in our market.
- Redesign the asset portfolio in order to respond to the impact of these conditions in the future.
- Ability to increase the agility to refine our strategy according to the new developments.

Our strategic response

- Protect the Bank's liquidity and the capital.
- Effective treasury management, capital management, and financial planning.
- Scenario analysis to evaluate the potential outcomes of a variety of factors, developing mitigating actions, and assessing their effectiveness to guide decision-making.
- Closely monitor the link between the movements in interest rates and impairments and take necessary actions.
- Maintain a strong recovery process.
- Reduce the asset-liability mismatch by redesigning and repricing the portfolio to withstand interest rate risk and liquidity risk.

Operating environment and risks and opportunities

Relevant short to medium term strategic priorities

Related material matters

Relevant capitals

Relevant risks

Risk 3 Risk 4 Risk 5 Risk 6

Relevant SDGs

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

Governance in action

The Board revisited risk appetite limits to manage interest rate risk and credit quality, while also examining overall lending principles with more emphasis placed on strengthening the credit evaluation and approval procedures.

To deal with the economic instability, the Board amended NSB's short- and medium-term strategic plan to facilitate continuous realignment of business plans in tandem with findings from current risk assessments.

The outlook

Global

Based on the economic and political conditions around the world, NSB believes that the key geopolitical risks to watch are the tensions between Russia and NATO, cyberattacks, strategic competition between the US and China, anti-/deglobalisation, climate risk, energy security, and the COVID-19 pandemic fallout.

In 2024, conflict escalation could be seen in three vital spots including Israel (oil and trade routes in the Middle East), Ukraine (stability and the balance of power in Eastern Europe), and Taiwan (advanced technological supply chains in East Asia), and these could lead to broader regional destabilisation, directly drawing in major powers and escalating the scale of conflict. Escalated conflicts also lead to more severe humanitarian crises. In other concerns, it is expected that artificial intelligence (AI) and ocean levels rising will emerge as new issues motivating geopolitical competition and regulatory dynamics.

In the global economic environment, global growth projection for 2023 was 3.1%, which remained at the same rate in 2024, only rising modestly to 3.2% in 2025 on account of greater-than-expected resilience in the United States and several large emerging-market and developing economies. World trade growth is projected at 3.3% in 2024 and 3.6% in 2025, below its historical average growth rate of 4.9%. Rising trade distortions and geoeconomics fragmentation are expected to continue to weigh on the level of global trade. Global headline inflation is expected to fall from an estimated 6.8% in 2023 (annual average) to 5.8% in 2024 and 4.4% in 2025 as a result of still-tight monetary policies, a related softening in labour markets, and pass-through effects from earlier and ongoing declines in relative energy prices.

Sri Lanka

Based on the economic and political conditions in Sri Lanka, NSB believes that following the economic crisis, Sri Lanka will be going into elections in 2024, with the Presidential Election followed by General Election. Uncertainty surrounding the elections may deter investors from making long-term commitments and they may prefer instead to focus on the short-term until the scenario is clear. Further, completion of external debt restructuring is the most important of the milestones, which may even lead to a rating upgrade and possible foreign activity.

According to the Word Bank, Sri Lanka's economy is expected to grow by 1.7% in 2024 after contracting by 3.8% in 2023, which signals the positive recovery of the economy. Inflation for the beginning of 2024 is likely to remain on the high side as food inflation may further surge amidst skyrocketing prices of vegetables and the potential impact of the VAT hike to 18%. A weak global economy is expected to continue to reduce demand for Sri Lanka's key exports in 2023, while higher taxes and lower real incomes will dampen domestic demand.

The exchange rate is likely to be stable throughout 2024 with possible marginal depreciation amidst trade relaxation. CBSL is likely to use the opportunity of high inflows to buy US dollars in the market. As the economy recovers in 2024, trade deficit may tend to expand. Balance of Payment has already seen recovery and is expected to turn positive in the near term coupled with the support of multilateral lenders and foreign inflows. Amidst improvements in the tourist arrivals and worker remittances, foreign reserves are expected to see consistent growth. On the upside, faster-than-expected growth, driven by a stronger rebound in tourism and remittances, could foster recovery and build additional buffers.

Operating environment and risks and opportunities

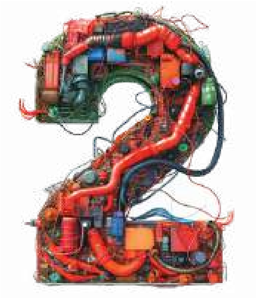
Banking sector outlook

The challenges faced by the Sri Lankan economy and its populace in recent years have been the most demanding since the country gained independence. As the economy gradually recovers, the banking sector in Sri Lanka is facing its highest expectations to date. The primary goal is to ensure smooth credit flow to the real economy, enhancing the income-generating capacity of grassroot communities. To achieve this, the Central Bank has devised a roadmap for restructuring and recapitalising nine major banks, aiming to ensure their strength and sufficient capitalisation.

Proposed amendments to the Banking Act aim to further fortify the legal and regulatory framework governing licensed banks. Key proposed amendments include bolstering minimum licensing criteria, enhancing corporate governance, ensuring suitability of shareholders, potential subsidiarisation of foreign banks, regulating bank ownership, acquisitions, mergers, and consolidations, divestment of non-financial subsidiaries, implementing consolidated supervision, strengthening accounting and audit standards, maintaining proportionality, managing large exposures, and regulating related party transactions. It's anticipated that the Banking (Amendment) Bill will be passed in Parliament early in 2024.

Continuous monitoring of licensed banks' contribution to sustainable finance endeavours is planned, with incentives introduced to encourage sustainable and climate-friendly finance activities. In the medium term, small and mid-sized banks are expected to explore opportunities for consolidation by acquiring or merging with suitable financial institutions to leverage scale, efficiency, and financial stability. The Central Bank aims to facilitate such consolidation processes, driven by market dynamics.

Mega trend



Digital disruptions and increased competition

Key factors

- Growth in the use of internet
- Accelerated adoption of the internet
- Increased in internet usage
- Increased cyber attacks
- Data privacy concerns
- Increased adoption of e-commerce
- Disruptive digitalisation in ways of work
- Digitalisation of business processes
- Requirement of rapid digital adoption, albeit with 66% of HR leaders indicating that a hybrid way of work was already in place
- High use of mobile technology, fintech partnerships, cloud computing, big data, advanced analytics, machine learning, blockchain technology, AI, robotics, and biometrics

Implications for value

Exponential advancement of 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.

Digital transformation is fundamentally changing the way we do business, from customer onboarding and product sales to servicing.

A rapidly evolving competitive landscape, changing consumer demand, financial disintermediation, and disruptive technologies have expedited the evolution of our business model to one that genuinely embraces digital technology for delivering better products to customers, improving risk management, and optimising profitability.

Protection against data leakage and other security breaches is essential due to the vital role banks play in maintaining functioning payment and settlement systems, thus demanding additional resources be funnelled to this priority area.

Operating environment and risks and opportunities

Risk and opportunities

Our risks

- Cyber risk has been identified as a top risk and it has become more important given the digitisation of products and services.
- A cyber-attack could lead to service interruption and the infringement of personal and confidential data.
- For NSB, cyberattacks pose the risk of business interruption, reputational damage, financial loss, and exposure to increased regulatory scrutiny and censure.
- For customers, cyberattacks pose risks to their safety and security.
- Delays in a shift to the customer-centric model could, in turn, slow down the pace of digital and financial inclusion and the unlocking of value.

Our opportunities

- Opportunities for NSB include continuing to enhance our customer experiences (social capital) through disruptive technologies and digital adoption, thereby meeting our goal of gaining transactional volumes and revenue; and improving efficiency through technology (lower cost to serve).
- Continue to contribute to efforts to strengthen the security control environment and plans through the adoption of new technologies and by building awareness.
- Enhance NSB's overall security position through refreshed and improved security plans.
- Continue to enhance cyber resilience programmes to ensure sustainability of the business.
- Drive faster digital and financial inclusion.

Our strategic response

- We are making significant investments in our digital resources and platforms to provide a secure, agile, and world-class operating environment across our businesses.
- We continually advance our digital strategy, observe developments in this ever-evolving landscape, and remain flexible in our responses.
- We enhance cybersecurity governance and operational structures through heightened monitoring, reporting, and response to threats. Also, we invest in upgrades to the cybersecurity environment where required.
- We offer cybersecurity awareness campaigns and bolster training.
- We enhance controls to continually improve the safety of customers and their data. (social and relationship capital on page 140 for further information).

Governance in action

COVID-19 has been a catalyst for NSB's accelerated changes to approach to business and sharpened strategic focus and execution abilities to maintain its relevance. The majority of the projects approved by the Board are related to core banking implementations and digital transformation (including improvements in the information security).

Deep integration with business is needed; through Board deliberations on the newly added short-to-medium-term strategy (Accelerating Digitalisation), attention has been given since 2021 to the means of invigorating innovation capabilities to meet the pace of change required in the industry. The Board also oversaw Bank-wide measures to combat increased cybersecurity threats that arose generally through opportunistic threat actors, increased digitisation, and the shift to remote working arrangements.

Relevant short to medium term strategic priorities

Related material matters

Relevant capitals

Relevant risks

Risk 3 | Risk 4 | Risk 5 | Risk 6

Relevant SDGs

1 No Poverty | 8 Decent Work and Economic Growth | 9 Industry, Innovation and Infrastructure | 11 Sustainable Cities and Communities | 12 Responsible Consumption and Production

Operating environment and risks and opportunities

Outlook

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

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

Key factors

Changes in demographics

- Increasing ageing population: The population is growing older and will age more rapidly than most of the other developing economies.
- Between 2000 and 2030, Sri Lanka's median age is predicted to rise from 26.9 to 39.2 years.
- The share of working-age population (those aged 15 to 64) in total population has started declining and the absolute number of working-age population will also start dropping by 2030.

Brain drain

- Departures for foreign employment continue to be significant.
- Unplanned and excessive outflow of skilled workers would have a negative impact on Sri Lanka's economic recovery efforts.

Shifts in the labour market

- Hybrid working models becoming the norm.
- Rise in outsourced work and increasingly opting for gig-economy models.
- The demand for technology skills and intense competition from technology companies have placed pressure on banks concerning recruiting and retaining critical and scarce talent.
- Generational differences in work expectations.
- Scarcity in high-demand skills.
- Increased desire for work-life balance and flexibility.
- Increased focus on mental health and impact on productivity.

Mega trend

Changes in demographics and the evolving world of work

Implications for value

The demographics of the society has an impact on savings, investments, and credit and creates 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.

We recruit talent from the localities and, hence, demographics influence our value creation and business growth. Trends in society determines the social relevance of our Bank and any failure to attract and retain talent impedes our succession planning and expansion plans.

The demand for scarce and critical skills within the context of our digital transformation could affect our ability to achieve our desired business model. Helping to reskill the existing workforce not only drives retention but meets fundamental business needs. Banks are now under increasing pressure to build more agile and adaptable operating models.

The falling share of working-age population and an ageing population can be a drag on growth. The number of workers retiring will increase, while the number of people entering the workforce will decrease, resulting in lower productivity, lower taxes, lower national income, lower growth, and lower savings.

Operating environment and risks and opportunities

Risk and opportunities

Our risks

- Highly skilled employees are becoming increasingly expensive to recruit and difficult to retain amid the acceleration of skills and academic migration.
- The demand for scarce and critical skills continues to escalate as digital transformation continues to transform talent and skills required for the future.
- Assumptions around a "post-pandemic" workplace are largely untested and practices will evolve to guide our investment decisions while improving employee experiences, irrespective of where and when work is performed.
- The Bank is increasingly under pressure to contribute towards addressing critical social issues facing the world today.
- Challenges in creating a more conducive environment and adopting new work models offering increased agility and flexibility.
- Adapting to evolving customer preferences and revising risk assessment models.

Our opportunities

- Expansion of our well-being value proposition to more holistically cater to employee needs.
- The ability to provide an improved support experience for employees.
- A refreshed leadership development approach to empower leaders to lead a more virtual, diversified workforce with new leadership capabilities.
- Investment in retaining and developing skills enable building the NSB brand and developing the nation.
- Unlock socioeconomic development by leveraging the power of technology to empower people across our markets, most especially the youth and women and drive social inclusion for all.
- Repositioning our skills base for the future of the business can help to ensure we are able to support the individuals and businesses.

Our strategic response

- Continuous investment in skills development and leadership programmes to reskill and upskill our employees and nurture a future-fit workforce.
- Piloting opportunities to reskill and support our people ready for the workforce of the future.
- Launching virtual learning and training solutions to grow and mobilise talent internally, while ensuring a steady supply of scarce and critical skills when needed.
- Strive to deliver the most engaging customer experience by facilitating digital education and help develop digital skills.
- Implementing programmes that promote employee wellbeing and creating a more conducive work environment by emphasising the importance of diversity and inclusion.
- Broad coverage through the Bank's different networks to increase accessibility for customers.
- Catering to different customer segments and fulfilling their needs at every stage of their lives through our extensive distribution channels and products with continuous value additions.

(social and relationship capital on pages 136 to 145 for further information).

Governance in action

The Board, being cognisant about the demographic changes, gave due consideration to addressing changing employee and customer needs and providing solutions to address those changed needs. The Board approved the implementation of succession planning and promotions to cater to retirements, resignations, etc., to address the changes in the human capital.

Relevant short to medium term strategic priorities

Related material matters

Relevant capitals

Relevant risks

Risk 2

Risk 7

Relevant SDGs

Operating environment and risks and opportunities

Outlook

The future of banking will look very different from today. Faced with changing consumer expectations, banks need to embrace advanced technologies such as analytics and AI to improve threat visibility and detect fraud effectively. Digital transformation is a critical imperative for banks to succeed in a changing business environment. Technology will continue to be the driver of business growth and central to delivering a wide range of services through strong customer experiences. Most banks have yet to make consistent, sustained, and bold moves towards technology-enabled transformations. Banks need to embrace agility and successfully integrate the digital and human workforce in order to serve customers seamlessly. Banks will need to utilise platforms and the data behind them to optimise their products and services to understand and serve the customer better.

Sri Lanka has reached an advanced stage of the demographic transition with an increasing ageing population. This is expected to have long-lasting implications for service delivery, pensions, employment, and public finances. It is also important to have policies that foster women's entry to labour markets. According to studies, improving female labour force participation would add USD 20 Bn. to the annual GDP by 2025, which would help to combat Sri Lanka's rapidly aging population.

Mega trend

Increased regulatory scrutiny

Key factors

- Increased competition, technological changes, and disruptive business models have resulted in regulatory bodies introducing up-to-date regulation.
- The democratisation of finance through advancement of technology demands that regulators carefully weigh the relative importance of public access to products, financial stability, consumer protection, digital transformation, cybersecurity, climate change, payments, diversity and inclusion, and financial-sector-related regulation.

Implications for value

Regulation or deregulation directly affects a financial institution's ability to generate or protect value for itself and its customers.

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 a compliance risk.

Changes in regulatory/legislative obligations increase compliance requirements and can impact our overall growth, revenue, and profitability.

The potential for penalties and regulatory sanctions for non-compliance with legislation and conduct in our markets is increasing in number and severity.

Further, key regulatory concerns including changes in the Statutory Reserve Requirements, interest rate fluctuations and control, monetary policy, and caps on lending rates also has a significant impact on the Bank's strategy and value-creating activities.

Operating environment and risks and opportunities

Risk and opportunities

Our risks

- The increasing pace and developing complexity of regulatory change and statutory requirements place a heavy burden on the Bank.
- Risk of inability to meet higher capital requirements and difficulties in liquidity management.
- Increase in compliance and operating costs (HR, IT, etc.).
- Implementation costs on financial institutions are heavy (although necessary) if they wish to be compliant and free of reputational damage.
- Financial crime that has evolved with the rapid advancement of digital technology and more efficient channels of fund transfers, resulting in heightened fraud and scam risks.
- Distorted competition with new, less-regulated players.
- Increasing exposure to potential data leaks arising from third- and fourth-party suppliers.
- Failure to observe such standards gives rise to compliance and reputational risks and erodes the trust of stakeholders.

Our opportunities

- Continuous improvement in the Bank's processes and ethical framework.
- Enhanced role as one of the major providers of financing to the economy.
- Further progress in identifying and managing new risks (climate change and ESG).
- With capital well above regulatory requirements, we are in a strong position to serve existing and new customers and this position allows us to have greater flexibility in capital and liquidity planning.
- As a leading bank in our markets, we are well-placed to provide appropriate responses to regulators and policymakers on regulatory requirements.
- A robust governance framework and comprehensive data analytics and systems capability prevent financial crimes and protect our customers and businesses.
- A reputation for being trustworthy can help to attract and retain customers and investors.

Our strategic response

- Ensure strict compliance with requirements guided by our policies, processes, and stakeholder engagement programmes.
- Engage with regulatory authorities and other stakeholders on upcoming regulatory changes to ensure the most appropriate outcomes for the banking sector and broader economy.
- We see technology as a pivotal opportunity to streamline and simplify regulatory compliance, accommodating rapid change while enabling the Bank to provide more effective and secure services to our customers.
- Enhancing the compliance culture within the organisation through an intricate and comprehensive internal control framework along with other measures.
- 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.
- Strengthening our ESG policies and processes and ensuring we implement effectively – transparently disclosing our progress.

(social and relationship capital on pages 136 to 145 for further information).

Governance in action

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

Reviews done during the year 2023 included, but were not limited to, Bank's deteriorating credit quality; statutory and economic capital compositions and levels considering regulatory requirements; stress scenarios; and interest rate reforms.

Relevant short to medium term strategic priorities

Related material matters

Relevant capitals

Relevant risks

Risk 3 Risk 9 Risk 10

Relevant SDGs

8 DECENT WORK AND ECONOMIC GROWTH
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Operating environment and risks and opportunities

Outlook

A new Banking Act

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

Present proposals, made under the new Banking Act, call for changes to the types of banking licences currently issued; streamlining approval to establish branches and other banking outlets; strengthening consumer protection; providing deposit insurance; strengthening governance; amalgamating both offshore banking and domestic banking units' operations into a single banking business; and improving resolution, enforcement, and supervisory actions. It is also noted that the proposed Act will govern the banking licences and regulation of banks in the upcoming Colombo International Financial Centre in the Colombo Port City.

Micro Finance and Credit Regulatory Act

The Central Bank took steps to finalise a new piece of legislation titled the 'Micro Finance and Credit Regulatory Act'. This will ameliorate the regulatory framework relating to licensed micro finance institutions and introduce a new regulatory framework for the money-lending business of the country. The draft law aims to repeal the existing Microfinance Act, No. 06 of 2016, and to establish a Credit Regulatory Authority (CRA). Further, the new Act proposes a regulatory and supervisory framework for money-lending and micro-finance businesses while enhancing the legal framework for consumer protection and governance principles.

Others

Due to the current and expected cybersecurity issues, banks may overhaul some of their protocols and policies around access management, finding ways to increase flexibility without compromising security. The banking sector will move parts of its IT operations to public cloud environments. Most banks currently use their own private clouds although these can be challenging to maintain in emergency situations. Cybersecurity will remain a top priority for banks in the future, even if regulations on IT and security of banks may change quite significantly.

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

Mega trend

Managing for climate change and sustainability

Key factors

- Climate change impacts, including the effects on human health and disease profile changes.
- Ecological changes (biodiversity loss and ecosystem collapse).
- Natural disasters: The recent floods had a devastating impact on social welfare, impacting businesses and costs.
- Urbanisation.
- Rise of ESG.
- Regulatory and commercial pressures on banks to protect themselves from the impact of climate change and to align with the global as well as national sustainability agenda.
- Increased stakeholder focus on sustainable development and ESG.

Implications for value

NSB's reputation and success is increasingly linked to our ESG performance, including adherence to governance standards.

The robustness of our ESG policies, processes, and disclosures impact our enterprise value in the eyes of investors.

Climate change affects how we operate and our ability to connect our customers, deliver our products and services, and generate revenue and cash flows.

Our ability to implement and report on our ESG programmes is integral to the long-term sustainability of our business, strategic intent of leading digital solutions for the country's progress, and priority to create shared value for our stakeholders.

Operating environment and risks and opportunities

Risk and opportunities

Our risks

- More frequent and severe weather events and longer-term shifts in climate patterns could result in the Bank's assets, including those held as collateral, being impaired.
- Climate change is causing serious challenges to the sustainability of communities and businesses resulting in significant credit risk implications.
- The Bank's financial performance and reputation could also be impacted by insufficient climate commitments, insufficient financing of new opportunities and financing, or partnering with organisations that damage the environment or violate human rights.
- Climate change will reverse hard-won human development gains, worsen inequalities, and trigger forced migration and conflict. It is also a key driver of disaster risks, leading to increased frequency, magnitude, and impacts of climate-induced disasters on lives, livelihoods, and socio-economic development.
- The impacts of climate change include more natural disasters and increased costs to rebuild (or retrofit) infrastructure, where required; increased energy costs; water shortages and quality issues; and increased food prices and shortages.
- The physical risks of climate change are powerful and pervasive. Warming caused by greenhouse gases could damage liveability and workability.
- Global warming will undermine food systems, physical assets, infrastructure, and natural habitats (loss of bio diversity).

Our opportunities

- Supporting the SDGs through sustainable-development finance to create an enduring competitive advantage.
- As we continue to build insights and capabilities, we will be able to manage climate-change-related risks proactively and develop new solutions to assist our customers to prepare for the future.
- The commercial imperatives for better climate-risk management are also increasing. In a competitive environment in which banks are often judged on their green credentials, it makes sense to develop sustainable-finance offerings and to incorporate climate factors into capital allocations, loan approvals, portfolio monitoring, and reporting.
- Development of investment and financing solutions to support institutional customers, corporates, and small businesses in adopting a low-carbon trajectory.
- Additional products and services to enable consumers to adapt their behaviour to an economy that consumes less energy, in line with the Paris Agreement, and put their savings to the service of environmental and social issues.
- Financial innovation in response to the new economic models (sustainable agriculture in particular).

Our strategic response

- Responsible corporate citizenship and sustainability objectives underpin our strategy. Our investments in our products and services ensure that they remain relevant and offer value to our customers.
- Strengthening our ESG policies and processes and ensuring we implement them effectively – transparently disclosing our progress.
- Specific sustainable financing opportunities in Sri Lanka relating to water, renewable energy, and agriculture have been identified. In line with this opportunity, NSB will undertake to support commercially viable investments, while simultaneously solving social and environmental challenges and helping to achieve the country's SDGs and align with the outcomes of the COP27 summit.
- In line with this, we commit to supporting the government's initiatives and implementing budget proposals on sustainable development finance transitioning into a low-carbon economy in a manner commensurate with the needs of our clients, the size of the strategic opportunities offered, and our desire to continue to leverage our competitive advantage in this area.
- Strengthening our strategy, policies, processes, products, and services to manage the risks and opportunities associated with climate change.
- Disaster recovery and business continuity plans have been developed and implemented to mitigate any negative impacts to the customer resulting from changed access points following any natural disasters.

(natural capital on pages 146 to 150 for further information).

Operating environment and risks and opportunities

Outlook

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

Banks are required to be socially and environmentally responsible in their product offerings and investment decisions, as well as in using scarce resources. There is a greater need for banks to align with the UN SDGs by adopting sustainable business practices and adhering to regulations set by the Government. Failure of compliance results in erosion of stakeholder trust in the Bank 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 an imperative role in transitioning into a low carbon economy. In the short and medium-term, we plan for an orderly transition, very aware of the social impacts of our decisions.

Further, the International Financial Reporting Standards (IFRS) Foundation formally announced the establishment of the International Sustainability Standards Board (ISSB) at the 2021 UN Climate Change Conference in Glasgow. Subsequently, in June 2023, ISSB issued its first two IFRS Sustainability Standards Disclosures (IFRS 1: General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures). The CASL introduced these two standards to the corporate sector and other stakeholders, and both IFRS S1 and IFRS S2 are in effect for annual reporting periods beginning on or after 1 January 2024.

Governance in action

In 2022, the Board reviewed the sustainability policies and elevation of sustainability risk to Environmental and Social Risk Management Framework considering the changes in the environment. The Board-approved course of actions with regard to the four selected United Nations Sustainable Development Goals in 2018 continued to make a positive impact. The Board continues to monitor the impact of sustainability risk from its operations and take every measure to minimise the impact in its process of value creation.

Relevant short to medium term strategic priorities

Related material matters

Relevant capitals

Relevant risks

Risk 2 Risk 8

Relevant SDGs

Operating environment and risks and opportunities

SWOT analysis

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

Strengths

- Deposits and interest payments are fully guaranteed by the Government
- Strong brand image – recognised as the seventh most valuable brand in Sri Lanka as per Brand Finance
- A banking legacy of 190 years
- 100% State-owned bank
- Extensive customer reach across the island exceeding 4,000 service points
- Strong employee loyalty with a higher retention rate
- AAA credit rating by Lanka Rating Agency
- Specialised in financing infrastructure projects and clean energy financing
- Collaboration with the postal network
- POS service

Weaknesses

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

Opportunities

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

Exploiting strengths to enhance opportunities

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

Diminish threats by exploiting strengths

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

Combat weaknesses by making the most of opportunities

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

Operating environment and risks and opportunities

Threats

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

Eliminate weaknesses to avoid threats

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

Operating environment and risks and opportunities

Industry attractiveness and competitiveness

To maintain our position in Sri Lanka's competitive banking sector, we have adopted Michael Porter's Five Forces Analysis. This framework helps us understand critical external elements influencing our industry, pinpoint the major challenges our Bank faces and set strategic priorities. Addressing these issues effectively is key to preserving the resilience of our Bank. Below, we detail the intensity and impact of each of these five forces within the banking industry environment.

1 Threat from new entrants

New players

New regulations and compliance requirements

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

2 Bargaining power of customers

Existing and potential customers

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

3 Bargaining power of suppliers

Goods and service providers

Employees

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

4 Competitive rivalry

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

5 Threat of substitutes

Non-banking financial institutions

Payment facility providers

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

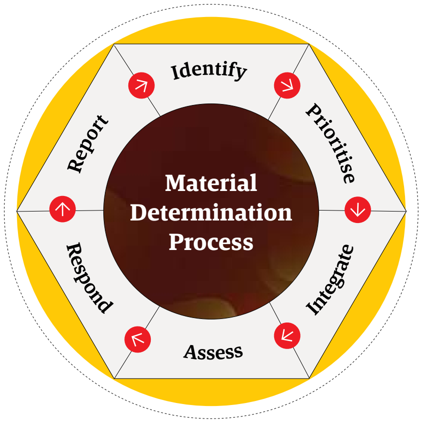
Materiality

Material determination process

As the savings giant of the nation, NSB plays a pivotal role in serving the economic activities of the individuals, communities, and the nation at large by helping to create, grow, and protect wealth while being a partner in the country's economic development. Our ability to create and preserve value is determined by many factors, including our operating environment, stakeholders, how we respond to risk and opportunities, and our selected strategy.

The Bank applies a double materiality approach to determine the matters relevant for reporting disclosure, which identifies the matters that impact our ability to create or preserve value (financial materiality) and our impact on the environment, communities, and society (impact materiality) in the short, medium, and long-term. To ensure we account for the dynamic nature of these matters, we evaluate our materiality annually. This report provides the context for what we have deemed our material matters – those which can significantly affect our ability to create or preserve value, or lead to value erosion, over the short, medium, and long-term.

Our materiality determination process is discussed and illustrated as follows:



Inputs

Reviewed the operating environment's impact on our value creation

pages **26** to **44** – Operating environment

Reviewed our risks that are most significant to the Bank's ability to achieve strategic objectives

pages **27** to **41** – Risks and opportunities
pages **191** to **213** – Risk review

Reviewed our stakeholders' interests, needs, and expectation

pages **81** to **93** – Integrated stakeholder engagement

Reviewed Board and subcommittee key decisions

pages **182** to **190** – Board Subcommittee reports

Other inputs

- Media reviews
- Peer reviews
- External/research publications
- Previous matters disclosed in the 2022 reporting suite
- Other matters identified in industry peers' reporting

Identify

We analyse our business context, operating environment, the resources on which we rely, and the internal and external feedback received from our stakeholders applying an INTEGRATED THINKING approach to assess matters that could have financial, reputational, operational, environmental, social, strategic, or legislative significance. We consider events that have occurred as well as matters that could affect our business in the short, medium and long-term.

Prioritise

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.

Materiality matrix on page 47 to understand how we prioritise our material matters.

Integrate

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

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

Assess

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

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

Respond

We respond to our material matters by putting in place appropriate management actions to capitalise on those factors that offer the opportunity for greater value creation as well as interventions to mitigate those that have the potential to disrupt it.

Report

We report the identified material matters to all our internal and external stakeholders. Matters that meet the criteria of materiality are described in this Integrated Report.

Materiality

Materiality matrix

We plotted identified issues in a materiality map based on the level of stakeholders' considerations and the extent of impact on the viability of our business and relationship with stakeholders as well as boundary of the topic. Our material matters are categorised into three groups, namely social, economic, and environmental.

Accordingly, 12 material issues that have the potential to impact our operations and are of great importance to our stakeholders were identified for the financial year 2023. The Board and Management continue to actively monitor the situation and adapt our response as required to maintain our financial strength and ensure that our customers and the community are supported through these challenging times.

Our material matters have been classified as outlined below under the five mega trends that we identified under operating context.

Material matters (MM) in 2023

The material issues have been grouped under three main pillars; People, Profit, and Planet, as illustrated by the following diagram. We have also prioritised matters and plot them on the materiality matrix given on page 47.

Global and local socio-political and economic disruptions

People Profit Planet

Business resilience amidst economic, socio and political uncertainty

Profit

Financial stability and profitability

Digital disruptions and increased competition

People Planet

Digital transformation

Innovation and agility

People Profit

Customer service and experience

Managing for climate change and sustainability

Planet

Managing our carbon footprint

People Planet

Responsible financing

Changes in demographic and the evolving world of work

People

Skills and capabilities

Employee value proposition

Increased regulatory scrutiny

People

Governance and compliance

Cyber threat and information security

People Profit

Financial crime

Materiality

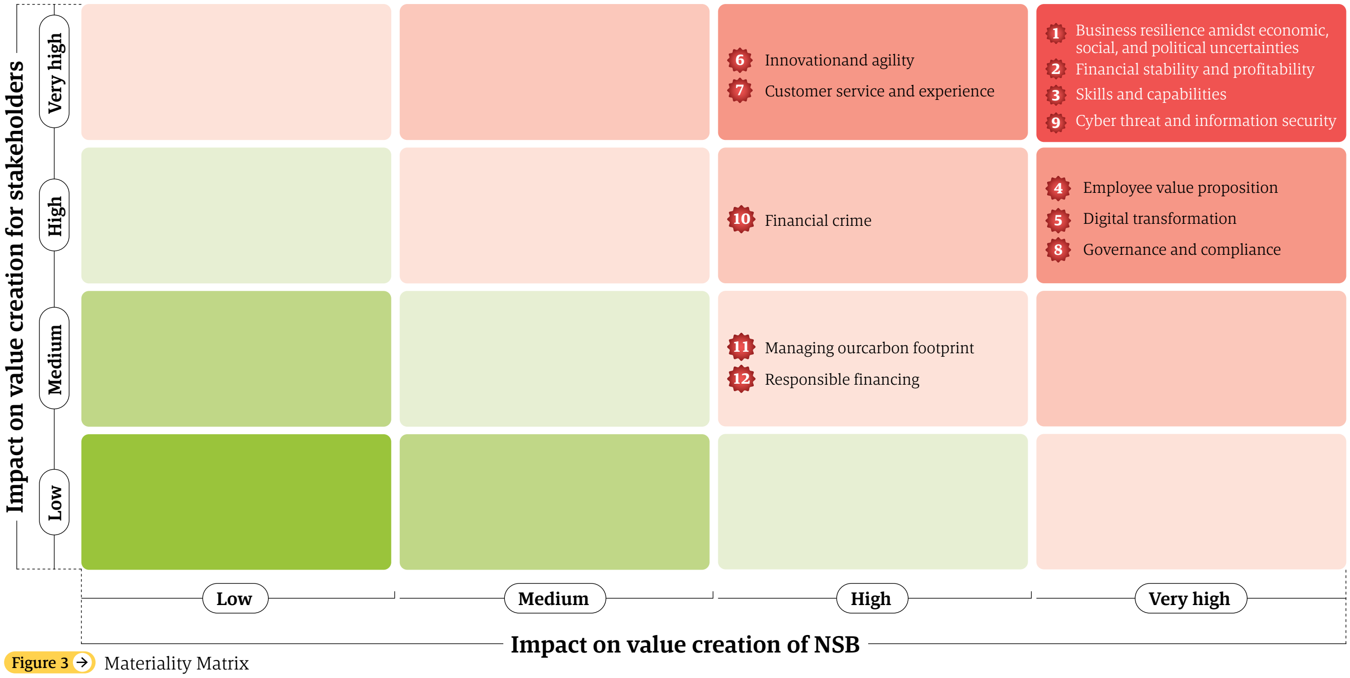


Figure 3 Materiality Matrix

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

Risk categories:

- Risk 1 Financial Risk
- Risk 2 Strategic Risk
- Risk 3 Operational Risk
- Risk 4 Credit Risk
- Risk 5 Market Risk
- Risk 6 Liquidity Risk
- Risk 7 Reputational Risk
- Risk 8 ESG Risk

Time frame:

For each key external factor, we indicate the time frame in which we estimate it will significantly impact NSB. For this integrated report, short-term is the next financial year (ending 31 December 2024), medium-term is the period to 31 December 2026, and long-term is beyond December 2026.

Year-on-year (YoY) movement:

Increased/emerging/stable/reduced

Mapping material topics to our value chain

Material topic	Upstream (suppliers, investors, regulatory bodies)	Bank Operations	Downstream (customers, employees, and society and environment)
1. Business resilience amidst economic, social, and political uncertainties	✓	✓	✓
2. Financial stability and profitability	✓	✓	✓
3. Skills and capabilities		✓	✓
4. Employee value proposition			✓
5. Digital transformation	✓	✓	✓
6. Innovation and agility	✓	✓	
7. Customer service and experience		✓	✓
8. Governance and compliance	✓	✓	
9. Cyber threat and information security	✓	✓	✓
10. Financial crime	✓	✓	✓
11. Managing our carbon footprint		✓	✓
12. Responsible financing	✓	✓	

Table 2

1.	GRI 201	Economic performance	9.	GRI 401	Employment
2.	GRI 202	Market presence	10.	GRI 403	Occupational health and safety
3.	GRI 203	Indirect economic impacts	11.	GRI 404	Training and education
4.	GRI 204	Procurement practices	12.	GRI 405	Diversity and equal opportunity
5.	GRI 205	Anti-corruption	13.	GRI 406	Non-discrimination
6.	GRI 206	Anti-competitive behaviour	14.	GRI 413	Local communities
7.	GRI 302	Energy	15.	GRI 417	Marketing and labelling
8.	GRI 303	Water and effluents	16.	GRI 418	Customer privacy

Materiality

MM 1 Business resilience amidst economic, social, and political uncertainties

Context/description

Geopolitics and associated volatility, complexity and ambiguity in the country's economic, social and political climate create potential socially and economically disruptive conditions and significantly change the operating context, accelerating trends and highlighting structural issues of the Bank.

Why it is material

Any major economic, social, and political disruptions could result in reduced demand for our products and services and lower spending power for our customers, affecting our profitability and cash flow generation. It forces us to preserve the level of competitiveness and determines the reliability of the Bank through uninterrupted service, prudent risk management, and a solid capital position.

YoY movement

Increased

Reasons for change

Factors such as economic contraction, high unemployment levels, currency volatility, rising liquidity pressures, rising social unrest, increased administration costs, inflation, and weakening macroeconomic fundamentals impede growth and investment and may result in reduced demand for lending, increased cost of doing business, and the potential of customer defaults.

Management approach

- We monitor local and global conditions, including economy, sector-specific, regional, and global political events.
- We minimise strategic, execution, and business risks arising from external and internal drivers through proactive risk management strategies.
- We engage in corporate planning and budgeting processes to provide flexibility and adjust strategies and reprioritise capital to adjust to the changes in the operating context.
- We position the core portfolio to withstand prevailing conditions and adapt to potential future scenarios.
- Our focused and selective investments align with strategic goals, supported by ongoing scenario planning.
- We actively engage with the Government, communities, and customers to support initiatives to address economic hardship.
- We ensure that strategic and large-change projects are properly scoped, fully capacitated, and closely monitored through senior management oversight, including independent quality assurance.
- We maintain a dynamic approach to risk appetite setting in response to the outlook for 2024 and beyond.

How we manage the material matter

Diving deeper: General Manager/CEO's message page **18**, promoting organic growth page **75** financial capital page **96**.

Risk category

Risk 1 · Risk 3 · Risk 4 · Risk 5

Capitals impacted

Short to medium-term Strategic priorities impacted

Related stakeholders

Relevant GRI and boundary

- GRI 201 Economic performance – within and outside
- GRI 202 Market presence
- GRI 203 Indirect economic impacts – outside

Impacted primary UN SDGs

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

Impacted secondary UN SDGs

2 Zero hunger

Time frame

Short to medium-term

Materiality

MM 2 Financial stability and profitability

Context/description

Preserving our financial strength and playing a countercyclical role during times of economic and financial turmoil.

Why it is material

Financial stability and profitability are seen as the key enablers in creating value for our stakeholders and also for growing our business over the short, medium, and long-term.

YoY movement

Increased

Reasons for change

- Changes in the asset prices (exchange rates, interest rates, property, and equity) over time – partly due to uncertainty – unfavourably impact our ability to achieve targeted growth and liquidity levels and could lead to diminished asset values.
- Increase in the volatility of asset prices is likely to lead to an impact on the earning capacity of the assets due to repricing risk.
- Prices of investments in the equity, fixed income (investing 60% of the money deposited in Government securities), and money market portfolios have reduced with increased refinancing risk.
- Impact on revenue generation due to stagnated market growth.
- Increasing operational and other expenses due to increased inflation conditions.
- Elevated credit exposure due to customer payment defaults and customers going into business rescue.
- Low revenue diversification and high refinance risks.
- Credit rating agencies' assessments and their impact on the debt financing.

Management approach

- We have rigorous and conservative capital adequacy and liquidity management.
- We have sustainable cost-compression measures and operational efficiency in the ways of working.
- We scrutinise budgeting, forecasting, and scenario analysis processes.
- We conduct feasibility studies of diversified revenue streams through conservative portfolio diversification.
- We carry out credit risk assessments and integrity due diligence for all investments.
- We have new business development initiatives to bridge the revenue generation deficit gap.
- We have continuous working capital management (debtor and creditor management, monitoring of customers with high credit risk exposures).
- We strengthen our balance sheet by having a balanced portfolios that may produce returns across a variety of scenarios.

How we manage the material matter

Diving deeper: General Manager/CEO's message page **18**, promoting organic growth page **75** financial capital page **96**.

Risk category

Risk 1, Risk 3, Risk 4, Risk 5

Capitals impacted

Short to medium-term Strategic priorities impacted

Related stakeholders

Relevant GRI and boundary

- GRI 201 Economic performance – within and outside
- GRI 202 Market presence
- GRI 203 Indirect economic impacts – outside

Impacted primary UN SDGs

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

Impacted secondary UN SDGs

2 Zero hunger

Time frame

Short to medium-term

Materiality

MM 3 Skills and capabilities

Context/description

The progression of new technologies, changing macro-economic conditions, and increasing regulatory expectations increase the need for employees with new and different skill sets as well as deep banking expertise to deliver the performance expected by stakeholders.

Why it is material

Our people are critical to the success of our strategy, and an inability to attract or retain the right talent and capabilities could prevent us from delivering on our long-term goals. These skills may become more difficult to attract and retain, particularly with the emergence of non-traditional technology competitors who aim to compete directly in banking.

YoY movement

Increased

Reasons for change

- Risk of inadequate skills and competencies to fully respond to 4th Industrial Revolution business models.
- Long-term business sustainability.
- Business and market growth.

Management approach

- We have targeted training programmes to develop our people including senior management.
- Our talent and career approach seeks to attract and retain high calibre people by providing career opportunities that recognise people's expertise, potential, and aspiration.
- We have set up initiatives to develop the capabilities of our employees and to equip them with the skills and approaches required to lead cultural and behavioural changes throughout the Bank.
- We are piloting opportunities to reskill and support our people become ready for the workforce of the future.
- We have training and development initiatives aligned to employees' roles and personal development needs, including virtual learning and training solutions.

How we manage the material matter

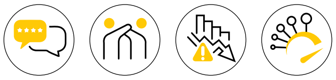
Diving deeper: Enhancing employee engagement page **71**, human capital page **124**.

Risk category

Risk 1, Risk 2, Risk 3, Risk 7

Capitals impacted

Short to medium-term Strategic priorities impacted



Related stakeholders

Relevant GRI and boundary

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

Impacted primary UN SDGs

Impacted secondary UN SDGs

Time frame

Short to long-term

Materiality

MM 4 Employee value proposition

Context/description

Includes risks associated with our ability to ensure an enticing employee value proposition; retaining and attracting required skills for current and future business; maintaining a high-performance culture anchored in our values and ethics; with high levels of engagement and productivity; ensuring inclusive and diversity management; managing organisational change; and ensuring good labour relations (includes handling labour actions or disruptions).

Why it is material

Develop a winning team functioning in a conducive environment to increase our capacity are critical for continued creation of shared value and efficient execution of our strategies to achieve our business objectives.

YoY movement

Increased

Reasons for change

- Holistic approach to employee well-being from psychological, physical, spiritual, intellectual, and financial perspectives (increasing the need for mental health, flexible working models, work-life balance, and stress management to non-traditional forms of wellness, mindfulness or financial – wellbeing).
- The trend of remote work and flexible work arrangements has increased post COVID-19.
- The necessity for a cultural transformation journey and change management programme.

Management approach

- We continue to invest in our value proposition by offering competitive remuneration, rewards and benefit frameworks and policies, and wellbeing programmes.
- We foster an inclusive and diverse workforce.
- We continue to review the Bank's remuneration framework to ensure that it supports our strategic objectives of employee engagement.
- Our workforce plan methodology determines long-term resources and skills – This will improve gender and age representation.
- We strengthen our culture and remuneration frameworks to ensure employees are clear on expectations and accountabilities.
- We ensure proactive engagement with organised labour.

How we manage the material matter

Diving deeper: Enhancing employee engagement page **71**, human capital page **124**.

Risk category

Risk 2
Risk 3

Capitals impacted

Short to medium-term Strategic priorities impacted

Related stakeholders

Relevant GRI and boundary

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

Impacted primary UN SDGs

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

Impacted secondary UN SDGs

2 ZERO HUNGER

Time frame

Short to long-term

MM 5 Digital transformation

Context/description

Invest in digitalisation to deliver a superior customer experience by meeting customers' evolving needs, transforming our processes, and enhancing new skill sets of our employees to be in accordance with digital and data specialists in our market space. Further, emerging technologies are making it easier for non-banking organisations and technology companies to compete directly in banking.

Why it is material

- Being in sync with emerging technologies strengthens the sustainability of our Bank, leading to consistent financial growth. It also enhances our service capabilities, enhances the productivity of our employees, and nurtures a culture of innovation.
- The emergence of new technologies is driving the digitisation and automation of processes and require a different set of skills that may be difficult for the Bank to attract and retain.
- The adoption of new technologies can be a differentiator. However, failure in digital or IT transformation projects could result in lost business, a poorer customer experience, and reputational damage. Failure to deliver business benefits causes cost escalation, budget overruns, and increased customer churn, which could negatively impact our financial performance.

YoY movement

Increased

Reasons for change

- Ageing ICT infrastructure and technology (inadequate network connectivity).
- Cyber security and slow adoption of the 4th Industrial Revolution.
- Funding constraints.
- Delays in the automation of critical business processes.
- Delayed commercialisation of digital solutions.
- Remote working conditions and an increased desire for digital connectivity for the digital platforms during the COVID-19 lockdown period.

Management approach

- Accelerating digital transformation is a key pillar of the Bank's strategy. We continue to invest to deliver the best digital banking experiences for our customers through new digital services, market leading technology, seamless service across channels, and data driven insights.
- We have invested in digital infrastructure and assets over the years to achieve a stable position in digital banking. Customer enrolment for our internet banking is continuously increasing.
- We are modernising and simplifying our systems and digitising our end-to-end process to reduce risk and cost and to improve system availability and resilience.
- We have developed tools and guidelines for safety and security while actively engaged in the development of national and international standards regarding safety and security.
- We monitor emerging technologies and research and test the adoption of new, innovative capabilities to maintain our technology leadership.
- We track individual programmes against our clearly defined objectives and target KPIs throughout the lifecycle of our projects. The aim is to identify, manage and mitigate new threats.
- We ensure sufficient investment to continue delivering scalable digital solutions that focus on current and evolving customer needs.
- We maintain focus on physical and digital operational resilience and proactively identify and mitigate risks.

How we manage the material matter

Diving deeper: Accelerating digitalisation page **77**, intellectual capital page **118**.

Risk category

Risk 2 Risk 3 Risk 7

Capitals impacted

Short to medium-term Strategic priorities impacted

Related stakeholders

Relevant GRI and boundary

GRI 401	Employment – within
GRI 404	Training and education – within
GRI 413	Local communities – outside
GRI 418	Customer privacy – within

Impacted primary UN SDGs

9 Industry, innovation and infrastructure; 11 Sustainable cities and communities

Impacted secondary UN SDGs

13 Climate action; 17 Partnerships for the goals

Time frame

Short to medium-term

MM 6 Innovation and agility

Context/description

Creating, developing, and implementing a new product, service, or process with the aim of improving efficiency and effectiveness that enables a bank to react quickly and flexibility to a new trend or situation and to keep innovating.

Why it is material

Being an innovative and agile organisation in a rapidly evolving operating context is necessary to meet the current and arising customer needs in order to remain relevant to ensure future growth.

YoY movement

Increased

Reasons for change

Rapid advances in disruptive technology have the potential to disrupt traditional business models and create new markets. In order to stay relevant, we must adapt our operating model and respond to the changing and, at times, conflicting needs and demands of our stakeholders.

Management approach

- We adopt a self-disruptive approach by focusing on developing a culture of innovation.
- We leverage emerging and trending technologies in all facets of our business.
- We enhance our operating model with sustainable innovations such as online and virtual banking and stakeholder engagement channels.
- We factor in "big data" to analyse changing markets and behavioural trends.
- We implement flexible and innovative solutions that improve our resource efficiency as well as operational efficiency particularly in resource scarce and uncertain environment.
- We build and embed a winning brand with a focus on innovative business processes and products designed to meet unique customer needs and preferences.

How we manage the material matter

Diving deeper: Accelerating digitalisation page **77**, intellectual capital page **118**.

Risk category

Risk 1 Risk 2 Risk 3

Capitals impacted

Short to medium-term Strategic priorities impacted

Related stakeholders

Relevant GRI and boundary

GRI 401 Employment – within

GRI 413 Local communities – outside

GRI 404 Training and education – within

Impacted primary UN SDGs

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

Impacted secondary UN SDGs

17 PARTNERSHIPS FOR THE GOALS

Time frame

Short to medium-term

MM 7 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 that result in a high level of customer satisfaction and trust in the Bank.

Why it is material

Delivering an excellent customer service is essential to building trust, financial strength, and stability. Poor customer service and capacity constraints result in strained customer relationships and loss of business. To retain and acquire customers and clients, we have to remain relevant by offering innovative and cost-effective products and solutions.

YoY movement

Increased

Reasons for change

- Increased competition from a variety of new technology platforms that aim to build alternative communication services or different touch points, which could potentially affect our customer relationships.
- Financial constraints on customers due to the pandemic and credit rating downgrades.
- Historical customer dissatisfaction levels.

Management approach

- We strive to deliver the most engaging customer experience by blending the best of technology and human interaction in a personal, instant, and easy manner.
- We develop insight into our customers' needs, wants, and behaviours, and provide propositions to lead in chosen segments.
- We embed a purpose-led culture by focusing on driving competitive differentiation through innovative product and service offerings that enable a digital society, are inclusive for all, and have the least environmental impact.
- We increased investment in digital channels, smarter capital allocation, provision of targeted customer propositions, ambitious price plays, and/or new digital offerings, often through innovative new partnerships.
- We continually strive to introduce innovative propositions and services while evolving our customer experience to deepen the relationship with our customers.
- Our strategy focuses on simplifying our offer portfolios and accelerating our digital transformation, for a better customer experience.

How we manage the material matter

Diving deeper: Heightening customer experience page **69**, social and relationship capital page **136**.

Risk category

Risk 2 Risk 3 Risk 7

Capitals impacted

Short to medium-term Strategic priorities impacted

Related stakeholders

Relevant GRI and boundary

- GRI 416 Customer health and safety – outside
- GRI 417 Marketing and labelling – outside
- GRI 404 Training and education – within
- GRI 418 Customer privacy

Impacted primary UN SDGs

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Impacted secondary UN SDGs

17 PARTNERSHIPS FOR THE GOALS

Time frame

Short to long-term

MM 8 Governance and compliance

Context/description

The current regulatory landscape is changing at an unprecedented rate. We have a responsibility to identify existing and emerging legislation relevant to our business and ensure that associated risks are well-understood, and controls are embedded within the company and operating model.

Why it is material

The Bank must comply with a multitude of local and international laws and applicable industry regulations. Sound governance and compliance are central to a business's reputation and licence to operate. However, regulatory and policy developments remain a challenge across our markets, as the regulatory landscape continues to evolve at an unprecedented rate with increasingly stringent requirements.

Reasons for change

- Rapid changes in the regulatory environment impacting costs of operations.
- Increased regulatory and compliance requirements, especially given the new and/or revised legislation and regulations gazetted and implemented as a consequence of COVID-19 and the economic crisis of the country.
- The risks and consequences of non-compliance range from financial to non-financial sanctions, which may individually and/or collectively have a fundamental impact on our sustainability as a going concern.
- Failure to comply with these laws and regulations could lead to reputational damage, financial penalties, and/or suspension of our licence to operate.
- Increasing opportunistic financial crime and cybercrime and the rising sophistication of criminal activity impact customers and the Bank.

Management approach

- We strengthened the focus placed on ensuring robust governance processes and strong management of regulatory compliance across the Bank.
- We strengthen a culture of sound regulatory compliance across the Bank.
- We have dedicated risk and compliance teams in place to oversee compliance risk management.
- We maintain proactive relations with the Government and regulators.
- We participate in Government engagement processes when invited.
- We have subject matter experts in legal teams and a robust policy compliance framework.
- We conduct training and awareness programmes that set out our ethical culture across the organisation and assist employees to understand their role in ensuring compliance.

YoY movement

Increased

How we manage the material matter

Diving deeper: Reinforcing risk culture page **73**, statement on corporate governance page **151**.

Risk category

Risk 3 Risk 7

Capitals impacted

Short to medium-term Strategic priorities impacted

Related stakeholders

Relevant GRI and boundary

GRI 205 Anti-corruption

GRI 206 Anti-competitive behaviour

GRI 404 Training and education – within

Impacted primary UN SDGs

8 DECENT WORK AND ECONOMIC GROWTH

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Impacted secondary UN SDGs

17 PARTNERSHIPS FOR THE GOALS

Time frame

Short to long-term

Materiality

MM 9 Cyber threat and information security

Context/description

Cybersecurity breaches and attacks, including information theft, ransomware, and malware, pose a threat to our reputation, as well as our ability to maintain operations.

Why it is material

- Cybersecurity is an increasing priority as hackers become more sophisticated, with the increasing trend of digitalisation of banking services and automation of business processes.
- An external cyberattack, insider threat, or supplier breach could cause service interruption to customer banking services or result in the loss of confidential data or compromise customer data privacy. Cyberthreats could lead to major customer, financial, reputational, and regulatory impacts across all of our local markets.
- Poorly maintained or managed areas such as lending decisions and the use of technology could create data privacy concerns or deliver incorrect results with potentially poor financial, regulatory, and reputational outcomes.

Reasons for change

- Exponential growth of digitisation and technological transformation in financial services (evolution and development of new technologies, increasing use of digital channels, higher levels of remote working).
- Increased sophistication and broadened activities of cyber criminals.
- Growing regulatory focus on safe practices and stringent polices within organisations to ensure that customer interest is safeguarded.
- Cyberattacks have the potential to impact the financial system's stability.

Management approach

- We continue to strengthen our security controls.
- Our cybersecurity programme focuses on enhanced detection and monitoring infrastructure, as well as security configuration and vulnerability management capabilities.
- We collaborate with a range of government, community, and industry bodies to strengthen system-level resilience and to reduce the possibility of cyberattacks and the impact of fraud and scams on the community.
- We are focused on strengthening our data management framework across the Bank. This involves enhancing our methodology, architecture, tools, standards, and procedures across all business areas to ensure the quality and integrity of data.
- Continued investment in cybersecurity awareness, prevention, and security best practices as part of our culture.

YoY movement

Increased

How we manage the material matter

Diving deeper: Accelerating digitalisation page **77**, intellectual capital page **118**, risk review page **191**.

Risk category

Risk 3 Risk 7

Capitals impacted

Short to medium-term Strategic priorities impacted

Related stakeholders

Relevant GRI and boundary

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

Impacted primary UN SDGs

8 DECENT WORK AND ECONOMIC GROWTH

Impacted secondary UN SDGs

17 PARTNERSHIPS FOR THE GOALS

Time frame

Short to long-term

MM 10 Financial crime

Context/description

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

Why it is material

Not detecting or preventing financial crimes can have a significant impact on our customers and the community and can result in material fines and penalties for the Bank. There is currently a higher risk of financial crime because of increased opportunities through a number of financial support packages available, combined with an increase in the number of vulnerable people and businesses.

YoY movement

Increased

Reasons for change

- Rapid changes in technological advancements.
- New ways of digital crime.
- Heightened fraud and security risks arising from economic pressure.

Management approach

- We have enhanced our policies and procedures for financial crimes.
- We invest in new technologies, including enhanced transaction monitoring systems and processes, aimed at the detection of financial crimes.
- We established mechanisms and processes to improve customer data integrity through core systems.
- We periodically revise our anti-bribery and corruption policy and standard and develop new tools for the implementation of the framework.
- We enhanced financial crime compliance education and training for staff aimed at deterring and detecting financial crimes.

How we manage the material matter

Diving deeper: Accelerating digitalisation page **77**, intellectual capital page **118**, risk review page **191**.

Risk category

Risk 3 Risk 5 Risk 7

Capitals impacted

Short to medium-term Strategic priorities impacted

Related stakeholders

Relevant GRI and boundary

GRI 205 Anti-corruption – within and outside

GRI 206 Anti-competitive behaviour – within and outside

GRI 418 Customer privacy – within

Impacted primary UN SDGs

8 DECENT WORK AND ECONOMIC GROWTH

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Impacted secondary UN SDGs

17 PARTNERSHIPS FOR THE GOALS

Time frame

Short to long-term

MM 11 Managing our carbon footprint

Context/description

Contribute towards building a low-carbon economy by reducing our ecological footprint and protecting our planet to ensure long-term sustainable value creation of the Bank given that Sri Lanka has been experiencing frequent and extreme weather events such as droughts, forest fires, floods, and cyclones.

Why it 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 on businesses to both minimise the impact and ensure our future operating model will remain relevant as consumers shift behaviours to minimise their carbon impact.

YoY movement

Increased

Reasons for change

- Continuing acceleration of circular economy means less energy requirements for the same level of output.
- Increased tariffs and less availability of energy sources (water, fuel, electricity, etc.) impact business continuity.
- Increasing the likelihood of large-scale weather events shifting global actions towards strong mitigation adaptation measures.
- Governments' initiatives towards creating a low-carbon economy.

Management approach

- We manage our resources wisely focusing on minimising paper, water, and energy consumption and efficient waste management.
- We align our objectives with the government and the UN SDGs.
- We reduce adverse environmental impacts through green building concepts and the efficient use of natural resources.
- We continually engage to understand stakeholders' needs and concerns.
- We invest in green technology.
- We record our GHG emissions and will continue to track and report our carbon footprint.

How we manage the material matter

Diving deeper: Natural capital page **146**.

Risk category

Risk 2 Risk 3 Risk 7

Capitals impacted

Short to medium-term Strategic priorities impacted

Related stakeholders

Relevant GRI and boundary

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

Impacted primary UN SDGs

7 AFFORDABLE AND CLEAN ENERGY
12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Impacted secondary UN SDGs

6 CLEAN WATER AND SANITATION
13 CLIMATE ACTION
14 LIFE BELOW WATER
15 LIFE ON LAND
17 PARTNERSHIPS FOR THE GOALS

Time frame

Short to long-term

Materiality

MM 12 Responsible financing

Context/description

Providing sustainable banking and finance products and services that do not have a negative impact on the environment and society.

Why it is material

Capital allocation decisions of the finance sector determine the shape of future economies. Because creation and growth of industries or projects financed by the Bank may have an impact on the environment and the community in which we operate and everyday life, it is a key element in our customer's long-term prosperity and growth.

YoY movement

Increased

Reasons for change

- Increasing climate ambition for 2030 and 2050 accelerates clean and circular economy.
- Increasing likelihood of frequent and more extreme weather events shifting global action towards making funding available for environmentally viable projects that help mitigate climate change risks.
- Aligning the policies of the Bank to adhere to the national guidelines, which in turn are developed to align with global standards.

Management approach

- We evaluate ESG risks for large industrial/infrastructural, long-term projects.
- We do not fund projects that have a negative impact on the environment or people's health and safety.
- We provide green and sustainability-linked loans and advances that drive the transition to a low-carbon economy.
- Developing strategic responses to climate change by strengthening our due diligence processes, considering our range of products and services, and building internal and customer capabilities to support the transition to a low-carbon economy.
- Aligning our objectives with the Government and UN SDGs.

How we manage the material matter

Diving deeper: NSB Sustainability Framework page **63**, natural capital page **146**.

Risk category

Risk 2 Risk 3 Risk 7

Capitals impacted

Short to medium-term Strategic priorities impacted

Related stakeholders

Relevant GRI and boundary

GRI 203 Indirect economic impacts – outside
GRI 302 Energy – within and outside
GRI 303 Water – within and outside

Impacted primary UN SDGs

7 AFFORDABLE AND CLEAN ENERGY
12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Impacted secondary UN SDGs

6 CLEAN WATER AND SANITATION
13 CLIMATE ACTION
14 LIFE BELOW WATER
15 LIFE ON LAND
17 PARTNERSHIPS FOR THE GOALS

Time frame

Short to long-term

Our sustainable value creation business model

Figure 4

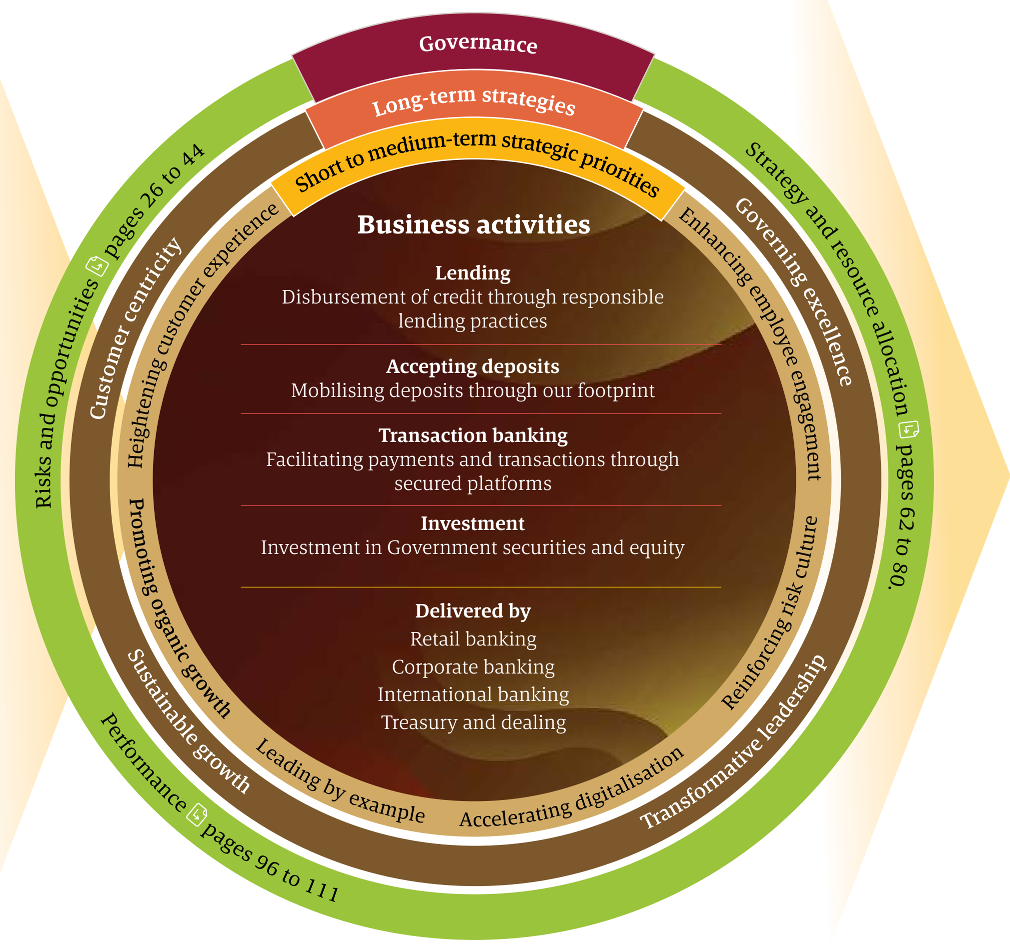
Global and local socio-political and economic disruptions

Stakeholders	Inputs				
Shareholder/ Investor	**Financial capital** A strong capital base and adequate funding to support deposits and lending activities	• Rs. 9.5 Bn. cash and cash equivalents	• Rs. 81.4 Bn. share capital and reserves	• Rs. 1.5 Tn. deposits from customers	• Rs. 94.4 Bn. long- and short-term borrowings
Customers	**Manufactured capital** Digital and physical infrastructure used in the production and delivery of products and services to customers	• Rs. 17.2 Bn. property, plant, and equipment	• Rs. 1.6 Bn. capital expenditure	• Physical touchpoints • Digital infrastructure	• Virtual touchpoints/ Digital channels
Employees	**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
Regulators and Government institutions	**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
Business partners	**Intellectual capital** Consists of the broad knowledge and capability inherent in the Bank, being a culmination of the intangible assets of the entire capital base	• Integrated business strategy • Best practice governance	• Agile approach to strategy setting and execution of strategic priorities	• Leveraging technology and innovation	• Corporate culture
Society and environment	**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		

Changes in demographic and the evolving world of work

Operating environment pages 26 to 44.

Our sustainable value creation business model



Managing climate change and sustainability

Increased regulatory scrutiny

Digital disruptions and increased competition

Output

Products
(page 11)

i. Deposits
(0.4% growth YoY)
Savings deposits
Time deposits

ii. Lending products
[(4.8%) growth YoY]

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

Corporate lending
- Direct lending to financial institutions
- Loan syndication
- Project lending

Services
(page 11)
- Inward and outward remittances
- Trade finance

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

Environmental Sustainability
(page 434)
GRI content index

Outcomes	Sustainable value creation and sharing		Impact on UN SDGs
• Rs. 5.6 Bn. Operating profit before tax • Rs. 7.2 Bn. Profit after tax • Rs. 14.4 Bn. Retained earnings • Rs. 885.4 Bn. Government securities portfolio	**Financial returns for:** • Bank • Shareholder • Providers of capital	**Economic value created for:** • Broader stakeholders • Sri Lankan economy	Primary UN SDGs: 8, 9 Secondary UN SDGs: 10
• 9,640 new internet banking customers • 295 ATMs • 122 Cash Recycling Machines (CRMs) • 4,006 Post offices and sub-post offices • ICT systems, digital platforms, and cloud services	**Value propositions through self-service channels** • Digital transformation across the value creation process and services through convenience • Business continuity • Physical and digital infrastructure reliability	• Operational efficiencies and improved productivity • Improved access to financial products chains	Primary UN SDGs: 7, 11, 12 Secondary UN SDGs: 10, 13
• Greater number of professionally skilled employees • Higher retention ratio of 96.3% • 4,358 motivated and engaged employees • 52,630 training hours • 100% returned after maternity leave • 55% of female employees	**Highly skilled and engaged employees who:** • Improve our ability to understand and serve our customers, driving our business performance successfully • Facilitate the effective implementation of our strategies to achieve corporate objectives and create value for our stakeholders	• Create value under the pressures of a dynamic and unpredictable environment in which rapid unexpected developments take place • Creating direct and indirect employment for Sri Lankans	Primary UN SDGs: 1, 4, 5, 8 Secondary UN SDGs: 3, 10
• 13.03 million active customer accounts • 100% local employment	• Maintain social license • Financial inclusion • Fair, transparent and ethical management systems • Fair and equitable tender process	• Exceeding customer expectations on customer experience and service delivery	Primary UN SDGs: 1, 4, 9, 11, 12 Secondary UN SDGs: 10, 13
• Compliance with PCI DSS certification • 24/7 Security Operations Centre (SOC) under the Information Security Division and a third party, to keep incident response capabilities in line with international standards and next generation features • Mobile Payment App • Implementation of the first phase of the Human Resources Information System (HRIS), automating leave, attendance, and employee information management • Implemented a Data Leakage Prevention (DLP) system with an automated data classification facility to cover all IT systems of the Bank • Initiated e-KYC with blockchain technology	• Strong brand position • Consistently maintained AAA credit rating • 100% Government guarantee for deposits and interest thereon • Distinctive wide range of products and services	• Financial inclusion	Primary UN SDGs: 8, 9, 16 Secondary UN SDGs: 10
• 29,697 GJ of energy consumption • 73,895 m³ of water consumption • 45 branches connected to net metering	• Business operations with a low-carbon footprint • Support the Government/Sri Lanka to achieve SDGs • Responsible consumption and lending	• Initiatives that are energy efficient and green • Fast-paced digitalisation	Primary UN SDGs: 7, 11, 12 Secondary UN SDGs: 6, 13

Our sustainable value creation business model

Strategy and resource allocation

Sustaining and growing in challenging times

NSB is committed to a strategic vision dedicated to the growth and efficiency of the Bank, along with the broader socioeconomic development of Sri Lanka, combining vision with action to address dynamic challenges, providing a definitive structure for our direction, and outlining our priorities and actions to achieve short-, medium-, and long-term goals, thereby generating value for both our shareholders and other stakeholders.

Crafting strategies through an INTEGRATED THINKING approach

The Bank derives strategies through an INTEGRATED THINKING approach that involves a comprehensive and cohesive method, combining financial performance with long-term sustainability, risk management, and stakeholder engagement. Through this approach, we ensure that strategic planning and decision-making processes of the Bank are aligned with broader economic, social, and environmental objectives. Our INTEGRATED THINKING approach recognises how financial resources, intellectual capital, human resources, social relationships, and environmental stewardship interact, identifying new opportunities for sustainable and responsible growth that contribute to the NSB's long-term success.

How we allocate our resources

Strategic deployment entails translating the Bank's vision and objectives into actionable plans that capture market opportunities, lead to competitive positioning, and ensure regulatory compliance. Effective resource allocation (including financial capital, talent, and technology) is crucial for achieving strategic goals while optimising operational efficiency and customer satisfaction. This process involves strategic prioritisation, cross-functional collaboration, and continuous monitoring to ensure that resources are utilised effectively to enhance our competitive edge, foster innovation, and deliver sustained value to shareholders and stakeholders.

NSB resource allocation process

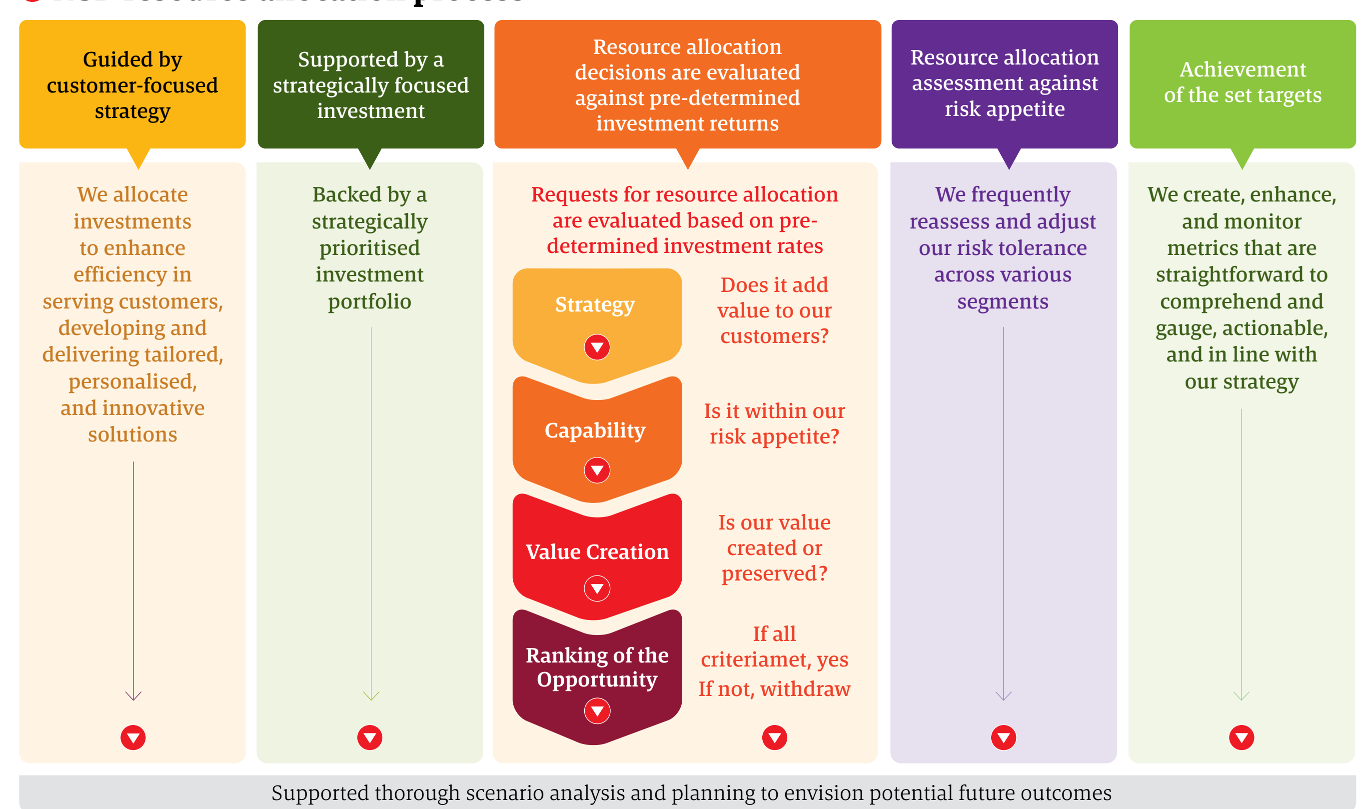


Figure 5

Strategy and resource allocation

NSB sustainability framework

NSB understands that it operates within a complex and interconnected ecosystem, thus the success of the business relies on the combined factors of a robust economy, functional society, and an environmentally sustainable framework. We acknowledge that sustainability challenges such as climate change, inequality, social justice, and the recent COVID-19 pandemic significantly influence this interconnected system.

Vision statement of sustainability

We are committed to conducting business in a responsible manner minimising environmental, social and governance (ESG) impact

Guidance and direction

- CBSL Roadmap for sustainable finance in Sri Lanka and Direction on sustainable finance activities
- UN Sustainable Development Goals
- Sustainable banking initiatives of Sri Lanka Banks' Association

Affiliations and memberships

Sri Lanka Banks' Association

Triple bottom line approach to sustainability

People

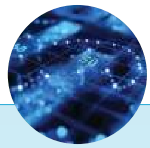
Building sustainable communities

Investment in Infrastructure projects

Open dialogue

Diversity and equal opportunity

Building thriving communities



Profit

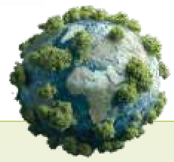
Supporting inclusive finance

Financial inclusion

Sustainable financing

Responsible procurement

Cost-efficient propositions for small and medium customers



Planet

Environmental sustainability

Responsible consumption

Renewable energy

Waste management

Green building

Figure 6

Strategy and resource allocation

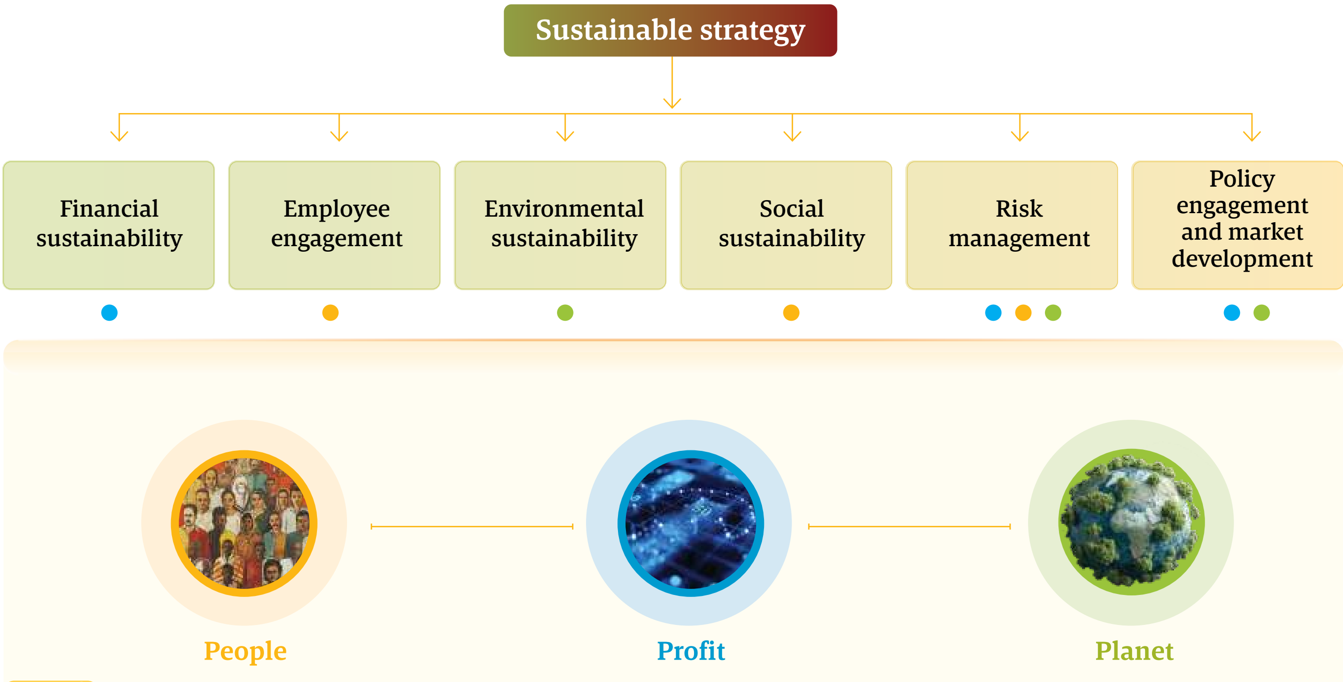


Figure 7

NSB consistently upholds a moderate risk profile, reinforced by robust capital and liquidity reserves. We are committed to ensuring financial stability, which, when combined with deliberate environmental and social initiatives and stringent governance policies, will foster long-term value for our stakeholders and establish the foundation for a future-proof bank.

The sustainability policies at the Bank, including the Environmental Policy, Human Rights Policy, Corporate Social Responsibility (CSR) Policy, and Environment, Social and Risk Management (ESRM) Policy, enable the seamless integration of sustainability into our business model. These guidelines offer a comprehensive framework for incorporating social and environmental considerations into our daily objectives.

Moreover, we prioritise risk management and governance, recognising the dynamic and highly regulated nature of our industry. We carefully balance stakeholder interests in our decision-making processes. The Bank's economic, social, and environmental (ESE) risks and impacts are regularly presented to the Board. These ESE issues are integrated into the Bank's decision-making framework and are central to value creation. They are also included in the action plan, which influences the performance evaluation of Bank employees.

The implementation of the Bank's strategy is overseen by the General Manager/CEO, who leads the Corporate Management Team and manages the day-to-day operations. This process is further supervised by the Corporate Sustainability Committee (CSC), keeps an active communication channel open with the Board and other stakeholders, ensuring that the execution of these strategies is continuously monitored.

Strategy and resource allocation

Integrating sustainability to be part of corporate strategy

Our Business Strategy is linked to Sustainability and we are committed to creating long term value for our stakeholders At NSB, Value is created and preserved through,

People

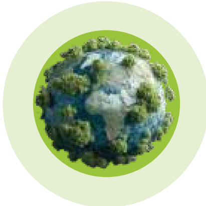
Building sustainable communities

- Supporting infrastructure development projects for the betterment of the community at large and uplifting their standard of living.
- Open dialogue with stakeholders – we maintain an open dialogue with all our stakeholders to maintain the transparency of our operations.
- Robust systems and controls – safeguarding customer and data privacy – 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 – "Empowering our employees to drive success" – Providing employment that is free from discrimination, and instead is underpinned by fair labour practices and employee well-being.

Profit

Supporting inclusive finance

- Providing cost-efficient propositions – "Digital infrastructure development", "Convenient and innovative financial services" – Providing innovative, relevant, and cost-efficient propositions to our entry level banking customers and small and medium clients.
- Responsible procurement.
- Enabling access to financial services for all segments of society through financial literacy, inclusive access and expanded financial education – "Prioritise financial inclusion" and "Expanding our presence".
- Promoting self-sufficient communities – "Contributing to a Sustainable World" – Promoting self-sufficient communities by financing private institutions that lend to small and medium entrepreneurs.
- Sustainable financing.



Planet

Environmental sustainability

- Committing to lending and financing projects that generate renewable energy – "Green financing" – Committing to lending and financing projects that generate renewable energy, and to small and medium enterprises engaged in producing green products and services. Our main focus is supporting solar energy projects by closely collaborating with the Ceylon Electricity Board (CEB).
- Employing enhanced assessment criteria for capital allocation decisions – "Our environmental management policy" on page 148 – 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 – "Energy efficiency and conservation" on page 149 – Being energy efficiency by installing solar energy in the buildings owned by NSB.

Primary and secondary United Nations Sustainable Development Goals

Our purpose shapes the strategies, behaviours, and actions of NSB to deliver lasting systemic value. We leverage our Sustainable Development Framework to concentrate the Bank's efforts and identify strategic areas with potential business opportunities, risks, and cost savings. The Bank has categorised United Nations Sustainable Development Goals (SDGs) into primary and secondary classifications based on their alignment with our business. We selected 9 out of 17 primary SDGs where we believe we can make the most meaningful impact through our banking products, lending, and investment strategies. Meanwhile, our eight secondary SDGs chosen represent goals that the Bank indirectly contributes to during its value creation process while supporting the achievement of the primary SDGs.

Strategy and resource allocation

Our primary UN SDGs

Our secondary UN SDGs

Our preparedness for IFRS S1 and S2

We continuously strive to adopt and adhere to leading industry frameworks and standards. The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) will be issuing the new sustainability standards, IFRS S1 and IFRS S2, with effect from 1 January 2024.

IFRS S1: General Requirements for Disclosure of Sustainability-Related Financial Information

IFRS S2: Climate-Related Disclosures

These measures identified in the standards respond to growing demands from regulators and investors for transparent and quantifiable reporting mechanisms. The Bank is fully geared to embrace these standards in order to enhance our capacity for driving positive change, furnishing decision-relevant and consistent environmental information, and collecting pertinent information necessary for disclosure across four fundamental core contents:

- Governance
- Strategy
- Risk management
- Metrics and targets

Our vision

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

Our mission

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

Our purpose

Accelerating national growth

Why

Our long-term quest	Our short-to-medium-term strategic focus	Our North Star
Key objectives	Our mission pathways	Our values and culture

How

Our four long-term strategic priorities	Our six short-to-medium-term strategic priorities	Our guiding principles that connect our endeavours

What

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

Key enablers

1. Technology infrastructure
2. Talent and skills
3. Risk management framework
4. Regulatory compliance
5. Customer insights and analytics
6. Operational efficiency
7. Partnerships and ecosystem collaboration
8. Adaptability and agility

Strategy and resource allocation

Long-term strategic priorities

Customer centricity

By understanding, anticipating, and exceeding the needs and expectations of our customers through personalised experiences, proactive engagement, and continuous feedback mechanisms, we strive to deliver exceptional service.

Governing excellence

We aim to optimise processes, mitigate risks, and safeguard the interests of all stakeholders by implementing robust governance frameworks and best practices.

Sustainable growth

Embracing sustainable practices across operations and community engagements, we aim to create value that contributes positively to the well-being of society and the planet.

Transformative leadership

We prioritise fostering a culture of adaptability, empowerment, and continuous learning, by nurturing talent, promoting diversity, and cultivating a collaborative environment to unleash the full potential of our people and organisation.

Short to medium-term strategic priorities

Heightening customer experience

Understanding customer needs, refining our offerings accordingly, and delivering exceptional service increases customer satisfaction, boosts loyalty, and drives growth.

Promoting organic growth

By nurturing existing customer relationships, optimising operational efficiencies, and innovating within our core offerings, we aim to drive market share gains and enhance brand resonance.

Enhancing employee engagement

Cultivating a work environment to make employees feel valued, motivated, and committed to the Bank's goals, and ultimately achieve better business outcomes.

Accelerating digitalisation

Through rapid adoption of cutting-edge technologies and digital solutions, the Bank aims to revolutionise operations, customer experiences, and market offerings to streamline processes, unlock new efficiencies, and drive innovation.

Reinforcing risk culture

Promoting a culture where employees at all levels understand and proactively manage risks relevant to their roles, encourage transparency in decision-making, and adhere to established risk management protocols, thereby ensuring risk awareness, mitigation, and accountability are embedded into every aspect of our operations.

Leading by example

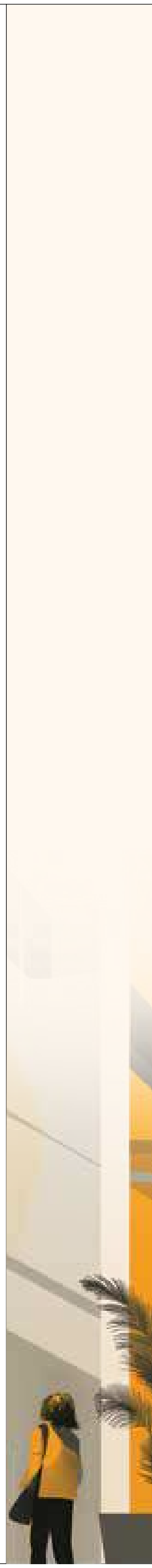
Setting the standard for excellence across every aspect of our operations and interactions through exemplary leadership, unwavering integrity, and a steadfast commitment to our values, we aim to inspire and empower our teams while fostering trust in communities that drives positive change.

Strategy and resource allocation

How we measure the delivery of sustained value year on year

Short to medium-term strategic priority	What we expect	Performance indicator	2023	2022	2021
	In the dynamic and fiercely competitive banking sector, providing an exceptional customer experience is vital for our Bank for sustainable value creation and enhance our market standing.	New customers on Board	**446,081**	611,724	399,661
		Existing customers closing relationships with the Bank	**47,088**	48,975	43,104
	Our Bank distinguishes itself through a people-focused business approach that prioritises diversity, equity, and inclusion. Embracing these values fosters a culture of creative thinking and prepares our workplace for future challenges. We prioritise recruiting and developing individuals with the requisite skills, expertise, and knowledge to enhance our relationship-driven business model.	Employee retention ratio	**96.3%**	98.1%	98.6%
	Our Bank's approach facilitates proactive identification, assessment, and management of risks, while also promoting ethical conduct, accountability, and trust. By fostering open communication and supporting responsible decision-making, we prioritise long-term value creation and sustainability. Our focus remains on safeguarding the interests of our customers, stakeholders, and communities.	Tier 1 capital ratio Minimum requirement 8.5%	**16.91%**	15.78%	18.60%
		Total capital ratio Minimum requirement 12.5%	**19.26%**	18.00%	20.83%
	Through embracing digital transformation, our Bank can elevate customer experiences, optimise operational efficiency, spur innovation, and generate sustainable value for all stakeholders. This strategic shift ensures our relevance, competitiveness, and resilience in the ever-evolving digital landscape.	New digital platforms	**E – KYC E – Post**	Not introduced	NSB App
	At NSB, our emphasis on promoting organic growth extends beyond mere expansion strategy. It embodies a holistic approach aimed at constructing a resilient, customer-centric, and competitive financial institution adept at navigating the complexities of the modern financial environment.	Growth in deposits	**0.39%**	3.38%	15.47%
		Growth in lending	**-4.79%**	2.61%	4.29%
	Leading by example is crucial for our Bank to establish trust, ensure compliance, bolster customer confidence, engage employees, foster innovation, uphold corporate responsibility, and safeguard our reputation and brand image. Effective leadership not only sets the tone for organisational culture and behaviour but also significantly influences the Bank's long-term success and sustainability.	Credit rating	**AAA**	AAA	AAA
		Brand rating	**AA**	AA	AA

Table 3



Strategy and resource allocation

1

Heightening customer experience

Our customers matter

Why heightening customer experience matters

In a highly competitive and rapidly changing banking landscape, delivering a superior customer experience is essential for the Bank in sustainable value creation and to grow its market position.

How we allocate our resources

We allocate resources strategically to ensure that investments align with customer needs, preferences, and expectations. This enhances customer experience effectively, driving satisfaction, loyalty, and building long-term relationships with customers. We always ensure to prioritise investments that deliver tangible value and align with the Bank's overall strategic priorities and customer-centric vision.

Related material matters

Capitals employed

Link to material risks

Risk 3 Risk 4 Risk 5 Risk 6

Primary UN SDGs

Secondary UN SDGs

Key trade-offs

Prioritising digitisation as a strategic imperative is crucial for enhancing customer experience, improving efficiency, and ensuring long-term competitiveness, but requires accelerated investment in digitisation.

Impact on available resources (capitals)

Implementing innovative solutions to enhance customer experience often requires significant upfront investment.

Impact on available resources (capitals)

While investing in employee training and development programmes is essential for delivering exceptional customer service, the Bank needs to allocate resources for training initiatives.

Impact on available resources (capitals)

Implementing customer-focused initiatives may introduce new risks or increase existing risks, such as cybersecurity threats or compliance risks, necessitating trade-offs between risk mitigation measures and the level of innovation or convenience offered to customers.

Impact on available resources (capitals)

Strategy and resource allocation

Our performance for 2023

Strategic objective	Priorities for 2023	Key deliverables	Status	Actual 2023	Actual 2022	Remarks
	Business and product development	Introduce scrip-less FD scheme	✗	**Not introduced**	N/A	Implementation is postponed until the implementation of a core banking solution
		Introduce a long-term compulsory savings/ investment scheme	✗	**Not introduced**	N/A	Extraordinary economic conditions resulted in reduced disposable income of the general public. Along with new tax regimes and higher living expenses, it was not a conducive economic environment for launching new savings products
	Increase accessibility and convenience	Opening of new branches	✗	**Not opened**	Not opened	Due to the concern raised by the Ministry of Finance for controlling capital expenditure, opening new branches was temporarily halted
		Relocate branches in strategic locations	✓	**Kahawaththa Wariyapola Sooriyawawe Nawala Bandarawela**	Kahatagasdigiliye Ibbagamuwa Ingiriya	
		Commissioning remote Smart Zones/ CRMs/ATMs in strategic locations	✓	**Installed four machines (two CRMs and two ATMs)**	Not commissioned	
		Commissioning CRMs within branches	✓	**25**	6	

Table 4 →

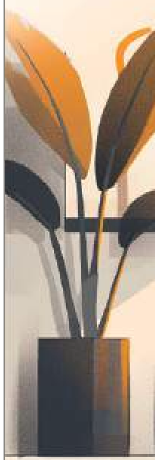
✓ Value created ✗ Value eroded ⊖ Value preserved

Looking ahead

The increasing demand for digital banking solutions requires the Bank to innovate continually in delivering services online while making the customer experience seamless across all digital channels. We intend to enhance customer experience by thriving in the digital age while keeping up with market trends.

Anticipated outcomes

- Increase the market share of deposits, loans and advances.
- Increase revenue growth.
- Increase operational efficiencies.

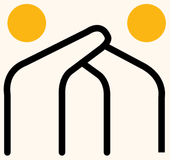


Strategy and resource allocation

2

Enhancing employee engagement

Our employees are priceless to us



Why enhancing employee engagement matters

Our people-focused approach to business sets us apart from the competition. Diversity, equity, and inclusion encourages creative thinking and a workplace that is prepared for the future. NSB recruits and develops people with the skills, expertise, and knowledge necessary to support relationship-driven business, while placing a high priority on the health and wellness of our employees.

How we allocate our resources

We strategically allocate financial and human capital to employee training and engagement initiatives to enhance employee productivity, contribution, and engagement, while strengthening our brand and reputation as an employer of choice. Additionally, we foster a culture of innovation and nurture diversity of thought to build intellectual capital, ensuring long-term organisational success in today's dynamic business landscape.

Related material matters

Capitals employed

Link to material risks

Risk 3, Risk 4, Risk 5, Risk 6

Primary UN SDGs

4 Quality Education
10 Reduced Inequalities

Secondary UN SDGs

17 Partnerships for the Goals

Key trade-offs

Allocating resources to enhance employee benefits, such as wellness programmes or training initiatives, may require diverting funds from other areas, potentially impacting profit margins.

Impact on available resources (capitals)

Investing in recognition programmes to boost employee morale and engagement compete with cost-control measures aimed at improving operational efficiency and reducing expenses.

Impact on available resources (capitals)

Investments in technology to streamline processes versus investments in human resources to support employee engagement initiatives require prioritising one over the other depending on strategic objectives.

Impact on available resources (capitals)

Prioritising initiatives to promote work-life balance may require adjusting operational practices or staffing levels to accommodate flexible schedules, thereby potentially impacting service delivery.

Impact on available resources (capitals)

Strategy and resource allocation

How we performed

Strategic objective	Priorities for 2023	Key deliverables	Status	Actual 2023	Actual 2022	Remarks
	Create an e-learning culture	Link the knowledge gained through e-exams to the target-based appraisal system	✗	**E-exams initiated with linkage to the target-based appraisal system scheduled for the future**	Trial run in progress	
	Enhance employee association for value addition	Implement the "star branch" concept	✗	**Not implemented**	Concept paper developed	Halted until the implementation of new core banking platform
	Training and development	Expense on training and development (Rs. Mn.)	✓	**13.2**	12.8	
		External training from divisions and branches on banking operations and financial services	✗	**28 participants**	54 participants	
		Core banking training programmes	✓	**107**	15	
	Increasing employee value proposition	Spent on employees (Rs. Bn.)	✓	**16.1**	13.8	
		Employee voluntary turnover (%)	✗	**2.2%**	1.0%	
		Introducing a target-based performance appraisal system to enhance productivity and motivation	✗	**Trial run conducted in the HRD Division; a circular to be published to initiate the trial run in the Bank**	UAT Completed	

Table 5

✓ Value created ✗ Value eroded ⊖ Value preserved

Looking ahead

- Create an environment that attracts top talent, retains high-performing employees, and fosters their ongoing development and growth.
- Create a supportive and inclusive workplace culture that promotes employee wellness and work-life balance, leading to improved employee satisfaction, engagement, and overall organisational success.
- Create an inclusive environment where employees feel valued, respected, and empowered to contribute their unique perspectives and ideas, leading to increased innovation, creativity, and organisational success.

Anticipated outcomes

- Cultivate a pool of high-performing employees with the skills needed to drive innovation, growth, and competitiveness in the future.
- Provide excellent customer service to meet customer needs, leading to higher levels of customer satisfaction and loyalty.
- Create a supportive and mentally healthy work environment that fosters employee well-being, engagement, and productivity while reducing the risk of burnout and mental illness.
- Building a future-ready talent pool to remain competitive, innovative, and resilient in an increasingly complex and dynamic business environment.

3

Reinforcing risk culture
We design our safety net

Why reinforcing risk culture matters

Assists the Bank to proactively identify, assess, and manage risks; promotes ethical conduct and accountability; fosters open communication and trust; supports responsible decision-making; and ultimately drives long-term value creation and sustainability while safeguarding the interests of our customers, stakeholders, and communities.

How we allocate our resources

We allocate resources to develop comprehensive training programmes on risk management, compliance, and ethical conduct; we also promote leadership development initiatives that emphasise the importance of fostering a strong risk culture; and invest in technology solutions that support risk management processes, to strengthen compliance monitoring programmes and processes in adherence to regulatory requirements and internal policies.

Related material matters

Capitals employed

Link to material risks

Risk 3 Risk 4 Risk 5 Risk 6

Primary UN SDGs

Secondary UN SDGs

Key trade-offs

Investing in initiatives to reinforce risk culture requires upfront costs, such as training programmes, technology investments, and organisational changes. While these investments may incur short-term expenses, they can yield long-term benefits in terms of improved risk management practices, enhanced regulatory compliance, and lower operational risks.

Impact on available resources (capitals)

Reinforcing risk culture may require the Bank to reassess its risk tolerance and appetite. This may involve accepting lower returns or sacrificing certain business opportunities in favour of prioritising risk management and compliance objectives to mitigate potential risks and protect the Bank's reputation and financial stability.

Impact on available resources (capitals)

Finding the right balance between fostering a culture of innovation and maintaining effective risk management practices require trade-offs in terms of risk appetite, risk assessment criteria, and tolerance for failure.

Impact on available resources (capitals)

Although meeting regulatory compliance requirements is essential for reinforcing risk culture and maintaining the Bank's reputation and legal standing, strict compliance standards may conflict with business objectives, customer needs, or market opportunities.

Impact on available resources (capitals)

Strategy and resource allocation

How we performed

Strategic objective	Priorities for 2023	Key deliverables	Status	Actual 2023	Actual 2022	Remarks
	Cybersecurity	PCI DSS certification maintenance	✓	**Maintained**	Maintained	
	Sustaining strong capital adequacy levels	Compliance with BASEL III CAR requirement Tier I	✓	**16.91%**	15.8%	
		Compliance with BASEL III CAR requirement total capital	✓	**19.26%**	18%	
	Financial crime compliance	Procurement of a new AML system and screening module	✓	**Procured**	Demonstration completed	
	Zero tolerance of non-compliance	Regulatory fines or penalties (Rs. Mn.)	✓	**Zero fines**	0.8	
	Managing credit risk	Net stage 3 loans to total loans	✓	**2.4%**	2.8%	

Table 6

Value created | Value eroded | Value preserved

Looking ahead

- We anticipate and assess emerging risks that may arise from changes in the economic, regulatory, technological, or geopolitical landscape, keeping abreast of industry trends, market developments, and emerging threats in order to proactively identify and mitigate potential risks.
- Continue to monitor regulatory changes and evolving compliance requirements that may affect the Bank's risk management practices and obligations, ensuring that risk management framework, policies, and procedures are updated to reflect the latest regulatory developments and industry best practices.
- Embrace technological advancements and innovation in risk management tools and systems to enhance the Bank's ability to identify, assess, and mitigate risks effectively. This includes leveraging data analytics, artificial intelligence, and automation technologies to improve risk monitoring, modelling, and decision-making processes.

Anticipated outcomes

- By identifying and addressing risks proactively, the Bank mitigates the likelihood and severity of adverse events that could impact its operations and reputation.
- Making informed decisions that consider risk implications and align with the Bank's risk appetite and strategic objectives.
- Fostering employee satisfaction, loyalty, and retention that contribute to a motivated and resilient workforce.

Strategy and resource allocation

4

Promoting organic growth
we create growth

Why promoting organic growth matters

At NSB, promoting organic growth is a comprehensive approach to building a resilient, customer-focused, and competitive financial institution that is capable of navigating the challenges of the modern financial landscape.

How we allocate our resources

We strategically focus on risk-adjusted returns by balancing short-term priorities with long-term investments in innovation, customer relationships, operational excellence, and risk management to drive sustainable value creation and competitive advantage.

Related material matters

Capitals employed

Link to material risks

Risk 3 Risk 4 Risk 5 Risk 6

Primary UN SDGs

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
11 SUSTAINABLE CITIES AND COMMUNITIES
12 RESPONSIBLE CONSUMPTION AND PRODUCTION
16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Secondary UN SDGs

2 ZERO HUNGER
3 GOOD HEALTH AND WELL-BEING
17 PARTNERSHIPS FOR THE GOALS

Key trade-offs

Pursuing organic growth requires anticipating risks, such as expanding into new markets and developing new products, that could lead to uncertain outcomes and potentially impacting the Bank's financial performance.

Impact on available resources (capitals)

Some organic growth strategies require significant upfront investments that take time to deliver results, leading to short-term financial pressure.

Impact on available resources (capitals)

Supporting organic growth initiatives diverts resources away from other areas of the Bank, such as risk management, compliance, or operational efficiency.

Impact on available resources (capitals)

Investing in innovation to drive organic growth can introduce uncertainty and disrupt existing business processes, potentially impacting the Bank's stability and operational efficiency.

Impact on available resources (capitals)

Improving the customer experience to drive organic growth requires investments in technology, personnel, and infrastructure, increasing costs for the Bank.

Impact on available resources (capitals)

Strategy and resource allocation

How we performed

Strategic objective	Priorities for 2023	Key deliverables	Status	Actual 2023	Actual 2022	Remarks
	Growth in core areas	Growth in deposits Industry NSB	✗	 **8.7%** **0.4%**	 18.8% 3.4%	
		Growth in lending Industry NSB	✗	 **(2.6%)** **(4.8%)**	 5.5% 2.6%	
	Retaining the market share	Retaining deposit market share	✗	**8.6%**	9.2%	
	Reduction of costs	Cost to income ratio	✗	**71.6%**	62.9%	
	Increasing shareholder value	Improving shareholder returns by raising the ROE target	✓	**9.4%**	3.4%	

Table 7

✓ Value created ✗ Value eroded ⊖ Value preserved

Looking ahead

- Keep informed about emerging technologies likely to shape the future of banking (such as artificial intelligence, blockchain, Internet of Things (IoT), and quantum computing), to anticipate how they can be leveraged in the Bank's favour.
- Encourage cross-functional collaboration, agile methodologies, and design thinking principles to ideate, test, and launch innovative products and services that address unmet customer needs and pain points.
- Conduct scenario planning, stress testing, and business continuity exercises to identify and mitigate risks, such as cybersecurity threats, geopolitical instability, and climate-related risks.

Anticipated outcomes

- Enabling the bank to anticipate and meet evolving customer expectations.
- Identifying new growth opportunities and differentiating the Bank from competitors.
- Streamlining operations, optimising processes, and leveraging automation to improve efficiency and agility.
- Pursuing sustainable growth strategies that create long-term value for stakeholders.

Strategy and resource allocation

5

Accelerating digitalisation

Networking without boundaries

Why accelerating digitalisation matters

By embracing digital transformation, the Bank can enhance customer experiences, drive operational efficiency, foster innovation, and create sustainable value for all stakeholders and remain relevant, competitive, and resilient in the digital age.

How we allocate our resources

We allocate resources to upgrade and modernise the Bank's technology infrastructure, investing in scalable and robust core banking systems, digital platforms, cloud computing, and data analytics tools to support digital initiatives that enhance operational efficiency. We also invest to strengthen cybersecurity measures and protect customer data from cybersecurity threats and fraud through advanced security technologies (such as encryption, biometric authentication, and behavioural analytics) that help to safeguard digital channels and infrastructure.

Related material matters

Capitals employed

Link to material risks

Risk 3 Risk 4 Risk 5 Risk 6

Primary UN SDGs

Secondary UN SDGs

Key trade-offs

Embracing innovative technologies and digital solutions may introduce new security risks and vulnerabilities.

Impact on available resources (capitals)

Accelerating digitalisation may strain financial resources since significant investments are required to install, upgrade, and maintain technology infrastructure and talent.

Impact on available resources (capitals)

Enhancing the customer experience through digitalisation requires introducing complex digital solutions that could confuse or frustrate new and existing customers.

Impact on available resources (capitals)

Accelerating digitalisation requires upskilling or reskilling employees to adapt to new technologies and roles, potentially displacing some traditional jobs through automation.

Impact on available resources (capitals)

How we performed

Strategic objective	Priorities for 2023	Key deliverables	Status	Actual 2023	Actual 2022	Remarks
	Implementation of IT-related projects	Establishment of a separate digital banking unit	✔	**Implemented**	Not applicable	
		Acquiring new Internet banking customers	✔	**9,640**	8,267	The anticipated target was established with the prospect of expanding the digital banking user base, emphasising mass media promotions. However, these promotions were not carried out due to concerns raised by the Ministry of Finance regarding the control of expenses. Consequently, expanding the internet banking user base was achieved by promoting to customers visiting the branches
		Digitalisation of the Postal Sector	✔	**The e-Post product has been launched and already 20 mobile devices have been delivered to Post Offices**	Not applicable	Management decided to delay the implementation of the e-Post account at Main Post Offices until the product performed well at Sub-Post Office levels
		Implementation of the new HR System – remaining modules in Phase I and Phase II	✔	**Implemented**	Implemented Phase 1	
		Implementation of Treasury Management System	✖	**Not implemented**	Not implemented	Postponed to 2024 due to prevailing situation
		Implementation of ALM System	✖	**Not implemented**	Not implemented	Postponed to 2024 due to prevailing situation
		Implementation of AML System	✖	**Not implemented**	Not implemented	Postponed to 2024 due to prevailing situation

Table 8

✔ Value created ✖ Value eroded ⊖ Value preserved

Looking ahead

- Understand how artificial intelligence, blockchain, Internet of Things (IoT), and quantum computing technologies can be applied to enhance customer experiences, improve operational efficiency, and drive innovation in banking services.
- Leverage emerging technologies to develop innovative products and services that anticipate and address customer pain points, delivering personalised experiences and value-added solutions.
- Integrate environmental, social, and governance (ESG) considerations into digitalisation strategies and business operations.
- Prioritise resilience and cybersecurity in digitalisation efforts to protect against cybersecurity threats, data breaches, and operational disruptions.

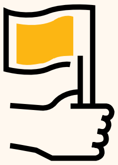
Anticipated outcomes

- Personalised offerings, streamlined processes, and seamless interactions that meet and exceed customer expectations.
- Differentiating itself in the market by offering innovative products, services, and experiences that resonate with customers.
- Improved efficiency, reduce costs, and rapid response to changing market conditions.
- Creating sustainable value for all stakeholders.

Strategy and resource allocation

6

Leading by example
We think beyond profit



Why leading by example matters

Leading by example is essential for the Bank to build trust, maintain compliance, enhance customer confidence, and drive employee engagement. Effective leadership sets the tone for organisational culture and behaviour, influencing the Bank's success and sustainability in the long term by fostering innovation, upholding corporate responsibility, and protecting its reputation and brand image.

How we allocate our resources

We strategically allocate our resources across functions in ethical practices and governance, employee development and well-being, customer-centric services, community engagement and social responsibility, sustainable banking practices, technology and cybersecurity, and transparency and communication. This approach reinforces the Bank's reputation and competitive position while contributing to the overall health and sustainability of the financial ecosystem.

Related material matters

CO_2

Capitals employed

Link to material risks

Risk 3 Risk 4 Risk 5 Risk 6

Primary UN SDGs

7 Affordable and clean energy
8 Decent work and economic growth
9 Industry, innovation and infrastructure
11 Sustainable cities and communities
12 Responsible consumption and production

Secondary UN SDGs

11 Sustainable cities and communities
15 Life on land
17 Partnerships for the goals

Key trade-offs

Investing in sustainable practices, employee development, and community engagement can enhance long-term sustainability and reputation but reduce short-term profitability.

Impact on available resources (capitals)

Innovation, particularly in digital banking and new financial products, carries inherent risks, including cybersecurity threats and operational failures.

Impact on available resources (capitals)

Achieving short-term financial targets can come at the expense of long-term sustainability, especially if it involves aggressive cost-cutting or neglecting necessary investments in technology and human resources.

Impact on available resources (capitals)

Strategy and resource allocation

How we performed

Strategic objective	Priorities for 2023	Key deliverables	Status	Actual 2023	Actual 2022	Remarks
	Creating a positive brand image by committing to SDGs	Teacher-training sessions, student-based competitions, monitoring, and performance evaluation to increase the pass rate of English Language at the GCE O/L Examination in 81 national schools	✔	**Conducted**	Conducted	
	Uplifting local communities and supporting community-building initiatives	The proportion of spending on local suppliers (%)	✔	**100**	100	
	Reducing our environmental footprint in all our business operations	Energy consumption (GJ)	✖	**29,697**	27,256	
		Water consumption (m3)	✖	**73,895**	70,430	
	Economic support	Direct and indirect taxes paid (Rs. Bn.)	✖	**(1.6)**	5.2	
		Dividends paid (Rs. Bn.)	✖	**No payment made**	No payment made	

Table 9

✔ Value created ✖ Value eroded ⊖ Value preserved

Looking ahead

- Continue to invest in technological advancements (such as artificial intelligence, blockchain, and fintech collaborations) to reshape customer expectations and service delivery.
- Place greater emphasis on sustainability and social responsibility as customers, investors, and regulators increasingly expect banks to adopt ESG criteria in their operations, investment decisions, and lending practices.
- Pay critical attention to cybersecurity as digital banking expands to protect the Bank and its stakeholders against data breaches, fraud, and other cyber risks.

Anticipated outcomes

- Emerging as the leader in providing secure, user-friendly, and innovative financial services.
- Strengthening the Bank brand and attracting compatible customers and investors.
- Proactively investing in advanced cybersecurity measures and continuously monitoring security protocols to protect the Bank and its customers, while setting a benchmark for the industry.

Integrated stakeholder engagement

Operating in a highly regulated and volatile environment, engaging with stakeholders builds trust, ensures compliance with regulations, enhances the Bank's reputation, and fosters long-term sustainability. Stakeholder engagement is a core component of our financial and social value creation as both an input and an outcome. We have established an effective value measuring process where NSB sets goals for stakeholders and measures the delivery by value-creation indicators and the quality of our relationships.

Our integrated stakeholder engagement process

The process involves a comprehensive and strategic approach to align with the level of influence and our impact on various stakeholders. The Bank is committed to understanding their concerns and applying relevant inputs in the decision-making, resulting in a dynamic initiative that carries the commitment from all levels of NSB.

Our stakeholder engagement process encompasses the following stages:

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

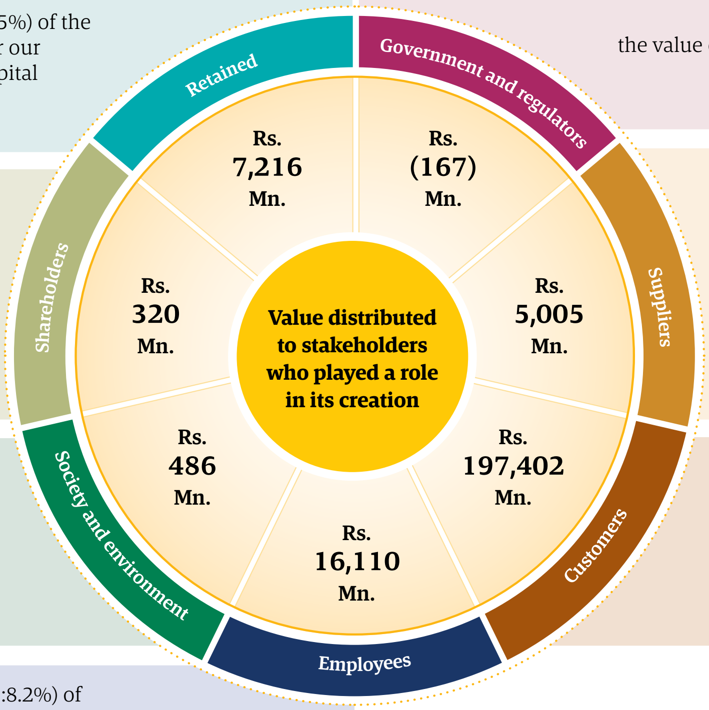
Interest income **Rs. 226,967 Mn.** + Fee and commission income **Rs. 1,593 Mn.** / Net gains and other operating income **Rs. 3,504 Mn.** − Depreciation, amortisation and impairment **Rs. 5,691 Mn.** = Distributable profit **Rs. 226,373 Mn.**

We retained 3.2% (2022:1.5%) of the distributed profit to bolster our liquidity, allocate to our capital expenditure and future value creation.

We distributed (0.1%) (2022: 4.0%) of the value created to Government and regulators through payment of taxes and levies

We distributed 0.1% (2022:0.2%) of the value created to shareholder through payment of levies.

We distributed 2.2% (2022: 2.4%) of the value created to suppliers through payment for various services provided.



We distributed 0.2% (2022:0.3%) of the value created to society and environment through payment to outsourced workers.

We distributed 87.2% (2022:83.5%) of the value created to customers through payment of interest.

We distributed 7.1% (2022:8.2%) of the value created to employees through payment of salaries, wages and other allowances.

Figure 8

Integrated stakeholder engagement

Stakeholder identification

We have identified a group of stakeholders and individuals who benefit greatly from our activities, products and services and in turn, these stakeholders' perspectives and goals have a significant effect on our business processes and strategic initiatives. The following are the key stakeholders whose actions have a direct or indirect effect on the business operations of Bank with whom our goal is to build and maintain long-term and positive relationships.

Stakeholders

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

Key stakeholder prioritisation based on influence over our value creation process

NSB has mapped its stakeholders in the stakeholder analysis matrix based on the intensity of the stakeholders' influence and their level of interest in the matters of the Bank. This enables us to understand their requirements and concerns. The following criteria is used to prioritise individuals and organisations with a vested interest in NSB:

- Those who are essential to the Bank's survival.
- Those associated with relevant threats and opportunities.
- Those who have a moral or legal capacity to influence the Bank's behaviour.
- 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.

This ranking is carried out annually and enables the Bank to recognise that stakeholder demands, interests, and expectations can evolve over time.

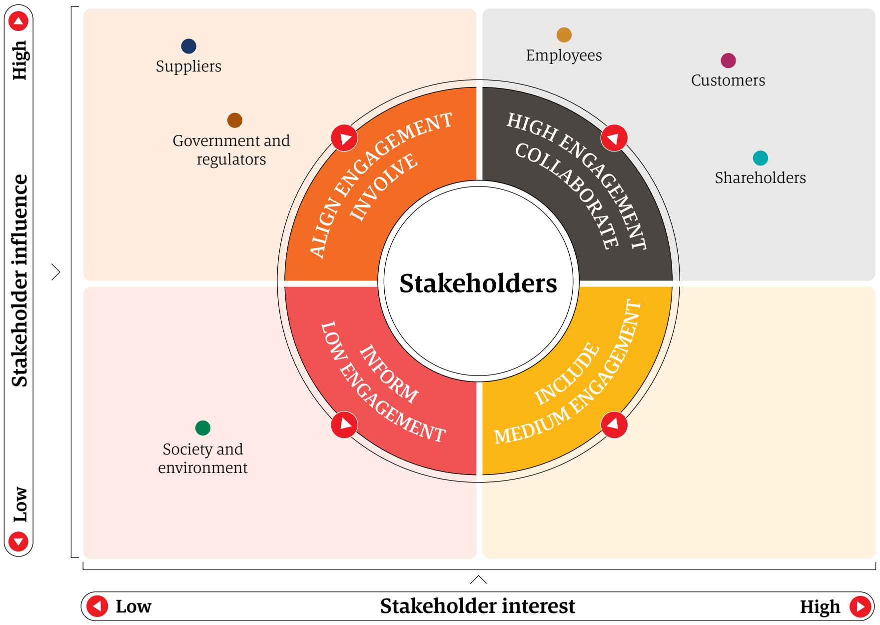


Figure 9

Defining methods of engagement based on stakeholder requirements and expectations

The Bank has established various formal methods to communicate with stakeholders to identify key issues raised and to deliver its responses. Both internal and external stakeholders are included in the mechanism. Numerous networks such as face-to-face meetings, conferences, and social media platforms are used to discuss stakeholder expectations and concerns. The feedback from stakeholders helps in creating successful strategies.

Establishing a monitoring mechanism to assess stakeholder relationships

The Bank values the evaluation of stakeholder relationships periodically to determine the important areas for resource allocation. Moving forward, NSB seeks to utilise Key Performance Indicators (KPIs) linked to value creation and relationship quality and measure these indicators accurately and consistently across the Bank.

The value generated for the stakeholders

Customised engagement plans have been developed and continuous assessment on all existing engagement strategies allows NSB to identify shortfalls and critical success factors in its relationships with stakeholders, using individual stakeholder feedback as the quality measurement tool to make informed assessments.

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

Integrated stakeholder engagement

Synopsis of our key stakeholders throughout the value-creation process

	Upstream		Bank operations		Downstream	
	Shareholder/ Investors	**Regulators and Government Institutions**	**Employees**	**Business Partners**	**Customers**	**Society and Environment**
STAKEHOLDER GOALS	Sustainable growth in total returns	Provider of differentiated and relevant financial solutions	Employer of choice	Preferred business partner	Law abiding corporate citizen	Responsible corporate citizen
WHO THEY ARE	Government of Sri Lanka Bond holders	Central Bank of Sri Lanka (CBSL) Ministry of Finance (MOF) Auditor General's Department Inland Revenue Department Other Government and Professional bodies	Permanent employees Employees on contract basis Outsourced personnel Trade unions	Suppliers Utility service providers Other service providers Exchange houses Correspondent banks	Individuals Institutions Corporates	Citizens of Sri Lanka The environment Media Opinion makers and influencers
TAILORED VALUE PROPOSITIONS TO DELIVER OUR GOALS	Delivering sustained income and capital growth by strategically allocating capital and ensuring both prudent balance sheet and proactive risk management.	Being a law-abiding corporate citizen reduces the cost of non-compliance and provides confidence to investors and the general public.	Empowering employees and promoting accountability through a focus on the total reward.	Collaborating with our business partners to provide unparalleled service, allowing us to create mutual benefit.	Leveraging on our strengths and opportunities to provide outstanding service to customers and remain relevant to their evolving needs.	Uplifting and empowering communities by partnering with them.
QUALITY OF RELATIONSHIP						
FY 2023	★★★★☆ ⊖	★★★★☆ ⊖	★★★★☆ ⊖	★★★★☆ ⊖	★★★☆☆ ⊖	★★★☆☆ ⊖
FY 2022	★★★★☆ ⊖	★★★★☆ ⊖	★★★★☆ ⊖	★★★★☆ ⊖	★★★☆☆ ⊖	★★★☆☆ ⊖
FY 2021	★★★★☆ ⊖	★★★★☆ ⊖	★★★★☆ ⊖	★★★★☆ ⊖	★★★☆☆ ⊖	★★★☆☆ ⊖

★ Increase in quality of relationship ☆ Decrease in quality of relationship ⊖ No change in quality of relationship

Figure 10

Integrated stakeholder engagement

Shareholder/ Investors

Why we engage

- NSB honours the right of the shareholder or investors to be informed about important matters affecting the Bank.
- The Bank understands that shareholder and investors have access to finance at a cost-effective yield.
- NSB recognises that shareholder and investors have valuable insights and perspectives that can serve as crucial inputs for making strategic decisions.
- By understanding the requirements and expectations of shareholder, the Bank is able to satisfy investor needs.

What we want

Our Goal

To be a source of sustained growth in total returns to shareholder and be a reliable source of returns to debt providers.

- Access to funding.
- Open dialogue to understand and address concerns.
- Enhanced adaptability to market changes and challenges through investor-aligned ESG integration.

What they want

Our value proposition

We are committed to delivering sustained capital growth and dividends to our shareholder and investors through strategic capital allocation and effective management of funding throughout different economic cycles.

- Sustained growth in capital and dividends over time.
- Timeous payment of interest and capital repayments.
- Forward-thinking vision for transitioning to a low-carbon economy.
- Assurance of ethical and environmentally conscious decision-making at all levels.
- Assurance of sustainability, good governance, and strong risk.
- Management controls integrated into the business strategy.

Key shareholder/ investor expectations	Our strategic response
Sustainable return on investments	Maintaining sustainable delivery of returns on investments through dividend payments on equity, capital and interest payments on bonds, and interest payments on loans, staying transparent in communications with shareholder/investors about the factors, both positive and negative, influencing distributable income.
Maintaining or enhancing existing assets in the current economic environment	Maintaining a strong balance sheet that contributes to a safe and stable banking system, instilling confidence, and protecting against downside risk.
Execution of a strategic vision for long-term growth and corporate plans to achieve them	Communicating about the Bank's direction, growth initiatives, and risk management strategies to the respective officials from the Ministry of Finance.
Building confidence and delivering risk-adjusted returns	Using a risk management strategy to identify and manage risks proactively.

Our engagement strategy

Our goal is to understand our shareholder's and investors' needs, demonstrating the delivery of our value proposition and strategy through reporting, communications and other appropriate media, thereby strengthening our access to capital.

How we engage

- Annual and Interim Financial Statements
- Annual integrated reports
- Corporate website
- One-on-one meetings with representatives from the Ministry of Finance and other investors
- Stakeholder webcasts

Material matters

Related capitals

Link to Sustainable Development Goals

Primary

Secondary

Integrated stakeholder engagement

Understanding and measuring the value expectations of the relationship

Investor value expectation

	Value-creation outcome
Rs. 320 Mn. attributed to shareholder	Require focus
1.79% Net interest margin	Require focus
Total return to shareholder **9.36%**	Require focus
Rs. 7.6 Bn. interest paid to bond holders	On track
AAA credit rating maintained	On track

Our value expectation

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

On track | Work in progress | Require focus

Actions to augment outcomes

- Drive organic growth.
- Optimise funding sources.
- Continue engaging with funders.

Customers

Why we engage

- To continue engaging with customers through online and mobile platforms.
- To build and maintain trust with customers through transparency and regular communication.
- To foster customer loyalty through regular engagement and interaction, reducing customer churn and increasing long-term value.
- To better understand needs and preferences in order to deliver customised products and services that delights customer expectations.

What we want

Our Goal

To provide differentiated and relevant products and services that will delight customers.

- Timely payments of loans and advances.
- Increasing retention rate of deposits and credit growth.
- Service-based collaborations, such as increased usage of our self-service channels, to harness mutual growth and value creation.

What they want

Our value proposition

To provide customers with products and services that delight their changing needs.

- Delivering products and services aligned with customer requirements and market trends.
- Sustaining competitive rates.
- Nurturing an ethical ESG-focused organisation.
- Maintaining quality relationships, underscored by continued emphasis on digital transformation and customer support.
- Divining valuable insights into customer behaviour and robust marketing assistance in the banking business.
- Fulfilling a promise to service excellence.

Key customer expectations	Our strategic response
Easy and convenient access to banking services, both in-branch and through digital channels	Our island-wide branch network and newly introduced digital channels to deliver extended customer service to customers
More integrated and convenient service	Safeguarding deposits and investments while increasing returns
Timely and effective customer service	Equipping employees to deliver exceptional customer experience together with 24x7 customer accessibility via call centre and other online channels
Competitive interest rates on savings and loan products, as well as fair and transparent fees	Offering interest rates and fee structures based on careful investigation of market conditions and thorough competitor analysis.
Tailored financial solutions	Offering personalised and comprehensive financial solutions by understanding the needs of our customers.
Safeguarding of customer data and privacy	Proactively responding to cybersecurity threats and ensuring customer privacy and security

Integrated stakeholder engagement

Key customer expectations	Our strategic response
Robust IT infrastructure	Maintaining the stability, security, and speed of IT systems
Comprehensive financial inclusion	Contributing to financial inclusion through products, delivery channels, and markets
Efficient delivery of services	Increasing process efficiency and automation
Capability to handle customer demand	Increasing the capacity of touchpoints and strengthening multichannel delivery

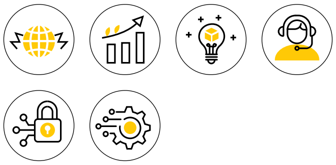
Our engagement strategy

- Continuously assessing and improving service to promote a consistent experience to customers.
- Communicate brand promise and value proposition.
- Provide relationship management, including proactive communication and engagement (including matters relating to strategy, business updates and operational matters) and feedback mechanisms to understand the needs and concerns of customers.
- Deliver continuous marketing actions.
- Prioritise digitalisation to cater to customer needs via various digital channels for communication, transactions, and providing real-time updates.

How we engage

- Personalised interactions through branches and Divisions.
- Various platforms, including emails, corporate website and phone lines to address operational issues.
- Surveys to discern customer satisfaction ratings.
- Promotional campaigns, corporate website, mass media, and social media to address operational issues.
- Other communication channels such as call centres and corporate events.

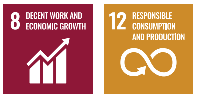
Material matters



Related capitals

Link to Sustainable Development Goals

Primary



Secondary

Understanding and measuring the value expectations of the relationship

Customer value expectation

Value-creation outcome

13.03 million of active customer accounts (2022 – 13 million active accounts) – On track

Rs. 185.7 Bn. interest paid to depositors (2022 – Rs. 133.2 Bn.) – On track

Engagement and growth on digital platforms – **7.8%** growth in internet banking (2022 – 9.8%) – Require focus

Our value expectation

Fulfilment of customers' financial solutions/ Effective financial solutions for customers	On track
Provide good customer experience	On track
Customer acquisition and retention	Require focus
Increase in market share	Require focus
Access to more equity and liquidity	Work in progress

On track | Work in progress | Require focus

Actions to augment outcomes

- Conducting regular customer satisfaction surveys
- Continuously assessing customer feedback
- Collecting customer experience data across all touchpoints to see whether customers have a consistent experience

Integrated stakeholder engagement

Employees

Why we engage

- The employees of the Bank are fundamental to growing its brand, driving business objectives, and, ultimately, delivering on strategy.
- When people perform at their best, strategy is delivered in the long-term.
- Engaged employees are more motivated to work which leads to higher levels of productivity and better overall performance that contributes to the Bank's success.

Our engagement strategy

- Consistent employee engagement and communication to motivate the workforce.
- Prioritise employee feedback, addressing concerns to create a supportive and empowering workplace culture.
- Provide opportunities for continuous learning and professional growth such as training programmes and workshops for developing new skills and advancing careers.
- Consulting and listening to employees at various stages of the employee life cycle to involve them in decision-making processes connected to their work environment and experiences.

How we engage

- One-on-one interactions between employees and line managers
- Internal communications through multiple platforms
- Employee rewards and recognition programme
- Performance reviews and exit interviews
- Engagement events
- Learning and development opportunities

What we want

Our Goal

To nurture and inspire people who deliver the products and services of the Bank for positive impact.

- Engaged employees willing to embrace curiosity and collaborate to unlock new opportunities, drive business growth, and achieve strategic objectives.
- Creating a positive and inclusive work environment where employees feel a sense of belonging.
- Increasing return on investment of human capital through continuous learning and development.
- Embracing diversity and creating inclusive environments.

What they want

Our value proposition

To foster a culture of continuous learning, innovation, and employee empowerment to derive positive outcomes for individuals and the Bank.

- Implementing a flexible working environment that accommodates employees' personal needs and professional responsibilities.
- Developing a culture of trust and autonomy for higher employee satisfaction and engagement.
- Offering sustainable income coupled with a sense of purpose to make individuals feel valued and motivated.
- Providing access to learning and development to encourage employees to expand their skills and capabilities.
- Creating healthy workspaces

Key employee expectations	Our strategic response
Fair and market-related remuneration	Competitive remuneration in line with collective bargaining
Workplace flexibility	Flexible working arrangements that cater to different work styles
Focus on mental health	Providing wellness programmes; offering financial, physical, and mental support during employment and post-retirement
Two-way communication across multiple platforms	Utilisation of various communication tools and platforms such as internal newsletters, intranet updates for efficient information dissemination and real-time feedback and dialogues
Freedom for collective bargaining	Resolving issues, grievances, or conflicts effectively with mutual trust and understanding
Job security	Supporting and encouraging employees to improve their skills and capabilities to remain relevant and encouraging internal career growth
A non-discriminatory, and safe work environment	Adhering to and complying with all laws that uphold human rights
Opportunities for career advancement and professional development	Providing learning and developments programmes to support capacity building for future needs and employee development

Integrated stakeholder engagement

Material matters

Related capitals

Link to Sustainable Development Goals

Primary

4 QUALITY EDUCATION | 5 GENDER EQUALITY | 8 DECENT WORK AND ECONOMIC GROWTH

Secondary

10 REDUCED INEQUALITIES | 17 PARTNERSHIPS FOR THE GOALS

Actions to augment outcomes

- Build a resilient workforce capable of navigating challenges, adapting to change, and thriving in the face of adversity.
  - Promote a culture of resilience
  - Continue to provide training and development
  - Encourage work-life balance
  - Effective communication
  - Offer employee assistance programmes
  - Celebrate successes
- Optimise productivity by embedding our Employee Value Proposition (EVP) and driving innovation.
- Focusing on inclusion and embedding diversity into organisational culture to create a workplace where all employees feel valued, respected, and empowered to contribute their unique perspectives and talents.

Understanding and measuring the value expectations of the relationship

Employee value expectation	Value-creation outcome
Rs. 16.1 Bn. employee emoluments	On track
45% men and **55%** women	On track
Enhancing our culture by focusing on embedding the right behaviours	On track
52,630 hours of training	On track

Our value expectation	Value-creation outcome
Delivery of Bank's objectives	On track
Attracting and retaining talent	On track
An innovative and committed workforce	On track
Productive, efficient, and competent workforce	On track
Upholding ethics and professionalism	On track

On track | Work in progress | Require focus

Regulators and government institutions

Why we engage

- As regulatory policies, legislation, and regulations can significantly influence the cost of doing business and the ability of the banks to achieve a reasonable return on investment, the Bank proactively monitors regulatory developments to adapt and navigate regulatory challenges.
- As the threat of penalties for non-compliance underscores the importance of regulatory compliance, the Bank adheres to laws and regulations to maintain the trust of stakeholders, safeguard financial stability, and uphold the integrity of the banking system.
- Given that regulatory and disclosure frameworks serve as essential pillars of investor confidence by promoting transparency, accountability, and fairness in the financial markets, the Bank adheres to these frameworks to demonstrate its commitment to ethical conduct, responsible governance, and the long-term interests of investors and the public.

Integrated stakeholder engagement

What we want

Our Goal

Ensure compliance with applicable laws, regulations, and supervisory requirements while maintaining the safety and soundness of the financial system.

- Adhere to regulatory requirements set forth by the CBSL, financial regulatory authorities, and other Government regulatory authorities where applicable.
- Effectively manage risks such as credit risk, market risk, operational risk, and regulatory compliance risk.
- Provide accurate and timely reporting to regulators, shareholder, and other stakeholders.
- Protect the interests of consumers and ensure fair treatment in their dealings.
- Managing systemic risks and contributing to the smooth functioning of the financial system.

What they want

Our value proposition

Demonstrate compliance, stability, integrity, and commitment to promoting a safe, resilient, and well-functioning financial system.

- Assure regulators that the Bank is compliant with all relevant laws, regulations, and guidelines governing the banking industry.
- Provide evidence of robust risk management framework, internal controls, and stress-testing procedures to ensure the safety and soundness of the Bank's operations.
- Demonstrate the ability of the Bank to withstand adverse economic conditions and shocks, thereby reducing systemic risks and promoting confidence in the banking system.
- Foster a collaborative relationship with regulators through proactive engagement, open communication, and constructive dialogue.

Key regulators and Government institutions expectations	Our strategic response
Adherence to local and international banking regulations and implementation of effective risk management practices.	Adhering to established robust compliance and risk management practices and continuously evaluating the upcoming trends and new regulations to update the mechanism risk review report pages 191 to 213.
Establishment of strong governance structures, including an effective Board of Directors, with implementation of effective internal controls to prevent fraud and misconduct.	Reinforcing corporate governance structure of NSB over time to protect shareholder value corporate governance report on pages 167 to 181.
Implementation of robust cybersecurity measures to protect customer data and the Bank's infrastructure.	Implementing a 24x7/365-operated Security Operations Centre with incident response capabilities to meet international standards.

Our engagement strategy

- Applying a zero non-compliant strategy.
- Adopting international and local industry best practices.
- Establishing regular communication channels with regulators to provide updates on the Bank's activities and initiatives.
- Joining relevant industry associations to stay connected with peers and regulators by participating in conferences, seminars, and workshops to gain insights into regulatory trends and build relationships with regulators.
- Responding promptly and comprehensively to any inquiries or requests for information from regulators.

How we engage

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

Material matters

Related capitals

Link to Sustainable Development Goals

Primary

8 DECENT WORK AND ECONOMIC GROWTH
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
11 SUSTAINABLE CITIES AND COMMUNITIES
12 RESPONSIBLE CONSUMPTION AND PRODUCTION
16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Secondary

17 PARTNERSHIPS FOR THE GOALS

Integrated stakeholder engagement

Understanding and measuring the value expectations of the relationship

Regulators' and Government Institutions' value expectation

Value-creation outcome

Total CAR **19.26%** (minimum regulatory requirement 12.5%) (2022 – 18.00%)

Rs. (1.6) Bn. tax paid to the Government (2022 – Rs. 5.2 Bn.)

Zero non-compliance

Our value expectation

Fair regulation or policies that encourage banking business

On track | Work in progress | Require focus

Actions to augment outcomes

- **Proactive Engagement** – Initiating dialogue with regulators prior to issues arising.
- **Open Communication** – Maintaining open and transparent communication channels with regulators, keeping them informed about changes in the business operations, risk profile, and compliance initiatives, and seeking feedback and guidance from regulators on compliance matters and regulatory developments.
- **Compliance Reviews and Self-Assessments** – Conducting regular compliance reviews and self-assessments to identify areas of improvement and address potential compliance gaps.
- **Continuous Improvement** – Continuously evaluating and enhancing compliance programmes based on lessons learned, feedback from regulators, and changes in the regulatory landscape. Implement a culture of continuous improvement to adapt to evolving regulatory requirements effectively.

Business partners

Why we engage

- Partnering with specialised firms allows the Bank to tap into specific expertise unavailable in-house.
- Expanding the range of products and services beyond traditional banking offering.
- Partnering with businesses in different geographic regions to expand our market reach and tap into new customer segments.
- To mitigate certain risks associated with the Bank's operations.

Our engagement strategy

- Identify potential business partners with capabilities that complement the Bank's strengths and strategic priorities, after conducting due diligence to assess their reputation, financial stability, and alignment with our values and objectives.
- Build strong relationships with business partners based on trust, mutual respect, and open communication, with relationship managers or partnership coordinators dedicated to serve as the main point of contact for business partners.
- Maintain regular and transparent communication channels to share information, updates, and feedback for resolving issues and addressing concerns in a timely manner.

How we engage

- One-on-one meetings with procurement and facilities
- Supplier onboarding and induction programmes
- Service level agreement management and service delivery feedback and monitoring compliance of supplier code of conduct
- Training sessions on products and services
- Ongoing site visits

Integrated stakeholder engagement

What we want

Our Goal

Be a responsible and compliant business partner through ethical conduct, legal compliance, and sustainability while creating business opportunities and fostering meaningful relationships.

- Adhere to government procurement guidelines.
- Partner with suppliers that have strong transformation objectives and credentials.
- Leverage the Bank's financial expertise, industry knowledge, and network of stakeholders, to create opportunities for an economy promoting sustainability.
- Provide services that are aligned with our values, code of conduct and ethical standards.

What they want

Our value proposition

Creating mutually beneficial partnerships with suppliers to strengthen supply chain, drive innovation, and create value for all stakeholders involved.

- Identifying and capitalising on opportunities and partnerships that assist in growing businesses.
- Promoting fair opportunities and negotiation processes.
- Upholding ethical standards, complying with regulations, and conducting business in a socially and environmentally responsible manner.
- Ensuring timely payments within clearly communicated standard operational procedures.
- Integrates sustainability considerations into its procurement processes.

Key business partners expectations	Our strategic response
Financial strength and capacity to support the partnership	Maintaining legacy stable "AAA" rating by Lanka Rating Agency.
Clear and transparent communication	Proactive communication (incorporating matters relating to our brand promise, strategy, business updates, and operational matters) and feedback mechanisms to understand the needs, issues, and concerns of the business partners
Provide fair and equitable treatment to all business partners	Continuously reviewing and improvement of supplier agreements

Material matters

Related capitals

Link to Sustainable Development Goals

Primary

Secondary

Understanding and measuring the value expectations of the relationship

Business Partners' value expectation

	Value-creation outcome
Spent on local procurement **Rs. 1,575.6 Mn.** (2022 – Rs. 906.1 Mn.)	On track
Procurement from IT Vendors **Rs. 350.6 Mn.** (2022 – Rs. 370.1 Mn.)	On track
Zero non-compliance (2022 – Zero non-compliance)	On track

Our value expectation

Supporting local procurement, employment, and upliftment of small and medium enterprises	On track

On track | Work in progress | Require focus

Actions to augment outcomes

- Promote supplier diversity and inclusion by actively seeking out and engaging diverse suppliers from different backgrounds.
- Encourage and support suppliers to adopt sustainable and responsible business practices.
- Proactively identify and mitigate risks within the supply chain to ensure business continuity and resilience.

Integrated stakeholder engagement

Society and environment

Why we engage

- To maintain mutually beneficial relationships and contribute positively to the communities we serve by understanding their challenges and concerns.
- To deliver long-term financial performance and sustainability through sustainable business practices, including social and environmental responsibility.

Our engagement strategy

- Defining specific and measurable objectives for social and environmental engagement that align with the Bank's overall mission, values, and strategy.
- Integrating social and environmental considerations into the Bank's overall business strategy, decision-making processes, and risk management framework.
- Conducting ongoing environmental analyses and impact assessments of the Bank's operations.

How we engage

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

What we want

Our Goal

Operate in a manner that creates value for all stakeholders, promotes sustainable development, and contributes to the well-being of current and future generations.

- Promote financial inclusion by providing access to banking services, credit, and financial products to underserved and marginalised populations.
- Allocate capital to productive investments, facilitating entrepreneurship and innovation, and fostering job creation and business expansion.
- Integrate environmental considerations into business practices and investment decisions.
- Leverage financial resources and expertise on projects and programmes that generate positive social outcomes and improve quality of life for vulnerable populations.
- Promote responsible governance practices within the Bank and among their stakeholders.

What they want

Our value proposition

Drive positive social, economic, and environmental outcomes through responsible banking practices, sustainable investments, and proactive engagement with stakeholders.

- Empower individuals and businesses to participate in the formal economy, build assets, and improve their economic prospects.
- Stimulate economic growth and development by allocating capital to productive investments, supporting entrepreneurship and innovation, and facilitating trade and commerce.
- Commit to society and environment through corporate social responsibility (CSR) initiatives that go beyond regulatory compliance and financial performance.
- Actively listen to stakeholders and incorporating their feedback into decision-making processes to build trust, foster collaboration, and create shared value for all stakeholders.

Key society and environment expectations	Our strategic response
Contribute to community development and social welfare through benevolent initiatives, financial inclusion programmes, and support for underserved populations.	Develop an integrated sustainability strategy that embeds social and environmental considerations into the Bank's core business operations, decision-making processes, and risk management framework.
Provide accessible and affordable financial services to underserved and marginalised communities, including low-income individuals, small businesses, and rural populations.	Implement community engagement programmes and initiatives to support local economic development, education, healthcare, and infrastructure improvements in underserved communities.
Adhere to ethical business practices, transparency, and integrity in all dealings with customers, investors, regulators, and other stakeholders.	Form strategic partnerships and alliances with civil society organisations, environmental groups, academic institutions, and other stakeholders to collaboratively address social and environmental challenges, and drive collective action on critical sustainability issues.

Integrated stakeholder engagement

Material matters

Related capitals

Link to Sustainable Development Goals

Primary

Secondary

Understanding and measuring the value expectations of the relationship

Society and environment value expectation

	Value-creation outcome
3,465 m³ increase in consumption of water (2022 – 18,556 m³)	
461,584 kWh of electricity exported to the national grid (2022 – 344,347 kWh)	
Zero non-compliance 2022 – (Zero non-compliance)	

Our value expectation

Good corporate citizen status	
Youth and women empowerment	
Partnerships with communities	

On track | Work in progress | Require focus

Actions to augment outcomes

- Foster dialogue, collaboration, and partnerships with stakeholders (including customers, employees, shareholder/investors, regulators, and business partners) to address societal and environmental challenges collectively, to solicit feedback, listen to diverse viewpoints, and incorporate stakeholder input into decision-making processes.
- Advocate for policies and regulations that promote social equity, environmental sustainability, and responsible business practices.
- Engage with policymakers, industry associations, and advocacy groups to influence decision-making and drive positive change at the local, national, and global levels.

Integrated Report

Management discussion and analysis

Financial capital

A foundation for sustainable growth

What financial capital means to NSB

NSB's financial capital represents a critical foundation of its operational and strategic framework, comprising equity investments, retained earnings and debt financing. This financial reservoir not only facilitates day-to-day operations but also empowers the Bank to pursue growth opportunities, invest in innovative technologies, and expand its market footprint.

How financial capital supports our sustainable value-creation

Financial capital is the cornerstone that enables us to pursue our value-creation goals, ensuring we remain a trusted and leading entity in the financial sector, committed to delivering superior value to our customers, employees, shareholder, and the broader community.

Value transformation

- By strategically deploying our financial capital in various strategic initiatives that drive growth, efficiency, and sustainability, NSB transforms its value proposition to stakeholders, enhancing not only its financial metrics but also its competitive position, reputation, and long-term sustainability. This holistic value transformation supports the Bank's broader objectives of growth, customer satisfaction, and stakeholder engagement.

Key inputs

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

Key outputs

Strategic performance

Interest income growth
31.2%
(2022 – 31.6%)

Interest income
Rs. 227.0 Bn.
(2022 – Rs. 172.9 Bn.)

Cost to income ratio
71.59%
(2022 – 62.93%)

Value for shareholder

Return on equity
9.36%
(2022 – 3.40%)

Elevated risk profile

Impairment coverage ratio (Stage 3)
53.3%
(2022 – 38.9%)

Growth in assets and deposits

Asset growth
4.35%
(2022 – 2.38%)

Deposits mobilised
Rs. 10.7 Bn.
(2022 – Rs. 16.0 Bn.)

Strong capital and liquidity

Total CAR
19.26%
(2022 – 18.00%)

All currency LCR
293.71%
(2022 – 193.49%)

Financial capital

How we grow our financial capital

- Achieving robust strategic performance by ensuring consistent growth in profitability through expanding revenue sources and refining cost efficiencies.
- Achieving growth in the balance sheet by expanding lending, capitalising on investment opportunities, and maintaining a cautious debt profile, despite challenges.
- Sustaining robust capital levels that exceed regulatory thresholds and align with the Bank's risk appetite.
- Securing sufficient funding and effectively managing liquidity to ensure the seamless operation of the Bank and instil confidence in the financial system.

Approaches to managing outcomes

- Regularly monitor financial performance metrics such as profitability, liquidity ratios, capital adequacy ratios, and asset quality indicators and track progress through Key Performance Indicators (KPIs) to identify areas for improvement.
- Conduct comprehensive risk assessments to identify potential threats to financial capital, including credit, market, liquidity, and operational risks. Implementation of risk mitigation strategies such as diversification, hedging, and contingency planning to minimise the impact of adverse events.
- Allocate capital to areas with the highest return potential while considering risk-adjusted returns and capital allocation efficiency.
- Diversify funding sources, manage maturity mismatches, and maintain access to funding markets to mitigate liquidity risks.

Critical success factors/strategic drivers

- Generating consistent profits
- Maintaining healthy capital levels for absorbing potential losses and meeting regulatory requirements.
- Effectively managing financial risks, including credit, market, liquidity, and operational risks.
- Maintaining a high-quality asset portfolio
- Implementation of robust liquidity risk management practices, maintain sufficient cash reserves, and diversify funding sources to mitigate liquidity risks and preserve financial stability.

Value created for stakeholders

Shareholder/Investors

Benefit from the appreciation of the equity stake/profitability as the Bank's financial performance improves.

Regulators and Government institutions

NSB's financial capital ensures compliance with regulatory capital requirements and prudential standards, fostering stability and confidence in the banking system. Government entities benefit from tax revenues generated by NSB's operations and contributions to economic growth and development.

Customers

Access to affordable banking services, competitive interest rates, and innovative financial solutions that help them achieve their financial goals.

Business partners

Fostering trust, providing access to funding, offering competitive terms enabling collaboration, innovation and mitigating risks in business relationships.

Employees

A supportive work environment, career advancement prospects, and incentives linked to the Bank's financial performance.

Society and environment

Investments in education, healthcare, infrastructure, social welfare programmes and preservation of natural resources contribute to the economic and social well-being of communities served by the Bank and protect environment.

Financial capital

How we leverage our Financial capital

Manufactured capital
Enhancing infrastructure, systems, and processes results in improved business functions.

Intellectual capital
Branch expansions promote brand visibility while digital infrastructure promotes efficiency.

Human capital
- Process improvements and implementing new systems create new job opportunities, training, and capacity expansion.
- Develop new competencies and digital skills.

Social and relationship capital
- Expansion of physical and digital infrastructure provides strong links with customers and suppliers
- Reduction in transaction time

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

Connectivity with materiality, stakeholders

Material matters

Stakeholders

Primary UN SDGs

8 DECENT WORK AND ECONOMIC GROWTH — Investing in training and development ensures that employees receive education and equal opportunities, leading to economic advancement and improved living standards within the community.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE — Backing innovation in products and services by financing both physical and digital infrastructure.

Secondary UN SDGs

11 SUSTAINABLE CITIES AND COMMUNITIES — Constructing resilient and economically viable communities through philanthropic development initiatives and exploring sourcing and outsourcing opportunities.

Potential trade-offs

- **Manufactured capital –** Utilisation of financial capital to upgrade the Bank's technology or branch network could come at the expense of investing in other financial opportunities.
- **Intellectual capital –** Investing in new financial ventures might require research and development, diverting resources from maintaining or improving existing financial products and services.
- **Human capital –** Investing financial capital in technology or infrastructure might initially reduce the need for labour-intensive processes, affecting employment and employee skill requirements.
- **Social and relationship capital –** Focusing on high-interest loans might generate profit but damage the Bank's reputation as a socially responsible lender.
- **Natural capital –** Excessive focus on financial capital may lead to environmental degradation or resource depletion, compromising natural capital.

Direct economic value generated and distributed

GRI 201-1

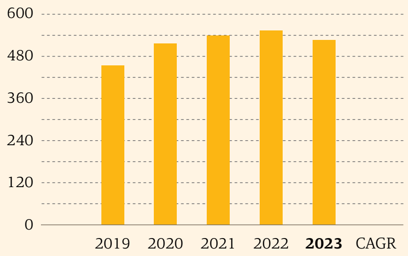
	2023 Rs. Mn.	2022 Rs. Mn.
Direct economic value generated to:	**232,064**	174,530
Operating expenses	**12,643**	12,180
Depositors	**197,402**	140,477
Employees	**16,110**	13,791
Providers of capital	**–**	–
Government except dividends	**(1,308)**	5,553
Direct economic value retained	**7,216**	2,530
Direct economic value distributed	**224,848**	172,001

Table 10 →

Financial capital

Measuring our financial achievements

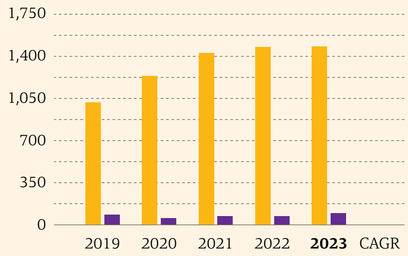
Net loans and advances
Graph 10



	2019	2020	2021	2022	**2023**	CAGR
Rs. Bn.	454	517	539	553	**527**	3.75%

Net loans and advances

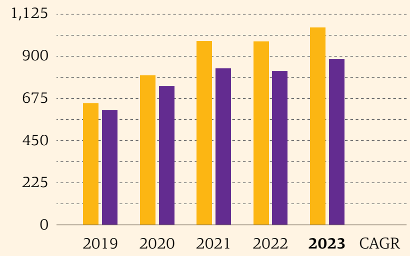
Deposits and borrowings
Graph 11



	2019	2020	2021	2022	**2023**	CAGR
Rs. Bn. (Deposits)	1,017	1,237	1,428	1,477	**1,483**	9.89%
Rs. Bn. (Borrowings)	83	53	53	45	**94**	3.29%

Deposits, Borrowings

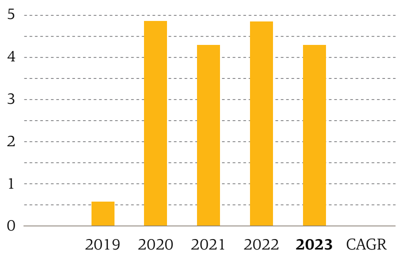
Investments
Graph 12



	2019	2020	2021	2022	**2023**	CAGR
Rs. Bn. (Total investments)	648	799	981	979	**1,053**	12.92%
Rs. Bn. (Government securities)	613	741	834	821	**885**	9.64%

Total investments, Government securities

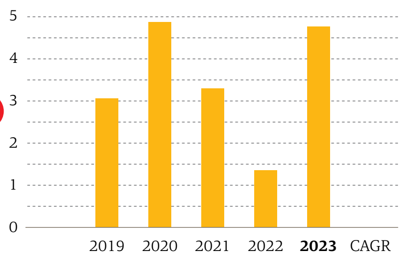
3 Impairment charges
Graph 15



	2019	2020	2021	2022	**2023**	CAGR
Rs. Bn.	0.57	4.87	4.30	4.86	**4.26**	65.66%

Impairment charges

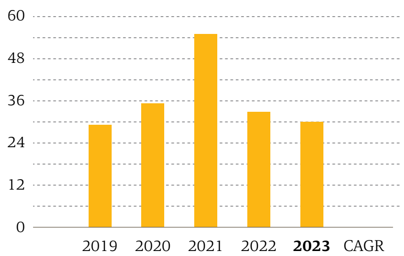
2 Non-interest income
Graph 14



	2019	2020	2021	2022	**2023**	CAGR
Rs. Bn.	3.07	4.88	3.29	1.36	**4.78**	11.73%

Non-interest income

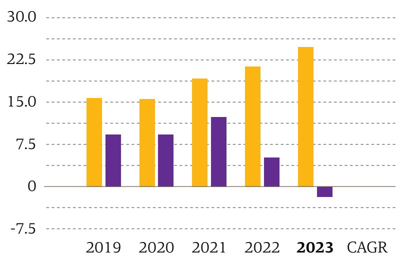
1 Net interest income (NII)
Graph 13



	2019	2020	2021	2022	**2023**	CAGR
Rs. Bn.	29	35	55	32	**30**	0.63%

Net interest income (NII)

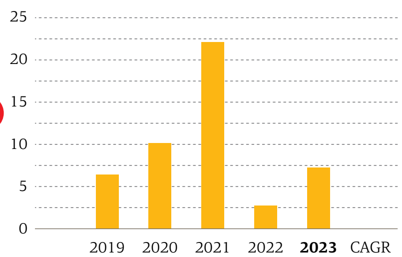
4 Operating expenses and taxes
Graph 16



	2019	2020	2021	2022	**2023**	CAGR
Rs. Bn. (Operating expenses)	15.8	15.6	19.3	21.4	**24.8**	11.93%
Rs. Bn. (Taxes)	9.3	9.3	12.4	5.2	**(1.6)**	

Operating expenses, Taxes

5 Profit after tax
Graph 17



	2019	2020	2021	2022	**2023**	CAGR
Rs. Bn.	6	10	22	3	**7**	3.12%

Profit after tax

Financial capital

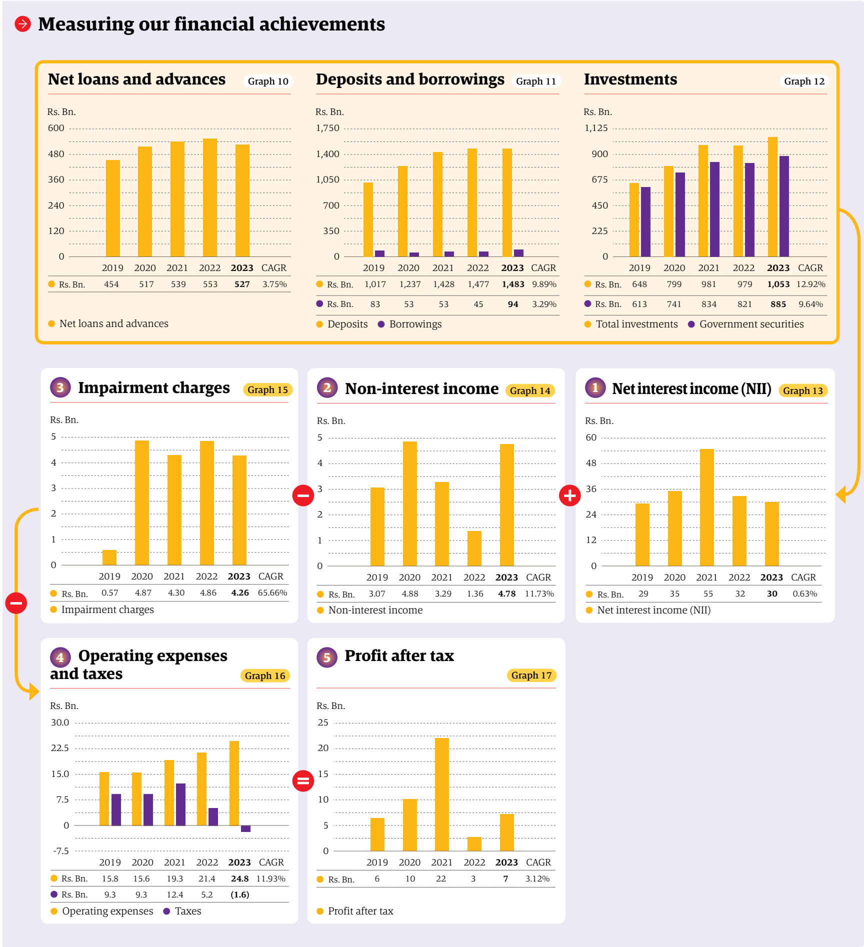


Figure 11

1 Net interest income

The Bank's Net Interest Income (NII) amounted to Rs. 29.6 Bn., marking a decrease of 8.9% compared to the previous year's Rs. 32.5 Bn.. Interest income for 2023 stood at Rs. 227.0 Bn., registering a modest increase of 31.2% over the previous year's Rs. 173.0 Bn., primarily driven by interest income from investments in Government securities. Despite a reduction in policy rates by 500bps since June 2023, interest expenses grew by 40.5% to Rs. 197.4 Bn. during the year, compared to Rs. 140.5 Bn. recorded in the previous year. This was due to deposits mobilised at higher rate in 2022 not being repriced immediately following the interest rate reduction by CBSL. Consequently, with the increase in interest expenses surpassing interest income, the Bank's Net Interest Margin (NIM) declined to 1.79% at the end of December 2023, compared to 2.03% reported a year earlier.

2 Non-interest income

In 2023, Net Non-Interest Income skyrocketed to Rs. 4.8 Bn., marking a significant increase from the Rs. 1.4 Bn. reported in 2022. This substantial growth was driven by net gains from trading activities reaching Rs. 1.4 Bn., as well as gains on the derecognition of Treasury Bonds at fair value through other comprehensive income, totalling Rs. 1.8 Bn.

In 2023, the Bank's net fee and commission income amounted to Rs. 1.3 Bn., indicating a decrease of 34.2% compared to the Rs. 1.9 Bn. reported in the preceding year. This decline was mainly due to the slower expansion of loans and advances following the interest rate hike and subdued economic activities.

3 Impairment cost

When determining the impairment charge, the Bank took a conservative approach, as it had already set aside higher provisions in 2022. These provisions took into account several factors, including the expectation of potential reductions in value for foreign currency-denominated Government Security Instruments (Sri Lanka Development Bonds) and exposures to sectors with elevated risk levels. Internal models were adjusted to incorporate unforeseen risk elements in the extremely uncertain and volatile environment, taking into consideration factors such as disruptions in economic fundamentals, societal unrest, and political instability.

Due to these cautious provisioning methods and the resurgence of economic operations, the Bank refrained from augmenting the impairment provision in the current period. Consequently, impairment charges borne by the Bank decreased by 12.4% to Rs. 4.3 Bn., compared to the Rs. 4.9 Bn. recorded in the preceding year. This decline is mainly attributed to a 4.8% decrease in the loan and advances portfolio, coupled with the conversion of Rs. 9.4 Bn. worth of Sri Lankan Development Bonds (SLDB) into LKR-denominated bonds.

4 Operating expenses

Operating expenses, including personnel costs, depreciation and amortisation, and other overhead expenses, rose to Rs. 24.5 Bn. in 2023 from Rs. 21.2 Bn. in 2022, marking a 15.6% increase attributed to widespread price hikes despite implemented cost-saving strategies and initiatives. Personnel expenses alone, constituting 65.8% of total operating expenses, reached Rs. 16.1 Bn., reflecting a 16.8% increase from the previous year's Rs. 13.8 Bn. Depreciation and amortisation expenses, accounting for 5.8% of operating expenses, saw a marginal rise of 1.3% to Rs. 1.43 Bn. compared to Rs. 1.41 Bn. in the preceding year.

Financial capital

Other operating expenses, encompassing administration, establishment expenses, and Directors' emoluments, surged by 16.1% to Rs. 6.9 Bn. in 2023. Consequently, the Bank's Cost to Income ratio (excluding taxes) closed at 71.6%, significantly higher than the 62.9% recorded in 2022, primarily due to inflationary pressures.

The Bank's total tax expense comprises an Income Tax reversal of Rs. 2.9 Bn., Value Added Tax (VAT) on financial services amounting to Rs. 1.1 Bn., and Social Security Contribution Levy (SSCL) on financial services totalling Rs. 158.7 Mn. The VAT on financial services decreased to Rs. 1.1 Bn., marking a 64.1% reduction from the Rs. 3.2 Bn. reported in the previous year. Additionally, due to a deferred tax credit, the income tax recorded a reversal of Rs. 2.9 Bn., compared to Rs. 2.0 Bn. recorded during the same period in 2022.

5 Profit after tax

GRI 207-3

In 2023, the Bank reported a Profit before Tax (PBT) of Rs. 4.3 Bn., reflecting a decrease of 4.9% when compared to the Rs. 4.5 Bn. recorded in 2022. The Profit after Tax (PAT) for the year soared to Rs. 7.2 Bn. from Rs. 2.6 Bn. in the preceding year, marking a remarkable increase of 185.3%. This notable surge in profits can be attributed to three main factors: gains realised from the sales of Treasury Bills and Bonds, decreased impairment charges, and substantial reversals in tax expenses.

Aligned with the Bank's improved performance, the Return on Equity (ROE) improved to 9.36% compared to 3.40% reported at the end of 2022. The Return on Assets (ROA) marginally decreased to 0.26% at the end of 2023, down from 0.28% reported a year earlier.

Summarised Statement of Income

For the year ended 31 December	Change %	2023 Rs. Bn.	2022 Rs. Bn.	
Gross income	33	232.06	174.53	1
Interest income	31	226.97	172.94	
Less: Interest expenses	41	197.40	140.48	
Net interest income	(9)	**29.57**	**32.46**	2
NIM (%)		**1.79**	**2.03**	
Non-interest income	252	4.78	1.36	3
Less: Impairment charges	(12)	4.26	4.86	4
Provision cover (%)		**91.34**	**75.22**	
Net operating income	4	**30.09**	**28.96**	
Less: Operating expenses	16	24.50	21.20	5
Cost to income (%)		**71.59**	**62.93**	
Operating profit before taxes	(28)	**5.59**	**7.76**	
VAT & SSCL	(60)	1.30	3.25	
Profit before tax	(5)	**4.29**	**4.51**	6
Income tax	(248)	(2.93)	1.98	
Profit after tax	185	**7.22**	**2.53**	

For the year ended 31 December	Change %	2023 Rs. Mn.	2022 Rs. Mn.
Profit per employee (after tax)	196	1.66	0.56

Table 11

1 Gross income

Composition: interest income, net fee and commission-based income, net gain/(loss) from trading, net fair value gain/(loss) from financial instruments FVTPL, Net gain/(loss) from derecognition of financial assets, and other net operating income.

Key drivers: Quantity of customers, range of products available, pricing structures, economic and customer engagement levels, currency exchange rates, pricing dynamics in commodity and equity markets, competitive landscape, and market stability.

2 Net interest income

Composition: Disparity between interest income and interest expenses.

Key drivers: Quantity of customers, range of products available, pricing structures, economic and customer engagement levels, currency exchange rates, pricing dynamics in commodity and equity markets, competitive landscape, and market stability.

3 Non-interest income

Composition: net fee and commission-based income, net gain/(loss) from trading, net fair value gain/(loss) from financial instruments FVTPL, Net gain/(loss) from derecognition of financial assets, and other net operating income.

Key drivers: Quantity of customers, transactional banking volumes, pricing structures, capital markets engagement, trading volumes, market fluctuations, investment in quoted and unquoted shares.

4 Impairment cost

Composition: Banks set aside provisions for expected loan losses based on factors like the quality of the loan portfolio, economic conditions, and specific risk factors associated with individual loans.

Key drivers: Economic conditions, credit quality of the loan portfolio, industry and geographic concentrations, collateral valuation, interest rates and market conditions, regulatory and accounting changes, risk management practices and macroeconomic factors.

5 Operating expenses

Composition: Expenses that are accrued to generate both current and future revenues. Operating expenses include personnel costs, depreciation and amortisation, and other overhead expenses.

Key drivers: Inflationary impacts, workforce size, investments in branch and IT infrastructure leading to amortisation, overhead costs for operations (including expenses related to innovation and work efficiency initiatives), and losses incurred from operational activities.

6 Profit before tax

Composition: The measure that looks at a company's profits before the company must pay corporate income tax is called "Profit before Tax (PBT)" or "Pre-tax Profit."

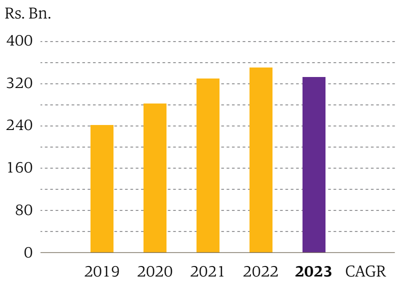
Key drivers: Revenue growth, cost management, operating efficiency, effective capital allocation, interest expense management, market conditions and demand, economic environment, regulatory environment, currency fluctuations.

Measuring shareholder return

Our Return on Equity (ROE) serves as the primary gauge of our financial performance over time, consolidating all key determinant factors such as earnings growth and capital utilisation into one comprehensive metric. Within our organisation, we also evaluate our Return on Risk-Weighted Assets (RoRWA) internally, providing a more direct assessment of earnings in relation to regulatory capital utilisation.

Average risk weighted assets

Graph 18

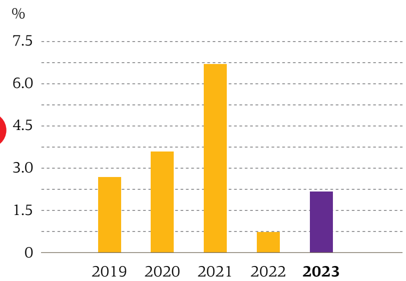


	2019	2020	2021	2022	2023	CAGR
Rs. Bn.	242	283	330	351	**334**	8.41%

Average risk weighted assets

Return on risk weighted assets

Graph 19

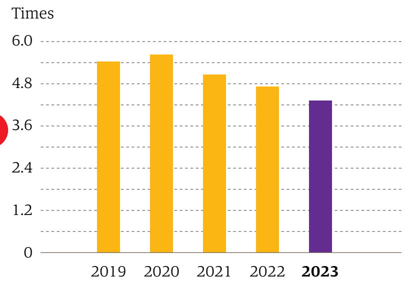


	2019	2020	2021	2022	2023
%	2.6	3.6	6.7	0.7	**2.2**

Return on risk weighted assets

Financial leverage

Graph 20



	2019	2020	2021	2022	2023
Times	5.4	5.6	5.1	4.7	**4.3**

Financial leverage

Average RWA

The Bank's Risk-Weighted Assets (RWA) decreased by 10% compared to the previous year primarily because of the rise in zero-risk weighted investments in Government securities, a reduction in the loans and advances portfolio, and decreases in both market risk-weighted assets and operational risk-weighted assets.

Return on RWA

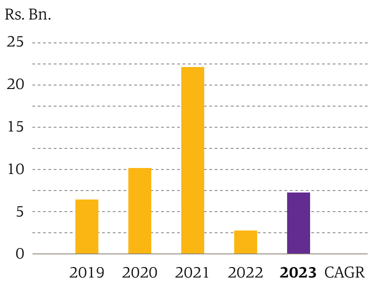
As a result of the favourable effect of the augmented Profit After Tax (PAT), the Return on Risk Weighted Assets surged to 2.2% in 2023, marking a substantial rise from the 0.7% reported in the corresponding period of the previous year. The reduction in Risk-Weighted Assets (RWA) also contributed positively to this increase.

Financial leverage

The Bank determines financial leverage by dividing the average shareholder's equity by the average risk-weighted assets. With the average risk-weighted assets decreasing by 4.8% and the average shareholder's equity increasing by 4.5%, the financial leverage improved to 4.3 times from the 4.7 reported a year ago.

Profit after tax

Graph 21

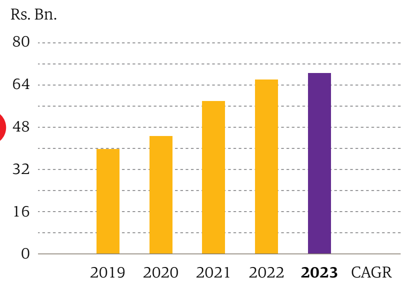


	2019	2020	2021	2022	2023	CAGR
Rs. Bn.	6	10	22	3	**7**	3.12%

Profit after tax

Average shareholder's equity

Graph 22

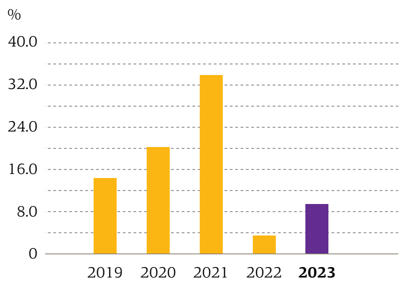


	2019	2020	2021	2022	2023	CAGR
Rs. Bn.	45	50	65	74	**77**	14.73%

Average shareholder's equity

Return on average shareholder's equity

Graph 23



	2019	2020	2021	2022	2023
%	14.3	20.1	33.9	3.4	**9.4**

Return on average shareholder's equity

Average shareholder's equity

The average shareholder's equity increased by 3.6% driven by the increase in in profit after tax to Rs. 7.2 Bn. compared to that of Rs. 2.5 Bn. reported a year ago.

Return on equity

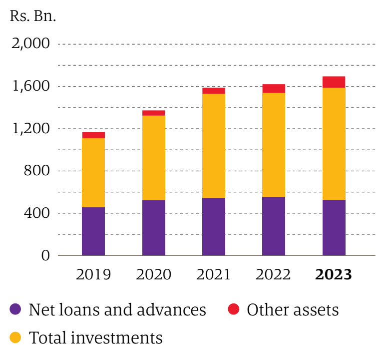
The return on equity also witnessed an improvement, rising to 9.36% in 2023 compared to 3.4% in 2022, primarily due to the increase in profit after tax.

Financial capital

Total assets

Despite the challenges faced by the economy and the banking sector, NSB's asset base recorded a nominal growth of 4.3% to reach Rs. 1.7 Tn. as of end of the year 2023 compared to Rs. 1.6 Tn. reported a year ago primarily driven by investment in Government Securities, placement with banks and Receivable from Treasury.

Total assets
Graph 24

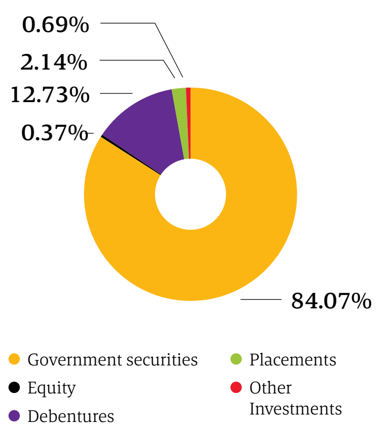


Investments

Investment in equity and debt securities

The Bank's overall investment portfolio, encompassing both equity and debt instruments, increased by 7.6%, reaching Rs. 1.0 Tn. by the end of 2023 compared to the Rs. 979 Bn. reported in 2022. Debt instruments, including Government Securities, corporate debt instruments, and trust certificates, constituted 99.6% of the total portfolio, with the remaining portion consisting of equity securities. Due to lower private credit growth caused by the high interest rate scenario, the Bank focused more on investing in Government Securities which increased by 7.7% compered to year 2022. The Bank's equity portfolio declined by 9.7% to Rs. 3.9 Bn. by the end of 2023 from Rs. 4.3 Bn. in 2022, attributed to market stagnation and strategic divestments in the equity market.

Composition of investments
Graph 25



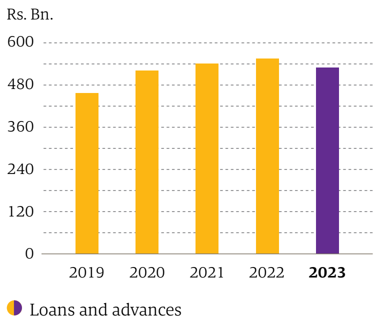
Loans and advances

The Bank's loan and advances portfolio, which mainly includes housing loans, pawning, personal loans, and other types of loans, totaled Rs. 526.5 Bn. by the end of December 2023, showing a decrease of 4.8% from the Rs. 553.0 Bn. reported in the prior year. This reduction reflects subdued demand attributed to weak economic conditions, as well as the Bank's strategic approach of exercising caution in lending.

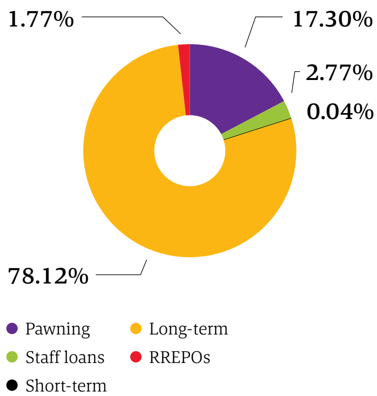
Despite encountering numerous challenges throughout the year, the Bank sustained an impressive Net Stage 3 Loans to total loans Ratio of 2.41%, outperforming the industry average of 7%. This success is attributed to the Bank's cautious lending practices, which included minimising exposure to high-risk sectors, along with strong control mechanisms, aggressive debt collection endeavours, and prudent provisioning policies enacted by management.

The Bank witnessed a notable improvement in its Stage 3 Impairment Provision Coverage Ratio, which increased by 1,441 basis points to achieve 53.3% in 2023, up from 38.9% in 2022, owing to its prudent provisioning strategies.

Loans and advances
Graph 26



Composition of loans
Graph 27



Financial capital

Deposits and funding

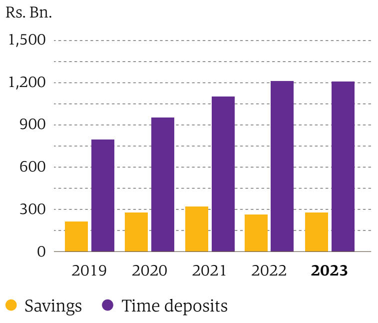
Customer deposits remained the primary funding source, constituting 94% of total funding. In 2023, deposits from customers saw a marginal increase of 0.4%, reaching Rs. 1,483 Bn., up from Rs. 1,477 Bn. reported the previous year.

Following the reduction of policy rates by 550 basis points by the Central Bank of Sri Lanka (CBSL) in 2023, the Bank adjusted its deposit interest rates accordingly to let go of high-cost fixed deposits to improve the cost of funds. Consequently, fixed deposits, which constituted 81.2% of total deposits, decreased marginally by 0.6% to reach Rs. 1.2 Tn. However, there was a growth of 5.2% in the savings deposit base, which reached Rs. 278.2 Bn. at the end of 2023, compared to Rs. 264.5 Bn. at the end of 2022.

Nevertheless, borrowings saw a significant surge of 112% over the previous year, primarily driven by an uptick in Repo borrowings, which played a key role in increasing the cost of funds.

Savings vs time deposits

Graph 28



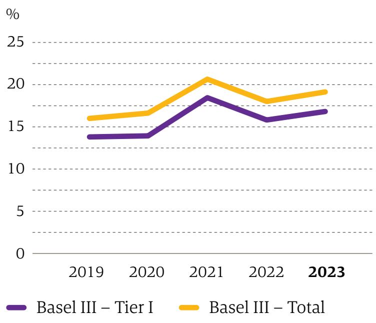
Capital management

Prudent capital management is a top priority of the Bank. In the face of a particularly difficult operating landscape, the Bank skilfully preserved its robust capital ratios over the year, eliminating the necessity for supplementary capital injections. All key capital ratios comfortably surpassed the regulatory minimum thresholds. By the close of 2023, the Tier 1 capital ratio stood at 16.91% and the total capital ratio at 19.26%, both well above the regulatory floors of 8.5% and 12.5%, respectively improving from 15.78% and 18.00% reported in the year 2022. Furthermore, the Bank's Basel III Leverage ratio clinched the year at 6.22%, significantly exceeding the minimum regulatory standard of 3%.

The Bank's liquidity measures, including the Basel III Liquidity Coverage Ratio (both rupee and all currency) and Net Stable Funding Ratio, remained comfortably above the 100% regulatory threshold.

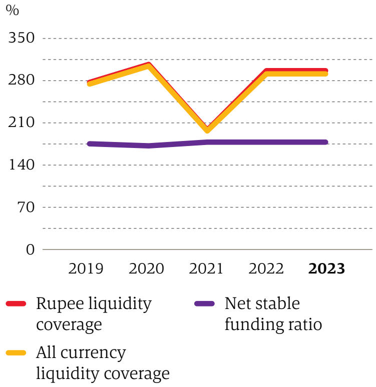
Capital adequacy ratios

Graph 29



Liquidity ratios

Graph 30



Financial capital

Summarised Statement of Financial Position

As at 31 December	Change %	2023 Rs. Bn.	2022 Rs. Bn.
Assets			
Cash and Balances with Central Bank	9	9.76	8.97
Placements	116	22.58	10.47
Government securities	8	885.43	821.46
Government securities to deposits (%)		**68.62**	**64.76**
Other investments	(0)	145.26	146.85
Loans and advances	(5)	526.52	553.03
Loans to deposits (%)		**35.51**	**37.45**
Other assets	28	97.42	75.92
Total assets	4	**1,686.96**	**1,616.69**
ROA (%)		**0.26**	**0.28**
Liabilities			
Deposits	0	1,482.53	1,476.74
Borrowings	112	94.40	44.63
Other liabilities	28	28.66	22.42
Total liabilities	4	1,605.59	1,543.79
Equity			
Stated capital/assigned capital	–	9.40	9.40
Other reserves	13	71.97	63.49
Total shareholder's equity	12	**81.37**	**72.89**
ROE (%)		**9.36**	**3.40**
Total equity and liabilities	4	**1,686.96**	**1,616.69**

Table 12

1 Total assets

Composition: The Bank's total assets comprise both non-current and current assets. The asset side of the Bank's capital encompasses cash, investment in Government securities and other financial assets and interest-earning loans and advances, and other assets.

Key drivers: Loan portfolio growth, investments in securities, non-performing assets, Central Bank reserves and regulatory requirements.

2 Investments

Composition: Investment includes placements with banks, investments in financial assets including debt instruments and investment in subsidiary.

Key drivers: Interest rates, economic conditions, regulatory environment, market conditions, credit quality and risk management practices.

3 Loans and advances

Composition: Includes loans and advances given to retail and corporate customers.

Key drivers: quantity of customers, range of products available, competitor landscape, degree of economic and customer engagement, repayment rates and extent of credit losses.

4 Total deposits

Composition: This funding enables the Bank to offer loans to clients, thereby fulfilling its role in linking capital providers with those in need of additional funds. In doing so, the Bank plays a vital role in facilitating the broader financial system's operation.

Key drivers: Customer needs, financial transactions, and savings.

Way forward

- Embracing new technologies like Artificial Intelligence (AI), blockchain, and cybersecurity to improve operational efficiency, customer experience.
- Regulations are likely to change to address issues like cyber threats, data privacy, and emerging financial technologies. The Bank with the anticipation of these changes, will ensure its capital allocation aligns with future regulations.
- Financing green projects, supporting businesses with sustainable practices, and contributing to the transition to a low-carbon economy.
- Developing innovative financial products that meet the evolving needs of customers, such as digital wallets, peer-to-peer lending platforms, and investment products focusing on sustainability. This also includes tailoring services for underserved segments.

Business lines review

Retail Banking

What we offer

A comprehensive suite of products designed to cater to the unique requirements of our individual customers throughout the various phases of their life, including savings accounts, fixed deposits, home loans, personal financing, loans for small businesses, and daily financial and investment guidance. The overarching aim is to offer an outstanding customer experience during every engagement, assisting them in achieving tangible financial advancements.

Operating environment

- Revival of economic activities
- Inflationary pressures
- High interest rates prevailed in the first half of the year and reduction of interest rates during the second half.
- Supply side disruptions and restrictions on imports.
- Multiple tax reforms and new tax structure resulted in a contraction of disposable income
- Political risk ahead of the 2024 election

Impact

- Sharp increase in funding costs and slowdown in credit demand impacted the margin of the retail banking segment.
- Inflationary pressures and taxes hindered people's revenue generation and spending capacity, and adversely impacted the borrowers' repayment capacity led to deterioration in asset quality.

Key highlights

Increased interest income supported by increased interest rates of loans and advances during the year of 2023.

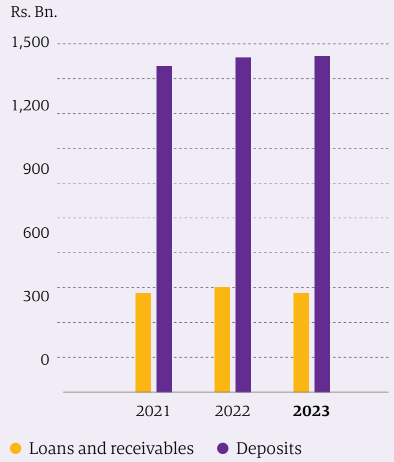
Impairment charges also increased due to the prevailing economic downturn.

Income Graph 31

Impairment Graph 32

The deposit base of NSB remains stable despite the bad economic weather conditions. However, loan portfolio sew a slight decrease in 2023, compared to the previous year.

Deposits vs loans Graph 33



Performance and strategy

Deposits

In 2023, deposit gathering efforts were significantly impacted by the decreased disposable income among the populace, despite the Central Bank of Sri Lanka's (CBSL) monetary policy rate reduction from June 2023 forward. The Bank has implemented the following measures to secure positive and maximal growth in deposit mobilisation.

- Introduced E-Post Digital Account, aiming a revolutionary transformation in Postal Banking Sector it to the digital world.
- Conducted NSM debit card cash back promotion and special deposit mobilisation campaigns.
- Introduced new Savings account "Aswesuma" in line with government social support scheme.
- Relaunched the Short-term Fixed deposit Scheme for the purpose of liquidity management (4 months and 7 months FD schemes at competitive rates).

Retail loans

- Adopted a cautious approach towards retail lending. A prudent approach has taken in new lending activities while more stringent internal controls and screening protocols were put in place.
- Started focusing more on collateral-based lending and taking necessary steps to reduce the exposure to the loans granted on personal guarantees. The Bank intensified its campaign to promote pawning advances.
- Centralised Credit Administration Unit (CAU) was established with the view to improving credit culture of the Bank through correction of lapses in internal control framework, credit evaluation and credit practices.

Digital banking

- During the year, the Bank introduced the brand name, "NSB NextGen", for digital banking services of the Bank. The digital banking services namely NSB e-KYC, NSB e-Post, new internet banking platform, NSB PayApp and the NSB Transit Card have been launched. These facilitates customer onboarding and savings account opening without visiting a branch and customers could submit their information online from anywhere, anytime for onboarding and account opening.

Outlook with risk and opportunities

With the relaxation of monetary policy, the inflation is expected to increase. Further, the outcomes of the prevailing inflationary pressures will reduce the purchasing power of the consumers for a considerable period of time and they will have to utilise their savings for their consumption. Therefore, it would be difficult for the Bank to attract low-cost funding. To overcome this pressure, it is expected to increase the POS transactions and digitally onboarding the existing customers base and attracting new customers specially targeting the young generation.
The Bank will look to consolidate its deposit base as economic conditions gradually improve and pave the way for interest rates also to stabilise in due course. The prudent approach adopted in 2023 will likely continue to influence the lending in the near term.

Customer relationships will remain a priority and will continue to enhance its digital value proposition to cater to evolving customer requirements whilst driving differentiation through superior customer service and convenience. Meanwhile we remain focused on strengthening our presence in the payment space and will continue to explore new collaborations and partnerships that will transform the banking experience of our customers.

Our priorities

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

Focus for 2024

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

Corporate banking

GRI 203-1

What we offer

Includes corporate lending, multiple finance, loan syndication and debt origination as well as risk management products. Corporate finance is in the business of providing sources of funding to large corporates, Banks, other 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 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.

Operating environment

- Revival of economic activities.
- Inflationary pressures and reduction of interest rates.
- Supply side disruptions and restrictions on imports.
- Multiple tax reforms and new tax structure.
- Political risk ahead of the 2024 election.

Impact

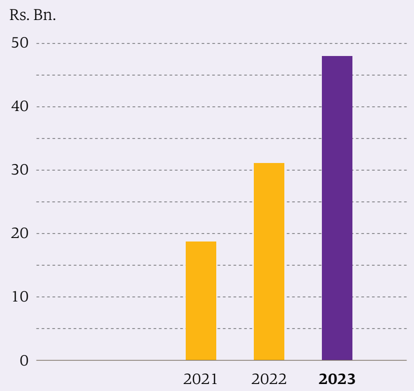
- Negatively impacted the performance of the clients, leading to difficulties in the loan repayment.
- Businesses related to import affected due to foreign exchange liquidity crisis (slowdown in certain sectors such as construction, tourism and agriculture).
- Weakening consumer demand amid revised tax reforms.

Key highlights

Increased earnings from corporate debt security investments due to higher interest rates offered.

Interest earnings

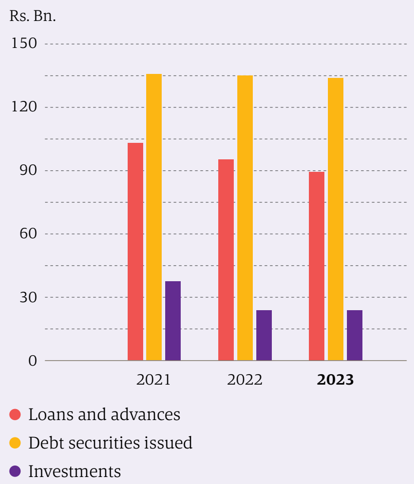
Graph 34



Corporate loan portfolio has shown a significant decrease due to temporary halt of issuing new loans.

Loans and investments

Graph 35



Performance and strategy

Given the economic stress and the burden of high interest rates, the Bank consciously curtailed lending to most sectors, including the renewable energy sector. The Bank adopted a cautious approach to maintain a healthy asset portfolio within the high interest rate environment. Nevertheless, astute portfolio management and sound asset quality were maintained, and focus was sustained on timely recoveries and analysing customers' cash flows. By understanding customers' business operations, the Bank was able to offer more customised solutions.

Outlook with risk and opportunities

- With ongoing challenges set to continue for some time to come, managing portfolio exposures will be the key priority for the Bank in the future. In this context, the overall lending approach for the next year will be on selected sectors which are resilient under current market conditions.
- The Bank will continue to focus on new industries mentioned in the latest budget proposals such as agriculture, IT and renewable energy sectors which are being facilitated by the Government. With the present Government's policy on clean energy, lending opportunities to Power and Energy Sector for Combined Cycle Power Plants and Renewable Energy (solar and wind) is expected to materialise. Lending opportunities to SMEs in apparel, agriculture and mining industry is expected with the Government actively promoting local manufacturing.

Our priorities

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

Focus for 2024

- Lending for the sectors with high growth, but with low to medium risk profile.
- With the present Government's policy on clean energy, lending opportunities to Power and Energy Sector for Combined Cycle Power Plants and Renewable Energy (solar and wind) is expected to materialise.
- Lending opportunities to SMEs in apparel, agriculture and mining industry is expected with the Government actively promoting local manufacturing.
- Strengthening relationship and leveraging partners to expand our footprint in Sri Lanka.
- Preserving credit portfolio quality.

International banking

What we offer

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 & JPY), inward and outward remittances, foreign currency exchange, issuance of import letter of credit, handling of import bills and issuance of shipping and air freight guarantees.

Operating environment

- Revival of economic activities and recovery in manufacturing segment.
- Stabilisation of exchange rate and measures taken to relaxing the import restrictions.
- Successful completion of IMF 1st review and obtained approval for 2nd tranche of the EFF.
- Healthy level of workers' remittances and notable increase in tourist arrivals.
- Declining interest rates.
- Political risk ahead of the 2024 election.

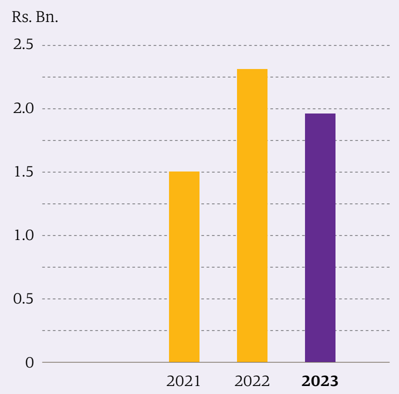
Impact

- Businesses related to import affected due to foreign exchange liquidity (slowdown in certain sectors such as construction, tourism, and agriculture).
- Revival in tourism and workers' remittances brought up foreign currency and improved the foreign currency liquidity.

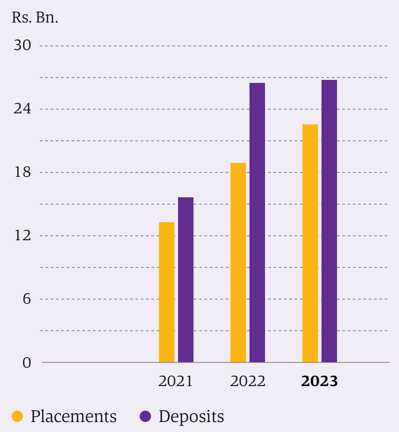
Key highlights

Major portion of the income received by the segment is from the placement income. During the period the placement portfolio of the Bank was kept increasing due to higher deposits received in foreign currency.

Interest earnings Graph 36



Placements vs deposits Graph 37



Performance and strategy

During the year of 2023, the Bank mobilised foreign currency deposits of Rs. 0.93 Bn. against Rs. 10.5 Bn. reported in 2022 mainly due to Rupee depreciation. The Bank received Rs. 128.5 Bn. worth of remittances during the year 2023 compared to Rs. 71.8 Bn. recorded during the last year. Consequently, the market share in the remittances increased to 6.59% as of December 2023 from 5.73% in December 2022.

Outlook with risk and opportunities

The banking sector is likely to encounter significant challenges in the face of the current economic environment with the contraction in economic output, sovereign debt restructuring, high interest rate environment, tax revisions and high exposure of the banking sector to State-Owned Business Enterprises (SOBEs).. However, the economy made a notable growth of 1.6% (YoY) during 3Q2023 supported by decline in interest rates, YTD appreciation in the exchange rate and relaxation of import restrictions.

The Rupee continued to hover within the band of Rs. 320-360 during 2023, and USD/LKR exchange rate is expected to gradually decrease amidst trade relaxation, hovering within a range of Rs. 320-360 over the next year. The Bank will focus on strengthening its US Dollar liquidity position by increasing foreign currency deposits and remittances and be able to offer trade facilitation solutions for the continuity of import and export trade to and from Sri Lanka.

Business lines review

Our priorities

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

Focus for 2024

- Continue to focus on the key growth driving markets.
- Increase market share by penetrating into untapped markets.
- Entering new tie ups and expanding business into new markets such as Israel, Denmark etc.
- Concentrate more into export trade finance business.
- Drive efficiencies by simplifying and streamlining operations and investing in digital capabilities.

Treasury and dealing

What we offer

Treasury and dealing plays a vital role in managing the Bank's market risks and liquidity risk through the Asset Liability Management. The segment engages in investment in Government securities, equities and 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.

Operating environment

- Yields of government securities continued to decline with the announcement of Domestic Debt Optimisation (DDO).
- Fall in interest rates in line with the relaxation of the monetary policy stance by the CBSL.
- Improved domestic money market liquidity.
- Successful completion of IMF's 1st review and obtained approval for 2nd tranche of EFF.

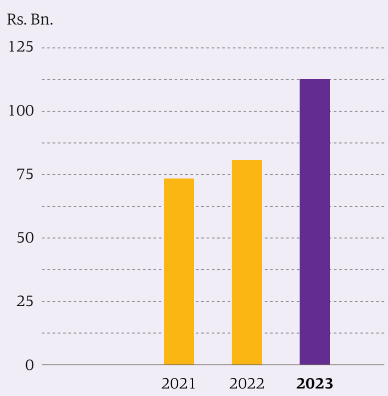
Impact

- Trading opportunities in fixed income trading was adversely affected due to lack of liquidity and market participants throughout 2023.
- Investors attraction towards more liquid short-term securities given the lower yield on 1year and longer tenor securities.
- Uncertainty of Local Debt Restructuring and the impact of investment in fixed income securities.

Key highlights

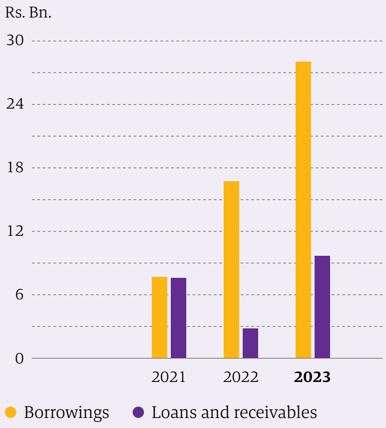
Earnings of treasury and dealing kept increasing during the period under the high interest rates regime.

Total earnings Graph 38



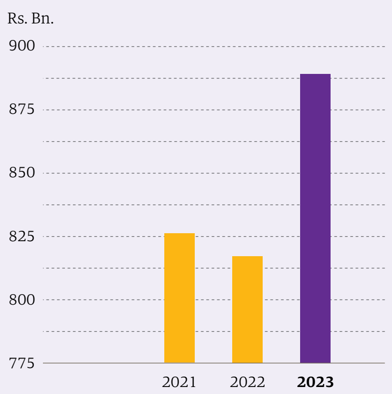
Reverse REPO borrowings portfolio also increased.

Borrowings and loans Graph 39



Investments in Government securities increased due to less demand for retail loans.

Investments Graph 40



Performance and strategy

Following the decline in policy rates after June 2023, interest rates of Treasury Bills and Treasury Bonds continued to decline. Average treasury bill rate of 2023 for the three months, six months and one-year tenures were 22.52%, 21.24% and 19.34% respectively. However, the Bank was able to make notable profits through the investment in Government securities during the year owing to investments made at higher rates in the previous year. Subsequently, net gains generated from trading activities of Rs. 1.4 Bn. combined with gains on derecognition of treasury bonds at fair value through other comprehensive income of Rs. 1.8 Bn. contributed significantly to the operating profit before taxes of the Bank.

The Bank is currently in the process of implementing a Treasury Management Solution for enhancing Treasury Management function of the Bank to optimise the liquidity, investment yield and financial market transactions while mitigating its financial, operational and market risk.

Outlook with risk and opportunities

- Challenges eased in accessing foreign funding given the country's risk profile.
- With the completion of external debt restructuring during first half 2024, the overall yield curve is likely to drop.
- The outlook for equity markets could be positive on the improvement in the macro-economic fundamentals.
- The Central Bank is planning to consider moving towards a single policy interest rate mechanism, instead of the existing dual policy interest rates, to improve the monetary policy transmission and signalling effect of the monetary policy stance.

Operating environment

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

Focus for 2024

- Optimising return on investment and strengthen asset liability management function.
- Fully implementation of Treasury Management System.
- Launch Dealer Direct Participant status/setup Primary Dealer Unit absorbing the business of NSB FMC.
- Significantly increased the capacity of our front-line branch employees by transforming the cash ecosystem and eliminating, simplifying or centralising key administrative activities.

Manufactured capital

The backbone of our operations

What manufactured capital means to NSB

Manufactured Capital of the Bank encompasses the physical and technological assets that facilitate its operations and service delivery in the process of sustainable value creation. At NSB, Manufactured Capital is comprised of our branch network, office buildings, PPE, ATMs, CRMs, merchant point-of-sale (POS) and handheld POS machines, post offices, sub-post offices, IT infrastructure, software systems and digital platforms such as internet banking, chatbox, and social media.

How manufactured capital supports our sustainable value-creation

Manufactured Capital enhances operational resilience, efficiency, and innovation. Investments in technology and infrastructure boost operational performance, lower costs, and enable scalability, providing customers with secure, innovative, and environmentally friendly services. Utilising green technologies and digital analytics further supports personalised banking, promoting financial inclusion and aligning with sustainability goals. This strategic focus underpins NSB's commitment to societal and environmental responsibility, making Manufactured Capital fundamental to achieving long-term success and community well-being.

Value transformation

- New branch opening
- Fixed asset adding and removal
- Sensible assessment of capital expenditure
- Research and findings on digital infrastructure developments
- Awareness programme on digital banking platforms of the Bank in line with the commemoration of the 51st anniversary
- Digital infrastructure maintenance and upgrade

Key inputs

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

Key outputs

Customer touchpoints:

Number of Post offices/ Sub post offices:
4,006
(2022 – 3,996)

Number of branches:
262
(2022 – 262)

Number of ATMs:
295
(2022 – 293)

Number of Smart Zones:
122
(2022 – 97)

Number of CRMs:
122
(2022 – 97)

Number of regional offices:
8
(2022 – 8)

New Internet Banking Customers:
9,640
(2022 – 11,060)

Fixed assets

Net book value of property, plant and equipment:
Rs. 17,249 Mn.
(2022 – Rs. 14,756 Mn.)

Investment in digital capital:
Rs. 350.6 Mn.
(2022 – Rs. 370.1 Mn.)

New channels

- Digital customer onboarding
- Introduction of new ERP (Oracle system)
- Introduction of umbrella brand "NSB NextGen" that provides digital banking services namely NSB e-KYC as well as NSB e-post, NSBPay App, and the NSB Transit Card

Key performance indicators

Revenue per branch
2023 – Rs. 885.7 Mn.
(2022 – Rs. 666.1 Mn.)

Net profit per branch
(2023 – Rs. 27.5 Mn.)
(2022 – Rs. 9.7 Mn.)

Manufactured capital

Key challenges in 2023

- Impact of macro-economic factors on Manufactured capital on a hyper-inflationary economic environment
- Optimal utilisation of restrained allocation on capital expenditure due to tight financial policy
- Competitive pressure on increasing demand for digital customer touchpoints and ease of using digital platforms in a hassle-free environment
- Cyber risks
- Organisational resilience
- Accelerated advancements in fintech versus NSB's structural limitations
- Resistance to new technologies by certain customer segments
- Continuous evolvement in customer individual preferences

Key opportunities in 2023

- Ability to improve operational efficiency with enhanced investments in digital infrastructure
- Advancements in fintech create vast opportunities to reach customers
- Automation of procurement management and inventory through newly introduced ERP

Critical success factors/ strategic drivers

- Competitive advantage to reach untouched rural markets through post offices and sub-post offices as NSB owns the largest physical customer touchpoint network through post offices
- Our technology that allows us to enable shifting gears to implement automation and digitalisation while simplifying processes such as customer onboarding and opening digital accounts

How we grow our manufactured capital

- Continuously investing in digital infrastructure developments and consolidating other business processes
- Expanding our presence and reach through island-wide networks

Potential trade-offs

- **Financial capital –** Heavy investments in manufactured capital may divert financial resources away from other areas, such as savings or investment in financial assets impacting financial stability and liquidity.
- **Intellectual capital –** Focusing solely on physical assets may neglect investments in intellectual capital, such as research and development or knowledge management systems hindering innovation and limiting long-term competitiveness, as intellectual capital is crucial for driving product/service improvements and market expansion.
- **Human capital –** Overemphasis on investing in physical infrastructure or technology may lead to reduced investment in human capital development, such as training programmes or employee welfare initiatives decreasing employee satisfaction, lower productivity, and diminished innovation.
- **Social and relationship capital –** Prioritising investments in manufactured capital over social capital, such as community engagement programmes or CSR initiatives, may weaken relationships with customers, communities, and stakeholders leading to reputational risks and loss of trust, impacting long-term business sustainability.
- **Natural capital –** Investments in manufactured capital, such as infrastructure projects, may have adverse environmental impacts, leading to the depletion of natural resources or habitat destruction.

Value created for stakeholders

Shareholder/Investors
Efficient banking processes improve profitability

Customers
Banking convenience Multi-channel banking experience catering to all customer segments

Employees
Enhance skills in digitised environment

Regulators and government institutions
Timely submission of regulatory reports

Business partners
Provide reliable infrastructure, advanced technology, secure environments, tailored solutions, compliance assurance and operational efficiency

Society and environment
Convenient banking for society at large

How we leverage our manufactured capital

Financial capital
Increased efficiency and productivity reduce overall costs

Intellectual capital
Branch expansions promote brand visibility while digital infrastructure promotes efficiency

Human capital
Process improvements and implementing new systems create new job opportunities, training, and capacity expansion

Develop new competencies and digital skills

Social and relationship capital
Expansion of physical and digital infrastructure provides strong links with customers and suppliers reduction in transaction time

Natural capital
Investment in sustainable phygital infrastructure reduces the carbon footprint

Manufactured capital

Contribution to UN Sustainable Development Goals (UN SDGs)

Primary UN SDGs

7 AFFORDABLE AND CLEAN ENERGY — Harnessed solar energy for branch energy needs

11 SUSTAINABLE CITIES AND COMMUNITIES — Provided energy-efficient and accessible physical and digital infrastructure as well as innovative and inclusive products and services

12 RESPONSIBLE CONSUMPTION AND PRODUCTION — Reduced paper consumption through the promotion of digital banking

Secondary UN SDGs

8 DECENT WORK AND ECONOMIC GROWTH — Escalated efficiency and productivity of service to boost overall economic growth

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE — Invested in manufactured capital to provide new job opportunities and promote energy efficiency

10 REDUCED INEQUALITIES — Provided easy access to banking services by expanding the branch network among a wider community coupled with increasing Smart Zones across the island

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

Approaches to managing outcomes

- Striking a balance between investing in physical capital and digital capital, and identifying the optimum mix to cater beyond customer expectations
- Leveraging Manufactured Capital with other resources to maximise stakeholder requirements
- Streamlining the procurement process to acquire cost-effective infrastructure

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

Material matters

Stakeholders

Short-to-medium-term strategic priorities

1 Digital infrastructure developments

Digital banking services – "NSB NextGen"

In 2023, we introduced the digital banking umbrella "NSB NextGen" under which all the digital banking services of NSB have been grouped. Along with this, digital banking services such as NSB e-KYC, NSB e-Post, NSB Pay App, and the NSB Transit Card were launched.

NSB Electronic Know Your Customer (NSB e-KYC) with blockchain technology

NSB e-KYC facilitates customer onboarding and opening savings account without visiting a branch. Customers can submit their information online from anywhere at any time to open an account, as NSB e-KYC is the digital verification of the customer's identity without the need for physical documentation.

Central Bank of Sri Lanka (CBSL) identified the potential benefits of blockchain technology for Sri Lanka's financial services and initiated an inter-industry study with the voluntary participation of banks and the IT industry. CBSL decided to pave the way for blockchain technology-based financial service solutions in the country by developing a shared KYC solution and entering into agreements to begin developing blockchain technology-based shared KYC. Accordingly, the Bank has taken initial steps relating to e-KYC with blockchain technology.

NSB e-Post

The Bank decided to introduce a new digital postal savings account, named "e-Post Digital Account", that links the postal banking sector to the digital world to provide more convenient banking services to rural masses. e-Post digital accounts can be opened through sub-post offices with NSB POS machines and computerised post offices and sub-post offices using the Postal Department's e-Pay Facility. It has features similar to those offered through branch savings accounts including the below mentioned facilities:

- NSB Pay mobile app
- ATM card facility

- Conducting deposit transactions using CRM
- Internet banking services
- SMS alert service
- Foreign remittances

A physical passbook is not issued when opening this account; Customers can use the NSBPay app or the internet banking service for obtaining the account details. To conduct transactions on this account at the post office or sub-post offices, customers can use the account number, NIC number or the registered mobile phone number.

e-Based leave approval system

In view of reducing the use of paper and accelerating the routine approval process of the Bank, we have introduced an e-Based leave approval system which also helps to reduce the carbon footprint.

NSB transit card

Under the initiative of National Transport Commission and Lanka Clear to introduce a national transit card system, the Bank completed the project for issuing JCB/Lanka Pay co-branded debit card containing both debit and stored value functions (the stored value component has specifically been designed for making transit payments offline).

2 Expanding our presence

Embracing phygital (physical and digital) approach to increase our presence

A phygital strategy positions the Bank to better navigate the digital transformation, ensuring we remain competitive, responsive to customer needs, and capable of delivering sustained value.

This strategy offers the convenience and efficiency of digital services while retaining the personal touch and trust engendered by physical interactions. By going phygital, the Bank can meet the diverse preferences of our customers, catering to those who demand instant, online access to banking services as well as those who value face-to-face consultations. This approach broadened the Bank's reach and accessibility while deepening customer engagement and loyalty. Moreover, the phygital model allows the Bank to collect and analyse data from both digital and physical channels, leading to improved customer insights, personalised services, and innovative product offerings.

NSB expanded its geographical footprint across the island through the network, enabling the Bank to reach out with products and services to every community and every stratum of society. Our network comprises 262 branches, 8 regional offices, and 417 ATMs/Cash Recycle Machines (CRMs) with Visa and Master debit card facilities. We have also collaborated with the Lanka Pay common ATM switch, which provides us access to a network that links over 5,800 ATMs, including Cash Deposit Machines (CDMs) and CRMs across the nation.

Description	2023	2022
Number of cards issued	**387,341**	161,467
Number of cards in use as of 31 December	**1,147,651**	2,203,309
Volume of transactions (Nos.)	**11,527,379**	9,831,714
Value of transactions (Rs. Mn.)	**32,201**	26,235
Internet linked accounts (Nos.)	**133,231**	123,591
Internet banking – Volume of transactions (Nos.)	**1,547,575**	1,651,209
Internet banking – Value of transactions (Rs. Mn.)	**56,972**	56,567
Number of ATMs in use	**295**	293
Number of CRMs in use	**122**	97

Table 13

Island-wide branch network

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

While we focus on building our digital infrastructure, we also aim to augment our branch network by adding new branches in strategically important locations. However, due to the concerns raised by the Ministry of Finance for controlling the capital expenditure, the opening of branches was temporarily halted in 2023. Nevertheless, We relocated five branches: Kahawatte, Wariyapola, Sooriyawewa, Nawala and Bandarawela to strategic, spacious new locations during the year in order to improve the customer experience and provide a pleasant and productive work environment for our employees.

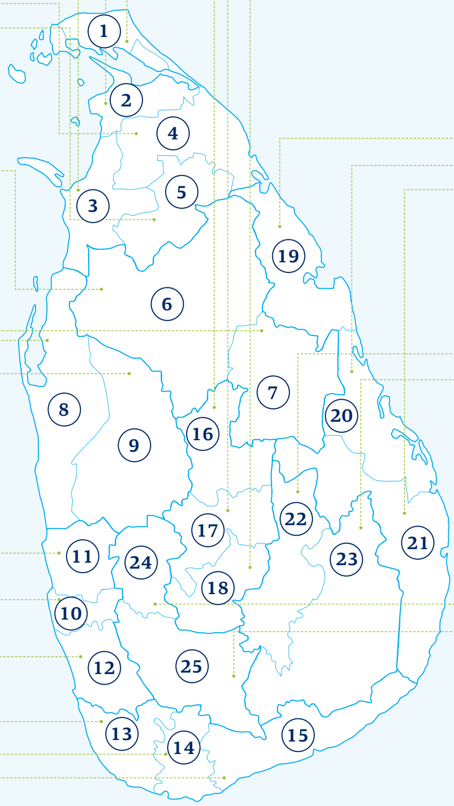
Branches	ATMs/ CRMs	Smart Zones	
20	30	10	**Northern Province**
14	21	7	1. Jaffna
1	2	1	2. Kilinochchi
2	3	1	3. Mannar
2	2	–	4. Mullaitivu
1	2	1	5. Vavunia

Branches	ATMs/ CRMs	Smart Zones	
15	21	4	**North Central Province**
12	18	4	6. Anuradhapura
3	3	–	7. Polonnaruwa

Branches	ATMs/ CRMs	Smart Zones	
27	41	11	**North Western Province**
8	14	5	8. Puttlam
19	27	6	9. Kurunegala

Branches	ATMs/ CRMs	Smart Zones	
82	162	60	**Western Province**
43	97	36	10. Colombo
27	48	19	11. Gampaha
12	17	5	12. Kalutara

Branches	ATMs/ CRMs	Smart Zones	
39	53	13	**Southern Province**
15	20	5	13. Galle
13	19	4	14. Matara
11	14	4	15. Hambantota



	Branches	ATMs/ CRMs	Smart Zones
Central Province	28	39	7
16. Matale	4	6	2
17. Nuwara Eliya	7	8	1
18. Kandy	17	25	4

	Branches	ATMs/ CRMs	Smart Zones
Eastern Province	17	21	3
19. Trincomalee	2	2	–
20. Ampara	8	10	2
21. Batticaloa	7	9	1

	Branches	ATMs/ CRMs	Smart Zones
Uva Province	13	21	6
22. Badulla	6	13	4
23. Monaragala	7	8	2

	Branches	ATMs/ CRMs	Smart Zones
Sabaragamuwa Province	21	29	8
24. Kegalle	10	13	3
25. Ratnapura	11	16	5

Scan to view more details on our branches and networks.

Figure 12

Accessibility for the differently abled

In line with our dedication to ensuring equal access for every customer, the Bank has made significant efforts to accommodate differently abled persons at its branches throughout the island. Disability access were enabled in 47 Bank-owned branches and 90% of our leased locations. Moving forward, all newly established branches will be designed to fulfil this accessibility criterion. Our goal is to equip every NSB branch with facilities that provide equal access to all.

Manufactured capital

Energy-efficient buildings

We take a holistic view of our environmental responsibilities and have implemented numerous energy-efficient projects to reduce costs, conserve energy, and reduce our carbon footprint. Our focus on constructing energy-efficient buildings ensures that all new branches are built to optimise natural light and air, resulting in reduced energy consumption. As a result, we have equipped 45 branches and circuit bungalows with solar power systems, and 17% of our branch network now function on renewable energy. Our Kataragama circuit bungalow has been recognised as an energy-efficient building with minimal electricity consumption due to its efficient utilisation of natural light and air, contributing towards energy conservation. Please to pages 146 to 150 for more details on our environment-friendly initiatives.

3 Business process improvements

Our recognition of the worldwide shift towards digitalisation has made us ensure that our physical and digital infrastructure work together seamlessly to provide the most efficient operational processes. We are constantly upgrading our systems and processes to stay ahead of the curve and respond quickly to customer needs and expectations in the digital age. The following initiatives gives a snapshot on the efforts carried out by the Bank to improve its products.

One bank One branch

- Decentralised approach
- Customer is for Bank not for individual branch
- New performance evaluation measurement

Safe IT ecosystem

- Improved data analysis
- Higher accuracy of information
- Clear delegation of Authority
- Standard operational procedures
- E-learning and training

Process improvements

- Simplified work flows
- Automation of work flows
- Centralised back office operations

Figure 13

Customer-centric approach

- Relationship management
- Customer complaint management
- Promotion programme management
- Customer profitability analysis

Accounts and loan generation

- Single product manufacturing and distribution
- Seamless financial product development opportunities
- Automation of loan recovery
- Advance loan provisioning mechanism and enhancement of NPL classification
- Comprehensive collateral management

Implementation of Oracle fusion

During the year, the Bank has successfully implemented the Oracle fusion Supply Chain Management (SCM) which offers a cloud-based solution that integrates seamlessly with other Oracle applications to provide a unified approach to managing the supply chain. Oracle Fusion SCM encompasses a broad range of functionalities aimed at improving supply chain visibility, enhancing efficiency, reducing costs, and enabling the Bank to respond more quickly to market changes and customer demands.

Way forward

- The integration of artificial intelligence and machine learning for personalised banking experiences and operational efficiency is expected to be a key focus.
- Increase the development of green branches that utilise renewable energy, sustainable materials, and energy-efficient designs.
- Continually upgrade the cybersecurity infrastructure to protect against evolving threats. This may include advanced threat detection systems, secure cloud storage solutions, and cybersecurity training for employees.
- Enhancing our resilience to physical and digital disruptions through improved disaster recovery systems, data backups, and business continuity planning especially in light of increasing climate-related risks and cybersecurity threats.

Intellectual capital

The powerhouse within

What intellectual capital means to NSB

Intellectual capital is the value of the Bank's accrued knowledge and resources that has the potential to yield economic advantages. It encapsulates the technical proficiency and process knowledge within the organisation, and is used to denote its intangible assets and categorise them into discernible groups.

Our Intellectual capital is our collective knowledge our expertise, and the value of our intangible assets that create on immense value to our stakeholders

Our Intellectual capital enhances our competencies and capabilities and drive us towards improved performance and sustainable development

How intellectual capital supports our sustainable value-creation

At NSB, Intellectual capital serves as a fundamental driver of organisational value and resilience. By nurturing our human capital, enhancing our structural capabilities, cultivating customer relationships, and fostering a culture of innovation, we position ourselves for sustained success in an ever-evolving marketplace. As the Bank continues to navigate dynamic challenges and seize emerging opportunities, we remain committed to leveraging our Intellectual capital to deliver innovative solutions, exceptional experiences, and lasting value for our customers, employees, shareholders, and communities.

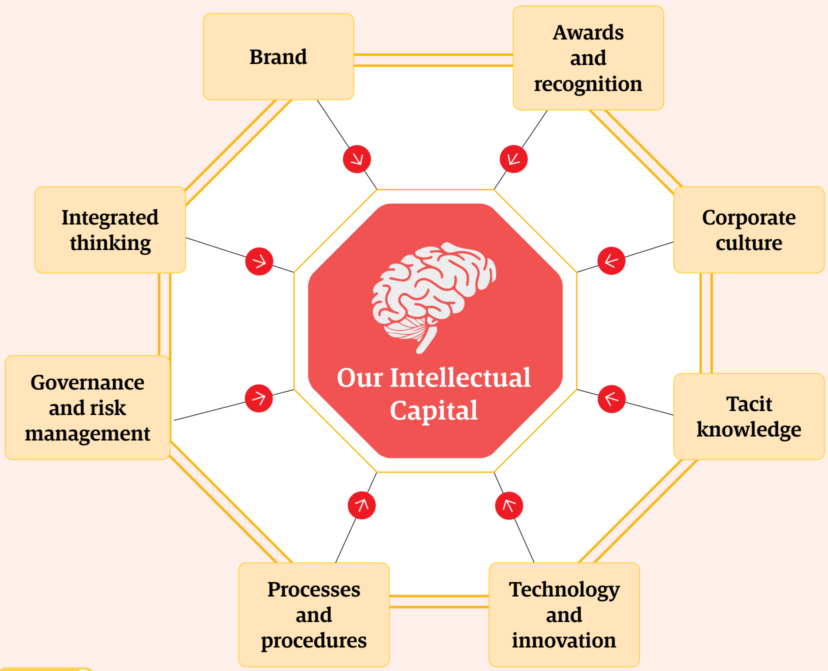


Figure 14

Value transformation

- Continuous knowledge management
- Innovation and creativity
- Human capital development
- Building strong and sustainable customer relationships
- Brand and reputation
- Strategic partnerships

Key inputs

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

Intellectual capital

Key outputs

Brand value:
Rs. 23 Bn.
(2022 – Rs. 30.4 Bn.)

Brand rating:
AA
(2022 – AA)

Credit rating:
AAA
(2022 – AAA)

Employees with over 10 years of service:
1,916
(2022 – 1,648)

Key challenges in 2023

- Limited advertising campaigns due to curtailed expenditure
- Mass migration of trained employees in a short span of time
- Sustaining brand value
- Cyber resilience and information security

Key opportunities in 2023

- Digitalisation
- Innovation and agility
- Improved informed decision making
- Effective stakeholder engagement and collaboration

Critical success factors/ strategic drivers

- Fostering a knowledge-sharing culture where employees are encouraged to contribute, collaborate, and continuously learn.
- Attracting skilled professionals, providing ongoing training and development opportunities, and creating career paths that encourage growth and advancement within the Bank.
- Understanding customer needs, preferences, and feedback, and use this information to tailor products, services, and experiences that deliver value and enhance customer satisfaction and loyalty.
- Delivering high-quality products and services, upholding ethical standards, and communicating its values and mission effectively to build trust and credibility with customers, investors, and other stakeholders.
- Implementing robust risk management processes, monitor emerging risks, and stay updated on regulatory changes to mitigate potential threats and safeguard organisational assets.

Approaches to managing outcomes

- Offering training and development programmes, career advancement opportunities, and competitive compensation and benefits packages to motivate employees and enhance their job satisfaction and engagement.
- Regularly assessing employee skill sets and identify areas where training and development are needed to align with the Bank's strategic objectives.

How we grow our intellectual capital

- Fostering a value-driven corporate culture with transparency and ethical banking principles.
- Ensuring strong governance and risk management processes are followed.
- Developing digital solutions and robust ICT infrastructure to satisfy current and future demands.
- Creating an environment that recognises and rewards employees to retain talent and train them for future opportunities.

Value created for stakeholders

Shareholder/Investors
Increased profitability due to increased customer loyalty provides the Bank with a competitive advantage in the financial services industry, thereby increasing profitability.

Customers
Development of new financial products, services, and solutions that meet the evolving needs of customers enhances customer satisfaction and loyalty.

Employees
Encompasses the collective knowledge, skills, and expertise of its employees.

Regulators and Government institutions
Trust and confidence of regulators, and the wider community.

Business partners
Fostering innovation and creativity, providing thought leadership, enabling collaboration and co-creation, facilitating training and development and ensuring robust risk management and compliance practices.

Society and environment
Fostering economic inclusion and reducing inequalities.

Intellectual capital

How we leverage our intellectual capital

Financial capital
Increased investment in areas of brand and staff development leads to enhanced cooperate reputation and stakeholder confidence.

Manufactured capital
Enhancing infrastructure, systems, and processes results in improved business functions.

Human capital
Investments in training and development enhance the knowledge, skills, and experiences of our employees, contributing to operational excellence.

Social and relationship capital
Our values, business ethics, and risk management framework are fine-tuned through attention to detail, creating a reputation that instils confidence.

Natural capital
Our attention to sustainability initiatives is bolstered by our science-based approach, thereby instilling stakeholder confidence.

Potential trade-offs

- **Financial capital –** Investing in Intellectual Capital can strain financial resources, potentially impacting allocations for infrastructure or marketing initiatives.
- **Manufactured capital –** Investing in Intellectual capital initiatives, such as knowledge management systems or innovation processes, may divert resources from physical assets or infrastructure projects.
- **Human capital –** Leveraging Intellectual capital may strain human resources, impacting productivity, morale, or work-life balance due to increased demands on time and expertise.
- **Social and relationship capital –** Leveraging Intellectual capital through external collaboration may strain social and relationship capital due to potential conflicts, disagreements or challenges in aligning objectives.
- **Natural capital –** Intellectual capital initiatives, like technology infrastructure or knowledge sharing activities, may escalate energy consumption or travel-related emissions.

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

Material matters

Stakeholders

Short-to-medium-term strategic priorities

Contribution to UN Sustainable Development Goals (UN SDGs)

Primary UN SDGs

8 DECENT WORK AND ECONOMIC GROWTH – Identify and develop the Intellectual Capital of employees to increase living standards and economic growth.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE – Encourage an innovation-driven culture, investing in technology and infrastructure.

10 REDUCED INEQUALITIES – Invest in Intellectual Capital to reduce inequality among employees, thereby creating more equal opportunities for success.

Secondary UN SDGs

16 PEACE, JUSTICE AND STRONG INSTITUTIONS – Promote ethical behaviour, good governance, and compliance across the Bank and the industry

Intellectual capital

INTEGRATED THINKING

In today's swiftly evolving business landscape, a segmented approach to thinking is no longer viable. INTEGRATED THINKING has become essential for progressive organisations, merging various aspects of strategy, governance, performance, and prospects.

Our strategy represents a fundamental component of our Intellectual capital. Our comprehensive annual strategic review process meticulously assesses the risks and opportunities linked to our broader operational environment, shaping investment choices and resource allocation, and daily operations management. Through these processes, we guarantee the execution of our strategy, thereby generating value for our organisation and our stakeholders, both in the present and amid an increasingly uncertain future.

pages 62 to 80 for a deeper understanding of our integrated approach to business.

Brand

Having been in business for more than half a century, NSB has already established a loyal image in the mindset of customers. Each year, we make efforts to establish maximum brand presence among our target audiences through advertising and marketing campaigns.

In 2023, while observing internal and external concerns on curtailed overall expenditure, NSB continued limited advertising campaigns in key media such as television, radio networks, newspapers, and outdoor locations. Our focus was to increase our presence in social media platforms, which we pursued as a relative low-cost solution to reach a considerable number of customers.

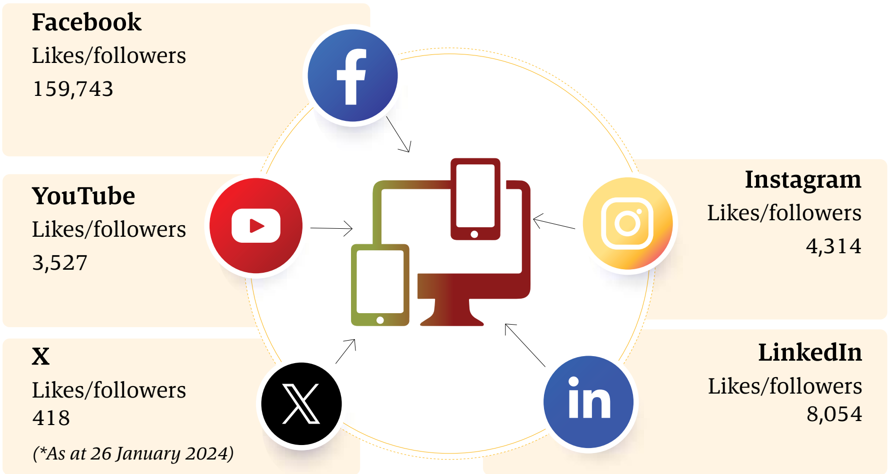
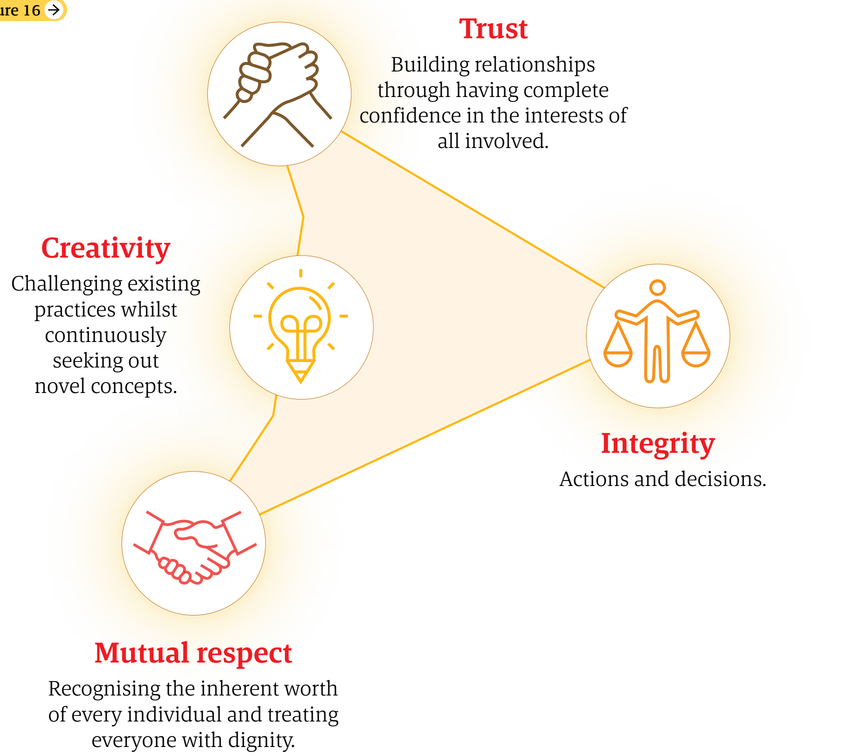


Figure 15

Corporate culture

NSB is a value-driven institution with an entrenched belief about conducting business with trust, mutual respect, integrity, safety, and creativity. These beliefs have shaped the culture of the Bank, guiding the employees and management to positively interact with stakeholders. Our culture is embedded with ethical banking practices where transparency is encouraged, strong communities are built, and established principles govern every aspect in the Bank, periodically assessing and identifying loopholes while making relevant improvements for future.

Figure 16



Intellectual capital

Awards and recognitions

Our presence in the market has been recognised by the pioneers in the banking industry and, in 2023, our strengths, excellence, customer satisfaction, and continuous commitment was feted on several occasions.

Silver Award under "State Banks" Category at the TAGS Awards 2023 (CA Sri Lanka)

Voted as a Women-Friendly Workplace for the third consecutive time by CIMA and Satynmag.com at the Women Friendly Workplace Awards 2023

CMA Excellence in Integrated Reporting Awards 2023

Best Integrated Report for Banking and Finance Category in the State-Owned Enterprises/ Companies Sector

One of the next Ten Best Integrated Reports

Recognised as the seventh-most valuable brand in Sri Lanka with a brand value of Rs. 23 Bn.

Most Admired Companies 2023

Best Web – Merit Award 2023

Figure 17

Tacit knowledge

The tacit knowledge of our employees guides our decisions, shapes our actions, and propels us toward our strategic goals. At NSB, we celebrate the diversity of expertise within our workforce and foster an environment to allow tacit knowledge to thrive. By harnessing the collective wisdom of our employees, we will continue to innovate, adapt, and excel in an ever-evolving landscape.

Non-banking/ specialised staff 124	**Staff retention rate** 96.3 %
Employees with more than 10 years' experience 1,916	**Training expenditure** Rs. 13.2 Mn.

In 2023, as many employees left the Bank to pursue migratory opportunities, NSB made maximum efforts to retain employees by creating an environment that rewards and recognises, provides specific training, shares knowledge for future benefit, and identifies and engages prospective employees for future promotions.

Intellectual capital

Technology and innovation

Digital solutions are a strong Intellectual capital that we rely on for value creation and sustainable growth, investing in cost-efficient digital solutions to drive improved levels of customer satisfaction.

The Information Technology Steering Committee (ITSC) of NSB, directed by the Board, is committed to offering ICT services and infrastructure that satisfy current and future demands, while ensuring efficient operational management within the Bank. In order to accomplish the Bank's objective of creating a secure, convenient, and efficient business environment, the ITSC implemented governance standards and strategies within the regulatory framework throughout the organisation.

Our ICT strategic approach encourages technological innovation, enables the advancement of new thinking, and fosters overall growth.

2023 highlights

- Opening the Digital Banking Centre at Kirulapone to provide expanded digital services to customers.
- Introducing "NSB NextGen" brand name to digital banking services of NSB.
- Introducing NSB e-KYC to facilitate online customer onboarding and opening savings accounts without the need to visit branches.
- Implementing Oracle Fusion System for stocks, fixed assets, and accounts payable.
- Introducing "e-Post Digital Account".
- Implementing online transfer application process.
- Conducting two virtual card projects to become the first Bank in Sri Lanka to start issuing mobile-based virtual payment instruments.
- Protecting customers with the in-house deployed fraud monitoring and prevention system 24x7.

Processes and procedures

Structural capital is a major component of Intellectual capital at NSB. Our operations and all activities are based on the vision and mission of the Bank released down the hierarchy, in terms of documented policies and procedures.

The Bank sets policies and procedures in consultation with the corporate management of the Bank, considering both theoretical and practical aspects of conducting business. At NSB, all employees are expected to uphold the highest standards of ethics, transparency, and adherence to regulatory requirements as set out in these policies.

Governance and risk management

We believe our governance and risk management techniques add value to our model as an important part of our Intellectual Capital. We are of the view that best practices in this regard enable us to build trust and confidence in the mind of our customers and develop a competitive edge.

The Bank's governance structures and processes are designed to establish effective controls and promote ethical leadership. We ensure that all good governance practices, ethical standards, regulatory requirements, and other relevant laws are integrated to our internal policy framework. Moreover, it is the Bank's belief that sustainable value creation through stakeholder confidence is a result of good governance.

Risk management is the focus of the Board Integrated Risk Management Committee (BIRMC) of NSB. Our strategies are built considering current and potential risks, both internal and external, in the business. Our Integrated Risk Management Framework, approved by the Board, is used to identify and manage different risks while continuously monitoring and reporting any updates.

Way forward

- Staying abreast of emerging technologies (such as artificial intelligence, blockchain, and data analytics) and investing in those that will enhance operational efficiency, improve customer experiences, and drive innovation in banking services.
- Embracing digital transformation initiatives to meet evolving customer expectations and preferences.
- Leveraging big data and analytics to gain deeper insights into customer behaviour, market trends, and business performance.
- Using data-driven decision-making to optimise operations, personalise customer interactions, and identify new growth opportunities.

Human capital

The cornerstone of a thriving bank

What human capital means to NSB

We understand that value is created by individuals driving forward businesses. Therefore, we recognise that our employees form the core of NSB, allowing us to distinguish the Bank from our competitors. Through the expertise, dedication, and unwavering commitment of our employees, we set ourselves apart and secure our sustainability for the future.

How human capital supports our sustainable value-creation

To transform our aspirations into tangible results, we depend on the daily contributions of our workforce. Motivated and engaged employees are better positioned to exceed expectations; therefore, we prioritise fostering a work environment that promotes employee satisfaction and fulfilment. Our goal is to align staff with a people-focused brand commitment and maintain a strong connection to the Bank's values.

Value transformation

The Bank depends on the contributions of the workforce, and accordingly keeps employees motivated and engaged through a work environment that promotes employee satisfaction.

Key inputs

- Training and development
- Building a 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 GRI 404-1

Employee engagement

Number of employees **4,358** (2022 – 4,528)	**Average revenue per employee** **Rs. 53.3 Mn.** (2022 – Rs. 38.6 Mn.)
Retention ratio **96.3%** (2022 – 98.1%)	**Employee turnover ratio** **3.7%** (2022 – 1.9%)

Equal opportunity

Number of female employees
2,391
(2022 – 2,481)

Training and development

Investments in training and development **Rs. 13.2 Mn.** (2022 – Rs. 12.8 Mn.)	**Average training hours per employee** **12.19** (2022 – 5.0)

Human capital

Key challenges in 2023

- Employee resignations and employees traveling overseas on no-pay leave given the negative economic situation in the country, putting constraints on workforce.
- Keeping employees motivated during an ongoing economic crisis.
- An ageing workforce, coupled with a shortage of qualified talent, particularly in new trends of technology.
- Opportunities to digitise processes that could alienate less tech-savvy customers.
- Reconciling profitability and Government policies that create organisational change through continued mergers, acquisitions, and strategic alliances.
- Dealing with union and political influences as a State Bank that can disrupt human resource management.

Key opportunities in 2023

- Creating an attractive work environment to retain skilled employees.
- Developing HR processes and documentation to effectively use time and resources.
- Supporting a healthy work-life balance to motivate employees.

Critical success factors/ strategic drivers

- Ability to attract, recruit, and retain top talent
- Investing in the training and development of employees
- Engaged and satisfied employees
- Embracing diversity and fostering an inclusive workplace culture
- Establishing clear performance expectations, providing regular feedback, and recognising and rewarding employee contributions
- Proactive workforce planning and succession management
- Prioritising employee health, safety, and well-being

How we grow our human capital

- Attracting talent that can work with existing teams to achieve the Bank's objectives.
- Nurturing and developing winning teams through rigorous training and skill development.
- Providing deserved promotions to promising talent.
- Celebrating diversity and equal opportunities by hiring based on potential without discrimination.
- Establishing a cooperative working atmosphere to improve productivity.

Approaches to managing outcomes

- Talent acquisition: Attracting, retaining, and developing employees from multiple sources to ensure a diverse mix of talent and experience, from experienced professionals to fresh graduates from diverse backgrounds.
- Employee engagement and communication: Deploying proper communication between management and employees to create a cooperative work atmosphere.
- Training and development: Enhancing customer service through employees trained to confidently address complex inquiries based on a landscape of evolving regulations, cybersecurity threats, and emerging technologies, via on-the-job training, digital resources, coaching and mentorship, workshops, structured programmes, and financial support for higher education.
- Zero tolerance to workplace harassment: Enforcing strict policies and procedures to eliminate any form of work harassment.

Value created for stakeholders

Shareholder/ Investors
NSB's long-term sustainability and resilience.

Customers
Better customer service, leading to increased customer satisfaction fostering long-term relationships and loyalty.

Employees
Enhance employee engagement, job satisfaction, and retention rates.

Regulators and government institutions
Well-trained employees ensure compliance with regulatory requirements and ethical standards, reducing the risk of legal and reputational issues.

Business partners
Offer expertise and knowledge, fostering strong relationships, providing responsive support, delivering customised solutions and driving continuous improvement and innovation.

Society and environment
Engagement in corporate social responsibility initiatives, and positively represent NSB in the community, creating value beyond the organisation.

Human capital

How we leverage our human capital

Financial capital
Investments in building human capital contribute to long-term financial gain through increased productivity, efficiency, and delivery of unparalleled customer experience.

Manufactured capital
Investments in building favourable workspaces, automating HR processes, and digitising the Bank ensure employee contentment and higher performance for the Bank.

Intellectual capital
Investments in training and development enhance employee knowledge, skills, and business training that benefits the Bank.

Social and relationship capital
The provision of job opportunities creates community links that are conducive to the Bank's brand image.

Natural capital
Sustainability initiatives improve employee health and safety and promote a green-conscious culture.

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

Material matters

Stakeholders

Short-to-medium-term strategic priorities

Potential trade-offs:

- **Financial capital –** Investing heavily in human capital development, such as training programmes or employee benefits, may divert financial resources away from other areas, such as infrastructure or technology investment impacting financial stability and liquidity.
- **Manufactured capital –** Excessive focus on human capital development may lead to neglect of investments in physical infrastructure or operational assets ensuing in outdated facilities, inefficient processes, and reduced operational performance, impacting service quality and customer satisfaction.
- **Intellectual capital:** Over emphasis on human capital development may come at the expense of investments in intellectual capital, such as research and development or knowledge management systems. This could hinder innovation and limit long-term competitiveness, as intellectual capital is crucial for driving product/service improvements and market expansion.
- **Social and relationship capital –** Focusing on human capital development may lead to stronger relationships with employees but could potentially neglect investments in social capital, such as community engagement programmes or CSR initiatives impacting the Bank's reputation and relationships with customers, communities, and stakeholders.
- **Natural capital –** Neglecting investments in environmental sustainability or eco-friendly practices while prioritising human capital development could result in adverse environmental impacts, leading to depletion of natural resources or habitat destruction. This trade-off could undermine long-term sustainability and contribute to environmental degradation.

Contribution to UN Sustainable Development Goals (UN SDGs)

Primary UN SDGs

1 NO POVERTY – Support economic development through employment opportunities.

5 GENDER EQUALITY – Encourage more female applicants to enter the workforce.

4 QUALITY EDUCATION – Provide opportunities to train and develop skills.

8 DECENT WORK AND ECONOMIC GROWTH – Create a safe and rewarding workplace.

Secondary UN SDGs

2 ZERO HUNGER – Improves quality of life by providing direct employment opportunities.

10 REDUCED INEQUALITIES – Create a safe and supportive environment for bigger female participation in workforce.

Human capital

Culture that prioritises employees

Over the past 50 years, NSB has evolved in many aspects, but its employee-centric culture has remained constant. The Bank has always put its employees first, encouraging open communication, providing psychological safety, and inspiring innovations. NSB attempts to keep up to the expectations of the employees through various methods including policies, procedures, and processes. Over the years, the Bank has continuously focused on helping to build competences and enhance capacity through an emphasised people strategy.

We believe our employees are the face of NSB, thus it is vital to provide utmost care throughout an employee's time at the Bank.

Creating a values-driven corporate culture

The Bank's strong corporate culture serves as the foundation for everything we do, guiding our actions, fostering INTEGRATED THINKING, and ultimately supporting the successful execution of the business strategy. NSB actively promotes this ethical culture throughout the organisation, understanding that employees today seek purpose in their work. By fostering a strong connection between employees and the Bank's mission, NSB drives engagement, improves retention, and ultimately achieves a more motivated and successful workforce.

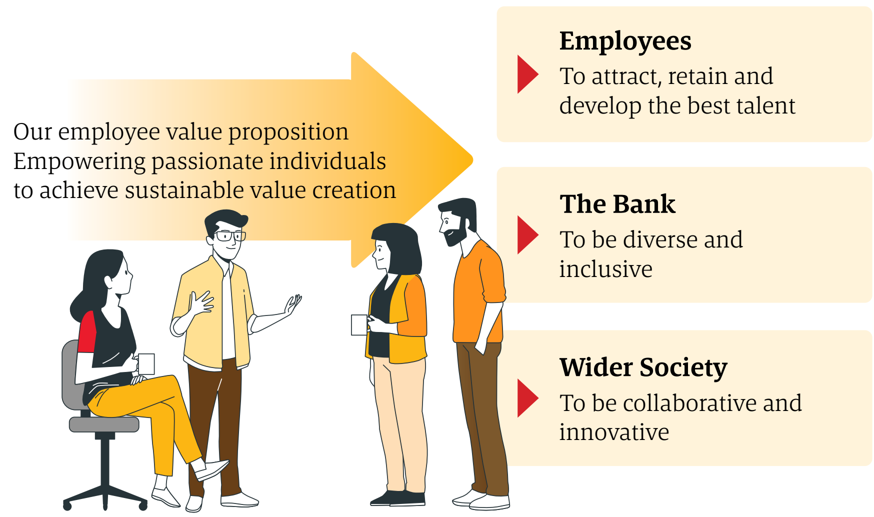
Empowering our employees to drive success

Our strategic objectives are achieved by the continuous contribution of the Bank's team. Recognising the vital role that employees play, our strategy is designed to nurture and motivate individuals who are committed to optimise customer satisfaction and create a positive impact on sustainable value creation. This objective is achieved through three perspectives: the individual, the Bank, and the wider society. This includes how they interconnect with our strategic objectives and the steps taken to fulfil them.

Our goal is to become an employer of choice by attracting, nurturing, and retaining top talent, ensuring that the Bank is a place where individuals can thrive and expand their capabilities.

This involves crafting an engaging Employee Value Proposition (EVP) and prioritising the development of skills to prepare the workforce for upheavals in the future. We are committed to fostering a diverse and inclusive environment, recognising the significance of each team member. This includes enhancing employee wellbeing, creating healthy workplaces, building confidence in our leadership, and maintaining a strong commitment to diversity, equity, and inclusion.

Moreover, we aim to cultivate a culture of collaboration and innovation, where every employee feels their contributions are meaningful and understands their role in driving societal betterment. By encouraging everyone to embrace our Environmental, Social, and Governance (ESG) initiatives and leveraging technology for empowerment, we align our purpose, vision, mission, and values. This comprehensive approach is designed to foster a positive impact on our employees and the societies we serve, propelling us toward accelerated national growth.



Human resource (HR) governance and management approach

The Bank commits to ensuring independence and transparency in the human resource function. Therefore, the Head of the Human Resource (HR) function directly reports to the General Manager/CEO.

Any matter pertaining to staff transfers, promotions, recruitments, and other matters are screened by the Human Resource Committee (HRC) appointed by the Board of Directors, comprising the five-most senior officials in the corporate management. The Committee makes required recommendations to the Board Human Resource and Remuneration Committee (BHRRC) and Board on the aforementioned HR matters.

Human capital

NSB team

GRI 405-1

As of 2023, NSB workforce stood at 4,358 workers; 4,316 in the permanent cadre and 42 on contract basis. From this total, 2,391 are female and 1,967 are male, thereby resulting in a fair gender balance within the Bank, and 44% of employees have served more than 10 years, reflecting their loyalty.

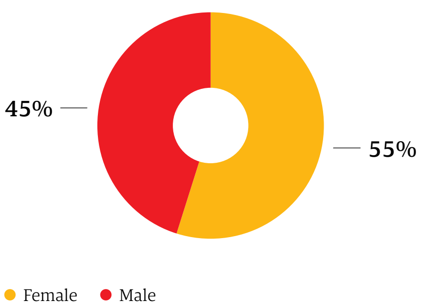
Total staff by employment type and gender

	2023			2022		
Category	Female	Male	Total	Female	Male	Total
Permanent	**2,364**	**1,952**	**4,316**	2,458	2,031	4,489
Contract/trainee	**27**	**15**	**42**	23	16	39
Total	**2,391**	**1,967**	**4,358**	2,481	2,047	4,528

Table 14

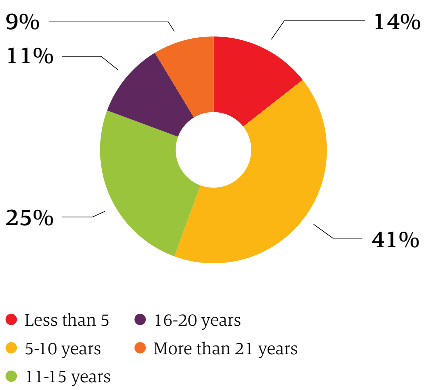
Total employees by gender

Graph 41



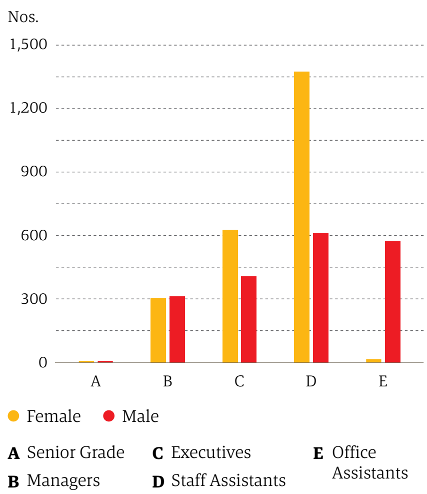
Composition of service category

Graph 42



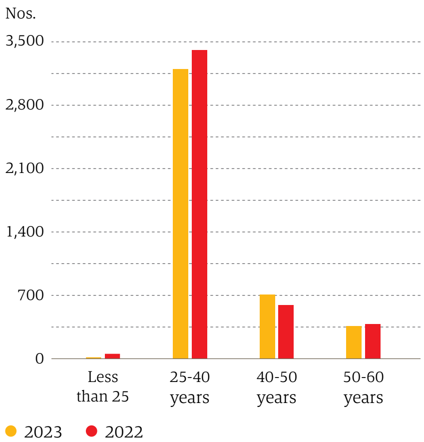
Staff grade composition by gender

Graph 43



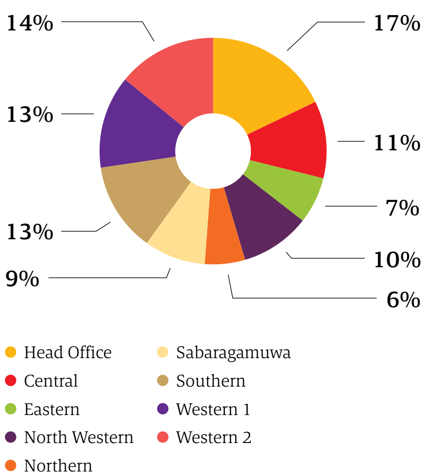
Employees by age category

Graph 44



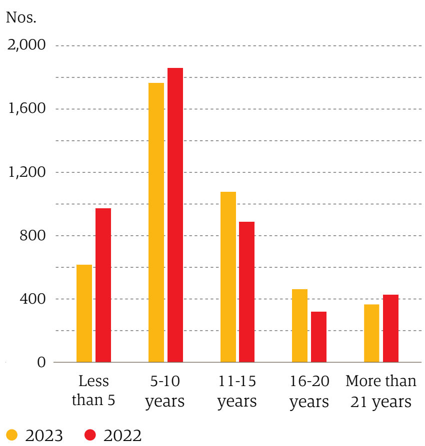
Geographical distribution of employees

Graph 45



Staff service category

Graph 46



Human capital

Our focus

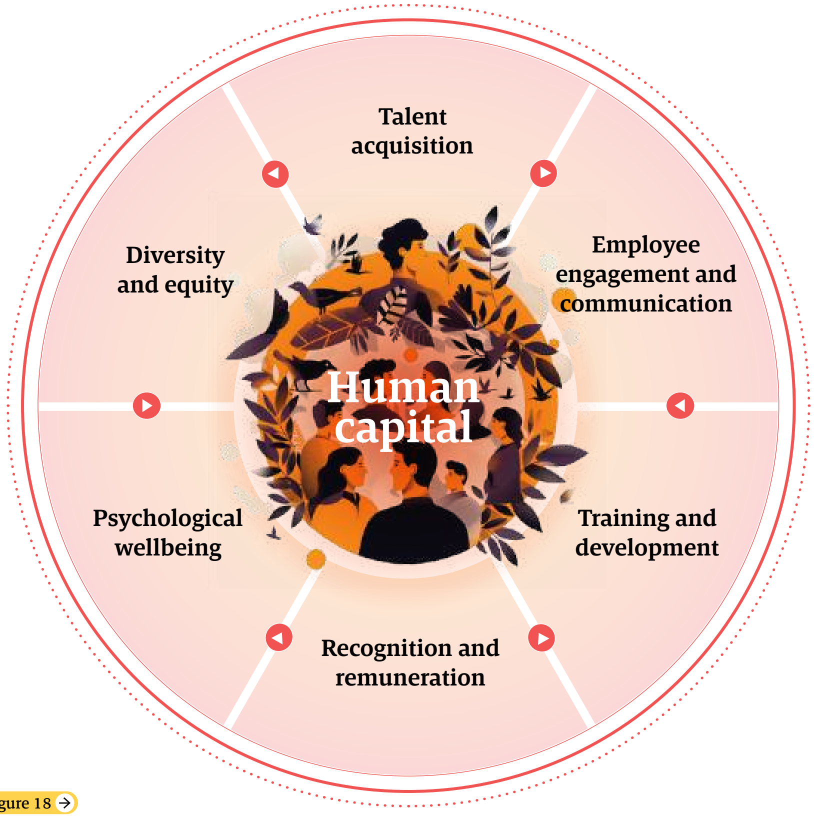


Figure 18

Talent acquisition

GRI 202-2, 401-1

The success of the Bank depends on its capacity to attract, retain, and develop employees who can ensure its growth and sustainable value creation. Therefore, the Bank hires from multiple sources to ensure a diverse mix of talent and experience, from experienced professionals to fresh graduates from diverse backgrounds who can blend with the existing NSB Team, basing all hiring decisions on talents, skills, qualifications, and experience without any bearing on race, religion, and gender. This approach ensures that we stay relevant and effective in meeting the needs of our customers through shared experiences, as well as commonality in terms of socio-economic and cultural relevance.

Given the challenging operating environment in 2023, together with restrictions on expenses and new recruitments imposed by the Government, talent acquisition was carried out with utmost prudence, strictly based on the compelling needs of the Bank. As a result, NSB only recruited 21 individuals to fill the vacancies in the non-banking streams.

Young blood in decision making positions

	25-40 years	
Designation	2023	2022
Branch Managers	97	109
Other Chief/Senior Managers	94	132
Total	**191**	241
Total permanent employees	**4,316**	4,489
as a % of permanent employees	**4%**	**5%**

Table 15

Employees with more than 10 years' experience

Service category	2023	2022
11 to 15 years	**1,081**	899
16 to 20 years	**462**	319
More than 20 years	**373**	430
Total	**1,916**	1,648
Total permanent employees	**4,316**	4,489
As a % of permanent employees (%)	**44**	**37**

Table 16

Women leadership

Designation	2023	2022
DGM	**3**	4
AGM	**8**	10
Regional Managers	**3**	2
Branch Managers	**99**	90
Other Chief/ Senior Managers	**144**	163
Total	**257**	269

Table 17

Employee engagement and communication

Engaged employees lead to a motivated workforce, resulting in higher performance, improved quality of work, and successful results. To this effect, proper communication is the key to engaging employees, embedding them with the Bank's decision-making process. Open communication between the management and employees, along with the establishment of a friendly, cooperative work atmosphere, reduces discrepancies, boosts happiness, and improves productivity. Wherever possible, we also attempt to engage their families and loved ones with the Bank.

HR Division, with the help of the Training and Development Division, initiated the "Webinar" concept, where the Head Office and the Branches can connect online, share information, and solve problems in an open discussion via Webinar Sessions. In 2023, we successfully continued the sessions, which provided an effective channel of communication with a minimum cost.

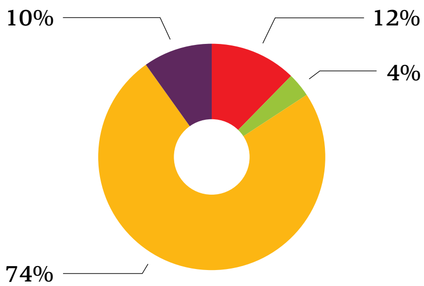
Human capital

Relationship with unions – freedom of association and collective bargaining

The Bank upholds the freedom of association of its employees and the effective recognition of the right to collective bargaining, working with unions and other representative associations to sustain long-term development to the benefit of the employees and the Bank. Contacts with union delegates create further opportunity to provide information, allowing their members and other representative associations to acquire a full understanding of the business activities and the goals of the Bank.

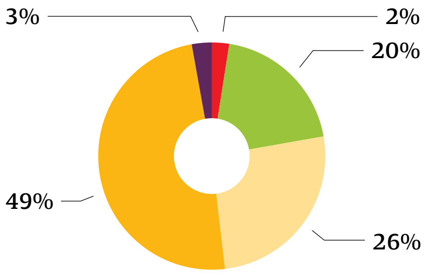
Number of training programmes

Graph 47



Training hours by grade

Graph 48

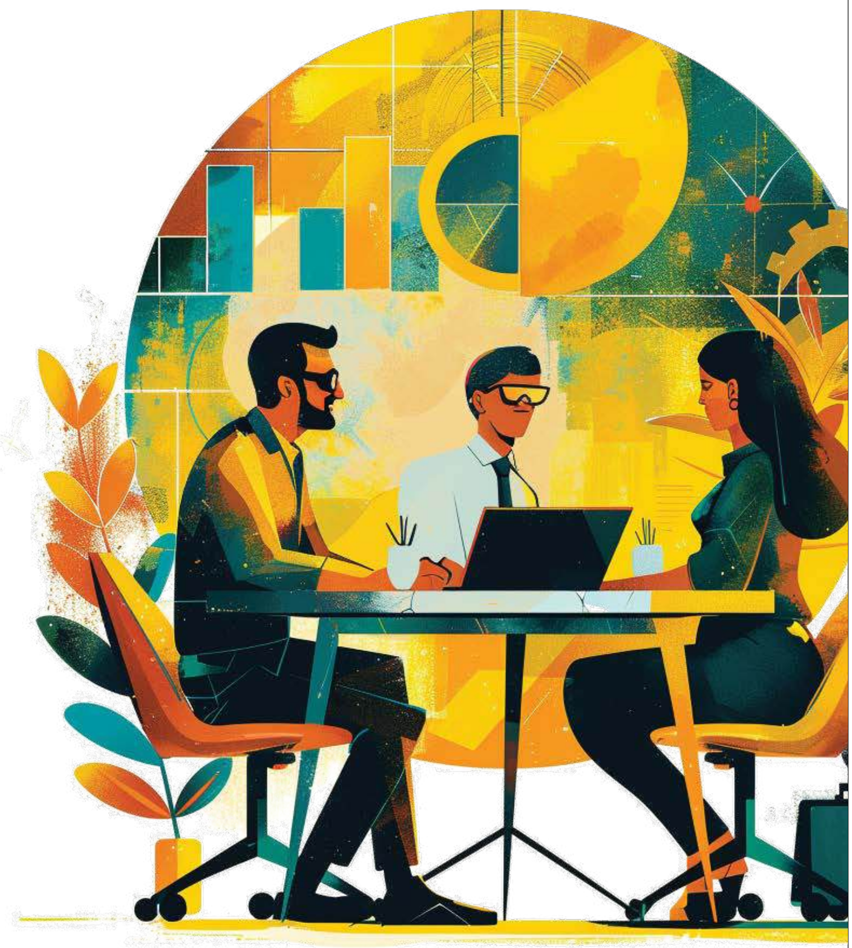


Training and development

GRI 404-2

We understand that a well-trained and developed workforce is our strongest asset. Investing in employee training fosters a culture of continuous learning, equipping staff with the necessary skills to navigate evolving regulations, cybersecurity threats, and emerging technologies. This translates to enhanced customer service, as employees can offer tailored financial solutions and confidently address complex inquiries. Furthermore, training programmes can boost employee morale and retention, creating a more engaged and productive workforce that drives the Bank's overall success. By prioritising employee development, NSB can stay competitive, adaptable, and deliver exceptional value to their customers.

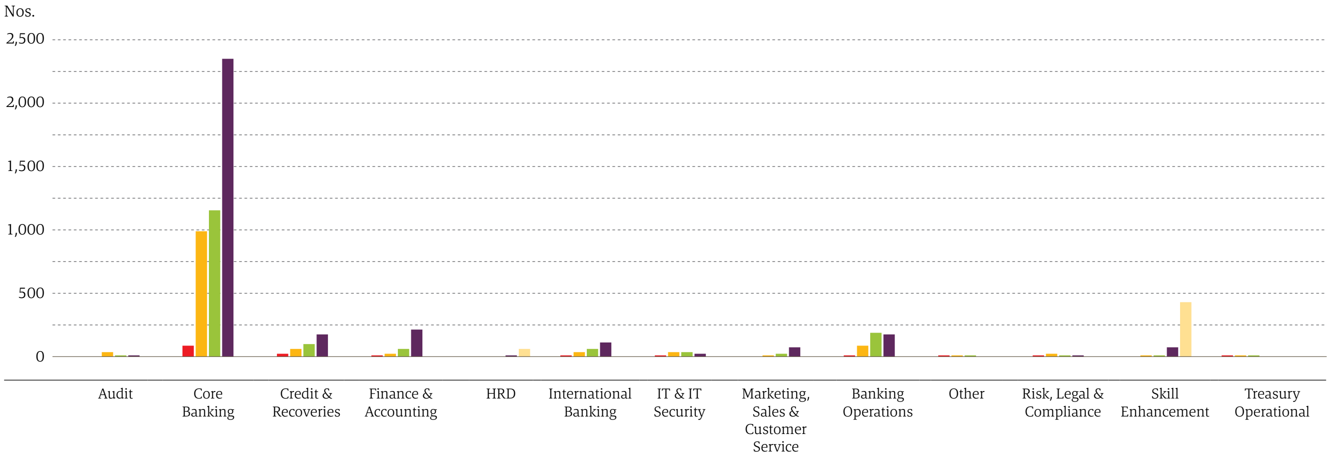
This includes on-the-job training, digital resources, coaching and mentorship, workshops, structured programmes, and even financial support for higher education. By focusing on continuous learning, our workforce is empowered to develop their skills across different business areas which translates directly to improved business performance. Our objective is to have 80% of our workforce engaged in at least one learning activity annually to upskill and achieve proficiency across different business domains, ensuring a highly skilled and adaptable workforce.



Human capital

Participation for training categories by grade

Graph 49

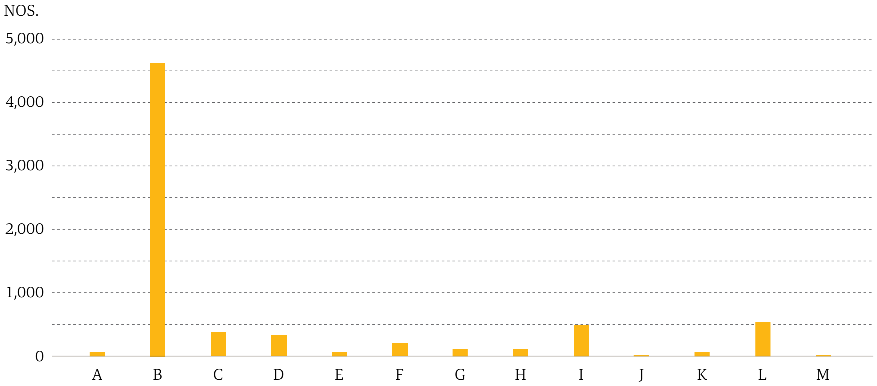


	Audit	Core Banking	Credit & Recoveries	Finance & Accounting	HRD	International Banking	IT & IT Security	Marketing, Sales & Customer Service	Banking Operations	Other	Risk, Legal & Compliance	Skill Enhancement	Treasury Operational
Senior Manager	–	94	24	9	–	1	12	–	19	2	8	–	1
Manager	45	999	61	22	–	34	37	10	94	1	32	6	5
Executive	16	1,165	103	71	–	67	42	31	190	1	14	20	4
Staff Assistant	2	2,366	182	225	1	113	26	80	181	–	8	74	–
Office Assistant	–	–	–	–	63	–	–	–	–	–	–	433	–

Senior Manager
Manager
Executive
Staff Assistant
Office Assistant

Participants by training category

Graph 50



A Audit
B Core banking
C Credit and recoveries
D Finance and accounting
E HRD
F International banking
G IT & IT Security
H Marketing, sales and customer service
I Banking operations
J Other
K Risk, legal and compliance
L Skill enhancement
M Treasury operational

The following initiatives have been taken by the Training Division in order to enhance the training and development aspect of the Bank.

- Core banking training
- Training on banking and non-banking operations

In 2023, we invested over Rs. 13.2 Mn. in training programmes, up by Rs. 0.4 Mn. allocated in 2022. Employees logged 52,630 training hours and the average number of training hours per employee was 12.2 hours.

Recognition and remuneration

GRI 201-3, 202-1, 401-2, 405-2

Considering the current economic context, NSB favours competitive, stimulating, and fair remuneration structures and is committed to remunerating all staff fairly in terms of their roles and performance.

As such, all confirmed employees are eligible to enjoy a range of financial benefits including annual increments; bonuses; encashment of leave; reimbursement of medical expenses; compensation schemes in case of death, permanent disabilities or partial disabilities; concessional loan rates; and membership and honoraria payments. Employees of the Bank are also eligible for defined benefit plans.

NSB also considers recognition as equally important in an employee's career, showing them that the Bank understands the value of their contribution to the Bank's success, thus building a sense of security and motivation. The Bank supports recognition through promotions in terms of job-related areas, based on a comparative review of the applicant's qualifications, ability, and quality of past work performance. Interviews for promotions to each grade in the Bank's hierarchy are scheduled as per the Bank's Promotion Calendar and the availability vacancies in relevant grades. However, no promotions were granted in 2023 owing to the economic crisis in the country and regulations to curtail expenditure.

Succession planning is also important. The Bank identifies critical positions in advance and develops plans to train and develop suitable individuals to fill such positions when required. This process also opens doors for talented individuals to be recognised for their efforts.

Recognition also applies to highlighting employees for the special skills and commitment they have shown in non-job related areas such as sports, art, and literature. The annual Colours Night recognises the sports-stars in the Bank, while other achievements are duly updated on the Bank's intranet for everyone in the Bank to see.

Performance management

GRI 404-3

The Bank is committed to continuous employee growth through a comprehensive performance evaluation system. Regular performance reviews provide a valuable development tool, helping employees identify strengths, address weaknesses, and ultimately reach their full potential. This ongoing process ensures everyone is aligned with the Bank's goals and equipped to deliver exceptional service. To ensure consistency and effectiveness, we have a dedicated Performance Management policy outlining clear guidelines that focuses on the following key elements:

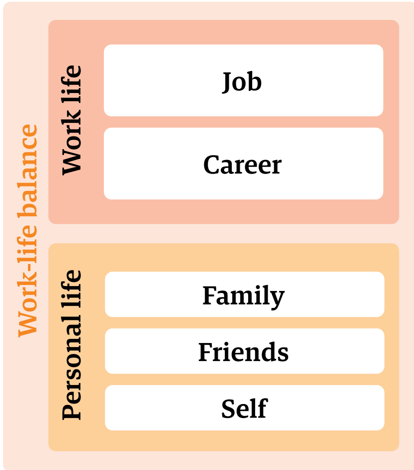
- Bridging the skills gap to drive success
- Pinpointing skill gaps, building stronger teams
- Optimising our performance management process

Our commitment to fair and consistent performance evaluation is reflected in our comprehensive system. We conduct annual reviews of all employees of the Bank using pre-determined criteria, tailored to different job levels, from executives and supervisors to operational and minor staff. This ensures everyone is assessed based on their specific roles and responsibilities. To further eliminate biasness, we utilise a balanced scorecard approach that evaluates corporate management based on key performance indicators (KPIs). This target-based performance management system promotes objectivity and empowers employees to understand how their contributions align with the Bank's overall goals.

Psychological wellbeing

The mental wellbeing of employees is of the utmost importance in terms of the Bank's Human Capital management. We are committed to creating an environment that brings out the best in our employees, focusing on:

Work-life balance



NSB considers an individual's personal life to be as important as their career, providing various facilities to encourage employees to maintain a healthy work-life balance that promotes healthy personal and professional relationships. These can include:

- Annual events such as NSB Colours Night, Vesak Bakthi Gee, Christmas Carols, and New Year celebrations, with family members also invited to join.
- An in-house medical centre is run by a hospital approved by the Board at the Bank's head office. Twice a month, NSB obtains the services of specialised doctors who can be consulted at the in-house medical centre.
- Main private hospitals conduct medical clinics at the head office for the benefit of the employees.
- Seminars and lectures organised by the welfare division, conducted by professional resource personnel on subjects such as stress management and prevention of cardiovascular diseases.
- High-quality food at the Head Office canteen at concessionary rates.
- Sporting opportunities through the NSB Sports Club for employees to develop their talents in sports and to foster healthy competition.

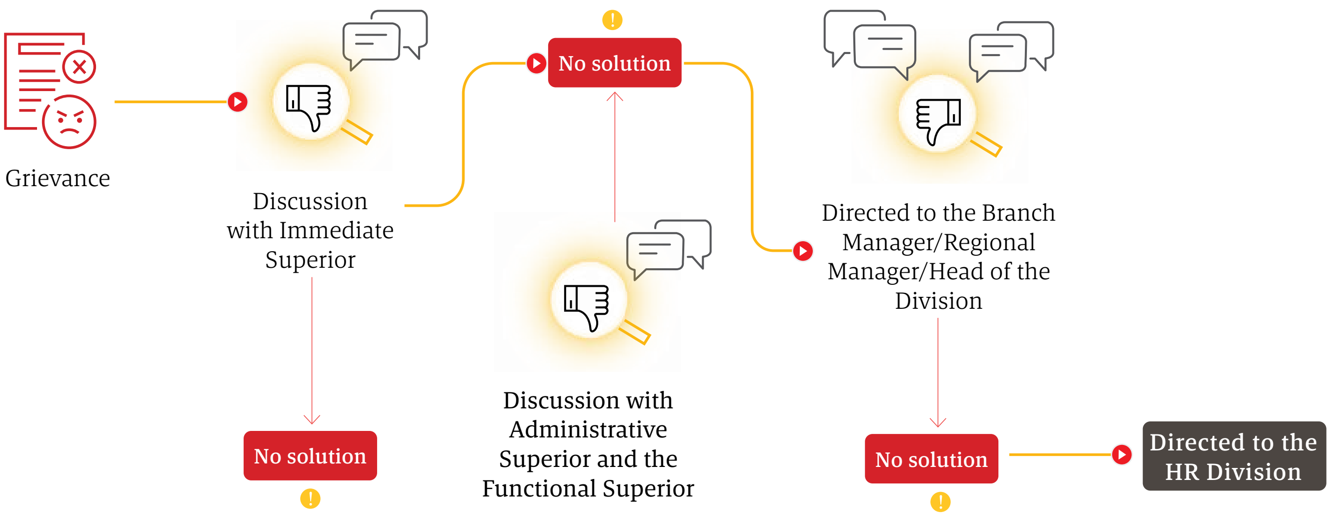
- An in-house gym at the Bank's Head Office premises maintained by the NSB Sports Club.
- Library facilities to help employees improve their knowledge.
- Recreational facilities organised by the NSB Arts Circle, such as dramas, films, and musical events.

Employee grievance mechanisms

At NSB, we have transparent policies and procedures to address employee grievances to identify and resolve unacceptable practices in the early stages.

NSB has two approaches to handle grievances: "Step Ladder System' and 'Open Door Policy".

Step ladder system



Open door policy

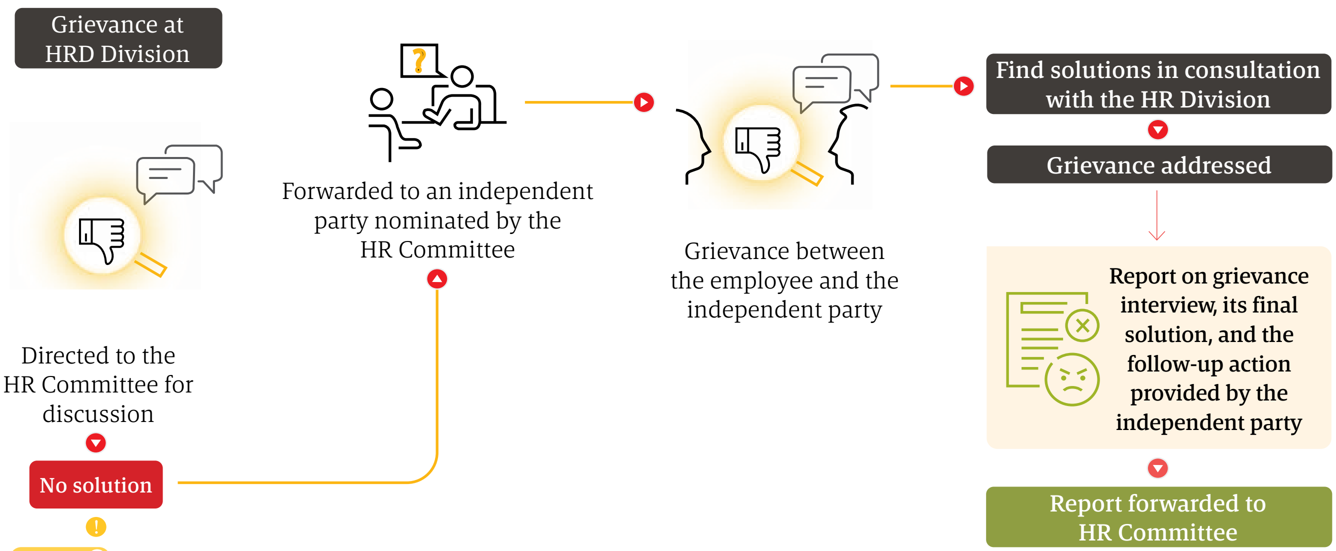


Figure 19

Health and safety

GRI 403-9

The HR policy manual of the Bank clearly highlights the measures to be taken regarding the health and safety of employees where occupational safety and health (OSH) is concerned. With the policy in action, there were no major accidents reported in 2023, with only seven minor accidents reported inside the Bank's premises.

Zero tolerance to workplace harassment GRI 406-1

The Bank has a zero-tolerance level to any form of work harassment, seeing it as a violation of a fundamental human right of the employee as well as his/her personal dignity that could result in serious mental health issues. Therefore, the Bank has strict policies and procedures to prevent such incidents from taking place.

Employees are strictly prohibited from harassing any stakeholder of the Bank, including customers, vendors, other employees, or any visitor. An employee who harasses or solicits favours (including sexual favours) from an unwilling subordinate in return for promotions, salary increments, transfers or any similar promise will be dealt with in terms of the Disciplinary Code of the Bank. If an employee feels he/she is being harassed or discriminated against, the Bank has a clear procedure to deal with the issue.

A Grievance Handling Committee was formulated in 2022 especially to handle the grievances of female employees to ensure their mental and physical wellbeing and safety. The Committee comprises of the female officers/DGMM in the top management chaired by the Deputy General Manager of HR Division. Complaints pertaining to any discrimination or harassment that may be faced by female staff members can be forwarded to the chairperson of the committee.

Diversity and equity

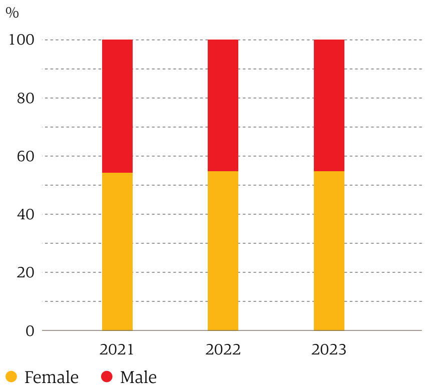
GRI 401-3, 405-1

The Bank's policies are aimed at providing equal opportunities to each individual in the Bank despite their race, colour, religion, gender, age, marital status, national origin, or disability. The Bank made conscious efforts to write job descriptions that eliminated any possibility of unconscious bias when recruiting new employees. In 2023, there were no complaints regarding violation of rights or discrimination activities.

Further, the Bank's policies on compensation, benefits, transfers, training and development, educational assistance, recreational programmes, and promotion of individuals in all job classifications reflect the success of equality and diversity within NSB.

Male to female ratio

Graph 51



As an advocate for equal opportunities, our team (permanent employees) comprised 55% female representation. Women accounting for 44% and 49% of Senior Management and Middle Management positions respectively.

Further, all female employees of the Bank are entitled to 84 working days of maternity leave with full benefits, while male employees can avail themselves of 3 days of paternity leave. In 2023, 256 female employees utilised maternity leave, with 100% returning to work upon its completion, while 147 male employees took advantage of paternity leave.

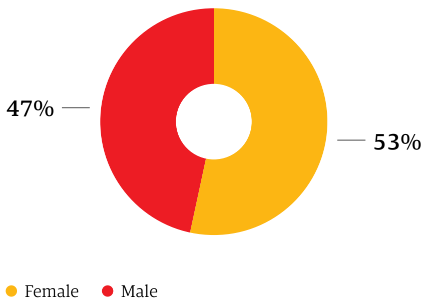
Talent retention

GRI 401-1

While 2023 has been the most challenging year in terms of employee retention, NSB is actively working to retain the best employees. 97 employees resigned from the Bank and 40 employees took no-pay leave to pursue foreign educational and employment opportunities. In addition, feedback from exit interviews indicates that the uncertain economic situation of the country is a key concern while the increased percentages of taxes through government policies have demotivated employees, prompting them to seek new employment opportunities in the private sector, especially in specialised fields. Accordingly, total turnover for the year was 163 compared to 85 recorded in 2022, which is an increase of 91.8%. The Bank also faced difficulties in recruiting staff for specialised functions such as IT and Treasury due to the severe brain drain of the country in the last few years. Therefore, it has become a great challenge for the Bank to retain talent, and it faces a possible risk of skill gaps among staff. We value all exit interview feedback and we are using it to refine our employee retention initiatives, ensuring that NSB offers a competitive and fulfilling work experience.

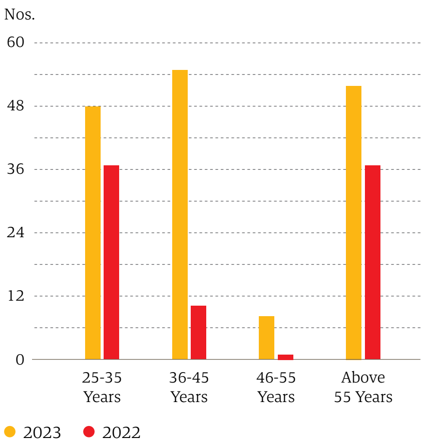
Composition of staff turnover

Graph 52



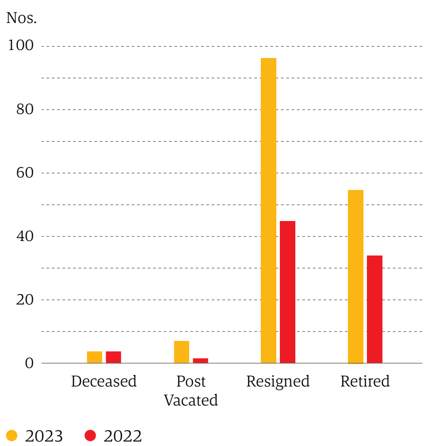
Staff turnover by age

Graph 53



Reasons for staff turnover

Graph 54



	2023 %	2022 %
Turnover ratio	3.7	1.9
Retention ratio	96.3	98.1
Voluntary turnover	2.2	1.0

Table 18

Way forward

The Bank expects a challenging year ahead in terms of Human Capital, anticipating possible skill gaps as there has been a large increase in resignations between 2022 and 2023 for migration purposes. Hence, NSB is gearing to overcome the challenges by looking beyond the current situation to predict future needs and implement necessary strategies, such as:

- Enhancing the Bank's capacity to identify and recruit top talent in the market, retaining and challenging high-performing individuals, and offering opportunities for development and advancement.
- Enhancing leadership effectiveness to ensure leaders can guide teams to excel and adapt amid the rapid evolution of the digital landscape.
- Strengthening culture to bolster our strategy, instilling and ingraining a collection of behaviours to align our workforce with future goals.
- Offering a compelling proposition for employees, ensuring that our overall employee offering, specifically for certain employee segments, is unmatched in quality.

Social and relationship capital

Building trust, building value

What Social and relationship capital means to NSB

Social and Relationship Capital encompasses the value derived from the Bank's relationships and interactions with its stakeholders, including customers, employees, business partners, regulators, and the broader community. This form of capital is crucial because it builds trust, loyalty, and reputation, and is essential for sustaining long-term business success. It also includes the Bank's brand equity, customer satisfaction and loyalty, the network of partnerships and alliances, and NSB's standing in the community and with regulatory bodies.

Value transformation

- Attraction of the correct customer base
- Retention of valuable customers
- Attracting the right set of skills
- Continuous training and development of employees
- Automation of procurement process
- Continuous engagement with customers, business partners, regulators and communities

Key inputs

- Continued support from our shareholder
- Constructive employee engagement
- Positive relationships with the Government and regulators
- Long-term customer relationships
- Proactive engagement with media and communities
- Effective service delivery and engagement from suppliers and contractors

Key outputs

Customer acquisition

Total number of active accounts
Rs. 13.03 Mn.
(2022 – Rs. 12.98 Mn.)

Number of cards in use
1,147,651
(2022 – 2,203,309)

Responsible procurement

Number of registered suppliers
256
(2022 – 184)

Rs. 1.6 Bn.
spent on procurement
(2022 – Rs. 0.9 Bn.)

Contribution to society

Opening "Aswesuma Accounts" for the Welfare programme initiated by the Ministry of Finance.

Launching the Grade 5 "*Hapan*" Scholarship Examination Preparation Programme on NSB's YouTube channel, and donating model paper books, along with cash awards, for special winners.

Opening of *Hapan* Children's Account with a contributory deposit under "NSB *Senehase Dayadaya*" for all babies born in March in commemoration of the Bank's 51st anniversary.

How social and relationship capital supports our sustainable value-creation

NSB has meticulously fostered its Social and Relationship Capital to ensure enduring success and community impact. By engaging with stakeholders meaningfully, the Bank has aligned its objectives and offerings with the primary goal of providing superior customer service and creating initiatives that leads to mutual value over time.

Social and relationship capital

Key challenges in 2023

- Disruptions to business due to economic crisis
- Evolving stakeholder expectations and recognising and managing stakeholder conflict of interest
- Efficiency in allocating resources to fulfill varied stakeholder requirements
- Potential reputational damage when cordial relationships are not maintained

Key opportunities in 2023

- Able to build in stakeholder needs into our business and deliver successful commitments
- Capacity to engage and respond to the varying concerns of stakeholders
- The prospect of creating a positive long-term impact in the community

Critical success factors/ strategic drivers

Consistent compliance with regulations: NSB follows various regulations to ensure that it remains above board and transparent in its activities to gain confidence from all stakeholders.

Anti-money laundering, bribery, and corruption: NSB has identified risk areas and accordingly built a risk management system to protect customers from fraud, and assists regulators to prevent cybercrime, money laundering, and funding of terrorism.

Strong governance and prudent risk management: The Bank has a tight governance system and strict risk management policy to ensure operations can be conducted and protected from risks.

How we grow our social and relationship capital

- Building a loyal customer base through superior customer experience, innovative products and solutions, and safety of data and privacy.
- Teaming up with business partners to form strategic alliances.
- Staying compliant and practising prudent risk management.
- Giving back to society and prioritising financial inclusion to build communities.

Approaches to managing outcomes

- Focusing on customer relationship management processes to track customer interactions, preferences, and feedback.
- Maintaining personalised relationships with our customer base while ensuring transparency and accountability throughout our business operations.
- Investing in employee training and development in the subject areas such as communication and conflict handling.
- Utilising digital platforms and social media channels to engage with customers and foster online communities.
- Offering online support and facilitating fruitful discussions to enhance customer engagement and satisfaction

Value created for stakeholders

Shareholder/ Investors
Creation of sustainable value for shareholder/ investors, fostering trust, transparency, and long-term financial stability.

Customers
Personalised services and tailored financial products that meet the specific needs of customers.

Employees
Fostering a supportive and engaging workplace environment.

Regulators and government institutions
Facilitating a conducive regulatory environment and during sustainable growth for the banking industry.

Business partners
Enhances the value proposition for business partners driving mutual prosperity and sustainable business outcomes.

Society and environment
Create positive change and promote the well-being of both society and environment.

Social and relationship capital

How we leverage our Social and relationship capital

Financial capital
While investments directed towards building and nurturing social and relationship capital may initially deplete financial capital, the resulting brand loyalty and brand equity lead to longer-term profitability.

Manufactured capital
Engagement and feedback from stakeholders contribute towards aligning our physical and digital infrastructure better with stakeholder needs.

Intellectual capital
Customer-centricity, regulatory best practices, responsible sourcing, and investments in the communities we operate, all contribute towards enhancing our customer loyalty, brand, and reputation.

Human capital
Nurturing deeper relationships with stakeholders, networks, and wider communities strengthens brand equity, which helps in attracting and retaining high performing professionals.

Natural capital
Regulatory compliance coupled with social obligation contributes towards responsible utilisation and conservation of natural resources.

Contribution to UN Sustainable Development Goals (UN SDGs)

4 QUALITY EDUCATION – "Hapan" Scholarship Examination Preparation programme improves quality education

10 REDUCED INEQUALITIES – Opening of "Aswesuma Accounts"

12 RESPONSIBLE CONSUMPTION AND PRODUCTION – Endorsing sustainable consumption and production through a rigorous procurement process

13 CLIMATE ACTION – Cultivating environmental awareness among internal and external stakeholders through CSR initiatives

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

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

Material matters

Stakeholders

Short-to-medium-term strategic priorities

Potential trade-offs

- **Financial capital –** Social initiatives, sponsorships, and community engagement activities require financial resources that can impact short-term profitability and limit investments in infrastructure or technology.
- **Manufactured capital –** Building social capital can sometimes overshadow investments in physical assets like machinery or office upgrades. However, a balance is needed to ensure long-term efficiency.
- **Intellectual capital –** A strong focus on relationship building might lead to a preference for established partnerships over exploring disruptive technologies or innovative solutions.
- **Human capital –** Building strong relationships, positive reputation takes time and effort, and at the expense of employee training and development.
- **Natural capital –** Initiatives aimed at boosting social and relationship capital lead to greater resource use, depleting natural capital.

1

Customer capital: driving value through engagement and innovation

Customer Capital refers to the value in the relationships and networks that the Bank has developed with its customers. It encompasses the loyalty, trust, and satisfaction they have in the brand, and the potential for future revenues generated through cross-selling, up-selling, and customer retention.

Our customer value proposition

NSB's Customer Capital focuses on building enduring relationships, driving innovation, and delivering value beyond financial transactions. As we continue to evolve and adapt to the changing needs of our customers, investing in customer capital leads to creating meaningful experiences, fosters long-term relationships, and drives sustainable growth for our customers and the communities we serve.

Strategies to enhance customer value

- Tailoring services to meet individual customer needs, preferences, and financial goals to enhance customer satisfaction and loyalty.
- Investing in digital platforms and technologies to improve accessibility, convenience, and efficiency of banking services.
- Providing resources and workshops to educate customers on financial literacy and empower them to make informed decisions about saving and investing.
- Actively soliciting and acting upon customer feedback to identify areas for improvement and enhance the overall customer experience.
- Introducing innovative financial products and services that address evolving customer needs and preferences.

Convenient and innovative financial services

At NSB, we understand the importance of providing our customers with a seamless and convenient banking experience. Leveraging a multi-channel approach, we offer a range of platforms including digital, online, call centres, and physical branches to ensuring accessibility and choice for customers.

With a network of 262 branches and 417 automated teller machines, cash deposit machines, and cash recycler machines (ATMs/CRMs) strategically placed throughout Sri Lanka, we offer customers an extensive portfolio of practical and affordable financial products and services to address their savings and investment requirements.

In addition, the Bank encourages valuable customer engagement through optimised communication channels with swift response times. By leveraging the latest tools, NSB aims to effectively measure and uphold high levels of satisfaction across multigenerational customer relationships cultivated over the years.

Exceptional service experiences

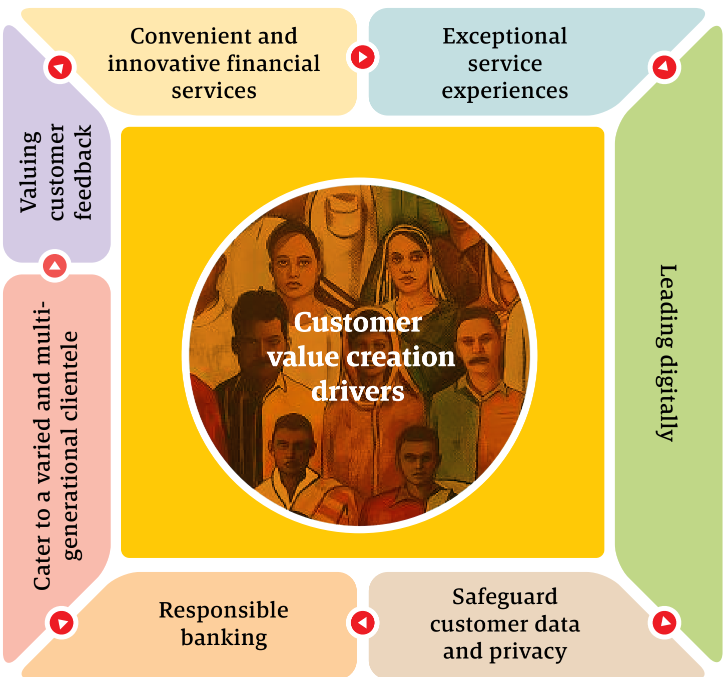
We strive to exceed customer expectations by delivering exceptional service across all touchpoints that involves offering convenient banking channels (digital platforms, mobile banking, extensive branch network), efficient customer service processes, and well-trained staff dedicated to personalised assistance.

Leading digitally

In an increasingly digital world, our digital design and data capabilities play a pivotal role in enhancing customer experience and driving operational efficiency. By leveraging advanced technologies and data analytics, we can better understand our customers' preferences and behaviours, enabling us to anticipate their needs and deliver relevant and timely solutions.

Value creating drivers

Figure 20



Social and relationship capital

Our ongoing investment in digital innovation ensures that we remain at the forefront of technological advancements, empowering our customers with intuitive and user-friendly banking solutions.

2023 was a year of digital transformation, as the following products were introduced (refer Manufactured Capital for more details):

- NSB NextGen
- e-KYC
- NSB e-Post
- NSP Payapp
- NSB Transit Card

Safeguard customer data and privacy

GRI 418-1

The Bank handles customer data in a secure and responsible manner that aligns with both customer expectations and regulatory requirements. Along with expanding NSB's digital presence and technological capabilities, the growing threat of cybercrime has led to the Bank prioritising cybersecurity as a significant concern. To proactively address these risks, we reinforced our Customer Charter, and Information System Security Policy, and regularly conducted assessments to verify the security of our evolving systems. In addition, the Bank has employed a dedicated Information Security Officer (ISO) to oversee cybersecurity risk management independently, and reports to the Board regarding related actions and developments.

Our protective measures include:

- Obtaining the Payment Card Industry Data Security Standard (PCI DSS) Certification in 2019, with continued annual compliance attestation through 2023.
- Implementation of Data Leakage Prevention (DLP) System.

In 2023, NSB recorded zero complaints regarding breaches of customer privacy or data loss; the Bank did not also incur any fines or sanctions.

Responsible banking

By upholding the highest standards of ethics, transparency, and customer-centricity, NSB aims to foster long-lasting relationships built on trust, integrity, and mutual respect.

The Bank's responsible banking strategy lies in providing accessible and inclusive financial services to all demographics, addressing unique needs, fostering financial inclusion and empowering individuals and businesses through a diverse array of tailored offerings.

In addition, we actively seek feedback from customers to understand their evolving preferences through regular engagement and feedback mechanisms, continuously improving our offerings to enhance their overall banking experience.

Marketing and labelling

GRI 417-2, 417-3

All terms and conditions related to products and services are transparently communicated to customers following the NSB Customer Charter guidelines. Additionally, our complaint resolution process, facilitated through the Financial Ombudsman, is prominently displayed across all branches in compliance with CBSL directives.

NSB has designated a Public Information Officer to ensure that all stakeholders and the public have access to relevant information from the Bank, in accordance with the Right to Information (RTI) Act of Sri Lanka. To comply with these regulations, all NSB advertisements include the following information:

- Contact details of our Call Centre and corporate web address
- Credit rating of the Bank – Lanka Rating Agency (Pvt) Ltd.
- Distinct feature for NSB – 100% Government guarantee, Bank logo and the slogan

In 2023, there were no instances of non-compliance related to the labelling of product and service information, and no incidents of non-compliance regarding marketing communications.

Cater to a varied and multi-generational clientele

As our customers progress and undergo transformations, their banking needs evolve accordingly. NSB is agile in responding to dynamic customer requirements, understanding their needs and closely monitoring the shifting priorities within each demographic to adapt quickly.

NSB provides an extensive array of products, services, and value-added features spanning all segments of society, thereby ensuring that its diverse customer base can find a banking solution tailored to their age, gender, and lifestyle. We remain committed to offering a versatile and inclusive range of options that align with the unique financial preferences and life stages of our valued customers.

Valuing customer feedback

At NSB, our customers' voices are essential for continuous improvement. That's why we prioritise valuing customer feedback, offering multiple channels for customers to connect with its people:

- **Dedicated Feedback Channels:** We provide easily accessible online feedback forms, suggestion boxes in branches, and hotlines specifically for feedback.
- **Social Listening:** We actively monitor social media platforms to understand customer sentiment, identify emerging trends, and address any concerns promptly.
- **Customer Satisfaction Surveys:** We conduct regular customer satisfaction surveys to gauge satisfaction with our products, services, and overall banking experience.

Social and relationship capital

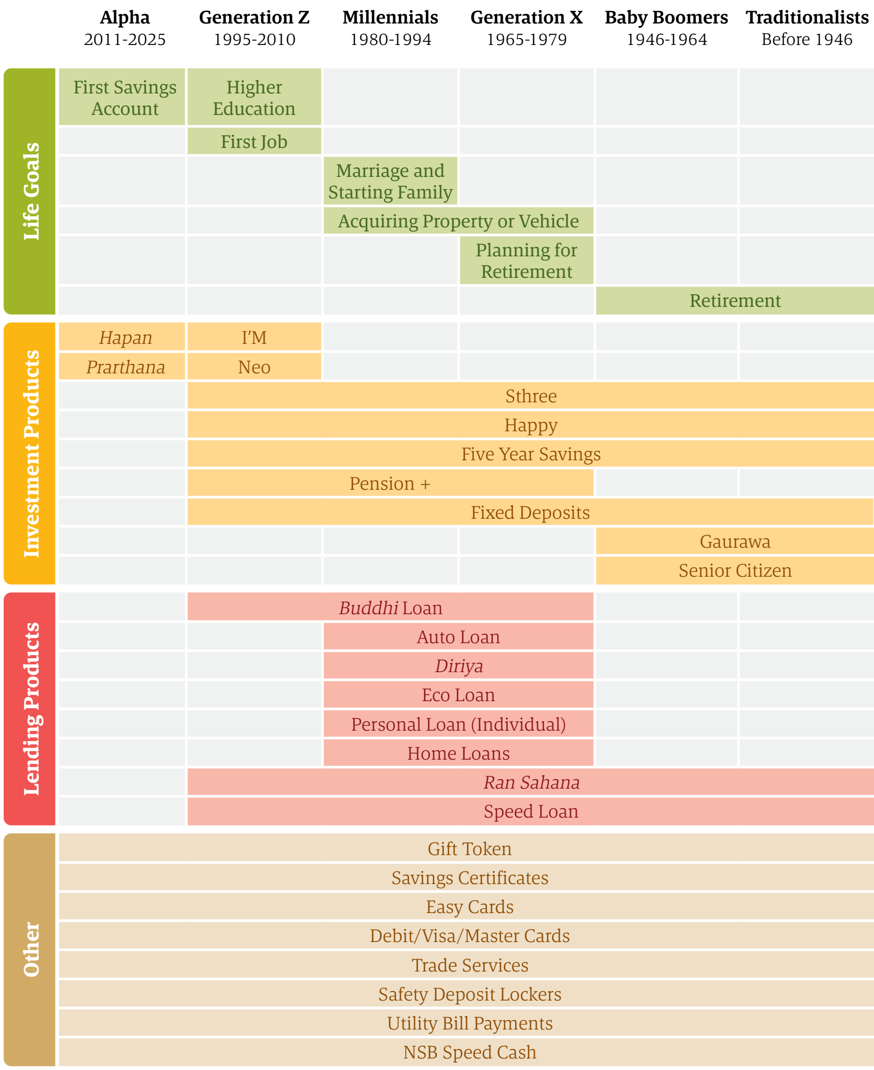


Figure 21

Customer engagement statistics

Number of customer complaints received

488
(2022 – 252)

Number of customer complaints resolved

361
(2022 – 194)

Number of enquiries received over the phone

434,110
(2022 – 378,856)

Way forward

- Leverage advanced data analytics and artificial intelligence to deliver hyper-personalised banking experiences tailored to each customer's unique preferences, behaviours, and financial goals.
- Provide seamless omni-channel engagement, allowing customers to interact with the Bank across multiple touchpoints, including mobile apps, online portals, social media, and physical branches.
- Invest in cutting-edge digital capabilities to enhance customer engagement and satisfaction.
- Embrace the concept of ecosystem banking, collaborating with third-party providers to offer a wide range of interconnected services within a single integrated platform.
- Remain agile and adaptable, continuously innovating to meet changing customer needs and expectations.

2

Business partner capital:

leveraging strategic collaborations

As a forward-thinking financial institution, we recognise the strategic significance of building strong partnerships and alliances with various stakeholders across the business ecosystem. These collaborations play a pivotal role in enhancing the Bank's capabilities, expanding its market reach, and delivering innovative solutions that meet the evolving needs of customers and communities. Our business partners include correspondent banks, exchange houses, outsource service providers, and other suppliers.

Social and relationship capital

Strategies to enhance value

- Create new business opportunities through collaborations.
- Continue transparent and sustainable procurement practices aligned with global benchmarks.
- Build strategic alliances that create wider reach among untapped demographics.
- Technology integration to vendor management.

Business partner value creation drivers

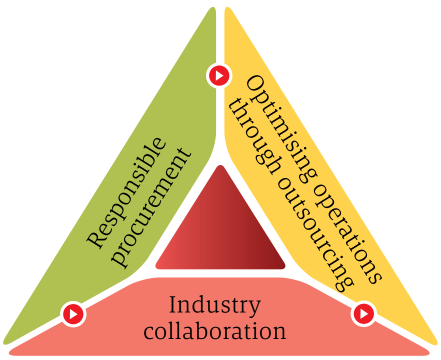


Figure 22

Responsible procurement

GRI 204-1

NSB adheres to a rigorous set of principles and practices aimed at promoting ethical sourcing, sustainability, and transparency throughout its supply chain. We recognise that our procurement decisions can have significant social, environmental, and economic impacts; therefore, we endeavour to integrate responsible practices into all stages of the procurement process.

In the process of its engagement with business partners, NSB successfully established a sustainable supply chain, underpinned by a procurement process that upholds the utmost standards of quality, service, and ethics. During the period concerned, we remained committed to sourcing through our rigorous procurement procedures, which enabled NSB to:

- Maximise the economic value and efficiency in the procurement process.
- Ensure compliance with applicable standards, specifications, rules, and regulations, while also ensuring that all suppliers adhere to the National Procurement Guidelines established by the Government of Sri Lanka.
- Ensure equal and fair opportunities for all interested parties to participate in the procurement process.
- Ensure the prompt delivery and execution of goods and services.
- Conduct supplier evaluations and selections transparently while safeguarding the confidentiality of bidder information.

The Bank's procurement policy outlines specific procedures for various procurement requirements. While the Supplies Division handles procurements, oversight is provided by designated procurement committees; this includes the Technical Evaluation Committee and Bid Opening Committee appointed by the Board of Directors, General Manager or CEO, or delegated authority. The Supplies Division ensures compliance with Initial Environment Examinations (IEE), Environmental Impact Assessments (EIA), and obtains necessary approvals from authorities as needed. Our procurement process integrates economic, social, and environmental considerations alongside criteria such as service and product quality, competitive pricing, experience, financial stability, flexibility, capacity, and legal compliance.

By leveraging technology, the Bank during the year implemented digital tool; Oracle Fusion for procurement invoicing and payment processes with the objective of enhancing efficiency and streamlining operations.

The Communication Policy of the Bank clearly delineates external communication protocols applicable to all business partners. Our interactions with business partners are conducted with transparency, responsibility, accountability, and consistency.

In 2023, the Bank maintained its commitment to sourcing all goods and services from local suppliers, amounting to a total procurement expenditure of Rs. 1.6 Bn. Additionally, we updated our procurement plan annually to address the evolving needs of the Bank in 2023.

Optimising operations through outsourcing

NSB has adopted an extensive outsourcing strategy to enhance operational efficiency and strategic focus. By tapping into external expertise and specialised resources, the Bank aims to streamline its operations and improve overall performance. Through meticulous vendor selection and partnerships, outsourced functions are aligned with organisational goals and held to high standards of quality and compliance. This strategy enables the Bank to allocate internal resources to core competencies while leveraging the flexibility, scalability, and cost-effectiveness offered by outsourcing partners. Rigorous monitoring and evaluation processes ensure accountability, risk mitigation, and continuous improvement in outsourced activities.

In the past year, we spent Rs. 486 Mn. to outsourced service providers. The NSB Outsourcing Policy offers clear guidelines for evaluating the necessity of outsourcing activities, services, processes, or functions, as well as their execution.

Financial service providers

- Banks and other financial institutions
- Correspondent banks
- Exchange houses
- Eurogiro companies

IT-related services

- IT hardware suppliers
- Software developers and suppliers
- Network service security

Fixed assets and materials

- Vehicles
- Furniture
- Land and property
- Office equipment
- Stationery
- Other materials

Outsource service providers

- Security
- Food and drinking water
- Sanitary and cleaning services
- Transport and other
- Construction and maintenance services

Professional services

- Auditors
- Consultancy service providers

Utility providers

- Energy
- Water

Industry collaboration

GRI 102-13

In fostering industry collaboration, NSB actively engages with key stakeholders and partners through strategic alliances, industry forums, and collaborative initiatives, to address common challenges, share best practices, and explore growth and development opportunities. By working closely with regulatory bodies, industry associations, and peer institutions, NSB contributes to the advancement of industry standards, regulations, and policies that promote stability, transparency, and integrity across the financial landscape. Additionally, our participation in industry events, conferences, and working groups allows us to exchange knowledge, insights, and expertise with industry peers, enabling us to stay updated to emerging trends, technologies, and market developments.

NSB holds memberships in the following organisations, to resolve industry challenges and create a conducive operating environment:

- The National Chamber of Commerce
- Lanka Clear Private Limited
- Employers' Federation of Ceylon
- Society for Worldwide Interbank Financial Telecommunication (SWIFT)
- The Sri Lanka SWIFT User Group
- Eurogiro Global Payment Community
- The World Savings Banking Institute

Way forward

- Continue to prioritise building and maintaining strong relationship with business partners.
- Continue to adhere to regulatory requirements and ethical practices in all our interactions.
- Remain flexible and adoptable to meet the evolving needs of business partners.

3

GRI 205-2

Regulatory capital:

Safeguarding stability, fuelling growth

Regulatory capital represents the financial assets that the Bank must maintain as mandated by its regulatory authorities. It serves several purposes, including:

- Mitigating risks
- Absorbing losses
- Fostering stakeholder confidence
- Managing asset growth
- Safeguarding customers

We understand that maintaining robust, positive, and constructive relationships with regulators and government bodies remains crucial, considering our pivotal role in safeguarding the stability of the financial system.

NSB is diligent in its compliance with both national and international standards pertaining to business ethics and best practices in order to make a sustainable and positive impact on the economic development of Sri Lanka.

Strategies to enhance value

- Implement mechanisms to identify, assess, and respond to regulatory changes
- Strengthen operational resilience
- Improve stress testing standards
- Review impact tolerances
- Fine-tune performance metrics
- Participate in industry regulatory initiatives consultative papers

Value creating drivers

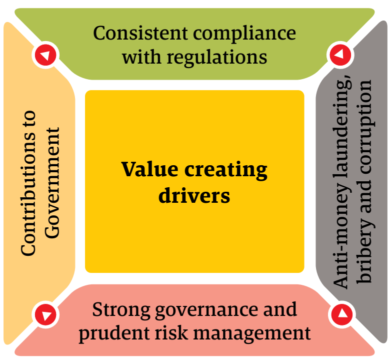


Figure 23

Social and relationship capital

Consistent compliance with regulations

NSB adheres to the provisions of the following regulations:

- 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)

NSB maintains close relationships with the following entities:

- 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 of Sri Lanka

In addition, NSB submits periodic information related to the Bank's operations in compliance with the directives issued by the CBSL.

Anti-money laundering, bribery, and corruption

GRI 205-3, 206-1

NSB has identified three principal risk areas in the age of digitisation:

- Cybersecurity
- Fraud prevention
- Anti-money laundering

The Bank has built a robust risk management system to protect customers from fraud, and assists regulators to prevent cybercrime, money laundering, and funding of terrorism by identifying and reporting any suspicious activities.

In 2023, we recorded 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.

Strong governance and prudent risk management

To adhere to principles of strong governance and manage risk, the Bank:

- Maintains a watertight governance system and strict risk management policy
- Reinforces a risk culture as a short-to-medium-term strategic priority
- Practices a strong risk culture that effectively anticipates, manages, and mitigates risks arising from internal and external environments.

Contributions to the Government of Sri Lanka

NSB carries out the following contributions when applicable:

- Pays and collect taxes on behalf of the Government
- Pays all relevant taxes payable on the behalf and respect of our employees
- Pays all applicable statutory dues to the Government and other relevant regulatory and statutory authorities.

Way forward

- Continuously monitoring and maintaining adequate capital ratios above regulatory requirements to handle unexpected losses and market fluctuations.
- Implementing advanced analytics and financial technology to better predict risk scenarios and outcomes.
- Staying updated with changes in regulatory standards and frameworks, both locally and globally, to ensure compliance.
- Improving the quality and frequency of financial reporting to ensure transparency with regulators, investors, and other stakeholders.
- Regularly conducting stress tests to evaluate the impact of adverse economic scenarios on the Bank's capital.

4

Community capital: cultivating connections, empowering communities

At NSB, we are deeply committed to strengthening the communities in which we operate, recognising that our success is intertwined with their well-being. By investing in financial inclusion, supporting local initiatives, and championing environmental responsibility, we contribute to building a more prosperous and sustainable future for all.

In alignment with the United Nations Sustainable Development Goals (UN SDGs), the Bank designs and implements community initiatives aimed at creating a lasting social impact. Our support extends to a diverse range of external organisations based on their alignment with our purpose and brand. Meanwhile, our contributions primarily take the form of financial assistance, supplemented by our sector expertise as needed. The Bank remains vigilant in monitoring the effectiveness and impact of its community development projects.

Strategies to enhance value

- Consider social, economic, and environmental factors for philanthropic initiatives and investments.
- Encourage and incentivise employees to volunteer and initiate community projects.
- Place greater focus on minorities and on unbanked, underbanked, and underserved groups.
- Improve civic engagement within the local communities of operation.

Social and relationship capital

Value creating drivers

GRI 413-1

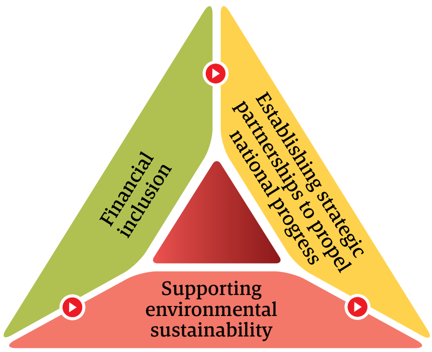


Figure 24

Establishing strategic partnerships to propel national progress

The Bank believes that by aligning collaborative efforts with the UN SDGs, it can contribute to addressing the most pressing challenges facing our society and planet.

To promote English language proficiency among the youth, the Ministry of Education has initiated a nationwide programme in collaboration with NSB to enhance English language skills taught in schools.

Supporting environmental sustainability

Recognising the importance of Natural Capital in community development, the Bank is committed to environmental sustainability. The Bank promotes eco-friendly practices and initiatives that conserve natural resources, mitigate climate change impacts, and protect the environment.

In 2023, the Bank enrolled all branches in a nationwide programme to distribute plants, to customers who visit Branches for Sinhala and Hindu New year transactions and in commemoration of the 99th world Thrift Day.

Financial inclusion

At NSB, we recognise that access to financial services is a fundamental right that empowers individuals, drives economic growth, and fosters social development.

Customer-centric approach

NSB is dedicated to understanding and meeting the diverse financial needs of its customers, offering a wide range of tailored products and services to cater to the different requirements of different societal segments. By placing customers at the centre of operations, the Bank ensures that its services are accessible, affordable, and relevant to all, regardless of income level or geographic location.

For further details on NSB's customer centric approach, please pages 139 to 141 in customer capital of this Annual Report.

Last-mile connectivity

We believe that proximity to financial services is crucial for ensuring widespread inclusion. To this end, NSB has invested in expanding our branch network and deploying innovative delivery channels such as agent banking and mobile banking. By bringing NSB's banking services closer to underserved communities, the Bank is breaking down barriers to access and empowering individuals to participate in the formal financial system.

For further details on our customer centric approach, please pages 112 to 117 in manufactured capital of this Annual Report.

Financial literacy and education

The Bank recognises that access to financial services is not enough; individuals must also possess the knowledge and skills to use them effectively. Accordingly, NSB is promoting financial literacy and education through targeted initiatives and outreach programmes to equip customers with the necessary tools and resources to make informed financial decisions to improve their futures and families. In 2023, NSB conducted a range of financial literacy programmes through all social media platforms to cater to a wide selection of participants.

Digital innovation

NSB has harnessed the power of digital innovation to enhance accessibility, efficiency, and convenience for customers, ranging from mobile banking apps to online account opening facilities that can overcome traditional barriers to banking and provide seamless, user-friendly experiences to customers, regardless of technological literacy levels.

For further details on our customer centric approach, please pages 118 to 123 in Intellectual Capital of this Annual Report .

Way forward

- Focusing on moving beyond traditional sponsorships by exploring cause-related marketing campaigns, leveraging social media to amplify impact and engage younger demographics.
- Utilising data analytics to identify and address emerging social and environmental challenges in the communities the Bank serves.
- Developing financial products and services tailored to the needs of the "gig economy" and changing employment patterns.
- Positioning NSB as a thought leader on issues like financial wellness, environmental sustainability, and ethical AI in finance.
- Demonstrating leadership in ESG practices to attract customers and investors who prioritise sustainability and social responsibility.

GRI 201-2

Natural capital

NSB'S Environmental Stewardship

What natural capital means to NSB

Natural capital consists of the global inventory of natural resources, including geology, soil, air, water, and all forms of life. These resources serve as vital inputs for organisations and contribute to economic production by providing natural resource inputs and environmental services.

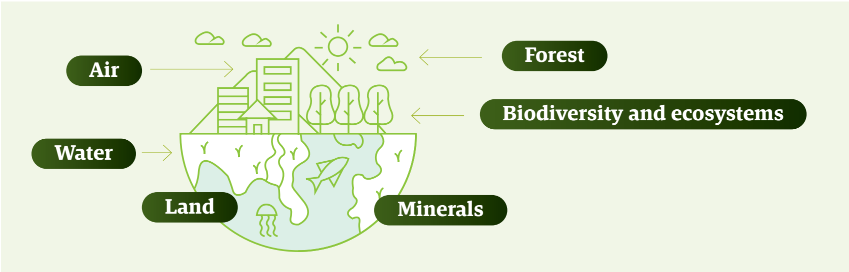
How natural capital supports our sustainable value-creation

By recognising the intrinsic value of natural resources and ecosystems, the Bank integrates Natural Capital considerations into its business strategy and decision-making processes. As we continue to leverage Natural Capital for sustainable value creation, we remain committed to preserving the country's precious resources for the next generation.

Value transformation

- Granting loans for renewable energy projects and prioritise businesses with strong environmental performance records.
- Increasing the energy-efficient buildings, reducing paper use through digital transformation, and adopting green procurement policies by implementing Oracle Fusion for Supply Chain Management (SCM).
- Evaluating the environmental impact and sustainability practices of borrowers to mitigate risks associated with climate change and environmental degradation.
- Adopting the Global Reporting Initiative (GRI).

Key inputs



Key outputs

Supporting a low carbon economy

Branches connected to net metering	Exported to the national grid
45	**461,584 kWh** (2022 – 344, 347 kWh)

Responsible consumption

Energy consumption per employee*	Energy consumption per branch*	Water consumption
6.81 GJ (2022 – 6.02 GJ)	**113.35 GJ** (2022 – 104.03 GJ)	**73,895 m³** (2022 – 70,430 m3)

** Only electricity consumption has been taken into consideration.*

Natural capital

Key challenges in 2023

- Creating stakeholder awareness on the importance of managing natural capital and green projects.
- Green initiatives requiring higher investments.
- Difficulties in measuring the Bank's environmental impact.
- Complexities behind lowering the Bank's carbon footprint.

Key opportunities in 2023

- Able to promote green initiatives such as green products, green finance, and green buildings
- The need to maintain long-term sustainability of the Bank provides reason to reduce the environmental footprint
- Prior planning leads to lower environmental impacts of operations
- Efficient use of resources results in reduced costs and stronger financial sustainability

Critical success factors/ strategic drivers

- Developing a Strong Environmental and Social Governance (ESG) Framework
- Embedding sustainability into corporate governance structure.
- Regularly updating sustainability policies to reflect current environmental challenges and standards, and ensuring these policies are implemented across all levels of the Bank.
- Supporting local environmental initiatives, conservation projects, and sustainability education programmes.

How we grow our natural capital

- Embracing the concept of eco-friendly buildings and effective resource management in our approach to banking.
- Promoting responsible consumption.
- Incorporating sustainable financing into our lending practices to reduce the negative impact on the environment and society as a whole.

Approaches to managing outcomes

- **Waste management** – installing improved wastewater and sewage systems and promoting waste segregation practices.
- **Reducing paper consumption** – pivoting to digital banking methods to conserve paper usage.
- **Energy consumption** – Increasing the generation of solar power as opposed to consuming electricity through the national grid.

How we leverage our natural capital

Financial capital
Investment in renewable energy and sustainability initiatives reduce costs in the long-term. Higher market share in green financing will help to drive revenue and profit targets in the long-term.

Manufactured capital
Provides the opportunity to introduce innovative new solutions to update/replace traditional banking models. Investment in sustainable buildings and renewable energy strengthens the Bank's physical assets.

Intellectual capital
Enhances NSB's reputation as a bank that prioritises sustainable operations. Green initiatives provide the Bank with visibility, boosting its brand image.

Human capital
Promoting sustainability and green consciousness creates a workforce that is, healthy and aware of the wider environment.

Social and relationship capital
Creating sustainable value chains by maintaining long-term links with suppliers.

Value created for stakeholders

Shareholder/investors
Proactively managing environmental risks protect the Bank from potential financial losses associated with environmental damage or regulatory non-compliance, thus safeguarding investor interests.

Employees
Green office practices and buildings that prioritise energy efficiency, waste reduction, and a healthy work environment enhances employee well-being and productivity.

Business Partners
Promoting environmental sustainability mitigating risks, enhancing reputation and long-term resilience.

Customers
Offering green financial products encourages customers to invest in environmentally friendly projects, promoting a positive environmental impact.

Regulators and government institutions
Compliance with environmental regulations and leading in sustainable practices, minimise regulatory risks.

Society and environment
Engaging in and supporting local environmental projects, such as tree planting or clean-up campaigns, directly benefits the local environment and community well-being.

Natural capital

Contribution to UN Sustainable Development Goals (UN SDGs)

Primary UN SDGs

7 AFFORDABLE AND CLEAN ENERGY – Construct green buildings and solar-powered branches to generate affordable and clean energy.

11 SUSTAINABLE CITIES AND COMMUNITIES – Promote the NSB Agro-forestry programme to achieve environmentally friendly spaces.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION – Reduce paper consumption through increased digitalisation of banking processes.

Secondary UN SDGs

6 CLEAN WATER AND SANITATION – Clean water and sanitation: Promote clean water and sanitation through water conservation projects and responsible consumption.

13 CLIMATE ACTION – Practice an overall responsible approach to managing natural capital through green initiatives, digitalisation, accountable lending, and sound resource management.

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

Material matters

Stakeholders

Short-to-medium-term strategic priorities

Potential trade-offs

- **Financial capital –** Utilising natural capital intensively may lead to environmental degradation that requires significant financial resources to restore, thus impacting financial capital negatively.
- **Manufactured capital –** Financing infrastructure projects that enhance manufactured capital like buildings often leads to environmental disruption.
- **Intellectual capital –** Allocating resources to research and development in sustainable practices might divert funds from other potentially profitable but less sustainable ventures.
- **Human capital –** Degradation of natural capital, such as air and water pollution, can have direct negative health impacts on humans, affecting the quality of human capital.
- **Social and Relationship capital –** Involvement in environmentally damaging projects can damage the Bank's reputation and its relations with stakeholders.

Our environmental management policy

Our environmental policy serves as a cornerstone of our commitment to environmental sustainability and corporate responsibility. With a steadfast dedication to minimising our environmental footprint and promoting sustainable practices, our policy pledges to comply with all applicable environmental laws, regulations, and standards, ensuring that the Bank's operations meet the highest environmental standards. Pollution prevention, resource conservation, and energy efficiency are central tenets of the policy, guiding efforts to reduce waste generation, optimise resource usage, and mitigate environmental impacts.

Moreover, we prioritise environmental awareness and training, empowering employees, customers, and stakeholders to embrace sustainable behaviours, and contribute to environment conservation efforts. Through a cycle of continuous improvement and performance monitoring, the Bank strives to achieve excellence in environmental management.

Our contribution towards preserving the environment for future

Green buildings

As at the end of 2023, 45 NSB branches function on renewable energy.

Export to the National Grid

Exported 461,584 kWh, 34% increase from 2022

Energy efficiency and conservation

NSB recognises the importance of minimising our energy consumption and environmental impact while maximising operational efficiency. Through a comprehensive approach to energy management, we implement measures to optimise energy usage, reduce carbon emissions, and promote renewable energy solutions.

Green buildings

The concept of green buildings has been in the Bank's agenda for years. In 2023, the Bank made several improvements in terms of managing energy, water, and natural resources.

New NSB branches are designed to provide the best use of natural light and air while all other branches are equipped with glazed windows to optimise energy. The Bank's new circuit bungalow in Kataragama was completed according to the green buildings concept, monitored by the Urban Development Authority (UDA).

All NSB Bank branches are equipped with energy-efficient electrical appliances and lightning arresters.

Pollution prevention and resource conservation

The Bank is deeply committed to pollution prevention and resource conservation as fundamental pillars of our sustainability strategy. We have implemented comprehensive measures to mitigate pollution and optimise resource usage across all facets of our operations through rigorous waste management protocols to reduce waste generation, promote recycling, and reuse initiatives wherever possible. Additionally, we prioritise the adoption of eco-friendly practices and technologies to reduce emissions, such as investing in energy-efficient equipment and vehicles. Our commitment to resource conservation extends beyond internal operations to encompass water and energy conservation efforts.

Energy consumption

GRI 302-1, 303-5

- Increasing the generation of solar power as opposed to consuming electricity through the national grid.
- Installing inverter-operated CFC-free air-conditioning (A/C) units that helps save power consumption and reduce carbon emissions.
- Limiting A/C use to regular banking hours.
- Discouraging employees from working on Bank premises during holidays.
- Installing LED bulbs and CFL bulbs.
- Using LED screen computer monitors.
- Vigorously promoting recycling.
- Engaging in constant communication with employees on the importance of energy conservation.

Water consumption

- Stormwater is disposed through public drainage, while wastewater is disposed through standard soakage pits within the premises.

Waste management

- New branches have improved wastewater and sewage systems installed.
- Practicing waste segregation at all points of waste collection.
- Disposing waste via the relevant municipal/urban councils and Central Environmental Authority (CEA).
- Using CEA-endorsed third-party recycling service providers.
- Handing food and polythene waste to the Municipal Solid Waste Management Programme.
- Auctioning other waste material through the Supplies Division.

Reduction of paper usage

As improving digital banking activities reduce the use of natural resources, we are extensively promoting internet and mobile banking to our customer base to fulfil this requirement.

- NSB established the Digital Banking Centre at the Head Office to provide expanded digital services to customers in commemoration of the Bank's 51st anniversary.
- Focusing on social media for advertising compared to other advertising methods.
- Implementing an e-renewal letter system and PIN issuance via SMS to reduce paper usage.
- Introducing an e-based approval system to replace paper-based internal memos and approvals.

Green financing

Our green financing programmes play a pivotal role in driving sustainable development and fostering environmental stewardship. By providing specialised financing solutions for green projects, NSB empowers businesses, communities, and individuals to pursue environmentally sustainable initiatives, driving positive environmental, economic, and social outcomes. As we continue to expand our green financing initiatives, the Bank remains committed to promoting innovation in sustainability advancement.

Our business model factors in sustainability principles when preparing strategies for the future. One of the main components of our sustainability principles is to conduct

Natural capital

our banking activities with no impact on the environment. Furthermore, we have incorporated Environmental, Social, and Governance (ESG) considerations into our credit and risk evaluation process for lending practices where the higher ESG risk relationships are evaluated with close scrutiny. All customers are required to comply with local ESG-related laws and regulations, providing us relevant evidence when applying for loans, as we do not entertain financing any loan that will have a negative impact on the environment.

In line with Thrift Day 2023 and New Year Celebrations in April, NSB took measures to distribute plants among customers, contributing to the greener concept of banking. In addition, a financial facility of Rs. 1 Bn. was approved to Sobadhanavi Ltd for the construction of a 350 MW power project in Kerawalapitiya that uses a highly efficient gas turbine to reduce the carbon footprint.

Greener operations through digital transformation

Through strategic investments in digital technologies and innovative solutions, NSB aims to harness digitalisation to streamline operations, optimise resource allocation, and promote sustainable business practices across our organisation. By transitioning to digital channels for banking transactions, customer interactions, and internal processes, we have significantly reduced the need for paper-based documents, physical infrastructure, and energy-intensive operations associated with traditional banking practices. Furthermore, our digitalisation efforts enable remote access to our banking services, reducing the need for travel and physical visits to branches, thereby lowering carbon emissions associated with transportation. pages 77 to 78 for more details on our digital initiatives.

Way forward

- NSB aims to integrate robust environmental impact assessments into its lending practices, evaluating the potential effects of financed activities on natural capital.
- NSB is embracing a culture of continuous learning and adaptation, staying abreast of evolving environmental trends, technologies, and regulations.
- The Bank is developing financial products and services that cater to environmentally conscious customers, such as green mortgages and sustainable investment options.
- We are adopting the best practices of IFRS S1 and S2 in the immediate future.

Statement on corporate governance

The Bank recognises that governance within the banking sector transcends mere regulatory compliance. It stands as a fundamental pillar of ethical and accountable management, impacting every facet of the value generation continuum. Governance is intricately woven into NSB's INTEGRATED THINKING philosophy, directing decision-making processes to uphold ethical, responsible, and morally upright principles in alignment with our core values and strategic objectives. Our governance framework prioritises long-term value creation, fostering a culture of integrity and sustainability.

Governance ensures transparency and accountability throughout our operations as an organisation.

NSB's governance framework is underpinned by robust leadership, impartial oversight, and management accountability grounded in a strong ethical foundation. The NSB mandate delineates clear governance boundaries, with ultimate responsibility resting with the Board. The Board delegates authority for strategic direction to Board Committees and Corporate Management, led by the General Manager/CEO.

The Board exercises oversight over the Bank's affairs, ensuring their economic, social, and environmental sustainability while aligning with shareholder interests. They establish and endorse the Bank's strategy and operational objectives, prioritising the creation of balanced value for all stakeholders. The Board also ensures the maintenance of ethical and efficient banking operations at NSB, emphasising qualities such as integrity, efficiency, accountability, impartiality, and transparency.

Adhering to industry standards, regulations, policies, and laws reflects NSB's dedication to ethical corporate conduct. Governance at NSB is a multifaceted endeavour aimed at advancing strategic objectives, safeguarding stakeholder interests, and delivering ethical and sustainable services to society. As such, governance remains a paramount focus for NSB. For an in-depth examination of NSB's corporate governance and compliance status, please pages 167 to 181.

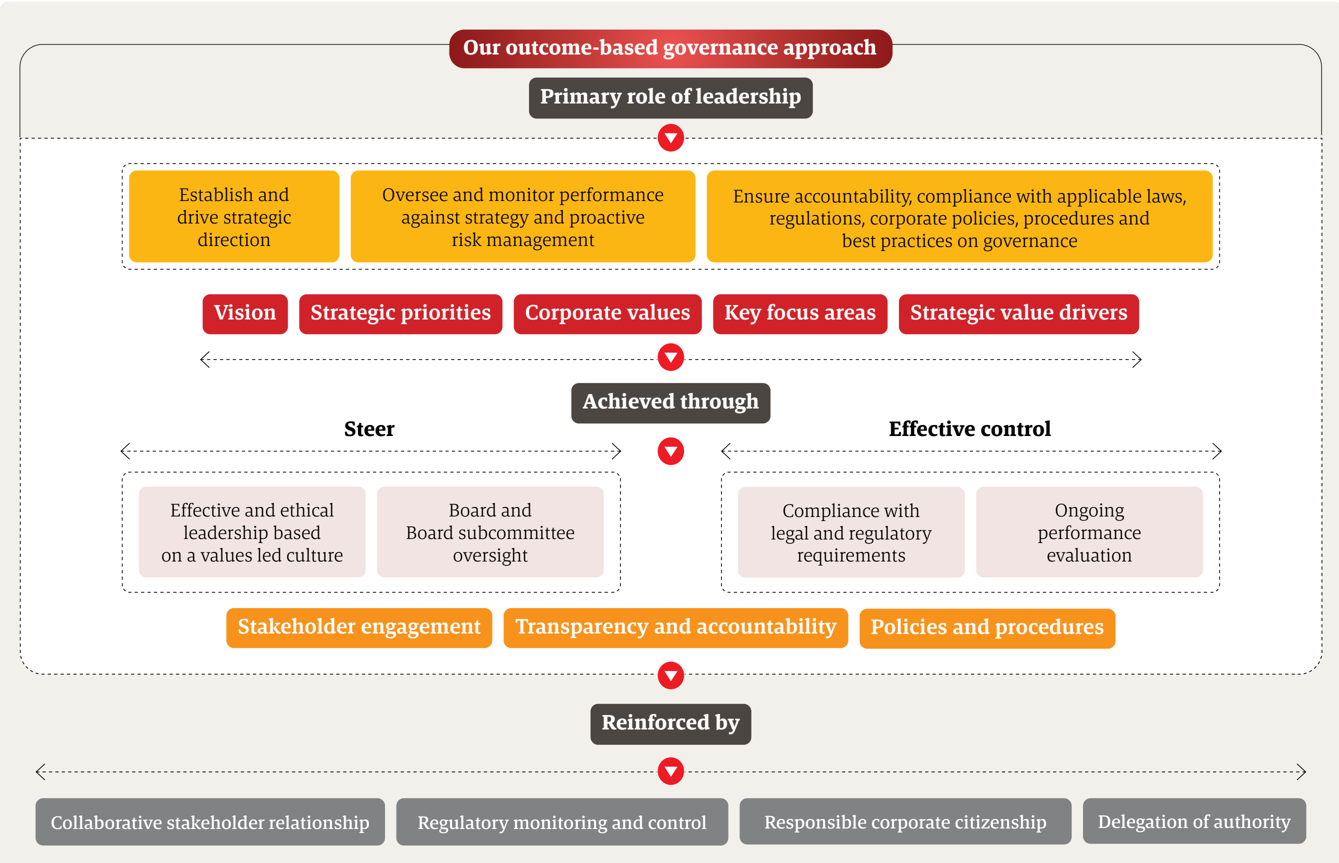


Figure 25 Our outcome-based governance approach

Statement on risk management

NSB recognises the critical role of risk management in securing the sustainability of the organisation, spanning both immediate and future horizons. We grasp the significance of integrating risk management seamlessly into our corporate strategy and operational framework, as it directly impacts our ability to create value over the years. Our risk management methodology extends to NSB, alongside its wholly owned subsidiaries, namely Sri Lanka Savings Bank and NSB Fund Management, facilitating a comprehensive evaluation of risks across the entire Group.

Our risk management function prioritises precision and openness, playing a pivotal role in mitigating both financial and non-financial risks while safeguarding the interests of our stakeholders. It operates on a framework designed to identify, evaluate, quantify, aggregate, and mitigate risks, while also overseeing the optimal allocation of capital. We maintain a careful balance between risk and reward in value creation, ensuring compliance with legal and regulatory mandates and alignment with our overarching business strategy.

The Board defines our risk appetite and appoints the Board Integrated Risk Management Committee assists to enhance the effectiveness and suitability of our risk management approaches. This active engagement ensures that risk management is ingrained throughout the organisation, promoting a comprehensive and collaborative risk management process.

Outlook

Despite the many crises in the country in 2023, we remained committed to upgrading our digital infrastructure to provide seamless support for strategic changes in business operations and bolstering our integrated risk management framework. This will ensure that all developments in the risk management framework of the Bank comply with both international best practices and the regulatory framework set by the CBSL.

Risk management at NSB

We have a robust risk management framework in place that facilitates the timely recognition of risks that arise and takes corrective/preventive actions. We regularly monitor our financial and operational performance against predetermined risk appetite limits and adapt our framework to address risks arising due to the Volatility, Uncertainty, Complexity, Ambiguity (VUCA) environment. We were able to meet our risk appetite levels of solvency indicators in year 2023. For further information on the Bank's risk review, please to pages 191 to 213.

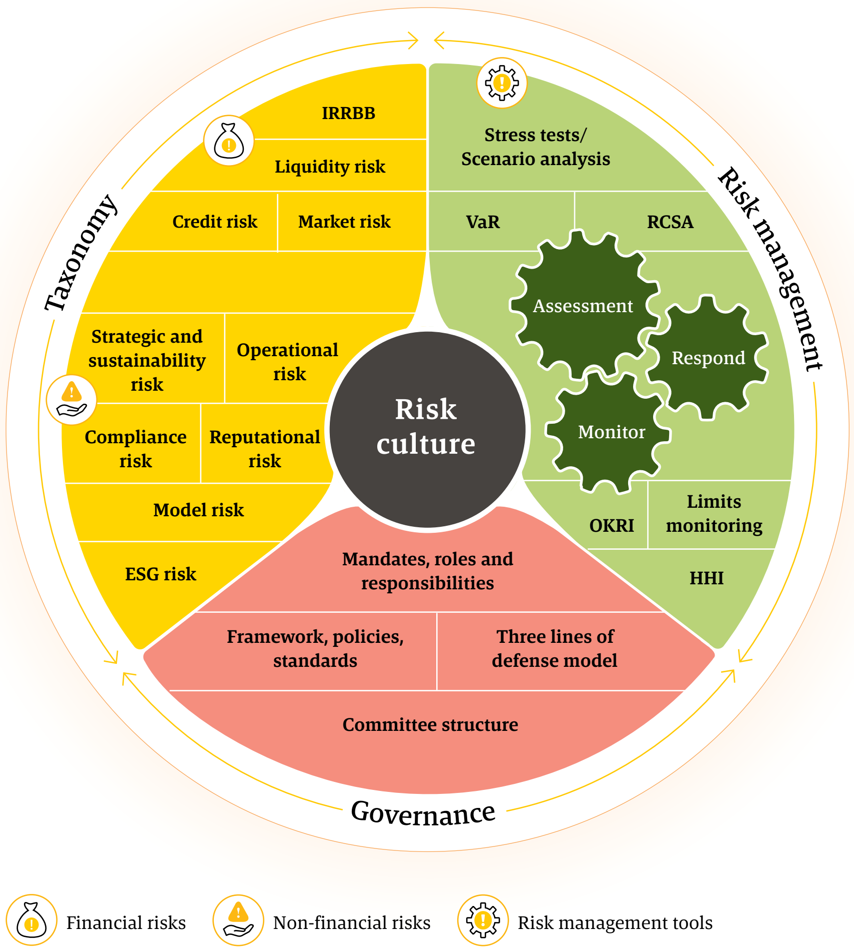


Figure 26 → Risk culture

Independent Assurance Report

KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P.O. Box 186,
Colombo 00300, Sri Lanka.

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Internet www.kpmg.com/lk

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 2023. The Sustainability Indicators are included in the National Savings Bank Integrated Annual Report for the year ended 31 December 2023 (the "Report")

The reasonable assurance sustainability indicators covered by our reasonable assurance engagement are:

Assured Sustainability Indicators as per the statutory Financial Statements (Audited) for the Year ended 31 December 2023, dated 20 March 2024 and the Audit report dated 22 March 2024 thereon	Integrated Annual Report page
Highlights	12

The limited assurance sustainability indicators covered by our limited assurance engagement are:

Limited assurance sustainability indicators	Integrated Annual Report page
Economic, social and environment indicators	13
Information provided on following	
Financial capital	96 to 105
Manufactured capital	112 to 117
Intellectual capital	118 to 123
Human capital	124 to 135
Social and relationship capital	136 to 145
Natural capital	146 to 150

Our conclusions

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusions.

Reasonable assurance sustainability indicators

In our opinion, in all material respects, the reasonable assurance sustainability indicators, as defined above, for the year ended 31 December 2023, in all material respects, has been prepared and presented by the management of National Savings Bank in accordance with the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines.

Limited assurance sustainability indicators

Based on the evidence we obtained from the assurance procedures performed, as described below we are not aware of any material misstatements that causes us to believe that the limited assurance sustainability indicators, as defined above, for the year ended 31 December 2023, have not in all material respects, been prepared and presented by the management of National Savings Bank in accordance with the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines.

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

Independent Assurance Report

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 for professional Accountants issued by CA Sri Lanka (Code of Ethics).

SLSAE 3000 requires that we plan and perform the engagement to obtain reasonable assurance about whether the Reasonable Assurance Sustainability Indicators are free from material misstatement and limited assurance about whether the Limited Assurance Sustainability Indicators are free from material misstatement.

Our firm applies Sri Lanka Standard on Quality Control (SLSQC) 1, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reasonable assurance over reasonable assurance sustainability indicators

The procedures selected in our reasonable assurance engagement depend on our judgment, including the assessment of the risks of material misstatement of the Reasonable Assurance Sustainability Indicators whether due to fraud or error.

In making those risk assessments, we have considered internal controls relevant to the preparation and presentation of the Reasonable Assurance Sustainability Indicators in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of the Bank's internal controls over the preparation and presentation of the Report.

Our engagement also included assessing the appropriateness of the Reasonable Assurance Sustainability Indicators, the suitability of the criteria, being the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines, used by the Bank in preparing and presenting the Reasonable Assurance Sustainability Indicators within the Report, obtaining an understanding of the compilation of the financial and non-financial information to the sources from which it was obtained, evaluating the reasonableness of estimates made by the Bank, and re-computation of the calculations of the Reasonable Assurance Sustainability Indicators.

Limited assurance on the assured sustainability indicators

Our limited assurance engagement on the Limited Assurance Sustainability Indicators consisted of making enquiries, primarily of persons responsible for the preparation of the Limited Assurance Sustainability Indicators, and applying analytical and other procedures, as appropriate. These procedures included:

- interviews with senior management and relevant staff at corporate and selected site level concerning sustainability strategy and policies for material issues, and the implementation of these across the business;
- enquiries of management to gain an understanding of the Bank's processes for determining material issues for the Bank's key stakeholder groups;
- enquiries of relevant staff at corporate and selected site level responsible for the preparation of the Limited Assurance Sustainability Indicators;
- 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;

Independent Assurance Report

- reading the remainder of the Report to determine whether there are any material misstatements of fact or material inconsistencies based on our understanding obtained as part of our assurance engagement.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement, and consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Accordingly, we do not express a reasonable assurance conclusion on the Limited Assurance Sustainability Indicators.

Purpose of our report

In accordance with the terms of our engagement, this assurance report has been prepared for the Bank for the purpose of assisting the Directors in determining whether the Bank's Reasonable and Limited Assurance Sustainability Indicators are prepared and presented in accordance with the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines and for no other purpose or in any other context.

Restriction of use of our report

This report has been prepared for the Directors of National Savings Bank for the purpose of providing an assurance conclusion on the Reasonable Assurance Sustainability Indicators and the Limited Assurance Sustainability Indicators included in the National Savings Bank Integrated Annual Report for the year ended 31 December 2023 and may not be suitable for another purpose. We disclaim any assumption of responsibility for any reliance on this report, to any person other than the Directors of National Savings Bank, or for any other purpose than that for which it was prepared.

kpmg

Chartered Accountants
Colombo

22 April 2024

Compendium

Governance

Board of Directors

Dr Harsha Cabral PC
Chairman
Independent Non-Executive Director
BNNEC

Date of appointment

2 May 2023

Skills and expertise

Dr Cabral is a President's Counsel in Sri Lanka with thirty-six (36) years experience in the field of Intellectual Property Law, Company Law, Commercial Law, Commercial Arbitration, Securities Laws, International Trade Law covering both civil and criminal aspect of the said areas of the law. He has been a President's Counsel for eighteen years (18) and commands an extensive practice in the Commercial High Courts and the Supreme Courts of Sri Lanka and has sixteen (16) Attorneys-at-Law working in his Chambers. Dr Cabral holds a doctorate in Corporate Law from the University of Canberra, Australia. He was a sitting member of the International Chamber of Commerce (ICC) International Court of Arbitration in Paris for a period of six years till 2021. He is a Representative Member of the Federation of Integrated Conflict Management (FICM) as well as a Representative Member of the International Commercial Disputes Tribunal (ICDT).

As a member of the Advisory Commission on Company Law in Sri Lanka, Dr Cabral was one of the architects of the Companies Act No. 07 of 2007, the current Act.

Dr Cabral is a senior visiting lecturer at several universities here and abroad, a regular speaker at public seminars and an author of several Board of Directors books. He has also presented several papers on Corporate Law, Intellectual Property Law, Commercial Arbitration, International Trade Law here and abroad. In addition to his active practice in courts and lecturing, he has been a counsel in many Arbitrations and has served as Sole-Arbitrator, Co-Arbitrator and Chairman in a large number of Arbitrations, domestic and international. Following are the books Dr Cabral has published.

- Corporate Law, Derivative Actions: A Comparative Approach.
- Intellectual Property Law in Sri Lanka
- Companies Act No. 07 of 2007 and the Corporate Law of Sri Lanka.
- Duties of Company Directors and Corporate Governance in Sri Lanka.
- Law and Practice of Commercial Arbitration in Sri Lanka.
- Cabral's Arbitration Law Reports (Vol. I) [1895 – 2020].
- Cabral's Intellectual Property Law Reports (Vol. I) [1888 – 1995].
- Cabral's Intellectual Property Law Reports (Vol. II) [1995 – 2020].
- Cabral's Company Law Reports (Vol. I) [1881 – 1982].
- Cabral's Company Law Reports (Vol. II) [1983 – 1993].
- Cabral's Company Law Reports (Vol. III) [1994 – 2012].
- Cabral's Company Law Reports (Vol. IV) [2013 – 2021].

Other current appointments

Dr Cabral is a member of the Law Commission of Sri Lanka, a member of the Intellectual Property Advisory Commission in Sri Lanka, a member of the Corporate Governance Faculty and the Corporate Governance Committee of The Institute of Chartered Accountants of Sri Lanka, and University Grants Commission (UGC) nominee on the Postgraduate Institute of Medicine (PGIM). Dr Cabral serves as the Chairman of the Tokyo Cement Group, which commands the largest market share for cement in Sri Lanka. Dr Cabral currently serves as Independent Non-Executive Director of DIMO PLC, Hayleys PLC, Alumex PLC, Tokyo Cement Company (Lanka) PLC, Tokyo Super Cement Company Lanka (Private) Limited, Tokyo Cement Power Lanka (Private) Limited, Tokyo Eastern Cement Company (Private) Limited, Tokyo Super Aggregate (Private) Limited, Tokyo Supermix (Private) Limited, World Export Centre Limited, Chevron Lubricants Lanka PLC, Ceylinco Life Insurance Co. Ltd. Darley Property Holdings (Private) Limited, CCC-ICLP International ADR Centre (Guarantee) Limited, Sri Lanka Institute of Information Technology (Guarantee) Limited (SLIIT), SLIIT International (Private) Limited, Nanadiriya (Guarantee) Limited (Chairman) and he serves on several Audit Committees, Nomination Committees, Remuneration Committees, Recoveries Committees and the Related Party Transactions Committees, chairing most of them.

Previous key appointments

Dr Cabral was a former member of the Board of Investment (BOI) of Sri Lanka. He was the Founder Board Member of the Sri Lanka International Arbitration Centre and was involved in the drafting of the Arbitration Act No. 11 of 1995, the current Act. He was the past Chairman of LOLC Finance PLC, one of the largest Finance Companies in Sri Lanka. He was also a director of LOLC Insurance Company Limited, Commercial Leasing and Finance Limited and Richard Pieris Distributors Limited (Arpico Supermarkets). He was also the past Acting Chairman of Hatton National Bank PLC (HNB). In addition, Dr Cabral was a senior Director of the Union Bank of Sri Lanka. He was also a member of the Cabinet appointed Committee on the National Trade Policy and also a member of the Presidential Commission appointed on reformulating laws of Sri Lanka.

Board of Directors

Mr Jude Nilukshan

Ex-Officio Director, Non-Independent Non-Executive Director

BAC BHRRC BNC BIRMC BNNEC BITSC

Date of appointment

28 February 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, from the University of Sri Jayewardenepura. He has training on Public Financial Management from various reputed local and international institutions/universities. He obtained a certificate of Public Administration and other relevant qualifications from Sri Lanka Institute of Development Administration (SLIDA). Mr Jude Nilukshan, is a special grade officer of Sri Lanka Administrative Service, having over 23 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 of National Budget in General Treasury, Governing Council member of Sri Lanka Institute of Development Administration (SLIDA), Member of National Operation Room (NOR) headed by the Secretary to the Prime Minister, Member of Cabinet Subcommittee on Establishment Matters and various Cabinet appointed official committees.

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 Loans Board, Sri Lanka Youth Corps, National Building Research Organization (NBRO), Public Servants Mutual Provident Association (PSMPA) and has been appointed as a nominated member by Prime Minister to the Board of Directors of the National Film Corporation.

Mr S R W M Ruwan Palitha Sathkumara

Ex-Officio Director, Independent Non-Executive Director

BHRRC BNC BIRMC BITSC

Date of appointment

27 March 2023

Skills and expertise

Mr Sathkumara holds a Master of Economics from the University of Kelaniya and a BSc Management (Special) Degree with a Second-Class Upper Division from the University of Sri Jayewardenepura. He holds a Diploma in Entrepreneurship Development and a Diploma in English for Professionals from Institute of Development Administration. Mr Sathkumara also holds a Higher National Diploma in Public Procurement and Contract Administration from the Sri Lanka Institute of Development Administration. Mr Sathkumara is a special grade officer of Sri Lanka Administrative Service having over 23 years of experience in the public sector.

Other current appointments

Postmaster General, Department of Posts, Ministry representative/Board Member of Sri Lanka Rupavahini Corporation.

Previous key appointments

SLAS Cadet – Sri Lanka Institute of Development Administration, Assistant Commissioner of Title Registration – Land Settlement Department, Assistant Divisional Secretary – Divisional Secretariat – Ganewatta, Assistant Divisional Secretary – Divisional Secretariat Udubaddawa, Deputy Director General/Administration in Sri Lanka Rupavahini Corporation, Divisional Secretary – Divisional Secretariat – Ipalogama, Director – Department of Management Services (General Treasury), Deputy Director/Director – Sri Lanka Customs, Senior Assistant Secretary/ Director (Sports Development) – Ministry of Sports, Additional Secretary – Ministry of Mass Media, Mantai Salt Ltd. – Board Member, Land Reforms Commission (LRC) – Commission Member, Skills Development Fund Lt. (SDFL) – Board member, Acting Chairman – Independent Television Network (ITN), Board Member – National Authority of Tobacco and Alcohol (NATA), Board Member – Selacine Rupavahini Institute.

Mr Dushyanta Basnayake

Non-Independent Non-Executive Director

BAC BNC BNNEC BITSC

Date of appointment

31 March 2023

Skills and expertise

Mr Basnayake is a Fellow Member of the Chartered Institute of Management Accountants (CIMA-UK) and a Chartered Global Management Accountant (CGMA). He is a Certified Member of Sri Lanka

Board of Directors

Institute of Marketing and a Fellow Member of Chartered Professional Managers (Sri Lanka). He holds a BA (Honours) in Business Administration from London Metropolitan University (UK) and holds an Executive Master of Business Administration (EMBA) from Postgraduate Institute of Management (PIM), Sri Jayewardenepura University. He also holds a Master of Laws (LLM), International Trade from the Cardiff Metropolitan University, UK. Mr Basnayake started his career in Accountancy at Ernst & Young, Chartered Accountants. He is a Management Consultant with extensive skills and experience over 35 years holding Executive positions in various government institutions and corporate sector companies.

Other current appointments

Chairman – Sri Lanka Savings Bank, NSB Fund Management Ltd., Ayu Ventures (Pvt) Ltd. and Medimarket (Pvt) Ltd.

Previous key appointments

Managing Director – Sri Lanka Insurance Corporation, Director Finance – Associated Newspapers of Ceylon Ltd., Director – Galoya Plantations (Pvt) Ltd., Executive Director – Apogee Group of Companies and Ceylon Newspapers (Pvt) Ltd.

Mr Ashane Jayasekara

Independent Non-Executive Director

BAC BHRRC BIRMC BITSC

Date of appointment

9 January 2024

Skills and expertise

Mr Jayasekara is a Fellow Member (FCA) of The Institute of Chartered Accountants of Sri Lanka, a Fellow Member (FCMA) of the Chartered Institute of Management Accountants – UK, and a Fellow Member (FBCS) of the British Computer Society. He is also an Associate Member (AIArb) of the Singapore Institute of Arbitrators. He holds a Bachelor of Science Degree in Information Systems from the London Guildhall University and a Master of Business Administration from the University of Southern Queensland. He also holds a Master of Laws (LLM) from Cardiff Metropolitan University specialising in Information Technology and Intellectual Property. Mr Jayasekara is a Certified Internal Auditor (IIA – USA), Certified Fraud Examiner (ACFE – USA), Certified Information Systems Auditor (ISACA – USA) and a Computer Hacking Forensic Investigator (EC Council – USA).

He has over 20 years of experience in the fields of internal audit, cybersecurity, fraud investigations, corporate governance, risk management and internal controls. His experience spans the private, publicly listed, multinational and government enterprises across a range of sectors. He has overseen many forensic audits and provided litigation support for cases ranging from arbitration hearings to Magistrates and High Court cases. He has served as a consultant to local government and state-owned enterprises on the development of enterprise risk management policies and IPPF based Internal audit manuals. He is a visiting faculty member at leading state and private sector universities and has played a pioneering role in the introduction and delivery of Fraud and Forensic Accounting as a subject in undergraduate and postgraduate programmes in Sri Lanka.

Other current appointments

Deputy Managing Partner of BDO Partners Sri Lanka and Managing Director of BDO Partners (Pvt) Ltd. Council Member – The Institute of Chartered Accountants of Sri Lanka, Council Member – University of Colombo, Vice President – ISACA Sri Lanka Chapter (Affiliated to ISACA Global USA), Member – Global Advisory Council of the Association of Certified Fraud Examiners USA, Member – Global Advisory Board on Computer Forensics of the EC Council USA.

Previous key appointments

Managing Partner of BDO Maldives, Director of BT Communication Lanka (Pvt) Ltd. Subsidiary of British Telecom Global Services (UK), Director of BDO BPO Services (Pvt) Ltd., Director of BDO Prime Consultants (Pvt) Ltd., President of the Institute of Internal Auditors Sri Lanka (Affiliated to IIA Global USA) in 2012/13.

Mr Lakshman Gamini

Non-Independent
Non-Executive Director

Date of appointment

14 December 2020

Date of retirement

14 December 2023

Skills and expertise

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 – Credit Information Bureau (CRIB).

Previous key appointments

Vice Chairman of State Printing Corporation, Director of Skills Development Fund, Ministry of Skills Development and Vocational Training.

Board of Directors

Ms Shashi Kandambi
General Manager/CEO

Date of appointment
10 January 2024

Skills and expertise
Ms Shashi Kandambi holds an MBA from the Postgraduate Institute of Management (PIM), University of Sri Jayewardenepura, Postgraduate Diploma in Business and Finance from CA Sri Lanka, and Diploma in Banking from the Institute of Bankers Sri Lanka (IBSL).

Ms Kandambi was the Senior Deputy General Manager of International Banking at Sampath Bank, where she had a long-standing and successful career. Her banking experience spans over 35 years including 10 years in Corporate Management. She has extensive experience in the fields of International Operations and Trade Services, Corporate Credit, Corporate Digitalisation, Corporate Finance, FCBU, Treasury, Primary Dealer Unit, Legal, Recoveries, and International Trade. She also has a proven track record of successfully developing and executing strategic plans, managing financial resources, risk mitigation and maintaining strict corporate governance standards. Ms Kandambi also has expertise in customer focus, innovation and technology, regulatory compliance, and crisis management.

Other current appointments
Chairperson of SWIFT User Group and National Member Group, Director of Sri Lanka Banks' Association, Director of the Institute of Bankers of Sri Lanka, Director of The Financial Ombudsman Sri Lanka (Guarantee) Ltd., Director of NSB Fund Management Company, Director of Lanka Financial Services Bureau Ltd., Member of the Council of Advisors of Association of Professional Bankers – Sri Lanka.

Previous key appointments
Senior Deputy General Manager at Sampath Bank with over three decades of experience in the banking industry (January 1989 – January 2024 at Sampath Bank), including a decade dedicated to Corporate Management, Past President of Association of Professional Bankers, Member of the Academic Council of Sri Lanka Banks' Association.

Ms Anupama Muhandiram
Secretary to the Board of Directors

Date of appointment
6 December 2016

Skills and expertise
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 27 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. She has overseas exposure to an Australian Legal Firm as a Trainee.

BNNEC Non-urgent and Non-essential Expenses Committee – Member	**BNNEC** Non-urgent and Non-essential Expenses Committee – Chairman
BIRMC Integrated Risk Management Committee – Member	**BIRMC** Integrated Risk Management Committee – Chairman
BAC Board Audit Committee – Member	**BAC** Board Audit Committee – Chairman
BHRRC Human Resource and Remuneration Committee – Member	**BHRRC** Human Resource and Remuneration Committee – Chairman
BNC Nomination Committee – Member	**BNC** Nomination Committee – Chairman

** Chairmanship/Membership according to the reconstitution of the Board Subcommittees made on 20 February 2024.*

Corporate management

Ms Shashi Kandambi
General Manager/CEO

Mr K Raveendran
Senior Deputy General Manager

Ms G V A D D Silva
Deputy General Manager – Treasury and International

Mr G W E Jayaweera
Deputy General Manager – Audit

Ms M N A Fernando
Deputy General Manager – Human Resource Development

Dr A K L Illesinghe
Chief Information Officer/Deputy General Manager – Information Technology

Mr W M R B Weerakoon
Deputy General Manager – Administration

Ms K D Jayatilake
Deputy General Manager – Legal/Chief Legal Officer

Executive management

Mr W M Karunaratne
Assistant General Manager – Engineering

Mr J H T Chandraratne
Assistant General Manager – Engineering

Mr A L A Haleem
Assistant General Manager – Operations

Ms W P U A de Silva
Assistant General Manager – Corporate Finance

Ms R A N N Wijesinghe
Assistant General Manager – Operations

Ms I K L Sasi Mahendran
Compliance Officer

Ms R P A M P Rajanayake
Chief Risk Officer

Ms C W Pathirana
Assistant General Manager – Support Services

Ms S W A Weerasinghe
Assistant General Manager – Treasury

Executive management

Mr L C Senanayake
Assistant General Manager – IT

Ms M A P Muhandiram
Secretary to the Board of Directors

Mr M D Suranjana
Assistant General Manager – Audit

Mr H M G P J Herath
Assistant General Manager – Operations

Mr S Sivasorupan
Assistant General Manager – Postal Banking

Mr D M C P B Dissanayake
Assistant General Manager – Core Banking

Ms S H A S Kumari
Assistant General Manager – Recoveries

Mr D L P Abayasinghe
Chief Executive Officer – NSB Fund Management Company

Mr H M M Herath
Assistant General Manager – IT

Chief managers

Ms C N Ekanayake
Regional Manager (Western 2)
Regional Office (Western 2)

Mr S B Suranga
Regional Manager (Western 1)
Regional Office (Western 1)

Ms J M A K Jayasinghe
Regional Manager (North Western)
Regional Office (North Western)

Mr N Baheerathan
Regional Manager (Northern)
Regional Office (Northern)

Mr H D U Susantha Kumara
Regional Manager (Southern)
Regional Office (Southern)

Ms D A V Wijewantha
Regional Manager (Sabaragamuwa)
Regional Office (Sabaragamuwa)

Mr K Sansayan
Regional Manager (Eastern)
Regional Office (Eastern)

Mr S N R Senadheera
Regional Manager (Central)
Regional Office (Central)

Mr A B C R Wijayapala
Chief Manager
Branch Management Division

Mr M V G Susil Kumara
Chief Manager (International Banking)
International Banking Division

Mr M W K C De Silva
Chief Manager
Superannuation Division

Mr K D K K Wijayawardane
Chief Manager
Card Centre

Mr A P R De Zoysa
Chief Manager (Information Security)
Information Technology Division

Ms S S J P S De Silva
Chief Manager (Finance)
Finance and Planning Division

Mr H S P Ranaweera
Chief Manager (Finance)
Finance and Planning Division

Mr S A A Batuwantudawa
Chief Manager
Credit Division

Ms S A M A C J S K Senarathne
Chief Manager (Legal)
Legal Division

Ms N I Gunathilake
Chief Manager
Credit Division

Ms K B N C Kumari
Chief Manager (Finance)
Finance and Planning Division

Ms M D T Perera
Chief Manager (Marketing)
Marketing Division

Ms W E C Perera
Chief Manager
Risk Management Division

Mr J L P Manjula
Chief Manager
Supplies Division

Ms K C Thayaananthan
Branch Manager
Jaffna Branch

Mr A M G Alahakoon Banda
Branch Manager
Gampaha Branch

Mr N D C D Kularathne
Branch Manager
Negombo Branch

Mr R T Subasinghe
Branch Manager
Homagama Branch

Mr H M G Herath
Branch Manager
Battaramulla Branch

Mr S G S P K Piyaratne
Branch Manager
Head Office Branch

Mr K V W S Dharshana
Branch Manager
Kalutara Branch

Mr H M R Pushpakumara
Branch Manager
Kuliyapitiya Branch

Ms T A D N Anuruddi
Branch Manager
Galle Branch

Mr E A R Abeysinghe
Chief Manager
Credit Division

Ms G A D Godamulla
Chief Manager
Finance and Planning Division

Mr I N S A Nanayakkara
Branch Manager
Nugegoda Branch

Mr W M M R P Perera
Branch Manager
City Branch

Mr R M C K Rajapakse
Chief Manager
Postal Bank Administration Division

Ms A D Dharmapriya
Chief Manager (Legal)
Kandy Branch

Mr W A U Nandana
Branch Manager
Piliyandala Branch

Mr P V R Sisira Kumara
Branch Manager
Kurunegala Branch

Chief managers

Mr A B Wimaladasa
Branch Manager
Maharagama Branch

Mr D G S Jayatissa
Branch Manager
Badulla Branch

Mr H L S Wijesinghe
Chief Manager (Finance)
Finance and Planning Division

Mr E A A Chandima
Chief Manager (Premises)
Premises Division

Ms B M M C K Basnayake
Chief Manager (IT)
Information Technology Division

Ms U G Mallika
Chief Manager (IT)
Information Technology Division

Mr S Thaneeswaran
Branch Manager
Wellawatta Branch

Mr B A Pemaratne
Chief Manager
Audit and Vigilance Division

Mr K H A Sunil
Branch Manager
Matara Branch

Ms M D A P Goonetillake
Chief Manager
IT – E-banking Unit

Ms K G Ranasinghe
Branch Manager
Panadura Branch

Mr H P T S Jayasooriya
Chief Manager
Recoveries Division

Mr H A A Saumyakantha
Chief Manager
Branch Management Division

Mr I S Jayasuriya
Chief Manager
Branch Management Division

Mr N H N L Nawarathna
Chief Manager (Welfare)
Welfare Division

Corporate governance

Chairman's message

Steering NSB through a dynamic landscape with strong corporate governance

Dear Stakeholders,

In a world characterised by constant change and uncertainty, NSB remains resolute in its commitment to excellence in corporate governance. This commitment serves as our compass, guiding us through the challenges of a volatile economic environment, the complexities of a rapidly evolving global landscape, and the ever-increasing pace of technological advancements.

The cornerstone of our governance framework is our Board of Directors, which comprises seasoned professionals with diverse expertise and backgrounds. Our Board provides strategic guidance and oversight, ensuring that we navigate through turbulent economic waters with prudence and foresight. We are committed to fostering a culture of open dialogue and constructive debate, allowing us to make informed decisions that serve the best interests of our stakeholders.

Navigating a volatile economic landscape

Economic fluctuations are an undeniable reality for any financial institution. However, the Bank is well-equipped to weather these storms through robust corporate governance practices. We prioritise maintaining a strong capital base, which acts as a buffer against unexpected losses and ensures continued operations during economic downturns. Additionally, we adhere to sound risk management principles, employing a comprehensive framework that identifies, assesses, and mitigates potential risks across all our operations. Finally, we foster a culture of transparency and accountability within the Bank. This commitment to clear communication and adherence to the highest ethical standards allows us to build trust with stakeholders and make informed decisions in any economic climate.

Adapting to a rapidly evolving global landscape

The global landscape is in a state of perpetual flux, presenting both exciting opportunities and unforeseen challenges. NSB's strong corporate governance framework allows us to be adaptable and responsive to these changes. We actively monitor emerging trends, staying abreast of global economic trends, regulatory changes, and geopolitical developments that might impact our business. Furthermore, we embrace technological advancements, strategically investing in innovation to enhance our services, improve efficiency, and deliver a superior customer experience. By prioritising sound corporate governance, we can make informed decisions, adapt our strategies swiftly, and capitalise on new market opportunities as they arise, maintaining a competitive edge in the ever-evolving financial sector.

Sustainability as a core value

At NSB, sustainability is more than just a buzzword; it's a core principle deeply embedded in our corporate governance philosophy. We integrate environmental, social, and governance (ESG) factors into our decision-making processes, ensuring that our business practices are not only profitable but also socially responsible. We are committed to promoting financial inclusion, making financial services accessible to all segments of society and fostering economic empowerment and growth. Additionally, we uphold ethical practices in all our endeavours, operating with integrity and transparency to build trust with our stakeholders.

Building resilience for the long term

By prioritising strong corporate governance, NSB fosters resilience. We are well-equipped to weather economic storms, adapt to changing market dynamics, and seize new opportunities. Our sound financial practices and risk management strategies position us to navigate economic downturns effectively. Furthermore, our adaptable governance framework allows us to make strategic adjustments to capitalise on new opportunities and mitigate emerging risks as the market evolves. Finally, our commitment to sustainability ensures that our business practices are not only profitable but also contribute positively to the communities we serve.

In conclusion, I want to express my sincere appreciation to our shareholder, customers, employees, and other stakeholders for their unwavering support and confidence in NSB. Through unwavering dedication to ethical practices, transparency, and accountability, the Bank is confident in navigating the complexities of the present and emerging as a leader in the Banking sector for the years to come. We are confident that our unwavering commitment to strong corporate governance will continue to serve us well as we navigate the exciting challenges and opportunities that lie ahead.

Dr Harsha Cabral PC
Chairman

25 March 2024
Colombo

Our outcomes-based governance approach

Figure 27

1 Our governance philosophy for sustainable value creation

INTEGRATED THINKING

At NSB, our governance philosophy revolves around the core principles of integrity, transparency, accountability, and sustainability. We firmly believe that effective governance is the bedrock of our operations, essential for building trust among stakeholders and fostering long-term value creation. Our approach to governance is rooted in the recognition that we have a duty not only to our shareholders but also to our employees, customers, communities, and the environment. We prioritise ethical conduct in all our interactions, ensuring that decisions are made with integrity and in the best interests of all stakeholders. Transparency is key to our governance philosophy, as we believe that open communication and disclosure build trust and confidence. We are committed to being accountable for our actions, both internally and externally, holding ourselves to the highest standards of performance and ethics. Furthermore, sustainability is at the heart of our governance philosophy, guiding our efforts to minimise environmental impact, promote social responsibility, and contribute positively to the communities we serve. By adhering to these principles, we aim to not only meet regulatory requirements but also exceed expectations, setting a benchmark for excellence in corporate governance within the banking industry.

2 Our approach to corporate governance and framework

At NSB, our approach to corporate governance is underpinned by a comprehensive framework that emphasises transparency, accountability, and sustainability. Our governance framework is designed to ensure effective oversight, sound decision-making, and adherence to ethical standards across all levels of the Organisation. At the core of our governance approach is the Board of Directors, which is responsible for setting strategic direction, monitoring performance, and upholding the highest standards of integrity. The Board is supported by the Board subcommittees, including the Board Audit Committee (BAC), Board Integrated Risk Management Committee (BIRMC), Board Nomination Committee (BNC), Board Human Resource and Remuneration Committee (BHRRC), and Board Non-Urgent Non-Essential Expenses Committee (BNNEC) each tasked with specific responsibilities to enhance governance effectiveness. We place a strong emphasis on risk management, with robust systems and processes in place to identify, assess, and mitigate risks proactively. Additionally, our governance framework incorporates principles of sustainability, guiding our efforts to integrate environmental, social, and governance (ESG) factors into decision-making processes. We are committed to continuous improvement, regularly reviewing and updating our governance practices to align with evolving regulatory requirements and industry best practices. By fostering a culture of accountability, transparency, and sustainability, we aim to create long-term value for all stakeholders and maintain the trust and confidence of our customers, shareholder, employees, and the broader community.

3 How we govern

Our commitment to highest level of governance is unwavering, as we aim to foster an environment that prioritises and rewards exemplary ethical behaviour, both individual and corporate integrity, and mutual respect. In our quest to exemplify responsible corporate citizenship, we adhere to the necessary regulatory mandates, voluntary guidelines, and the Bank's own internal corporate governance frameworks.

Regulatory framework

- NSB Act No. 30 of 1971 and the amendments therein
- Banking Act No. 30 of 1988 and the amendments therein
- 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 388 to 407)
- Inland Revenue Act No. 24 of 2017 and amendments therein
- Shop and Office Act No. 19 of 1954 and amendments therein
- Personal Data Protection Act No. 09 of 2022
- Code of Best Practice in 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 Governance issued by CA Sri Lanka (page 408 to 412).

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

Our governance structures are meticulously crafted and integrated to bolster the Bank's capacity for value creation and preservation over the short, medium, and long term. Through a robustly structured governance architecture and procedural rigor, the Bank achieves effective management and oversight.

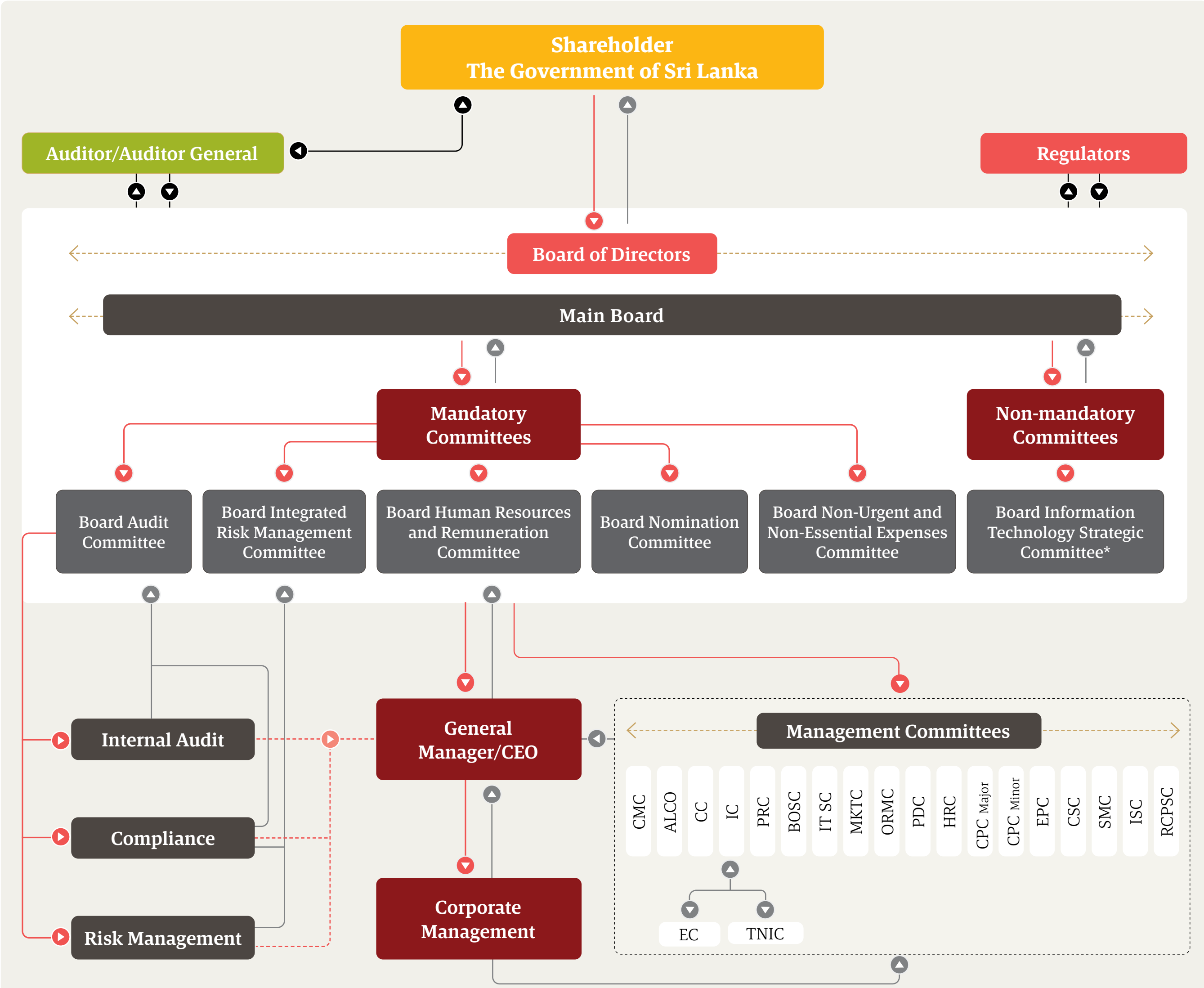
The Board of Directors assumes a pivotal role, providing both leadership and strategic direction to ensure the preservation and creation of stakeholder value within a context of sound and effective controls. This framework facilitates the identification and management of risks, paving the way for the Bank's sustainable development and growth over time. With ultimate accountability for the Bank's performance and operations, the Board is committed to upholding the highest standards of ethical conduct. It delegates specific responsibilities to its committees, which operate under precise mandates and authority as determined by the Bank's governance framework. This structure enables Board committee chairs to be responsible for the efficient operation of these committees, allowing the Board to focus adequately on strategic decisions while ensuring thorough examination of delegated areas.

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 upon agreed level.

Governance structure of the Bank is given in page 170.

Corporate governance

Governance structure of National Savings Bank



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
IT SC	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
CSC	Corporate Sustainability Committee
SMC	Senior Management Committee
ISC	Information Security Committee
RCPSC	Recovery Plan Steering Committee

Figure 28

*Constituted on 20 February 2024.

Board of Directors

The Board, acting as the highest governing body, defines the Bank's strategy, oversees its implementation, and sets the institution's culture, values, and ethical standards. It is responsible for ensuring effective risk management, overseeing financial performance and reporting, and implementing adequate succession planning. Within this framework, the Board promotes entrepreneurial leadership throughout the Bank. By introducing diverse

Corporate governance

perspectives into Board discussions, members significantly enhance the Bank's leadership, ensuring value creation by constructively challenging the Corporate Management's decisions. A well-defined separation of duties among Board members prevents any single Director from having undue influence over decision-making processes.

The Board is established in accordance with the National Savings Bank Act No. 30 of 1971 and subsequent amendments. Its roles, responsibilities, and powers are meticulously outlined in the Board Charter. It is the Board's duty to hold the Corporate Management responsible for the Bank's operational efficiency, financial health, and the integrity of its internal control systems. Management maintains a policy of openness and transparency with the Board, ensuring that all matters of significance are promptly communicated. The robust dialogue between the Board and the Corporate Management enhances the Bank's decision-making processes and maintains a healthy balance of power, characterised by mutual respect and honesty.

Roles, responsibilities, and powers of the Board

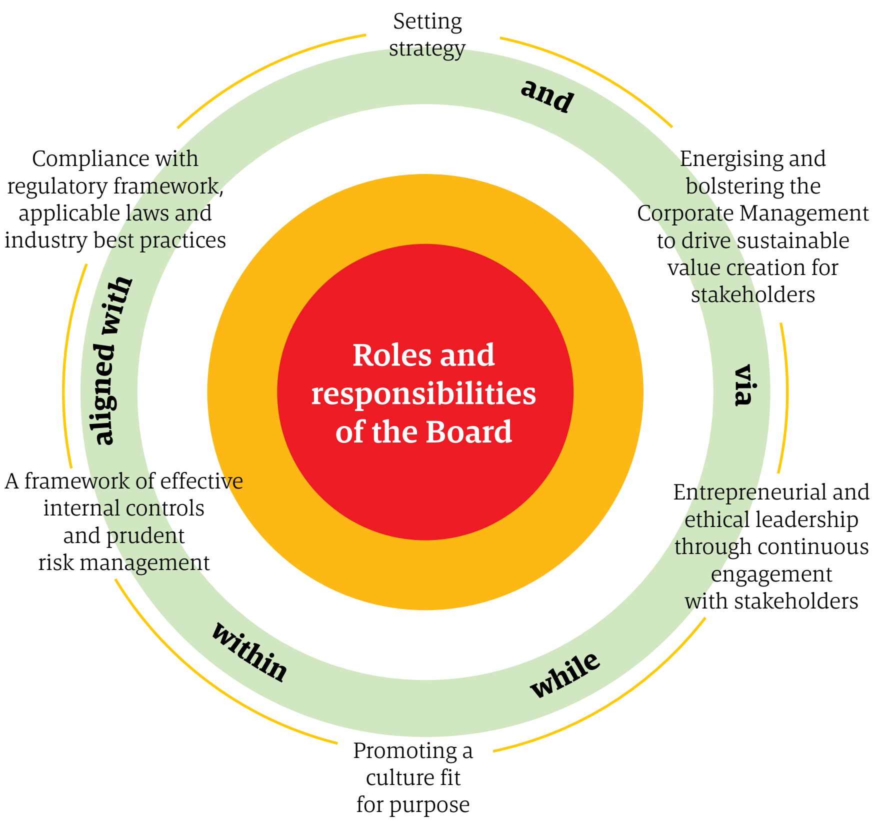


Figure 29

The roles and responsibilities and the powers reserved to the Board are given in the Board Charter as listed below:

Powers vested to the Board

- Act as the final decision-making authority with regard to any matter related to the Bank subject to restrictions made in Board Charter or any other laws/regulations in force;
- Arrive at suitable decisions on financial matters subject to provisions of the approved Procurement Manual of the Bank and other applicable laws/regulations in force;
- Formulate policies and guidelines to govern all activities of the Bank in order to ensure that most favourable business initiatives are taken at all levels;
- Inquire into any matter pertaining to performance, management or administration of the Bank by way of calling for reports, appointment of a committee or any other suitable method as decided by the Board.

Roles and responsibilities of the Board

- Maintaining regular monitoring and supervision over overall functions of the Bank.
- Taking appropriate actions based on recommendations made by any Board Subcommittee, a Director, General Manager/CEO or any other committee exercising power delegated by the Board.
- Monitoring and evaluating the performance of the organisation and Key Management Persons including the General Manager/CEO.
- Appointment of the 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 the Board Human Resources and Remunerations Committee (BHRRC).

Corporate governance

- 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.

As per the National Savings Bank Act No. 30 of 1971 as amended, comprises 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. 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.

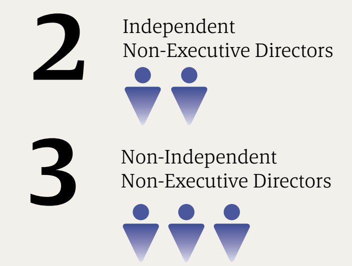
Details of the Board of Directors during the year 2023 are given pages 158 to 161 and details of their membership in Board subcommittees are given on page 174. The present Board comprises five Directors. Three Directors of the present Board are Independent, Non-Executive Directors while two Directors are Non-Independent Non-Executive.

Board skills and expertise

As a financial intermediary, the Bank requires a diverse set of skills to effectively create value for all stakeholders. The collective expertise of the Board members encompasses a balanced blend of skills, demographics, genders, experiences, and tenures, enabling them to fulfil their governance duties objectively and efficiently. With the right mix of skills and knowledge, the unified Board serves as a cohesive team capable of guiding and advancing the Bank's strategic direction to drive value creation. Board members are expected to uphold the highest standards of integrity, possess a deep understanding of governance principles, and have the requisite technical, financial, and non-financial expertise, along with strong interpersonal skills. Our Board comprises individuals with expertise and experience spanning various fields, including banking, finance, economics, research, strategic planning, IT, cybersecurity, humanities, management, administration, and international relations.

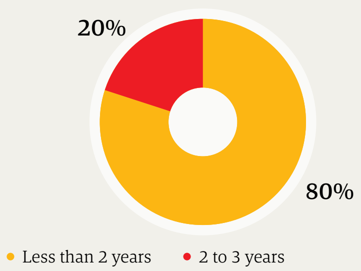
Profiles of the Board of Directors including their qualifications and skills, other significant appointments and membership of the Board committees are given on pages 158 to 161.

Board composition



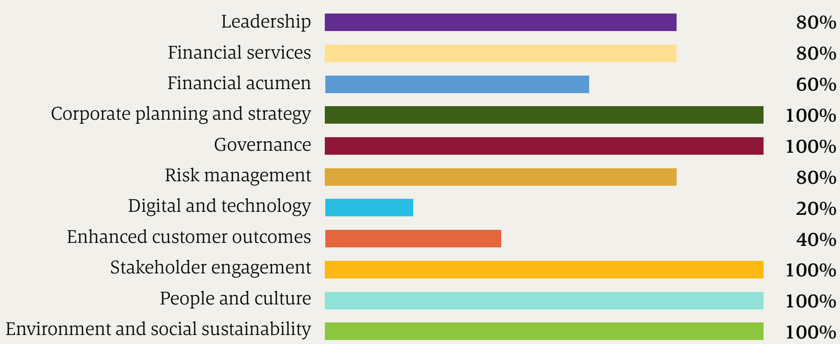
Tenure of the Non-Executive Directors

Graph 55



Diversity of expertise

Graph 56



Corporate governance

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 page 174. The Bank has a comprehensive and continuous agenda setting and escalation process in place to ensure that the Board has the right information at the right time and in the right format to enable the Directors to make the right decisions. The Chairman leads the process, assisted by the General Manager/CEO and Secretary to the Board. The process ensures that sufficient time is being set aside for strategic discussions and business critical items. The Chairman ensures Board meetings are structured to facilitate open discussion, debate and challenge. Board members also can request certain items to be included in the agenda for discussion and decision-making. The agenda is circulated to the Board members along with the relevant Board papers electronically prior to one week of the Board meeting by the Secretary to the Board via the BoardPAC. The Directors regularly attend the meetings, physically and/or virtually and actively participate in deliberations. On exceptional situations, urgent Board papers are submitted at short notice or tabled during the meetings. Adequately detailed minutes of the meetings and the decisions made therein are maintained which can be accessed by Directors.

Conflict of interest

The National Savings Bank Act and the amended Corporate Governance Direction No. 12 of 2007 establish the fiduciary responsibilities of Directors, explicitly prohibiting the misuse of their position or confidential information for personal advantage or to improperly benefit others.

Directors must immediately inform the Board of any actual or potential conflicts of interest with respect to specific business matters. Should a Director have a personal or private business interest in a matter, directly or indirectly, they are required to refrain from participating in any discussions or decisions on such matter by the Board. This involves withdrawing from meetings while deliberations or decisions on the matter are underway.

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 2023, none of the Directors had a significant interest in any contract or arrangement entered into by the Bank or its subsidiaries other than as disclosed in Note 49.5.2 of the Financial Statements.

Board meetings

During the year 2023, there were 11 scheduled Board meetings, and the details of attendance are shown on page 174. The Board meetings are held at least once in every six weeks according to the provision of NSB Act and special meetings are held when the need arises. The Board recognises the need to be adaptable and flexible to respond to changing circumstances, such as switching to virtual meetings because of the pandemic followed by the fuel crisis, and to emerging business priorities, while ensuring the continuing monitoring and oversight of core issues, such as the impact of the persisting economic crisis, implications of the DDO on the Bank and the possible strategies of the Bank to manage those.

In the process of value creation, to deliver against the strategies, the Board dedicated their time in providing clear directions to the Corporate Management in formulation of the Bank's 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.

The Board remained actively engaged in shaping the Bank's strategic direction, offering guidance to Corporate Management for the development of the Bank's three-year strategic plan spanning from 2024 to 2026.

The Board consistently emphasised managing liquidity and capital effectively, especially after increased credit losses from foreign currency denominated government securities due to the sovereign rating downgrade in April 2022. This situation, alongside government plans to restructure foreign currency debt, deteriorating credit conditions, and rising tax demands, highlighted the importance of sound financial stewardship to foster growth and sustainable value. Monthly Board meetings regularly focused on evaluating the Bank's performance against its strategic objectives, dedicating sufficient time to review progress and spotlight areas needing more scrutiny. The Board also sharpened its oversight on credit quality, rigorously tracking risk exposure in vulnerable sectors, assessing the effectiveness of impairment practices, monitoring risk profile shifts, and managing troubled loans.

Corporate governance

Composition of the Board, Board subcommittees and attendance

Name of the Director	Date of Appointment	Age	Director Status	Attended/Eligible to attend						Tenure in the Board (Years)
				Board	BAC	BHRRC	BNC	BIRMC	BNNEC	
Dr Harsha Cabral, PC Chairperson	2 May 2023	63	NED/ID	9/9	–	–	–	–	5/5	< 1
Mr Jude Nilukshan Ex-officio Director	28 February 2022	53	NED/NID	9/11	7/9	7/8	3/3	6/7	4/5	2+
Mr S R W M Ruwan Palitha Sathkumara – Ex-officio Director	27 March 2023	53	NED/ID	11/11	–	8/8	3/3	7/7	2/2	1
Mr Dushyanta Basnayake – Director	31 March 2023	59	NED/NID	11/11	9/9	–	3/3	–	5/5	1
Mr H K D Lakshman Gamini Director	14 December 2020 – 14 December 2023	70	NED/NID	11/11	7/7	8/8	–	6/6	2/2	3
Mr Ashane Jayasekara Director	9 January 2024	44	NED/ID	–	–	–	–	–	–	< 1

NED – Non-Executive Director **NID** – Non-Independent Director **ID** – Independent Director

Table 19

Board subcommittees

The Board possesses the authority, as outlined in its Charter, to delegate powers, discretions, and authorities to committees as it deems appropriate, ensuring that such delegation fosters independent judgement and aids in maintaining a balance of power and effective discharge of duties. This delegation allows the Board to dedicate more time to strategic, forward-looking initiatives. Each Board committee operates within the defined terms of reference, which delineate their roles, responsibilities, and levels of discretion. Despite delegating certain authorities, the Board retains ultimate responsibility for committee decisions. The formation of four mandatory committees, including the Board Audit Committee (BAC), the Board Human Resource and Remuneration Committee (BHRRC), the Board Nomination Committee (BNC), and the Board Integrated Risk Management Committee (BIRMC), was necessitated by the Banking Act Direction No. 12 of 2007, while the establishment of the Board Non-urgent Non-essential Expenses Committee (BNNEC) was mandated by the Banking Act Direction No. 1 of 2023. These committees report their findings to the Board, with the Secretary to the Board also serving as the Secretary to all subcommittees. Minutes of committee meetings are presented to the Board for information, review, commentary, and necessary approval. Detailed reports on the terms of reference, composition, roles and responsibilities, member attendance, activities conducted in 2023, and the focus for 2024 and beyond for each committee are provided in their respective committee reports, available from pages 182 to 190.

Management committees

Apart from the Board Committees, the Bank has formed Management Committees as per the approved terms of reference. The General Manager/CEO serves as the Chairman of all Management Committees in accordance with their respective terms of reference. These Committees convene to discuss crucial matters integral to the Bank's operations, as outlined in the table below:

Management committee	Objective and responsibilities	Composition
Corporate Management Committee (CMC)	Oversee on matters relating to policy and strategy formulation, implementation of the policies and strategies at the operational level.	All officers serving the Bank in the capacity of Deputy General Manager and above.
Asset and Liability Management Committee (ALCO)	Maintaining the market and liquidity risk within the predetermined risk appetite level in order to optimise the return.	General Manager/CEO, Senior DGM, KMPs from the Divisions of Finance and Planning, International, Operations, Credit, Treasury, and Risk Management.
Credit Committee (CC)	Periodic review of the Credit Policies of the Bank, implementation of the policies and engage in maintaining a healthy credit portfolio to optimise the returns within the risk appetite of the Bank.	General Manager/CEO, Senior DGM, KMPs from the Divisions of Finance and Planning, Operations, Credit, Treasury, Legal and Risk Management.
Investment Committee (IC)	Periodic review of Investment Policy of the Bank and overseeing the investment activities of the Bank within overall risk appetite level of the Bank.	General Manager/CEO, Senior DGM, KMPs from the Divisions of Finance and Planning, International, Credit, Treasury, Legal, and Risk Management.
Performance Review Committee (PRC)	Review of financial performance, progress of ongoing activities, and any other support functions of the Bank that facilitate the performance.	General Manager/CEO, Senior DGM, all DGMs, all Consultants and Heads of Divisions, all AGMs and any other members appointed by the Committee.
Branch Operations Steering Committee (BOSC)	Oversee the reinforcement of the branch operations within the delegated financial authority.	General Manager/CEO, Senior DGM, KMPs from the Divisions of Finance and Planning, Legal and Premises.
Information Technology Steering Committee (ITSC)	Ensuring the IT strategies are aligned with the business strategy of the Bank.	General Manager/CEO, Senior DGM, KMPs from the Divisions of Finance and Planning, International, Operations, Credit, Treasury, Legal, Human Resource Development, Marketing, Information Technology, Compliance and Risk Management.
Marketing Committee (MKTC)	Provide with marketing advice, expertise and assistance to the Board and the Corporate Management, review and direct all aspects of marketing activities of the Bank.	General Manager/CEO, Senior DGM, KMPs from the Divisions of Finance and Planning, Operations and Marketing.

Corporate governance

Management committee	Objective and responsibilities	Composition
Operational Risk Management Committee (ORMC)	Manage operational risk of the Bank while overseeing the implementation of the operational risk management techniques and maintain the integrity of internal controls through taking relevant measures.	General Manager/CEO, Senior DGM, KMPs from the Divisions of Operations, Human Resource Development, Information Technology, Support Services, Premises, Legal, Risk Management, Compliance and Information Security.
Product Development Committee (PDC)	Oversee on long-term value creation through innovative products development to face the increasing competition.	General Manager/CEO, Senior DGM, KMPs from the Divisions of 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 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 Ministry of Finance.
Executive Procurement Committee (EPC)	Smooth functioning of the procurement process of the Bank.	Senior DGM, DGM (Credit), Chief Manager (Finance).
Corporate Sustainability Committee (CSC)	Support value creation for key stakeholders by integrating ethical, social, and environmental responsibility into daily business activities as defined by the corporate objectives that is linked to sustainability performance and development.	General Manager/CEO, Senior DGM and KMPs from Divisions of Credit, International Marketing Operations, Human Resource Development, Finance and Planning.
Senior Management Committee (SMC)	Scrutinise the human resource related matters.	General Manager/CEO, Senior DGM, DGM (Credit), DGM (HRD), DGM (Audit).
Information Security Committee (ISC)	Manage Information Security of the Bank and take measures to implement necessary controls and evaluate the effectiveness of such controls in order to improve the compliance status with regulatory requirements and to minimise Information Security of the Bank.	General Manager/CEO, Senior DGM, DGM (Operations), Chief Information Security Officer (CISO), KMPs from the Divisions of Information Technology, Human Resource and Security.

Corporate governance

Management committee	Objective and responsibilities	Composition
Recovery Plan Steering Committee (RCPSC)	Develop, consistently evaluate and implement the Bank's Recovery Plan to address potential disruptions from various severe yet conceivable stress situations impacting the Bank's capital, liquidity and overall operations.	General Manager/CEO, Senior DGM, KMPs from the Divisions of Treasury, Credit, Corporate Finance, Recoveries, International, Marketing, Human Resources Development Operations, Information Security, Information Technology, Finance and Planning, Legal, Risk Management, Compliance, Audit and Administration.

Table 20

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 its amendments therein where the Central Bank of Sri Lanka is duly informed. The details of the Directors and the changes are given on page 174.

Board induction and training

The Bank recognises the critical importance of Director development in bolstering the effectiveness of its Board, ensuring Directors can make meaningful contributions to discussions against the backdrop of a rapidly evolving business, economic, legislative, and regulatory landscape. The dynamism in innovation and business practices necessitates that the Board stays informed about these changes, enabling the Bank to efficiently mitigate risks and seize emerging opportunities. To this end, comprehensive induction and ongoing training programmes are crucial to provide new Directors with a thorough understanding of the Bank's operations, as well as their fiduciary and statutory responsibilities, including all legal and governance obligations. Upon their appointment, Directors gain access to resources such as the BoardPAC Solution and the Board Manual, which encompass the NSB Act No. 30 of 1971 and its amendments, directives from the Central Bank of Sri Lanka, the Board Charter, Board Committee Charters, and other pertinent laws, circulars, and documents. Furthermore, the Secretary to the Board ensures Directors are continuously informed and educated on economic, regulatory, and industry trends through updates and training sessions during their tenure. Directors also engage in training and knowledge programmes offered by the regulator or other authoritative entities, further enhancing their capacity to guide the Bank effectively.

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 Board paper system where the Board papers are circulated through the system allowing adequate time to Directors for the required deliberations.

Key focus areas in 2023

In the context of a shifting macroeconomic and geopolitical landscape in 2023, the Board continued to concentrate on the strategic direction of NSB, collaborating with the General Manager/CEO and the Corporate Management Team to advance the implementation of the Bank's strategy as determined by the Board. The established practices enabled the Board to uphold its dedication to high corporate governance standards, emphasising transparency, managing the equilibrium between liquidity and financial performance, ensuring effective controls, and fostering integrity and a robust ethical culture throughout the Bank's activities. It kept a close watch on risk management, as well as opportunities for innovation, expansion, and strategic realignment of the Bank.

Corporate governance

The table below shows some of the key focus areas of the Board during 2023 and highlights the stakeholder groups and short to medium-term strategic objectives central to those matters considered and decisions taken.

Board activities in 2023	Outcomes	Short to medium-term strategic objectives	Stakeholder	2024 governance objectives
Corporate strategy, performance, and reporting				
• Deep dive session to discuss development of the Bank's strategy and approved Strategic Business Plan 2024-2026. • Approved the Revised Budget 2023 and Budget 2024 • Approved Interim Financial Statements and Annual Financial Statements	• A well-governed Bank that is operated for the purpose and committed for sustained value creation and delivery • Achievement of the Bank's mission and values through its strategies • Stakeholder confidence that increases contribution to the value creation			Oversee the execution of the approved Strategic Business Plan 2024-2026 within the framework of the operating environment, while considering the uncertainties of the macroeconomic factors.
Technology				
Oversaw the technology change and digital journey that is taking place in the Bank, with the objective of ensuring the constant delivery of services, an optimised customer experience and sustainable benefits realisation.	• Being agile in a tech-savvy environment			Oversee the technology and digital journey of the Bank to ensure the steady delivery of services, a safe and secure environment, an optimised and sustainable customer experience (recognising different customer segments) and sustainable value creation, within the context of an accelerated pace of change.
Customers				
• Reviewed and oversaw policies and systems in place to safeguard customer data against breaches and comply with regulatory requirements • Ensured that banking services are accessible and inclusive, catering to various segments of society, including underbanked or unbanked populations	• Being customer centric to achieve strategic objectives			Monitor and assess the Bank's progress with respect to customer centricity

Corporate governance

Board activities in 2023	Outcomes	Short to medium-term strategic objectives	Stakeholder	2024 governance objectives
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 2023 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
Regulatory compliance Considered regulatory updates	• Being in compliance with regulatory requirements			Ensure the Bank is 100% compliant with regulatory requirements and industry best practices
Stakeholder relations • Identified material stakeholders and directed the formulation and implementation of stakeholder engagement strategies • Directed the management facilitating regular and pertinent communication with the shareholder	• Adoption of a stakeholder inclusive approach in the execution of governance roles and responsibilities • Reasonable balance between the needs, interests and expectations of stakeholders and the best interest of the Bank • Integration of environmental, social and governance policies and practices into the Bank's strategy in order to long-term value creation			Oversee the stakeholder engagement process for required improvements
Corporate governance • Considered independent Board evaluation and subcommittee evaluation • Considered the corporate governance directions issued by the regulatory authorities and assessed the status of compliance	• Continuous improvement in the performance and effectiveness of the Board • Compliance with regulatory directions and guidelines			Oversee the Bank's compliance with best practice governance standards

Table 21

Board's role in risk management

The Board recognises the importance of integrating risk management into the Bank's overall business strategy. It places significant emphasis on prudent oversight of risk management practices, a responsibility that it has delegated to the Bank's Board Integrated Risk Management Committee (BIRMC). This Committee is entrusted with overseeing the Bank's risk management functions. The Bank has developed a robust risk management framework, including risk appetite and tolerance limits, to effectively monitor its risk profile. Regular reports on the Bank's risk profile are submitted to the Board through the BIRMC, allowing for thorough monitoring and assessment. Any deviations from agreed risk appetite levels prompt discussions with Management, leading to the formulation of appropriate mitigation strategies. Risks associated with the Bank's operations are carefully considered and extensively deliberated during the review of the Strategic Business Plan, ensuring that long-term strategic objectives adequately address risk factors. Further details on risk management are provided in the Risk review section on pages 191 to 213.

Roles of Chairman and CEO

Aligned with the provisions of the National Savings Bank Act of 1971, its subsequent amendments, directives issued by the Central Bank of Sri Lanka (CBSL), and industry standards, the Bank adheres to a structured approach in appointing and delegating authority to its management. This approach aims to enhance role clarity and facilitate the effective execution of duties and responsibilities. Specifically, the roles of the Chairman and the General Manager/CEO are distinctly separate, each with well-defined responsibilities. This clear demarcation of roles helps prevent any individual from wielding unchecked decision-making authority, ensuring a balanced distribution of power and accountability within the Organisation.

Chairman

The Chairman is a Non-Executive Independent Director while the General Manager is a Key Management Personnel appointed by the Board who will be the Chief Executive Officer and not a Board member. The Board Charter clearly defines the roles and responsibilities of the Chairman and the General Manager/CEO. The 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. The Chairman sets the agenda in consultation with the General Manager/CEO and the Board Secretary. The Chairman ensures that the Board receives adequate information to make informed decisions in discharging the Board's duties, effective participation of members at the Board meetings, maintains effective communication with shareholder as well as open lines of communication with Key Management Personnel.

General Manager/CEO

The General Manager/CEO is responsible for designing, developing and the execution of the Bank's strategy and day-to-day management of the business within the approved risk appetite levels as entrusted by the Board of Directors. The General Manager/CEO provides the leadership to the Corporate Management Team and delegates aspects of his/her own authority, as permitted in the corporate governance framework, to members of the Corporate Management. Also chairs the Management committees and ensures that the Board receives accurate, timely and clear information about the Bank's performance. The General Manager/CEO also ensures that good corporate governance and highest standards are applied and maintained when carrying out the affairs of the Bank.

Role of Board secretary

The Secretary to the Board has a key role to play in ensuring that Board procedures are both followed and regularly reviewed to ensure good corporate governance within the Bank. The responsibilities of the Secretary to the Board are summarised below:

- Arrange required settings for all meetings of the Board and its subcommittees
- Maintain minutes of all meetings of the Board and its subcommittees
- Ensure regulatory and statutory compliance by the Board of Directors
- Ensure effective functioning of the Board
- Provide professional assistance to Chairman for all matters related to conducting the meetings of the Board and its subcommittees
- Provide professional advice to the Directors on relevant laws & 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

Corporate governance

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 NSB Act and amendments therein. The Board Human Resource and Remuneration Committee comprise three Non-Executive Directors.

Board and Board subcommittee evaluation

The Board and the Board subcommittees annually conduct their own appraisal to ensure that the Board is discharging their duties according to the Board Charter which includes the responsibilities outlined in the Banking Act Direction No. 12 of 2007 and other applicable rules and regulations as well as best practices on corporate governance. In the process of evaluation, each Director fills a Board Performance Evaluation Form which is submitted to the Nomination Committee by the Secretary to the Board.

Board evaluations for 2023 were taken up at the Board meetings held during the first quarter of 2024.

Appraisal of 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 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

Mr Dushyanta Basnayake
Chairman
Board Audit Committee

Composition of the Committee

During the year under review, the Board Audit Committee comprised the following Non-Executive Directors:

Name	Membership status	Eligible to attend	Attended
Mr Dushyanta Basnayake*	Chairman	09	09
Mr Jude Nilukshan*	Member	09	07
Mr H K D Lakshman Gamini*	Member	07	07

* Non-Executive, Non-Independent Director

Profiles of the above members are given on pages 158 to 161.

Regular attendees by invitation

The Superintendent of Audit – National Audit Office, Deputy General Manager (Audit), Assistant General Manager (Audit), Deputy General Manager (Finance, Corporate Planning and MIS)/Senior Deputy General Manager.

Two (02) Board Audit Committee meeting were conducted with the Government Auditor without participation of the executive management.

Quorum

Minimum of two Directors

Secretary to the Committee

The Board Secretary functions as the Secretary to the Board Audit Committee.

Charter of the Board Audit Committee

The Charter of the BAC has been approved by the Board of Directors and reviewed regularly, clearly defines the Terms of Reference of the Committee. The Committee Charter was last reviewed in year 2021 by taking into consideration the new developments in the banking sector.

The Board Audit Committee (BAC) of the Bank was constituted in accordance with the Banking Act Direction No. 12 of 2007 on "Corporate Governance for Licensed Specialised Banks" issued by the Central Bank of Sri Lanka under Section 3 (6) (ii) and its subsequent amendments, provision of the Public Enterprises Guidelines for Good Governance and "Code of Best Practice on Corporate Governance" issued by The Institute of Chartered Accountants of Sri Lanka.

The 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 was in compliance within all material aspects.

Activities in 2023

The Committee held nine (09) meetings during the financial year ended 31 December 2023. The Superintendent of Audit, National Audit Office as the representative of the Auditor General attended nine (09) BAC meetings. The Senior Management including General Manager/CEO of the Bank participated the meetings by invitation on a need basis.

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 focused 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.

Report of the Board Audit Committee

The Committee scrutinised the accounting practices, evaluated the sufficiency of impairment provisions, and assessed the subsequent valuation of the Sri Lanka Treasury Bonds acquired in exchange for the Sri Lanka Development Bonds as part of the Domestic Debt Optimisation Programme introduced by the Sri Lankan Government during the year. Furthermore, it diligently reviewed the adequacy of impairment provisions for both Sri Lanka Development Bonds (SLDBs) and loans and advances.

The Committee reviewed the Report on the review of Financial Statement for the year ended 2023 which was submitted along with findings by the Internal Audit Division and reviewed the draft Financial Statement submitted on quarterly basis.

Internal Capital Adequacy Assessment Process (ICAAP)

As per the Section 10 of the Banking Act Direction No. 1 of 2016 requires an independent review on the integrity, accuracy and reasonableness of the capital assessment process of the Bank. The Committee has reviewed the effectiveness of the internal control mechanism to meet the regulatory requirements on ICAAP.

Oversight on regulatory compliance

The Committee also reviewed the Bank's adherence to all regulatory and legal obligations, meticulously examining compliance with obligatory banking norms and the effectiveness of existing systems and procedures. The Compliance Officer of the Bank submits monthly reports on the status of compliance of Banking Act Directions in this regard.

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 adapt risk-based audit approach and the Committee assessed the effectiveness of the Bank's internal control over financial reporting in line with the Banking Act Direction No. 12 of 2007, Section 3 (8) (ii) (b) and prepared based on the guidelines issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

BAC reviewed and assessed the Bank's risk management process, including the adequacy of the overall control environment and controls in areas of significant risks. Further, BAC reviewed and assesses the Bank's system of internal controls for detecting accounting and financial reporting errors and misappropriation of assets, legal violations, and non-compliance with the corporate code of conduct. In this regard, reviews the related findings and recommendations of the External and Internal Auditors, together with Management's responses.

The Directors' Statement on Internal Control and the Auditor General's Report on Internal Control are provided on pages 224 and 225. 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 ensures that, the internal audit function is independent of the activities it audits. It reviewed the adequacy of the scope, functions and resources of the Internal Audit Division, and also 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 2023 has been achieved by the end of 2023. 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 2022 to August 2023, 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 2022, 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

- Follow up mechanism for rectification of issues identified during audits have been strengthened
- Periodical review of reports on disciplinary matters and investigations
- Review of common instances of frauds/irregularities in order to take initiatives to avoid recurrence
- Directions to expedite investigations/ disciplinary inquires

Ethics and good governance

The Committee continuously reviewed and emphasised on endurance of good corporate governance practices in the Bank.

In this regard, the Fraud Risk Management and Whistle-blowing Policy of the National Savings 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 reviewed on a quarterly basis all the cases of frauds. During the quarterly review, the BAC scrutinised statistical information as well as details of each fraud, action taken thereon and issue directions on the punitive and preventive aspects of frauds, where necessary. The BAC had the right to, at any time; request a briefing regarding any preliminary investigation and findings.

Sri Lanka Accounting Standards

The Committee reviewed and revised the decisions on adoption of new and revised Sri Lanka Accounting Standards (LKASs)/Sri Lanka Financial Reporting Standards (SLFRS) applicable to the Bank and made required recommendations therein.

Compliance

The Committee reviewed the effectiveness of the system for monitoring compliance with laws and regulations and the results of Management's investigation and follow-up (including disciplinary action) of any instances of non-compliance.

Focus for 2024 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 annually conducted self-evaluation of the effectiveness of the Committee and results are communicated to the Board.

Dushyanta Basnayake
Chairman
Board Audit Committee

25 March 2024
Colombo

Report of the Board Human Resource and Remuneration Committee

Mr S R W M Ruwan Palitha Sathkumara
Chairman
Board Human Resources 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:

Name	Membership status	Eligible to attend	Attended
Mr S R W M Ruwan Palitha Sathkumara**	Chairman	08	08
Mr Jude Nilukshan*	Member	08	07
Mr H K D Lakshman Gamini*	Member	08	08

* Non-Executive, Non-Independent Director ** Non-Executive, Independent Director

Profiles of the above members are given on pages 158 to 161.

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 Directors

Secretary to the Committee

The Secretary to the Board of Directors 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:

- The Committee is responsible for determining the remuneration policy (salaries, allowances and other financial payments) relating to the General Manager/CEO and Key Management Personnel of the Bank other than the remunerations determined by the Collective Agreement
- The Committee set goals and targets for General Manager/CEO and the Key Management Personnel. Further, evaluated the performance of the General Manager/CEO and Key Management Personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.
- The Committee review all significant human resource policies, initiatives, salary structures besides terms and conditions relating to staff at senior executive level. In this process, necessary information and recommendations were obtained from the General Manager/CEO and the Senior Management of the Bank.

Activities during the year 2023

Important activities attended and carried out by the Committee during the year 2023 were as follows:

- Conducted the evaluation of Key Performance Indicators (KPI) of Key Management Personnel (KMPs) for the year 2022 (General Manager/CEO, Senior DGM, all DGMs and all AGMs except the officials who directly report to the Board or a Board subcommittee).
- Reviewed the recruitment and promotion of staff based on the requirements of the Bank.
- Consideration of appeals submitted by staff on HR-related matters.
- Reviewed the effect of disciplinary procedures/punishment on staff promotions.
- Reviewed the recruitment methodology.
- Recruited required staff to the Bank including Officer Trainees.

Report of the Board Human Resource and Remuneration Committee

- Recruitment of General Manager/CEO externally. Accordingly, Ms Shashi Kandambi was recruited as the General Manager/CEO of the Bank
- During the year initiatives were taken to recruit a new DGM (Finance, Corporate Planning & MIS) upon the resignation of Mr T H S Athapattu and recruitment of an AGM (IT)
- Disciplinary inquiries for the year 2023
- Amended the Human Resource Policy Manual
- Revisited the Organisational Structure of the Bank
- Reviewed Training and Development Policy

Focus for 2024 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

Committee annually conducted self-evaluation of the effectiveness of the Committee and results are communicated to the Board.

S R W M Ruwan Palitha Sathkumara
Chairman
Board Human Resource and Remuneration Committee

25 March 2024
Colombo

Report of the Board Nomination Committee

Mr S R W M Ruwan Palitha Sathkumara
Chairman
Board Nomination Committee

Composition of the Committee

During the year under review, the Board Nomination Committee comprised the following Non-Executive Directors:

Name	Membership status	Eligible to attend	Attended
Mr S R W M Ruwan Palitha Sathkumara**	Chairman	03	03
Mr Jude Nilukshan*	Member	03	03
Mr Dushyanta Basnayake*	Member	03	03

* Non-Executive, Non-Independent Director ** Non-Executive, Independent Director

Profiles of the above members are given on pages 158 to 161.

Regular attendees by invitation

The General Manager/CEO presents required information to the Committee and attends meetings of the Committee on invitation.

Quorum

Minimum of two Directors

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 2023

During the year ended 31 December 2023, three (03) Nomination Committee meetings were held.

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

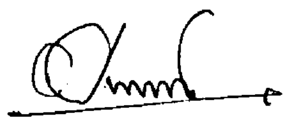
- Review Schemes of Recruitment pertaining to Key Management Personals (KMP) of the Bank.
- Interviews for promotion/ appointment of Key Management Personnel (KMPs) (banking and non-banking streams).
- Short listing of applications for the position of General Manager/ CEO and make recommendation to the Board.
- Setting of selection criteria and selection methodology.

Focus for 2024 and beyond

- Continuous monitoring of review on matters relating to KMPs and adherence to the compliance on regulatory requirements
- Continuous monitoring of the succession plan and the Bank's adherence
- Review on recruitment of suitable persons to KMP positions

Committee evaluation

Committee annually conducted an evaluation of the effectiveness of the Committee and results are communicated to the Board.



S R W M Ruwan Palitha Sathkumara
Chairman
Board Nomination Committee

25 March 2024
Colombo

Report of the Board Integrated Risk Management Committee

Mr Jude Nilukshan
Chairman
Board Integrated Risk Management Committee

Composition of the Committee
During the year under review, the Board Integrated Risk Management Committee (BIRMC) comprised the following three Non-Executive Directors:

Name	Membership status	Eligible to attend	Attended
Mr Jude Nilukshan*	Chairman	07	06
Mr S R W M Ruwan Palitha Sathkumara**	Member	07	07
Mr H K D Lakshman Gamini*	Member	06	06

* Non-Executive, Non-Independent Director ** Non-Executive, Independent Director

Profiles of the above members are given on pages 158 to 161.

Non-Board Members
The General Manager/CEO
Chief Risk Officer

Regular attendees by invitation
The Compliance Officer of the Bank is a regular attendee on invitation. Other DGMs, AGMs, and Chief Managers are also required to be present at the meetings as and when required.

Quorum
Minimum of two 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.

Roles and responsibilities of the Committee

- To assist the Board of Directors in fulfilling its responsibilities relating to risk management and establishing an effective risk management framework
- To implement the Integrated Risk Management Policy and other risk-related policies approved by the Bank and periodic updating of the Bank-wide risk management framework
- Ensure that all credit, market, operational and strategic risks faced by the Bank are identified, measured, monitored, and managed adequately
- Obtain information on all critical risk areas from responsible senior officials and make suitable recommendations to the Board within the framework of the authority and responsibility assigned to the Committee
- Identify, review, report and recommend on risk of new operational developments and compliance related to those concerns.
- Review implementation and compliance with the Basel III directions issued by CBSL.

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

Respective chapter/segment on risk management presents detailed introduction over risk management functions of the Bank and its significance. BIRMC is supported by Risk Management, Compliance Divisions and other operational divisions in discharging its responsibilities.

Activities during the year 2023
Considering the challenges faced during the year 2023, BIRMC increased rigour on the oversight function. The Committee met more frequently during the year (07 meetings) discussing in depth special risk reports on stress areas to determine risk mitigation actions.

The Committee focused on key risk areas, prioritising attention on vulnerable risk drivers to minimise adversities to the solvency indicators and to ensure resilience of the Bank. This effort and the statutory responsibilities of the Committee warranted continuous communication with the Corporate Management and the Board of Directors.

Effectiveness of the risk management process is annually audited by the Internal Audit Division of the Bank.

Report of the Board Integrated Risk Management Committee

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

- Review of the deteriorated credit quality due to the weakened economic conditions
- Review of reports on risk appetite of the Bank, tolerance limits and other reports highlighting different aspects of risk of the Bank (i.e. credit risk, market risk, liquidity risk, operational risk, HR risk, technical risk, cybersecurity risk etc.)
- Review of different risk limits and grant necessary approvals
- Reviewing of adequacy of measures and standards maintained by the Bank to meet internationally recognised norms in the industry, regulations/guidelines of the regulator-Central Bank of Sri Lanka and Internal Capital Adequacy Assessment Process (ICAAP) in line with audit concerns on ICAAP document
- Follow-up 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 banks compliance with Basel III standards.
- Annual review of Compliance Programme and Compliance Manual.

Focus for 2024 and beyond

- Continue to focus on macro and micro environmental factors, markets, local and international risk factors
- Continuous oversight on the implementation of risk and compliance strategy of the Bank.
- Assessment of the local as well as international trends in the area of risk management.
- Continue to focus on evolving regulatory requirements according to the trends in the market and the Bank's approach to risk management and compliance.

Committee evaluation

The Committee annually conducted self-evaluation of the effectiveness of the Committee and results are communicated to the Board.

Jude Nilukshan
Chairman
Board Integrated Risk Management Committee

25 March 2024
Colombo

Report of the Board Non-urgent and Non-essential Expenses Committee

Dr Harsha Cabral, PC.
Chairman
Board Non-urgent and Non-essential Expenses Committee

Composition of the Committee

During the year under review, the Board Non-urgent and Non-essential Expenses Committee comprised the following Non-Executive Directors:

Name	Membership status	Eligible to attend	Attended
Dr Harsha Cabral, PC**	Chairman	05	05
Mr Dushyanta Basnayake*	Member	05	05
Mr Jude Nilukshan*	Member	05	05
Mr S R W M Ruwan Palitha Sathkumara**	Member	02	02
Mr H K D Lakshman Gamini*	Member	02	02

* Non-Executive, Non-Independent Director ** Non-Executive, Independent Director
Committee consists 3 Members from 21 September 2023.

Profiles of the above members are given on pages 158 to 161.

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.

Quorum

Minimum of two Directors

Secretary to the Committee

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

Charter of the BNNEC

The Section 3.5 of the Banking Act Direction No. 01 of 2023 dated 2 February 2023, required the licensed banks to for a Board level subcommittee to operate during the year 2023 and 2024 which is entrusted with the responsibility of evaluating and approving non-essential and/or non-urgent expenditure and/or capital expenditure to be incurred by the Bank, if any.

Accordingly, the Bank has formed the Board Non-urgent and Non-essential Expenses Committee (BNNEC) ensuring the compliance with above Direction.

Roles and responsibilities of the Committee

The role and responsibilities of the Committee as per the Charter includes the followings:

(a) To follow the established guidelines as approved policy by the Board of Directors with regard to the expenses require the prior approval of BNNEC

(b) To ensure that non-essential and/or non-urgent and/or capital expenditure of the Bank for the years 2023 and 2024 recommended to the Board are strongly justified as cost effective and obtain approval of this Board subcommittee

(c) To ensure that the Bank avoids overspending or incurring unnecessary costs for the years 2023 and 2024

Activities in 2023

By carefully evaluating discretionary spending, the committee ensured to prioritise resources towards essential activities while ensuring that non-critical expenses are justified and aligned with the Bank's strategic objectives.

Dr Harsha Cabral, PC
Chairman
Board Non-urgent and Non-essential Expenses Committee

25 March 2024
Colombo

Risk review

Another year with challenges, dramatically increased the complexity of the risk landscape requiring the attention of Management, BIRMC and the Board to strengthen the rigour of its oversight to monitor the risk profile much closely to strengthen the risk management capabilities.

Key challenges in 2023

Economic Concerns: Serious economic challenges prevailing in Sri Lanka exert pressure on banks in meeting their obligations to customers and shareholders, supporting the national economy and complying with statutory requirements amidst the policy changes. Sri Lanka is recovering from an extraordinary level of macroeconomic crisis. The economy is challenged by plentiful headwinds in the previous years including the "twin deficit syndrome"; long-lasting current account deficit in the balance of payment and fiscal deficit.

The financial sector experienced an extraordinary array of challenges as the repercussions of the economic crisis, continued to operate under challenging conditions. The overall economic contraction during the year 2023 coupled with tax hikes aimed at supporting fiscal consolidation, raised price levels and interest rates resulted in strained balance sheets in financial sector. All banks were affected by foreign currency liquidity issues due to the reduction of key external inpouring such as tourism and remittances resulting a sharp depreciation of Sri Lankan rupee, increased inflation and contraction in economic growth. This was intensified by the country rating downgrade. In addition, the fuel prices and electricity tariff were risen affecting industrial output and business operations of customers while some SMEs were completely shut down. Payment delays to various industries such as construction, fertiliser, renewable energy, etc., were exerting pressure on cash flows and affecting the debt repayment capacity of customers. Retail segment also affected by increased price levels leading to debt repayment being delayed or abandoned.

Headline inflation, measured by the CCPI, peaked at 69.8% in September 2022 and subsequently declined sharply to 4% in December 2023 from a high base amid subdued demand. As inflation declined, CBSL loosened monetary policy stance by policy rate cuts in the months of June and July and upon the declaration of better clarity on domestic debt restructuring, the 91-day T-bill rates fell below 20% in July 2023 for the first time since April 2022. At the end of year 2023, 91-day T-bill rate was 14.51%.

	1Q/2023	2Q/2023	3Q/2023	4Q/2023
AWDR (percentage per annum)	15.06	15.09	13.39	11.64
AWPLR (percentage per annum)	22.42	20.04	14.96	12.39
91-day T-bill (percentage)	25.99	23.00	17.42	14.51
USD/LKR rate (TT-mid) (LKR)	327.14	308.92	323.58	323.98
ASPI	9,301.09	9,442.95	11,335.61	10,654.16
Gold (LKR per Troy oz)	649,006	591,252	616,774	670,390

Table 22 Market information

USD/LKR exchange rate appreciated by 11% during 2023 due to improved foreign currency reserve position of the country in March 2023. US dollar inflows to the economy in terms of worker remittances, earnings from tourism, loans, grants, and improved trade balance with the controlled imports resulted in reporting surplus in overall balance of payment compared to deficit reported in 2022.

High interest rates on deposits had a negative impact on the equity market performance during the first half of 2023. However, equity market was highly volatile during the year with several market corrections from 3Q/2023. ASPI reported a sharp improvement following the policy rate cut and reduced deposit rates.

Receiving financing assurances from major bilateral creditors and with IMF-supported programme which will continue to focus on restoring macroeconomic stability and debt sustainability, while protecting the poor and vulnerable, safeguarding financial stability, and stepping up structural reforms to address corruption vulnerabilities, Sri Lanka's economy commenced heading towards a growth. With the approval of the IMF's Extended Fund Facility (EFF), implementation of Government's Domestic Debt Optimisation (DDO) process and easing of monetary policy by CBSL in June 2023, uncertainties reduced to a significant extent.

Further CBSL implemented numerous policy measures to ensuring financial stability and safeguarding borrowers during these turbulent times.

Social and Political Concerns: One year after Sri Lanka's massive unrest, the country is still dealing with the aftermath of its instability.

Economic vulnerabilities consequently give rise to closure of small and medium enterprises and increase

Risk review

in unemployment affecting the debt repayment capacities. Increase in social hazards like burglary and frauds confronted the banking operations, requiring supplementary measures to guarantee business continuity and to reinforce the internal control structure.

Economic, political, and social concerns discussed above challenged the financial sector stability in the year 2023. Hence, the Bank was exposed to many challenges due to the economic conditions that prevailed in the year 2023.

- Exposed to high interest rate risk as an impact from hyper increase in interest rates during the year 2022, which resulted higher cost paid on fixed deposits in order to retain and attract funds. This has resulted a thin interest margin throughout the first three quarters of the year under review
- Substantial drop was observed in demand for credit from private and state institutional borrowers irrespective of the reduction in interest rates, resulting in a contraction in loans and advances portfolio. Stage 3 loans ratio increased, requiring extra efforts to manage the credit default risk level
- Exchange of outstanding Sri Lanka Development Bonds with Sri Lankan rupee denominated variable coupon bonds under DDO programme at CBSL indicative rate, however with a minimum impact
- Increase in liquidity funding risk and cost related to borrowing.

National Savings Bank is a state own Licensed Specialised Bank (LSB) incorporated under NSB Act No. 30 of 1971. The deposits made with the Bank and interest thereon are 100% guaranteed by the Government of Sri Lanka, there by constitute a charge upon consolidated fund, if the assets of the Bank are insufficient to pay lawful demands made by the depositors. Though there are inherent limitations on competitiveness due to the functions defined in the Act, state backing was an additional strength during the challenging period to minimise the adversities. In the absence of access to Standard Lending Facility of CBSL due to LSB status, the liquidly risks arose from the negative market liquidity position was effectively managed by utilising the financial facility offered by the CBSL.

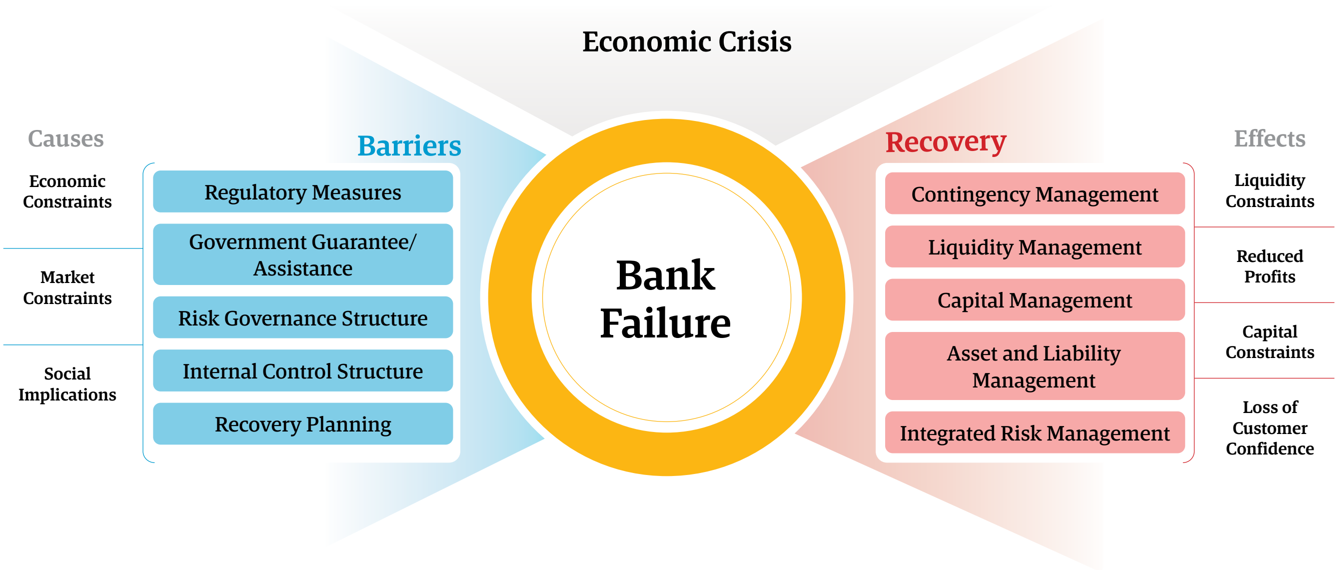


Figure 30

Bow-tie Analysis: Managing risks in challenging environment

Risk review

Despite the adverse headwinds, the Bank was resilient and complied with the regulatory solvency requirements with significant buffers, through effectively utilising the preventive and recovery measures to manage the risk of realised adverse consequences from the economic crisis. This was made possible with the stringent risk management capabilities stipulated in the Integrated Risk Management Framework (IRMF) discussed hereafter.

These risks are identified and overseen in accordance with the IRMF, which supports the business in its aim to embed effective risk management practices to sustain a strong risk management culture. The IRMF governs the way in which the Bank identifies and manages its risks.

Risk appetite

Risk appetite defines the level of risk the Bank is prepared to accept across different risk types, taking into consideration varying levels of financial and operational stress. In IRMF, implementation of risk appetite framework facilitates identification, measurement and monitoring risks for timely control and corrective actions.

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 the acceptable risk levels.

The Bank uses a top-down approach in setting risk appetite at corporate level using qualitative and quantitative parameters which are used in monitoring adverse impacts to values and financial position.

Focused area	Indicator	2023 – Actual percentage	Performance against risk appetite
Profitability	NIM	1.79	Within the maximum tolerance limit
	ROE	9.36	Within the risk appetite limit
	ROA	0.26	Within the maximum tolerance limit
Capital adequacy	CET 1	15.33	Within the risk appetite limit
	Tier 1	16.91	Within the risk appetite limit
	Total capital	19.26	Within the risk appetite limit
Liquidity	LCR (Rupee)	299.20	Within the risk appetite limit
	SLAR	54.99	Within the risk appetite limit
	NSFR	180.49	Within the risk appetite limit
Leverage	Leverage ratio	6.22	Within the risk appetite limit

Risk levels

- Within the risk appetite limit
- Within the maximum tolerance limit
- Below the maximum tolerance limit

Table 23 Financial indicators against risk appetite levels

For the financial year 2023, the Bank had to forgo short-term profitability objective to safeguard the solvency from a liquidity perspective in the economic conditions prevailed during the year 2023. Liquidity and leverage ratios indicate a low risk level. Capital adequacy stood well above the risk appetite level of the Bank and the regulatory minimum requirements.

Governance structure

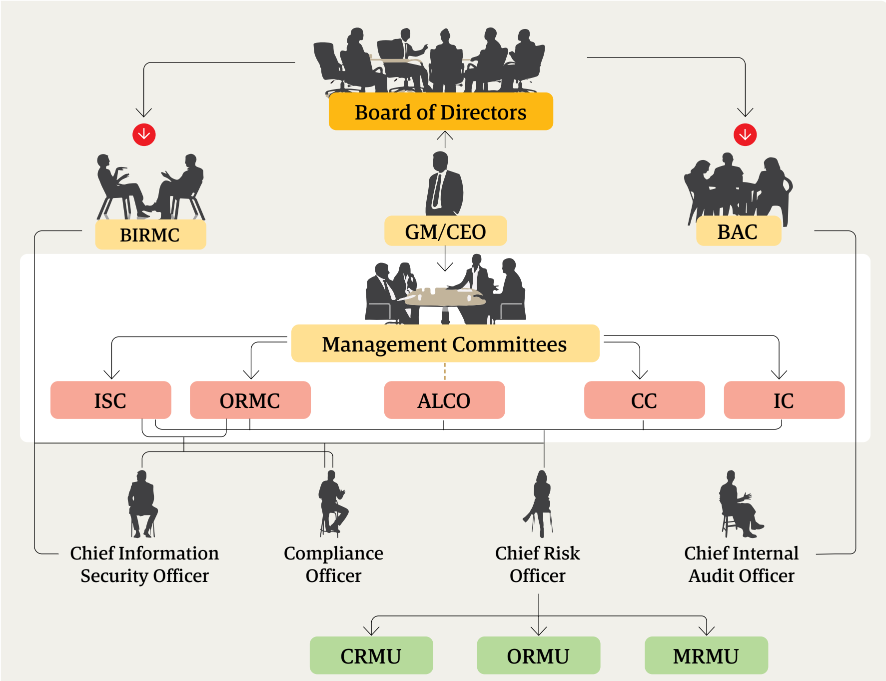
The Bank is committed to ensure that risk management practices reflect a high standard of governance. This enables the Board of Directors and the Senior Management to undertake risk taking activities effectively and prudently.

The Board of Directors through risk oversight role, ensures that the Senior Management has established an integrated framework to manage various risk exposures and to ensure internal policies are appropriately established and complied with. All risk types, both financial and non-financial are managed and reported in accordance with the Bank's risk management framework.

There are two Board level risk management committees i.e. Board Integrated Risk Management Committee (BIRMC) and Board Audit Committee (BAC) to assist in fulfilling its risk related responsibilities and internal control procedures to ensure adequacy and effectiveness of the risk management function in the Bank.

Senior Management has taken steps to improve the rigour of governance over both financial and non-financial risks by establishing management committee framework focusing on identifying and understanding existing and emerging risks, trends and issues across all the business lines providing better insights to informed decision-making.

Risk review



BIRMC – Board Integrated Risk Management Committee **BAC** – Board Audit Committee
GM/CEO – General Manager/Chief Executive Officer **ISC** – Information Security Committee
ORMC – Operational Risk Management Committee **ALCO** – Asset and Liability Management Committee
CC – Credit Committee **IC** – Investment Committee **CRMU** – Credit Risk Management Unit
ORMU – Operational Risk Management Unit **MRMU** – Market Risk Management Unit

Figure 31 Risk management governance structure (functional reporting)

Three Lines of Defence

The "Three Lines of Defence" defined in IRMF is a model sets out a clear line of defence by segregating duties. The First Line of Defence comprised the revenue-generating and client-facing functions, along with all associated support functions including Finance, Treasury, Human Resources, Operations, Information Technology and Support services. The first line identifies the risks, set and implement controls to minimise inherent risk. Employees in the first line have primary responsibility for their risks and their activities are subject to oversight from the relevant parts of the second and the third lines.

The Second Line of Defence is made up of the Risk Management Division (RMD) and the Compliance Division and oversees the first line using risk monitoring and management tools.

RMD comprises three main units to manage principal risk areas, namely Credit Risk Management Unit (CRMU), Treasury Middle Office (TMO)/Market Risk Management Unit (MRMU) and Operational Risk Management Unit (ORMU).

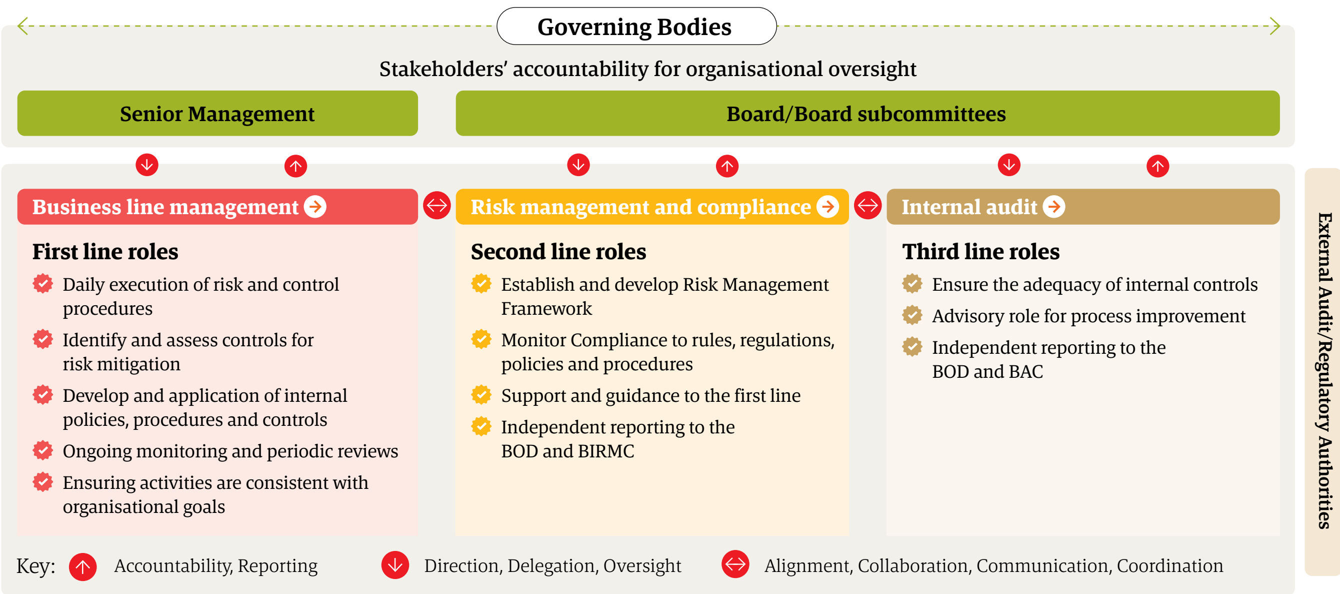


Figure 32 Three lines of defense

Risk review

The Third Line of Defence comprised Internal Audit Division (IAD), providing independent assurance to the Board of Directors on the effectiveness of governance, risk management and control over current, systemic, and evolving risks.

Integrated Risk Management Policy elaborates the IRMF of the Bank, with separate policies to address principal risk areas, risk management approaches and reporting requirements.

Integrated risk management is a continuous, proactive, and systematic process to understand, manage and communicate risk on a bank-wide perspective. It consists of an ongoing assessment to identify potential risks of the Bank at every level and then communicate the results to the higher level to facilitate improved decision-making.

Risk management consists of multiple processes, models and tools which are used in the process of identification, assessment, monitoring and mitigating of risk across the Bank to support risk-based decision-making and to assess the capital adequacy and other prudential requirements stipulated by the CBSL.

Risk management	Credit risk	Market risk	Operational risk
Policies	Integrated Risk Management Policy; Stress Testing Policy; Risk Management Disclosure Policy; ICAAP Management Policy; Model Risk Management Policy		
	Credit Risk Management Policy	**Market and Liquidity Risk Management Policy**	**Operational Risk Management Policy**
Risk identification and assessment approaches	• Monitoring Risk Limits • Internal Rating Models • Early Warning Indicators • Scenario Analysis • Stress Testing	• Monitoring Risk Limits • Value at Risk (VaR) • M Duration • Sensitivity Analysis • Scenario Analysis • Stress Testing	• Monitoring Risk Limits • Loss Event Data Analysis • Incident Monitoring • Business Impact Analysis • Root Cause and Scenario Analysis • Stress Testing • Risk and Control Self-Assessment (RCSA) • Key Operational Risk Indicators (KORIs)
Reports to the Management/ Board levels	• Risk Appetite Dashboard • Early Warning • Credit Risk Review • Report on Loan Review Mechanism (LRM) • NPL Monitoring and Analysis	• Risk Appetite Dashboard • Equity Risk Review • Fx Risk Review • Interest Rate Risk Review • Government Securities Portfolio Risk Review • Liquidity Risk Review	• Risk Appetite Dashboard • Loss Events Analysis • Customer Complaint Analysis • Root Cause Analysis • OKRIs Dashboard • RCSA Reports

Table 24 Risk Management Policies, Approaches and Reports within IRMF

Risk review

Bank's risk register includes information on both existing and potential risks. Risk register is periodically updated by the RMD using the risk identification and assessment tools/models. Accordingly, there are four principal risks. These principal risks are credit risk, market risk (i.e. equity, foreign currency and interest rate), operational risk and liquidity risk.

Risk reports to the management and the Board level committees discuss principal risks and all other existing and emerging risks. Key challenges in 2023 and details of how the principal risks were managed during the period under review are discussed henceforth.

Credit risk

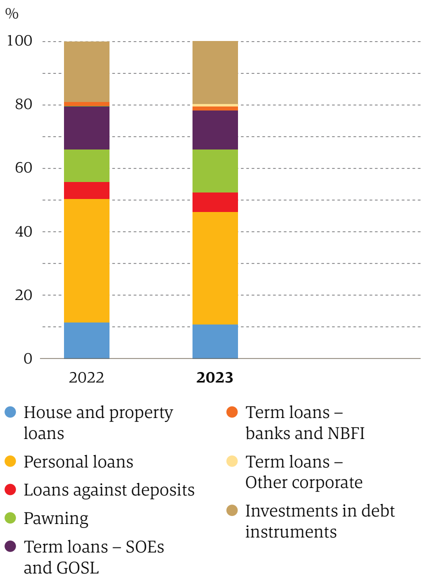
Credit risk refers to the possibility of a loss resulting from a borrower's or counterparty's failure to repay a loan or meet contractual obligations. These exposures are derived mainly from direct lending activities as well as commitments and contingencies.

Credit risk to the Bank mainly consists of counterparty default risk, concentration risk, and settlement risk.

On balance sheet exposures represent 99.5% of the total credit risk exposure of the Bank.

Credit exposures: product/instrument wise

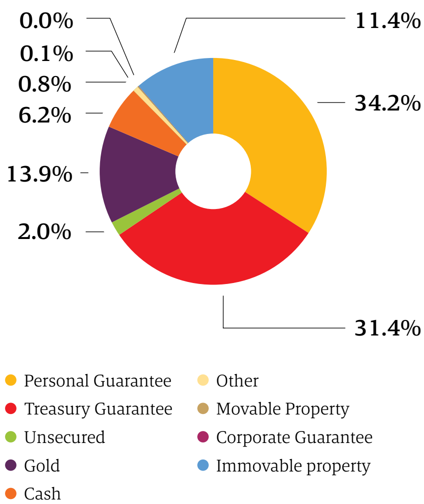
Graph 57



The Bank's credit portfolio is mainly comprised with retail lending products. Personal loans represented the highest composition of 53.0% in the retail lending portfolio whereas, exposures to SOEs (92.0%) in the form of loans and debt instruments which are backed by Treasury Guarantees mainly represented the corporate lending portfolio.

Credit exposures: collateral wise

Graph 58



As at 31 December	2023 Maximum credit risk exposure Gross carrying value Rs. '000	2023 Credit impairment Rs. '000	2023 Net exposure Rs. '000	2022 Maximum credit risk exposure Gross carrying value Rs. '000	2022 Credit impairment Rs. '000	2022 Net exposure Rs. '000	YOY change %
Maximum credit risk exposure	**1,613,180,178**	**22,386,638**	**1,590,793,540**	1,564,530,168	18,173,578	1,546,356,590	2.87
On-balance sheet exposure (Gross basis)	**1,604,618,000**	**22,386,638**	**1,582,231,362**	1,551,632,118	18,173,578	1,533,458,540	3.18
Off-balance sheet exposure	**8,562,178**	**–**	**8,562,178**	12,898,050	–	12,898,050	-33.62
Major credit risk exposures Financial assets at amortised cost							
– Loans and advances	**548,897,902**	**22,377,372**	**526,520,530**	570,255,736	17,228,415	553,027,321	-4.79
– Debt and other instruments	**943,705,329**	**645**	**943,704,684**	920,068,906	939,528	919,129,378	2.67
Financial assets measured at fair value through OCI	**61,924,412**	**–**	**61,924,412**	27,662,763	–	27,662,763	123.85

Table 25 Maximum credit risk exposures

Risk review

Risk component	Risk management approach	Inherent risk level	Impact*
Credit risk	• Credit evaluations with risk assessments • Risk rating • Delegated authority structure for credit approval • Collateralisation • Valuation/revaluation and monitoring of LTV ratios • Monitoring against limits • Monitoring of early warning indicators, trends of non-performing advances • Independent risk review/monitoring at transaction and portfolio level • Post disbursement reviews/LRM • Stress testing • Impairment provisioning • Continuous training and development	High	Increase in impact
Concentration risk	• Limit monitoring: Exposure limits, concentration limits, (Herfindahl – Hirschman Index – HHI) • Stress testing	High	Increase in impact
Cross border credit risk	• Collateralisation • Limit monitoring • Stress testing	Low	No change

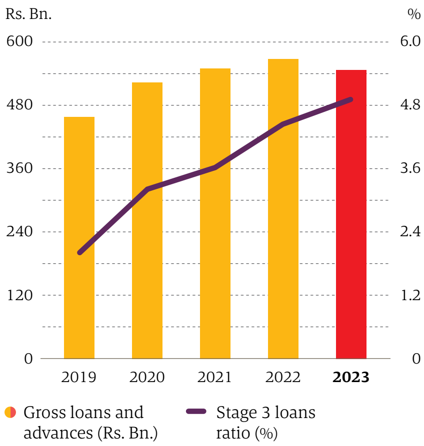
* YoY change in impact on earnings and capital

Increase in impact No change Decrease in impact

Table 26 Credit risk review

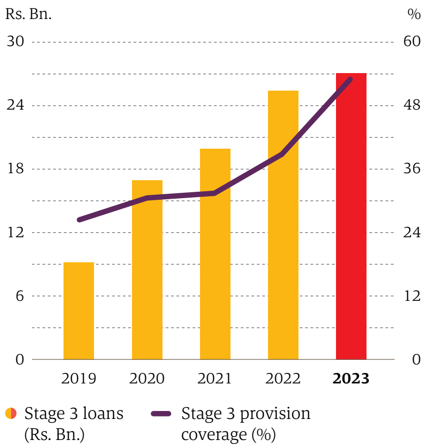
Gross loans and advances

Graph 59



Stage 3 loans

Graph 60



Credit portfolio quality

Gross NPA ratio indicates the proportion of customers who have fallen behind their contractual loan repayments. Over the recent past both house and property loans and personal loans indicates an increasing trend which was triggered by adverse macroeconomic fundamentals such as high inflation, high interest rates etc. However, gross NPA ratio of pawning portfolio has declined YoY.

In year 2023, the value of credit-impaired (Stage 3) loans and advances has increased to Rs. 27.1 Bn. from Rs. 25.5 Bn. in 2022. Deterioration of credit portfolio quality resulted an impairment charge of Rs. 5.4 Bn. (against Rs. 5.3 Bn. in 2022) increasing the total credit impairment provision to Rs. 22.4 Bn. with a Stage 3 provision coverage of 53.3% as at year end 2023 against 38.9% coverage in 2022.

The Bank's Stage 3 impaired loan ratio is 2.4% as of 31 December 2023 compared to 2.8% in 2022. However, it is significantly below the industry ratio of 12.7%.

Risk review

Year	Stage 3 loans and advances Rs. '000	Allowance for individual impairment Rs. '000	Allowance for collective impairment Rs. '000	ECL Allowance Rs. '000
2022	25,508,516	2,115,825	7,797,610	9,913,435
2023	**27,120,378**	**4,062,127**	**10,386,780**	**14,448,907**

Table 27 Distribution of Stage 3 credit impaired loans and advances

Concentration risk

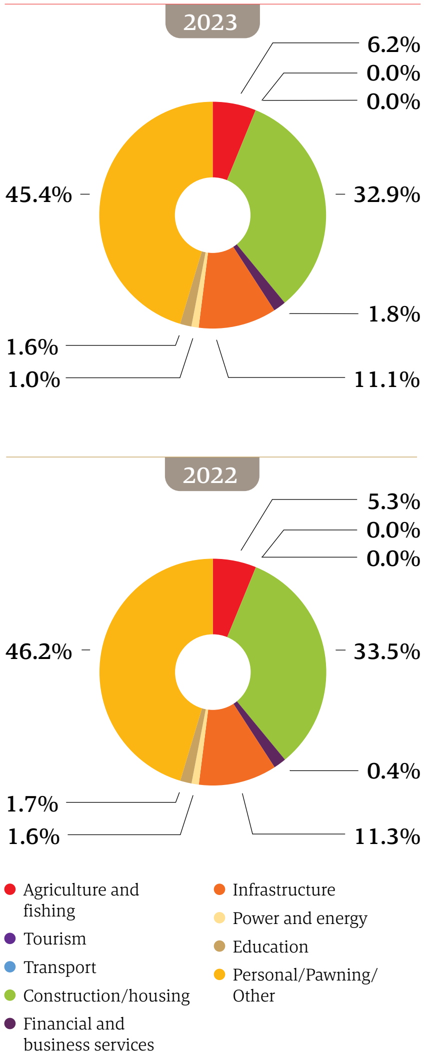
The concentration limits are defined in the Bank's risk appetite statement and credit exposures are monitored against the limits on a periodic basis for risk reporting.

The Bank uses Herfindahl-Hirschman Index (HHI) and stress testing to assess and monitor concentration risk.

The Bank has a moderate risk appetite for sector concentration. High geographic concentration to the Western Province resulted due to most of the large loans being booked at the Head office Credit Division.

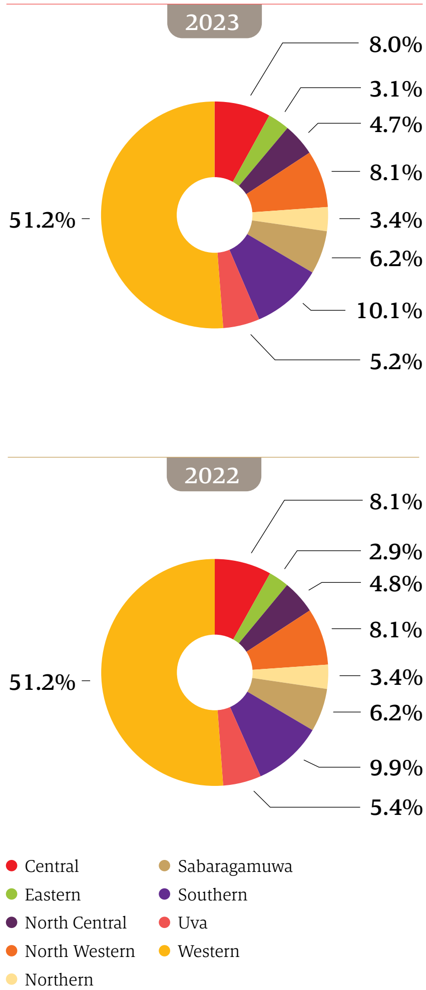
Sector Concentration

Graph 61



Geographical Concentration

Graph 62



Risk review

Cross border credit risk

Cross border exposure of the Bank arose from deposits with foreign banks, credit facilities, and documentary credit were limited to 0.41% of the total assets.

Managing the credit risk in a prudent manner is critically important to the sustainability of the Bank as the loans and investment portfolio accounts for 40.5% of total assets and credit risk weighted assets accounts for over 81.2% of the total risk-weighted assets.

Credit risk is regulated by the Board approved credit risk management framework, which includes a risk governance structure as well as a set of risk management procedures.

Credit policies established by the Board, and the procedures establishing the segregation of duties among officers in functional areas, assist credit risk management at the business line level, encompassing the three major stages of the credit process.

The credit policies are reviewed on a periodic basis, and the required risk appetite and credit limits are determined annually based on prevailing and anticipated market conditions.

CRMU of RMD monitor credit risk through independent risk analysis and monitoring at transaction & portfolio levels by taking into account customer-specific, internal, and external issues, including those related to the economy, environment, society, and industries.

Independent risk assessments and rating validations are carried out on credit exposures at the transaction level.

Risk reporting and awareness for preventive and corrective measures to manage credit risks are facilitated by monitoring of early warning signs, credit portfolio evaluations, stress testing, and scenario analysis.

CRMU recommends prudential process and control modifications based on the outcomes of the Risk and Control Self-Assessment (RCSA) for credit-related products and processes, which are conducted on a periodic basis. The Bank uses LRM to mitigate the credit risk by prompt identification and rectification of gaps in credit granting and documentation process. This covers credit operation at head office and branch level by reviewing a sample of corporate and retail loans above an internal threshold within three months of sanction.

Market risk

Market risk is the risk arising from changes in the markets to which an organisation has an exposure. Potential losses may arise from adverse movements in market variables such as interest rates, foreign exchange rates, share prices and commodity prices that adversely change the future expected cash flows, earnings, and capital level.

The Bank's exposures to market risk arises from both trading book and non-trading book.

Total market risk exposure accounted for 93.8% of the total assets as at the end of 2023. Most of financial assets are exposed to interest rate risk that account for 93.2% of the total assets. Exposures open for foreign currency risk is 1.9% of the total assets while 0.2% is exposed for equity price risk.

Loan origination

- Credit evaluation and rating
- Collateralisation
- Legal checks
- Inspection and valuation
- Credit approval under delegated authority structure

Documentation and disbursement

- Verification of documentation
- Loan agreement
- Terms and conditions
- Mortgage bonds
- Insurance (Title/Fire insurance/DTA)
- Disbursement
- Loan Review Mechanism (LRM)

Post disbursement management

- Loan collection monitoring
- Post disbursement monitoring
- Recoveries

Figure 33 Credit risk management process

Risk review

As at 31 December 2023	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	9,508,563		9,508,563	IRR, FX
Balances with central banks	246,998		246,998	IRR
Placements with banks	22,576,750		22,576,750	IRR, FX
Derivative financial instruments	924		924	IRR, FX
Financial assets measured at fair value	17,748,501	17,748,501		IRR, Equity
Financial assets at amortised cost – Loans and receivables	526,520,529		526,520,529	IRR, FX
Financial assets at amortised cost – Debt and other instruments	943,704,684		943,704,684	IRR
Financial assets measured at fair value through OCI	61,924,412		61,924,412	IRR, Equity
Total	1,582,231,361	17,748,501	1,564,482,860	
Financial liabilities				
Due to banks	8,984,779		8,984,779	IRR, FX
Derivative financial instruments	201		201	IRR, FX
Financial liabilities at amortised cost – Due to depositors	1,482,532,430		1,482,532,430	IRR, FX
Financial liabilities at amortised cost – Due to other borrowers	61,611,014		61,611,014	IRR
Lease liability	1,365,547		1,365,547	IRR
Debt securities issued	23,806,514		23,806,514	IRR
Total	1,578,300,484	–	1,578,300,484	

Table 28 Market risk exposures

Risk component	Risk management approach	Inherent risk level	Impact*
Re-pricing risk	• Monitoring re-pricing gap limits • Limits on Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL)	High	Increase in impact
Yield curve risk	• Sensitivity/Stress testing with rate shocks • Monitors the portfolio yield, duration and duration gap • Stop loss limits	High	Increase in impact
Basis risk	• Sensitivity of rate shocks on RSA/RSL gap	High	No change
Fx risk	• FX VaR • Stress testing • Exchange rate movements • Limit monitoring	Medium	Increase in impact
Equity price risk	• Limit monitoring. • Equity VaR • Mark to market FVPL and FVOCI portfolio on a daily basis	Medium	Decrease in impact
Commodity price risk	• Monitor LTV on pawning Monitor gold prices	Low	No change

* YoY change in impact on earnings and capital

Increase in impact   No change   Decrease in impact

Table 29 Market risk review

Interest rate risk

Interest rate risk in trading book

Portfolio type	2023		2022	
	Book value Rs. '000	Fair value Rs. '000	Book value Rs. '000	Fair value Rs. '000
FVPL portfolio	**16,445,943**	**16,923,123**	13,505,097	12,217,110
FVOCI portfolio	**56,102,160**	**58,894,209**	25,050,275	25,348,941
Total	**72,548,103**	**75,817,332**	38,555,372	37,566,051

Table 30 Government Securities FVPL and FVOCI positions

IRR in trading book arises from the Bank's interest rate sensitive investments held in FVPL portfolio. The Bank's rate sensitive investment in trading and FVOCI portfolios stood at 8.6% of its total investments in Government securities at the end of the year. Interest rate risk in trading Government Securities portfolios is monitored using M-duration against predetermined appetite limits, unrealised gains/losses and capital requirement calculated based on duration of the securities held in the trading book.

The Bank's exposure to interest rate risk arises as a result of the net interest income being impacted by extreme fluctuations in market interest rates. This has a potential impact on the underlying interest-earning assets, interest bearing liabilities and off-balance sheet items. The Bank's exposure to IRR can be identified in the form of repricing risk, yield curve risk and basis risk.

Adverse interest rate movements impact on the Bank's capital and earnings. This form of IRR arises from differences in the term structure of non-tradable assets and liabilities and the interest rate indices based on which the instruments are priced. IRRBB, if not managed properly, can pose a significant adverse impact on the capital base and future earnings of the Bank.

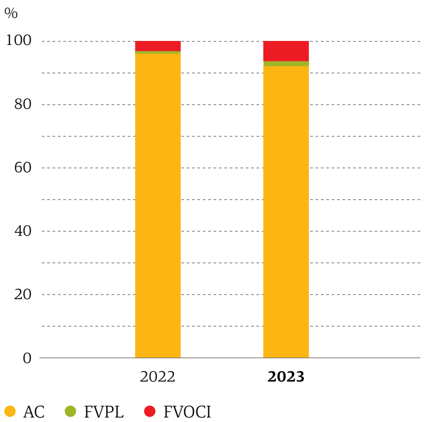
Interest Rate Risk in the Banking Book (IRRBB)

	<1 month	1-3 months	3-6 months	6-12 months	1-3 years	3-5 years	>5 years
RSA (Rs. Mn.)	73,179	63,445	131,117	211,711	379,772	319,652	375,587
RSL (Rs. Mn.)	267,726	522,503	377,057	323,222	44,804	24,169	17,453
Period Gap (RSA-RSL) – (Rs. Mn.)	(194,547)	(459,058)	(245,940)	(111,511)	334,968	295,483	358,134
Cumulative Gap – (Rs. Mn.)	(194,547)	(653,606)	(899,546)	(1,011,056)	(676,088)	(380,605)	(22,471)
Actual gap as a percentage of RSL – 2023 (%)	**-72.7**	**-87.9**	**-65.2**	**-34.5**	**747.6**	**1,222.6**	**2,052.0**
Actual gap as a percentage of RSL – 2022 (%)	-79.7	-88.2	-82.3	-46.3	1105.2	1,218.9	5,110.8

Table 31 Interest rate sensitivity gap – Banking Book

Investments in Government securities

Graphs 63



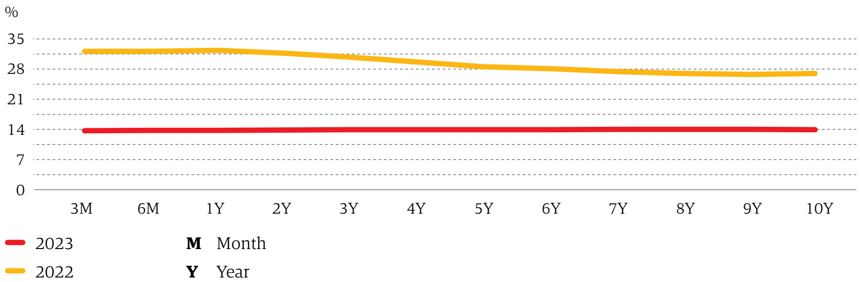
The Bank assesses IRR primarily through an interest rate re-pricing gap analysis which indicated adversities to earnings and capital from the extraordinary rate shocks. Interest rate re-pricing gap analysis measures the difference between the amount of interest-earning assets and interest-bearing liabilities, which are repriced within defined maturity buckets. The Bank measures IRR both in the earnings perspective and economic value perspectives.

The Management of IRR is crucial for the Bank since over 90% of the Bank's assets and liabilities are interest rate sensitive where Bank's NII or NIM is subject to interest rate volatilities.

The Bank's IRR management initiatives therefore aim to minimise the mismatches in the maturities (fixed rated assets and liabilities) or to match re-pricing dates (floating rated assets and liabilities). Improvement was observed in initial buckets where the negative gap has marginally reduced during year 2023.

Government Securities Yield Curve

Graph 64



Equity price risk

Portfolio type	2023		2022		Unrealised gain/(loss)
	Book value Rs. '000	Market value Rs. '000	Book value Rs. '000	Market value Rs. '000	Rs. '000
FVPL portfolio	**1,048,601**	**825,378**	3,001,032	1,956,839	(223,223)
FVOCI portfolio	**2,784,598**	**3,030,202**	3,230,241	2,313,822	245,604
Total	**3,833,199**	**3,855,580**	6,231,273	4,270,661	22,381

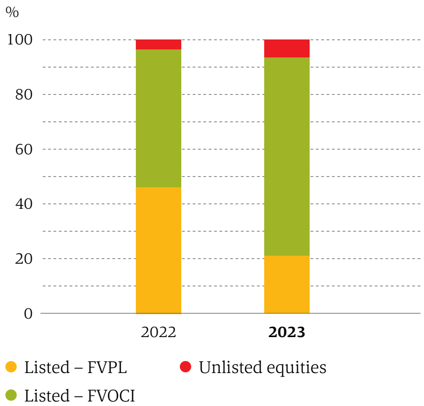
Table 32 Equity portfolio position

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. A comprehensive limit structure is in place to monitor equity transactions and portfolio risks driven from changes in market variables and trading operations.

The Bank's listed equity portfolio comprises both FVPL and FVOCI portfolios. FVOCI portfolio includes equity investments made for strategic and statutory purpose. The extent of investments in equities is determined considering risk limits framework, Investment Policy Statement (IPS) and market conditions. Exposures are monitoring against the exposure and dealing limits to manage the equity price risk with the risk appetite level.

Investments in equity

Graph 65



Foreign exchange risk

FX risk is associated with the unhedged positions in all the foreign currencies. The Bank, under Standardised Measurement Approach (SMA) allocates capital for foreign currency risk considering the Net Foreign Currency Exposure (NFCE). Net Open Position (NOP) is monitored on a daily basis against regulatory and internal alert limits. At the end of the year 2023, NFCE of the Bank was USD 2.98 Mn. which is 1.6% of the total regulatory capital of the Bank.

	>1 month	1-3 months	3-6 months	6-9 months	9-12 months	1-3 years	3-5 years	>5 years
USD	(6,320,491)	(852,935)	3,516,545	4,905,312	(1,248,431)	–	–	–
EUR	(2,595,037)	(293,159)	2,978,439	(707,115)	616,873	–	–	–
GBP	(1,653,587)	(666,671)	1,209,831	812,055	298,371	–	–	–
SGD	–	–	–	–	–	–	–	–
AUD	(1,934,506)	(486,681)	138,034	1,020,321	1,262,833	–	–	–
JPY	–	–	–	–	–	–	–	–
AED	–	–	–	–	–	–	–	–
CAD	0	–	–	–	–	–	–	–
CHF	(0)	–	–	–	–	–	–	–

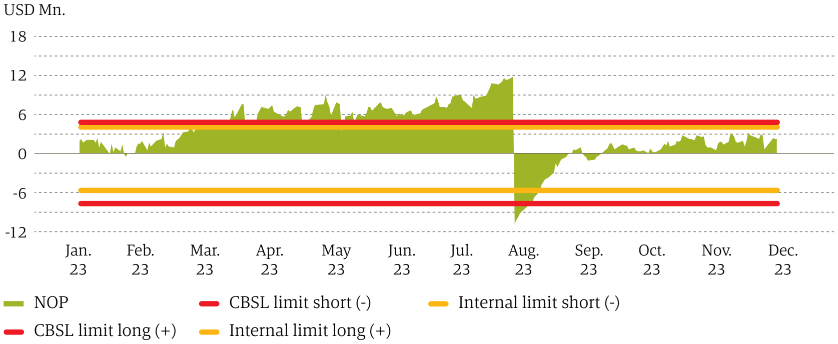
Table 33 Currency-wise maturity gaps for FX operations

Currency in Mn.	2023	2022
USD	(1.390)	1.288
EUR	2.772	0.052
GBP	0.238	0.413
JPY	1.900	6.222
SGD	–	0.041
AUD	1.184	–

Table 34 Structural net foreign currency exposures

Net open position against limits

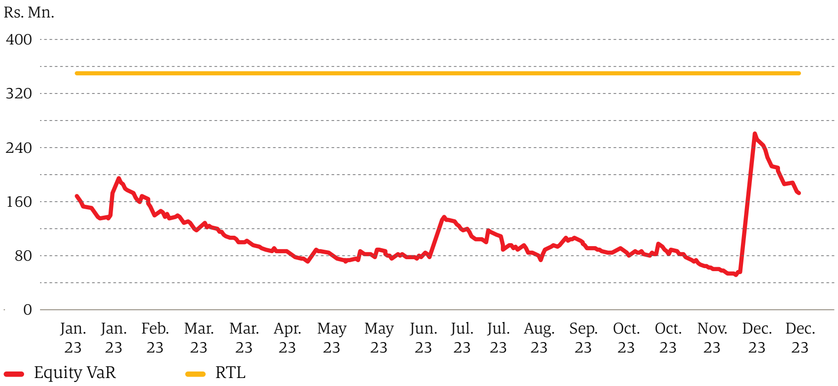
Graph 66



The Bank measures price volatility under market risk management function using VaR measures for equity trading book and foreign currency open position to monitor against the risk appetite. Equity VaR remained within the Risk Tolerance Limit (RTL) of the Bank.

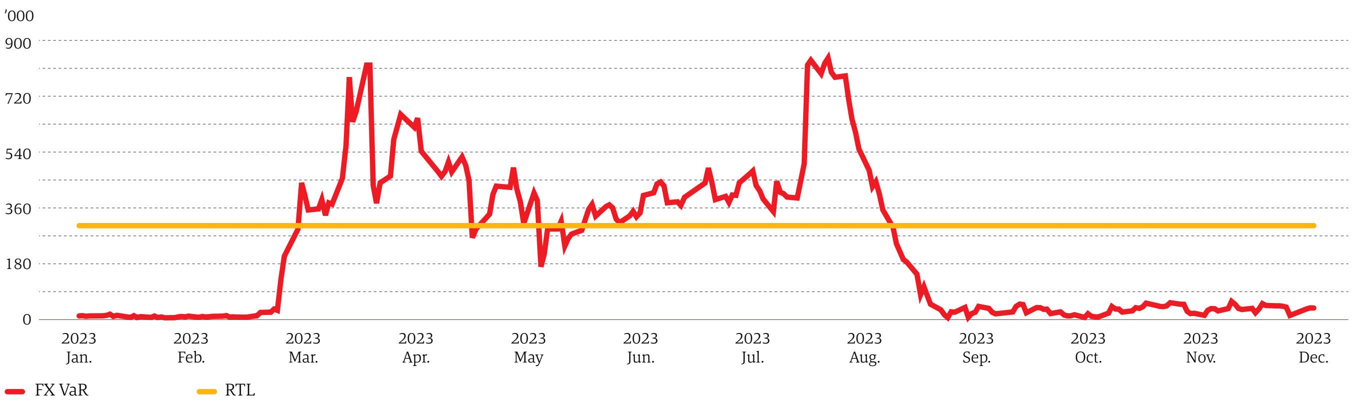
Movements in Equity VaR

Graph 67



Movements in FX VaR (USD)

Graph 68



Liquidity and funding risk

Liquidity and funding risk is the risk that the Bank may not have sufficient stable or diverse sources of funding to meet on or off-balance sheet obligations as they fall due without incurring unacceptable losses. The Bank's liquidity risk management framework requires to ensure that the Bank operates within predefined liquidity limits and remains in compliance with the Bank liquidity policies, regulatory requirements and practices.

Risk component	Risk management approach	Inherent risk level	Impact*
Liquidity risk	1. Monitor regulatory ratios against the minimum requirements. 2. Monitor maturity gaps against limits in different time buckets. 3. Monitor ratios under stock approach 4. Liquidity contingency planning 5. Stress testing and scenario analysist	High	Increase in impact

* YoY change in impact on earnings and capital

Increase in impact   No change   Decrease in impact

Table 35 Liquidity risk review

The main objective of liquidity and funding risk management is to access and ensure availability of funds required to meet obligations at the correct time at correct cost under both normal and stressed scenarios.

Regulatory ratios

The Bank's regulatory liquidity indicators improved compared to the previous year, and remained above the minimum regulatory requirements.

Ratio	2023	2022	Regulatory minimum
SLAR – DBU percentage	**55.0**	40.6	20
LCR – Rupee percentage	**299.2**	195.0	100
LCR – All currency percentage	**293.7**	195.5	100
NSFR percentage	**180.5**	180.5	100

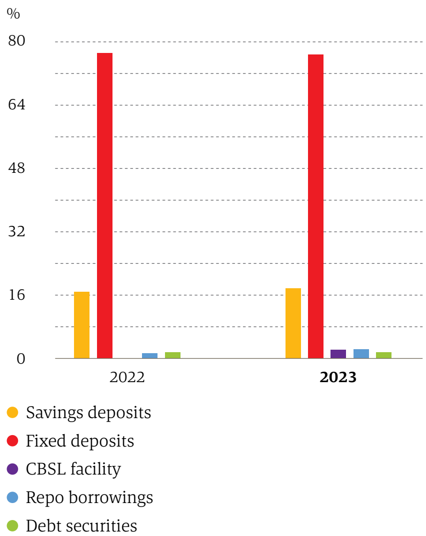
Table 36 Regulatory liquidity ratios

Funding diversification by products

The economic crisis that emerged with the shortage in foreign currency reserves in the country caused the interest rates to reach their highest ends. The Bank's deposit base grew marginally by 0.4% YoY to reach Rs. 1.48 Tn. Slow growth is attributable to high withdrawals of fixed deposits during the year. The Bank was successful in mobilising low-cost savings that increased the savings deposits by 5.2% YoY while fixed deposits reported a decrease of 0.6% YoY.

Funding diversification by product

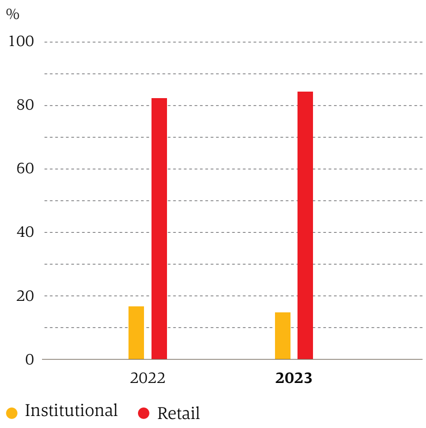
Graph 69



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 an island-wide network of branches enables reducing concentration risk in funding. Funding risks are managed by ALM unit of Treasury Division as per the policies and procedures approved by the Board of Directors.

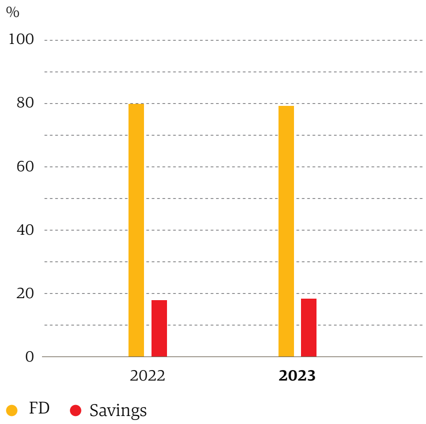
Deposit Diversification

Graph 70



FD : Savings Mix

Graph 71



The 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 a frequent basis for both rupee and major foreign currencies to ensure that the Bank's liquidity profile is managed at healthy level.

Liquidity risk is mitigated by maintaining adequate buffers in high quality liquid assets and diverse funding sources. Further, strategies/options are in place ensuring availability of sufficient liquidity buffers in accordance with the Bank's Contingency Funding Plan. In the extraordinary economic conditions, the Bank ensured stringent monitoring of liquidity risks and took measures to minimise funding risks to the Bank with the assistance of the regulator. Accordingly, the Monetary Board granted approval to structure a loan facility under Section 82 and Section 83 (1) of the Monetary Law Act to minimise liquidity constraints. This was structured as a short-term loan against Government Securities.

Stock approach

The Bank monitors the following liquidity ratios under the stock approach to monitor the adequacy of funding requirements and ensure funding and liquidity risks is managed within the Bank's risk appetite.

Risk review

Ratios	2023 %	2022 %
Net loans to total assets	**31.2**	34.2
Loans to customer deposits	**37.0**	38.6
Liquid assets to short-term liabilities	**54.0**	39.6
Purchased funds to total assets	**19.7**	16.9
(Large liabilities – temporary investments) to (Earning assets – temporary investments)	**-6.4**	4.8
Commitments to total loans ratio	**1.1**	2.5

Table 37 Ratios under stock approach

Flow approach

Under the flow approach, liquidity gap analysis is one of the methods used by the Bank to assess liquidity risk. Liquidity gaps are periodically monitored against limits and used for sensitivity analysis and stress testing.

High negative liquidity gaps are observed in less than one-year maturity buckets as a result of concentration of deposits in less than 12 months buckets. This became the foremost concern requiring focus on retaining and attracting funding in a highly rate sensitive market.

Bank – Rs. Mn.	0-3 months	3-12 months	1-3 years	3-5 years	>5 years	Total
Assets with contractual maturity	160,256	350,206	431,774	336,011	408,717	1,686,964
Liabilities with contractual maturity	793,649	707,821	45,434	25,268	114,792	1,686,964
Maturity gap	(634,673)	(357,616)	386,340	310,241	295,708	(0)
Cumulative gap	(634,673)	(992,289)	(605,949)	(295,708)	(0)	(0)
Actual Gap as a percentage of liabilities – 2023	**-80%**	**-51%**	**850%**	**1,228%**	**255%**	**0%**
Actual Gap as a percentage of liabilities – 2022	-85%	-64%	1,120%	1,204%	363%	0%

Table 38 Maturity profile of assets and liabilities

Monitoring of maturity gap analysis of assets and liabilities enables foreseeing adverse liquidity levels. Marginal improvement can be observed in maturity gaps at the end of year 2023.

Operational risk

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

The operational risk function is responsible for defining and overseeing the implementation of the operation risk framework and monitoring the Bank's operational risk profile. The operational risk function alerts management when risk levels exceed acceptable tolerance in order to drive timely decision-making and actions by the first line of defence.

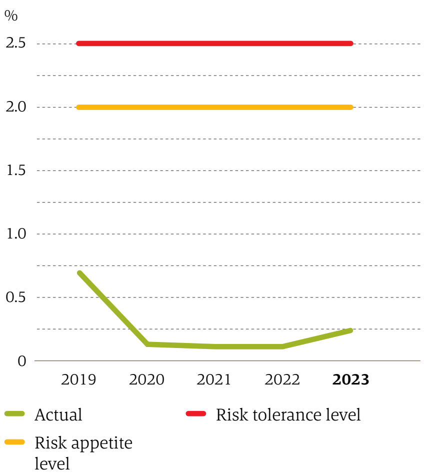
Operational risks stem from all banking operations are categorised mainly for seven types of loss events i.e. internal frauds, external frauds, execution delivery and process management, employment practices and workplace safety, client, products and business practices, damages to physical assets and business disruptions and system failures.

In the financial year 2023, total losses from the above stated events were 0.23% of three-year average audited gross income. Hence, the Bank is well within the established risk appetite levels.

Risk review

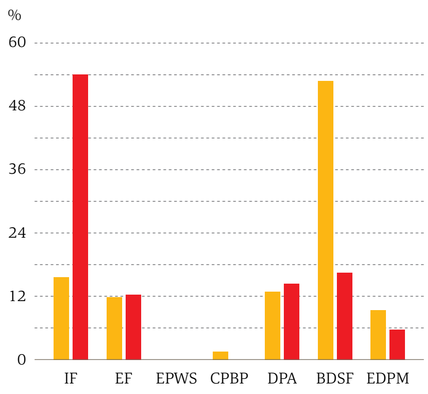
Actual operational losses against risk appetite and tolerance limit

Graph 72



Loss events – severity

Graph 74



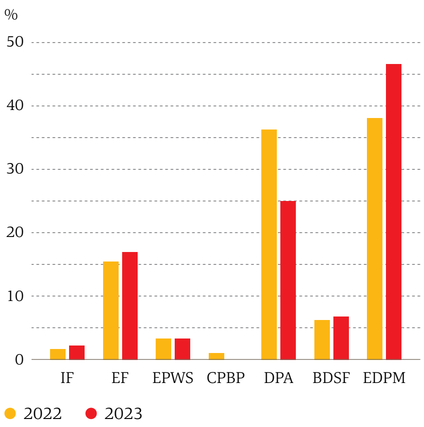
IF – Internal Fraud **EF** – External Fraud
EPWS – Employment Practices and Workplace Safety
CPBP – Clients, Products and Business Practices
DPA – Damage to Physical Assets
BDSF – Business Disruption and System Failures
EDPM – Execution, Delivery and Process Management

Analysis of internal loss event data for 2023 revealed the highest frequency of loss events were recorded in execution, delivery and process management failures while the severity is minimum. Highest severity is reported from internal frauds, however within the tolerance limit of the Bank.

The Bank's track record over the past five years indicates the ability to maintain operational losses at minimal levels. This emphasises the effectiveness of the governance structure, policies, internal controls, processes, and procedures in place to manage operational risk.

Loss events – frequency

Graph 73



Risk component	Risk management approach	Inherent risk level	Impact*
Fraud risk	• Fraud risk management and whistle-blowing process • Internal controls • Key Operational Risk Indicators (KORIs) monitoring • Loss event monitoring • Risk Control Self-Assessment (RCSA) • Anti Bribery and Corruption risk Assessment	Medium	Increase in impact
IT risk	• Internal controls • Information security management system • KORIs monitoring • Incident reporting • Risk Control Self-Assessment (RCSA)	High	No change
Business continuity risk	• KORIs monitoring • Business Continuity Management System (BCMS) implementation	High	No change
Compliance/ regulatory risk	• Compliance programme and examinations • KORIs monitoring • Compliance risk scorecard	High	No change
Legal risk	• Legal clearance on all contractual obligations • KORIs monitoring	Medium	No change

* YoY change in impact on earnings and capital

Increase in impact   No change   Decrease in impact

Table 39 Operational risk review

The banking industry faces unique operational risks due to the nature of its operational process and the regulatory environment.

Base for operational risk management is established through an appropriate internal control mechanisms including system controls, access controls, segregation of duties, clear lines of authority and responsibility, dual control, physical controls over assets, record keeping, reconciliation process, audit trails and audit logs.

Risk management framework, strong senior management mandate and well-developed tools are the main strengths in operational risk management. The most appropriate risk management strategy is selected upon identification to minimise adversities to the Bank.

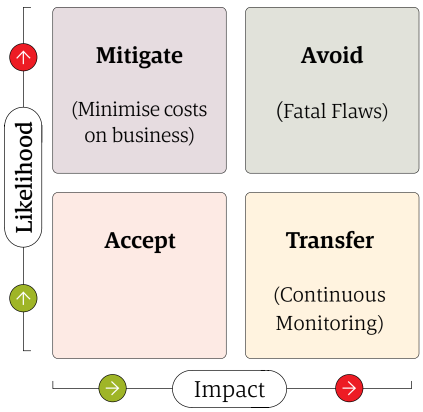


Figure 34 Operational risk management strategies

ORMU in RMD uses several techniques and processes to identify and assess operational risks. Identified risks are reported to the ORMC/BIRMC to facilitate timely decision-making.

The Bank allocates capital for operational risk using Basic Indicator Approach. Stress testing and scenario analysis are used to identify the impact from operational risk vulnerabilities in extraordinary conditions.

The Bank uses KORI matrix that covers KORIs on six key areas i.e. audit issues, business continuity, information security, product quality, process quality and compliance.

RCSAs are implemented across functions with higher vulnerability for operational risks to facilitate the process owners to evaluate and identify risks and controls collectively with risk management team and to enhance controls according to the requirement to further minimise risks.

Collection and analysis of operational loss event data is a key component in the Bank's operational risk management framework. Collected data is classified into loss event categories stated under Basel accords and used to identify the nature, root causes, severity, and the probability of occurrence. Process improvements and risk mitigation actions are recommended based on loss event data analysis.

Outsourcing is an effective cost-saving and risk transfer strategy for the Bank. The outsourcing arrangements of the Bank are identified and managed by the Administration Division. Outsourcing operations are conducted in accordance with the Outsourcing Policy approved by the 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.

Bank encounters operational risk events with significant severity but having a less likelihood to crystallise. Insurance is used as a technique to transfer key insurable risks of this nature. The adequacy of the insurance policies is continuously reviewed considering the existing and emerging risks to the Bank. Insurance function is centralised within the Administration Division.

Operational Risk Management Tools

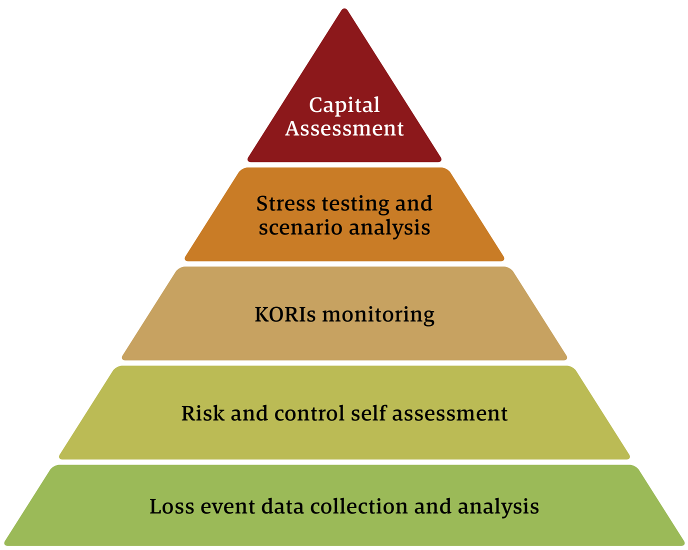


Figure 35 Operational Risk Management Strategies

Risk review

Fraud risk

Fraud risk causes substantial threat to viability and sustainability of a financial institution, where the damage goes beyond financial losses. This can be coupled with bribery and corruptions, hence employees and all relevant parties are refrain from accepting gifts and hospitality, payments for facilitation, political contributions, cash payments and commissions, sponsored traveling and lodging, and charitable contributions in return for the service provided.

Internal control structure includes proactive controls to minimise these risks in first line of defence. Operational Risk Management Policy, Whistleblowing Policy and Anti Bribery and Corruption Policy details the policies and procedures to manage fraud risk, bribery, and corruption risks.

Information technology risk

IT risk is one of the critical components in operational risk, which poses a threat to business data, critical systems, and various business processes when vulnerabilities in IT systems are exploited.

Technology risk management intends to establish business resilience considering sensitivity of data, criticality of information systems and type of information system infrastructure using feasible and standard technologies in Information and Communication Technology (ICT).

Strategic enhancements in technology essential to the Bank are determined within the strategic planning process to minimise the risk of technological obsolescence and to be in par with the industry peers. System interruptions and failures, errors, frauds through system manipulations and cyberattacks can be considered as other IT related risks.

IT Division headed by the CIO/DGM IT ensure managing the IT risks with an oversight responsibility to IT steering Committee (ITSC).

Information Security Division (ISD) headed by Chief Information Security Officer (CISO) is responsible for implementing information security risk management framework and to conduct independent risk assessments on information systems with the assistance of external expertise service providers.

At the management level the Information Security Committee (ISC) is responsible for strategic and operational aspects in information security risk management.

The Bank continuously has taken information security initiatives to improve resilience towards evolving cyber threats. The Bank has in place, a 24x7 operated Security Operations Centre (SOC) under the ISD. Data Leakages Prevention (DLP) and Data Classification Solution are initiatives taken to protect and secure data and comply with regulations.

Further the Bank achieved ISO 27001:2013 certification for IT Division, Information Security Division, DR Site and Card Centre. The Bank is also certified under Payment Card Industry Data Security Standard (PCI DSS), to ensure the safety of debit cardholder data.

Steps are taken 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.

Operational Risk Management Policy and Information Security Policy discuss the IT risk management framework.

ORMU monitors the implementation of regulatory requirements and best practices including vulnerability assessments, penetration tests, execution of disaster recovery plans, security incidents and loss events using KORIs. RCSA is also used as a tool to identify and assess IT risks in IT driven processes and products. The deviations identified are informed to higher management and to the Board through BIRMC for prompt risk mitigation action.

Business continuity risk

Business continuity risk refers to the potential adverse impact on the organisation's ability to maintain operational resilience effectively, ensuring the protection of the interests of key stakeholders in the face of natural or man-made disasters.

The Bank has established a robust governance structure, comprehensive policy documents, and efficient processes and systems for Business Continuity Management (BCM). These measures are designed to ensure the continuity of business operations with minimal disruptions, whether caused by natural disasters, man-made incidents, or IT-driven emergencies.

The dedicated Business Continuity Planning (BCP) unit assumes the crucial responsibility of implementing, testing, and monitoring the BCM framework. Additionally, this unit manages the disaster recovery site of the Bank, providing an essential layer of protection. The Bank's Data Centre, certified with a Tier III Design Certification (TCDD), further enhances the resilience of our business continuity infrastructure, demonstrating commitment to maintaining operational stability and safeguarding the interests of stakeholders.

Compliance risk

Regulatory risk is the risk that a change in laws and regulations will materially impact a security, business, sector, or market. On the other hand, compliance risk is the potential exposure to penalties, financial forfeitures and material loss resulting from its failure to act in accordance with industry laws and regulations, internal policies or prescribed best practices. Thus, regulatory risk relates to a potential change in law and regulation and compliance risk relates to the potential of banking business to violate existing laws and regulations. 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, moved from the rule-based approach to risk-based approach together with an effective governance framework to address the compliance risk.

The Compliance Division is headed by the Compliance Officer and reports directly to the Board of Directors through the BIRMC.

During the year 2023, the following actions were taken to minimise the compliance and regulatory risk of the Bank.

- Report suspicious transactions to Financial Intelligent Unit (FIU) 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 through transactions monitoring system and branch level tipoff.
- 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 and assess the overall compliance of the Bank.
- Creating awareness through training sessions.
- Identify money laundering activities through automated AML systems.

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 law and regulations 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 is the process of identification of underling drivers that will undermine the Bank's operations and reputation. The Legal Division of the Bank plays a pivotal role in responding efficiently and effectively to minimise the severity of legal risks. The Legal Division ensures that the Bank's business operations are conducted, and contractual relationships entered are in conformity with the applicable statutory framework.

The Legal Division engages in strategic management of the legal risk of the Bank and proactively engages in identifying potential legal risks and issues in collaboration with other business divisions and ensures that adequate and appropriate mitigatory measures are adopted to safeguard the Bank's interest. The Legal Division provides legal support, guidance, and counsel to manage crisis situations, resolve issues pertaining to subsidiaries, facilitate recoveries and revision of internal policies and procedures taking into account the development in the law which may have a material impact on Bank's operations.

Environmental, social and governance risk

Environment and social risks are the potential negative impacts to the Bank (or perceived impacts) on natural environment or community of people. It includes environmental aspects such as climate change and biodiversity, social aspects such as human rights and gender diversity. Governance includes policies, procedures, system of management and holding accountability through corporate governance best practices, anti-corruption, whistle-blowing, grievance redress mechanism, tax fairness etc.

Risk review

Effective management of Environmental and Social (E & S) risks is a crucial requirement to ensure a greener, climate friendly and socially inclusive environment and to manage adversities. Hence E & S risk management is incorporated into the IRM framework. Governance risk is managed within the compliance risk management in IRM framework. Hence, the Bank thrives to identify and develop business activities in a sustainable manner while developing innovative financial solutions to support sustainable initiatives.

The potential risks that may arise from climate change or from effort to mitigate climate change, their economic impacts and their economic operational and financial consequences can be considered as climate related financial risks.

The Bank included climate risk management to IRMF, to identify and manage the financial and operational risk associated with climate changes. Within the year, the Bank conducted a scenario analysis exercise to identify the impacts from climate risks to determine the approach to manage the impacts within the risk appetite levels.

Reputational risk

Reputational risk is the risk of adverse impact to the brand value due to negative stakeholder perception on Bank's activities, business practices, products and services. Adverse reputation will cost to the Bank and in extreme situations will impact on earnings and asset value. Hence, Board of Directors and Senior Management take proactive action to manage the reputation risks to the Bank.

The Bank operates within the comprehensive governance framework and complies with the laws, direction and guidelines imposed by regulators and other authorities. Every service point of the Bank act as the guardian of the brand value and the reputation of the Bank. The reputational risk is managed through the policies, procedures, internal controls and other risk management best practices in place encouraging a customer experience promoting customer loyalty. Marketing Division closely monitor all media publications including social media in promptly address concern areas.

Bank has a zero-risk appetite for reputational losses. At the second line of defence, RMD closely monitors the reputational risk to timely communicate the management for necessary risk management actions.

A scorecard-based model is used to assess the reputational risk within the ICAAP.

Strategic risk

Strategic risk is the risk of not delivering the expected outcome, which can harm the solvency indicators of the Bank. This risk can arise due to adverse economic conditions, evolving competitive landscape, change in customer preference, technological changes, or poor management.

Bank formulates strategic business plan considering changes in internal and external environment, competitor behaviour and customer trends and technological developments, aligning 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.

A scorecard-based model is used to assess the strategic risk within the ICAAP.

Capital management

The Bank requires a strong capital position in order to meet regulatory capital requirements, provide financial security to its depositors/creditors, maintain leeway for future business expansion and generate adequate return to its shareholders.

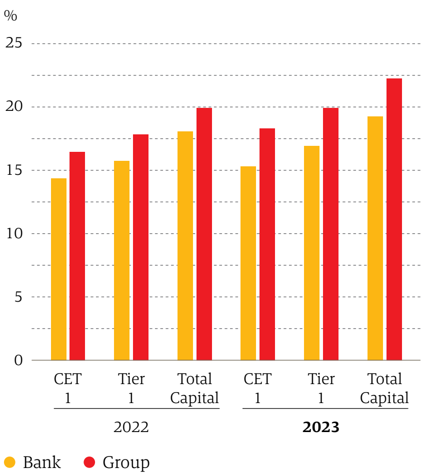
Managing capital assures resilience of the Bank while generating stakeholder return. Hence, the Bank strives to manage capital more efficiently by achieving the optimum balance between performance and risk and conduct stringent monitoring of the Risk-Weighted Asset (RWA) mix and changes in the risk profile. Capital management process of the Bank is in line with the guidelines issued by the CBSL.

Risk review

As per the Banking Act Direction No. 11 of 2019 on Amendments to Directions on Capital Requirements under Basel III for Licensed Commercial Banks and Licensed Specialised Banks, it is required to maintain the minimum capital ratios as prescribed in the Table 40. The Bank managed to maintain the capital adequacy ratio above the regulatory minimum requirement level for the year 2023. CET1 ratio position increased during the year to 15.33% as at 31 December 2023, from 14.36% as at 31 December 2022. The Bank's Tier 1 capital ratio increased to 16.91% as at 31 December 2023. Total capital ratio increased to 19.26% as at 31 December 2023 against 18% as at 31 December 2022.

The total capital ratio for the Group is 22.24% in 2023 against 19.96% in 2022. As the 100% state owned savings bank, there are limited options available to raise regulatory capital externally. Hence, retained earnings are the main source to augment the capital for the Bank. The contribution of retained earnings to augment the capital is Rs. 7.2 Bn. in the year 2023 against Rs. 2.5 Bn. in the year 2022.

Capital level Bank and Group Graph 75



Ratios (%)	Regulatory minimum	Actual as at 31 December 2023		Actual as at 31 December 2022	
		Bank	Group	Bank	Group
CET 1 plus CCB	7.00	**15.33**	**18.39**	14.36	16.49
Tier 1 plus CCB	8.50	**16.91**	**19.94**	15.78	17.90
Total capital	12.50	**19.26**	**22.24**	18.00	19.96

Table 40 Capital adequacy ratio

The Bank intends to maintain capital in excess of regulatory minimum levels to cover both Pillar I and Pillar II risks and a stress testing buffer. Stress testing is conducted on existing and projected risk areas to assess the capital requirement under stress conditions.

ICAAP Document

The ICAAP combines business performance, risk management actions and risk sensitive capital in a more rational manner to ensure the level of internal capital commensurate with the Bank's risk profile. The ICAAP comprises risk appetite, stress testing and capital planning concepts along with a sound risk management framework to capture all material risks, with the oversight responsibility of the Board of Directors through BIRMC. This process is comprehensively documented by RMD.

The ICAAP is conducted, and the document is prepared as per the Board approved ICAAP Policy which is in line with the CBSL directions on Basel III Pillar II guidelines issued to banks on the supervisory review process and international best practices. The risk assessments capture both Pillar I and Pillar II risks.

The Bank's ICAAP is governed by four principles which are fundamentals for the Bank and the regulator. Accordingly, the ICAAP is linked to capital levels and is expected to hold capital in excess of the regulatory minimum. The Bank has internal models to assess and quantify the risk profile and internal capital requirements. The risk assessments capture both Pillar I and Pillar II risks. Risk appetite limits are set considering the capital requirement, to facilitate monitoring of capital levels on a regular basis.

Stress Testing

Stress testing is an integral part of ICAAP. The Bank's stress testing framework is governed by the stress testing policy approved by the Board of Directors and guidelines issued by the CBSL. It 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 etc. The Bank has defined three levels of increasing adversity, i.e. minor, medium, and major (or Low, Medium, and High) for stress testing purposes.

Stress testing provides an understanding on the ability of the Bank to withstand unforeseen scenarios of varying severity under adverse economic, political, and physical changes in the environment in which it operates.

Sensitivity analysis is used to measure the impact of individual market factor movements on specific instruments or portfolios, including interest rates, foreign exchange rates and equity prices. The Bank mainly uses sensitivity analysis to identify the impact on trading and banking book due to adverse interest rate fluctuations and reports are submitted to ALCO on a periodic basis.

These reports are instrumental in asset and liability management, and for pricing decisions of the Bank.

Rs. Mn.	FVPL	FVOCI	Total
Unrealised gain/(loss) for year 2023	**77**	**1,922**	**1,999**
Rate shock	**Change in M2M value**		
100 bps increase in yield	(90.3)	(111.4)	(201.7)
200 bps increase in yield	(177.9)	(222.3)	(400.2)
100 bps decrease in yield	93.0	112.0	205.0
200 bps decrease in yield	188.8	224.6	413.4

Table 41 Sensitivity Analysis: Interest rate risk of Government Securities in Trading Book

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	(194,547)	(459,058)	(245,940)	(111,511)	334,968	295,483	358,134	(22,471)
	Impact on NII (Rs. Mn.)	(1,871)	(3,836)	(1,550)	(290)				(7,547)
Consolidated level	Gap	(209,346)	(464,634)	(240,733)	(113,999)	336,441	301,176	358,375	(32,720)
	Impact on NII (Rs. Mn.)	(2,013)	(3,883)	(1,517)	(297)				(7,709)

Table 42 Sensitivity Analysis: Assessment of yield curve risk in Banking Book

The results obtained from stress testing exercise are used in limit setting (risk appetite and risk limits), capital planning, strategic business planning and to manage the risks in critical business operations to support proactive decision-making.

Risk area	Scenario	Impact to CAR at different stress levels %		
		Low	Medium	High
Credit risk	Credit risk – Increase in PD By 10% By 20% By 30%	-0.39	-0.74	-1.15
Market risk	Interest rate risk: Increase in market yield Low 50bps Medium 100bps High 200bps	-0.01	-0.03	-0.06
	Equity price risk: Decline in market prices Low 10% Medium 20% High 30%	-0.02	-0.13	-0.23
	FX Risk: LKR depreciation Low 10% Medium 15% High 20%	-0.023	-0.035	-0.046
Operational risk	Increase in operational losses classified under Basel II loss event categories	-0.027	-0.039	-0.054

Table 43 Impact to the Capital Adequacy at different stress levels

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 420 to 431 for minimum disclosure requirements as per Banking Act Directions No. 01 of 2016.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Compendium

Financial reports

Financial Calendar

Financial calendar 2023

Publication of Interim Financial Statements for the quarter ended 31 March 2023	31 May 2023
Publication of Interim Financial Statements for the quarter ended 30 June 2023	31 August 2023
Publication of Interim Financial Statements for the quarter ended 30 September 2023	30 November 2023
Publication of Financial Statements (Audited) for the year ended 31 December 2023	28 March 2024

Proposed financial calendar 2024

Publication of Interim Financial Statements for the quarter ended 31 March 2024	31 May 2024
Publication of Interim Financial Statements for the quarter ended 30 June 2024	30 August 2024
Publication of Interim Financial Statements for the quarter ended 30 September 2024	29 November 2024
Publication of Financial Statements (Audited) for the year ended 31 December 2024	31 March 2025

Annual Report of Board of Directors

1 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 2023 and the Auditor General's Report on those financial statements, conforming to the requirements of the Nation Savings Bank Act No. 30 of 1971 and the amendments therein. The Report also includes certain disclosures required to be made under the Banking Act No. 30 of 1988 and amendments thereto and the Banking Act Direction No. 12 of 2007 on Corporate Governance for Licensed Specialized Banks issued by the Central Bank of Sri Lanka (CBSL) and subsequent amendments thereto. The Annual Financial Statements were reviewed and approved by the Board of Directors on 20th March 2024.

National Savings Bank is incorporated in Sri Lanka by National Savings Bank Act No. 30 of 1971 and was granted the status of Licensed Specialised Bank in terms of Banking Act No. 30 of 1988 and the amendments thereto. The Bank is wholly owned by the Government of Sri Lanka. The Bank has been assigned AAA (Stable) long-term initial rating by the Lanka Rating Agency.

2 Review of business

2.1 Principal activities of the Bank

The principal activities of the Bank during the year were promotion of savings among the people of Sri Lanka, retail banking, corporate banking, trade financing, primary dealing, other treasury operations as authorized by the NSB Act No. 30 of 1971 and amendments thereto, correspondence banking and money remittance facilities, pawning, foreign currency operations and other financial services.

2.2 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.

2.3 Government guarantee

The Government of Sri Lanka guarantees the repayment of the monies deposited with the Bank together with interest thereon.

2.4 Subsidiaries of the Bank

NSB Fund Management Company Ltd and Sri Lanka Savings Bank Limited are the Bank's two wholly owned Subsidiaries. The principal activity of the NSB Fund Management Company is dealing in Government Securities as a primary dealer authorised by the Central Bank of Sri Lanka.

Sri Lanka Savings Bank's principal activities are mobilising savings and time deposits, providing loans, lease, hire purchase, pawning and other credit facilities, and settling of the deposit liabilities of defaulted *Pramuka* Saving and Development Bank Limited (PSDBL) with reconstruction of loan accounts of PSDBL.

The Bank has agreed to absorb the assets, liabilities and staff of SLSB. The Director – Bank Supervision of Central Bank of Sri Lanka has informed by letter dated 11 January 2024 to complete the absorption process before 31 March 2024. Accordingly, a time bound action plan prepared by both NSB and SLSB has been sent to the Director bank Supervision.

Details of the transactions are given in Note 24 to the Financial Statements in page 294.

2.5 Changes to the Group structure

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

2.6 Review of business performance of the year

The overall review of financial performance of the Bank and the Group for the financial year 2023 are provided in the Chairman's Message (Page 14), General Manager/CEO's Review (Page 18), "Management Discussion and Analysis" on pages 96 to 150 and Audited Financial Statements (Pages 232 to 385) 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.

2.7 Branch network expansions

Due to the economic crisis prevailed in the country, capital expenditure was thoroughly monitored in compliance with the guidelines issued by the Ministry of Finance and the Central Bank of Sri Lanka. Accordingly, no branch was added to the network during the year under review. The Bank has 262 branches in its network. The ATMs/CRMs network was further expanded enhancing customer convenience. The Bank installed 25 CRMs and 2 ATM during the year across the island bringing out the total ATMs/CRMs to 417 excluding peer banks' ATMs through which customers of NSB can transact.

2.8 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 2023 duly certified by the Senior Deputy General Manager and approved and signed by the General Manager/CEO and two Senior Directors including Chairman of the Bank are given on pages 232 to 235 which form an integral part of the Annual Report of the Bank.

Annual Report of the Board of Directors

2.8.1 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 242 to 258 in this report. There were no changes to the accounting policies of the Bank and the Group in the year under review.

2.9 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 2023 and its profit for the year then ended. The Directors are of the view that the Financial Statements appearing on pages 232 to 385 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards (SLFRs/ LKASs) and the Banking Act No. 30 of 1988 and its amendments, the NSB Act No. 30 of 1971 and amendments thereto. The Statement of Directors' Responsibility for Financial Reporting appearing on page 233 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.

2.10 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 2023. Further, the Auditor General has carried out the audit of NSB Fund Management Company and Sri Lanka Savings Bank Limited.

In 2023, the continuous audit was carried out throughout the year for the Bank. Issues identified in their reports were submitted to the management regularly for prompt action. Having confirmed the accuracy of the financial reporting, the Financial Statements, together with the necessary data and information were made available to the Auditor General for examination. The Auditor General's opinion on the Financial Statements appears on page 228 of this Annual Report.

3 Future developments

An overview of the future developments of the Bank is given in the Chairman's Message (page 17), General Manager/CEO's Review (page 22) and "Management Discussion and Analysis" on pages 96 to 150 in the Integrated Annual Report 2023.

4 Gross income

The gross income of the Bank for 2023 was Rs. 232,064 Mn. (2022 – Rs. 174,530 Mn.) while the Group's income was Rs. 238,825 Mn. (2022 – Rs. 174,977 Mn.). Analysis of the gross income are given in Note 3 to the Financial Statements. The Bank's Gross Income accounted for 97.2% (2022 – 99.7%) of the Gross Income of the Group. The main income of the Bank and the Group is interest income that comprise 97.8% (2022 – 99.1%) and 96.8% (2022 – 100.4%) respectively.

5 Dividends and reserves

5.1 Results and appropriation

The Profit before Income Tax of the Bank and the Group amounted to Rs. 4,287 Mn. and Rs. 8,022 Mn. (2022 – Rs. 4,510 Mn. and Rs. 2,340 Mn.) respectively.

The Profit after Tax of the Bank and the Group stood at Rs. 7,216 Mn. and Rs. 9,617 Mn. respectively (2022 – Rs. 2,530 Mn. and Rs. 949 Mn.). Details of profit relating to the Bank are given in the following Table:

	2023 Rs. Mn.	2022 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	**5,589**	7,763
VAT on financial services	**1,143**	3,186
Social Security Contribution Levy (SSCL) on financial services	**159**	67
Income tax expenses	**(2,929)**	1,980
Profit for the year	**7,216**	2,530
Other comprehensive income for the year, net of tax	**386**	(1,223)
Total comprehensive income for the year	**7,602**	1,307
Appropriations:		
Transfer to statutory reserve	**(144)**	(51)
Contribution to the National Insurance Trust Fund (NITF)	**–**	(25)
Contribution to the Consolidated Fund/dividend	**–**	–
Transfers to reserves	**(7,458)**	(1,231)

Annual Report of the Board of Directors

5.2 Provision for taxation

As per the Inland Revenue Act No. 45 of 2022 (Amendment), certified on 19th of December 2022 the standard rate of income is 30%.

In terms of the Social Security Contribution Levy Act No. 25 of 2022, the Bank is liable for Social Security Contribution Levy (SSCL) on financial services with effect from 1 October 2022 on the value addition attributable to financial services at the rate of 2.5%. The Bank and the Group's operations were liable for Value Added Tax on Financial Services at the rate of 18%.

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 269 and 306.

5.3 Dividends, taxes and levies/contribution to nation

The Bank contributed Rs. (1,308) Mn. by way of taxes and levies to the Government in 2023 (2022 – Rs. 5,578 Mn.). This consisted of:

	2023 Rs. Mn.	2022 Rs. Mn.
Income tax	**(2,929)**	1,980
Value added tax/ SSCL	**1,301**	3,253
Special fee	**320**	320
Contribution to the Consolidated Fund	–	–
Contributions to National Insurance Trust Fund	–	25
Total contribution to the Nation	**(1,308)**	5,578

5.4 Reserves

The total reserves of the Bank stood at Rs. 71,974 Mn. as of 31 December 2023 (2022 – Rs. 63,492 Mn.). The Bank's Reserves consist of:

	2023 Rs. Mn.	2022 Rs. Mn.
Statutory reserve fund	**5,369**	5,225
Revaluation reserve	**7,946**	6,494
Retained earnings	**14,408**	11,359
Other reserves	**44,251**	40,414
Total reserves	**71,974**	63,492

Information on changes of reserves is given in the Statement of Changes in Equity on pages 236 to 239.

6 Service charges to Postmaster General (PMG)

Service charges to the PMG for 2023 amounting to Rs.326 Mn. has been provided for on the same basis as in 2022.

7 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 316 to 327 in Notes to the Financial Statements.

8 Property, plant & equipment and capital expenditure

The total capital expenditure incurred by the Bank on the acquisition of property, plant & equipment, and Intangible Assets (Including capital work-in-progress) during the year amounted to Rs. 1,576 Mn. (2022 – Rs. 906 Mn.) and Group amounted to Rs. 1,578 Mn. (2022 – Rs. 912 Mn.), the details of which are given in Notes 26. (a), 26. (b), 29.1 and 29.2 to the Financial Statements on pages 295 to 300 and page 305 of this Annual Report.

9 Value of property, plant and equipment

The total Net Book Value of Property, Plant and Equipment of the Bank and the Group as at the year-end 2023 was Rs. 17,249 Mn. and Rs. 18,389 Mn. respectively (2022 – Rs. 14,756 Mn. in the Bank and Rs. 15,646 Mn. in the Group). Details are given in Notes to the Financial Statements as follows:

- Note 26 to the Financial Statements: Property, Plant and Equipment on page 295
- Note 29 to the Financial Statements: Goodwill and Intangible Assets on page 304
- Note 48.1 to the Financial Statements: Capital Commitments on page 334

10 Stated capital and shareholding

10.1 Stated capital

The authorised share capital of the Bank is Rs. 10 Bn. which is made of One Billion ordinary shares of Rs. 10/- each. The issued share capital of the Bank as of 31 December 2023 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 329 in Notes 43 on Stated Capital/Assigned Capital and Note 46.1 on Unclaimed Deposit Reserve on page 331.

10.2 Shareholding

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

11 Issue of perpetual debenture/bond

Outstanding subordinated liabilities of the Bank as of 31 December 2023 consisted of Rs. 5 Bn. unlisted, rated, unsecured, subordinated, Perpetual Debentures of Rs. 100 issued on 27 October 2020 on Private Placement eligible for Additional Tier I Capital. The details of debentures outstanding as at the date of Financial Position are given in Note 37.1 of the Financial Statements on page 314 on subordinated liabilities.

Annual Report of the Board of Directors

12 Issue of senior debenture

Outstanding debenture of the Bank as of December 31, 2023, consisted of Rs.11.5 Bn. Unlisted, Rated, Redeemable, Senior Debentures of Rs. 100 each issued on 24 September 2021 as Private Placement and Rs. 6.3 Bn. Unlisted, Rated, Senior, Unsecured, Redeemable debenture of Rs. 100 each issued on 10 September 2019. Information on Senior Debenture is given in Note 37.2 on pages 315 to 316 of this Annual Report.

13 Share information

The basic earnings per share and net assets value per share of the Bank 2023 were Rs. 7.68 (2022 – Rs. 2.69) and Rs. 86.57 (2022 – Rs. 77.54) respectively for the period under review. The details are given in Note 14 on basic earnings per ordinary share on page 271 and Note 50 on net assets value per ordinary share on page 341.

14 Donations

The Bank did not carry out any programme relating to corporate social responsibility due to restrictions imposed by the Government.

15 Board of Directors

15.1 Information of the Directors held office during the year 2023

The Board of Directors who held the office during the financial year 2023 of the Bank comprised five 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 page 158 of this Annual Report.

Name	Tenure	Membership status
Dr Harsha Cabral, PC – Chairman	02 May 2023 to date	NED/ID
Mr Jude Nilukshan – Ex-officio Director	28 February 2022 to date	NED/NID
Mr S R W M R P Sathkumara – Ex-officio Director	27 March 2023 to date	NED/ID
Mr Dushyanta Basnayake – Director	31 March 2023 to date	NED/NID
Mr Ashane Jayasekara – Director	09 January 2024	NED/ID
Mr H K D Lakshman Gamini – Director	14 December 2020 to 14 December 2023	NED/NID

NED – Non-Executive Director **NID** – Non-Independent Director **ID** – Independent Director

List of Directors of the Subsidiaries of the Bank

Names of the Directors of NSB Fund Management Co. Ltd. are as follows:

Mr Dushyanta Basnayaka – (Chairman) (28 December 2023 to date)

Mr W O Rodrigo (13 January 2020 to date)

Ms Shashi Kandambi (15 February 2024 to date)

Mr K Raveendran (24 June 2022 to date)

Mr H K D Lakshman Gamini (30 March 2021to 14 December 2023)

Mr M P A W Peiris (04 November 2020 to 07 November 2023)

Mrs Keasila Jayawardena (17 January 2020 to 27 April 2023)

Mr M T J Perera (02 June 2020 to 21 February 2023)

Ms Manohari Abeyesekera (17 January 2020 to 02 January 2023)

Names of the Directors of Sri Lanka Savings Bank Limited are as follows:

B M D B Basnayake – (Chairman)

H M S Dharmawardane

H D P Gamage

N P Imbulagoda

M K G J Arunashantha

H K D L Gamini

15.2 Board subcommittees

The Board of Directors while assuming the overall responsibility and accountability has appointed four mandatory Board Sub Committees namely, Board Audit Committee, Board Human Resource and Remuneration Committee, Board Nomination Committee, Board Integrated Risk Management Committee as required by the Banking Act Direction No. 12 of 2007 on "Corporate Governance for Licensed Specialised Banks in Sri Lanka" issued by the CBSL and Board Non-urgent Non-essential Expenses Committee (BNNEC) as mandated by the Banking Act Direction No. 1 of 2023.

The Terms of Reference of these Board Sub Committees conform to the recommendations made by the regulator; CBSL and NSB Act as well as voluntary codes issued by the CA Sri Lanka.

The composition of Board Sub Committees as of 31 December 2023 and the details of the attendance by Directors at meetings are disclosed in page 174 and the Reports of these Sub Committee are given on pages 182 to 190.

15.3 Directors' meetings

The details of Directors' meetings which comprise of Board Meetings and Board Sub Committee Meetings and the attendance are given in the Corporate Governance Report on page 174 of the Annual report.

Annual Report of the Board of Directors

15.4 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 pages 338. 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.

15.5 Directors' interest in debentures issued by the Bank

There were no Debentures registered in the name of any Director.

15.6 Directors' remuneration and other benefits

Details of Directors' emoluments and other benefits in respect of the Bank and the Group for the financial year 2022 are given in Note 49.5.1 to the Financial Statements on pages 338.

15.7 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 pages 338 to the Financial Statements forming part of the Annual Report of the Board of Directors.

16 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 146 to 150.

17 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.

18 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 pages 342.

19 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.

20 Risk management, internal controls and management information systems

20.1 Risk management

The Board of Directors assumes overall responsibility for managing risk. There is an ongoing process for identifying evaluating and managing the risks that are faced by the Bank. The specific measures taken by the Bank in mitigating the risk are detailed on pages 191 to 213 in Risk Review Report and Board Integrated Risk Management Report on pages 188 to 189 of this Report.

20.2 Internal controls and management information systems

The Board of Directors has ensured that the Bank has instituted and implemented an effective and comprehensive system of internal controls and management information systems in the Bank through the Board Audit Committee. Internal control systems have been redesigned to mitigate the risks to which the Bank is exposed, to provide reasonable assurance against material misstatements or loss. The Board Audit Committee Report is given in page 182 to 184 in this report.

The Board has issued a statement on the internal control mechanism of the Bank in accordance with the Direction No. 3 (8) (ii) (b) of the Banking Act Direction No 12 of 2007 on Corporate Governance for licensed specialized banks which is given on page 388 to 407 of this report. The Board has confirmed that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of Financial Statements for external reporting purposes has been done in accordance with relevant accounting principles and regulatory requirements.

The Board has obtained an Assurance form the Auditor Genera; on Directors' Statement on Internal Control which is give in page 224 to 225 of the report.

21 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 268.

21.1 Regulatory supervision

As a regulatory supervisory body, the Central Bank of Sri Lanka carried out a periodic examination of the records and affairs of the Bank to ascertain compliance with directives issued by the Central Bank of Sri Lanka. It also determines whether required financial indicators are being maintained at the required level so that the interests of the stakeholders, particularly depositors are safeguarded.

22 Corporate governance

In the management of the Bank, the Directors have placed emphasis on conforming with, the best Corporate Governance Practices and Procedures. Accordingly, the Directors have declared that:

(a) The Bank has complied with applicable laws and regulations in conducting its business and have not engaged in any activity breaching the relevant laws and regulations.

(b) They have declared all material interest in contracts involving the Bank and refrained from involving any matter which they have a material interest.

(c) The business is a going concern and the Board of Directors have reviewed the Strategic Business Plan and is satisfied that the Bank is having adequate resources to accelerate the future momentum of NSB in foreseeable future. Thus, the Financial Statements of the Bank and its subsidiary are prepared based on the going concern assumption.

(d) The Bank has disclosed in the Financial Statements on Related Party Transactions

(e) The Bank has conducted a review on internal controls which covers financial, operational and compliance controls, risk management and have obtained a reasonable assurance of their effectiveness and adherence.

23 Sustainability

When formulating its business strategies, the Bank has considered the sustainability aspects, the details of which are disclosed in pages 434 to 436 under GRI Index.

24 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 2023 on page 124 to 135.

25 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 341 will not have a material impact on the financial position of the Bank or its future operations.

26 Acknowledgement of the Contents of the Report

The Board of Directors hereby acknowledge the contents of this Annual Report.

By Order of the Board,

Dr Harsha Cabral PC
Chairman

M A P Muhandiram
Secretary to the Board

25 March 2024
Colombo

Statement of Directors' Responsibility for Financial Reporting

The responsibility of the Directors in relation to the Financial Statements of the National Savings Bank (Bank) and Consolidated Financial Statements of the Bank and its Subsidiaries (Group) is set out in this statement.

Financial Statements

The Directors of the Bank are responsible for ensuring that the Bank and the Group keep proper books of accounts of all the transactions and prepare Financial Statements in accordance with Generally Accepted Accounting Principles, Sri Lanka Accounting Standards and Sri Lanka Financial Reporting Standards that give a true and fair view of the financial position of the Bank and the Group at the end of each financial year in compliance with the relevant statutory requirements. The Financial Statements comprise of Income Statement, Statement of Comprehensive Income, Statement of Financial Position as at 31 December 2023, 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 2023; and
2. Financial performance of the Bank and its Subsidiaries for the financial year ended 31 December 2023.

In preparing these Financial Statements, the Directors are required to ensure that:

1. The accounting policies adopted to prepare the Financial Statements which are depicted in page 242 were appropriate according to the existing financial reporting frame work. These policies were consistently applied and adequately disclosed.
2. Reasonable and prudent judgments 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 232 to 241). The Financial Statements for the year 2023 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 224 of this Annual Report and Auditor General's Assurance Report on the Bank's Internal Control is given on page 226.

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 228 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,

M A P Muhandiram
Secretary to the Board

20 March 2024
Colombo

Directors' Statement on Internal Control Over Financial Reporting

Responsibility

This report has been issued in line with the Banking Act Direction No. 12 of 2007, Section 3 (8)(ii)(b), and prepared based on principles D.1.5 of Code of Best Practice on Corporate Governance 2017 issued by CA Sri Lanka (Code) the Board of Directors presents this report on internal control.

The Board of Directors (The Board) is responsible for ensuring that an adequate and effective system of internal control is established and maintained at the National Savings Bank. However, such a system is designed to manage the Bank's significant risk areas within acceptable risk parameters, rather than eliminating the risk of failure to achieve business objectives of the Bank. Accordingly, the system of internal controls can only provide reasonable but not absolute assurance against material misstatement of management and financial information and records or against financial losses or frauds.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Bank and this process includes enhancing the system of internal controls as and when there are changes to business environment or regulatory requirements and other guidelines. The process is regularly reviewed by the Board and confirmed the compliance with the Guidance for Directors of the Bank on the Directors' Statement on Internal Controls issued by The Institute of Chartered Accountants of Sri Lanka. The Board has assessed the internal control system taking into account all main principles for the assessment of internal Control System as given in that guidance.

The Board is of the view that the system of internal controls over financial reporting is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and the preparation of Financial Statements for external purposes and is in accordance with the relevant accounting principles and regulatory requirements.

The Management assists the Board in the implementation of the Board's policies and procedures on risks and controls by identifying and assessing the risks faced by the Bank, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

Key features of the process adopted in applying and reviewing the design and effectiveness of the internal control system on financial reporting

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

- The Board Sub-Committees have been established with defined scopes and functions to assist the Board in ensuring the effectiveness of the Bank's operations and that the Bank's operations are in accordance with the corporate objectives, strategies, policies and business directions that have been approved.
- The Board Audit Committee (BAC) reviews periodically the internal control issues identified by the Internal Audit Division of the Bank, the External Auditors, Regulatory Authorities and corrective actions are taken to rectify such deficiencies. The Auditor General carries out the external audit of the Bank. The Superintendent of the Government Audit is generally invited to BAC meetings.
- The BAC reviews the internal audit function with particular emphasis on the scope of audits and quality of the same. The activities attended to by the BAC during the year 2023 are set out in the Board Audit Committee report appearing on page 182 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 & 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.

Directors' Statement on Internal Control over Financial Reporting

The comments made by the external auditors in connection with internal control system over financial reporting in previous years were reviewed during the year and appropriate steps have been taken to rectify them. The recommendations made by the external auditors in 2023 in connection with the internal control system over financial reporting will be addressed in the future.

Confirmation

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

By Order of the Board,

Dr Harsha Cabral
Chairman

Dushyanta Basnayake
Director

Jude Nilukshan
Director

20 March 2024
Colombo

Independent Assurance Report on Internal Control

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NATIONAL AUDIT OFFICE

මගේ අංකය / எனது இல. / My No. BAN/A/NSB/IC/2023/01
ඔබේ අංකය / உமது இல. / Your No.
දිනය / திகதி / Date 22 April 2024

The Chairman
National Savings Bank

Independence Assurance Report of the Auditor General to the Board of Directors on the Directors' Statement on Internal Control over Financial Reporting of National Savings Bank.

Introduction

This report is to provide assurance on the Directors' Statement on Internal Control over Financial Reporting (the "Statement") of National Savings Bank included in the annual report for the year ended 31 December 2023.

Management's Responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued in compliance with the Section 3 (8) (ii) (b) of the Banking Act Direction No. 12 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

My Responsibility and Compliance with SLSAE 3050 (Revised)

My responsibility is to assess whether the Statement is both supported by the documentation prepared by or for directors and appropriately reflects the process the directors have adopted in reviewing the design and effectiveness of the Internal Control of the National Savings Bank.

I conducted my engagement in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE) 3050 (Revised) – Assurance Report for Banks on Directors' Statement on Internal Control, issued by the Institute of Chartered Accountants of Sri Lanka.

This standard required that I plan and perform procedures to obtain limited assurance about whether management has prepared, in all material aspects, the Statement on Internal Control.

For the purpose of this engagement, I am not responsible for updating or reissuing any reports, nor have I, in the course of this engagement, performed an audit or review of the financial information.

Summary of Work Performed

I conducted my engagement to assess whether the Statement is supported by the documentation prepared by or for Directors; and appropriately reflected the process the Directors have adopted in reviewing the system of Internal Control over Financial Reporting of the Bank.

The procedures performed were limited primarily to inquiries of Bank personnel and the existence of documentation on a sample basis that supported the process adopted by the Board of Directors.

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

The Procedures selected depend on my judgment, having regard to my understanding of the nature of the Bank, the event or transaction in respect of which the Statement has been prepared.

I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

My Conclusion

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

W P C Wickramaratne
Auditor General

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව. இல. 306/72, பொல்தூவ வீதி, பத்தரமுல்லை, இலங்கை. No. 306/72, Polduwa Road, Battaramulla, Sri Lanka.
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General Manager/CEO's and, Senior Deputy General Manager's Statement of Responsibility

The Financial Statements of the National Savings Bank (the Bank) and the Consolidated Financial Statements of the Bank and its Subsidiaries (the Group) as at 31 December 2023 are prepared and presented in compliance with following:

- National Savings Bank Act No. 30 of 1971 and amendments thereto.
- Finance Act No. 38 of 1971.
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995.
- Banking Act No. 30 of 1988 and amendments thereto and Directions, Determinations and Guidelines issued by the Central Bank of Sri Lanka (CBSL) there under relating to Financial Statements formats and disclosure of information.
- Sri Lanka Financial Reporting Standards/ Sri Lanka Accounting Standards (SLFRSs/ LKASs) issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).
- Code of Best Practices on Corporate Governance 2017 issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).
- The Banking Act Direction No. 12 of 2007 on Corporate Governance issued by the CBSL.

The formats used in the preparation of the Financial Statements and disclosures made, comply with the specified formats prescribed by the CBSL which are also in compliance with the disclosure requirements of the Sri Lanka Accounting Standard 1 (LKAS 1) – "Presentation of Financial Statements" The Bank and the Group presents the financial results to its users on a quarterly basis.

The Accounting Policies used in the preparation of the Financial Statements are appropriate and are consistently applied by the Bank and the Group. The Significant Accounting Policies and estimates that involved a high degree of judgment and complexity were discussed with the Bank's External Auditors and the Board Audit Committee.

There were no changes to the Accounting Policies and methods of computation since the publication of the Annual Report for the year ended 31 December 2022. Accordingly, there was no necessity to amend comparative information to comply with the current presentation.

We confirm that to the best of our knowledge, the Financial Statements, Significant Accounting Policies and other financial information included in this Annual Report, fairly present in all material aspects of the assets, liabilities, results of the operations and the cash flows of the Bank and the Group during the year under review and given a true and fair view of the Financial Statements. We also confirm that the Bank and the Group has adequate resources to continue in operation and have applied the going concern basis in preparing these Financial Statements.

Responsibility of internal control and procedures

We are responsible for establishing, implementing and maintaining Internal Controls and Procedures of the Bank and its Subsidiaries. We ensure that effective Internal Controls and Procedures are in place ensuring material information relating to the Bank and the Group is made known to us for safeguarding assets, preventing and detecting fraud and/or error as well as other irregularities, which are reviewed, evaluated and updated on an ongoing basis. We are satisfied that there were no significant deficiencies and weaknesses in the design or operation of the Internal Controls and Procedures, to the best of our knowledge. We confirm, based on our evaluations, that there were no significant deficiencies and material weaknesses in the design or operation of internal controls and procedures, to the best of our knowledge. We confirm, based on our evaluations, that there were no significant deficiencies and material weaknesses in the design or operation of internal controls and any fraud that involved management or other employees. The Bank's Internal Auditors also conduct periodic reviews to ensure that the established Internal Controls over Financial Reporting and Procedures are consistently followed. However, there are inherent limitations that should be recognised in weighing the assurance provided by any system of internal control and accounting.

Directors' Statement on Internal Control over Financial Reporting is provided on pages 224 to 225 of this Annual Report. The Auditor General has audited the effectiveness of the Internal Controls over financial reporting adapted by the Bank and has given an unqualified opinion which is provided on page 226 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 228 to 230 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 182 to 184 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 341 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 2023 have been paid, or where relevant, provided for.

Shashi Kandambi
General Manager/CEO

K Raveendran
Senior Deputy General Manager

25 March 2024
Colombo

Auditor General's Report

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Chairman

National Savings Bank

Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the National Savings Bank and its subsidiaries for the year ended 31 December 2023 in terms of Section 12 of the National Audit Act, No. 19 of 2018.

1 Financial Statements

1.1 Opinion

The audit of the Financial Statements of the National Savings Bank (the "Bank") and the Consolidated Financial Statements of the Bank and its subsidiaries (the "Group") for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and notes to the Financial Statements, including material accounting policy information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka 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 2023, and of their financial performance and their 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 2023 Annual Report

The other information comprises the information included in the Bank's 2023 Annual Report, but does not include the financial statements and my auditor's report thereon, which is expected to be made available to me after the date of this auditor's report. Management is responsible for the other information.

My opinion on the Financial Statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated.

When I read the Bank's 2023 Annual Report, if I conclude that there are material misstatements therein, I am required to communicate that matter to those charged with governance for correction. If further material uncorrected misstatements are existed those will be included in my report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution that will be tabled in due course.

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව | இல. 306/72, பொல்துவ வீதி, பத்தரமுல்லை, இலங்கை. | No. 306/72, Polduwa Road, Battaramulla, Sri Lanka.
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Auditor General's Report

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1.4 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of Financial Statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

As per Section 16 (1) of the National Audit Act No. 19 of 2018, the Bank and the Group is 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 Bank and 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 internal control of the Bank and the Group.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

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.

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2 Report on Other Legal and Regulatory Requirements

2.1 National Audit Act No. 19 of 2018 includes specific provisions for following requirements;

2.1.1 I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Bank as per the requirement of Section 12 (a) of the National Audit Act No. 19 of 2018.

2.1.2 The Financial Statements presented is consistent with the preceding year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018.

2.1.3 The Financial Statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018.

2.2 Based on the procedures performed and evidences obtained were limited to matters that are material, nothing has come to my attention;

2.2.1 to state that any member of the governing body of the Bank has any direct or indirect interest in any contract entered into by the Bank which are out of the normal course 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 2023 Rs. '000	Bank 2022 Rs. '000	Bank Change %	Group 2023 Rs. '000	Group 2022 Rs. '000	Group Change %
Gross income	3	259	**232,064,322**	174,530,349	33	**238,824,651**	174,977,187	36
Interest income			**226,967,227**	172,940,351	31	**231,204,088**	175,769,899	32
Less: Interest expenses			**197,402,011**	140,477,402	41	**199,266,982**	142,166,248	40
Net interest income	4	259	**29,565,216**	32,462,949	(9)	**31,937,106**	33,603,651	(5)
Fee and commission income			**1,593,415**	2,172,978	(27)	**1,605,521**	2,180,276	(26)
Less: Fee and commission expenses			**317,046**	232,767	36	**317,292**	235,201	35
Net fee and commission income	5	262	**1,276,369**	1,940,211	(34)	**1,288,229**	1,945,075	(34)
Net gain/(loss) from trading	6	263	**1,425,791**	(971,434)	247	**3,701,827**	(3,489,830)	206
Net fair value gains/(losses) from financial instruments at fair value through profit or loss	7	263	**–**	–	–	**–**	–	–
Net gains/(losses) from derecognition of financial assets	8	264	**1,820,617**	(26,203)	7,048	**1,820,617**	(26,203)	7,048
Net other operating income	9	264	**257,272**	414,656	(38)	**492,598**	543,045	(9)
Total operating income			**34,345,265**	33,820,181	2	**39,240,377**	32,575,739	20
Less: Impairment charges	10	265	**4,258,828**	4,862,198	(12)	**4,159,978**	4,935,391	(16)
Net operating income			**30,086,437**	28,957,983	4	**35,080,399**	27,640,348	27
Less: Expenses								
Personnel expenses	11	266	**16,110,458**	13,790,521	17	**16,424,824**	14,117,672	16
Depreciation and amortisation expenses			**1,432,520**	1,414,697	1	**1,448,489**	1,431,867	1
Other expenses	12	268	**6,954,619**	5,990,018	16	**7,097,612**	6,352,583	12
Operating profit before VAT & SSCL on financial services			**5,588,840**	7,762,747	(28)	**10,109,474**	5,738,226	76
Less: Value Added Tax (VAT) on financial services			**1,142,716**	3,185,879	(64)	**1,832,755**	3,326,549	(45)
Less: Social Security Contribution Levy (SSCL) on financial services			**158,708**	67,259	136	**254,298**	72,067	253
Operating profit after VAT & SSCL on financial services			**4,287,416**	4,509,609	(5)	**8,022,421**	2,339,610	243
Share of profits of associates and joint ventures			**–**	–	–	**–**	–	–
Profit before income tax			**4,287,416**	4,509,609	(5)	**8,022,421**	2,339,610	243
Less: Income tax expenses	13	269	**(2,929,067)**	1,979,942	(248)	**(1,594,388)**	1,390,619	(215)
Profit for the year			**7,216,483**	2,529,667	185	**9,616,809**	948,991	913
Profit attributable to:								
Equity holders of the Bank			**7,216,483**	2,529,667	185	**9,616,809**	948,991	913
Non-controlling interests			**–**	–	–	**–**	–	–
Profit for the year			**7,216,483**	2,529,667	185	**9,616,809**	948,991	913
Earnings per share on profit								
Basic earnings per ordinary share (Rs.)	14	271	**7.68**	2.69	185	**10.23**	1.01	913
Diluted earnings per ordinary share (Rs.)			**7.68**	2.69	185	**10.23**	1.01	913
Profit for the year			**7,216,483**	2,529,667	185	**9,616,809**	948,991	913

The Notes to the Financial Statements disclosed on pages 242 to 385 are integral parts of these Financial Statements.

Statement of Comprehensive Income

For the year ended 31 December	Bank 2023 Rs. '000	Bank 2022 Rs. '000	Bank Change %	Group 2023 Rs. '000	Group 2022 Rs. '000	Group Change %
Profit for the year	**7,216,483**	2,529,667	185	**9,616,809**	948,991	913
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	**3,742,285**	(658,872)	668	**3,919,079**	(596,547)	757
Fair value gains/(losses) transferred to income statement on disposal of debt instrument at fair value through other comprehensive income	**(1,820,617)**	7,913	(23,108)	**(1,820,617)**	7,913	(23,108)
Deferred tax effect on above	**(576,501)**	220,995	(361)	**(629,539)**	220,995	(385)
Total items that will be reclassified to income statement	**1,345,167**	(429,964)	413	**1,468,923**	(367,638)	500
Items that will not be reclassified to income statement						
Change in fair value on investments in equity instruments designated at fair value through other comprehensive income	**1,971,371**	(581,536)	439	**2,070,885**	(643,881)	422
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	**(6,107,248)**	(880,529)	594	**(6,106,664)**	(882,050)	592
Deferred tax effect on above	**1,723,862**	1,225,071	41	**1,723,503**	1,225,071	41
Re-measurement of post employment benefit obligations (net of taxes)	**(4,383,386)**	344,542	(1,372)	**(4,383,161)**	343,021	(1,378)
Changes in revaluation surplus	**2,075,948**	–	100	**2,333,511**	–	100
Deferred tax effect on above	**(623,608)**	(555,724)	12	**(623,608)**	(555,724)	12
Changes in revaluation surplus (net of taxes)	**1,452,340**	(555,724)	361	**1,709,903**	(555,724)	408
Share of profits of associates and joint ventures	–	–	–	–	–	–
Total items that will not be reclassified to income statement	**(959,675)**	(792,718)	21	**(602,373)**	(856,584)	(30)
Other comprehensive income for the year, net of taxes	**385,492**	(1,222,682)	132	**866,550**	(1,224,223)	171
Total comprehensive income for the year	**7,601,975**	1,306,985	482	**10,483,359**	(275,232)	3,909
Attributable to:						
Equity holders of the Bank	**7,601,975**	1,306,985	482	**10,483,359**	(275,232)	3,909
Non-controlling interests	–	–	–	–	–	–
Total comprehensive income for the year	**7,601,975**	1,306,985	482	**10,483,359**	(275,232)	3,909

The Notes to the Financial Statements disclosed on pages 242 to 385 are integral parts of these Financial Statements.

Statement of Financial Position

As at 31 December	Note	Page	Bank 2023 Rs. '000	Bank 2022 Rs. '000	Bank Change %	Group 2023 Rs. '000	Group 2022 Rs. '000	Group Change %
Assets								
Cash and cash equivalents	16	275	**9,508,563**	8,734,069	9	**9,546,756**	8,782,807	9
Balances with central banks	17	275	**246,998**	236,480	4	**247,232**	236,696	4
Placements with banks	18	276	**22,576,750**	10,466,409	116	**23,618,966**	11,034,246	114
Derivative financial instruments	19	276	**924**	28,172	(97)	**11,231**	35,392	(68)
Financial assets recognised through profit or loss	20	277						
– measured at fair value			**17,748,501**	14,173,948	25	**40,189,162**	23,236,848	73
– designated at fair value			**–**	–	–	**–**	–	–
Financial assets at amortised cost								
– loans and advances	21	281	**526,520,530**	553,027,321	(5)	**523,809,104**	553,052,170	(5)
– debt and other instruments	22	288	**943,704,684**	919,129,377	3	**953,056,324**	927,916,442	3
Financial assets measured at fair value through other comprehensive income	23	290	**61,924,412**	27,662,763	124	**62,694,519**	28,252,211	122
Investments in subsidiaries	24	294	**7,311,000**	7,311,000	–	**–**	–	–
Investments in associates and joint ventures	25	295	**–**	–	–	**–**	–	–
Property, plant and equipment	26	295	**17,248,961**	14,755,775	17	**18,389,400**	15,645,732	18
Right-of-used assets	27	301	**1,164,595**	1,213,649	(4)	**1,193,161**	1,246,383	(4)
Investment properties	28	302	**–**	–	–	**349,000**	204,977	70
Goodwill and intangible assets	29	304	**744,715**	747,248	(0.3)	**747,225**	752,221	(1)
Deferred tax assets	30	306	**5,885,288**	2,892,984	103	**5,885,288**	3,663,879	61
Other assets	31	309	**72,378,671**	56,306,931	29	**72,570,357**	56,576,713	28
Total assets			**1,686,964,592**	1,616,686,128	4	**1,712,307,725**	1,630,636,718	5
Liabilities								
Due to banks	32	310	**8,984,779**	4,086,731	120	**15,399,100**	12,711,256	21
Derivative financial instruments	33	310	**201**	–	100	**201**	–	100
Financial liabilities recognised through profit or loss	34	310	**–**	–	–	**–**	–	–
Financial liabilities at amortised cost	35	311						
– due to depositors			**1,482,532,430**	1,476,739,818	0.4	**1,482,951,028**	1,475,808,557	0.5
– due to debt securities holders			**–**	–	–	**–**	–	–
– due to other borrowers			**61,611,014**	16,766,044	267	**72,891,598**	18,889,245	286
Lease liability	36	312	**1,365,547**	1,377,229	(1)	**1,400,575**	1,414,959	(1)
Debt securities issued	37	313	**23,806,514**	23,778,255	0.1	**23,879,683**	23,851,810	0.1
Retirement benefit obligations	38	316	**18,100,399**	12,488,912	45	**18,169,106**	12,547,851	45
Current tax liabilities	39	328	**–**	2,760,857	(100)	**305,869**	2,943,314	(90)
Deferred tax liabilities	30	306	**–**	–	–	**58,630**	4,155	1,311
Other provisions	40	328	**–**	–	–	**–**	–	–
Other liabilities	41	328	**9,189,455**	5,796,053	59	**9,463,508**	6,075,889	56
Due to subsidiaries	42	329	**–**	–	–	**–**	–	–
Total liabilities			**1,605,590,339**	1,543,793,899	4	**1,624,519,298**	1,554,247,037	5

Statement of Financial Position

As at 31 December	Note	Page	Bank 2023 Rs. '000	Bank 2022 Rs. '000	Bank Change %	Group 2023 Rs. '000	Group 2022 Rs. '000	Group Change %
Equity								
Stated capital/assigned capital	43	329	**9,400,000**	9,400,000	–	**9,400,000**	9,400,000	–
Statutory reserve fund	44	329	**5,369,172**	5,224,842	3	**5,464,218**	5,281,952	3
Retained earnings	45	330	**14,408,118**	11,359,151	27	**18,605,719**	13,589,101	37
Other reserves	46	330	**52,196,963**	46,908,235	11	**54,318,490**	48,118,628	13
Total shareholders' equity			**81,374,253**	72,892,229	12	**87,788,427**	76,389,681	15
Non-controlling interests	47	333	**–**	–	–	**–**	–	–
Total equity			**81,374,253**	72,892,229	12	**87,788,427**	76,389,681	15
Total equity and liabilities			**1,686,964,592**	1,616,686,128	4	**1,712,307,725**	1,630,636,718	5
Contingent liabilities and commitments	48	333	**9,884,874**	14,416,802	(31)	**9,928,995**	14,617,867	(32)
Memorandum information								
Number of employees			**4,358**	4,528				
Number of branches			**262**	262				

Note: Amounts stated are net of impairment and depreciation.

The Notes to the Financial Statements disclosed on pages 242 to 385 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 2023 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,

Dr Harsha Cabral, PC.
Chairman

Dushyanta Basnayake
Director

Ms Shashi Kandambi
General Manager/CEO

20 March 2024
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 2022	9,400,000	5,174,249	7,049,600
Prior year adjustment*	–	–	–
Restated opening balance as at 1 January 2022	9,400,000	5,174,249	7,049,600
Profit for the year 2022	–	–	–
Other comprehensive income (net of tax)	–	–	(555,724)
Total comprehensive income for the year	–	–	(555,724)
Transactions with equity holders, recognised directly in equity			
Transfers to/from reserves during the year	–	50,593	–
Contribution to consolidated fund – dividend/levy	–	–	–
Contribution to national insurance trust fund	–	–	–
Transfers to unclaimed deposits reserve	–	–	–
Total transactions with equity holders	–	50,593	–
Balance as at 31 December 2022	9,400,000	5,224,842	6,493,876
Profit for the year 2023	–	–	–
Other comprehensive income (net of tax)	–	–	1,452,340
Total comprehensive income for the year	–	–	1,452,340
Transactions with equity holders, recognised directly in equity			
Transfers to/from reserves during the year	–	144,330	–
Contribution to consolidated fund – dividend/levy	–	–	–
Contribution to national insurance trust fund	–	–	–
Transfers to unclaimed deposits reserve	–	–	–
Total transactions with equity holders	–	144,330	–
Balance as at 31 December 2023	9,400,000	5,369,172	7,946,216

*Please refer Note 53 for details of prior year adjustment.

The Notes to the Financial Statements disclosed on pages 242 to 385 are integral parts of these Financial Statements.

Statement of Changes in Equity

OCI reserve Rs. '000	Other reserves Rs. '000	Retained earnings Rs. '000	Total equity Rs. '000
(658,376)	41,319,482	13,727,801	76,012,757
–	–	(5,166,968)	(5,166,968)
(658,376)	41,319,482	8,560,833	70,845,789
–	–	2,529,667	2,529,667
(1,011,500)	–	344,542	(1,222,682)
(1,011,500)	–	2,874,209	1,306,985
–	–	(50,593)	–
–	–	–	–
–	–	(25,297)	(25,297)
–	764,753	–	764,753
–	764,753	(75,890)	739,456
(1,669,876)	42,084,235	11,359,152	72,892,229
–	–	7,216,483	7,216,483
2,956,339	–	(4,023,187)	385,492
2,956,339	–	3,193,296	7,601,975
–	–	(144,330)	–
–	–	–	–
–	–	–	–
–	880,049	–	880,049
–	880,049	(144,330)	880,049
1,286,463	42,964,284	14,408,118	81,374,253

Statement of Changes in Equity

Group

	Stated capital/ assigned capital Rs. '000	Statutory reserve fund Rs. '000	Revaluation reserve Rs. '000
Balance as at 1 January 2022	9,400,000	5,209,101	7,488,706
Prior year adjustment*	–	–	–
Restated opening balance as at 1 January 2022	9,400,000	5,209,101	7,488,706
Profit for the year 2022	–	–	–
Other comprehensive income (net of tax)	–	–	(555,724)
Total comprehensive income for the year	–	–	(555,724)
Transactions with equity holders, recognised directly in equity			
Transfers to/from reserves during the year	–	72,851	–
Contribution to consolidated fund – dividend/levy	–	–	–
Contribution to national insurance trust fund	–	–	–
Transfers to unclaimed deposits reserve	–	–	–
Total transactions with equity holders	–	72,851	–
Balance as at 31 December 2022	9,400,000	5,281,952	6,932,981
Prior year adjustment*	–	–	–
Restated opening balance as at 1 January 2023	9,400,000	5,281,952	6,932,981
Profit for the year 2023	–	–	–
Other comprehensive income (net of tax)	–	–	1,709,903
Total comprehensive income for the year	–	–	1,709,903
Transactions with equity holders, recognised directly in equity			
Transfers to/from reserves during the year	–	182,266	–
Contribution to consolidated fund – dividend/levy	–	–	–
Contribution to national insurance trust fund	–	–	–
Transfers to unclaimed deposits reserve	–	–	–
Total transactions with equity holders	–	182,266	–
Balance as at 31 December 2023	9,400,000	5,464,218	8,642,884

*Please refer Note 53 for details of prior year adjustment.

The Notes to the Financial Statements disclosed on pages 242 to 385 are integral parts of these Financial Statements.

Statement of Changes in Equity

	OCI reserve Rs. '000	Other reserves Rs. '000	Retained earnings Rs. '000	Total equity Rs. '000
	(754,140)	42,186,553	17,918,992	81,449,213
	–	–	(5,523,755)	(5,523,755)
	(754,140)	42,186,553	12,395,237	75,925,458
	–	–	948,991	948,991
	(1,011,519)	–	343,021	(1,224,223)
	(1,011,519)	–	1,292,012	(275,232)
	–	–	(72,851)	–
	–	–	–	–
	–	–	(25,297)	(25,297)
	–	764,753	–	764,753
	–	764,753	(98,148)	739,456
	(1,765,659)	42,951,306	13,589,101	76,389,681
	19,900	–	15,438	35,338
	(1,745,759)	42,951,306	13,604,539	76,425,019
	–	–	9,616,809	9,616,809
	3,179,609	–	(4,022,962)	866,550
	3,179,609	–	5,593,847	10,483,359
	–	410,401	(592,667)	–
	–	–	–	–
	–	–	–	–
	–	880,049	–	880,049
	–	1,290,450	(592,667)	880,049
	1,433,850	44,241,756	18,605,719	87,788,427

Statement of Cash Flow

For the year ended 31 December	Bank		Group	
	2023 Rs. '000	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
Cash flows from operating activities				
Interest receipts	**213,131,665**	157,730,789	**217,040,151**	160,184,287
Interest payments	**(214,047,888)**	(106,467,959)	**(215,725,905)**	(107,964,314)
Net commission receipts	**1,276,369**	1,940,211	**1,288,229**	1,945,075
Trading income	**3,025,719**	604,677	**3,864,848**	(1,451,632)
Payment to employees	**(13,670,876)**	(15,326,878)	**(13,985,920)**	(15,627,914)
VAT and SSCL on financial services	**(1,676,459)**	(2,921,186)	**(2,452,649)**	(3,052,866)
Receipts from other operating activities	**263,012**	315,602	**347,353**	435,836
Payment on other operating activities	**(6,962,648)**	(5,955,251)	**(7,076,615)**	(6,318,723)
Operating profit before change in operating assets and liabilities	**(18,661,106)**	29,920,005	**(16,700,508)**	28,149,749
(Increase)/decrease in operating assets				
Placements with banks	**(11,652,088)**	(3,323,523)	**(12,248,452)**	(1,515,758)
Derivative financial instrument	**80,310**	(15,773)	**77,223**	(15,773)
Financial assets at FVPL	**(3,521,905)**	4,057,889	**(15,034,040)**	15,380,741
Financial assets at amortised cost – loans and advances	**23,620,755**	(12,868,207)	**26,461,823**	(13,296,497)
Financial assets at amortised cost – debt and other instrument	**(13,316,612)**	23,489,440	**(13,853,444)**	20,080,005
Proceeds from the sale and maturity of financial investments	**–**	–	**–**	–
Other assets	**(2,500,591)**	(23,508,621)	**(2,482,936)**	(23,524,364)
	(7,290,131)	(12,168,797)	**(17,079,826)**	(2,891,648)
Increase/(decrease) in operating liabilities				
Due to bank	**4,750,000**	(3,526,250)	**2,518,067**	2,309,185
Derivative financial instrument	**201**	–	**201**	–
Financial liabilities at amortised cost – due to depositors	**9,809,431**	16,036,697	**11,156,350**	16,626,285
Financial liabilities at amortised cost – due to debt securities holders	**–**	–	**–**	–
Financial liabilities at amortised cost – due to other borrowers	**44,462,152**	8,615,033	**53,457,442**	(8,594,251)
Debt securities issued	**–**	(13,677,000)	**3,617**	(13,692,321)
Other liabilities	**2,109,889**	4,355,971	**2,073,966**	4,240,331
	61,131,673	11,804,452	**69,209,643**	889,229
Net cash generated from operating activities before income tax	**35,180,436**	29,555,660	**35,429,309**	26,147,331
Income tax paid	**(2,403,112)**	(9,880,107)	**(2,739,667)**	(10,551,646)
Net cash (used in)/from operating activities	**32,777,324**	19,675,553	**32,689,642**	15,595,685

Statement of Cash Flow

For the year ended 31 December	Bank 2023 Rs. '000	Bank 2022 Rs. '000	Group 2023 Rs. '000	Group 2022 Rs. '000
Cash flows from investing activities				
Purchase of property, plant and equipment	**(1,145,156)**	(558,740)	**(1,147,412)**	(562,353)
Proceeds from the sale of property, plant and equipment	**3,438**	3,045	**3,438**	14,432
Net (increase)/decrease in finance instruments at fair value through other comprehensive income	**(30,021,350)**	(14,402,860)	**(29,937,745)**	(12,850,581)
Proceeds from the sale and maturity of financial investments	**–**	–	**–**	–
Net purchase of intangible assets	**(344,272)**	(370,093)	**(344,272)**	(372,543)
Net purchase/improvement to investment properties	**–**	–	**–**	7,510
Net cash flow from acquisition of investment in subsidiaries and associates	**–**	(2,500,000)	**–**	–
Dividends received from investment in subsidiaries and associates	**–**	–	**–**	–
Net cash (used in)/from investing activities	**(31,507,340)**	(17,828,648)	**(31,425,991)**	(13,763,534)
Cash flows from financing activities				
Net proceeds from the issue of ordinary share capital	**–**	–	**–**	–
Net proceeds from the issue of subordinated debt	**–**	–	**–**	–
Repayment of subordinated debt	**–**	–	**–**	–
Interest paid on subordinated debt	**(600,000)**	(541,660)	**(604,003)**	(542,342)
Contribution to consolidated fund – dividend/levy	**–**	–	**–**	–
Net cash from financial activities	**(600,000)**	(541,660)	**(604,003)**	(542,342)
Net increase/(decrease) in cash and cash equivalents	**669,984**	1,305,245	**659,648**	1,289,808
Cash and cash equivalents at the beginning of the year	**8,894,757**	7,589,511	**8,943,521**	7,653,712
Exchange difference in respect of cash and cash equivalent	**–**	–	**–**	–
Cash and cash equivalents at the end of the year	**9,564,741**	8,894,757	**9,603,169**	8,943,521
Reconciliation of cash and cash equivalents				
Cash in hand	**2,991,147**	3,207,729	**2,994,088**	3,212,553
Balances with banks	**6,185,654**	5,524,723	**6,220,907**	5,568,637
Money at call and short notice	**333,054**	2,756	**333,054**	2,756
Balances with Central Bank	**246,998**	236,480	**247,232**	236,696
Due to banks	**(192,112)**	(76,931)	**(192,112)**	(77,121)
	9,564,741	8,894,757	**9,603,169**	8,943,521

The Notes to the Financial Statements disclosed on pages 242 to 385 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.

Staff strength	2023	2022
Bank	**4,358**	4,528
Group	**4,479**	4,654

Corporate information is presented in the inner back cover of the Annual Report.

The Bank possesses 262 Branches, 295 ATMs, and 122 CRMs of its Service Outlets and 652 Post Offices and 3,354 Sub-Post Offices as its agency network.

1.2 Consolidated Financial Statements

The Consolidated Financial Statements for the year ended 31 December 2023 comprise the Bank (Parent) and its two fully owned Subsidiaries, NSB Fund Management Company Ltd. and Sri Lanka Savings Bank Ltd. (together referred to as the "Group" and individually as "Bank")

The Bank is fully owned by the Government of Sri Lanka. The Bank is the ultimate parent of the Group. The Financial Statements of the Bank and its Subsidiaries have a common financial year which ends on 31 December. The Financial Statements of the "Bank" and the "Group" are prepared for the twelve months period ended 31 December each year to be tabled in Parliament.

1.3 Principal Activities and Nature of Operations

Bank

The principal activities of the Bank continued to be the promotion of savings among the people of Sri Lanka and profitable investment of savings so mobilised. NSB is providing wide range of solutions such as accepting deposits, corporate and retail credit, trade financing, loans to Government projects, 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 were 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.

Sri Lanka Savings Bank (SLSB) was refrained from granting new loans, accepting deposits, recruiting new staff and entering into new contracts with any party since 2021, due to merger process with NSB. Central Bank of Sri Lanka directed to complete the absorption process before 31 March 2024. SLSB will be liquidated after absorption of assets, liabilities, and staff of SLSB into NSB.

2 Accounting Policies

The accounting policies set out below have been applied consistently in all periods when presenting the Financial Statements, unless otherwise indicated. These policies of the Bank are also consistently applied by the Group where applicable and deviations if any have been disclosed accordingly.

2.1 Basis of Preparation

2.1.1 Statement of Compliance

The Consolidated Financial Statements of the Group and the separated Financial Statements of the Bank which comprise the Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and Notes to the Financial Statements have been prepared and presented in accordance with the Sri Lanka Accounting Standards (LKASs and SLFRSs) issued by The Institute of Chartered Accountants of Sri Lanka and are in compliance with the information required by the Banking Act No. 30 of 1988 and subsequent amendments thereto. These Financial Statements, except for the information in Cash Flows 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 18 January 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.

Notes to the Financial Statements

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 for Financial Reporting" and the certification on the Statement of Financial Position.

These Financial Statements include the following components:

i. 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 232 and 233)

ii. Statement of Financial Position (SOFP) providing the information on the financial position of the Group and the Bank as at the year end. (Pages 234 and 235)

iii. Statement of Changes in Equity depicting all changes in shareholders' funds during the year under review of the Group and the Bank. (Pages 236 and 239)

iv. 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. (Pages 240 and 241)

v. Notes to the Financial Statements comprising Significant Accounting Policies and other explanatory information. (Pages 242 to 385)

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 2023 (including comparatives for 2022) were approved and authorised for issue on 20 March 2024, by the Board of Directors. (The Financial Statements of the Group and the Bank for the year ended 31 December 2022, were approved, and authorised for issue by the Board of Directors on 27 April 2023).

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 though 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).

Net liability for defined benefit obligations are recognised as the present value of the defined benefit obligation, less net total of the plan assets, plus unrecognised actuarial gains, less unrecognised past service cost, and unrecognised actuarial losses

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. 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 375 to 378.

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, no material uncertainty 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.

Notes to the Financial Statements

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 reclassified where necessary for the better presentation and to conform to the current year's presentation. Comparative information is presented in Note 53 on page 342.

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 1 on "Presentation of Financial Statements" (LKAS 1).

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 judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

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 248.
- The contractual cash flow characteristics of the financial assets as set out in Note 2.5.1.4.2 on page 249.

2.1.12.2 Classification of investment property

Management uses its judgement to determine whether a property qualifies as an investment property. A property that is held either to earn rental income or for capital appreciation or both and thus generates cash flows largely independently of the other assets held by the Group are classified as investment property. On the other hand, a property used in the production or supply of goods and services or for administrative purposes and thus generates cash flows that are attributable not only to that property but also to other assets used in the production or supply process are classified as property, plant and equipment. The Group assesses on an annual basis, the accounting classification of its investment properties, taking into consideration the current use of such properties

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 2.1.12.3 to 2.1.12.9 below.

2.1.12.3 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 379.

2.1.12.4 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;
- 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 macroeconomic 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 macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

2.1.12.5 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.

2.1.12.6 Revaluation of property, plant and equipment

The Group measures land and buildings at revalued amounts with changes in fair value being recognised in equity through OCI.

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.

2.1.12.7 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.

2.1.12.8 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.

2.1.12.9 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.

Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

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.

Notes to the Financial Statements

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.

2.1.12.10 Provisions for liabilities and losses, 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. Provisions are made for all losses identified in the normal business operation during the year.

2.1.12.11 Leases-(SLFRS 16)

The Bank assesses at the inception of a contract, whether a contract is, or contains, 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 as per the guidelines of SLFRS 16. This assessment considers whether, throughout the period of use, the lessee has both the right to obtain all of the economic benefits from the use of the identified asset and the right to direct how and for what purpose the identified asset is used.

After the assessment of whether a contract is, or contains, a lease, the Bank determines whether it contains additional lease or non-lease (service) components based on the detailed guidance provided in SLFRS 16. Accordingly, the right to use of an identifying asset is a separate lease component if the lessee can benefit from the use of underlying asset either on its own or together with other resources readily available to the lessee and the underlying asset is neither highly dependent on, nor highly interrelated with, the other underlying assets in the contract.

2.1.12.11.1 Right -of -use assets

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.
The cost of right-of-use assets includes the amount of lease liabilities recognised, and lease payments made at or before the commencement date less any lease incentives received. Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

2.1.12.11.2 Lease liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. 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.

The Bank uses the interest rate implicit in the lease or if that rate is not readily available, the Treasury Bond rate (The tenure of the Treasury Bond should be identical to the lease term) at the lease commencement as the discount rate in calculating present value of future cash flows.

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.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets in the face of the Statement of Financial Position and lease liabilities within “other liabilities” in the Statement of Financial Position.

2.1.12.11.3. 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.

2.1.12.11.4. 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.

2.2 Changes in Accounting Policies

There is no major change in Accounting Policies during the year 2023.

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 379 to 384.

2.4 Significant Accounting policies – General

2.4.1 Basis of Consolidation

The Financial Statements of the Bank and the Group comprise of the Financial Statements of the Bank and its Subsidiaries in terms of the SLFRS 10 – "Consolidated Financial Statements" and on LKAS 27 – "Consolidated and Separate Financial Statements".

2.4.1.1 Business combinations

Business combinations are accounted for using the acquisition method when control is transferred to the Group as per Sri Lanka Accounting Standard – SLFRS 3 on "Business Combinations" (SLFRS 3). The consideration transferred in the acquisition and identifiable net assets acquired are measured at fair value. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

2.4.1.2 Non-Controlling Interests (NCI)

Details of NCI are given in Note 47 on page 333.

2.4.1.3 Subsidiaries

The Financial Statements of the subsidiaries are 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 derecognises 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 295.

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 Note 49.3 and 49.4 – Transaction with subsidiary companies on pages 336 and 337 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.

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 recognizes the difference between the transaction price and fair value (a "Day 1" profit or loss). In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the Statement of Comprehensive Income when the inputs become observable, or when the instrument is derecognised the difference between transaction price and fair value is recognised in Income Statement. The "Day 1 loss" arising in the case of loans granted to employees at concessionary rates under uniformly applicable schemes is deferred and amortised using Effective Interest Rates (EIR) in "Interest Income and Personnel Expenses" over the remaining service period of the employees or tenure of the loan whichever is shorter.

2.5.1.4 Classification and Subsequent measurement of financial assets

The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost,
- Fair value though 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 275.

(b) Balances with central banks
Details of "Balances with central banks" are given in Note 17 on page 275.

(c) Placement with banks
Details of "Placement with banks" are given in Note 18 on page 276.

(d) Financial assets at amortised cost–Loan and advances
Details of "Loan and advances" are given in Note 21 on page 281.

(e) Financial assets at amortised cost–Debt and other instruments
Details of "Debt and other instruments" are given in Note 22 on page 288.

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 290 to 292.

(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 292 to 294.

2.5.1.4.5 Financial assets measured at FVPL

As per SLFRS 9, all financial assets other than those classified at amortised cost or FVOCI are classified as measured at FVPL. Financial assets at fair value through profit or loss include financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis as they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets and financial assets designated upon initial recognition at fair value through profit or loss which are discussed in below.

(a) **Financial assets designated at fair value through profit or loss**
Financial assets designated at fair value through profit or loss are recorded in the SOFP at fair value. Changes in fair value are recorded in "Net gain or loss on financial assets and liabilities designated at fair value through profit or loss". Interest earned is accrued in "Interest Income", using the EIR, while dividend income is recorded in "Other operating income" when the right to receive the payment has been established.

The Group do not have any designated financial assets upon initial recognition as fair value through profit or loss as at the end of the reporting period.

2.5.1.5 Classification and Subsequent Measurement of Financial Liabilities

As per SLFRS 9, the Group classifies financial liabilities, other than financial guarantees and loan commitments into one of the following categories:

- Financial liabilities at fair value through profit or loss, and within this category as:
  - Held-for-trading; or
  - Designated at fair value through profit or loss:
- Financial liabilities measured at amortised cost.

The subsequent measurement of financial liabilities depends on their classification. SLFRS 9, largely retains the existing requirements in LKAS 39 for the classification of financial liabilities.

2.5.1.5.1 Financial liabilities at fair value through profit or loss

The Group do not have any designated financial liabilities as at fair value through profit or loss as at the end of the reporting period.

2.5.1.5.2 Financial liabilities at amortised cost

Financial liabilities issued by the Group that are not designated at FVPL are classified as financial liabilities at amortised cost under "Due to banks", "Due to depositors", "Due to debt securities holders", "Due to other borrowers", or "Debt security issued" as appropriate, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

After initial recognition, such financial liabilities are subsequently measured at amortised cost using the EIR (Effective Interest Rate) method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

The EIR amortisation is included in "Interest expense" in the Income Statement. Gains and losses too are recognised in the Income Statement when the liabilities are derecognised as well as through the EIR amortisation process.

(a) **Due to banks**
Details of "Due to banks" are given in Note 32 on page 310.

(b) **Due to depositors**
Details of "Due to depositors" are given in Note 35 on page 311.

(c) **Due to debt securities holders**
Details of "Due to debt securities holders" are given in Note 35 on page 311.

(d) **Due to other borrowers**
Details of "Due to other borrowers" are given in Note 35 on page 312.

(e) **Debt security issued**
Details of "Debt security issued" are given in Note 37 on page 313.

2.5.1.6 Derivative assets and liabilities

A derivative is a financial instrument or other contract with all three of the following characteristics:

1. 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").
2. 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.
3. It is settled at a future date.

The Bank enters 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.

2.5.1.6.1 Derivative recorded at fair value through profit or loss

Derivative financial assets are recorded at fair value. Changes in the fair value of derivatives are included in "Net Gains/(Losses) from Trading" in the Income Statement.

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.

2.5.1.7 Reclassification of financial assets and liabilities

As per SLFRS 9, Financial assets are not reclassified subsequent to their initial recognition, except and only in those rare circumstances when the Group changes its objective of the business model for managing such financial assets which may include the acquisition, disposal or termination of a business line.

Financial liabilities are not reclassified as such reclassifications are not permitted by SLFRS 9.

2.5.1.7.1 Measurement of reclassification of financial assets

2.5.1.7.1.1 Reclassification of Financial Instruments at "Fair value through profit or loss"

- **to fair value through other comprehensive income**
  The fair value on reclassification date becomes the new gross carrying amount. The EIR is calculated based on the new gross carrying amount. Subsequent changes in the fair value is recognised in OCI.

- **to amortised cost**

  The fair value on reclassification date becomes the new carrying amount. The EIR is calculated based on the new gross carrying amount.

2.5.1.7.1.2 Reclassification of Financial Instruments at "Fair value through other comprehensive income"

- **to fair value through profit or loss**
  The accumulated balance in OCI is reclassified to profit and loss on the reclassification date.

- **to amortised cost**
  The financial asset is reclassified at fair value. The cumulative balance in OCI is removed and is used to adjust fair value on the reclassification date. The adjusted amount becomes the amortised cost. EIR determined at initial recognition and gross carrying amount are not adjusted as a result of reclassification.

2.5.1.7.1.3 Reclassification of financial instruments at "Amortised Cost"

- **to fair value through other comprehensive income**
  The asset is remeasured to fair value, with any difference recognised in OCI. EIR determined at initial recognition is not adjusted as a result of reclassification.

- **to fair value through profit or loss**
  The fair value on the reclassification date becomes the new carrying amount. The difference between amortised cost and fair value is recognised in profit and loss.

The Bank and the Group do not have any reclassification of financial instrument for the reporting period.

2.5.1.8 Derecognition of financial assets and financial liabilities

2.5.1.8.1 Financial assets

The Group derecognises a financial asset (or where applicable a part thereof) when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of the consideration received (including any new asset obtained less and new liability assumed) and any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

However, cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities as per SLFRS 9. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its SOFP, but retains either all or substantially all risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised.

When the Group has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on the basis that reflected the rights and obligations that the Group has retained.

2.5.1.8.2 Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled, or expired.

2.5.1.9 Modification of financial assets and financial liabilities

2.5.1.9.1 Modification of Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised, and a new financial asset is recognised at fair value.

As per SLFRS 9, if the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition 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 Modification of financial liabilities

Where an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

2.5.1.10 Offsetting of financial instruments

Financial assets and financial liabilities are offset, and the net amount reported in the SOFP if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Bank and the Group do not offset any financial instrument for the reporting period.

2.5.1.11 Amortised cost and gross carrying amount

The "amortised cost" of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the EIR method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any ECL allowance.

The "Gross carrying amount of a financial asset" is the amortised cost of a financial asset before adjusting for any ECL allowance.

2.5.1.12 Fair value of financial instruments

Fair value measurement of financial instruments including the fair value hierarchy is explained in Note 2.3 and 56 on pages 247 and 379.

2.5.2 Impairment of financial assets

2.5.2.1 Overview of the Expected Credit Loss (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 254.

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 12m-ECLs. 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 bank's internal rating system.
- Credit facilities/customers in which Significant Increase in Credit Risk (refer Note 2.5.2.7).

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

2.5.2.2 The calculation of ECL

The Group calculates ECL to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanism of the ECL calculations is outlined below and the key elements are, as follows:

- **Probability of Default (PD)**
  The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- **Exposure at Default (EAD)**
  The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected draw downs on committed facilities, and accrued interest from due payments.
- **Loss Given Default (LGD)**
  The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

The maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier. Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

The mechanics of the ECL method are summarised below:

Stage 1

The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Group calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR.

Stage 2

When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

Stage 3

For loans considered credit-impaired, the Bank recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

2.5.2.3 Individual assessment of impairment

For financial assets above a predetermined 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 283.

2.5.2.4 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 criteria:

- 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.

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- 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.

2.5.2.5 Debt instruments measured at fair value through OCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the SOFP, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets. Bank and the group do not have any debt instrument measured at fair value through OCI subject to impairment as at reporting period.

2.5.2.6 Forward-looking information

In its ECL models, the Bank relies on a broad range of forward-looking information as economic inputs, such as:

- GDP growth
- Unemployment rates
- Inflation rates
- Exchange rates
- Interest rates

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the reporting date. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

2.5.2.7 Significant Increase in Credit Risk (SICR)

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 Bank's historical experience and expert credit assessment and including forward looking information. Accordingly, the Group considers the significant increase in credit risk when one of the following factors/ conditions are met.

- Contractual payments of the facility are past due for more than 30 days (Indication of SICR)
- A fall of 50% or more in the turnover or profit before tax of the borrowing entity when compared to the previous year for two consecutive years (Indication of SICR)
- Erosion of net-worth of the borrowing entity by more than 25% when compared to previous financial year. (Indication of SICR)
- External Credit rating of a borrowing entity has been subsequently downgraded to BB+ or below [Indication of SICR) (Subsequent downgrading of the original credit rating (at the time of granting) should be considered]
- A two-notch downgrade under internal rating (Indication of SICR)
- Credit facility was restructured up to two times other than upgraded credit facility
- Delay in commencement of business operations/projects by more than two years from the originally agreed date (Could be both SICR or default criteria depending on the customer risk)
- Value of collateral is significantly reduced (more than 25%) or realisability of collateral is doubtful based on specific indication for particular property. (Property index) (Indication of SICR)
- Frequent changes in the Board of Directors and Senior Management-Based on the publicly available information (Indication of SICR)
- Direct evidence is available that the borrower is using loan proceeds for a purpose other than the purpose specified in the loan agreement
- Withdrawal of Guarantee by Guarantor without any risk mitigation action
- Significant increase (25%) in project cost from estimated cost until the completion point of project. This factor is relevant for assessment until the project is commenced.
- A one notch downgrade from current external rating excluding the rating from AAA to BBB-.
- Direct evidence is available that the borrower is subject to litigation that significantly affect the performance of the credit facility based on credible information. (Could be both SICR or default criteria depending on the customer risk)
- Significant change in the geographical location or natural catastrophes that directly impact the performance of the credit facility where settlement of dues could be prevented. (Could be both SICR or default criteria depending on the customer risk)
- Deterioration of the macroeconomic outlook to the extent that would impair the repayment capacity of the project/ facility for which the loan was granted or to the industry in which the project is operating. This includes the impact from new regulations/government policies which would prevent the operations to repay the debt as agreed. (Could be both SICR or default criteria depending on the customer risk)

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- Modification of terms resulting in concessions, including extensions, deferment of payments, waiver of covenants etc. Which have negative impact on the repayment of the facility. (Could be both SICR or default criteria depending on the customer risk)
- Unable to contact or find the borrower (Default indicator)
- Credit facilities are restructured more than two times other than upgraded credit facilities (Indication of credit impaired)
- Reschedule credit facilities other than upgraded credit facilities
- Contractual payments of facility are past due for more than 90 days
- The Auditor has qualified the audit opinion due to going concern issues or has issued a disclaimer or adverse opinion
- Direct evidence is available that the borrower is insolvent/the liquidation action has already commenced or about to commence (Default indicator)

2.5.2.8 Definition of default and credit-impaired assets

The Group considers loans and advances to other customers be defaulted when:

- The borrower is unlikely to pay its obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- The borrower becomes 90 days past due on its contractual payments.

In addition, the Group classifies the financial investments under Stage 3 when the external credit rating assigned to the particular investment is “default”.

2.5.3 Property, plant and equipment (PPE)

Details of property, plant and equipment are given in Note 26 on page 295.

2.5.3.1 Depreciation

Details of “Depreciation” are given in Note 26 on page 297.

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 304.

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 2023, 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 2023 are as follows:

Interest/Discount rate	13% p.a.
Increase in cost of living allowances	8% p.a.
Increase in average basic salary	10% 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 318 to 320.

The past service cost not funded is recognised in Other Comprehensive Income immediately upon actuarial valuation. The actuarial valuation as at 31 December 2023 indicated a deficit in net obligation of Rs. 12,917 Mn. which has been provided in full. The details of unfunded pension liability are given in Note 38 (a) 1 on pages 318 to 320.

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 recognized. The value of the defined benefit liability is borne by the Bank and recognized 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 2023, 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 2023 are as follows:

Interest/Discount rate	13% p.a.
Increase in cost of living allowances	8% p.a.
Increase in average basic salary	8% p.a.

The assets of the fund are held separately from assets of the Bank and are independently administered 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 320 to 323.

The past service cost not funded is recognised in Other Comprehensive Income immediately upon actuarial valuation. The actuarial valuation as at 31 December 2023 indicated an excess of 2,231 Mn. which has been recognised. The details of advance payment to Pension II are given in Note 38 (a) 2 on pages 320 to 323.

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 Board 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. 733 Mn. has been provided from the profit of 2023.

The latest actuarial valuation was carried out as of 31 December 2023, 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 2023 are as follows:

Interest/Discount rate	13% p.a.
Medical cost inflation rate	8% p.a.

The assets of the fund are held separately from these of the Bank and are independently administrated by the Trustees as per the provisions of the Trust Deed and are subject to annual audit by Independent External Auditors. The Financial Statements of the pension II as well as the Auditor's Report are tabled and reviewed by the Board of Trustees and Board of Directors of the Bank. They are also submitted for review of the disclosure of the Bank, as the Bank has an obligation of ensuring that funding is made at optimum levels. Pension is payable monthly as long as the participant is alive.

Details of post-employment medical benefits are given in Note 38 (a) 3 on pages 324 to 326.

The past service cost not funded is recognised in Other Comprehensive Income immediately upon actuarial valuation. The actuarial valuation as at 31 December 2023 indicated a deficit in net obligation of Rs. 5,113 Mn. which has been provided in full. The details of unfunded liability are given in Note 38(a) 3 on pages 324 to 326.

2.5.6.4 Defined contribution plans

Details of defined contribution plans are given in Note 11 on page 266.

2.5.7 Other liabilities

Details of other liabilities are given in Note 41 on page 328.

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 2023 was Rs. 58.3 Mn. And ex-gratia payment Rs. 15 Mn. received from insurance. A provision of Rs. 42.6 Mn. has been made for the balance fraudulent withdrawals as at 31 December 2023.

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 333.

2.5.10 Earnings per share (EPS)

Details of "Basic and Diluted EPS" are given in Note 14 on page 271.

2.6 Significant Accounting Policies – Recognition of Income and Expenses for Financial Instruments

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. Details of "Income and expenses" are given in Notes 3 to 13 on pages 259 to 270.

2.6.1 Interest income and expenses

Details of "Interest income and expenses" are given in Note 3 to 4 on pages 259 to 261.

2.6.2 Fee and commission income

Details of "Commission income and expenses" are given in Note 5 on page 262.

2.6.3 Net gain/(loss) from trading

Details of "Net gains/ (losses) from trading" are given in Note 6 on page 263.

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 264.

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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 264.

2.7 Significant Accounting Policies – Taxation

2.7.1 Current taxation

Details of current taxation are given in Note 13 on page 269.

2.7.2 Deferred taxation

Details of deferred taxation are given in Notes 13 and 30 on pages 269 and 306 respectively.

2.7.3 Value added tax on financial services (VAT)

VAT on financial services is calculated in accordance with Section 25A of Value Added Tax Act No. 14 of 2002 and subsequent amendments thereto. VAT on financial services is payable at 18% on operating profit before value added tax.

2.7.4 Social Security Contribution levy (SSCL)

The Social Security Contribution Levy (SSCL) is imposed with effect from 1 October 2022 under the Social Security Contribution Levy Act No. 25 of 2022. The levy shall be charged at the rate of 2.5% on the value of the article ascertained for the purpose of the Value Added Tax under Section 6 of the Value Added Tax Act No. 14 of 2002.

2.8 Statement of Cash Flows

The Statement of Cash Flows has been prepared by using the "Direct Method" of preparing cash flows in accordance with the LKAS 7. Cash and cash equivalents comprise short term, highly liquid investment that is readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalents include cash in hand, balances with banks and money at call and short notice. The Statement of Cash Flows is given on page 240.

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 Date

Details of events after reporting date are given in Note 52 on page 342.

2.11 Accounting Standards Issued but Not Yet Effective as at Reporting date

There were no new or amended standards and interpretations that are issued but not yet effective, up to the date of issuance of the Bank's/Group's Financial Statements that results in a material impact to Bank or Group.

Sri Lanka Accounting Standard – SLFRS 17 on "Insurance Contracts" (SLFRS 17) is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation, and disclosure. Once effective, SLFRS 17 will replace Sri Lanka Accounting Standard – SLFRS 4 on "Insurance Contracts" (SLFRS 4) that was issued in 2005. SLFRS 17 is effective for annual reporting periods beginning on or after 1 January 2026. The Group does not expect this will result in a material impact on its Financial Statements.

3 Gross income

Accounting policy

Gross revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The specific recognition criteria must also be met before revenue recognition is discussed under respective income notes.

	Bank		Group	
For the year ended 31 December	**2023 Rs. '000**	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
Interest income	**226,967,227**	172,940,351	**231,204,088**	175,769,899
Fee and commission income	**1,593,415**	2,172,978	**1,605,521**	2,180,276
Net gain/(loss) from trading	**1,425,791**	(971,434)	**3,701,827**	(3,489,830)
Net fair value gains/(losses) from financial instruments at fair value through profit or loss	**–**	–	**–**	–
Net gains/(losses) from de-recognition of financial assets	**1,820,617**	(26,203)	**1,820,617**	(26,203)
Net other operating income	**257,272**	414,656	**492,598**	543,045
Gross income	**232,064,322**	174,530,349	**238,824,651**	174,977,187

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.

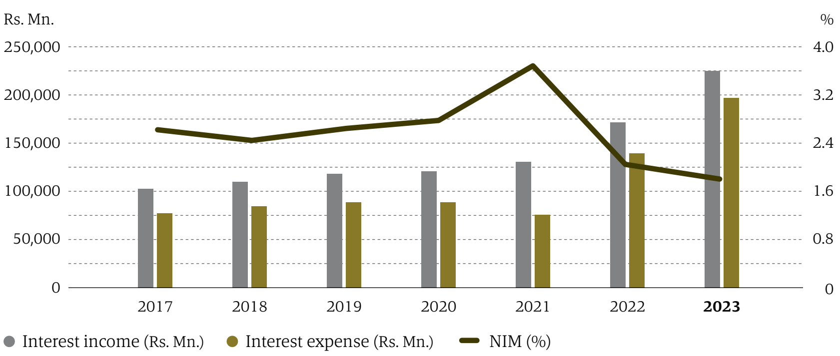
Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

4. Net interest income (contd.)

For the year ended 31 December	Bank 2023 Rs. '000	Bank 2022 Rs. '000	Group 2023 Rs. '000	Group 2022 Rs. '000
4. (a) Interest income				
Cash and cash equivalents	**186,984**	25,957	**196,588**	32,533
Balances with central banks	**–**	–	**–**	–
Placements with banks	**1,260,615**	752,884	**1,416,223**	895,121
Derivative financial instruments	**–**	–	**–**	–
Financial assets recognised through profit or loss				
– Measured at fair value	**3,214,030**	1,571,085	**5,797,276**	3,304,353
– Designated at fair value	**–**	–	**–**	–
Financial assets at amortised cost				
– Loans and advances	**87,805,226**	64,421,104	**87,768,331**	64,236,437
– Debt and other instruments	**127,897,236**	97,428,830	**129,337,433**	98,455,841
Financial assets measured at fair value through other comprehensive income	**6,603,136**	1,976,313	**6,688,235**	2,081,436
Others	**–**	6,764,179	**–**	6,764,179
Total interest income	**226,967,227**	172,940,351	**231,204,088**	175,769,899
4. (b) Interest expenses				
Due to banks	**699,246**	330,665	**1,685,203**	1,515,426
Financial liabilities recognised through profit or loss	**–**	–	**–**	–
Financial liabilities at amortised cost				
– Due to depositors	**185,701,754**	133,223,445	**185,556,313**	132,966,640
– Due to debt securities holders	**–**	–	**–**	–
– Due to other borrowers	**3,443,789**	3,317,165	**4,468,243**	4,078,055
Debt securities issued	**7,557,223**	3,606,126	**7,557,223**	3,606,126
Total interest expenses	**197,402,011**	140,477,402	**199,266,982**	142,166,248
Net interest income	**29,565,216**	32,462,949	**31,937,106**	33,603,651

Interest income vs interest expense

Graph 76



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	**2023 Rs. '000**	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
Interest income				
Financial assets recognised through profit or loss				
– measured at fair value	**3,214,030**	1,571,085	**5,797,276**	3,304,353
– designated at fair value	**–**	–	**–**	–
Financial assets at amortised cost				
– loans and advances (Securities purchased under resale agreements)	**802,154**	508,637	**680,788**	458,871
– debt and other instruments	**95,565,494**	78,892,064	**96,550,554**	79,361,258
Financial assets measured at fair value through other comprehensive income	**6,603,136**	1,976,313	**6,688,235**	2,081,436
	106,184,814	82,948,099	**109,716,853**	85,205,917
Less: Interest expenses				
Due to banks (Securities sold under repurchase agreements)	**699,246**	290,708	**1,618,294**	1,475,469
Due to other borrowers (Securities sold under repurchase agreements)	**3,443,789**	3,317,165	**4,455,234**	4,062,797
	4,143,035	3,607,873	**6,073,529**	5,538,266
Net interest income from Sri Lanka Government Securities	**102,041,779**	79,340,226	**103,643,325**	79,667,651

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.

During the Financial year 2023 bank has recognised Rs. 137.1 Mn. interest income from deferred day one loss of Rs. 1,391 Mn. and deferred day one loss was recorded as Rs. 560.5 Mn. as at 31 December 2023. It was due to timing difference and early payment of customer.

4.(e) Domestic Debt Optimisation (DDO) Programme Impact to Interest Income

Under the Domestic Debt Optimisation (DDO) programme the Bank has converted Sri Lanka Development Bond portfolio in full to the LKR Bonds under option III.

As per the common framework issued by the Institute of Chartered Accountants of Sri Lanka for the determination of day 1 difference arising from the DDO programme of the Government of Sri Lanka, the Bank has recognised Rs. 209.3 Mn. of day one loss as at 31 December 2023.

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 in to the following two categories.

(a) Fee and commission income earned from services that are provided over a certain period of time:

Fee and commission earned for the provision of services over a period of time are accrued over that period.

(b) Fee and commission income from providing transaction services:

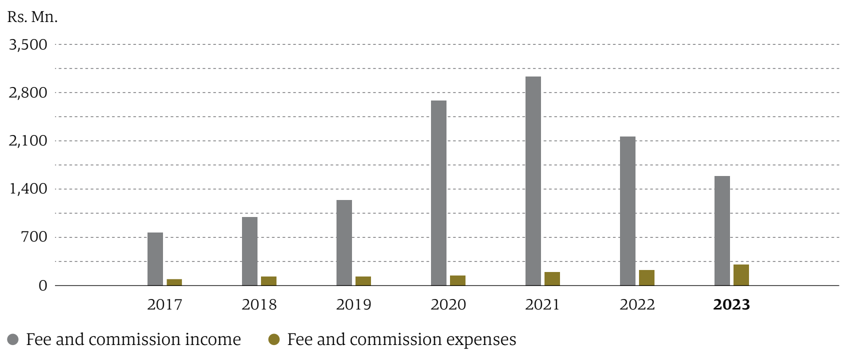
Fee and commission income arising from renegotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised as the related services are performed.

Fees and commission expenses relating to transactions and services are expensed as the services are received. Fee and commission expenses are recognised on an accrual basis.

	Bank		Group	
For the year ended 31 December	**2023 Rs. '000**	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
Fee and commission income	**1,593,415**	2,172,978	**1,605,521**	2,180,276
Fee and commission expenses	**(317,046)**	(232,767)	**(317,292)**	(235,201)
Net fee and commission income	**1,276,369**	1,940,211	**1,288,229**	1,945,075
Comprising				
Loans	**501,788**	1,137,295	**502,091**	1,137,587
Cards	**446,578**	487,671	**446,578**	487,671
Trade and remittances	**237,369**	236,527	**237,369**	236,527
Corporate banking	**4,000**	6,379	**4,000**	6,379
Deposits	**45,900**	33,694	**45,900**	33,694
Guarantees	**22,178**	25,182	**22,178**	25,182
Others	**18,557**	13,463	**30,114**	18,035
Net fee and commission income	**1,276,369**	1,940,211	**1,288,229**	1,945,075

Fee and commission income vs expenses

Graph 77



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.

	Bank		Group	
For the year ended 31 December	**2023 Rs. '000**	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
Foreign exchange				
From other customers	**200,367**	544,010	**200,367**	544,010
Fixed income securities	**836,455**	(1,046,011)	**3,109,403**	(3,571,627)
Equity securities	**335,908**	(481,831)	**335,908**	(481,831)
Derivative financial instruments	**53,062**	12,399	**56,150**	19,618
Total	**1,425,791**	(971,434)	**3,701,827**	(3,489,830)

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".

	Bank		Group	
For the year ended 31 December	**2023 Rs. '000**	2022 Rs. '000	**2023 Rs. '000**	2022 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	
	2023 Rs. '000	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
Recognised at:				
Fair value through profit or loss	**–**	–	**–**	–
Amortised cost	**–**	(18,290)	**–**	(18,290)
Fair value through other comprehensive income	**1,820,617**	(7,913)	**1,820,617**	(7,913)
Total	**1,820,617**	(26,203)	**1,820,617**	(26,203)

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	
	2023 Rs. '000	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
Gain/(loss) on investment properties	**–**	–	**–**	1,910
Gain/(loss) on sale of property, plant and equipment	**2,311**	28	**2,311**	2,715
Gain/(loss) on revaluation of foreign exchange	**(8,652)**	98,976	**(8,652)**	98,976
Revaluation gain on investment properties	**–**	–	**144,023**	
Recovery of loans written off	**–**	–	**11,908**	22,390
Less: Loans written off	**–**	–	**–**	–
Dividend income	**106,614**	178,153	**107,276**	178,985
Rent income	**31,106**	22,704	**31,149**	22,751
Other income	**125,892**	114,796	**204,582**	215,318
Total	**257,272**	414,656	**492,598**	543,045

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	**2023 Rs. '000**	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
Impairment charge	**4,213,060**	4,816,292	**4,111,956**	4,878,806
Loan write-off/waive-off	**45,768**	45,906	**48,022**	56,585
Total	**4,258,828**	4,862,198	**4,159,978**	4,935,391

10.1 Impairment charges

		Bank		Group	
For the year ended 31 December	Note	**2023 Rs. '000**	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
Cash and cash equivalents					
Stage 1		**153**	914	**153**	914
Placement with banks					
Stage 1		**(14)**	(1,549)	**113**	(6,050)
Stage 2		**2,847**	4,367	**2,847**	4,367
Financial assets at amortised cost – loans and advances	21(d)				
Stage 1		**(264,912)**	1,176,241	**(278,552)**	1,116,685
Stage 2		**878,398**	472,446	**858,756**	497,678
Stage 3		**4,535,471**	3,609,508	**4,467,493**	3,710,881
Financial assets at amortised cost – debt instruments	22(b)				
Stage 1		**(10)**	127	**19**	92
Stage 2		**(938,873)**	(445,761)	**(938,873)**	(445,761)
Stage 3		**–**	–	**–**	–
Financial assets measured at fair value through other comprehensive income	23(b)	**–**	–	**–**	–
Contingent liabilities and commitments	48	**–**	–	**–**	–
Investments in subsidiaries	24	**–**	–	**–**	–
Investments in associates and joint ventures	25	**–**	–	**–**	–
Property, plant and equipment	26	**–**	–	**–**	–
Investment properties	28	**–**	–	**–**	–
Others	31.1	**–**	–	**–**	–
Total		**4,213,060**	4,816,292	**4,111,956**	4,878,806

10. Impairment charges (contd.)

10.2 Impact of Management Overlay to impairment charges

Impact to ECL due to Management Overlay

Retail loans and advances of selected sectors which were initially grouped under Stage 1 moved to Stage 2. As a result, Loans and Advances amounting to Rs. 7,954.8 Mn. were moved from State 1 to Stage 2 and provision for impairment was increased by Rs. 1,078.6 Mn. for the year ended 31 December 2023.

Movement of loans and advances from Stage 1 to Stage 2

	Stage 1	Stage 2	Net impact
Exposure (Rs. '000)	(7,954,776)	7,954,776	–
Impairment provision (Rs. '000)	(123,151)	1,201,749	1,078,598

Retail loans and advances of selected sectors which were initially grouped under Stage 2 moved to Stage 3. As a result, Loans and Advances amounting to Rs. 1,289.2 Mn. were moved from State 2 to Stage 3 and provision for impairment was increased by Rs. 302.4 Mn. for the year ended 31 December 2023.

Movement of loans and advances from Stage 2 to Stage 3

	Stage 2	Stage 3	Net impact
Exposure (Rs. '000)	(1,289,191)	1,289,191	–
Impairment provision (Rs. '000)	(196,705)	499,082	302,377

Refer Note 21(f) Impact of COVID-19 to Loan and Advances and ECL provision for more detail on page 286.

11 Personnel expenses

Accounting policy

i Defined contribution plans

The Group operates a defined contribution plan. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Group by the employees and is recorded as an expense under "Personnel expenses". Unpaid contributions are recorded as a liability. The Group contributes to the following defined contribution plans:

(a) Employees' Provident Fund

The Bank and employees contribute 12% and 8% respectively of the employee's monthly gross salary (excluding overtime) to the Provident Fund. The Bank's Provident Fund is an approved fund under the Employees' Provident Fund Act. The Bank guarantees 8% p.a. return to the members of the Employees' Provident Fund.

Subsidiary Companies and its employees contribute 12% and 8% respectively to the Employees Provident Fund (EPF) maintained by Central Bank of Sri Lanka.

(b) Employees' Trust Fund

The Group contributes 3% of the employee's monthly gross salary (excluding overtime) to the Employees' Trust Fund maintained by the Employees Trust Fund Board.

ii Defined benefit plans

Contribution to defined benefit plans are recognised in the Income Statement based on an independent actuarial valuation carried out separately for each defined benefit plan in accordance with Sri Lanka Accounting Standard LKAS-19 on "Employee Benefits".

11. Personnel expenses (contd.)

For the year ended 31 December	Note	Bank 2023 Rs. '000	Bank 2022 Rs. '000	Group 2023 Rs. '000	Group 2022 Rs. '000
Salary and bonus		**12,602,261**	9,871,817	**12,872,160**	10,158,912
Contributions to defined contribution plans		**1,143,867**	1,084,628	**1,169,720**	1,109,267
Contributions to defined benefit plans	11(a,b,c,d)	**2,107,483**	2,388,285	**2,123,031**	2,401,319
Share based expenses		**–**	–	**–**	–
Others		**256,847**	445,790	**259,913**	448,174
Total		**16,110,458**	13,790,521	**16,424,824**	14,117,672

11.(a) Contribution – National Savings Bank Employees Pension scheme I

For the year ended 31 December	Note	Bank 2023 Rs. '000	Bank 2022 Rs. '000	Group 2023 Rs. '000	Group 2022 Rs. '000
Amount recognised as expense	38(a.1)	**1,623,871**	947,960	**1,623,871**	947,960

Actuarial valuation was carried out as of 31 December 2023, by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional Actuaries. (Refer Note 38.a.1 on page 318)

11.(b) Contribution – National Savings Bank Employees Pension scheme II

For the year ended 31 December	Note	Bank 2023 Rs. '000	Bank 2022 Rs. '000	Group 2023 Rs. '000	Group 2022 Rs. '000
Amount recognised as expense	38(a.2)	**(249,176)**	771,784	**(247,891)**	772,929

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 2023. (Refer Note 38.a.2 on page 320)

11.(c) Contribution – Medical Assistance Scheme for the Retired Employees of NSB

For the year ended 31 December	Note	Bank 2023 Rs. '000	Bank 2022 Rs. '000	Group 2023 Rs. '000	Group 2022 Rs. '000
Amount recognised as expense	38(a.3)	**732,788**	668,541	**732,788**	668,541

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 2023. (Refer Note 38.a.3 on page 324)

11. Personnel expenses (contd.)

11. (d) Contribution – Gratuity

For the year ended 31 December	Note	Bank 2023 Rs. '000	Bank 2022 Rs. '000	Group 2023 Rs. '000	Group 2022 Rs. '000
Amount recognised as expense	38(a.4)	**–**	–	**15,549**	11,330

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 326).

12 Other expenses

Accounting policy

Other operating expenses are recognised in the Statement of Profit or Loss on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and maintaining the property, plant and equipment in a state of efficiency has been charged to the Income Statement in arriving at the profit of the year. Provisions in respect of other expenses are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Expenses of depreciation and amortisation of property, plant and equipment and intangible assets are separated from other expenses and disclosed in the face of income statement.

For the year ended 31 December	Bank 2023 Rs. '000	Bank 2022 Rs. '000	Group 2023 Rs. '000	Group 2022 Rs. '000
Directors' emoluments	**1,563**	2,713	**6,042**	7,468
Auditors' remunerations	**6,095**	3,103	**11,640**	6,505
Non-audit fees to auditors	**–**	–	**–**	–
Professional and legal expenses	**21,019**	28,866	**33,053**	37,801
Deposit insurance premium paid to the CBSL	**1,460,374**	1,456,144	**1,460,591**	1,456,465
Special fees paid to Treasury	**320,000**	320,000	**320,000**	320,000
Office administration and establishment expenses	**4,289,781**	3,442,854	**4,364,486**	3,471,689
Others*	**855,787**	736,338	**901,800**	1,052,655
Total	**6,954,619**	5,990,018	**7,097,612**	6,352,583

*Other expenses in year 2022, under the Group includes an amount of Rs. 259,957,886 which has charged by the CBSL due to failure of comply with the section 17. (d) of the circular No. 01 of 2021 on Consolidated operating instruction of market operation and section 11.2 of volume 03 of Lanka Settlement Systems Rules version 2.2 in respect of Standard Lending Facility (SLF) and Intraday Liquidity Facility (ILF).

13 Tax expenses

Accounting policy

As per Sri Lanka Accounting Standard – LKAS 12 on "Income taxes", tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxes. Income tax expense is recognised in Income Statement, except to the extent it relates to items recognised directly in Equity or Other Comprehensive Income (OCI).

Current taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current as well as prior years. The tax rates and tax laws used to compute the amount are those that are enacted or subsequently enacted at the reporting date. Accordingly, provision for taxation is made on the basis of the accounting profit for the year as adjusted for taxation purpose in accordance with the provision of the Inland Revenue Act No. 24 of 2017 and the amendment thereto, at the rates specified in Note 13. (a).

Deferred taxation

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

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which they can be used.

The carrying amount of a deferred tax asset is reviewed at each reporting date and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax asset are reassessed at each reporting date and are recognise to the extent that is probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply in the year when the assets are realised or the liabilities are settled, based on tax rates and tax laws that have been enacted or subsequently enacted at the reporting date.

		Bank		Group	
For the year ended 31 December	Note	**2023 Rs. '000**	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
Current tax expenses					
Current year	13(a)	**–**	2,832,872	**527,665**	3,020,315
Prior year's (over)/under provision		**(460,517)**	44,934	**(460,813)**	35,972
Deferred tax expenses					
Effect of change in tax rates		**–**	–	**–**	–
Temporary differences	13(b)	**(2,468,550)**	(897,864)	**(1,641,339)**	(1,656,213)
Prior years' (over)/under provision		**–**	–	**(19,900)**	(9,455)
Total		**(2,929,067)**	1,979,942	**(1,594,388)**	1,390,619
Effective tax rate (%)		**(68.32)**	43.90	**(19.87)**	59.44
Effective tax rate (excluding deferred tax) (%)		**(10.74)**	63.81	**0.83**	130.63

13. Tax expenses (contd.)

13. (a) Reconciliation of tax expenses

For the year ended 31 December	Bank		Group	
	2023 Rs. '000	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
Profit before tax	**4,287,416**	4,509,609	**8,022,421**	2,339,610
Income tax for the period (Accounting profit @ tax rate)	**1,286,225**	1,196,300	**2,406,726**	1,365,134
Add : Tax effect of expenses that are not deductible for tax purposes	**2,181,865**	2,696,895	**2,432,342**	2,750,689
: Unused tax losses	**2,060,914**	–	**2,060,914**	–
(Less): Tax effect of expenses that are deductible for tax purposes	**5,315,160**	931,198	**5,389,567**	966,385
: Tax effect of exempt income	**213,844**	129,123	**213,844**	129,123
: Utilised tax losses	**–**	–	**768,906**	–
Tax expense for the year	**–**	2,832,872	**527,665**	3,020,315
Tax rate (%)	**30**	30	**30**	30

13.(b) The deferred tax (credit)/charge in the Income Statement comprise of the following:

For the year ended 31 December	Bank		Group	
	2023 Rs. '000	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
Deferred tax assets	**(2,468,550)**	(1,059,236)	**(2,471,349)**	(1,829,256)
Deferred tax liabilities	**–**	161,373	**810,110**	163,588
Deferred tax (credit)/charge to Income Statement	**(2,468,550)**	(897,864)	**(1,661,239)**	(1,665,668)

Change of the income tax rate from 24% to 30%

As per the Inland Revenue (Amendment) Act, No. 45 of 2022, Certified on 19 December 2022 the standard rate of income tax increased to 30% from 24%. The increase in income tax rate to 30% in mid year in 2022 result in two tax rates being applicable for the Year 2022, hence the Bank computed the Income tax expense on a pro rata basis (i.e. 50% for first six months and balance 50% for second six months) for the Year of Assessment 2022/23.

14 Earnings per share (EPS)

Accounting policy

The Group presents basic and diluted Earnings per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss for the year attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any. The Bank does not have dilutive potential ordinary shares as at 31 December 2023.

	Bank		Group	
For the year ended 31 December	**2023 Rs. '000**	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
Net profit attributable to ordinary equity holders	**7,216,483**	2,529,667	**9,616,809**	948,991
Net profit attributable to ordinary equity holders adjusted for the effect of dilution	**7,216,483**	2,529,667	**9,616,809**	948,991
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	**7.68**	2.69	**10.23**	1.01
Diluted earnings per ordinary share	**7.68**	2.69	**10.23**	1.01

14. (a) Weighted average number of ordinary shares for basic and diluted earnings per share

	Outstanding number of shares		Weighted average number of shares	
For the year ended 31 December	**2023 '000**	2022 '000	**2023 '000**	2022 '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 for basic and diluted earning 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 09 on "Financial Instruments" under headings of the Statement of Financial Position are summarised below.

15. (a) Bank – 2023

As at 31 December	Note	AC Rs. '000	FVPL Rs. '000	FVOCI Rs. '000	Total Rs. '000
Assets					
Cash and cash equivalents	16	9,508,563	–	–	9,508,563
Balances with central banks	17	246,998	–	–	246,998
Placements with banks	18	22,576,750	–	–	22,576,750
Derivative financial instruments	19	–	924	–	924
Loans and advances	21	526,520,530	–	–	526,520,530
Debt instruments	20,22 and 23	943,704,684	16,923,123	58,894,210	1,019,522,017
Equity instruments	20 and 23	–	825,378	3,030,202	3,855,580
Total financial assets		1,502,557,525	17,749,425	61,924,412	1,582,231,362

As at 31 December	Note	AC Rs. '000	FVPL Rs. '000	Total Rs. '000
Liabilities				
Due to banks	32	8,984,779	–	8,984,779
Derivative financial instruments	33	–	201	201
Financial liabilities				
– Due to depositors	35	1,482,532,430	–	1,482,532,430
– Due to debt securities holders	35	–	–	–
– Due to other borrowers	35	61,611,014	–	61,611,014
Debt securities issued	37	23,806,514	–	23,806,514
Total financial liabilities		1,576,934,737	201	1,576,934,938

AC – Financial assets/liabilities measured at amortised cost

FVPL – Financial assets/liabilities measured at fair value through profit or loss

FVOCI – Financial assets measured at fair value through other comprehensive income

15. Analysis of financial instruments by measurement basis (contd.)

15. (b) Bank – 2022

As at 31 December	Note	AC Rs. '000	FVPL Rs. '000	FVOCI Rs. '000	Total Rs. '000
Assets					
Cash and cash equivalents	16	8,734,069	–	–	8,734,069
Balances with central banks	17	236,480	–	–	236,480
Placements with banks	18	10,466,409	–	–	10,466,409
Derivative financial instruments	19	–	28,172	–	28,172
Loans and advances	21	553,027,321	–	–	553,027,321
Debt instruments	20, 22 and 23	919,129,377	12,217,110	25,348,941	956,695,428
Equity instruments	20 and 23	–	1,956,839	2,313,822	4,270,660
Total financial assets		1,491,593,656	14,202,120	27,662,763	1,533,458,539

As at 31 December	Note	AC Rs. '000	FVPL Rs. '000	Total Rs. '000
Liabilities				
Due to banks	32	4,086,731	–	4,086,731
Derivative financial instruments	33	–	–	–
Financial liabilities				–
– Due to depositors	35	1,476,739,818	–	1,476,739,818
– Due to debt securities holders	35	–	–	–
– Due to other borrowers	35	16,766,044	–	16,766,044
Debt securities issued	37	23,778,255	–	23,778,255
Total financial liabilities		1,521,370,848	–	1,521,370,848

15. (c) Group – 2023

As at 31 December	Note	AC Rs. '000	FVPL Rs. '000	FVOCI Rs. '000	Total Rs. '000
Assets					
Cash and cash equivalents	16	9,546,756	–	–	9,546,756
Balances with central banks	17	247,232	–	–	247,232
Placements with banks	18	23,618,966	–	–	23,618,966
Derivative financial instruments	19	–	11,231	–	11,231
Loans and advances	21	523,809,104	–	–	523,809,104
Debt instruments	20,22 and 23	953,056,324	39,363,784	59,459,820	1,051,879,928
Equity instruments	20 and 23	–	825,378	3,234,699	4,060,077
Total financial assets		1,510,278,382	40,200,393	62,694,519	1,613,173,294

15. Analysis of financial instruments by measurement basis (contd.)

15. (c) Group – 2023 (contd.)

As at 31 December	Note	AC Rs. '000	FVPL Rs. '000	Total Rs. '000
Liabilities				
Due to banks	32	**15,399,100**	**–**	**15,399,100**
Derivative financial instruments	33	**–**	**201**	**201**
Financial liabilities				
– Due to depositors	35	**1,482,951,028**	**–**	**1,482,951,028**
– Due to debt securities holders	35	**–**	**–**	**–**
– Due to other borrowers	35	**72,891,598**	**–**	**72,891,598**
Debt securities issued	37	**23,879,683**	**–**	**23,879,683**
Total financial liabilities		**1,595,121,409**	**201**	**1,595,121,610**

15. (d) Group – 2022

As at 31 December	Note	AC Rs. '000	FVPL Rs. '000	FVOCI Rs. '000	Total Rs. '000
Assets					
Cash and cash equivalents	16	8,782,807	–	–	8,782,807
Balances with central banks	17	236,696	–	–	236,696
Placements with banks	18	11,034,246	–	–	11,034,246
Derivative financial instruments	19	–	35,392	–	35,392
Loans and advances	21	553,052,170	–	–	553,052,170
Debt instruments	20,22 and 23	927,916,442	21,280,010	25,833,465	975,029,917
Equity instruments	20 and 23	–	1,956,839	2,418,746	4,375,585
Total financial assets		1,501,022,361	23,272,241	28,252,211	1,552,546,812

As at 31 December	Note	AC Rs. '000	FVPL Rs. '000	Total Rs. '000
Liabilities				
Due to banks	32	12,711,256	–	12,711,256
Derivative financial instruments	33	–	–	–
Financial liabilities				
	35	1,475,808,557	–	1,475,808,557
	35	–	–	–
	35	18,889,245	–	18,889,245
Debt securities issued	37	23,851,810	–	23,851,810
Total financial liabilities		1,531,260,868	–	1,531,260,868

16 Cash and cash equivalents

Accounting policy

Cash and cash equivalents includes cash in hand, balances with banks, money at call and short notice that are subject to an insignificant risk of change in their value. They are recorded in the Financial Statements at their gross values less impairment. The Group has calculated impairment provision as per SLFRS 9 – "Financial Instrument" based on external rating of particular bank.

	Bank		Group	
As at 31 December	**2023 Rs. '000**	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
Cash in hand	**2,991,147**	3,207,729	**2,994,088**	3,212,553
Balances with banks	**6,185,654**	5,524,723	**6,220,907**	5,568,637
Money at call and short notice	**333,054**	2,756	**333,054**	2,756
Gross cash and cash equivalents (*)	**9,509,855**	8,735,208	**9,548,049**	8,783,946
Impairment for expected credit losses	**(1,292)**	(1,139)	**(1,293)**	(1,139)
Net cash and cash equivalents (*)	**9,508,563**	8,734,069	**9,546,756**	8,782,807

(*) Gross cash and cash equivalents are reported in the Statement of Cash Flows.

17 Balances with central banks

	Bank		Group	
As at 31 December	**2023 Rs. '000**	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
Non-statutory balances with central banks				
Central Bank of Sri Lanka	**246,998**	236,480	**247,232**	236,696
Total	**246,998**	236,480	**247,232**	236,696

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	
As at 31 December	**2023 Rs. '000**	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
Placements with banks – Sri Lanka				
Sri Lankan Rupee (LKR)	**–**	–	**1,042,367**	567,861
American Dollar (USD)	**16,243,898**	4,108,012	**16,243,898**	4,108,012
Euro (EUR)	**2,009,359**	2,024,133	**2,009,359**	2,024,133
Great British Pound (GBP)	**1,764,938**	2,100,834	**1,764,938**	2,100,834
Australian Dollar (AUD)	**1,827,454**	1,417,955	**1,827,454**	1,417,955
Placements with banks – Outside Sri Lanka				
American Dollar (USD)	**738,430**	819,971	**738,430**	819,971
Gross placements with banks	**22,584,079**	10,470,905	**23,626,446**	11,038,765
Impairment for expected credit losses	**(7,329)**	(4,496)	**(7,480)**	(4,519)
Net placements with banks	**22,576,750**	10,466,409	**23,618,966**	11,034,246

19 Derivative financial instruments

Accounting policy

Derivatives are financial instruments that derive their value in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and indices. Derivatives are categorised as 'trading' unless they are designated as hedging instruments. The Group uses derivatives such as interest rate swaps and forward foreign exchange contracts.

Derivatives recorded at fair value through profit or loss

Derivatives except for derivatives used as hedging instruments are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in "Net trading income".

Derivatives used as hedge instruments

The Group entered into derivative contracts to hedge against the foreign exchange rate or interest rate. These derivatives are measured at fair value. The Group adopts hedge accounting mismatch to eliminate the accounting resulting from volatility in the Financial Statements between derivatives measured at fair value and the financial asset or liability (hedge exposure) measured at cost/amortised cost, if hedge is efficient.

Cash flow hedge

Cash flow hedge is measured at fair value at the end of each reporting period.

19. Derivative financial instruments (contd.)

If a hedge of the exposure to variability in cash flow, the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in Other Comprehensive Income within "cash flow hedge" – fair value gain/(loss). Any gain or losses in fair value relating to an ineffective portion is recognised immediately in the Income Statements.

The accumulated gains and losses recognised in Other Comprehensive Income are reclassified to the Income Statement in the periods in which the hedged item will affect profit or loss. However, when the forecast transaction that is hedged result in the recognised of a non-financial assets or a non-financial liability, the gains and losses previously recognised in Other Comprehensive Income are removed from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meet the criteria for hedge accounting, any cumulative gain or loss recognised in Other Comprehensive Income at that time remains in equity until the forecast transaction is eventually recognised in the Income Statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in Other Comprehensive Income is immediately reclassified to the Income Statement.

19.1 Derivative assets

Bank and Group

As at 31 December	Note	Bank 2023 Rs. '000	Bank 2022 Rs. '000	Group 2023 Rs. '000	Group 2022 Rs. '000
Foreign currency derivatives					
Currency swaps/Forwards		**924**	28,172	**924**	28,172
Others		**–**	–	**10,307**	7,220
Total		**924**	28,172	**11,231**	35,392

20 Financial assets recognised through profit or loss

Accounting policy

Financial assets are classified as financial assets recognised through profit or loss if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short-term profit or position taking and recorded to fair value. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships. Financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost or fair value through other comprehensive income as per SLFRS 9 on "Financial Instruments".

Financial assets recognised through profit or loss are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognised in "Net gain/(loss) from trading" while interest income and expenses are recorded in "Net interest income" according to the terms of the contract, or when the right to the payment has been established. Dividend income and realised gain or losses are recorded in "Net gain/(loss) from trading".

The Group evaluates its financial assets recognised through profit or loss, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and Management's intention to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets, in rare circumstances.

20. Financial assets recognised through profit or loss (contd.)

As at 31 December	Note	Bank 2023 Rs. '000	Bank 2022 Rs. '000	Group 2023 Rs. '000	Group 2022 Rs. '000
Measured at fair value					
Sri Lanka Government Securities					
Treasury Bills		**13,916,242**	6,893,662	**28,560,671**	8,432,736
Treasury Bonds		**3,006,881**	5,323,448	**10,803,113**	12,847,273
Equity securities	20(b)	**825,378**	1,956,839	**825,378**	1,956,839
Unit trust		**–**	–	**–**	–
Subtotal		**17,748,501**	14,173,948	**40,189,162**	23,236,848
Designated at fair value		**–**	–	**–**	–
Total		**17,748,501**	14,173,948	**40,189,162**	23,236,848

20. (a) Analysis

As at 31 December	Bank 2023 Rs. '000	Bank 2022 Rs. '000	Group 2023 Rs. '000	Group 2022 Rs. '000
By collateralisation				
Pledged as collateral	**–**	–	**19,493,329**	7,911,556
Unencumbered	**17,748,501**	14,173,948	**20,695,833**	15,325,292
Total	**17,748,501**	14,173,948	**40,189,162**	23,236,848
By Currency				
Sri Lankan Rupee	**17,748,501**	14,173,948	**40,189,162**	23,236,848
United States Dollar	**–**	–	**–**	–
Total	**17,748,501**	14,173,948	**40,189,162**	23,236,848

20. Financial assets recognised through profit or loss (contd.)

20. (b) Equity securities (quoted) – Bank and Group

As at 31 December	2023			2022		
	Number of shares	**Cost Rs. '000**	**Market value Rs. '000**	Number of shares	Cost Rs. '000	Market value Rs. '000
1. Banks						
Commercial Bank of Ceylon PLC	–	–	–	1,094,568	143,015	54,947
Commercial Bank of Ceylon PLC (NV)	**430,634**	**35,420**	**34,623**	304,939	34,889	12,594
DFCC Bank	**529,196**	**45,434**	**42,124**	476,165	86,002	15,237
Hatton National Bank PLC(NV)	**624,232**	**91,537**	**87,393**	–	–	–
Sampath Bank PLC	**1,000,000**	**71,750**	**70,500**	2,757,478	201,346	94,306
Seylan Bank PLC (NV)	**500,000**	**21,500**	**17,750**	–	–	–
Nation Trust Bank PLC	**500,000**	**54,100**	**53,750**	2,427,452	141,097	112,148
National Development Bank PLC	**960,522**	**70,683**	**62,338**	793,570	52,715	25,394
Subtotal		**390,424**	**368,478**		659,064	314,626
2. Capital Goods						
Access Engineering PLC	–	–	–	1,700,023	65,008	18,190
ACL Cables PLC	**1,594,338**	**169,711**	**109,691**	1,594,338	169,711	111,763
Hemas Holdings PLC	–	–	–	1,799,843	148,976	101,511
Hayleys PLC	–	–	–	1,620,493	189,954	110,194
John Keells Holdings PLC	–	–	–	3,194,987	458,997	432,122
Vallibel One PLC	–	–	–	1,770,273	158,256	53,285
Lanka Walltiles PLC	**644,999**	**45,868**	**27,219**	644,999	45,868	33,217
Kelani Cables PLC	–	–	–	170,000	102,000	44,158
Royal Ceramics Lanka PLC	**950,000**	**66,918**	**25,080**	950,000	66,918	26,885
Richard Pieris & Company PLC	–	–	–	149,084	2,968	3,593
Subtotal		**282,497**	**161,990**		1,408,656	934,918
3. Consumer Services						
Asian Hotels and Properties PLC	–	–	–	1,106,949	86,383	41,400
John Keells Hotels PLC	–	–	–	1,281,205	23,925	21,140
Lighthouse Hotels PLC	–	–	–	884,007	53,757	26,520
The Kingsbury PLC	–	–	–	3,029,712	34,491	25,753
Jetwing Symphony PLC	–	–	–	1,300,000	19,500	13,520
Subtotal		–	–		218,056	128,333
4. Consumer Durables and Apparel						
Teejay Lanka PLC	–	–	–	2,054,737	84,211	65,135
Hela Apparel Holdings PLC	–	–	–	1,472,284	24,634	12,514
Subtotal		–	–		108,845	77,650

20. Financial assets recognised through profit or loss (contd.)

20. (b) Equity securities (quoted) – Bank and Group (contd.)

As at 31 December	2023			2022		
	Number of shares	**Cost Rs. '000**	**Market value Rs. '000**	Number of shares	Cost Rs. '000	Market value Rs. '000
5. Diversified Financials						
Vallibel Finance PLC	**650,000**	**26,386**	**20,800**	–	–	–
Subtotal		**26,386**	**20,800**		–	–
6. Energy						
Lanka IOC PLC	**538,630**	**35,957**	**54,940**	538,630	35,957	109,207
Subtotal		**35,957**	**54,940**		35,957	109,207
7. Food Beverage and Tobacco						
Melstacorp PLC	**–**	**–**	**–**	1,682,757	92,277	77,743
Ceylon Cold Stores PLC	**200,000**	**9,600**	**8,480**	-	-	-
Subtotal		**9,600**	**8,480**		92,277	77,743
8. Materials						
Tokyo Cement Company (Lanka) PLC	**–**	**–**	**–**	714,762	41,817	23,587
Tokyo Cement Company (Lanka) PLC (NV)	**150,000**	**5,475**	**5,700**	1,135,906	62,334	29,534
Dipped Products PLC	**1,393,313**	**72,042**	**38,873**	1,393,313	72,042	40,545
CIC Holdings PLC	**1,005,257**	**88,030**	**64,337**	1,005,257	88,030	85,447
Chevron Lubricants Lanka PLC	**709,957**	**84,781**	**64,109**	709,957	84,781	68,511
Subtotal		**250,328**	**173,019**		349,004	247,624
9. Insurance						
Janashakthi Insurance Company PLC	**–**	**–**	**–**	421,923	11,863	13,375
Subtotal		**–**	**–**		11,863	13,375
10. Telecommunication Services						
Dialog Axiata PLC	**–**	**–**	**–**	3,738,360	81,332	31,776
Subtotal		**–**	**–**		81,332	31,776
11. Transportation						
Expolanka Holdings PLC	**124,846**	**17,432**	**17,884**	–	–	–
Subtotal		**17,432**	**17,884**		–	–
12. Utilities						
LVL Energy Fund PLC	**3,597,704**	**35,977**	**19,787**	3,597,704	35,977	21,586
Subtotal		**35,977**	**19,787**		35,977	21,586
Total		**1,048,601**	**825,378**		3,001,032	1,956,839

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 248 and page 249.

	Bank		Group	
As at 31 December	**2023 Rs. '000**	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
Gross loans and advances				
Stage 1*	**490,248,344**	520,349,987	**487,393,234**	521,035,077
Stage 2	**31,529,180**	24,397,234	**31,657,602**	23,729,649
Stage 3	**27,120,378**	25,508,516	**28,545,272**	27,038,659
Gross loan and advances	**548,897,902**	570,255,736	**547,596,108**	571,803,386
(Less): Accumulated impairment under:				
Stage 1	**4,426,656**	4,691,568	**4,435,168**	4,713,720
Stage 2	**3,501,809**	2,623,411	**3,525,267**	2,666,511
Stage 3	**14,448,907**	9,913,436	**15,826,569**	11,370,985
Total Impairment	**22,377,372**	17,228,415	**23,787,004**	18,751,216
Net loans and advances	**526,520,530**	553,027,321	**523,809,104**	553,052,170

* Stage 1 loans for the year 2023 includes treasury guaranteed loans of Rs. 66,106 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 2023 Rs. '000	Bank 2022 Rs. '000	Group 2023 Rs. '000	Group 2022 Rs. '000
By product					
Trade finance		–	–	–	–
Lease rental and hire purchase receivable	(21.e)	–	–	74,111	172,973
Pawning		94,935,475	74,389,506	94,935,503	74,389,569
Staff Loans		15,219,547	14,867,179	15,557,481	15,194,108
Term loans					
Short-term		206,092	282,586	206,092	282,586
Long-term		428,838,174	477,901,737	430,466,687	478,870,726
Others					
Sri Lanka Government Securities		–	–	–	–
Loan to Government		–	2,075,000	–	2,075,000
Securities purchased under resale agreements		9,698,614	739,728	6,356,234	818,424
Gross total		548,897,902	570,255,736	547,596,108	571,803,386

21. (b) Analysis by currency

As at 31 December	Bank 2023 Rs. '000	Bank 2022 Rs. '000	Group 2023 Rs. '000	Group 2022 Rs. '000
By currency				
Sri Lankan Rupee	545,097,593	566,077,155	543,795,799	567,624,805
United States Dollar	3,800,309	4,178,581	3,800,309	4,178,581
Gross total	548,897,902	570,255,736	547,596,108	571,803,386

21. Financial assets at amortised cost – Loans and advances (contd.)

21. (c) Analysis by industry

	Bank		Group	
As at 31 December	**2023 Rs. '000**	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
By industry				
Agriculture and fishing	**33,935,917**	30,380,297	**34,249,380**	30,718,456
Manufacturing	**–**	–	**569,274**	658,745
Tourism	**73,354**	72,525	**125,031**	125,702
Transport	**16,019**	22,537	**53,126**	59,644
Construction/housing	**180,302,455**	190,997,512	**180,635,738**	191,330,795
Traders	**–**	–	**369,412**	465,148
New economy	**–**	–	**21,717**	21,717
Others				
Financial and business services	**9,908,156**	2,204,933	**9,908,156**	2,204,933
Infrastructure	**61,075,939**	64,633,867	**61,075,939**	64,633,867
Power and energy	**5,698,971**	9,325,128	**5,698,971**	9,325,128
Education	**8,876,295**	9,384,292	**8,876,295**	9,384,292
Personal/Pawning/Other	**249,010,796**	263,234,645	**246,013,069**	262,874,959
Gross total	**548,897,902**	570,255,736	**547,596,108**	571,803,386

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 "other operating income".

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.

Detail of impairment policy are given in Note 2.5.2 on page 252.

21. Financial assets at amortised cost – Loans and advances (contd.)

21. (d) Movements in impairment during the year (contd.)

As at 31 December	Bank 2023 Rs. '000	Bank 2022 Rs. '000	Group 2023 Rs. '000	Group 2022 Rs. '000
Stage 1				
Balance as at 1 January	**4,691,568**	3,515,327	**4,713,720**	3,597,035
Charge/(Write back) to Income Statement	**(264,912)**	1,176,241	**(278,552)**	1,116,685
Write-off during the year	**–**	–	**–**	–
Other movements	**–**	–	**–**	–
Balance as at 31 December	**4,426,656**	4,691,568	**4,435,168**	4,713,720
Stage 2				
Balance as at 1 January	**2,623,411**	2,150,965	**2,666,511**	2,168,833
Charge/(Write back) to Income Statement	**878,398**	472,446	**858,756**	497,678
Write-off during the year	**–**	–	**–**	–
Other movements	**–**	–	**–**	–
Balance as at 31 December	**3,501,809**	2,623,411	**3,525,267**	2,666,511
Stage 3				
Balance as at 1 January	**9,913,436**	6,303,928	**11,370,985**	7,682,494
Charge/(Write back) to Income Statement	**4,581,239**	3,655,413	**4,515,514**	3,767,466
Write-off during the year	**(45,768)**	(45,906)	**(48,022)**	(56,585)
Other movements	**–**	–	**(11,908)**	(22,390)
Balance as at 31 December	**14,448,907**	9,913,436	**15,826,569**	11,370,985
Total impairment provision as at 31 December	**22,377,372**	17,228,415	**23,787,004**	18,751,216

21. (e) Lease and hire purchase receivables

As at 31 December	Bank 2023 Rs. '000	Bank 2022 Rs. '000	Group 2023 Rs. '000	Group 2022 Rs. '000
Gross lease and hire purchased receivables	**–**	–	**74,770**	173,244
Unearned interest asset	**–**	–	**13,819**	34,158
Unearned interest liability	**–**	–	**(14,478)**	(34,429)
Net lease and hire purchased receivables	**–**	–	**74,111**	172,973

21. Financial assets at amortised cost – Loans and advances (contd.)

21. (f) Impact of COVID-19 to Loans and Advances and ECL provision

Overview

Sri Lanka's worst-ever economic crisis is seeing a shortage of foreign currency, runaway inflation, extremely high interest rates, high taxes and steep recession. Economic crisis continues to cause major disruptions to economic activities with wide-ranging impacts across many business sectors in Locally. In preparing the financial statements, we made various accounting estimates for future events based on forecasts of economic conditions which reflect expectations and assumptions as at 31 December 2023, that we believe are reasonable under the circumstances.

We continue to operate in an uncertain macroeconomic environment. Impact on estimates and assumptions as disclosed in Note 2, the preparation of the Consolidated financial statements in accordance with SLFRS requires management to make estimates and assumptions that affect the recognised and measured amounts of assets, liabilities, net income, comprehensive income and related disclosures. Significant estimates and assumptions are made in the areas of the valuation of financial instruments, allowance for credit losses, asset impairment, income taxes, provisions and contingent liabilities, post-employment and other long-term benefit plan assumptions. Actual results could differ from these estimates and assumptions. The economic meltdown gives rise to heightened uncertainty as it relates to accounting estimates and assumptions and increases the need to apply judgment in evaluating the economic and market environment and its impact on significant estimates. This particularly impacts estimates and assumptions relating to allowance for credit losses, valuation of financial instruments, and asset impairment.

Allowance for credit impairment

We applied judgment in the determination of the industries most impacted by the economic crisis and assessed the associated impact on risk ratings after considering the internal and external support and strength measuring both 12-month and lifetime expected credit losses. Our ECL models leverage the PD, LGD, and EAD parameters. For standardised business and government portfolios, available long-run PDs, LGDs and EADs are also converted to point-in-time parameters through the incorporation of forward-looking information for the purpose of measuring ECL under SLFRS 9.

Significant judgment is involved in determining which forward-looking information variables are relevant for portfolios and in determining the extent by which through-the-cycle parameters should be adjusted for forward-looking information to determine point-in-time parameters. While changes in the set of forward-looking information variables used to convert through-the-cycle PDs, LGDs and EADs into point-in-time parameters can either increase or decrease ECL allowances in a particular period, changes to the mapping of forward-looking information variables to particular portfolios are expected to be infrequent. However, changes in the particular forward-looking information parameters used to quantify point-in-time parameters will be frequent as our forecasts are updated on a quarterly basis. Increases in the level of pessimism in the forward-looking information variables will cause increases in ECL, while increases in the level of optimism in the forward-looking information variables will cause decreases in ECL. These increases and decreases could be significant in any particular period and will start to occur in the period where our outlook of the future changes. With respect to the lifetime of a financial instrument, the maximum period considered when measuring ECL is the maximum contractual period over which we are exposed to credit risk.

We applied judgment with respect to the degree that certain industries and portfolios would be negatively impacted by the Economic Crisis. Forecasting forward-looking information for multiple scenarios and determining the probability weighting of the scenarios as indicated above, forward-looking information is incorporated into both our assessment of whether a financial asset has experienced a SICR since its initial recognition and in our estimate of ECL.

Key forward-looking information variables include GDP growth, Inflation, Interest rate, Exchange rates and unemployment. For most of our loan portfolios, our forecast of forward-looking information variables is established from a "base case" or most likely scenario that is used internally by management for planning and forecasting purposes. In forming the base case scenario, we consider the forecasts of international organisations and monetary authorities such as the International Monetary Fund (IMF), and the Central Bank of Sri Lanka, as well as private sector economists. We then derive reasonably possible "upside case" and "downside case" scenarios using external forecasts that are above and below our base case and the application of management judgment. A probability weighting is assigned to our base case, upside case and downside case scenarios based on management judgment. In general, a worsening of our outlook on forecasted forward-looking information for each scenario, an increase in the probability of the downside case scenario occurring, or a decrease in the probability of the upside case scenario occurring will increase the estimated ECL allowance.

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

21. Financial assets at amortised cost – Loans and advances (contd.)

21. (f) Impact of COVID-19 to Loans and Advances and ECL provision (contd.)

of both the interrelationship between the variables and the interrelationship between the level of pessimism inherent in a particular scenario and its probability of occurring. The forecasting of forward-looking information and the determination of scenario weightings in the Economic Crisis required a heightened application of judgment in a number of areas as our forecast reflects numerous assumptions and uncertainties regarding the impact of the Economic Crisis. The following table provides weightage used for the base case, upside case and downside case scenario forecasts for select forward-looking information variables used to estimate our ECL.

Scenario probability weighting (Bank)

As at 31 December	**2023 %**	2022 %
Base case	**10**	10
Upside case	**10**	10
Downside case	**80**	80

Use of Management overlays

Management overlays to ECL allowance estimates are adjustments which we use in circumstances where we judge that our existing inputs, assumptions and model techniques do not capture all relevant risk factors. The emergence of new macroeconomic, microeconomic or political events, along with expected changes to parameters, models or data that are not incorporated in our current parameters, internal risk rating migrations, or forward-looking information are examples of such circumstances.

Impact of the Economic Crisis to address the uncertainties inherent in the current environment, we utilised management overlays with respect to the impact that the Economic Crisis will have on the migration of certain business and government exposures that we believe are the most susceptible to these risks and the resulting measurement of the ECL for those exposures. The mitigating impact of government support measures was considered in the determination of these overlays to the extent not already reflected in our models. The use of management overlays requires the application of significant judgment that impacts the amount of ECL allowances recognised. Actual credit losses could differ materially from those reflected in our estimates.

All the Corporate clients were assessed individually based on their historical payment patterns, Economic Crisis impact to their sector and geographical area, expected recovery of the sector, financial strength of the entity, government and CBSL support, and other holistic factors.

Based on the assessment some borrowers were moved from stage one to stage two (SICR) and some borrowers were moved from stage two to stage three (due to expected cashflow impairment) despite of their past due status.

The portfolio level impairment assessments were carried out for the retail borrowers. The borrowers were allocated between stages based on their sector and management judgement. Based on the assessment some borrowers were moved from stage one to stage two (SICR) and some borrowers were moved from stage two to stage three (due to expected cashflow impairment) despite of their past due status.

Impact to ECL due to Management Overlay

Movement of loans and advances from Stage 1 to Stage 2

Retail loans and advances of selected sectors which were initially grouped under Stage 1 moved to Stage 2. As a result, Loans and Advances amounting to Rs. 7,954.8 Mn. were moved from Stage 1 to Stage 2 and provision for impairment was increased by Rs. 1,078.6 Mn. for the year ended 31 December 2023.

	Stage 1 Rs. '000	Stage 2 Rs. '000	Net impact Rs. '000
Exposure	(7,954,776)	7,954,776	–
Impairment Provision	(123,151)	1,201,749	1,078,598

Movement of loans and advances from Stage 2 to Stage 3

Retail loans and advances of selected sectors which were initially grouped under Stage 2 moved to Stage 3. As a result, Loans and Advances amounting to Rs. 1,289.2 Mn were moved from Stage 2 to Stage 3 and provision for impairment was increased by Rs. 302.4 Mn for the year ended 31 December 2023.

	Stage 2 Rs. '000	Stage 3 Rs. '000	Net impact Rs. '000
Exposure	(1,289,191)	1,289,191	–
Impairment provision	(196,705)	499,082	302,377

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".

As at 31 December	Note	Bank 2023 Rs. '000	Bank 2022 Rs. '000	Group 2023 Rs. '000	Group 2022 Rs. '000
Sri Lanka Government securities					
Treasury Bills		81,381,441	6,483,616	83,062,596	6,981,266
Treasury Bonds		728,230,365	768,959,383	735,219,630	776,263,184
Sri Lanka Development Bonds (SLDB)		–	9,388,730	–	9,388,730
Securities purchased under resale agreements		–	–	50,041	–
Debentures (Treasury Guarantee)		131,860,577	132,760,669	131,860,577	132,760,669
Corporate debt instruments	(22.1)	2,232,945	2,476,508	2,864,318	3,462,287
Commercial papers		–	–	6,000	6,000
Other investment		–	–	165,595	165,595
Gross total		943,705,329	920,068,906	953,228,757	929,027,729
Impairment for expected credit losses		(645)	(939,528)	(172,433)	(1,111,287)
Net total		943,704,684	919,129,377	953,056,324	927,916,442

22.1 Corporate Debt Instruments – Bank

As at 31 December	Bank 2023 Number of debentures	Bank 2023 Carrying value	Bank 2022 Number of debentures	Bank 2022 Carrying value
People's Leasing PLC	2,064,900	214,025	2,064,900	214,076
Commercial Leasing & Finance PLC	7,500,000	780,336	7,500,000	796,157
Hayleys PLC	5,000,000	535,142	7,000,000	754,787
Commercial Credit and Finance PLC	1,000,000	107,422	1,000,000	107,447
Nations Trust Bank PLC	3,212,800	335,375	3,212,800	335,455
Resus Energy PLC	2,500,000	260,645	2,500,000	268,586
Net total		2,232,945		2,476,508

22. Financial assets at amortised cost – Debt and other instruments (contd.)

22.1 Corporate Debt Instruments – Group

As at 31 December	Group			
	2023 Number of debentures	**2023 Carrying value**	2022 Number of debentures	2022 Carrying value
People's Leasing PLC	**6,203,600**	**642,460**	6,203,600	642,511
Commercial Leasing & Finance PLC	**7,500,000**	**780,336**	8,174,200	867,161
Hayleys PLC	**5,000,000**	**535,142**	8,250,000	886,326
Commercial Credit and Finance PLC	**1,000,000**	**107,422**	1,000,000	107,447
Nations Trust Bank PLC	**3,212,800**	**335,375**	3,212,800	335,455
Resus Energy PLC	**2,500,000**	**260,645**	2,500,000	268,586
Asia Asset Finance PLC	**–**	**–**	250,000	27,025
Seylan Bank PLC	**1,000,000**	**107,033**	1,000,000	107,052
Siyapatha Finance PLC	**929,500**	**95,905**	2,112,700	220,725
Net total		**2,864,318**		3,462,287

22.2 Analysis

As at 31 December	Bank		Group	
	2023 Rs. '000	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
By collateralisation				
Pledged as collateral	**47,437,615**	6,772,300	**55,926,347**	13,253,580
Unencumbered	**896,267,714**	913,296,606	**897,302,410**	915,774,149
Gross total	**943,705,329**	920,068,906	**953,228,757**	929,027,729
By Currency				
Sri Lankan Rupee	**943,705,329**	910,680,176	**953,228,757**	919,639,000
United States Dollar	**–**	9,388,730	**–**	9,388,730
Gross total	**943,705,329**	920,068,906	**953,228,757**	929,027,729

22. Financial assets at amortised cost – Debt and other instruments (contd.)

22.3 Movements in impairment during the year

As at 31 December	Bank 2023 Rs. '000	Bank 2022 Rs. '000	Group 2023 Rs. '000	Group 2022 Rs. '000
Stage 1				
Balance as at 1 January	**655**	528	**820**	728
Charge/(write back) to Income Statement	**(10)**	127	**19**	92
Write-off during the year	**–**	–	**–**	–
Other movements	**–**	–	**–**	–
Balance as at 31 December	**645**	655	**839**	820
Stage 2				
Balance as at 1 January	**938,873**	1,384,634	**938,873**	1,384,634
Charge/(write back) to Income Statement	**(938,873)**	(445,761)	**(938,873)**	(445,761)
Write-off during the year	**–**	–	**–**	–
Other movements	**–**	–	**–**	–
Balance as at 31 December	**–**	938,873	**–**	938,873
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	**645**	939,528	**172,433**	1,111,287

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 category as follows:

i. Equity instruments fair value through other comprehensive income

Upon initial recognition, the Group occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under LKAS 32 on "Financial Instruments: Presentation" and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Unrealised gains and losses are recognised directly in equity (Other Comprehensive Income) in the "OCI reserve". Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating

23. Financial assets at fair value through other comprehensive income (contd.)

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	**2023 Rs. '000**	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
Sri Lanka Government securities	(23.c)				
Treasury Bills		**42,428,135**	8,001,757	**42,428,135**	8,001,757
Treasury Bonds		**16,466,074**	17,347,185	**17,031,685**	17,831,708
Equity securities					
Quoted equity securities	(23.d)	**2,772,958**	2,146,925	**2,975,291**	2,249,685
Unquoted equity securities	(23.e)	**257,244**	166,897	**301,885**	211,537
(Less): Impairment		**–**	–	**(42,476)**	(42,476)
Net financial assets at fair value through other comprehensive income		**61,924,412**	27,662,763	**62,694,519**	28,252,211

23. (a) Analysis

	Bank		Group	
As at 31 December	**2023 Rs. '000**	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
By collateralisation				
Pledged as collateral	**–**	–	**460,888**	387,192
Unencumbered	**61,924,412**	27,662,763	**62,233,632**	27,865,019
Gross total	**61,924,412**	27,662,763	**62,694,519**	28,252,211
By currency				
Sri Lankan Rupee	**61,924,412**	27,662,763	**62,694,519**	28,252,211
United States Dollar	**–**	–	**–**	–
Gross total	**61,924,412**	27,662,763	**62,694,519**	28,252,211

23. Financial assets at fair value through other comprehensive income (contd.)

23.(b) Movements in impairment during the year

No impairment movement during the year.

23. (c) Sri Lanka Government Securities

	Bank					
	2023			2022		
	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	43,805,328	41,226,853	42,428,135	8,565,000	7,445,499	8,001,757
Sri Lanka Government Securities – Treasury Bonds	15,724,930	14,875,308	16,466,074	19,374,930	17,604,776	17,347,185
		56,102,161	58,894,209		25,050,275	25,348,941

	Group					
	2023			2022		
	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	43,805,328	41,226,853	42,428,135	8,565,000	7,445,499	8,001,757
Sri Lanka Government Securities – Treasury Bonds	16,237,616	15,288,000	17,031,685	20,024,051	18,106,103	17,831,708
		56,514,853	59,459,820		25,551,601	25,833,465

23. (d) Quoted investments – Equity securities – Bank and Group

	Bank					
	2023			2022		
	Number of shares	Cost Rs. '000	Fair value Rs. '000	Number of shares	Cost Rs. '000	Fair value Rs. '000
Hatton National Bank PLC	12,815,744	1,730,274	2,169,065	12,293,280	1,730,274	969,940
Sri Lanka Telecom PLC	–	–	–	13,158,700	445,643	894,792
People's Leasing & Finance PLC	56,438,626	832,312	603,893	49,834,269	832,312	282,193
		2,562,586	2,772,958		3,008,229	2,146,925

23. Financial assets at fair value through other comprehensive income (contd.)

23. (d) Quoted investments – Equity securities – Bank and Group (contd.)

	Group					
	2023			2022		
	Number of shares	Cost Rs. '000	Fair value Rs. '000	Number of shares	Cost Rs. '000	Fair value Rs. '000
Hatton National Bank PLC	12,815,744	1,730,274	2,169,065	12,293,280	1,730,274	969,940
Sri Lanka Telecom PLC	–	–	–	13,158,700	445,643	894,792
People's Leasing Company PLC	56,438,626	832,312	603,893	49,834,269	832,312	282,193
National Development Bank	18,340	1,401	1,190	17,451	1,357	558
Commercial Bank PLC	241	11	23	228	10	11
Lanka ORIX Leasing Company	200	1	71	200	1	80
Sampath Bank PLC	11,095	325	782	10,827	311	370
Watawala Plantation PLC	4,046	21	292	4,046	21	299
Trans Asia Hotel PLC	4,000	35	156	4,000	35	180
Lanka Ceramic PLC	917	24	86	917	24	91
Lanka Walltiles PLC	585	2	25	585	2	30
Kelani Valley Plantations PLC	11,000	198	799	11,000	198	899
Hapugastenna Plantations PLC	100	3	3	100	3	5
Aitken Spence PLC	18,000	160	2,088	18,000	160	2,304
Pan Asia Bank PLC	10,298,499	96,012	196,701	10,298,499	96,012	97,836
Hatton Plantations PLC	4,000	30	116	4,000	30	97
		2,660,810	2,975,291		3,106,394	2,249,685

23. (e) Unquoted investments – Equity securities

	Bank					
	2023			2022		
	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	199,753	16,452,126	164,521	109,406
(Less): Impairment Provision		–	–		–	–
		222,012	257,244		222,012	166,897

23. Financial assets at fair value through other comprehensive income (contd.)

23. (e) Unquoted investments – Equity securities (contd.)

	Group					
	2023			2022		
	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	199,753	16,452,126	164,521	109,406
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	301,885		266,652	211,537
(Less): Impairment provision		–	(42,476)		–	(42,476)
Net total		266,652	259,408		266,652	169,061

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

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		2023	2022	2023		2022	
	Note	%	%	Cost Rs. '000	Valuation* Rs. '000	Cost Rs. '000	Valuation* Rs. '000
Unquoted equity investments							
NSB Fund Management Co. Ltd. (420,000,000 ordinary shares of Rs. 10.00 each.)		100	100	4,200,000	5,501,307	4,200,000	3,715,208
Sri Lanka Savings Bank Limited (8,204,464 ordinary shares)		100	100	3,111,000	8,223,865	3,111,000	7,108,682
(Less): Impairment provision	24.3			–	–	–	–
Net total				7,311,000	13,725,172	7,311,000	10,823,890

* The Valuation of investments in subsidiaries have been carried out on net asset basis as at 31 December 2023 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 2023.

24.2 Interest Income and profit of acquire

No acquisition or disposal have been occurred during the year 2023.

24.3 Movements in impairment during the year

No impairment movements during the year 2023.

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 2023.

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.

26. Property, plant and equipment (contd.)

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Cost model

The Group applies cost model to property, plant and equipment except for freehold land and buildings and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

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 derecognised 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 the same date.

26. Property, plant and equipment (contd.)

Depreciation

Depreciation is recognised in profit or loss on the straight–line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Land is not depreciated. Depreciation rates for the identified classes of assets are as follows:

Category of asset	Depreciation period
Leasehold properties, improvement to rent/leasehold	over the period of lease
Freehold buildings	20 – 50 years
Office, sundry equipment and furniture and fittings	5 – 10 years
Motor vehicles	5 years
Computer hardware	4 – 5 years
Computer software	4 – 5 years

The Group provides depreciation of an asset 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 – 2023

	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 2023	12,603,413	868,735	3,821,259	2,544,477	447,254	63,351	20,348,490
Additions	21,208	90,730	1,041,511	54,111	–	17,477	1,225,037
Revaluation gain/(loss) (Note 26. C)	1,801,405	–	–	–	–	–	1,801,405
Write-off	–	–	–	–	–	–	–
Disposals	–	–	(126,401)	(9,699)	(1,838)	–	(137,938)
Transfers/adjustment	(3,026)	(30,906)	–	(16,054)	–	(32,968)	(82,954)
Closing balance as at 31 December 2023	14,423,000	928,559	4,736,369	2,572,835	445,416	47,860	23,154,039
(Less): Accumulated depreciation							
Opening balance as at 1 January 2023	186,965	308,772	2,944,334	1,701,654	415,761	–	5,557,486
Charge for the year	90,661	50,137	407,292	156,736	21,966	–	726,792
Depreciation adjustment for revalued assets (Note 26. C)	(277,626)	–	–	–	–	–	(277,626)
Disposals	–	–	(126,100)	(8,874)	(1,838)	–	(136,812)
Transfers/adjustment	–	–	7	1	–	–	8
Closing balance as at 31 December 2023	–	358,909	3,225,533	1,849,517	435,889	–	5,869,849
(Less): Impairment	–	–	–	–	–	35,228	35,228
Net book value as at 31 December 2023	14,423,000	569,650	1,510,836	723,317	9,527	12,631	17,248,961

26. Property, plant and equipment (contd.)

26. (a) Property, plant and equipment – Bank – 2022 (contd.)

	Land and buildings Rs. '000	Leasehold properties, improvement to rent/ leasehold buildings Rs. '000	Computer hardware Rs. '000	Office sundry equipment, furniture and fittings Rs. '000	Motor vehicle Rs. '000	Building work-in-progress Rs. '000	Total Rs. '000
Cost/fair value							
Opening balance as at 1 January 2022	12,568,468	857,321	3,492,162	2,538,770	448,748	49,341	19,954,810
Additions	34,945	13,085	287,265	149,204	–	51,500	535,998
Revaluation gain/(loss)	–	–	–	–	–	–	–
Depreciation adjustment for revalued assets	–	–	–	–	–	–	–
Disposals	–	–	(63,706)	(5,186)	(1,494)	–	(70,386)
Transfers/adjustment	–	(1,670)	105,539	(138,311)	–	(37,489)	(71,932)
Closing balance as at 31 December 2022	12,603,413	868,735	3,821,259	2,544,477	447,254	63,351	20,348,490
(Less): Accumulated depreciation							
Opening balance as at 1 January 2022	96,557	249,464	2,589,236	1,546,680	392,027	–	4,873,963
Charge for the year	90,408	59,308	416,670	159,064	25,228	–	750,678
Depreciation adjustment for revalued assets	–	–	–	–	–	–	–
Disposals	–	–	(61,571)	(4,090)	(1,494)	–	(67,155)
Transfers/adjustment	–	–	–	–	–	–	–
Closing balance as at 31 December 2022	186,965	308,772	2,944,334	1,701,654	415,761	–	5,557,486
(Less): Impairment	–	–	–	–	–	35,228	35,228
Net book value as at 31 December 2022	12,416,447	559,963	876,925	842,823	31,493	28,122	14,755,775

26. Property, plant and equipment (contd.)

26. (b) Property, plant and equipment – Group – 2023

	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 2023	13,468,125	873,811	3,887,883	2,604,330	494,199	63,351	21,391,701
Additions	21,208	90,730	1,042,178	55,703	–	17,477	1,227,295
Revaluation gain/(loss)	2,058,968	–	–	–	–	–	2,058,968
Write-off	–	–	(5,637)	(14,995)	–	–	(20,633)
Transfer from investment properties	–	–	–	–	–	–	–
Transfers/adjustment	(3,026)	(30,906)	–	(16,054)	–	(32,968)	(82,954)
Closing balance as at 31 December 2023	15,545,275	933,635	4,798,023	2,619,285	492,361	47,860	24,436,439
(Less): Accumulated depreciation							
Opening balance as at 1 January 2023	193,440	308,773	2,996,830	1,756,131	455,567	–	5,710,741
Charge for the year	91,036	50,137	412,398	158,212	24,346	–	736,129
Depreciation adjustment for revalued assets	(277,626)	–	–	–	–	–	(277,626)
Write-off	–	–	(5,636)	(14,993)	–	–	(20,629)
Disposals	–	–	(126,100)	(8,874)	(1,838)	–	(136,812)
Closing balance as at 31 December 2023	6,850	358,910	3,277,499	1,890,477	478,075	–	6,011,811
(Less): Impairment	–	–	–	–	–	35,228	35,228
Net book value as at 31 December 2023	15,538,425	574,725	1,520,524	728,808	14,286	12,632	18,389,400

26. Property, plant and equipment (contd.)

26. (b) Property, plant and equipment – Group – 2022 (contd.)

	Land and buildings Rs. '000	Leasehold properties, improvement to rent/ leasehold buildings Rs. '000	Computer hardware Rs. '000	Office sundry equipment, furniture and fittings Rs. '000	Motor vehicle Rs. '000	Building work in progress Rs. '000	Total Rs. '000
Cost/fair value							
Opening balance as at 1 January 2022	13,441,880	862,397	3,555,263	2,598,533	497,893	49,341	21,005,308
Additions	34,945	13,085	290,787	149,294	–	51,500	539,610
Revaluation gain/(loss)	–	–	–	–	–	–	–
Write-off	–	–	–	–	–	–	–
Depreciation adjustment for revalued assets	–	–	–	–	–	–	–
Disposals	(8,700)	–	(63,706)	(5,186)	(3,694)	–	(81,286)
Transfer from investment properties	–	–	–	–	–	–	–
Transfers/adjustment	–	(1,670)	105,539	(138,311)	–	(37,489)	(71,932)
Closing balance as at 31 December 2022	13,468,125	873,811	3,887,883	2,604,330	494,199	63,351	21,391,701
(Less): Accumulated depreciation							
Opening balance as at 1 January 2022	102,657	249,465	2,637,132	1,599,669	431,653	–	5,020,575
Charge for the year	90,783	59,308	421,269	160,552	27,608	–	759,521
Depreciation adjustment for revalued assets	–	–	–	–	–	–	–
Disposals	–	–	(61,571)	(4,090)	(3,694)	–	(69,355)
Transfers/adjustment	–	–	–	–	–	–	–
Closing balance as at 31 December 2022	193,440	308,773	2,996,830	1,756,131	455,567	–	5,710,741
(Less): Impairment	–	–	–	–	–	35,228	35,228
Net book value as at 31 December 2022	13,274,685	565,038	891,053	848,199	38,632	28,122	15,645,732

26. (c) Revaluation/fair valuation of the land and buildings

The Bank revalue its land and buildings, by professionally qualified independent valuers in every three years. Accordingly, land and buildings revalued on 31 December 2023 and recorded revaluation of Rs. 2,076 Mn as at 31 December 2023.

26. (d) Land and buildings of the Bank

Land and building include freehold land value of Rs. 10,975 Mn. as at 31 December 2023.

26. (e) Property, plant and equipment pledged as security for liabilities

There were no items of property, plant and equipment pledged as securities for liabilities.

26. Property, plant and equipment (contd.)

26. (f) Fully-depreciated property, plant and equipment

The initial cost of fully-depreciated property, plant and equipment, which are still in use as at reporting date are as follows:

As at 31 December	Bank		Group	
	2023 Rs. '000	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
Computer hardware	**2,200,393**	1,690,532	**2,239,676**	1,694,868
Office equipment, furniture and fittings	**596,463**	566,574	**627,088**	568,024
Sundry equipments/motor vehicles and others	**753,792**	749,044	**799,350**	749,044
Total	**3,550,648**	3,006,150	**3,666,114**	3,011,937

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	
	2023 Rs. '000	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
Opening balance	**2,403,399**	2,043,296	**2,469,647**	2,109,545
Addition	**293,958**	340,271	**293,958**	340,271
Adjustments	**15,910**	19,831	**15,910**	19,831
Less:				
Disposal	**–**	–	**–**	–
Termination/transfers	**–**	–	**–**	–
Impairment	**–**	–	**–**	–
Closing balance	**2,713,267**	2,403,399	**2,779,515**	2,469,647

27. Right-of-used assets (contd.)

27. (b) Accumulated amortisation of right-of-used assets

As at 31 December	Bank		Group	
	2023 Rs. '000	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
Opening balance	**1,189,749**	837,380	**1,223,265**	865,407
Charge for the year	**358,923**	352,370	**363,090**	357,858
Disposal	**–**	–	**–**	–
Adjustments	**–**	–	**–**	–
Termination/transfers	**–**	–	**–**	–
Closing balance	**1,548,672**	1,189,749	**1,586,354**	1,223,265
Carrying value as at 31 December	**1,164,595**	1,213,649	**1,193,161**	1,246,383

28 Investment properties

Accounting policy

Investment on land or a building or part of a building or both, held to earn rentals or capital appreciation or both, are classified as investment property.

Cost model

Investment properties excluding Investment buildings are measured (initially) at cost (LKAS 40 Sec. 56), including transaction costs. Fair value of investment properties is measured by the Management on annual basis and is disclosed separately in Notes to the Financial Statement.

Fair value

After recognition as Investment buildings, whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciations and subsequent accumulated impairment losses. Revaluation shall be made at every three (3) years to ensure that the carrying amount does not differ materially from that, which would be determined using fair value at the end of the reporting period. Rent receivable is spread on a straight-line basis over the period of the lease. Where an incentive (such as a rent-free period) is given to a tenant, the carrying value of the investment property excludes any amount reported as a separate asset as a result of recognising rental income on this basis.

28. Investment properties (contd.)

28. (a) Fair value of investment properties

As at 31 December	Bank 2023 Rs. '000	Bank 2022 Rs. '000	Group 2023 Rs. '000	Group 2022 Rs. '000
Land				
Opening balance	–	–	**195,785**	201,385
Addition	–	–	–	–
Disposal	–	–	–	(5,600)
Revaluation gain	–	–	**145,215**	–
Transfer from property, plant and equipment	–	–	–	–
Transfer to property, plant and equipment	–	–	–	–
Impairment	–	–	–	–
Closing balance	–	–	**341,000**	195,785
Building				
Opening balance	–	–	**9,192**	9,192
Addition	–	–	–	–
Revaluation gain/(loss)	–	–	**(1,192)**	–
Transfer from property, plant and equipment	–	–	–	–
Transfer to property, plant and equipment	–	–	–	–
Impairment	–	–	–	–
Closing balance	–	–	**8,000**	9,192

28. (b) Accumulated depreciation of investment properties

As at 31 December	Bank 2023 Rs. '000	Bank 2022 Rs. '000	Group 2023 Rs. '000	Group 2022 Rs. '000
Opening balance	–	–	–	–
Charge for the year	–	–	–	–
Transfer from property, plant and equipment	–	–	–	–
Transfer to property, plant and equipment	–	–	–	–
Closing balance	–	–	–	–
Net book value as at 31 December	–	–	**349,000**	204,977

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 2023 Rs. '000	Bank 2022 Rs. '000	Group 2023 Rs. '000	Group 2022 Rs. '000
Computer software	29.1	**715,222**	725,029	**717,732**	730,001
Software under development	29.2	**29,493**	22,220	**29,493**	22,220
Total		**744,715**	747,248	**747,225**	752,221

29.1 Computer Software

As at 31 December	Bank 2023 Rs. '000	Bank 2022 Rs. '000	Group 2023 Rs. '000	Group 2022 Rs. '000
Cost/valuation				
Opening balance	**2,674,623**	2,414,573	**2,697,517**	2,435,016
Additions during the year	**336,999**	346,804	**336,999**	349,254
Disposal during the year	**–**	–	**–**	–
Adjustments	**–**	(86,754)	**–**	(86,754)
Closing balance	**3,011,622**	2,674,623	**3,034,516**	2,697,517
Less: Accumulated amortisation				
Opening balance	**1,949,595**	1,637,946	**1,967,516**	1,653,028
Charge for the year	**346,805**	311,649	**349,268**	314,488
Disposal	**–**	–	**–**	–
Closing balance	**2,296,399**	1,949,595	**2,316,784**	1,967,516
(Less): Impairment	**–**	–	**–**	–
Net book value	**715,222**	725,029	**717,732**	730,001

29.2 Software under development

As at 31 December	Bank 2023 Rs. '000	Bank 2022 Rs. '000	Group 2023 Rs. '000	Group 2022 Rs. '000
Cost/valuation				
Opening balance	**22,220**	39,431	**22,220**	39,431
Additions during the year	**13,608**	23,289	**13,608**	23,289
Disposal during the year	**–**	–	**–**	–
Transfer/adjustment	**(6,335)**	(40,500)	**(6,335)**	(40,500)
Closing balance	**29,493**	22,220	**29,493**	22,220

29. Goodwill and intangible assets (contd.)

29.3 Fully-amortised Intangible assets

The initial cost of fully-amortised intangible assets (computer software), which are still in use as at reporting date are as follows:

As at 31 December	Bank		Group	
	2023 Rs. '000	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
Intangible assets/computer software	**1,538,107**	1,307,357	**1,554,602**	1,309,727
Total	**1,538,107**	1,307,357	**1,554,602**	1,309,727

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 269.

The following table shows deferred tax recorded in the Statement of Financial Position and changes recorded in the income tax expense:

As at 31 December	Note	Bank		Group	
		2023 Rs. '000	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
Recognised under assets	30.(a)	**(5,885,288)**	(2,892,984)	**(5,885,288)**	(3,663,879)
Recognised under liabilities	30.(b)	**–**	–	**58,630**	4,155
Net deferred tax (asset)/Liability	30.(c) and 30.(d)	**(5,885,288)**	(2,892,984)	**(5,826,658)**	(3,659,724)

30. (a) Deferred tax assets

As at 31 December	Note	Bank		Group	
		2023 Rs. '000	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
Opening balance		**2,892,984**	1,104,779	**3,663,879**	1,105,653
Convert to deferred tax liabilities		**–**	–	**(770,894)**	–
Charge for the year recognised in					
– Income Statement	13(b)	**2,468,550**	897,864	**2,468,549**	1,658,428
– Prior year adjustment		**–**	–	**–**	9,455
– Other comprehensive income		**523,754**	890,342	**523,754**	890,342
Closing balance		**5,885,288**	2,892,984	**5,885,288**	3,663,879

30. Deferred tax (assets)/liabilities (contd.)

30. (b) Deferred tax liabilities

As at 31 December	Note	Bank 2023 Rs. '000	Bank 2022 Rs. '000	Group 2023 Rs. '000	Group 2022 Rs. '000
Opening balance		–	–	**4,155**	1,939
Convert to deferred tax assets		–	–	**(770,894)**	–
Charge for the year recognised in					
– Income Statement	13(b)	–	–	**807,310**	2,215
– Prior year adjustment	13(b)	–	–	**(35,338)**	–
– Other comprehensive income		–	–	**53,397**	–
Closing balance		–	–	**58,630**	4,155

30. (c) Reconciliation of net deferred tax (assets)/liabilities – Bank

As at 31 December	Statement of Financial Position 2023 Rs. '000	Statement of Financial Position 2022 Rs. '000	Profit or Loss 2023 Rs. '000	Profit or Loss 2022 Rs. '000	Other Comprehensive Income 2023 Rs. '000	Other Comprehensive Income 2022 Rs. '000
Deferred tax liability on:						
Accelerated depreciation for tax purpose	**883,565**	760,833	**122,732**	161,373	–	–
Revaluation surplus/(loss) on freehold land and building	**3,402,330**	2,778,621	**102**	–	**623,608**	555,724
Unrealised gain/(loss) on financial assets measured at fair value through other comprehensive Income	**252,675**	–	–	–	**252,675**	–
Prior year adjustment	–	–	–	–	–	–
	4,538,570	3,539,454	**122,834**	161,373	**876,282**	555,724
Deferred tax asset on:						
Retirement benefit obligations	**4,760,918**	3,037,056	–	–	**1,723,862**	1,225,071
Impairment provision	**3,602,026**	3,071,556	**530,470**	1,059,236	–	–
Unrealised gain/(loss) on financial assets measured at fair value through other comprehensive income	–	323,826	–	–	**(323,826)**	220,995
Unused tax losses	**2,060,914**	–	**2,060,914**	–	–	–
Prior year adjustment	–	–	–	–	–	–
	10,423,858	6,432,438	**2,591,383**	1,059,236	**1,400,036**	1,446,066
Deferred tax effect on profit or loss and other comprehensive income for the year	–	–	**2,468,549**	897,864	**523,754**	890,342
Net deferred tax (asset)/liability	**(5,885,288)**	(2,892,984)	–	–	–	–

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	**2023 Rs. '000**	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
Deferred tax liability on:						
Accelerated depreciation for tax purpose	**929,668**	765,243	**164,425**	163,588	**–**	–
Revaluation surplus/(loss) on freehold land and building	**3,402,330**	2,778,621	**102**	–	**623,608**	555,724
Unrealised gain/(loss) on financial assets measured at fair value through other comprehensive income	**285,813**	–	**–**	–	**285,813**	–
Prior year adjustment	**–**	–	**–**	–	**19,900**	–
	4,617,812	3,543,864	**164,527**	163,588	**929,321**	555,724
Deferred tax asset on:						
Retirement benefit obligations	**4,766,092**	3,039,299	**3,289**	–	**1,723,503**	1,225,071
Unused tax losses	**–**	768,906	**(768,906)**	768,906	**–**	–
Impairment provision	**3,602,026**	3,071,556	**530,470**	1,060,350	**–**	–
Unrealised gain/(loss) on financial assets measured at fair value through other comprehensive income	**–**	323,826	**–**	–	**(323,826)**	220,995
Lax losses	**2,060,914**	–	**1,580,887**	–	**–**	–
Prior year adjustment	**15,438**	–	**–**	–	**–**	–
	10,444,470	7,203,588	**1,345,740**	1,829,256	**1,399,677**	1,446,066
Deferred tax effect on profit or loss and other comprehensive income for the year	**–**	–	**1,181,213**	1,665,668	**470,356**	890,342
Net deferred tax (asset)/liability	**(5,826,658)**	(3,659,724)	**–**	–	**–**	–

31 Other assets

As at 31 December	Note	Bank 2023 Rs. '000	Bank 2022 Rs. '000	Group 2023 Rs. '000	Group 2022 Rs. '000
Cost					
Income tax receivable		**191,020**	–	**191,020**	67,401
Receivables	31.1	**2,291,023**	2,674,873	**2,332,357**	2,725,997
Receivable from treasury	31.2	**51,045,915**	38,090,734	**51,134,855**	38,179,674
Deposits and prepayments		**2,621,994**	1,987,875	**2,627,202**	1,993,699
Advance payment to treasury	31.3	**2,560,000**	2,880,000	**2,560,000**	2,880,000
Advance payment made to pension II	38(a)(2)	**2,230,673**	2,365,392	**2,230,673**	2,365,392
Sundry debtors		**23,037**	29,032	**23,037**	29,032
Unamortised cost on staff loans (Day 1 difference)		**11,167,699**	8,026,120	**11,167,699**	8,026,120
Other assets		**247,310**	252,905	**303,514**	309,398
Total		**72,378,671**	56,306,931	**72,570,357**	56,576,713

31.1 Receivables

As at 31 December	Bank 2023 Rs. '000	Bank 2022 Rs. '000	Group 2023 Rs. '000	Group 2022 Rs. '000
Cost				
Receivables	**2,415,395**	2,799,245	**2,477,184**	2,870,824
Less: Impairment	**(124,372)**	(124,372)	**(144,827)**	(144,827)
Net receivables	**2,291,023**	2,674,873	**2,332,357**	2,725,997

31.2 Receivable from treasury

As at 31 December	Bank 2023 Rs. '000	Bank 2022 Rs. '000	Group 2023 Rs. '000	Group 2022 Rs. '000
Receivable from treasury on interest	**33,644,685**	34,160,807	**33,733,625**	34,249,747
Other Receivable from treasury	**13,673,000**	–	**13,673,000**	–
SWAP Cost Receivable from Treasury	**2,894,487**	2,894,487	**2,894,487**	2,894,487
Dormant A/C receivable	**833,743**	1,035,440	**833,743**	1,035,440
	51,045,915	38,090,734	**51,134,855**	38,179,674

31.3 Advance payment to treasury

At the request of Treasury, the Bank paid an advance of Rs. 6,000 Mn. in 2012 and Rs. 2,000 Mn. in 2013 as confirmed by the Treasury to be set-off against the profit within a period of six years starting from 2014. Effective from 1 January 2016, Treasury has agreed to set-off the balance amount of Rs. 5,333 Mn. against the profit within a period of 10 years. Thereafter Treasury has agreed to set-off the balance amount of Rs. 4,800 Mn. against the profit within a period of 15 years effective from 1 January 2017.

32 Due to banks

Accounting policy

Due to banks represents overdrafts, call money borrowings, borrowing from banks and Repos by the subsidiaries. Subsequent to initial recognition deposits are measured at their amortised cost using EIR method. Interest paid/payable on these dues are recognised in the Income Statement under interest expense. Foreign currency borrowings as at the reporting date are translated to the functional currency at the middle exchange rate of the functional currency at that date. Foreign currency differences arising on retranslation at the reporting date are recognised in profit or loss.

		Bank		Group	
As at 31 December	Note	**2023 Rs. '000**	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
Foreign currency borrowings		**–**	–	**–**	–
Securities sold under repurchase (Repo) agreements		**8,792,667**	4,009,801	**15,206,988**	12,634,135
Other facilities		**192,112**	76,930	**192,112**	77,121
Total		**8,984,779**	4,086,731	**15,399,100**	12,711,256

33 Derivative financial instruments

Bank and Group

		Bank		Group	
As at 31 December	Note	**2023 Rs. '000**	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
Foreign currency derivatives					
Forward foreign exchange contracts		**201**	–	**201**	–
Total		**201**	–	**201**	–

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 2023.

35 Financial liabilities at amortised cost

Accounting policy

i. Due to depositors

Due to depositors include savings and term deposits. Subsequent to initial recognition deposits are measured at their amortised cost using EIR method. Interest paid/payable on deposits are recognised in the Income Statement under Interest Expense.

ii. Securities sold under repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not de-recognised from the Statement of Financial Position as the Group retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the Consolidated Statement of Financial Position as financial liability reflecting as a loan received by the Group, including accrued interest as a liability within "Securities sold under repurchase agreements", reflecting the transaction's economic substance. The difference between the sale and repurchase prices is treated as interest expenses and is accrued over the life of agreement using the EIR.

		Bank		Group	
As at 31 December	Note	**2023 Rs. '000**	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
Due to depositors	35.1	**1,482,532,430**	1,476,739,818	**1,482,951,028**	1,475,808,557
Due to debt securities holders		**–**	–	**–**	–
Due to other borrowers	35.2	**61,611,014**	16,766,044	**72,891,598**	18,889,245
Total		**1,544,143,444**	1,493,505,862	**1,555,842,626**	1,494,697,802

35.1 Analysis of amount due to depositors

35.1 (a) By product

	Bank		Group	
As at 31 December	**2023 Rs. '000**	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
Savings deposits	**278,206,152**	264,539,426	**278,309,807**	264,671,533
Fixed deposits	**1,204,326,278**	1,212,200,392	**1,204,641,221**	1,211,137,024
Total	**1,482,532,430**	1,476,739,818	**1,482,951,028**	1,475,808,557

35. Financial liabilities at amortised cost (contd.)

35.1 Analysis of amount due to depositors (contd.)

35.1 (b) By currency

	Bank		Group	
As at 31 December	**2023 Rs. '000**	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
Sri Lankan Rupee	**1,455,659,625**	1,450,270,077	**1,456,078,223**	1,449,338,815
United State Dollar	**21,387,114**	20,555,276	**21,387,114**	20,555,276
Euro	**2,402,742**	2,627,795	**2,402,742**	2,627,795
Great Britain Pound	**1,819,611**	2,019,100	**1,819,611**	2,019,100
Australian Dollar	**1,261,910**	1,266,411	**1,261,910**	1,266,411
Japanese Yen	**1,428**	1,160	**1,428**	1,160
Total	**1,482,532,430**	1,476,739,818	**1,482,951,028**	1,475,808,557

35.2 Due to other borrowers

	Bank		Group	
As at 31 December	**2023 Rs. '000**	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
Loan facility from Central Bank of Sri Lanka	**33,481,521**	–	**33,481,521**	–
Other borrowers	**28,129,494**	16,766,044	**39,410,078**	18,889,245
Total	**61,611,014**	16,766,044	**72,891,598**	18,889,245

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. Lease liabilities (contd.)

36. (a) Lease liabilities

As at 31 December	Bank 2023 Rs. '000	Bank 2022 Rs. '000	Group 2023 Rs. '000	Group 2022 Rs. '000
Opening balance	**1,377,229**	1,292,139	**1,414,959**	1,333,623
Addition during the year	**266,776**	333,617	**266,776**	333,617
Lease interest for the year	**197,040**	143,696	**201,146**	148,185
Less: Paid during the year	**(483,745)**	(409,547)	**(490,551)**	(417,790)
Adjustment	**8,245**	17,325	**8,245**	17,325
Closing balance	**1,365,547**	1,377,229	**1,400,575**	1,414,959

36. (b) Maturity analysis – Lease liabilities

As at 31 December	Bank 2023 Rs. '000	Bank 2022 Rs. '000	Group 2023 Rs. '000	Group 2022 Rs. '000
Amount payable within one year	**315,726**	284,277	**318,137**	286,979
Amount payable within one to three years	**529,854**	491,793	**536,041**	496,860
Amount payable within three to five years	**364,452**	360,911	**372,940**	368,393
Amount payable after five years	**155,515**	240,249	**173,456**	262,727
Total	**1,365,547**	1,377,229	**1,400,575**	1,414,959

37 Debt securities issued

As at 31 December	Note	Bank 2023 Rs. '000	Bank 2022 Rs. '000	Group 2023 Rs. '000	Group 2022 Rs. '000
Subordinated liabilities					
Debenture issued by the Bank	37.1	**5,108,493**	5,108,493	**5,108,493**	5,108,493
Debenture issued by other subsidiaries		**–**	–	**73,169**	73,555
		5,108,493	5,108,493	**5,181,662**	5,182,049
Non-subordinated liabilities					
Debenture issued by the Bank	37.2	**18,698,020**	18,669,762	**18,698,020**	18,669,762
Total		**23,806,514**	23,778,255	**23,879,683**	23,851,810
Due within 1 year		**7,265,514**	328,715	**7,338,683**	402,271
Due after 1 year		**11,541,000**	18,449,539	**11,541,000**	18,449,539
Perpetual		**5,000,000**	5,000,000	**5,000,000**	5,000,000
Total		**23,806,514**	23,778,255	**23,879,683**	23,851,810

37. Debt securities issued (contd.)

37.1 Subordinated liabilities

Accounting policy

These represent the funds borrowed by the Group for long-term funding requirements. Subsequent to initial recognition these are measured at their amortised cost using the EIR method, except where the Group designates them at fair value through profit or loss. Interest paid/payable is recognised in profit or loss.

As at 31 December	Note	Bank 2023 Rs. '000	Bank 2022 Rs. '000	Group 2023 Rs. '000	Group 2022 Rs. '000
Balance as at 1 January		5,000,000	5,000,000	5,000,000	5,000,000
Amount borrowed during the year		–	–	–	–
Repayments/redemptions during the year		–	–	–	–
Sub total		5,000,000	5,000,000	5,000,000	5,000,000
Exchange rate variance		–	–	–	–
Balance as at 31 December (before adjusting for amortised interest and transaction cost)		5,000,000	5,000,000	5,000,000	5,000,000
Unamortised transaction cost		–	–	–	–
Net effect of amortised interest payable		108,493	108,493	108,493	108,493
Amortised cost as at 31 December		5,108,493	5,108,493	5,108,493	5,108,493
Subordinated liabilities					
Floating rate subordinated liabilities	37.1.1	5,108,493	5,108,493	5,108,493	5,108,493
Total		5,108,493	5,108,493	5,108,493	5,108,493

37.1.1 Floating rate subordinated liabilities

Detail of debenture Issue

Primary objective of issuing debenture is to increase the capital of the Bank in order to enhance additional tier 1 Capital of the Bank and finance the lending activities of the Bank.

Outstanding subordinated liabilities of the Bank as at 31 December 2023 consisted of Rs. 5,000 Mn. Unlisted, Unsecured, Subordinated, Perpetual, Rated debentures of Rs. 100/- issued on 27 October 2020 as Private Placement under the provision of the NSB Act No. 30 of 1971. The debenture carry AA rating from Lanka Rating.

Category	Face value Rs. '000	Interest rate %	Repayment terms	Issue date	Maturity date	Effective annual yield 2023 %	Effective annual yield 2022 %	Bank 2023 Rs. '000	Bank 2022 Rs. '000	Group 2023 Rs. '000	Group 2022 Rs. '000
Issued by the Bank											
Floating rate	5,000,000	Six (06) month T Bill rate +1.50% p.a	Perpetual	27 October 2020	Perpetual	12.36	12.36	5,000,000	5,000,000	5,000,000	5,000,000
Interest payable								108,493	108,493	108,493	108,493
Total								5,108,493	5,108,493	5,108,493	5,108,493

* 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 2023 Rs. '000	Bank 2022 Rs. '000	Group 2023 Rs. '000	Group 2022 Rs. '000
Balance as at 1 January		17,864,000	31,541,000	17,864,000	31,541,000
Amount borrowed during the year		–	–	–	–
Repayments/redemptions during the year		–	(13,677,000)	–	(13,677,000)
Sub total		17,864,000	17,864,000	17,864,000	17,864,000
Exchange rate variance		–	–	–	–
Balance as at 31 December (before adjusting for amortised interest and transaction cost)		17,864,000	17,864,000	17,864,000	17,864,000
Unamortised transaction cost		–	–	–	–
Net effect of amortised interest payable		834,020	805,762	834,020	805,762
Amortised cost as at 31 December		18,698,020	18,669,762	18,698,020	18,669,762
Non-subordinated liabilities					
Debenture issued in 2019 (Rs. 6.323 Bn.)	37.2.1	6,543,222	6,543,222	6,543,222	6,543,222
Debenture issued in 2021 (Rs. 11.5 Bn.)	37.2.2	12,154,798	12,126,539	12,154,798	12,126,539
Total		18,698,020	18,669,762	18,698,020	18,669,762

37.2.1 Debenture issued in 2019 (Rs. 6.323 Bn.)

Detail of debenture Issue

The objective of the issue of the Debenture is to partly finance the funding requirement of unwinding the USD/LKR Swap agreement with Central Bank of Sri Lanka. Outstanding debenture of the Bank as at 31 December 2023 consisted of Rs. 6,323 Mn. Unlisted, Rated, Senior, Unsecured, Redeemable debentures of Rs. 100/- issued on 10 September 2019 as Private Placement under the provision of the NSB Act No. 30 of 1971. NSB Fund Management Co. Ltd. is act as Trustee for the issue and carry AA+ rating from Lanka Rating.

Category	Face value Rs. '000	Interest rate %	Repayment terms	Issue date	Maturity date	Effective annual yield 2023 %	Effective annual yield 2022 %	Bank 2023 Rs. '000	Bank 2022 Rs. '000	Group 2023 Rs. '000	Group 2022 Rs. '000
Issued by the Bank											
Fixed rate 5 year	6,323,000	11.25% p.a.	At Maturity	10 September 2019	10 September 2024	11.25	11.57	6,323,000	6,323,000	6,323,000	6,323,000
Interest payable								220,222	220,222	220,222	220,222
Total	6,323,000							6,543,222	6,543,222	6,543,222	6,543,222

* Interest payment term is annual.

37. Debt securities issued (contd.)

37.2 Non-subordinated liabilities (contd.)

37.2.2 Debenture Issued in 2021 (Rs. 11.5 Bn.)

Detail of debenture issue

The funds raised through the Debenture Issue will provide the necessary stable funding for five years and more and to further expand the lending portfolio of the Bank. Debenture proceeds will be disbursed in the ordinary course of business subject to all applicable regulations. Outstanding debenture of the Bank as at 31 December 2023 consisted of Rs. 11,541 Mn. Unlisted, Rated, Redeemable, Senior Debentures of Rs. 100/- issued on 24 September 2021 as Private Placement under the provision of the NSB Act No. 30 of 1971. NSB Fund Management Co. Ltd. is act as Trustee for the issue and carry AA+ rating from Lanka Rating.

						Effective annual yield		Bank		Group	
Category	Face value	Interest rate	Repayment terms	Issue date	Maturity date	**2023**	2022	**2023**	2022	**2023**	2022
	Rs. '000	%				**%**	%	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000
Issued by the Bank											
Fixed rate 5 year	1,016,000	8.50%	At Maturity	24 September 2021	23 September 2026	**8.68**	8.68	**1,016,000**	1,016,000	**1,016,000**	1,016,000
Floating rate 5 year	9,000,000	6 months AWPLR + 1.00%	At Maturity	24 September 2021	23 September 2026	**21.99**	20.89	**9,000,000**	9,000,000	**9,000,000**	9,000,000
Floating rate 7 year	1,525,000	6 months AWPLR + 1.00%	At Maturity	24 September 2021	23 September 2028	**21.99**	20.89	**1,525,000**	1,525,000	**1,525,000**	1,525,000
Interest payable								**613,798**	585,539	**613,798**	585,539
Total	11,541,000							**12,154,798**	12,126,539	**12,154,798**	12,126,539

* Interest payment term is annual.

38 Retirement benefit obligations

Accounting policy

Obligation identifies on defined benefit plans for post employment benefits are recognised as retirement benefit obligations. Accordingly National Savings Bank employee pension scheme I, pension scheme II and Medical assistance scheme for retired employees of NSB were considered as defined plans as per the LKAS – 19 "Employee Benefits".

		Bank		Group	
As at 31 December	Note	**2023 Rs. '000**	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
Provision for pension scheme I	38 (a)1	**12,987,377**	8,764,681	**12,987,377**	8,764,681
Provision for pension scheme II	38 (a) 2	**–**	–	**–**	–
Provision for retired medical assistance scheme	38 (a) 3	**5,113,022**	3,724,231	**5,113,022**	3,724,231
Provision for gratuity	38 (a) 4	**–**	–	**68,707**	58,939
Total		**18,100,399**	12,488,912	**18,169,106**	12,547,851

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 2023 are given below:

As at 31 December 2023	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)	(25,058,641)	(5,813,536)	(6,131,827)	(37,004,004)
Fair value of plan assets	12,071,264	8,044,209	1,018,805	21,134,278
Net asset/(liability) recognised for defined benefit obligation	(12,987,377)	2,230,673	(5,113,022)	(15,869,726)

*Since net asset recognised for pension II, it was categorised under other assets in Note 31 on page 309.

A summary of retirement benefit obligations of the Bank as at 31 December 2022 are given below:

As at 31 December 2022	Pension scheme I Rs. '000	Pension scheme II Rs. '000	Retired medical assistance Rs. '000	Total Rs. '000
Present value of defined benefit obligation (PVDBO)	(18,960,877)	(2,401,307)	(4,177,939)	(25,540,123)
Fair value of plan assets	10,196,196	4,766,699	453,708	15,416,603
Net asset/(liability) recognised for defined benefit obligation	(8,764,681)	2,365,392	(3,724,231)	(10,123,520)

38. Retirement benefit obligations (contd.)

38. (a) Defined benefit plans (contd.)

38. (a) 1 National Savings Bank Employees' Pension Scheme I

Pension Scheme I

The actuarial valuation of the Pension Scheme I was carried out as at 31 December 2023 by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional Actuaries, on 31 December 2023.

Projected Unit Credit Method was used to allocate the actuarial present value of the projected benefits earned by employees to date of 31 December 2023.

	Bank		Group	
As at 31 December	**2023 Rs. '000**	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
(a) Net asset/(liability) recognised in Statement of Financial Position				
Present value of defined benefit obligation	**(25,058,641)**	(18,960,877)	**(25,058,641)**	(18,960,877)
Fair value of plan assets	**12,071,264**	10,196,196	**12,071,264**	10,196,196
Net asset/(liability) recognised for defined benefit obligation	**(12,987,377)**	(8,764,681)	**(12,987,377)**	(8,764,681)
(b) Amount recognised in Income Statement				
Past service cost	**–**	300,204	**–**	300,204
Current service cost	**46,228**	81,799	**46,228**	81,799
Interest on obligation	**3,412,958**	2,111,632	**3,412,958**	2,111,632
Expected return on plan assets	**(1,835,315)**	(1,545,676)	**(1,835,315)**	(1,545,676)
Net benefit expense	**1,623,871**	947,960	**1,623,871**	947,960
(c) Amount recognised in Other Comprehensive Income (OCI)				
Provision adjustment	**(169)**	(3,324)	**(169)**	(3,324)
Experience (gain)/loss	**(528,477)**	5,444,669	**(528,477)**	5,444,669
(Gain)/loss due to changes in assumptions	**5,989,744**	(5,002,563)	**5,989,744**	(5,002,563)
Actuarial (gain)/loss on plan assets	**(1,933,902)**	2,784,413	**(1,933,902)**	2,784,413
Total	**3,527,196**	3,223,195	**3,527,196**	3,223,195
(d) Changes in fair value of plan assets are as follows:				
Opening fair value of plan assets	**10,196,196**	13,440,663	**10,196,196**	13,440,663
Expected return on plan assets	**1,835,315**	1,545,676	**1,835,315**	1,545,676
Actual employer contribution	**928,538**	331,156	**928,538**	331,156
Benefits paid	**(2,822,688)**	(2,336,886)	**(2,822,688)**	(2,336,886)
Actuarial gain/(loss) on plan assets	**1,933,902**	(2,784,413)	**1,933,902**	(2,784,413)
Closing fair value of plan assets	**12,071,264**	10,196,196	**12,071,264**	10,196,196
(e) Changes in present value of defined benefit obligation are as follows:				
Opening defined benefit obligation	**18,960,877**	18,362,021	**18,960,877**	18,362,021
Interest cost	**3,412,958**	2,111,632	**3,412,958**	2,111,632
Past service cost	**–**	300,204	**–**	300,204
Current service cost	**46,228**	81,799	**46,228**	81,799
Benefits paid	**(2,822,688)**	(2,336,886)	**(2,822,688)**	(2,336,886)
(Gain)/loss due to changes in assumptions	**5,989,744**	(5,002,563)	**5,989,744**	(5,002,563)
Actuarial (gain)/loss on obligation	**(528,477)**	5,444,669	**(528,477)**	5,444,669
Closing defined benefit obligation	**25,058,641**	18,960,877	**25,058,641**	18,960,877

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		Group	
	2023 Rs. '000	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
(f) Plan assets consists of followings:				
Treasury Bonds	**7,298,141**	5,350,293	**7,298,141**	5,350,293
Treasury Bills	**1,337,136**	372,010	**1,337,136**	372,010
Commercial Papers	**256,503**	–	**256,503**	–
Fixed deposits	**–**	1,341,909	**–**	1,341,909
Securities purchased under resale agreements	**1,208,498**	71,550	**1,208,498**	71,550
Debentures	**2,054,856**	2,314,221	**2,054,856**	2,314,221
Trust certificates	**123,054**	281,971	**123,054**	281,971
Cash at Bank	**2,043**	50	**2,043**	50
Other assets/(liabilities)	**(208,967)**	464,192	**(208,967)**	464,192
Total	**12,071,264**	10,196,196	**12,071,264**	10,196,196

As at 31 December	Bank and Group	
	2023 Rs. '000	2022 Rs. '000
(g) Maturity profile of defined benefit obligation – present value of expected accrued benefit payments		
Distribution of present value of defined benefit obligation in future years		
Less than one year	**2,742,349**	2,616,030
Between 1-2 years	**4,840,534**	4,226,679
Between 3-5 years	**5,748,414**	4,735,755
Between 6-10 years	**6,084,505**	4,362,527
Beyond 10 years	**5,642,841**	3,019,886
Total	**25,058,642**	18,960,877

	Pension Scheme I 2023	Pension Scheme I 2022
(h) Actuarial assumption		
Future salary increment rate (%)	**10.00**	15.00
Discount rate (%)	**13.00**	18.00
Increase in future Cost of Living Allowance (COLA) (%)	**8.00**	8.00
Mortality	**GA 1983 Mortality table**	GA 1983 Mortality table
Retirement age	**60 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	2023 %	2022 %
20	**0.3**	0.3
25	**0.3**	0.3
30	**0.3**	0.3
35	**0.3**	0.3
40	**0.3**	0.3
45	**0.3**	0.3
50	**0.3**	0.3
55	**0.3**	0.3
56	**0.3**	0.3
57	**0.3**	0.3
58	**0.3**	0.3
59	**0.3**	0.3

(i) Increase/decrease in the following assumptions will have an impact on the present value of defined benefit obligation as illustrated below:

	Pension Scheme I (Bank and Group)			
	2023		2022	
	1% increase	1% decrease	1% increase	1% decrease
Future salary increment rate	**25,095,642**	**25,022,769**	19,007,159	18,916,093
Discount rate	**23,550,975**	**26,756,705**	17,771,396	19,675,544

38. (a) 2 National Savings Bank Employees' Pension Scheme II

The actuarial valuation of the Pension Scheme II was carried out as at 31 December 2023 by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional Actuaries, on 31 December 2023.

Projected Unit Credit Method was used to allocate the actuarial present value of the projected benefits earned by employees to date of 31 December 2023.

	Bank		Group	
As at 31 December	2023 Rs. '000	2022 Rs. '000	2023 Rs. '000	2022 Rs. '000
(a) Net asset/(liability) recognised in Statement of Financial Position				
Present value of defined benefit obligation	**(5,813,536)**	(2,401,307)	**(5,813,536)**	(2,401,307)
Fair value of plan assets	**8,044,209**	4,766,699	**8,044,209**	4,766,699
Total	**2,230,673**	2,365,392	**2,230,673**	2,365,392

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	**2023 Rs. '000**	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
(b) Amount recognised in Income Statement				
Past service cost	**–**	363,412	**–**	363,412
Current service cost	**177,880**	455,254	**177,880**	455,254
Interest on obligation	**432,235**	494,903	**432,235**	494,903
Expected return on plan assets	**(858,006)**	(540,640)	**(858,006)**	(540,640)
FMC contribution	**(1,285)**	(1,145)	**–**	–
Net benefit expense	**(249,176)**	771,784	**(247,891)**	772,929
(c) Amount recognised in Other Comprehensive Income (OCI)				
Provision adjustment	**(566)**	(3,390)	**(566)**	(3,390)
Experience (gain)/loss	**(221,714)**	(152,691)	**(221,714)**	(152,691)
(Gain)/ loss due to changes in assumptions	**3,070,510**	(3,026,909)	**3,070,510**	(3,026,909)
Actuarial (gain)/loss on plan assets	**(1,592,719)**	1,257,400	**(1,592,719)**	1,257,400
Total	**1,255,510**	(1,925,591)	**1,255,510**	(1,925,591)
(d) Changes in fair value of plan assets are as follows:				
Opening fair value of plan assets	**4,766,699**	4,701,219	**4,766,699**	4,701,219
Expected return on plan assets	**858,006**	540,640	**858,006**	540,640
Actual employer contribution	**873,466**	818,404	**873,466**	818,404
Benefits paid	**(46,681)**	(36,165)	**(46,681)**	(36,165)
Actuarial gain/(loss) on plan assets	**1,592,719**	(1,257,400)	**1,592,719**	(1,257,400)
Closing fair value of plan assets	**8,044,209**	4,766,699	**8,044,209**	4,766,699
(e) Changes in present value of defined benefit obligation are as follows:				
Opening defined benefit obligation	**2,401,307**	4,303,503	**2,401,307**	4,303,503
Interest cost	**432,235**	494,903	**432,235**	494,903
Past service cost	**–**	363,412	**–**	363,412
Current service cost	**177,880**	455,254	**177,880**	455,254
Benefits paid	**(46,681)**	(36,165)	**(46,681)**	(36,165)
(Gain)/loss due to changes in assumptions	**3,070,510**	(3,026,909)	**3,070,510**	(3,026,909)
Actuarial (gain)/loss on obligation	**(221,714)**	(152,691)	**(221,714)**	(152,691)
Closing defined benefit obligation	**5,813,536**	2,401,307	**5,813,536**	2,401,307

38. Retirement benefit obligations (contd.)

38. (a) Defined benefit plans (contd.)

38. (a) 2 National Savings Bank Employees' Pension Scheme II (contd.)

As at 31 December	Bank 2023 Rs. '000	Bank 2022 Rs. '000	Group 2023 Rs. '000	Group 2022 Rs. '000
(f) Plan assets consist of followings:				
Treasury Bonds	**5,355,564**	2,645,521	**5,355,564**	2,645,521
Treasury Bills	**1,441,195**	279,703	**1,441,195**	279,703
Commercial papers	**153,902**	-	**153,902**	-
Debentures	**799,000**	573,509	**799,000**	573,509
Fixed deposits	**–**	725,078	**–**	725,078
Trust certificates	**49,608**	196,827	**49,608**	196,827
Securities purchased under resale agreements	**381,389**	53,468	**381,389**	53,468
Savings	**1**	959	**1**	959
Other assets/(liabilities)	**(136,450)**	291,633	**(136,450)**	291,633
Total	**8,044,209**	4,766,699	**8,044,209**	4,766,699

	Bank and Group 2023 Rs. '000	Bank and Group 2022 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	**78,002**	54,100
Between 1-2 years	**182,962**	135,055
Between 3-5 years	**374,418**	243,987
Between 6-10 years	**866,826**	514,404
Beyond 10 years	**4,311,328**	1,453,760
Total	**5,813,536**	2,401,307

38. Retirement benefit obligations (contd.)

38. (a) Defined benefit plans (contd.)

38. (a) 2 National Savings Bank Employees' Pension Scheme II (contd.)

	Pension Scheme II 2023	Pension Scheme II 2022
(h) Actuarial assumption		
Future salary increment rate (%)	8.00	8.00
Discount rate (%)	13.00	18.00
Increase in future Cost of Living Allowance (COLA) (%)	8.00	8.00
Mortality	GA 1983 Mortality table	GA 1983 Mortality table
Retirement age	60 years	60 years
Normal form of payment	Monthly	Monthly

Turnover rate

Age	2023 %	2022 %
20	0.3	0.3
25	0.3	0.3
30	0.3	0.3
35	0.3	0.3
40	0.3	0.3
45	0.3	0.3
50	0.3	0.3
55	0.3	0.3
56	0.3	0.3
57	0.3	0.3
58	0.3	0.3
59	0.3	0.3

(i) Increase/decrease in the following assumptions will have an impact on the present value of defined benefit obligation as illustrated below:

	Pension Scheme II (Bank and Group)			
	2023		2022	
	1% increase	1% decrease	1% increase	1% decrease
Future salary increment rate	6,397,178	5,539,676	2,564,767	2,260,938
Discount rate	5,026,700	7,077,691	2,111,026	3,753,785

38. Retirement benefit obligations (contd.)

38. (a) Defined benefit plans (contd.)

38. (a) 3 Retired medical assistance scheme for the retired employees of NSB

An actuarial valuation of the retired medical assistance scheme for the retired employees was carried out as at 31 December 2023 by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional Actuaries, on 31 December 2023.

Projected Unit Credit Method was used to allocate the actuarial present value of the projected benefits earned by employees to date of 31 December 2023.

As at 31 December	Bank and Group	
	2023 Rs. '000	2022 Rs. '000
(a) Net asset/(liability) recognised in Statement of Financial Position		
Present value of defined benefit obligation	**(6,131,827)**	(4,177,939)
Fair value of plan assets	**1,018,805**	453,708
Total	**(5,113,022)**	(3,724,231)
(b) Amount recognised in Income Statement		
Past service cost	**–**	164,251
Current service cost	**62,427**	82,322
Interest on obligation	**752,029**	499,765
Expected return on plan assets	**(81,668)**	(77,797)
Net benefit expense	**732,788**	668,541
(c) Amount recognised in Other Comprehensive Income (OCI)		
Experience (gain)/loss	**(352,611)**	(398,951)
(Gain)/loss due to changes in assumptions	**1,937,426**	(126,269)
Actuarial (gain)/loss on plan assets	**(235,369)**	125,178
Contribution from employees	**(24,902)**	(17,033)
Total	**1,324,543**	(417,075)
(d) Changes in fair value of plan assets are as follows:		
Opening fair value of plan assets	**453,708**	676,497
Expected return on plan assets	**81,668**	77,797
Actual employer contribution	**668,541**	196,519
Actual participants' contribution	**24,902**	17,033
Benefits paid	**(445,384)**	(388,960)
Actuarial gain/(loss) on plan assets	**235,369**	(125,178)
Closing fair value of plan assets	**1,018,805**	453,708

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	**2023 Rs. '000**	2022 Rs. '000
(e) Changes in present value of defined benefit obligation are as follows:		
Opening defined benefit obligation	**4,177,939**	4,345,781
Interest cost	**752,029**	499,765
Past service cost	**–**	164,251
Current service cost	**62,427**	82,322
Benefits paid	**(445,384)**	(388,960)
(Gain)/loss due to changes in assumptions	**1,937,426**	(126,269)
Actuarial (gain)/loss on obligation	**(352,611)**	(398,951)
Closing defined benefit obligation	**6,131,827**	4,177,939
(f) Plan assets consist of followings:		
Treasury Bonds	**759,440**	318,325
Treasury Bills	**224,967**	159,920
Fixed deposits	**–**	177,372
Securities purchased under resale agreements	**326,534**	4,041
Trust certificates	**–**	34,244
Debentures	**153,177**	108,777
Savings	**5,041**	49,659
Other payable	**(450,355)**	(398,629)
Total	**1,018,804**	453,708
(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	**438,073**	383,001
Between 1-2 years	**803,310**	680,754
Between 3-5 years	**1,038,303**	832,037
Between 6-10 years	**1,316,655**	966,246
Beyond 10 years	**2,535,485**	1,315,901
Total	**6,131,827**	4,177,939

	2023 %	2022 %
(h) Actuarial assumption		
Medical cost inflation rate	**8.00**	10.00
Discount rate	**13.00**	18.00

38. Retirement benefit obligations (contd.)

38. (a) Defined benefit plans (contd.)

38. (a) 3 Retired medical assistance scheme for the retired employees of NSB (contd.)

(i) Increase/decrease in the following assumptions will have an impact on the present value of defined benefit obligation as illustrated below:

	Bank and Group			
	2023		2022	
	1% increase	**1% decrease**	1% increase	1% decrease
Medical cost escalation rate	**6,914,862**	**5,485,560**	4,584,864	3,828,130
Discount rate	**5,536,917**	**6,860,759**	3,867,383	4,542,214

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	**2023 Rs. '000**	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
(a) Net benefit expense (recognised under personal expenses)				
Current service cost	–	–	**14,554**	6,227
Interest cost on benefit obligation	–	–	**995**	5,103
Net benefit expense	–	–	**15,549**	11,330
(b) Provision for gratuity				
Defined benefit obligation as at 1 January	–	–	**58,939**	46,783
Interest cost	–	–	**995**	5,435
Current service cost	–	–	**14,554**	6,233
Benefits paid	–	–	**(5,197)**	(1,032)
Actuarial (gain)/loss on obligation (recognised in OCI)	–	–	**(584)**	1,519
Defined benefit obligation as at 31 December	–	–	**68,707**	58,939

38. Retirement benefit obligations (contd.)

38. (a) Defined benefit plans (contd.)

38. (a) 4 Gratuity plan – Bank and Group (contd.)

	FMC		SLSB	
	2023 %	2022 %	**2023 %**	2022 %
(c) Actuarial assumption				
Future salary increment rate	**10.00**	15.00	**10.00**	15.00
Discount rate	**13.30**	18.00	**13.00**	18.00
Mortality	**–**	–	**A67/70**	A67/70

Staff turnover rate and average future working lifetime

	FMC – 2023		
Age group	**25-34**	**35-44**	**45<**
Staff turnover rate – %	**0**	**0**	**0**
Average future working lifetime – years	**27.8**	**15.8**	**7.0**

(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			
	2023		2022	
	1% increase	**1% decrease**	1% increase	1% decrease
Future salary increment rate	**666**	**(600)**	269	(262)
Discount rate	**(578)**	**652**	(246)	257

Assumptions

Financial assumptions – Rate of discount, salary increment rate

Demographic assumptions – Mortality, staff turnover, disability, retirement age

39 Current tax liabilities

As at 31 December	Bank 2023 Rs. '000	Bank 2022 Rs. '000	Group 2023 Rs. '000	Group 2022 Rs. '000
Balance as at 1 January	**2,760,857**	4,596,190	**2,943,314**	4,914,918
Tax receivable (WHT)	**(88,248)**	–	**(88,248)**	–
Charge for the year	**–**	2,832,872	**66,852**	3,011,352
Charge/(reversal) for previous years	**(460,517)**	44,934	**–**	44,934
Payment during the year	**(2,403,112)**	(4,713,139)	**(2,739,667)**	(5,027,890)
Transfer to/(from) tax receivable	**191,020**	–	**123,618**	–
Balance as at 31 December	**–**	2,760,857	**305,869**	2,943,314

40 Other provisions

No value to be disclosed under other provision as at 31 December 2023.

41 Other liabilities

Accounting policy

Other liabilities include provisions made in account of fees and expenses, salary related, and other expenses. These liabilities are recorded at amounts expected to be payable at the reporting date.

As at 31 December	Bank 2023 Rs. '000	Bank 2022 Rs. '000	Group 2023 Rs. '000	Group 2022 Rs. '000
Sundry creditors	**385,244**	118,629	**386,708**	119,998
Interest payable	**–**	–	**66,985**	–
Salary related payable	**2,061,830**	92,393	**2,061,830**	122,071
Other tax payable	**935,396**	1,092,756	**962,820**	1,184,586
Other payables	**5,806,985**	4,492,275	**5,985,165**	4,649,234
Total	**9,189,455**	5,796,053	**9,463,508**	6,075,889

42 Due to subsidiaries

As at 31 December	Bank 2023 Rs. '000	Bank 2022 Rs. '000	Group 2023 Rs. '000	Group 2022 Rs. '000
Payable to FMC	**–**	–	**–**	–
Total	**–**	–	**–**	–

Refer Note 49.3 and 49.4 – Related party transaction on pages 336 and 337.

43 Stated capital/assigned capital

As at 31 December	Bank 2023 Rs. '000	Bank 2022 Rs. '000	Group 2023 Rs. '000	Group 2022 Rs. '000
Authorised				
1 Bn. ordinary shares of Rs. 10.00 each as at 1 January	**10,000,000**	10,000,000	**10,000,000**	10,000,000
Balance as at 1 January (issued and fully paid)				
940 Mn. ordinary shares of Rs. 10.00 each	**9,400,000**	9,400,000	**9,400,000**	9,400,000
Issue of ordinary shares during the year	**–**	–	**–**	–
Total	**9,400,000**	9,400,000	**9,400,000**	9,400,000

44 Statutory reserve fund

The statutory reserve fund is maintained as per the requirements under Section 20 (1) of the Banking Act No. 30 of 1988. Accordingly, the fund is built up by allocating a sum equivalent to not less than 5% of the profit after tax, but before declaring any dividend or any profit that are transferred to elsewhere until the reserve is equal to 50% of the Bank's stated capital and thereafter sum equivalent to 2% of such profit until the amount of said reserve fund is equal to the stated capital of the Bank.

The balance in the statutory reserve fund will be used only for the purposes specified in the Section 20 (2) of the Banking Act No. 30 of 1988.

As at 31 December	Bank 2023 Rs. '000	Bank 2022 Rs. '000	Group 2023 Rs. '000	Group 2022 Rs. '000
Opening balance	**5,224,842**	5,174,249	**5,281,952**	5,209,101
Transfer during the period – 2% of profit after tax	**144,330**	50,593	**182,266**	72,851
Closing balance	**5,369,172**	5,224,842	**5,464,218**	5,281,952

45 Retained earnings

As at 31 December	Bank 2023 Rs. '000	Bank 2022 Rs. '000	Group 2023 Rs. '000	Group 2022 Rs. '000
Balance as at 1 January	**11,359,152**	13,727,801	**13,589,101**	17,918,992
Opening balance adjustment*	**–**	(5,166,968)	**15,438**	(5,523,755)
Restated opening balance as at 1 January	**11,359,152**	8,560,833	**13,604,539**	12,395,236
Profit for the year	**7,216,483**	2,529,667	**9,616,809**	948,991
Other comprehensive income	**(4,023,187)**	344,542	**(4,022,962)**	343,021
Transfers to other reserves (statutory/other)	**(144,330)**	(50,593)	**(592,667)**	(72,851)
Contribution to National Insurance Trust Fund	**–**	(25,297)	**–**	(25,297)
Dividend/levy	**–**	–	**–**	–
Balance as at 31 December	**14,408,118**	11,359,152	**18,605,719**	13,589,101

* Please refer Note 53 comparative figures.

46 Other reserves

	Bank 2023		
	Opening balance at 1 January 2023 Rs. '000	**Movement/ transfers Rs. '000**	**Closing balance at 31 December 2023 Rs. '000**
General reserve	**37,740,877**	**–**	**37,740,877**
Revaluation reserve (net of tax)	**6,493,876**	**1,452,340**	**7,946,216**
OCI reserve	**(1,669,876)**	**2,956,339**	**1,286,463**
Foreign currency translation reserve	**–**	**–**	**–**
Other reserves (Refer Note 46.1, 46.2)	**4,343,358**	**880,049**	**5,223,407**
Total	**46,908,235**	**5,288,728**	**52,196,963**

	Bank 2022		
	Opening balance at 1 January 2022 Rs. '000	Movement/ transfers Rs. '000	Closing balance at 31 December 2022 Rs. '000
General reserve	37,740,877	–	37,740,877
Revaluation reserve (net of tax)	7,049,600	(555,724)	6,493,876
OCI reserve	(658,376)	(1,011,500)	(1,669,876)
Foreign currency translation reserve	–	–	–
Other reserves (Refer Note 46.1, 46.2)	3,578,605	764,753	4,343,358
Total	47,710,705	(802,470)	46,908,235

46. Other reserves (contd.)

	Group 2023		
	Opening balance at 1 January 2023 Rs. '000	**Movement/ transfers Rs. '000**	**Closing balance at 31 December 2023 Rs. '000**
General reserve	**37,740,877**	**–**	**37,740,877**
Revaluation reserve (net of tax)	**6,932,981**	**1,709,903**	**8,642,884**
OCI reserve	**(1,765,659)**	**3,199,509**	**1,433,850**
Foreign currency translation reserve	**–**	**–**	**–**
Other reserves (Refer Note 46.1, 46.2, 46.3)	**5,210,429**	**1,290,450**	**6,500,879**
Total	**48,118,628**	**6,199,862**	**54,318,490**

	Group 2022		
	Opening balance at 1 January 2022 Rs. '000	Movement/ transfers Rs. '000	Closing balance at 31 December 2022 Rs. '000
General reserve	37,740,877	–	37,740,877
Revaluation reserve (net of tax)	7,488,706	(555,724)	6,932,981
OCI reserve	(754,140)	(1,011,519)	(1,765,659)
Foreign currency translation reserve	–	–	–
Other reserves (Refer Note 46.1, 46.2, 46.3)	4,445,677	764,753	5,210,429
Total	48,921,120	(802,490)	48,118,628

46.1 Unclaimed deposit reserve

	Bank		Group	
As at 31 December	**2023 Rs. '000**	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
Opening balance	**4,341,177**	3,576,423	**4,341,177**	3,576,423
Transferred to share capital	**–**	–	**–**	–
Transferred during the year	**880,049**	764,754	**880,049**	764,754
Closing balance	**5,221,226**	4,341,177	**5,221,226**	4,341,177

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 lying 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 2023, was Rs. 880.05 Mn.

46. Other reserves (contd.)

46.2 Special reserve

As at 31 December	Bank 2023 Rs. '000	Bank 2022 Rs. '000	Group 2023 Rs. '000	Group 2022 Rs. '000
Opening balance	**2,181**	2,182	**2,181**	2,182
Transferred during the year	**–**	(1)	**–**	(1)
Closing balance	**2,181**	2,181	**2,181**	2,181

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.

46.3 Special risk reserve – (NSB Fund Management Company Limited)

As at 31 December	Bank 2023 Rs. '000	Bank 2022 Rs. '000	Group 2023 Rs. '000	Group 2022 Rs. '000
Opening balance	**–**	–	**867,071**	867,071
Transferred during the year – 25% of profit after tax	**–**	–	**410,401**	–
Closing balance	**–**	–	**1,277,472**	867,071

In order to promote the safety, soundness and the stability of the primary dealer (PD) system and to build up PD capital base, primary dealers (PDs) are required to annually transfer a percentage of their profit after tax to a special risk reserve as follows, with effect from 1 July 2004:

I. 50% of the profit after tax annually by the PDs who maintain capital funds less than Rs. 400 Mn.

II. 25% of the profit after tax annually by the PDs who maintain capital funds in excess of Rs. 400 Mn.

Other reserves

As at 31 December	Bank 2023 Rs. '000	Bank 2022 Rs. '000	Group 2023 Rs. '000	Group 2022 Rs. '000
Total other reserves	**5,223,407**	4,343,358	**6,500,879**	5,210,429

47 Non-controlling interest

Bank has two fully-owned subsidiaries. Therefore no values to be disclosed under non-controlling interest.

48 Contingent liabilities and commitments

Accounting policy

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future event or present obligation where the transfer of economic benefit is not probable or cannot be reliably measured as defined in the Sri Lanka Accounting Standard – LKAS 37 on "Provisions, Contingent Liabilities and Contingent Assets".

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. This includes finance guarantees, letters of credit, and other undrawn commitments to lend. Letters of credit and guarantees commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless its occurrence is remote.

		Bank		Group	
As at 31 December	Note	**2023 Rs. '000**	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
Commitments					
Commitment for unutilised credit facilities		**3,500,994**	6,524,496	**3,503,957**	6,179,038
Other commitments indirect credit facilities		**1,158,055**	1,298,383	**1,158,055**	1,298,383
Capital commitments	48.1	**1,322,696**	1,518,752	**1,363,854**	1,565,275
Subtotal		**5,981,745**	9,341,631	**6,025,866**	9,042,696
Contingent liabilities					
Documentary credit		**452,690**	452,690	**452,690**	452,690
Bank guarantees		**2,104,277**	3,147,791	**2,104,277**	3,147,791
Other contingencies	48.2	**1,346,162**	1,474,690	**1,346,162**	1,974,690
Subtotal		**3,903,129**	5,075,171	**3,903,129**	5,575,171
Total commitment and contingencies		**9,884,874**	14,416,802	**9,928,995**	14,617,867

48. Contingent liabilities and commitments (contd.)

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	**2023 Rs. '000**	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
Commitments in relation to property, plant and equipment				
Approved and contracted for	**130,827**	131,474	**130,827**	131,474
Approved but not contracted for	**–**	–	**–**	–
Subtotal	**130,827**	131,474	**130,827**	131,474
Commitments in relation to intangible asset				
Approved and contracted for	**1,191,869**	1,387,278	**1,233,027**	1,433,801
Approved but not contracted for	**–**	–	**–**	–
Subtotal	**1,191,869**	1,387,278	**1,233,027**	1,433,801
Total	**1,322,696**	1,518,752	**1,363,854**	1,565,275

48.2 Other contingencies

	Bank		Group	
As at 31 December	**2023 Rs. '000**	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
Derivatives				
Others	**–**	–	**–**	500,000
Forward exchange contracts				
Forward exchange sales	**1,346,162**	1,474,690	**1,346,162**	1,474,690
Total	**1,346,162**	1,474,690	**1,346,162**	1,974,690

49 Related party disclosures

Accounting policy

The Bank carried out transactions in the ordinary course of business on an arm's length basis at commercial rates with parties who are defined as related parties as per the Sri Lanka Accounting Standard – LKAS 24 on "Related Party Disclosures" i.e. Government of Sri Lanka, subsidiaries, post-employment benefit plans for the Bank's employees, Key Management Personnel (KMPs). Those transactions include lending activities, placements, off-balance sheet transactions and provision of other banking and financial services that are carried out in the ordinary course of business on an arm's length basis at commercial rates, other than, transactions that the Key Management Personnel (KMP) have availed under schemes uniformly applicable to all staff at concessionary rates. Particulars of transactions with related parties are tabulated below:

49. Related party disclosures (contd.)

49.1 Parent and ultimate controlling party

National Savings Bank is a Government-owned bank.

49.2 Transactions with Government of Sri Lanka (Parent) and state-controlled entities

The financial dealings carried out with the Government of Sri Lanka and state-controlled entities for the year are disclosed below:

49.2.1 Transactions which are collectively significant

	Bank		Group	
As at 31 December	**2023 Rs. '000**	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
Assets				
Loans to Government	–	2,075,000	–	2,075,000
Investments made on Government Securities	**885,429,139**	822,397,780	**917,105,830**	839,746,654
Investments on state and state-controlled entities	**228,532,408**	233,393,645	**229,593,775**	231,254,543
Securities purchased under resale agreements	**1,774,349**	580,467	**1,774,349**	580,467
Tax receivable	**191,020**	–	**191,020**	67,401
Postmaster-General's current account	–	470,296	–	470,296
Advance payment to Government	**2,560,000**	2,880,000	**2,560,000**	2,880,000
Other receivables from Government	**51,045,915**	38,090,734	**51,134,854**	38,179,674
Total	**1,169,532,831**	1,099,887,921	**1,202,359,829**	1,115,254,035
Liabilities				
Securities sold under repurchase agreements	–	13,174,145	**8,479,722**	21,653,867
Postmaster-General's current account	**43,266**	–	**43,266**	–
Tax payable	–	2,760,857	**305,869**	2,943,314
Total	**43,266**	15,935,003	**8,828,857**	24,597,181
Commitment				
Undrawn loan commitment	**3,323,970**	3,590,453	**3,323,970**	3,590,453
Taxes paid				
Income tax	**(460,517)**	2,877,806	**66,851**	3,056,286
Value added tax	**1,142,716**	3,185,879	**1,832,755**	3,326,549
SSCL on financial services	**158,708**	67,259	**254,298**	72,067
Contribution to consolidated fund – dividend/levy	–	–	–	–
Total	**840,906**	6,130,944	**2,153,904**	6,454,902

49.2.2 Transactions which are individually significant

Since the Bank is Government owned entity and as per NSB Act, Bank should invest 60% of its deposit in Government Securities. Therefore the Bank has significant transactions with GOSL in day-to-day operation which are collectively represent on above. Individually significant transactions other than day-to-day operations are as follows:

- The Bank has received Rs. 3,112.5 Mn. worth of Treasury Bonds from Government Treasury as partial settlement of interest receivables on senior citizens.

49. Related party disclosures (contd.)

49.3 Transactions with subsidiary company (NSB Fund Management Company Limited)

The Bank has contributed Rs. 4,200 Mn. towards the share capital of the Company. The Company invested its funds in Treasury Bills, Treasury Bonds, and Repos during the year on a regular basis. All investment in Treasury Bills and Treasury Bonds of the Bank are being made through the NSB Fund Management Company Limited on which service charges/custodian fee of Rs. 0.98 Mn. has been made for the year 2023 (Rs. 12.1 Mn. service charges/custodian fee in 2022).

The Bank holds following balances with NSB Fund Management Company Limited, at the reporting date:

	Bank	
As at 31 December	**2023 Rs. '000**	2022 Rs. '000
Assets		
Securities purchased under resale agreements	**3,502,933**	–
Loans and advances	**–**	850,175
Other receivable	**2,305**	1,291
Total	**3,505,238**	851,466
Liabilities		
Other payable	**–**	–
Commitment		
Undrawn loan commitment	**–**	350,000

The above outstanding balances arose in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third-party counterparties. Particulars of income and expenses with related parties are tabulated below:

	Bank	
For the year ended 31 December	**2023 Rs. '000**	2022 Rs. '000
Income		
Legal fee	**300**	300
Interest income on loans and advances	**64,670**	284,204
Dividend	**–**	–
Interest income reverse repo	**74,782**	49,766
Total	**139,752**	334,270
Expenses		
Service charges/custodian fees	**980**	12,080
Real time gross settlement charges	**–**	21
Trustee fee	**1,050**	1,050
Interest expenses on repo's	**–**	–
Total	**2,030**	13,151

49. Related party disclosures (contd.)

49.4 Transactions with subsidiary company (Sri Lanka Savings Bank Limited)

The Sri Lanka Savings Bank Limited (SLSBL) was established in July 2006 under the Banking Act and incorporated under the provision of the Companies Act. The Sri Lanka Savings Bank commenced business on 10 March 2008 as a state-owned Licensed Specialised Bank. The Bank has acquired SLSBL as a fully-owned subsidiary by paying Rs. 3,111 Mn. on 11 October 2019. The CBSL has given special approval to acquisition as per the budget proposal of 2016.

The Bank holds following balances with Sri Lanka Savings Bank Limited at the reporting date.

	Bank	
As at 31 December	**2023 Rs. '000**	2022 Rs. '000
Liabilities		
Securities sold under repurchase agreement	**–**	–
Securities sold under repurchase agreement – Interest payables	**–**	–
Due to depositors	**264**	1,252,274
Due to depositors – Interest payables	**–**	143,567
Total	**264**	1,395,841

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	**2023 Rs. '000**	2022 Rs. '000
Expenses		
Interest expenses on securities sold under repurchase agreements	**2,238**	25,628
Interest expenses on due to depositors	**155,582**	272,284
Total	**157,820**	297,912

49. Related party disclosures (contd.)

49.5 Transactions with key managerial persons

49.5.1 Compensation to Key Management Personnel (KMPs)

As per the Sri Lanka Accounting Standard – LKAS 24 on "Related Party Disclosures", the KMPs include those who are having authority and responsibility for planning, directing, and controlling the activities of the Bank. Accordingly, key managerial persons include members of the Board of Directors of the Bank and key employees of the Bank holding directorships in subsidiaries, NSB Fund Management Company Ltd. and Sri Lanka Savings Bank Limited, Chairman's, Directors' GM/CEO's and DGM's.

For the year ended 31 December	Bank and Group	
	2023 Rs. '000	2022 Rs. '000
Short-term employee benefit	**141,694**	170,491
Post-employment benefit	**18,110**	22,463
Total	**159,804**	192,954

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.

Chairman's, Directors', GM/CEO's and DGM's emoluments and fees amounted to Rs. 141.7 Mn in 2023. (Rs. 170.5 Mn in 2022).

49.5.2 Transactions, arrangements, and agreements involving Key Management Personnel (KMPs)

As at 31 December	Bank and Group	
	2023 Rs. '000	2022 Rs. '000
Assets		
Loans and advances	**62,930**	68,742

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).

As at 31 December	Bank and Group	
	2023 Rs. '000	2022 Rs. '000
Key Managerial Persons		
Loans and advances	**62,930**	68,742
Total net accommodation	**62,930**	68,742
Regulatory capital	**60,998,920**	63,346,963
Net accommodation as a percentage of the Bank's regulatory capital (%)	**0.1**	0.1

49. Related party disclosures (contd.)

49.6 Transactions with post-employment benefit plans of the Bank

Transactions (SOFP) which were taken place between the Bank and post-employment benefit plans of the Bank as at the year end are summarised below:

The Bank holds following balances with post-employment benefit plans at the reporting date.

	Bank		Group	
As at 31 December	**2023 Rs. '000**	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
Liabilities				
National Savings Bank Employees' Provident Fund				
Due to depositors – (Fixed deposits)	**–**	930,000	**–**	930,000
Due to other borrowers (Securities purchased under resale agreements)	**595,089**	171,628	**595,089**	171,628
Debt securities issued (Debentures)	**1,250,000**	1,250,000	**1,250,000**	1,250,000
National Savings Bank Employees' Pension Scheme I				
Due to depositors – (Fixed deposits)	**–**	700,000	**–**	700,000
Due to other borrowers (Securities purchased under resale agreements)	**1,200,565**	183,761	**1,200,565**	183,761
Debt securities issued (Debentures)	**550,000**	550,000	**550,000**	550,000
National Savings Bank Employees' Pension Scheme II				
Due to depositors – (Fixed deposits)	**–**	868,020	**–**	868,020
Due to other borrowers (Securities purchased under resale agreements)	**375,710**	98,669	**375,710**	98,669
Debt securities issued (Debentures)	**500,000**	500,000	**500,000**	500,000
Medical Assistance Scheme for the Retired Employees of NSB				
Due to depositors – (Fixed deposits)	**–**	158,910	**–**	158,910
Due to other borrowers (Securities purchased under resale agreements)	**327,822**	34,812	**327,822**	34,812
Debt securities issued (Debentures)	**25,000**	25,000	**25,000**	25,000
Widows'/Widowers' and Orphans' Pension Fund				
Due to depositors – (Fixed deposits)	**–**	56,150	**–**	56,150
Due to other borrowers (Securities purchased under resale agreements)	**11,635**	13,545	**11,635**	13,545
Debt securities issued (Debentures)	**100,000**	100,000	**100,000**	100,000

49. Related party disclosures (contd.)

49.6 Transactions with post-employment benefit plans of the Bank (contd.)

Transactions (IS) which were taken place between the Bank and post-employment benefit plans of the Bank as at the year end are summarised below in view of Bank:

	Bank		Group	
For the year ended 31 December	**2023 Rs. '000**	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
Interest income				
National Savings Bank Employees' Provident Fund	**–**	–	**–**	–
National Savings Bank Employees' Pension Scheme I	**–**	–	**–**	–
Interest expenses				
National Savings Bank Employees' Provident Fund	**346,909**	228,434	**346,909**	228,434
National Savings Bank Employees' Pension Scheme I	**315,725**	89,705	**315,725**	89,705
National Savings Bank Employees' Pension Scheme II	**187,345**	49,991	**187,345**	49,991
Medical Assistance Scheme for the Retired Employees of NSB	**43,049**	25,951	**43,049**	25,951
Widows'/Widowers' and Orphans' Pension Fund	**40,975**	14,599	**40,975**	14,599

49.7 Due from other related parties

	Bank		Group	
As at 31 December	**2023 Rs. '000**	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
Securities purchased under resale agreements – Entrust Securities PLC	**32,772**	22,865	**32,772**	22,865
Receivable from Entrust Securities PLC	**859,160**	859,195	**859,160**	859,195
Impairment	**(124,372)**	(124,372)	**(124,372)**	(124,372)
Total	**767,560**	757,688	**767,560**	757,688

49.8 Due to other related parties

	Bank		Group	
As at 31 December	**2023 Rs. '000**	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
Other payable – Entrust Securities PLC	**734,788**	734,788	**734,788**	734,788
Total	**734,788**	734,788	**734,788**	734,788

50 Net assets value per ordinary share

As at 31 December	Bank		Group	
	2023 Rs. '000	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
Amount used as the numerator				
Shareholders' funds	**81,374,253**	72,892,229	**87,788,427**	76,389,681
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.)	**86.57**	77.54	**93.39**	81.27

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	
	2023 Number	2022 Number
Tribunal/Court		
Labour Tribunal	**10**	9
District Court	**90**	43
High Court/Civil Appellate High Court/Provincial High Court	**5**	5
Court of Appeal	**7**	4
Supreme Court	**4**	3

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".

No circumstances have arisen since the reporting date which would require adjustments or disclosure in the Financial Statements except those disclosed below.

National Savings Bank has agreed to absorb the assets, liabilities and staff of its fully owned subsidiary Sri Lanka Savings Bank Ltd (SLSB). The Director - Bank Supervision of Central Bank of Sri Lanka has informed by letter dated 11 January 2024 to complete the absorption process before 31 March 2024. Accordingly, a time bound action plan prepared by both NSB and SLSB has been sent to the Director bank Supervision.

53 Comparative figures

53.1 Net fee and commission income

The comparative information is reclassified wherever necessary, to comply with current year's classification in order to provide better presentation. The fee income item (waived off premature settlement fee) is reclassified from fee and commission expenses to fee and commission income.

		Bank		
For the year ended 31 December	Note	2022 Audited balances Rs. '000	Reclassification Rs. '000	2022 Reclassified balances Rs. '000
Gross income	3	174,557,152	(26,803)	174,530,349

		Group		
For the year ended 31 December	Note	2022 Audited balances Rs. '000	Reclassification Rs. '000	2022 Reclassified balances Rs. '000
Gross income	3	175,003,990	(26,803)	174,977,187

		Bank		
For the year ended 31 December	Note	2022 Audited balances Rs. '000	Reclassification Rs. '000	2022 Reclassified balances Rs. '000
Fee and commission income	5	2,199,781	(26,803)	2,172,978
Fee and commission expenses	5	259,570	(26,803)	232,767
Net fee and commission income		1,940,211		1,940,211

53. Comparative figures (contd.)

For the year ended 31 December	Note	Group		
		2022 Audited balances Rs. '000	Reclassification Rs. '000	2022 Reclassified balances Rs. '000
Fee and commission income	5	2,207,079	(26,803)	2,180,276
Fee and commission expenses	5	262,004	(26,803)	235,201
Net fee and commission income		1,945,075		1,945,075

53.2 OCI reserve and Other reserve

The deferred tax on OCI reserve amounting Rs. 19.9 Mn. pertaining to subsidiary company (NSB Fund Management Company Ltd) and deferred tax on retirement benefit obligations amounting Rs. 15.4 Mn. pertaining to subsidiary company (Sri Lanka Savings Bank Ltd) have been adjusted as a prior year adjustment in the Financial Statement as at 31 December 2023.

53.3 Surcharge tax as proposed Budget 2022

In terms of provision of the Surcharge Tax Act No. 14 of 2022, the Group paid Surcharge Tax at the rate of 25 percent on the taxable income of the year of assessment 2020/2021 amounting to Rs. 5,524 Mn. and since this is related to the financial year 2021, this has been adjusted as a prior year adjustment in the Financial Statement as at 31 December 2022.

54 Financial risk management

Overview

The Group is exposed to financial risk and non financial risks arising from its operations. The Group manages these risks through its Risk Management Framework, which evolves to accommodate changes in the business operating environment, best practices and regulatory requirements.

Risk management framework

Integrated Risk Management Framework of NSB encompasses policies and procedures covering various risks, mechanism to identify such risks, and effective measures to manage and mitigate risks.

Risk Management Framework of the Bank begins with the oversight of the Board of Directors. It has set up Board Integrated Risk Management Committee (BIRMC) to assist the Board of Directors in discharging its risk management responsibility. The Risk Management Division (RMD) independently reports to the Board through BIRMC. Bank's Management Committees review regular reports from respective Business Divisions and RMD, to ensure adequacy and effectiveness of Bank's risk management with meticulous focus.

The following Management Committees, are responsible for the coordination of risk matters for each of the areas of risk management with meticulous focus:

Management level risk Management Committees

- Credit Committee (CC)
- Asset and Liability Management Committee (ALCO)
- Operational Risk Management Committee (ORMC)
- Investment Committee (IC)
- Information Security Committee (ISC)

Other Management Committees

- IT Steering Committee
- Human Resource Committee (HRC)
- Branch Operation Steering Committee (BOSC)
- Performance Review Committee
- Marketing Committee
- Corporate Management Committee (CMC)
- Information Security Committee (ISC)

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; • Large corporate (institutional) lending and markets exposures; • Large lending for Government Institution; • Lending for companies incorporated outside Sri Lanka; • Pawning; • Loans against deposits • Loans against movable assets	**Governing Policies** Credit Policies and Credit Risk Management Policy	i. Credit Policies and Credit Risk Management Policy Framework. ii. Credit Procedure manuals and Circular Instructions. iii. Delegation of Authority for credit approval. iv. Obtain quality collateral and maintaining LTV at policy levels. v. Internal Ratings vi. Risk appetite Framework: Monitoring of KRIs/KPIs against risk appetite framework and reporting to BIRMC and Board. • Assets Quality limits : Retail NPA, Corporate NPA, Stage 3 Provision Cover • Portfolio Return limits: Retail Credit Return, Corporate Credit Return • Concentration limits: sector concentration, Name concentration • Off-Balance sheet commitments to total assets vii. Credit Limit Monitoring Framework: Portfolio and transaction level monitoring and reporting to CC/IC/BIRMC/Board. • Sector Exposure Limits. • Limits for risk weighted asset classes • Limits for Investments in Corporate Debt Instruments. viii. Credit Monitoring Framework: Portfolio and transaction level monitoring and reporting to CC/IC/BIRMC and Board. ix. Loan Review Mechanism (LRM). x. Capital allocation under Standardised Approach. xi. Continuous training of credit staff at the credit division and branch level.

54. Financial risk management (contd.)

Material risk types (contd.)

Description	Governing Policies and Key Management Committee	Key controls and mitigation strategies
Market risk (including equity risk) Market risk is the risk that market rates and prices will change and that this may have an adverse effect on the profitability and/or net worth of the Group. The Group is primarily exposed to market risk through: • Traded market risk; • Interest Rate Risk in the Banking Book (IRRBB); • Structural foreign exchange risk; • Non-traded equity risk.	**Governing Policies** Market Risk and Liquidity Risk Management Policy **Key Management Committee** Asset and Liability Management Committee (ALCO) Investment Committee	**Interest rate risk** i. Market Risk and Liquidity Risk Management Policy Framework. ii. Sensitivity Analysis and Stress Testing. iii. ALM Best Practices iv. Investments and trading in Government Securities are monitored within the Limits Framework. v. Assess the vulnerability to interest rate risk on a continuous basis using tools such as Marking to Market, Duration and Stress Testing. vi. 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 • Model Risk Management 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 Risk Information Technology and Cyber Security Risk** 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) • ISO 27001:2013 certified for IT Division, Information Security Division and Card Centre. • Next Generation Security Operation Center (NGSOC) • Data Leakage Prevention (DLP) iii. Disaster Recovery Planning (DRP) to avoid information loss. iv. Internal control/system access controls: Access control/ password protections etc. v. Establish system – based incident reporting. vi. Establish an Information Security Unit headed by a dedicated Chief Information Security Officer (CISO). vii. Continuous monitoring of Implementation of Information security policy, Baseline security standards (BSS) for Information security.

54. Financial risk management (contd.)

Material risk types (contd.)

Description	Governing Policies and Key Management Committee	Key controls and mitigation strategies
Operational risk (Contd.)		**Cybersecurity risk** i. Conduct vulnerability assessments and Penetration testing to take preemptive actions to minimise risk from identified vulnerabilities. ii. Improve ICT infrastructure to eliminate identified vulnerabilities and continuous monitoring of cyberspace/ external attacks through proper tools. **Legal risk** i. Provide legal clearance by legal division when entering into business and contractual obligations. ii. Handling legal proceedings effectively. **Business Continuity Management (BCM) Risk** i. Established BCM unit and governance structure is in place to ensure effective implementation of BCM.
Compliance risk Compliance risk is the risk of sanctions and financial loss the Group may suffer as a result of the Group's failure to comply with laws, regulations, rules, statements of regulatory policy, and codes of conduct applicable to its business activities. The Group is exposed to compliance risk primarily through: • Regulatory and licensing obligations, including privacy and conflicts of interest obligations; • Financial crime [Anti-Money Laundering (AML), Counter Terrorism Financing (CTF), Anti-Bribery and Corruption (AB&C), and Sanctions]; and • Poor conduct (product design and distribution, market conduct and employee misconduct).	**Governing Policies** 1. Compliance Policy 2. AML Policy 3. Related Party Transaction Policy **Key Management Committee** Operational Risk Management Committee	i. Compliance Officer directly report to BIRMC/Board ii. In-house systems/processes for AML and KYC monitoring. iii. Monitor within RAF.

54. Financial risk management (contd.)

Material risk types (contd.)

Description	Governing Policies and Key Management Committee	Key controls and mitigation strategies
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. Monitor within RAF. iv. Ensure Business Continuity Management System (BCMS).
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 Groups earnings & assets.	**Governing Policies** Integrated Risk Management Policy **Key Management Committee** Operational Risk Management Committee Corporate Management Committee	i. Senior Management oversight. ii. Marketing Division takes action to enhance brand value and stakeholder perception. iii. Monitor within RAF.

54. Financial risk management (contd.)

Material risk types (contd.)

Broad risk categories in focus

The Bank is exposed to the following key risks from financial instruments:

54.1 **Credit risk**
54.1.1 Credit quality analysis
54.1.1.(a) Net exposure to credit risk by class of financial assets
54.1.1.(b) Management of the credit portfolio
54.1.1.(c) Credit quality (past due) by classes of financial assets
54.1.1.(d) Credit quality by classes of financial asset – stage-wise
54.1.1.(e) Credit quality by rating of counterparty/obligor
54.1.1.(f) Bank Guarantees, letter of credit and other undrawn commitment

54.2 **Liquidity risk**
54.2.1 Concentration of liquid assets
54.2.2 Remaining contractual period to maturity
54.2.3 Financial assets available to support future funding

54.3 **Market risk**
54.3.1 Market risk – Trading and non-trading exposure
54.3.2 Foreign exchange risk
54.3.3 Equity risk
54.3.4 Interest rate risk

54.4 **Operational risk**

54.1 Credit risk

Credit Risk is the risk of losses resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Bank which could materialise from the both On or Off Balance Sheet. The On-Balance sheet credit risk arises mainly from notional value of financial products such as retail loans, corporate loans, loans to banks and financial institutions, loans to State Owned Enterprises (SOEs) and loans to the Government. The Off-Balance sheet credit risk arises from commitments and contingencies.

Credit risk exposures of the Bank

The total credit exposure which is 31.2% of the Bank's total assets is the second major line of business (The investment in risk free securities is 60.3% 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:

As at 31 December		2023		2022	
	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	**9,508,563**	**6,517,416**	8,734,069	5,526,340
Balances with central banks	17	**246,998**	**246,998**	236,480	236,480
Placements with banks	18	**22,576,750**	**22,576,750**	10,466,409	10,466,409
Derivative financial instruments	19	**924**	**924**	28,172	28,172
Financial assets recognised through profit or loss	20				
– measured at fair value		**17,748,501**	**825,378**	14,173,948	1,956,839
– designated at fair value		**–**	**–**	–	–
Financial assets at amortised cost					
– loans and advances	21	**526,520,530**	**248,730,754**	553,027,321	277,276,173
– debt and other instruments	22	**943,704,684**	**2,232,945**	919,129,377	2,476,508
Financial assets measured at fair value through other comprehensive income	23	**61,924,412**	**3,030,202**	27,662,763	2,313,822
Total		**1,582,231,362**	**284,161,368**	1,533,458,539	300,280,742

54. Financial risk management (contd.)

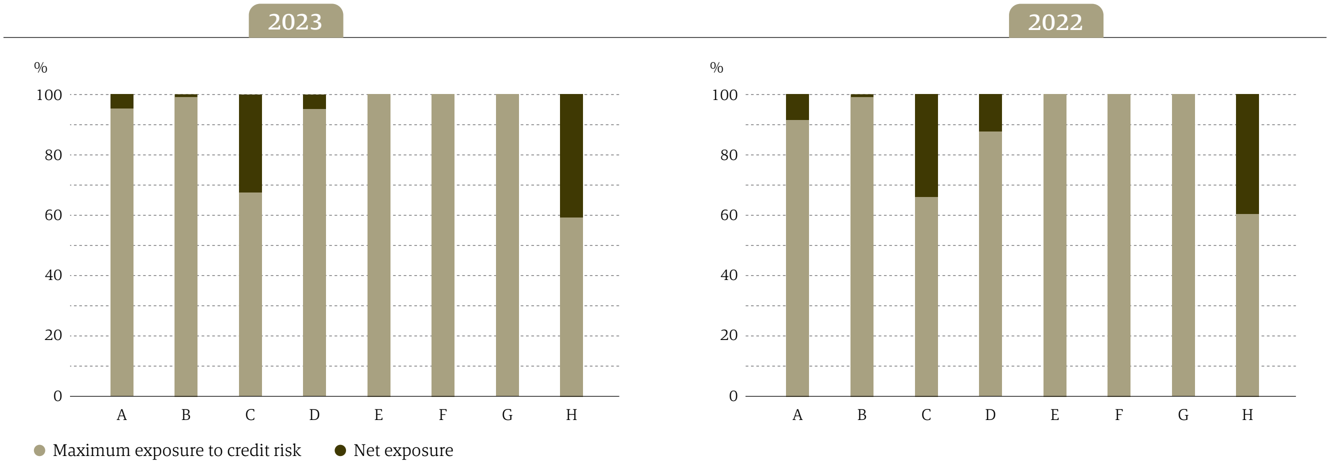
54.1 Credit risk (contd.)

54.1.1 Credit quality analysis (contd.)

54.1.1 (a) Net exposure to credit risk by class of financial assets (contd.)

Net exposure to credit risk – Bank

Graph 78



A Financial assets measured at FVOCI
B Debt and other instruments
C Loans and advances
D Financial assets recognised through profit or loss
E Derivative financial instruments
F Placements with banks
G Balances with central banks
H Cash and cash equivalents

As at 31 December		2023		2022	
	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	**9,546,756**	**6,552,668**	8,782,807	5,570,254
Balances with central banks	17	**247,232**	**247,232**	236,696	236,696
Placements with banks	18	**23,618,966**	**23,618,966**	11,034,246	11,034,246
Derivative financial instruments	19	**11,231**	**11,231**	35,392	35,392
Financial assets recognised through profit or loss	20				
– measured at fair value		**40,189,162**	**825,378**	23,236,848	1,956,839
– designated at fair value		**–**	**–**	–	–
Financial assets at amortised cost					
– loans and advances	21	**523,809,104**	**249,361,707**	553,052,170	278,070,846
– debt and other instruments	22	**953,056,324**	**2,661,260**	927,916,442	3,029,698
Financial assets measured at fair value through other comprehensive income	23	**62,694,519**	**3,234,699**	28,252,211	2,418,746
Total		**1,613,173,294**	**286,513,141**	1,552,546,811	302,352,715

54. Financial risk management (contd.)

54.1 Credit risk (contd.)

54.1.1 Credit quality analysis (contd.)

54.1.1 (b) Management of the credit portfolio

54.1.1. (b).1 Collateral and other credit enhancement

The amount and type of collateral required depends as an assessment of the credit risk of the counterparty. Guidelines are in place covering the accessibility and valuation of each type of collateral.

The main type of collateral obtained are as follows:

a. for corporate lending – Government guarantees, mortgages over immovable and movable fixed assets, inventory, corporate, and personal guarantees
b. for retail lending – mortgage over residential property, gold, cash, personal guarantees, vehicles, deposits

The Bank also obtains guarantees from parent companies for loans to their subsidiaries.

Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement.

Collateral held

Loan-to-value ratio of residential mortgage lending

The table below stratifies eligible credit exposures by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the amortised cost of the loan to the value of the collateral, which is used for the computation of Capital Adequacy Ratios. The value of the collateral for residential mortgage loan is based on the forced sale value determined by professional valuers.

As at 31 December	2023 Rs. '000	2023 Composition %	2022 Rs. '000	2022 Composition %
LTV ratio				
Less than 50%	**50,095,520**	**78.12**	53,909,452	76.23
51% – 70%	**10,937,494**	**17.06**	12,564,089	17.77
71% – 90%	**2,527,642**	**3.94**	3,646,276	5.16
91% – 100%	**302,120**	**0.47**	601,010	0.85
More than 100%	**261,741**	**0.41**	–	0.00
	64,124,517	**100.00**	70,720,826	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.

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.)

54.1.1 (b) 2 Concentration of credit risk by product and sector (contd.)

The Bank monitors the concentration of credit risk by product and sectors. An analysis of concentration risk of the Bank portfolio (Loans and advances) is given below:

Concentration by product

As at 31 December	Bank		Group	
	2023 Rs. '000	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
Loans and advances				
Lease rental and receivable	**–**	–	**74,111**	172,973
Pawning	**94,935,475**	74,389,506	**94,935,503**	74,389,569
Staff loans	**15,219,547**	14,867,179	**15,557,481**	15,194,108
Term loans				
Short-term	**206,092**	282,586	**206,092**	282,586
Long-term	**428,838,174**	477,901,737	**430,466,687**	478,870,726
Others				
Sri Lanka Government Securities	**–**	–	**–**	–
Loan to Government	**–**	2,075,000	**–**	2,075,000
Securities purchased under resale agreement	**9,698,614**	739,728	**6,356,234**	818,424
Gross total	**548,897,902**	570,255,736	**547,596,108**	571,803,386

Concentration by sector

As at 31 December	Bank		Group	
	2023 Rs. '000	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
Loans and advances				
Agriculture and fishing	**33,935,917**	30,380,297	**34,249,380**	30,718,456
Manufacturing	**–**	–	**569,274**	658,745
Tourism	**73,354**	72,525	**125,031**	125,702
Transport	**16,019**	22,537	**53,126**	59,644
Construction/housing	**180,302,455**	190,997,512	**180,635,738**	191,330,795
Traders	**–**	–	**369,412**	465,148
New economy	**–**	–	**21,717**	21,717
Others				
Financial and business services	**9,908,156**	2,204,933	**9,908,156**	2,204,933
Infrastructure	**61,075,939**	64,633,867	**61,075,939**	64,633,867
Power and energy	**5,698,971**	9,325,128	**5,698,971**	9,325,128
Education	**8,876,295**	9,384,292	**8,876,295**	9,384,292
Personal/Pawning/Other	**249,010,796**	263,234,645	**246,013,069**	262,874,959
Gross total	**548,897,902**	570,255,736	**547,596,108**	571,803,386

54. Financial risk management (contd.)

54.1 Credit risk (contd.)

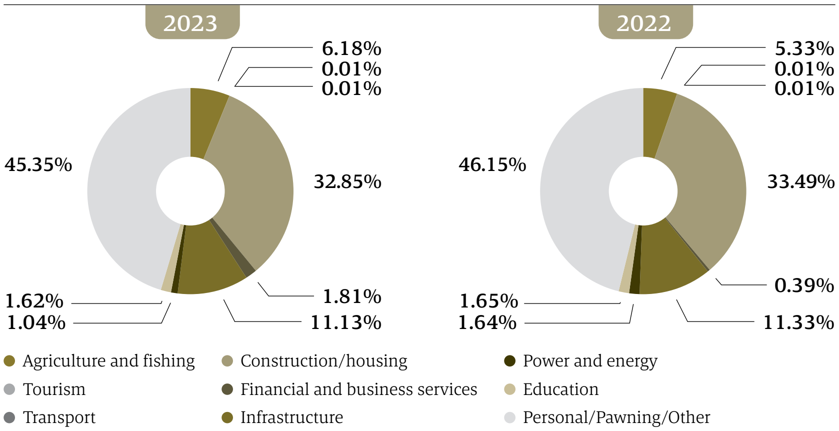
54.1.1 Credit quality analysis (contd.)

54.1.1 (b) Management of the credit portfolio (contd.)

54.1.1 (b) 2 Concentration of credit risk by product and sector (contd.)

Sector classification of loans and advances – Bank

Graph 79



54.1.1 (c) Credit quality (past due) by classes of financial assets – Bank

As at 31 December 2023	Note	Neither past due nor Individually impaired Rs. '000	Past due but not Individually impaired Rs. '000	Individually impaired Rs. '000	Total Rs. '000
Assets					
Cash and cash equivalents (gross)*	16	9,509,855	–	–	9,509,855
Balances with central banks	17	246,998	–	–	246,998
Placements with banks (gross)*	18	22,584,079	–	–	22,584,079
Derivative financial instruments	19	924	–	–	924
Financial assets recognised through profit or loss					
– measured at fair value	20	17,748,501	–	–	17,748,501
– designated at fair value		–	–	–	–
Financial assets at amortised cost					
– loans and advances (gross)*	21	477,436,042	67,399,734	4,062,127	548,897,902
– debt and other instruments (gross)*	22	943,705,329	–	–	943,705,329
Financial assets measured at fair value through other comprehensive income	23	61,924,412	–	–	61,924,412
Total		1,533,156,139	67,399,734	4,062,127	1,604,618,000

* 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 2023	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)*	**32,687,296**	**11,391,618**	**5,351,707**	**17,969,113**	**67,399,734**
	48%	**17%**	**8%**	**27%**	**100%**

Facilities in arrears of one day and above considered as "past due".

As at 31 December 2022	Note	Neither past due nor Individually impaired Rs. '000	Past due but not Individually impaired Rs. '000	Individually impaired Rs. '000	Total Rs. '000
Assets					
Cash and cash equivalents (gross)*	16	8,735,208	–	–	8,735,208
Balances with central banks	17	236,480	–	–	236,480
Placements with banks (gross)*	18	10,470,905	–	–	10,470,905
Derivative financial instruments	19	28,172	–	–	28,172
Financial assets recognised through profit or loss					
– measured at fair value	20	14,173,948	–	–	14,173,948
– designated at fair value		–	–	–	–
Financial assets at amortised cost					–
– loans and advances (gross)*	21	478,449,718	87,365,619	4,440,399	570,255,736
– debt and other instruments (gross)*	22	920,068,906	–	–	920,068,906
Financial assets measured at fair value through other comprehensive income	23	27,662,763	–	–	27,662,763
Total		1,459,826,099	87,365,619	4,440,399	1,551,632,117

* Collectively assessed for the impairment.

Aging analysis of past due (i.e. facilities in arrears of one day and above) but not impaired loans, by class of financial assets.

As at 31 December 2022	Past due but not impaired 1 to 30 days Rs. '000	31 to 60 days Rs. '000	61 to 90 days Rs. '000	More than 90 days Rs. '000	Total Rs. '000
Financial assets at amortised cost – loans and advances (gross)*	35,459,171	17,820,784	14,727,429	19,358,235	87,365,619
	41%	20%	17%	22%	100%

Facilities in arrears of one day and above considered as "past due".

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 2023	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	3,084,472	6,425,383	–	–	9,509,855	1,292	–	–	1,292	9,508,563
Balances with central banks	17	246,998	–	–	–	246,998	–	–	–	–	246,998
Placements with banks	18	–	22,584,079	–	–	22,584,079	114	7,214	–	7,329	22,576,750
Derivative financial instruments	19	924	–	–	–	924	–	–	–	–	924
Financial assets recognised through profit or loss	20										
– measured at fair value		17,748,501	–	–	–	17,748,501	–	–	–	–	17,748,501
– designated at fair value		–	–	–	–	–	–	–	–	–	–
Financial assets at amortised cost											
– loans and advances	21	–	490,248,344	31,529,180	27,120,378	548,897,902	4,426,656	3,501,809	14,448,907	22,377,372	526,520,530
– debt and other instruments	22	809,611,807	134,093,522	–	–	943,705,329	645	–	–	645	943,704,684
Financial assets measured at fair value through other comprehensive income	23	61,924,412	–	–	–	61,924,412	–	–	–	–	61,924,412
Total		892,617,113	653,351,329	31,529,180	27,120,378	1,604,618,000	4,428,708	3,509,023	14,448,907	22,386,638	1,582,231,362

* Stage 1 loans for the year 2023 includes treasury guaranteed loans of Rs. 66,105.7 Mn. for which impairment provision amounted to zero, as the LGD applied for such loans is zero.

As at 31 December 2022	Note	Amortised cost					Impairment provision				
		Not subject to ECL Rs. '000	Stage 1* Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000	As per financial position Rs. '000
Assets											
Cash and cash equivalents	16	3,268,288	5,466,920	–	–	8,735,208	1,139	–	–	1,139	8,734,069
Balances with central banks	17	236,480	–	–	–	236,480	–	–	–	–	236,480
Placements with banks	18	–	10,470,905	–	–	10,470,905	128	4,367	–	4,496	10,466,409
Derivative financial instruments	19	28,172	–	–	–	28,172	–	–	–	–	28,172
Financial assets recognised through profit or loss	20										
– measured at fair value		14,173,948	–	–	–	14,173,948	–	–	–	–	14,173,948
– designated at fair value		–	–	–	–	–	–	–	–	–	–
Financial assets at amortised cost											
– loans and advances	21	–	520,349,987	24,397,234	25,508,516	570,255,736	4,691,568	2,623,411	9,913,436	17,228,415	553,027,321
– debt and other instruments	22	775,442,999	135,237,177	9,388,730	–	920,068,906	655	938,873	–	939,528	919,129,377
Financial assets measured at fair value through other comprehensive income	23	27,662,763	–	–	–	27,662,763	–	–	–	–	27,662,763
Total		820,812,650	671,524,988	33,785,963	25,508,516	1,551,632,118	4,693,491	3,566,652	9,913,436	18,173,578	1,533,458,540

* Stage 1 loans for the year 2022 includes treasury guaranteed loans of Rs. 69,212 Mn for which impairment provision amounted to zero, as the LGD applied for such loans is zero.

54. Financial risk management (contd.)

54.1 Credit risk (contd.)

54.1.1 Credit quality analysis (contd.)

54.1.1 (e) Credit quality by rating of counter party/obligor – 2023

Ratings	Cash at Banks			Placements with Banks		
	Exposure Rs. '000	ECL Provision Rs. '000	ECL Coverage %	Exposure Rs. '000	ECL Provision Rs. '000	ECL Coverage %
AAA	244,698	1.47	0.001	–	–	–
AA+	–	–	–	–	–	–
AA	21,732	0.45	0.002	–	–	–
AA-	11,582	0.42	0.004	–	–	–
A+	93,957	6.98	0.007	–	–	–
A	5,006,226	849.72	0.017	11,860,266	1,947.86	0.016
A-	791,175	220.30	0.028	9,182,936	2,699.98	0.029
BBB+	–	–	–	–	–	–
BBB	253,465	206.68	0.082	–	–	–
BBB-	–	–	–	1,540,877	2,680.74	0.174
BB+	2,549	6.30	0.247	–	–	–
BB	–	–	–	–	–	–
BB-	–	–	–	–	–	–
B+	–	–	–	–	–	–
B	–	–	–	–	–	–
B-	–	–	–	–	–	–
CCC	–	–	–	–	–	–
CC	–	–	–	–	–	–
DDD	–	–	–	–	–	–
D	–	–	–	–	–	–
Unrated	–	–	–	–	–	–
	6,425,383	1,292.32	0.020	22,584,079	7,328.59	0.032

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 %
78,253,050	2,488.76	0.003	132,395,720	2.90	0.000
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
2,053,766	309.39	0.015	780,336	124.03	0.016
		–	549,400	166.36	0.030
386,529	202.23	0.052	–	–	–
2,000,000	1,890.02	0.095	368,066	351.66	0.096
		–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
		–	–	–	–
5,698,971	7,374.60	0.129	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
4,062,127	4,062,127.05	100.000	–	–	–
92,454,444	4,074,392.06	4.407	134,093,522	644.95	0.0005

54. Financial risk management (contd.)

54.1 Credit risk (contd.)

54.1.1 Credit quality analysis (contd.)

54.1.1 (e) Credit quality by rating of counter party/obligor – 2022

Ratings	Cash at Banks			Placements with Banks		
	Exposure Rs. '000	ECL Provision Rs. '000	ECL Coverage %	Exposure Rs. '000	ECL Provision Rs. '000	ECL Coverage %
AAA	186,244	1.18	0.001	–	–	–
AA+	–	–	–	–	–	–
AA	21,348	0.44	0.002	–	–	–
AA-	11,088	0.40	0.004	–	–	–
A+	1,119,165	85.92	0.008	–	–	–
A	3,412,639	611.68	0.018	4,469,321	767.54	0.017
A-	86,587	25.79	0.030	4,709,882	1,374.75	0.029
BBB+	487,247	244.55	0.050	–	–	–
BBB	110,398	90.02	0.082	–	–	–
BBB-	–	–	–	1,291,701	2,353.38	0.182
BB+	32,203	79.62	0.247	–	–	–
BB	–	–	–	–	–	–
BB-	–	–	–	–	–	–
B+	–	–	–	–	–	–
B	–	–	–	–	–	–
B-	–	–	–	–	–	–
CCC	–	–	–	–	–	–
CC	–	–	–	–	–	–
DDD	–	–	–	–	–	–
D	–	–	–	–	–	–
Unrated	–	–	–	–	–	–
	5,466,920	1,139.60	0.021	10,470,905	4,495.67	0.043

54.1.1 (f) Bank Guarantees , Letter of Credit and Other Undrawn Commitment

Bank Guarantees

A bank guarantee is a kind of guarantee from a lending organisation. The Bank guarantee signifies that the lending institution ensures that the liabilities of a debtor are going to be met. In other words, if the debtor fails to perform the obligation, the Bank will cover it.

Group issue bank guarantee with 100% or more cash back in savings accounts or fixed deposits. Therefore Bank guarantees are not expose to credit risk and not subject to ECL.

Letter of Credits

A letter of credit, also known as a documentary credit or bankers commercial credit, or letter of undertaking, is a payment mechanism used in international trade to provide an economic guarantee from a creditworthy bank to an exporter of goods.

Group issue letter of credit with 100% or more cash back in savings accounts or fixed deposits. Therefore letter of credits are not expose to credit risk and not subject to ECL.

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.

Notes to the Financial Statements

Loans and advances			Debt and other instruments		
Exposure Rs. '000	ECL Provision Rs. '000	ECL Coverage %	Exposure Rs. '000	ECL Provision Rs. '000	ECL Coverage %
85,835,110	2,521.14	0.003	132,760,669	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	754,787	34.41	0.005
–	–	–	214,076	19.73	0.009
3,265,654	557.22	0.017	796,157	129.07	0.016
–	–	–	335,455	107.52	0.032
3,554,823	1,888.21	0.053	–	–	–
–	–	–	376,033	364.66	0.097
21,491	35.15	0.164	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
9,325,128	71,829.08	0.770	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	9,388,730	938,872.96	10.000
–	–	–	–	–	–
4,440,399	2,115,824.37	47.649	–	–	–
106,442,605	2,192,655.17	2.060	144,625,907	939,528.35	0.650

54. Financial risk management (contd.)

54.1 Credit risk (contd.)

54.1.1 Credit quality analysis (contd.)

54.1.1 (f) Bank Guarantees , Letter of Credit and Other Undrawn Commitment (contd.)

As at 31 December 2023	Note	Exposure Not subject to ECL	Stage 1	Stage 2	Stage 3	Total
Documentary Credit	48	452,690	–	–	–	452,690
Bank Guarantees	48	2,104,277	–	–	–	2,104,277
Undrawn Credit Commitments	48	–	2,119,238	1,005,822	375,934	3,500,994
Total		2,556,967	2,119,238	1,005,822	375,934	6,057,961

As at 31 December 2023	Note	Expected Credit Loss (ECL) Not subject to ECL	Stage 1	Stage 2	Stage 3	Total
Documentary Credit		–	–	–	–	–
Bank Guarantees		–	–	–	–	–
Undrawn Credit Commitments		–	3,717	868	1,191	5,776
Total		–	3,717	868	1,191	5,776

As at 31 December 2022	Note	Exposure Not subject to ECL	Stage 1	Stage 2	Stage 3	Total
Documentary Credit	48	452,690	–	–	–	452,690
Bank Guarantees	48	3,147,791	–	–	–	3,147,791
Undrawn Credit Commitments	48	–	5,801,775	370,453	352,267	6,524,496
Total		3,600,481	5,801,775	370,453	352,267	10,124,977

As at 31 December 2022	Note	Expected Credit Loss (ECL) Not subject to ECL	Stage 1	Stage 2	Stage 3	Total
Documentary Credit		–	–	–	–	–
Bank Guarantees		–	–	–	–	–
Undrawn Credit Commitments		–	5,918	1,604	199	7,721
Total		–	5,918	1,604	199	7,721

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. Financial risk management (contd.)

54.2.1 Concentration of liquid assets

The Bank's mandatory requirement to invest 60% of its deposits in Government Securities forces the Bank to maintain a high statutory liquid assets ratio. Currently, the Bank maintains a liquidity ratio at 54.99% which is well above the statutory requirement of 20%. The investment in Government Securities represent 96.1% from the total liquid assets of the Bank.

	Bank	
As at 31 December	**2023 Rs. '000**	2022 Rs. '000
Liquidity assets ratio –		
Year end	**55.0**	40.6
30 June	**45.8**	43.6
Year beginning	**40.6**	59.6

Liquidity assets and liabilities of the Bank

	Domestic business unit	
	2023 Rs. '000	2022 Rs. '000
Total liquid assets		
Cash	**2,425,016**	1,994,246
Balances with licensed commercial banks	**26,471,302**	13,675,290
Money at call in Sri Lanka	**333,054**	2,756
Treasury Bills and securities issued or guaranteed by the Government of Sri Lanka	**132,874,656**	18,503,847
Cash item in the process of collection	**170,930**	150,408
Balances with banks aboard	**1,781,122**	1,610,268
Treasury Bonds	**645,958,536**	533,540,107
Sri Lanka development Bonds	**–**	8,612,054
Qualifying non-financial corporate debt securities	**550,000**	–
Qualifying non-financial common equity shares	**218,050**	–
Total liquid assets (Daily average statutory liquid assets during the month of December)	**810,782,666**	578,088,976
Total liability based subject to minimum liquid assets requirement	**1,474,452,271**	1,423,132,438
Liquidity asset ratio (%)	**54.99**	40.62

The above details are given as per regulatory reporting.

54. Financial risk management (contd.)

54.2 Liquidity risk (contd.)

54.2.2 Remaining contractual period to maturity – Bank and the Group

Disclosures are given in the Note 55 on pages 375 to 378.

54.2.3 Financial assets available to support future funding

The table below sets out the availability of the Bank's financial assets to support future funding:

		Bank					Group				
		Encumbered		Unencumbered		Total *	Encumbered		Unencumbered		Total*
As at 31 December 2023	Note	Pledge as collateral Rs. '000	Other Rs. '000	Available as collateral Rs. '000	Other Rs. '000	Rs. '000	Pledge as collateral Rs. '000	Other Rs. '000	Available as collateral Rs. '000	Other Rs. '000	Rs. '000
Cash and cash equivalents	16	–	–	9,509,855	–	9,509,855	–	–	9,548,049	–	9,548,049
Balances with central banks	17	–	246,998	–	–	246,998	–	247,232	–		247,232
Placements with banks	18	–	–	22,584,079		22,584,079	–	–	23,626,446	–	23,626,446
Derivative financial instruments	19	–	–	–	924	924	–	–	–	11,231	11,231
Financial assets recognised through profit or loss	20					–					–
– measured at fair value		–	–	17,748,501	–	17,748,501	19,493,329		20,695,833	–	40,189,162
– designated at fair value		–	–	–	–	–	–	–	–	–	–
Financial assets at amortised cost											
– loans and advances	21	–	–	548,897,902	–	548,897,902	–	–	547,596,108	–	547,596,108
– debt and other instruments	22	47,437,615	–	896,267,714	–	943,705,329	55,926,347		897,302,410	–	953,228,757
Financial assets measured at fair value through other comprehensive income	23	–	–	61,924,412	–	61,924,412	460,888	–	62,233,632	–	62,694,519
Total		47,437,615	246,998	1,556,932,462	924	1,604,618,000	75,880,563	247,232	1,561,002,477	11,231	1,637,141,503

54. Financial risk management (contd.)

54.2 Liquidity risk (contd.)

54.2.3 Financial assets available to support future funding (contd.)

As at 31 December 2022	Note	Bank					Group				
		Encumbered		Unencumbered		Total *	Encumbered		Unencumbered		Total*
		Pledge as collateral Rs. '000	Other Rs. '000	Available as collateral Rs. '000	Other Rs. '000	Rs. '000	Pledge as collateral Rs. '000	Other Rs. '000	Available as collateral Rs. '000	Other Rs. '000	Rs. '000
Cash and cash equivalents	16	–	–	8,735,208	–	8,735,208	–	–	8,783,946	–	8,783,946
Balances with central banks	17	–	236,480	–	–	236,480	–	236,696	–		236,696
Placements with banks	18	–	–	10,470,905	–	10,470,905	–	–	11,038,765	–	11,038,765
Derivative financial instruments	19	–	–	–	28,172	28,172	–	–	–	35,392	35,392
Financial assets recognised through profit or loss	20										
– measured at fair value		–	–	14,173,948	–	14,173,948	7,911,556	–	15,325,292	–	23,236,848
– designated at fair value		–	–	–	–	–	–	–	–	–	–
Financial assets at amortised cost											
– loans and advances	21	–	–	570,255,736	–	570,255,736	–	–	571,803,386	–	571,803,386
– debt and other instruments	22	6,772,300	–	913,296,606	–	920,068,906	13,253,580	–	915,774,149	–	929,027,729
Financial assets measured at fair value through other comprehensive income	23	–	–	27,662,763	–	27,662,763	387,192	–	27,865,019	–	28,252,211
Total		6,772,300	236,480	1,544,595,166	28,172	1,551,632,117	21,552,328	236,696	1,550,590,557	35,392	1,572,414,974

* Figures are stated before the impairment provisions.

54.3 Market risk

Market risk to the Bank stems from movements in market prices, in particular, changes in interest rates, foreign exchange rates and equity prices. Market risk is often propagated by other forms of financial risk such as credit and market-liquidity risk. The risk of losses would arise from on-balance sheet as well as off-balance sheet activities.

Component of market risk to NSB:

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:

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 2023	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	9,508,563	–	9,508,563	9,546,756	–	9,546,756
Balances with central banks	17	246,998	–	246,998	247,232	–	247,232
Placements with banks	18	22,576,750	–	22,576,750	23,618,966	–	23,618,966
Derivative financial instruments	19	924	–	924	11,231	–	11,231
Financial assets recognised through profit or loss	20						
– measured at fair value		17,748,501	17,748,501	–	40,189,162	40,189,162	–
– designated at fair value		–	–	–	–	–	–
Financial assets at amortised cost							
– loans and advances	21	526,520,530	–	526,520,530	523,809,104	–	523,809,104
– debt and other instruments	22	943,704,684	–	943,704,684	953,056,324	–	953,056,324
Financial assets measured at fair value through other comprehensive income	23	61,924,412	–	61,924,412	62,694,519	–	62,694,519
Total		1,582,231,362	17,748,501	1,564,482,861	1,613,173,294	40,189,162	1,572,984,132

* Figures are stated after the impairment provisions.

As at 31 December 2023	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	8,984,779	–	8,984,779	15,399,100	–	15,399,100
Derivative financial instruments	33	201	–	201	201	–	201
Financial liabilities recognised through profit or loss	34	–	–	–	–	–	–
Financial liabilities at amortised cost	35						
– due to depositors		1,482,532,430	–	1,482,532,430	1,482,951,028	–	1,482,951,028
– due to debt securities holders		–	–	–	–	–	–
– due to other borrowers		61,611,014	–	61,611,014	72,891,598	–	72,891,598
Lease liability	36	1,365,547	–	1,365,547	1,400,575	–	1,400,575
Debt securities issued	37	23,806,514	–	23,806,514	23,879,683	–	23,879,683
Total		1,578,300,484	–	1,578,300,484	1,596,522,185	–	1,596,522,185

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 2022	Note	Bank Carrying amount Rs. '000	Bank Amount exposure to trading Rs. '000	Bank Non-trading exposure Rs. '000	Group Carrying amount Rs. '000	Group Amount exposure to trading Rs. '000	Group Non-trading exposure Rs. '000
Assets subject to market risk							
Cash and cash equivalents	16	8,734,069	–	8,734,069	8,782,807	–	8,782,807
Balances with central banks	17	236,480	–	236,480	236,696	–	236,696
Placements with banks	18	10,466,409	–	10,466,409	11,034,246	–	11,034,246
Derivative financial instruments	19	28,172	–	28,172	35,392	–	35,392
Financial assets recognised through profit or loss	20						
– measured at fair value		14,173,948	14,173,948	–	23,236,848	23,236,848	–
– designated at fair value		–	–	–	–	–	–
Financial assets at amortised cost							
– loans and advances	21	553,027,321	–	553,027,321	553,052,170	–	553,052,170
– debt and other instruments	22	919,129,377	–	919,129,377	927,916,442	–	927,916,442
Financial assets measured at fair value through other comprehensive income	23	27,662,763	–	27,662,763	28,252,211	–	28,252,211
Total		1,533,458,539	14,173,948	1,519,284,591	1,552,546,811	23,236,848	1,529,309,963

As at 31 December 2022	Note	Bank Carrying amount Rs. '000	Bank Amount exposure to trading Rs. '000	Bank Non-trading exposure Rs. '000	Group Carrying amount Rs. '000	Group Amount exposure to trading Rs. '000	Group Non-trading exposure Rs. '000
Liabilities subject to market risk							
Due to banks	32	4,086,731	–	4,086,731	12,711,256	–	12,711,256
Derivative financial instruments	33	–	–	–	–	–	–
Financial liabilities recognised through profit or loss	34	–	–	–	–	–	–
Financial liabilities at amortised cost	35						
– due to depositors		1,476,739,818	–	1,476,739,818	1,475,808,557	–	1,475,808,557
– due to debt securities holders		–	–	–	–	–	–
– due to other borrowers		16,766,044	–	16,766,044	18,889,245	–	18,889,245
Lease Liability	36	1,377,229	–	1,377,229	1,414,959	–	1,414,959
Debt securities issued	37	23,778,255	–	23,778,255	23,851,810	–	23,851,810
Total		1,522,748,077	–	1,522,748,077	1,532,675,827	–	1,532,675,827

* Figures are stated after the impairment provisions.

54. Financial risk management (contd.)

54.3 Market risk (contd.)

54.3.2 Foreign exchange risk

Foreign exchange rate risk arises from the movement of the rate of exchange of one currency against another, leading to an adverse impact on the Bank's earnings or capital. The Bank is exposed to foreign exchange risk that the value of a foreign currency denominated assets (financial instrument or the investment) or liabilities, may fluctuate due to changes in foreign exchange rates. This may arise in the form of economic, transaction or translation 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 2023:

As at 31 December	Bank			
	2023		2022	
	USD '000	**Rs. '000**	USD '000	Rs. '000
Net open position	**(1,390)**	**(450,382)**	1,288	471,592

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)	**(22,519)**	**(472,901)**	23,580	495,172
Shock of 10% on exchange rate (rupee depreciation)	**(45,038)**	**(495,420)**	47,159	518,751
Shock of 15% on exchange rate (rupee depreciation)	**(67,557)**	**(517,939)**	70,739	542,331

As at 31 December	Bank			
	2023		2022	
	JPY '000	**Rs. '000**	JPY '000	Rs. '000
Net open position	**1,900**	**4,354**	6,222	17,174

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)	**218**	**4,572**	859	18,033
Shock of 10% on exchange rate (rupee depreciation)	**435**	**4,789**	1,717	18,891
Shock of 15% on exchange rate (rupee depreciation)	**653**	**5,007**	2,576	19,750

54. Financial risk management (contd.)

54.3 Market risk (contd.)

54.3.2 Foreign exchange risk (contd.)

As at 31 December	Bank			
	2023		2022	
	GBP '000	**Rs. '000**	GBP '000	Rs. '000
Net open position	**238**	**98,411**	413	182,246

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)	**4,921**	**103,332**	9,112	191,358
Shock of 10% on exchange rate (rupee depreciation)	**9,841**	**108,252**	18,225	200,471
Shock of 15% on exchange rate (rupee depreciation)	**14,762**	**113,173**	27,337	209,583

As at 31 December	Bank			
	2023		2022	
	EUR '000	**Rs. '000**	EUR '000	Rs. '000
Net open position	**2,772**	**994,191**	52	20,243

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)	**49,710**	**1,043,901**	1,012	21,255
Shock of 10% on exchange rate (rupee depreciation)	**99,419**	**1,093,610**	2,024	22,267
Shock of 15% on exchange rate (rupee depreciation)	**149,129**	**1,143,320**	3,036	23,279

As at 31 December	Bank			
	2023		2022	
	AUD '000	**Rs. '000**	AUD '000	Rs. '000
Net open position	**1,184**	**262,138**	–	–

54. Financial risk management (contd.)

54.3 Market risk (contd.)

54.3.2 Foreign exchange risk (contd.)

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)	**13,107**	**275,245**	–	–
Shock of 10% on exchange rate (rupee depreciation)	**26,214**	**288,352**	–	–
Shock of 15% on exchange rate (rupee depreciation)	**39,321**	**301,459**	–	–

54.3.3 Equity risk

Equity risk is the risk that one's market value of investments will depreciate because of stock market dynamic causing one to lose money.

The investment in equity represent 0.23% of the total assets while investments in quoted and unquoted equity are 0.21% 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 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:

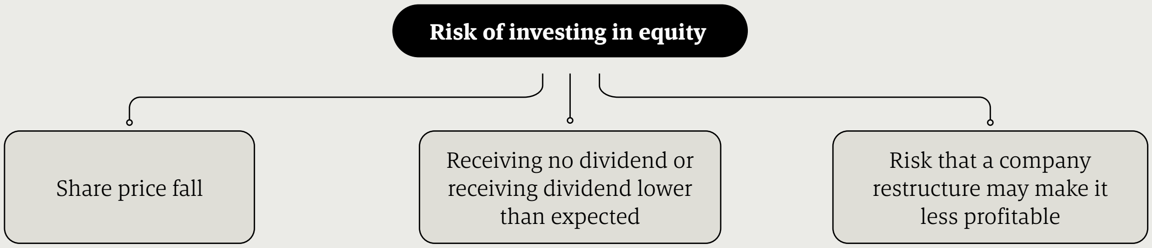


Figure 36

Equity price shock

The table below summarises the impact (both to the Income Statement and to the Statement of Comprehensive Income):

As at 31 December		Bank					
		2023			2022		
	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	**825,378**	**2,772,958**	**3,598,336**	1,956,839	2,146,925	4,103,763

54. Financial risk management (contd.)

54.3 Market risk (contd.)

54.3.3 Equity risk (contd.)

Stress Level	2023 Impact to P & L Rs. '000	2023 Impact to OCI Rs. '000	2023 Impact to equity Rs. '000	2022 Impact to P&L Rs. '000	2022 Impact to OCI Rs. '000	2022 Impact to equity Rs. '000
Shock of 5% on equity prices (upward)	**41,269**	**138,648**	**179,917**	97,842	107,346	205,188
Shock of 5% on equity prices (downward)	**(41,269)**	**(138,648)**	**(179,917)**	(97,842)	(107,346)	(205,188)
Shock of 10% on equity prices (upward)	**82,538**	**277,296**	**359,834**	195,684	214,692	410,376
Shock of 10% on equity prices (downward)	**(82,538)**	**(277,296)**	**(359,834)**	(195,684)	(214,692)	(410,376)
Shock of 15% on equity prices (upward)	**123,807**	**415,944**	**539,750**	293,526	322,039	615,564
Shock of 15% on equity prices (downward)	**(123,807)**	**(415,944)**	**(539,750)**	(293,526)	(322,039)	(615,564)
Shock of 20% on equity prices (upward)	**165,076**	**554,592**	**719,667**	391,368	429,385	820,753
Shock of 20% on equity prices (downward)	**(165,076)**	**(554,592)**	**(719,667)**	(391,368)	(429,385)	(820,753)

Investment in Equity Shares by Industry – Bank

Following table presents the Bank's diversification of trading portfolio to minimise the risk associated with particular sector:

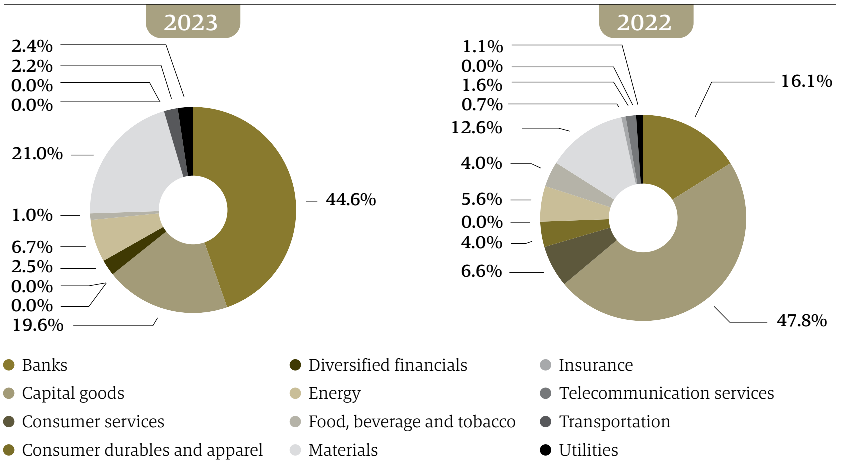
As at 31 December Industry	2023 Cost Rs. '000	2023 As % of total cost %	2023 Market value Rs. '000	2023 As % of total market value %	2022 Cost Rs. '000	2022 As % of total cost %	2022 Market value Rs. '000	2022 As % of total market value %
1. Banks	**390,424**	**37.2**	**368,478**	**44.6**	659,064	22.0	314,626	16.1
2. Capital Goods	**282,497**	**26.9**	**161,990**	**19.6**	1,408,656	46.9	934,918	47.8
3. Consumer Services	**–**	**0.0**	**–**	**0.0**	218,056	7.3	128,333	6.6
4. Consumer Durables and Apparel	**–**	**0.0**	**–**	**0.0**	108,845	3.6	77,650	4.0
5. Diversified Financials	**26,386**	**2.5**	**20,800**	**2.5**	–	0.0	–	0.0
6. Energy	**35,957**	**3.4**	**54,940**	**6.7**	35,957	1.2	109,207	5.6
7. Food Beverage & Tobacco	**9,600**	**0.9**	**8,480**	**1.0**	92,277	3.1	77,743	4.0
8. Materials	**250,328**	**23.9**	**173,019**	**21.0**	349,004	11.6	247,624	12.6
9. Insurance	**–**	**0.0**	**–**	**0.0**	11,863	0.4	13,375	0.7
10. Telecommunication Services	**–**	**0.0**	**–**	**0.0**	81,332	2.7	31,776	1.6
11. Transportation	**17,432**	**1.7**	**17,884**	**2.2**	–	0.0	–	0.0
12. Utilities	**35,977**	**3.4**	**19,787**	**2.4**	35,977	1.2	21,586	1.1
Total	**1,048,601**	**100**	**825,378**	**100**	3,001,032	100	1,956,840	100

54. Financial risk management (contd.)

54.3 Market risk (contd.)

54.3.3 Equity risk (contd.)

Market value of investment in equity shares by industry – Bank Graph 80



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 92.34% of total on balance sheet liabilities and which represent 18.77% of savings deposits and 81.23% 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.

54. Financial risk management (contd.)

54.3 Market risk (contd.)

54.3.4 Interest rate risk (contd.)

54.3.4.1 Exposure to interest rate risk (contd.)

Sensitivity of projected net interest income

	2023		2022	
	Parallel increase Rs. '000	Parallel decrease Rs. '000	Parallel increase Rs. '000	Parallel decrease Rs. '000
Net Interest Income (NII)				
Change in 25 bps	(1,857,060)	1,857,060	(1,983,897)	1,983,897
Change in 50 bps	(3,714,120)	3,714,120	(3,967,794)	3,967,794
Change in 100 bps	(7,428,240)	7,428,240	(7,935,587)	7,935,587

54.3.4.2 Interest rate risk – sensitivity analysis

Bank's interest rate sensitivity report as at 31 December 2023 is presented below:

	Bank			
	0-1 month Rs. '000	0-3 months Rs. '000	0-6 months Rs. '000	0-12 months Rs. '000
Interest bearing assets	80,349,412	148,475,315	280,792,433	493,634,325
Bank balances and placements	3,623,541	6,456,260	13,044,176	25,344,723
Financial assets recognised through profit or loss – measured at fair value	7,170,406	11,851,262	13,051,087	14,181,757
Financial assets at amortised cost				
– loans and advances	25,412,984	40,200,711	63,907,552	157,497,888
– debt and other instruments	34,642,992	64,033,803	147,822,694	251,327,294
Financial assets measured at fair value through other comprehensive income	9,499,489	25,933,279	42,966,924	45,282,663
Interest-bearing liabilities	267,726,451	790,229,587	1,167,286,856	1,490,508,793
Due to banks	8,984,779	8,984,779	8,984,779	8,984,779
Financial liabilities at amortised cost				
– due to depositors	235,305,356	750,580,188	1,108,973,605	1,418,970,486
– due to debt securities holders	–	–	–	–
– due to other borrowers	23,436,316	30,050,821	48,606,181	61,611,014
Debt securities issued	–	613,799	722,291	942,514
Net rate sensitive assets (liabilities)	(187,377,039)	(641,754,272)	(886,494,423)	(996,874,468)
Interest rate sensitivity ratio (%)	30	19	24	33

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 2023 is presented below:

	Group			
	0-1 month Rs. '000	0-3 months Rs. '000	0-6 months Rs. '000	0-12 months Rs. '000
Interest bearing assets	81,160,847	150,492,790	295,358,038	511,879,795
Bank balances and placements	4,037,242	6,869,697	13,457,877	26,405,676
Financial assets recognised through profit or loss				
– measured at fair value	7,170,406	16,402,718	24,938,535	31,980,969
Financial assets at amortised cost				
– loans and advances	25,466,118	36,908,693	64,146,142	154,295,734
– debt and other instruments	34,954,042	64,344,853	149,815,010	253,881,202
Financial assets measured at fair value through other comprehensive income	9,533,039	25,966,829	43,000,474	45,316,213
Interest-bearing liabilities	283,336,601	808,070,148	1,185,133,074	1,508,611,627
Due to banks	15,399,100	15,399,100	15,399,100	15,399,100
Financial liabilities at amortised cost				
– due to depositors	235,619,449	750,900,396	1,109,299,469	1,419,307,284
– due to debt securities holders	–	–	–	–
– due to other borrowers	32,299,760	41,083,684	59,639,045	72,889,560
Debt securities issued	18,292	686,968	795,460	1,015,683
Net rate sensitive assets (liabilities)	(202,175,754)	(657,577,358)	(889,775,036)	(996,731,832)
Interest rate sensitivity ratio (%)	29	19	25	34

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 2022 is presented below:

	Bank			
	0-1 month Rs. '000	0-3 months Rs. '000	0-6 months Rs. '000	0-12 months Rs. '000
Interest bearing assets	39,942,282	107,401,474	169,209,595	348,464,923
Bank balances and placements	2,467,634	2,742,829	6,947,900	12,434,938
Financial assets recognised through profit or loss				
– measured at fair value	1,184,628	4,910,724	6,694,726	7,077,111
Financial assets at amortised cost				
– loans and advances	12,944,887	36,728,841	53,511,912	134,490,757
– debt and other instruments	20,326,979	54,969,706	91,779,458	182,600,441
Financial assets measured at fair value through other comprehensive income	3,018,155	8,049,374	10,275,599	11,861,676
Interest-bearing liabilities	196,783,185	768,782,685	1,117,896,973	1,451,534,956
Due to banks	4,086,731	4,086,731	4,086,731	4,086,731
Financial liabilities at amortised cost				
– due to depositors	181,798,819	747,344,371	1,096,350,165	1,429,767,926
– due to debt securities holders	–	–	–	–
– due to other borrowers	10,897,634	16,766,044	16,766,044	16,766,044
Debt securities issued	–	585,539	694,032	914,255
Net rate sensitive assets (liabilities)	(156,840,903)	(661,381,211)	(948,687,378)	(1,103,070,033)
Interest rate sensitivity ratio (%)	20	14	15	24

54. Financial risk management (contd.)

54.3 Market risk (contd.)

54.3.4 Interest rate risk (contd.)

54.3.4.2 Interest rate risk – sensitivity analysis (contd.)

Group's interest rate sensitivity report as at 31 December 2022 is presented below:

	Group			
	0-1 month Rs. '000	0-3 months Rs. '000	0-6 months Rs. '000	0-12 months Rs. '000
Interest bearing assets	40,695,281	109,465,873	172,871,263	352,829,918
Bank balances and placements	2,540,837	2,890,048	7,712,735	13,038,385
Financial assets recognised through profit or loss				
– measured at fair value	1,578,579	6,092,578	8,260,136	9,409,632
Financial assets at amortised cost				
– loans and advances	12,991,265	36,867,975	53,701,030	133,929,667
– debt and other instruments	20,548,898	55,513,253	92,869,119	184,537,913
Financial assets measured at fair value through other comprehensive income	3,035,703	8,102,018	10,328,243	11,914,320
Interest-bearing liabilities	200,259,136	779,210,537	1,128,488,187	1,461,057,053
Due to banks	6,961,573	12,711,256	12,711,256	12,711,256
Financial liabilities at amortised cost				
– due to depositors	181,906,459	747,667,289	1,096,683,774	1,428,727,076
– due to debt securities holders	–	–	–	–
– due to other borrowers	11,366,586	18,172,898	18,325,569	18,630,911
Debt securities issued	24,518	659,095	767,588	987,810
Net rate sensitive assets (liabilities)	(159,563,855)	(669,744,665)	(955,616,924)	(1,108,227,136)
Interest rate sensitivity ratio (%)	20	14	15	24

54.4 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 ORMC, 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 2023 Rs. '000**	Total as at 31 December 2022 Rs. '000
Assets with contractual maturity (Interest earning asset)							
Cash and cash equivalents	2,767,973	–	–	–	–	**2,767,973**	1,968,529
Placements with banks	3,688,287	18,888,463	–	–	–	**22,576,750**	10,466,409
Financial assets recognised through profit or loss							
– measured at fair value	11,851,262	2,330,495	496,550	2,118,613	126,203	**16,923,123**	12,217,109
Financial assets at amortised cost							
– loans and advances	40,200,711	117,297,177	131,430,508	89,177,961	148,414,173	**526,520,530**	553,027,321
– debt and other instruments	64,033,803	187,293,491	240,039,591	225,164,756	227,173,043	**943,704,684**	919,129,377
Financial assets measured at fair value through other comprehensive income	25,933,279	19,349,384	8,302,302	5,309,245	–	**58,894,210**	25,348,941
	148,475,315	345,159,010	380,268,951	321,770,575	375,713,419	**1,571,387,270**	1,522,157,688
Other assets (Non-interest-earning assets)							
Cash and cash equivalents	6,740,590	–	–	–	–	**6,740,590**	6,765,540
Balances with central banks	246,998	–	–	–	–	**246,998**	236,480
Derivative financial instruments	924	–	–	–	–	**924**	28,172
Financial assets recognised through profit or loss							
– measured at fair value	825,378	–	–	–	–	**825,378**	1,956,839
Financial assets measured at fair value through other comprehensive income	–	–	–	–	3,030,202	**3,030,202**	2,313,822
Investments in subsidiaries	3,111,000	–	–	–	4,200,000	**7,311,000**	7,311,000
Property, plant and equipment	–	–	–	–	17,248,961	**17,248,961**	14,755,775
Right-of-use assets	69,313	199,950	451,882	310,820	132,629	**1,164,595**	1,213,649
Investment properties	–	–	–	–	–	**–**	–
Goodwill and intangible assets	–	–	–	–	744,715	**744,715**	747,248
Deferred tax assets	–	–	–	5,885,288	–	**5,885,288**	2,892,984
Other assets	786,983	4,846,762	51,053,351	8,044,173	7,647,402	**72,378,671**	56,306,931
	11,781,186	5,046,712	51,505,233	14,240,281	33,003,909	**115,577,322**	94,528,440
Total assets	160,256,501	350,205,722	431,774,184	336,010,856	408,717,328	**1,686,964,592**	1,616,686,128

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 2023 Rs. '000**	Total as at 31 December 2022 Rs. '000
Liabilities with contractual maturity (Interest-bearing liabilities)							
Due to banks	8,984,779	–	–	–	–	**8,984,779**	4,086,731
Financial liabilities at amortised cost							
– due to depositors	750,580,188	668,390,298	38,480,966	24,169,074	911,904	**1,482,532,430**	1,476,739,818
– due to other borrowers	30,050,821	31,560,193	–	–	–	**61,611,014**	16,766,044
Debt securities issued	613,799	328,715	6,323,000	–	16,541,000	**23,806,514**	23,778,255
	790,229,587	700,279,206	44,803,966	24,169,074	17,452,904	**1,576,934,737**	1,521,370,846
Other liabilities (Non-interest-bearing liabilities)							
Derivative financial instruments	201	–	–	–	–	**201**	–
Lease liabilities	81,275	234,451	529,854	364,452	155,515	**1,365,547**	1,377,229
Retirement benefit obligations	–	2,291,464	–	–	15,808,935	**18,100,399**	12,488,912
Current tax liabilities	–	–	–	–	–	**–**	2,760,857
Deferred tax liabilities	–	–	–	–	–	**–**	–
Other liabilities	3,338,258	5,016,194	100,215	734,788	–	**9,189,455**	5,796,053
Due to subsidiaries	–	–	–	–	–	**–**	–
Stated capital/Assigned capital	–	–	–	–	9,400,000	**9,400,000**	9,400,000
Statutory reserve fund	–	–	–	–	5,369,172	**5,369,172**	5,224,842
Retained earnings	–	–	–	–	14,408,118	**14,408,118**	11,359,151
Other reserves	–	–	–	–	52,196,963	**52,196,963**	46,908,235
	3,419,734	7,542,109	630,069	1,099,240	97,338,703	**110,029,855**	95,315,282
Total liabilities	793,649,320	707,821,315	45,434,035	25,268,314	114,791,607	**1,686,964,592**	1,616,686,128

*Represents the aggregate of the contractual maturities.

55. Maturity analysis (contd.)

	Group						
	Up to 3 months Rs. '000	3-12 months Rs. '000	1-3 years Rs. '000	3-5 years Rs. '000	More than 5 years Rs. '000	**Total as at 31 December 2023 Rs. '000**	Total as at 31 December 2022 Rs. '000
Assets with contractual maturity (Interest-earning asset)							
Cash and cash equivalents	2,786,709	–	–	–	–	**2,786,709**	2,004,139
Placements with banks	4,082,988	19,535,978	–	–	–	**23,618,966**	11,034,246
Financial assets recognised through profit or loss	–	–	–	–	–		
– measured at fair value	16,402,718	15,578,251	3,600,576	3,643,848	138,390	**39,363,784**	21,280,009
Financial assets at amortised cost	–	–	–	–	–		
– loans and advances	36,908,693	117,387,042	131,578,525	89,251,277	148,683,566	**523,809,104**	553,052,170
– debt and other instruments	64,344,853	189,536,349	241,191,525	230,810,554	227,173,043	**953,056,324**	927,916,442
Financial assets measured at fair value through other comprehensive income	25,966,829	19,349,384	8,566,003	5,648,066	132,035	**59,662,317**	25,835,466
	150,492,790	361,387,005	384,936,629	329,353,744	376,127,035	**1,602,297,204**	1,541,122,472
Other assets (Non-interest-earning assets)							
Cash and cash equivalents	6,760,047	–	–	–	–	**6,760,047**	6,778,668
Balances with central banks	247,232	–	–	–	–	**247,232**	236,696
Derivative financial instruments	11,231	–	–	–	–	**11,231**	35,392
Financial assets recognised through profit or loss	–	–	–	–	–		
– measured at fair value	825,378	–	–	–	–	**825,378**	1,956,839
Financial assets measured at fair value through other comprehensive income	–	–	–	2,000	3,030,202	**3,032,202**	2,416,746
Investments in subsidiaries	–	–	–	–	–	**–**	–
Property, plant and equipment	–	–	–	–	18,389,400	**18,389,400**	15,645,732
Right-of-use assets	70,325	202,675	459,149	318,087	142,924	**1,193,161**	1,246,383
Investment properties	–	–	–	–	349,000	**349,000**	204,977
Goodwill and intangible assets	–	–	–	–	747,225	**747,225**	752,221
Deferred tax assets	–	–	–	5,885,288	–	**5,885,288**	3,663,879
Other assets	814,844	4,908,013	51,144,510	8,044,173	7,658,819	**72,570,357**	56,576,713
	8,729,056	5,110,688	51,603,659	14,249,548	30,317,570	**110,010,521**	89,514,246
Total assets	159,221,846	366,497,693	436,540,288	343,603,292	406,444,604	**1,712,307,725**	1,630,636,718

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 2023 Rs. '000**	Total as at 31 December 2022 Rs. '000
Liabilities with contractual maturity (Interest-bearing liabilities)							
Due to banks	15,399,100	–	–	–	–	**15,399,100**	12,711,256
Financial liabilities at amortised cost							
– due to depositors	750,900,396	668,406,888	38,508,477	24,195,054	940,214	**1,482,951,028**	1,475,808,557
– due to other borrowers	41,083,684	31,805,876	2,038	–	–	**72,891,598**	18,889,245
Debt securities issued	686,968	328,715	6,323,000	–	16,541,000	**23,879,683**	23,851,810
	808,070,148	700,541,479	44,833,514	24,195,054	17,481,214	**1,595,121,409**	1,531,260,870
Other liabilities (Non-interest-bearing liabilities)							
Derivative financial instruments	201	–	–	–	–	**201**	–
Lease liabilities	81,953	236,184	536,041	372,940	173,456	**1,400,575**	1,414,959
Retirement benefit obligations	–	2,291,464	–	7,912	15,869,729	**18,169,106**	12,547,851
Current tax liabilities	–	305,869	–	–	–	**305,869**	2,943,314
Deferred tax liabilities	–	–	27,727	30,903	–	**58,630**	4,155
Other liabilities	3,460,110	5,056,670	139,423	774,038	33,267	**9,463,508**	6,075,889
Due to subsidiaries	–	–	–	–	–	**–**	–
Stated capital/Assigned capital	–	–	–	–	9,400,000	**9,400,000**	9,400,000
Statutory reserve fund	–	–	–	–	5,464,218	**5,464,218**	5,281,952
Retained earnings	–	–	–	–	18,605,719	**18,605,719**	13,589,101
Other reserves	–	–	–	–	54,318,490	**54,318,490**	48,118,628
	3,542,265	7,890,187	703,192	1,185,793	103,864,879	**117,186,316**	99,375,848
Total liabilities	811,612,413	708,431,666	45,536,706	25,380,846	121,346,093	**1,712,307,725**	1,630,636,718

*Represents the aggregate of the contractual maturities.

56 Fair value of financial instruments

56.1 Financial instruments recorded at fair value

Accounting policy

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives

i. Forward exchange purchases

The Bank values the forward exchange purchase contracts using the quoted prices available in the market for similar contracts.

ii. Foreign currency swaps

Derivative products (Foreign currency swaps/Cash flow hedges) valued using valuation techniques incorporating various inputs such as foreign exchange spot rates and foreign exchange forward rates.

Financial assets recognised through profit or loss

i. Government Treasury Bills and Bonds

Financial assets held for trading are valued using a valuation technique consists of Government Treasury Bills and Treasury Bonds. The Bank values the securities using discounted cash flow valuation models which incorporate observable data. Observable inputs include assumptions regarding current rates of interest, broker statements and market data published by Central Bank of Sri Lanka.

ii. Equity securities

The Bank values the equity securities using the quoted prices available for the identical securities in active market.

Financial assets measured at fair value through other comprehensive income

The Bank values the quoted equity securities using the quoted prices available for the identical securities in active market.
The unquoted equity securities have been fair valued using a valuation model based on observable data.

56.2 Determination of fair value and fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1	Inputs that are quoted market prices (unadjusted) in an active market for identical instruments. When available, the Group measures the fair value of an instrument using active quoted prices or dealer price quotations, without any deduction for transaction costs. A market is regarded as active if transactions for asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
Level 2	Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: (a) quoted prices in active markets for similar instruments; (b) quoted prices for identical or similar instruments in markets that are considered to be less active; or (c) other valuation techniques in which almost all significant inputs are directly or indirectly observable from market data.
Level 3	Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices of similar instruments for which significant unobservable adjustments or assumptions are required to reflect difference between the instruments. Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, risk premiums in estimating discount rates, bond and equity prices, foreign exchange rates, expected price volatilities and corrections.

56. Fair value of financial instruments (contd.)

56.2 Determination of fair value and fair value hierarchy (contd.)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

		Bank			
As at 31 December 2023	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	–	–	14,423,000	14,423,000
Investment properties	28	–	–	–	–
Total non–financial assets at fair value		–	–	14,423,000	14,423,000
Financial assets					
Derivative financial instruments					
Currency swaps/Forwards	19	–	–	924	924
Financial assets recognised through profit or loss	20				
Government Treasury Bills and Bonds		16,923,123	–	–	16,923,123
Equity securities		825,378	–	–	825,378
Unit Trust		–	–	–	–
Financial assets at fair value through other comprehensive income	23				
Other investments – Government Securities		58,894,209	–	–	58,894,209
Equity securities – quoted		2,772,958	–	–	2,772,958
Equity securities – unquoted		–	199,753	–	199,753
Total financial assets at fair value		79,415,668	199,753	924	79,616,345
Total assets at fair value		79,415,668	199,753	14,423,924	94,039,345

		Bank			
As at 31 December 2022	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	–	–	12,416,447	12,416,447
Investment properties	28	–	–	–	–
Total non-financial assets at fair value		–	–	12,416,447	12,416,447
Financial assets					
Derivative financial instruments					
Currency swaps/Forwards	19	–	–	28,172	28,172
Financial assets recognised through profit or loss	20				
Government Treasury Bills and Bonds		12,217,110	–	–	12,217,110
Equity securities		1,956,839	–	–	1,956,839
Unit Trust		–	–	–	–
Financial assets at fair value through other comprehensive income	23				
Other investments – Government Securities		25,348,942	–	–	25,348,942
Equity securities – quoted		2,146,925	–	–	2,146,925
Equity securities – unquoted		–	109,406	–	109,406
Total financial assets at fair value		41,669,814	109,406	28,172	41,807,393
Total assets at fair value		41,669,814	109,406	12,444,619	54,223,840

56. Fair value of financial instruments (contd.)

56.2 Determination of fair value and fair value hierarchy (contd.)

As at 31 December 2023	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	–	–	15,538,425	15,538,425
Investment properties	28	–	–	349,000	349,000
Total non-financial assets at fair value		–	–	15,887,425	15,887,425
Financial assets					
Derivative financial instruments	19				
Currency swaps/Forwards		–	–	924	924
Others		–	–	10,307	10,307
Financial assets recognised through profit or loss	20				
Government Treasury Bills and Bonds		39,363,784	–	–	39,363,784
Equity securities		825,378	–	–	825,378
Unit Trust		–	–	–	–
Financial assets at fair value through other comprehensive income	23				
Other investments – Government Securities		59,459,820	–	–	59,459,820
Equity securities – quoted		2,975,291	–	–	2,975,291
Equity securities – unquoted		–	199,753	–	199,753
Total financial assets at fair value		102,624,272	199,753	11,231	102,835,256
Total assets at fair value		102,624,272	199,753	15,898,656	118,722,681

56. Fair value of financial instruments (contd.)

56.2 Determination of fair value and fair value hierarchy (contd.)

As at 31 December 2022	Note	Group			
		Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
Non-financial assets					
Property, plant and equipment					
Land and buildings	26	–	–	13,274,685	13,274,685
Investment properties	28	–	–	204,977	204,977
Total non-financial assets at fair value		–	–	13,479,662	13,479,662
Financial assets					
Derivative financial instruments	19				
Currency swaps/Forwards		–	–	28,172	28,172
Others		–	–	7,220	7,220
Financial assets recognised through profit or loss	20				
Government Treasury Bills and Bonds		21,280,009	–	–	21,280,009
Equity securities		1,956,839	–	–	1,956,839
Unit Trust		–	–	–	–
Financial assets at fair value through other comprehensive income	23				
Other investments – Government Securities		25,833,465	–	–	25,833,465
Equity securities – quoted		2,249,685	–	–	2,249,685
Equity securities – unquoted		–	109,406	–	109,406
Total financial assets at fair value		51,319,998	109,406	35,392	51,464,796
Total assets at fair value		51,319,998	109,406	13,515,053	64,944,458

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 297 to 300.

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 236 to 239.

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 302.

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 276 and 310.

56. Fair value of financial instruments (contd.)

56.5 Fair value of financial instruments

As at 31 December		Bank			
		2023		2022	
	Note	**Carrying amount Rs. '000**	**Fair value Rs. '000**	Carrying amount Rs. '000	Fair value Rs. '000
Financial assets					
Cash and cash equivalents	16	**9,508,563**	**9,508,563**	8,734,069	8,734,069
Balances with central banks	17	**246,998**	**246,998**	236,480	236,480
Placement with banks	18	**22,576,750**	**22,576,750**	10,466,409	10,466,409
Derivative financial instruments	19	**924**	**924**	28,172	28,172
Financial assets recognised through profit or loss					
– measured at fair value	20	**17,748,501**	**17,748,501**	14,173,948	14,173,948
Financial assets at amortised cost					
– loans and advances	21	**526,520,530**	**526,370,093**	553,027,321	575,700,957
– debt and other instruments	22	**943,704,684**	**919,845,495**	919,129,377	675,180,495
Financial assets measured at fair value through other comprehensive income	23	**61,924,412**	**61,924,412**	27,662,763	27,662,763
Total financial assets		**1,582,231,362**	**1,558,221,736**	1,533,458,539	1,312,183,293
Financial liabilities					
Due to banks	32	**8,984,779**	**8,984,779**	4,086,731	4,086,731
Derivative financial instruments	33	**201**	**201**	–	–
Financial liabilities at amortised cost					
– due to depositors	35	**1,482,532,430**	**1,488,488,330**	1,476,739,818	1,476,136,191
– due to debt securities holders		**–**	**–**	–	–
– due to other borrowers		**61,611,014**	**61,611,014**	16,766,044	16,766,044
Debt securities issued	37	**23,806,514**	**23,806,514**	23,778,255	23,778,255
Total financial liabilities		**1,576,934,937**	**1,582,890,838**	1,521,370,848	1,520,767,221

As at 31 December		Group			
		2023		2022	
	Note	**Carrying amount Rs. '000**	**Fair value Rs. '000**	Carrying amount Rs. '000	Fair value Rs. '000
Financial assets					
Cash and cash equivalents	16	**9,546,756**	**9,546,756**	8,782,807	8,782,807
Balances with central banks	17	**247,232**	**247,232**	236,696	236,696
Placement with banks	18	**23,618,966**	**23,618,966**	11,034,246	11,034,246
Derivative financial instruments	19	**11,231**	**11,231**	35,392	35,392
Financial assets recognised through profit or loss					
– measured at fair value	20	**40,189,162**	**40,189,162**	23,236,848	23,236,848
Financial assets at amortised cost					
– loans and advances	21	**523,809,104**	**523,698,789**	553,052,170	575,726,903
– debt and other instruments	22	**953,056,324**	**929,197,135**	927,916,442	683,967,559
Financial assets measured at fair value through other comprehensive income	23	**62,694,519**	**62,694,519**	28,252,211	28,252,211
Total financial assets		**1,613,173,294**	**1,589,203,789**	1,552,546,811	1,331,272,663
Financial liabilities					
Due to banks	32	**15,399,100**	**15,399,100**	12,711,256	12,711,256
Derivative financial instruments	33	**201**	**201**	–	–
Financial liabilities at amortised cost					
– due to depositors	35	**1,482,951,028**	**1,488,906,928**	1,475,808,557	1,475,204,929
– due to debt securities holders		**–**	**–**	–	–
– due to other borrowers		**72,891,598**	**72,891,598**	18,889,245	18,889,245
Debt securities issued	37	**23,879,683**	**23,879,683**	23,851,810	23,851,810
Total financial liabilities		**1,595,121,610**	**1,601,077,510**	1,531,260,868	1,530,657,241

56. Fair value of financial instruments (contd.)

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 valued using market rates at which fresh loans were granted during the fourth quarter of the reporting year. Conversely, fixed deposits with original tenure above one year and interest paid at maturity were discounted using current market rates offered to customers during the fourth quarter of the reporting year. Debt security issued with fixed interest rate were discounted using variable interest rates offered to customers during the fourth quarter of the reporting year.

Unquoted equities in financial assets

All unquoted equities in financial assets measured at fair value through other comprehensive income (except RDB) are recorded at cost, since its fair value cannot be reliably estimated. There is no active market for these investments and Group intends to hold it for the long-term. The investment in RDB shares have been fair valued using a valuation model based on observable data. Refer Note 23 (e) on page 293.

57 Capital management (as per regulatory reporting)

Objective

The Bank is required to manage its capital in order to meet the regulatory requirements and hold sufficient capital buffers to meet the strategic objectives which are aligned with the risk appetite of the Bank.

Regulatory capital

Central Bank of Sri Lanka sets and monitors regulatory capital requirement on both consolidated and solo basis. The Bank is required to comply with the provisions of the Basel III Direction in respect of regulatory capital and capital to cover any additional risk. The Basel III capital regulations were fully implemented by 1 January 2019, and will continue to be based on the three-mutually reinforcing Pillars introduced under Basel II, i.e. minimum capital requirement, supervisory review process and market discipline. Bank was considered as a Domestically Systemically Important Bank (D-SIB) until the issuance of Banking Act Direction No. 12 of 2019 on 20 December 2019 which resulted in the Bank being no longer a D-SIB.

The Bank currently uses the standardised approach for credit risk, standardised measurement method for market risk and basic indicator approach for operational risk. Basel III emphasises on increasing the quality and quantity of capital especially the core capital, through redefining the common equity capital and introducing new capital buffers such as the Capital Conservation Buffer and a Capital Surcharge on Domestically Systemically Important Bank (D-SIBs). As per the CBSL Basel III Direction, the Bank and the Group are required to maintain a minimum Tier 1 Capital Ratio of 8.5% and a minimum Total Capital Ratio of 12.5% as at the end of year 2023.

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

As at 31 December	Bank 2023	Bank 2022	Group 2023	Group 2022
Common Equity Tier 1 capital ratio (minimum requirement – 7.0%)	**15.329**	14.357	**18.391**	16.492
Tier 1 capital ratio (minimum requirement – 8.5%)	**16.908**	15.778	**19.943**	17.903
Total capital ratio (minimum requirement – 12.5%)	**19.263**	17.999	**22.239**	19.959

58 Repurchase and reverse repurchase transactions in scripless Treasury Bonds and scripless Treasury Bills

The following additional information on repurchase and reverse repurchase transactions are disclosed as required by the Local Treasury Bills Ordinance Direction No. 1 of 2019, issued by the Central Bank of Sri Lanka (CBSL).

58.1 Carrying value of securities allocated for repurchase transactions

As at 31 December	Bank 2023 Rs. '000	Bank 2022 Rs. '000
Carrying value of securities allocated for repurchase transactions	**37,982,464**	22,799,900
Market value of securities received for reverse repurchase transactions	**10,329,344**	771,293

58.2 Haircuts for repurchase and reverse repurchase transactions

Minimum haircuts applicable for each maturity bucket as at 31 December, are given below:

As at 31 December	2023 Minimum haircut		2022 Minimum haircut	
	Repurchase transactions %	**Reverse repurchase transactions %**	Repurchase transactions %	Reverse repurchase transactions %
Remaining term to maturity of the eligible security				
Up to 1 year	**4**	**4**	4	4
More than 1 year and up to 3 years	**6**	**6**	6	6
More than 3 years and up to 5 years	**8**	**8**	8	8
More than 5 years and up to 8 years	**10**	**10**	10	10
More than 8 years	**12**	**12**	12	12

58.3 Penalties imposed on the Bank for non-compliance

No penalties have been imposed on the Bank for non-compliance with the above mentioned Direction No. 1 of 2019 issued by the CBSL during the years ended 31 December 2023 and 2022.

Compendium

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 2023
3 (1)	**The Responsibilities of the Board**	
3 (1) (i)	The Board shall strengthen the safety and soundness of the Bank, by ensuring the following:	
	a. Approve and oversee the Bank's strategic objectives and corporate values and ensure that these are communicated throughout the Bank.	Complied with. The Bank's strategic objectives and corporate values are determined by the Board as stated in page 67 to 121. These are incorporated in the Board approved Strategic Business Plan for the period of 2024-2026 and communicated to all levels of employees through planned meetings. The corporate values are included in the Bank's web page.
	b. Approve the overall business strategy of the Bank, the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least the next three years.	Complied with. The Board provided guidance and direction for the preparation of three year Strategic Business Plan for 2024-2026 that was approved by the Board after detailed discussion with the Corporate Management. The Strategic Business Plan is aligned with the overall risk management framework, procedures and the risk appetite of the Bank. The Bank's Strategic Business Plan for 2024-2026 was submitted to the Board and approved on 6 December 2023.
	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 on pages 191 to 213. • Board Integrated Risk Management Committee Report on pages 188 to 189.
	d. Approve implementation of a policy of communication with all stakeholders, including depositors, borrowers, creditors, shareholders.	Complied with The Bank has a Board approved and implemented Communication Policy in place covering all stakeholders to ensure effective and timely communication.
	e. Review the adequacy and the integrity of the Bank's internal control systems and management information systems.	Complied with The BAC and BIRMC are assisting the Board which reviews the adequacy and integrity of the Bank's internal control system and management information system. The Internal Audit Division and the Government Audit reviews on the same. BIRMC reviews policies in this regard. Those are reviewed by BAC and BIRMC and the Management responses on the same, during the year.

Compliance with Banking Act Direction

		Level of compliance in 2023
	f. Identify and designate Key Management Personnel, as defined in the International Accounting Standards.	Complied with Key Management Personnel (KMP) are defined in the International Accounting Standards, who are in a position to significantly influence policy, direct activities and exercise control over business activities, operations and risk management. Appointment of all designated KMPs are recommended by the BNC and approved by the Board.
	g. Define the areas of authority and key responsibilities for Directors themselves and for Key Management Personnel (KMP).	Complied with Areas of authority of the Board of Directors are governed by Section 7 of NSB Act. The Board Charter prepared in accordance with the NSB Act details the areas of authority and key responsibilities of the Board of Directors. Board Human Resources and Remuneration Committee has defined the areas of authority and key responsibilities for the KMPs which are included in the job descriptions of each member of KMP.
	h. Ensure that there is appropriate oversight of the affairs of the Bank by Key Management Personnel (KMP) that is consistent with Board policy.	Complied with The Board reviews the performance of the Bank against the Strategic Business Plan and receives reports from Board Subcommittees on financial reporting, internal control, risk management and other relevant matters delegated to those committees. Further, KMPs are called by the Board to explain the matters under their purview as and when necessary. The delegated authority limits of KMPs have been approved by the Board.
	i. Periodically assess the effectiveness of the Board of Directors' own governance practices, including: the selection, nomination and election of Directors and Key Management Personnel; the management of conflicts of interests; and the determination of weaknesses and implementation of changes, where necessary.	Complied with Generally, a self-evaluation of the performance of the Board is carried out annually assessing its own governance practices. The self-evaluation of the Board of Directors is completed for the year 2023. Related Party Transaction Policy is in place to manage the conflict of interest. Annual declarations of the Board of Directors in respect of related parties and their interests is obtained from Directors to monitor conflict, if any with the publication of financials.
	j. Ensure that the Bank has an appropriate succession plan for Key Management Personnel.	Complied A Board approved Succession Plan 2022 for the KMPs were rolled over to the year 2023.
	k. Meet regularly, on a need basis, with the Key Management Personnel to review policies, establish communication lines and monitor progress towards corporate objectives.	Complied with KMPs are regularly involved in discussions at the meetings of Board and its Subcommittees on progress towards performance, strategy, policy and other matters pertaining to their area of responsibility. The Management is open and transparent with the Board, bringing all significant matters to its attention. Additionally, the KMPs make presentations on key items in the agenda under their purview and are called by the Board and its Subcommittees in relating to the material matters in there with regard to policies towards corporate objectives.

Compliance with Banking Act Direction

		Level of compliance in 2023
	l. Understand the regulatory environment and ensure that the Bank maintains an effective relationship with regulators.	Complied with The Directors are furnished with all the applicable regulatory requirements on appointment. The Compliance Officer brief on the regulatory developments to the Board of Directors and KMPs regularly enabling them to effectively discharge their duties. The Compliance Officer submits monthly Board paper on all returns to the regulator, on AML & CFT information and on any regulatory changes.
	m. Exercise due diligence in the hiring and oversight of External Auditors.	Complied with. The Auditor General is the External Auditor of the Bank in terms of the provisions of Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka and Section 37 in NSB Act as it is a state-owned Bank. Further, the BAC is delegated to review and monitor the independence, objectivity and the effectiveness of the audit process and make recommendations to Auditor General through Superintendent of Audit of any such external auditor appointed by the Auditor General to assist the Auditor General.
3 (1) (ii)	The Board shall appoint the Chairman and the Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and the Chief Executive Officer in line with Direction 3 (5) of these Directions.	Complied with. Under the provisions of Section 11 (1) of the NSB Act No. 30 of 1971 as amended by Act No. 28 of 1995 the Chairman is appointed by the Minister. Section 26 (1) of the NSB Act states that the Board shall appoint a fit and proper person to be the General Manager of the Bank who shall be the Chief Executive Officer of the Bank. Chairman and CEO's functions and responsibilities have been defined and approved by the Board. The present CEO was appointed as per the NSB Act on 10 January 2024. The responsibilities of Chairman and the CEO are defined and approved in line with the Section 3 (5) of this Direction which is given in the Board Charter.
3 (1) (iii)	The Board shall meet regularly, and Board meetings shall be held at least twelve times a year at approximately monthly intervals. Such regular Board meetings shall normally involve active participation in person of a majority of Directors entitled to be present. Obtaining the Board's consent through the circulation of written resolutions/papers shall be avoided as far as possible.	Complied with. Regular Board meetings were held with the active participation of Directors, and the attendance at Board meetings is given on page 174 along with the number of meetings. 13 Board papers have been approved through circulation during the year 2023. However, the Bank has taken every measure to minimise obtaining the approval through circulation where it is done on an exceptional basis and such resolutions are ratified by the Board at the next Board meeting.
3 (1) (iv)	The Board shall ensure that arrangements are in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the Bank.	Complied with. Notice of the meetings, agendas and Board papers for the Board meetings are circulated to the Directors giving them time to attend and submit proposals.
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.

Compliance with Banking Act Direction

		Level of compliance in 2023
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 174 No Director has been absent from two-thirds of the meetings in the immediately preceding 12 months or three consecutive meetings.
3 (1) (vii)	The Board shall appoint a Company Secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988.	Complied with The Secretary to the Board of National Savings Bank is an Attorney-at-Law that complies with the provisions of Section 43 of the Banking Act No. 30 of 1988.
3 (1) (viii)	All Directors shall have access to advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable rules and regulations are followed.	Complied with All the Directors have the full access, to obtain advices and services of the Secretary to ensure that the Board procedures are followed with and the applicable rules and regulations.
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 after review by the Chairman. The minutes are reviewed and approved by the Board members at the next Board meeting after incorporating any amendments/inclusions proposed by the Directors. The Directors have access to the past board papers and minutes.
3 (1) (x)	Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. The minutes shall also serve as a reference for regulatory and supervisory authorities to assess the depth of deliberations at the Board meetings. Therefore, the minutes of a Board meeting shall clearly contain or refer to the following: (a) a summary of data and information used by the Board in its deliberations; (b) the matters considered by the Board; (c) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence; (d) the testimonies and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; (e) the Board's knowledge and understanding of the risks to which the Bank is exposed and an overview of the risk management measures adopted; and (f) the decisions and Board resolutions.	Complied with

Compliance with Banking Act Direction

		Level of compliance in 2023
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 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 Board paper on risk appetite is submitted by the Chief Risk Officer on regular basis to the Board and the Board monitors capital adequacy and other prudential measures to ensure compliance with regulatory requirements.
3 (1) (xvi)	The Board shall publish in the Bank's Annual Report, an annual corporate governance report setting out the compliance with Direction No. 03 of these Directions.	Complied with This report forms part of the Corporate Governance Report of the Bank which is given from pages 167 to 181.
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. And tabled at the Board meeting as a practice.
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.	As per Section 8 (1) of NSB Act the Board comprises seven Directors including the Chairman. Board comprised of 5 Directors during the period of 2023. Details of the present Board are given on page 158 to 161 in this report.

Compliance with Banking Act Direction

		Level of compliance in 2023
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 page 174.
	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
3 (2) (iii)	An employee of a bank may be appointed, elected or nominated as a Director of the Bank (hereinafter referred to as an "Executive Director") provided that the number of Executive Directors shall not exceed one third of the number of Directors of the Board. In such an event, one of the Executive Directors shall be the Chief Executive Officer of the Bank.	Complied with All Directors are Non-Executive Directors.
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 two Independent Directors while three Directors are Non-Independent. The category of Directorship is given on page 158 to 161.
3 (2) (v)	In the event an alternate Director is appointed to represent an Independent Director, the person so appointed shall also meet the criteria that apply to the Independent Director.	Not applicable
3 (2) (vi)	Non-Executive Directors shall be persons with credible track records and/or have necessary skills and experience to bring an independent judgement to bear on issues of strategy, performance, and resources.	Complied with The Directors' profiles including the necessary information are mentioned on pages 158 to 161.
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 4 which is more than one-half of the Directors and all five of the Directors are Non-Executive Directors.
3 (2) (viii)	The Independent Non-Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the Bank.	Complied with 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 page 174.
3 (2) (ix)	There shall be a formal, considered and transparent procedure for the appointment of new Directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	Appointments of Directors are carried as per the NSB Act under Section 8 (1) (a). Accordingly, five Directors are appointed by the Minister under whose purview the Bank comes in. One Director shall be the Secretary to the Treasury, or his nominee and the other Directors shall be the Postmaster General or his nominee.

Compliance with Banking Act Direction

		Level of compliance in 2023
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 resignations as per the direction timeline.
	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 Deputy General Manager (Treasury & International Banking) 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.
3 (3) (iii)	A Director or a Chief Executive Officer of a licensed bank operating in Sri Lanka shall not be appointed as a Director or a Chief Executive Officer of another licensed bank operating in Sri Lanka before the expiry of a period of 6 months from the date of cessation of his/her office at the licensed bank in Sri Lanka. Any variation thereto in exceptional situations such as where expertise of retiring bankers may be required when reconstituting Boards of licensed banks which need restructuring, shall be subject to the prior approval of the Monetary Board. In this regard, licensed banks shall ensure to adhere to the requirement of the cooling-off period when appointing Directors or Chief Executive Officer. If a Director is appointed to the licensed bank by an appointing authority violating these Directions, the licensed bank shall take steps to prevent such appointee from exercising any powers or enjoying any privileges or against this direction.	Complied with. This situation has not arisen during the year under review.

Compliance with Banking Act Direction

		Level of compliance in 2023
3 (4)	**Management Functions Delegated by the Board**	Complied with
3 (4) (i)	The Directors shall carefully study and clearly understand the delegation arrangements in place.	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 Chairman and the General Manager/CEO. A Board Charter is in place defining the responsibilities of the Chairman 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.	Complied Chairman of the Bank is an Independent Non-Executive Director.
3 (5) (iii)	The Board shall disclose in its corporate governance report, the identity of the Chairman and the Chief Executive Officer and the nature of any relationship	Complied with The identity of the Chairman and the General Manager/CEO are disclosed in Annual Report on page 180. The Board is cognisant that there are no relationships of any kind of financial, business, family, any other material/relevant relationship between the Chairman and the General Manager/CEO. Also, there are no relationships among the other Board members.
3 (5) (iv)	The Chairman shall: provide leadership to the Board; ensure that the Board works effectively and discharges its responsibilities; and ensure that all key and appropriate issues are discussed by the Board in a timely manner.	Complied with The Chairman provides leadership to the Board and ensures that the Board functions effectively in discharging its responsibilities. The Board in a timely manner discusses all key issues. Draft Board minutes are reviewed by the Chairman before it is tabled at the next meeting.
3 (5) (v)	The Chairman shall be primarily responsible for drawing up and approving the agenda for each Board meeting.	Complied with The Chairman draws up the agenda for the meetings.

Compliance with Banking Act Direction

		Level of compliance in 2023
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 Chairman 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
3 (5) (viii)	The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relations between Executive and Non-Executive Directors.	Complied with The entire Board consists of Non Executive Directors.
3 (5) (ix)	The Chairman shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	Complied with Chairman is a Non-Executive Director and he is not involved directly in executive functions to supervise KMPs or any other executive duties whatsoever.
3 (5) (x)	The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Complied with The Bank keeps effective communication with the shareholder; Government of Sri Lanka. The Ex-Officio Director appointed as per the National Savings Bank Act, acts as the channel of communication between the Board and the shareholder.
3 (5) (xi)	The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day management of the Bank's operations and business.	Complied with The day-to-day operations of the Bank have been delegated to the General Manager/CEO. The Board Charter specifically details such authorities of the General Manager/CEO.

Compliance with Banking Act Direction

		Level of compliance in 2023
3 (6)	**Board Appointed Committees**	
3 (6) (i)	Each bank shall have at least four Board Committees as set out in Directions 3 (6) (ii), 3 (6) (iii), 3 (6) (iv) and 3 (6) (v) of these Directions. Each Committee shall report directly to the Board. All Committees shall appoint a secretary. The Board shall present a report of the performance on each Committee, on their duties and roles at the Annual General Meeting.	Complied with The Board has established five Committees with written Terms of Reference. The Board Audit Committee, Board Human Resource and Remuneration Committee, Board Nomination Committee, Board Integrated Risk Management Committee are mandatory as per the Banking Act Direction No. 12 of 2017 while the Board Non-urgent and Non essential Expenses Committee is appointed to meet the expense needs of the Bank as per the section 3.5 of the Banking Act Direction No. 01 of 2023. All the Committees report directly to the Board through the Committee Chairpersons. The Secretary of National Savings Bank/Secretary to the Board serves as the Secretary to all Board Subcommittees who arranges the meetings and maintain minutes, records etc. under the Supervision of the Committee Chairman. The reports of the Board Subcommittee are given on pages 182 to 190. The Government being the sole shareholder, the Annual Report of the Bank is submitted to the Parliament of Sri Lanka and to the Ministry in charge of the Bank.
3 (6) (ii)	The following rules shall apply in relation to the Audit Committee:	
	a. The Chairman of the Committee shall be an Independent Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.	The Chairman of the Audit Committee during the financial year 2023 is Non-Independent Non-Executive Director and held required qualifications and experience. Profile of the Chairman of the Committee during the financial year 2023 is given on page 159. The Chairman of the present Board Audit Committee is an Independent Non-Executive Director and also holds required qualifications and experience. Profile of the present Chairman of the Committee is given on page 160.
	b. All members of the Committee shall be Non-Executive Directors.	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 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

Compliance with Banking Act Direction

		Level of compliance in 2023
	d. The Committee shall review and monitor the External Auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.	Complied with Since the Auditor General is the External Auditor, the independence and objectivity are maintained and guaranteed by the Constitution of Sri Lanka. Effectiveness of the audit process is discussed with the Superintendent of the Government Audit at Board Audit Committee meetings.
	e. The Committee shall develop and implement a policy on the engagement of an External Auditor to provide non-audit services.	Not Applicable The Auditor General is the External Auditor of the Bank. However, as per the Board Audit Committee Charter, the Committee ensures that in the event the Auditor General appoints another External Auditor of assistance, it does not impair that firm's independence, objectivity or effectiveness. For the audit of the year 2023, 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. The Audit Plan for the year 2023 prepared by the Internal Audit Division was submitted to the Committee and approval was obtained
	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.

Compliance with Banking Act Direction

	Level of compliance in 2023
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 2023 prepared by the Internal Audit Division was submitted to the BAC was approved which includes the scope, functions, and resource requirements relating to the Plan.
(ii) Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the Internal Audit Department;	Complied with The Committee reviews the internal audit plan and the results of the internal audit procedures and ensures that appropriate actions are taken for improvements.
(iii) Review any appraisal or assessment of the performance of the Head and senior staff members of the Internal Audit Department;	Performance appraisal of Chief Internal Auditor/Deputy General Manager (Audit) and the work process and results of the internal audit function are generally evaluated by the Audit Committee during the first quarter of the preceding year. Performance evaluation of senior staff is carried out according to the Board approved evaluation process by the Chief Internal Auditor/Deputy General Manager (Audit) and is tabled before the Audit Committee
(iv) Recommend any appointment or termination of the Head, senior staff members and outsourced service providers to the internal audit function;	Not Applicable, No such situation has arisen during the year.
(v) Ensure that the Committee is appraised of resignations of senior staff members of the Internal Audit Department; including the Chief Internal Auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;	Not applicable, No such situation has arisen during the year.
(vi) Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency, and due professional care;	Complied with According to the governance structure of the Bank, Deputy General Manager (Audit) reports directly to the Board through BAC and is independent of any operations of the Bank.
k. The Committee shall consider the major findings of internal investigations and Management's responses thereto;	Complied with The Board Audit Committee has reviewed major findings and Management responses thereto. It also ensures that the recommendations of such investigations were implemented.
l. The Chief Finance Officer, the Chief Internal Auditor and a representative of the External Auditors may normally attend meetings. The Committee has had at least two meetings with the External Auditors without the Executive Directors being present.	Complied with 9 meetings were held during the year 2023 and the representative of Auditor General's Office has attended all meetings. General Manager/ CEO participate for the meeting by invitation. Apart from the above meetings, Board Audit Committee (BAC) had 02 Independent Meetings with External Auditor (Superintendent of National Audit Office) without General Manager/CEO and Internal Auditor of the Bank.

Compliance with Banking Act Direction

		Level of compliance in 2023
	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 182 to 184.
	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 schedules when required. The Committee met 9 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 182 to 184 disclose the following: (i) Details of the activities of the Audit Committee (ii) The number of BAC meetings held during the year 2023 (iii) Details of attendance of each individual Director at such meetings
	p. The Secretary of the Committee is the Company Secretary or the Head of the internal audit function and shall record and keep detailed minutes of the Committee meetings	Complied with The Secretary to the Board of National Savings Bank acts as Secretary to the BAC and detailed minutes are maintained.
	q. The Committee shall review arrangements by which employees of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the Committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the Bank's relations with the External Auditor.	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. A process and proper measures are in place to conduct fair and independent investigation and appropriate follow-up action on any concerns raised by the employees of the Bank. The BAC is the key representative body for overseeing the Bank's relations with the External Auditor.
3 (6) (iii)	The following rules shall apply in relation to the Human Resources and Remuneration Committee: a. The Committee shall determine the remuneration policy (salaries, allowances, and other financial payments) relating to Directors, Chief Executive Officer (CEO) and Key Management Personnel of the Bank.	Complied with Remuneration of the Directors is decided by the subject Minister as per the Section 10 of the NSB Act No. 30 of 1971 and the amendments therein. The remuneration of the General Manager/CEO and KMPs is determined by the BHRRC based on the collective agreement and approved by the Board of the Bank.

Compliance with Banking Act Direction

		Level of compliance in 2023
	b. The Committee shall set goals and targets for the Directors, CEO, and the Key Management Personnel.	Complied with All the Directors of the Bank are Non-Executive Directors of whom five are appointed by the subject Ministry and the other two being Ex-Officio Directors according to the Section 8 of the NSB Act No 30 of 1971 and the amendments therein. Therefore, specific goals and targets are not set for them. Goals and targets for the General Manager/CEO and the KMPs are set based on the Strategic Business Plan which are detailed in the Action Plan. These are linked to Key Performance Indicators of KMPs.
	c. The Committee shall evaluate the performance of the CEO and Key Management Personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.	Annually, the criteria for evaluations of the performance of the General Manager/CEO and Key Management Personnel against the set targets and goals were submitted to the committee during the first quarter of the preceding year. New Board was appointed in the month of May 2023 and evaluations were carried thereafter.
	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.	Complied The five Directors are appointed by the subject Minister while the other two Directors being the Ex-officio Directors as per the NSB Act. According to the Section 11, the Minster shall nominate one of the Directors of the Board to be its Chairman. As per the Section 26, the Board shall appoint a fit and proper person to be the General Manager of the Bank who shall be the Chief Executive Officer of the Bank. 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.

Compliance with Banking Act Direction

		Level of compliance in 2023
	e. The Committee shall consider and recommend from time to time, the requirements of additional/new expertise and the succession arrangements for retiring Directors and Key Management Personnel.	Complied with Appointment of the Chairman, Directors and the General Manager/CEO are carried out according to the NSB Act No. 30 of 1971 and the amendments therein. A Board approved Succession Plan for the KMPs is in place. Appointments of KMPs are made by the Board of Directors according to the Succession Plan based on the recommendations of BNC.
	f. The Committee shall be chaired by an Independent Director. The CEO may be present at meetings by invitation.	Complied with The Committee is chaired by an Independent Non-Executive Director.
3 (6) (v)	The Board Integrated Risk Management Committee:	
	a. The Committee shall consist of at least three Non-Executive Directors, Chief Executive Officer and Key Management Personnel supervising broad risk categories, i.e. credit, market, liquidity, operational and strategic risks. The Committee shall work with Key Management Personnel very closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.	Complied with The Committee comprises of three Non-Executive Directors, General Manager/CEO and the Chief Risk Officer who is responsible for supervising broad risk categories, i.e credit, market, liquidity, operational and strategic risks. Compliance Officer participate at all Committee meetings by invitation. Any other KMP and staff are invited based on the requirement. The Committee works closely with KMPs within the framework of authority and responsibility assigned.
	b. The Committee shall assess all risks, i.e. credit, market, liquidity, operational, and strategic, risks to the Bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a bank basis and group basis.	Complied with The Board has approved the policies on Credit Risk Management, Market and Liquidity Risk Management, Operational Risk Management on the recommendation of the BIRMC that provides the framework for assessment and management of risks. The Risk Management Division submits monthly reports on risk indicators both on a bank basis and group basis based on the pre-defined risk appetite levels which are reviewed by the Committee.
	c. The Committee shall review the adequacy and effectiveness of all management level Committees such as the Credit Committee And The Asset-Liability Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.	Complied with The Committee reviews reports of management levels Committees such as the Credit Committee, Investment Committee and the Asset and Liability Management Committee (ALCO) to assess the adequacy and effectiveness in addressing specific risks and to ensure those risks are managed within quantitative and qualitative risk limits as specified by the risk appetite level of the Bank which reviewed on a regular basis. The adequacy and effectiveness of all management level Committees are reviewed by the BIRMC on an annual basis.
	d. The Committee shall take prompt corrective action to mitigate the effects of specific risks.	Complied with The Committee takes prompt corrective actions to mitigate the effects of specific risks in situations where such risks are beyond prudent levels decided by the Board on recommendations of the Committee based on the regulatory and policy level requirements.

Compliance with Banking Act Direction

		Level of compliance in 2023
	e. The Committee shall meet at least quarterly to assess all aspects of risk management including updated Business Continuity Plans (BCP).	Complied with During the year, the Committee had seven meetings. Details of meetings and attendance are given on page 188.
	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/Board.
3 (7)	**Related Party Transactions**	
3 (7) (i)	The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the Bank with any person.	Complied with The Board approved Related Party Transactions Policy is in place covering related parties, their transactions and restrictions on offering more favourable treatment to related parties in order to avoid any conflict of interest by the Board of Directors. Directors are requested to declare their related party details and 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 338.

Compliance with Banking Act Direction

		Level of compliance in 2023
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. Annual declarations are obtained from the Directors where such transactions would be identified. System is also developed to capture any transaction with "more favourable Treatment" than that accorded to other constituents of the Bank carrying on the same business and reported to the Board periodically. Transactions (if any) carried out with Related Parties in the normal course of business are disclosed in Note 49.5 to the Financial Statements "Related Party Disclosures" on page 338
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 monitored the processes with this Direction. 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.	

Compliance with Banking Act Direction

		Level of compliance in 2023
3 (7) (vi)	A bank shall not grant any accommodation or "more favourable treatment" other than on the basis of a scheme applicable to the employees of such bank.	Complied with No favourable treatment/accommodation provided to employees of the Bank other than staff benefits. Employees of the Bank are informed through circular instructions to refrain from granting favourable treatments to other employees or close relations.
3 (7) (vii)	No accommodation granted by a bank under Direction 3 (7) (v) and 3 (7) (vi) above, nor any part of such accommodation, nor any interest due thereon shall be remitted without the prior approval of the Monetary Board and any remission without such approval shall be void and of no effect.	Complied with No such instances were recorded.
3 (8)	**Disclosures**	
3 (8) (i)	The Board shall ensure that: a. Annual audited Financial Statements and quarterly Financial Statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that,	Complied with
	b. Such statements are published in the newspapers in an abridged form, in Sinhala, Tamil, and English.	Complied with
3 (8) (ii)	The Board shall ensure that the following minimum disclosures are made in the Annual Report:	
	a. A statement to the effect that the annual audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied with Disclosure on the compliance with applicable accounting standards and regulatory requirements, in preparation of the annual audited Financial Statements have been made on the "Statement of Directors' Responsibility for Financial Reporting" on page 223 and "General Manager's/CEO's and Senior Deputy General Manager's Statement of Responsibility" on page 227.
	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 217 to 222. Statement of Directors' Responsibility for Financial Reporting on page 223. Directors' Statement on Internal Control over Financial Reporting on pages 224 to 225.

Compliance with Banking Act Direction

	Level of compliance in 2023
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 226.
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 158 to 161. Refer Note 49.5 to the Financial Statements on page 338. Refer Note 49.5.1 to the Financial Statements on page 338.
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 338.
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 338.
g. The External Auditor's certification of the compliance with these Directions in the annual corporate governance reports.	Complied with The Bank has obtained a certificate from the Auditor General on the level of compliance with the Corporate Governance Direction No. 12 of 2007. All findings of the Auditor have been incorporated in this Corporate Governance Report.
h. A report setting out details of the compliance with prudential requirements, regulations, laws, internal controls and measures taken to rectify any material non-compliance.	Complied with The Statement of Directors' Responsibility for Financial Reporting on page on 223 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.	There were no such incident of such nature during the period of 2023, and therefore, the Monetary Board has not directed any disclosures to be made public during the year.

Compliance with Banking Act Direction

		Level of compliance in 2023
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.	NSB takes all possible measures to comply with all applicable provisions of this Direction that are not inconsistent with the provisions of NSB Act No. 30 of 1971 and its amendments, the enabling enactment. Any instances of non-compliance and where NSB has continued to function in terms of the provisions of the statutes applicable to it has been specifically mentioned above against the relevant sections.
3 (9) (iii)	This Direction shall apply to the branches of the foreign banks operating in Sri Lanka to the extent that it is not inconsistent with the regulations and laws applicable in such bank's country of incorporation. The branch of a foreign bank shall also publish its parent bank's Annual Corporate Governance Report together with its Annual Report and accounts of the branch operations in Sri Lanka.	Not applicable
3 (9) (iv)	In the event of a conflict between any of the provisions of this Direction and the Articles of Association (or Internal Rules) pertaining to any bank, the provisions of this Direction shall prevail. However, if the Articles of Association of an individual bank set a more stringent standard than that specified in this Direction, such provisions in the Articles of Association may be followed.	Not applicable

Compliance with the code of best practice on Corporate Governance issued by CA Sri Lanka

Code reference	Principles
A	**Directors**
A.1	**The Board** The Board of National Savings Bank comprises seven (07) Non-Executive Directors including the Chairman which is laid down in the National Savings Bank Act No. 30 of 1971 and the amendments therein. Five Directors of the Bank are appointed by the Minister as per the NSB Act and out of 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 five (05) Directors who are eminent professionals to direct and lead the Bank with effective controls. Details of the Directors during the year 2023 are given on pages 158 to 161.
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 11 meetings. The Board Subcommittees met regularly during the year complying with the respective Charters. 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 173 to 174.
A.1.2	**Roles and Responsibilities of the Board** The Board Charter details the responsibilities entrusted to the Board and given on page 172. The Board charter was last reviewed in the year 2022. The Board is assisted by the secretary to the Board.
A.1.3	**The Board act in accordance with the laws of the country** The Board has an approved procedure in place to ensure that the Bank is in compliance with related laws, CBSL Directions and Guidelines and international best practices with regard to the operations. This includes procedures whereby 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 advice 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. page 180 on "Role of Board Secretary" for further details on the role of the Company of Secretary.
A.1.5	**Independent judgement** The Board of Directors of the Bank are experts in their fields and bring independent judgment in discharging their duties and responsibilities on matters relating to strategy, performance, resource allocation, risk management, compliance and standards of business conduct.
A.1.6	**Dedicate adequate time and effort to matters of the Board and the Company** Board meetings and Board Subcommittee meetings are scheduled well in advance and the relevant papers are generally circulated one week prior to the meeting through electronic means to ensure that the Directors are having sufficient time to review the papers and call for additional information and clarification, and after a meeting to follow up on issues consequent to the meeting. Given that, in exceptional situations there is a provision to circulate the papers closer to the meeting. This is supplemented by giving sufficient time to be familiarise with business operations, risks and controls.
A.1.7	**Calls for resolutions** As per the NSB Act, Chairman shall upon written requisition from any two Directors, call a special meeting of the Board where they feel it is in the best interest of the Bank to do so. In case of a special meeting, notice should be given to all Directors prior to four days of the meeting.

Compliance with the code of best practice on Corporate Governance issued by CA Sri Lanka

Code reference	Principles
A.1.8	**Training of Directors** The Board of Directors of the Bank gets adequate training on appointment. Refer page 177 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. However, the Board comprised of five Directors in the year 2023 which is sufficient to cover the quorum when a meeting is convened. The Board of Directors annually submit a signed and dated deceleration of their independence/non-independence.
A.6	**Provision of timely information** The Management provides appropriate and timely information to the Board generally, seven days prior to the Board meetings or Board Subcommittee meetings to discharge their duties and responsibilities effectively. Chairman ensures that the Board is adequately briefed on the matters discussed and the KMPs are requested to be present during the meetings to be present where deemed necessary. Any Director who is unable to attend a meeting is updated on proceedings through formally documented minutes of the meeting, prior to the next meeting which are discussed at the same. The agenda of the meetings and papers required, are generally circulated prior to seven days and the minutes of the previous meeting are generally circulated at least two weeks after the meeting.
A.7	**Appointments to the Board** As a state-owned Bank, five Directors are appointed by the Minister in charge under whose purview the Bank comes in while two Directors are Ex-officio according to the NSB Act. The Bank has complied with the required regulatory requirements relating to appointment of new Directors. Refer Section Corporate Governance on page 177 for details.
A.8	**Re-appointment** As per the NSB Act, the term of a Director is three years unless otherwise he vacates office early by death, resignation or removal of holding office. Refer Section Corporate Governance on page 177 for the details of Appointment and Re-election of Directors.
A.9	**Appraisal of Board performance** The Board annually assess their own performance to ensure that the Board is discharging their responsibilities satisfactorily. The evaluation process requires each Director to fill a Board Performance Evaluation Form. The responses are gathered and submitted to the Board Nomination Committee which will be submitted to the Board post review of Board Nomination Committee. Annual evaluations of the Board subcommittees have been completed by the beginning of the year 2024.

Compliance with the code of best practice on Corporate Governance issued by CA Sri Lanka

Code reference	Principles
A.10	**Disclosure of information in respect of Directors in the Annual Report** The information specified in the Code with regard to Directors are disclosed in this Annual Report as follows. Name, qualifications, expertise, material business interest and brief profiles are given on pages 158 to 161. Details of whether a Director is Executive, Non-Executive and/or Independent, Non-Independent are given on page 174. Related party transactions are given on Note 49.5 to the Financial Statements on page 338. Membership of Board Subcommittees and attendance at Board and Board Subcommittee are given on page 174.
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 181 and Report of the BHRRC on pages 185 and 186.
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 181.
B.3	**Disclosure of remuneration** Section on "Directors' remuneration and level and make up of remuneration" on page 181. Details of Directors' total remuneration – Refer Note 49.5 to the Financial Statements on page 338 Members of the BHRRC and their Report – Refer pages 185 and 186.
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 217 to 222 and Note 49.5 to the Financial Statements on page 338.

Compliance with the code of best practice on Corporate Governance issued by CA Sri Lanka

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 – pages 96 to 150. • Annual Report of the Board of Directors – pages 217 to 222. • Statement of Directors' Responsibility for Financial Reporting – page 223. • Directors' Statement on Internal Controls – pages 224 to 225. • General Manager/CEO's and Senior Deputy General Manager's Statement of Responsibility – on page 227. • Related Party Transactions – refer Note 49 on related party disclosures on pages 334 to 340. The net assets value of the Bank is disclosed in Note 50 to the Financial Statements on page 341.
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 on pages 191 to 213 and Report of the BIRMC on pages 188 to 189 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 182 to 184 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 226 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 338 in Note 49.5.2 of this Annual Report.
D.5	**Code of business conduct and ethics** The Bank has Code of Business Conduct and Ethics that is internally developed and approved by the Board which applies to all employees of the Bank including KMPs and a separate code of conduct for the Directors. All officers of the Bank are required to furnish an annual asset liability declaration to the Human Resource Development Division. All the Directors furnish their annual assets and liability declaration to the relevant Ministry. The Bank has set applicable policies and procedures to identify and deal with any possible infringements. The Bank has put in place a Procurement Guidelines to ensure transparent procurement practices are applied.

Compliance with the code of best practice on Corporate Governance issued by CA Sri Lanka

Code reference	Principles
D.6	**Corporate governance disclosures** The Directors are required to disclose the extent to which the Bank adheres to established principles and practices of good corporate governance. The following reports includes the Bank's compliance with the good governance principles and practices. The Corporate Governance Report from pages 167 to 181. Compliance with the Code of Best Practice on Corporate Governance issued by The Institute of Chartered Accountants of Sri Lanka on pages 408 to 412.
E/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 – pages 96 to 150 • Corporate governance – pages 167 to 181 • Integrated stakeholder engagement – pages 81 to 93 • Materiality – pages 45 to 59 • 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	**272**
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	**249**
		Note 2.5.1.5.1 Financial liabilities at fair value through profit or loss	**250**
	ii. Reclassifications of financial instruments from one category to another.	Significant accounting policies: Note 2.5.1.7 Reclassification of financial assets and liabilities	**251**
	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	**288**
	iv. Reconciliation of the allowance account for credit losses by class of financial assets.	Note 16 – Cash and cash equivalent	**275**
		Note 18 – Placement with banks	**276**
		Note 21 (d) – Movements in impairment during the year	**283**
		Note 22.4 – Movement in impairment during the year	**290**
	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	**259-270**
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	**259**
	ii. Fee income and expense.	Notes to the Financial Statements: Note 5 – Net fee and commission income	**262**
	iii. Amount of impairment losses by class of financial assets.	Notes to the Financial Statements: Note 10 – Impairment charges	**265**
	iv. Interest income on impaired financial assets.	Notes to the Financial Statements: Note 4 (a) interest income	**260**

Other Disclosure requirements as required by CBSL

	Disclosure requirements	Description	Page number/s
1.3	**Other disclosures**		
1.3.1	Accounting policies for financial instruments.	Note 2.5.1 – Financial instruments – initial recognition, classification and subsequent measurement	**248**
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	**250**
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	**290**
	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	**292** **293**
	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	**264**
	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	**232-233** **236-239**
	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	**232-233** **236-239**
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	**251**
	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	

Other Disclosure requirements as required by CBSL

	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	**251**
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	**250**
		Note 19 – Derivative financial instruments	**276**
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	**383**
	ii. Description of how fair value was determined.	Notes to the Financial Statements:	
		Note 2.1.12.3 – Fair value of financial instruments	**244**
		Note 2.3 – Fair value measurement	**247**
		Note 56.2 – Determination of fair value and fair value hierarchy	**379**
	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	**379**
	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	**382**
	v. Information if fair value cannot be reliably measured.	Notes to the Financial Statements:	
		Note 23 (e) – Unquoted investments – equity securities	**293**
		Note 56.2 – Determination of fair value and fair value hierarchy	**379**
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	**343**
		Risk review	**191-213**

Other Disclosure requirements as required by CBSL

	Disclosure requirements	Description	Page number/s
2.1.2	Management's objectives, policies, and processes for managing those risks.	Notes to the Financial Statements: Note 54 – financial risk management Risk review	 **343** **191-213**
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	 **343** **191-213**
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	 **349**
	(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	 **349**
	(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	 **351**
	(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 2.5.2.1 – Overview of the ECL principles Note 10 – Impairment charges	 **252** **265**
	– 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	**265**
	– 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	**254**
	– 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	**255**
	– How instruments are grouped if ECL are measured on a collective basis.	Note 10 – Impairment charges	**265**
	– How the Bank determines that financial assets are credit-impaired.	Note 2.5.2 – Impairment of financial assets	**252**
	– 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	**283**
	– How the modification requirements have been applied.	Note 2.5.1.9 – Modification of financial assets and financial liabilities	**251**

Other Disclosure requirements as required by CBSL

Disclosure requirements	Description	Page number/s
(e) ECL calculations: – Basis of the inputs, assumptions and the estimation techniques used when estimating ECL.	Note 2.5.2.2 – The calculation of ECL	**253**
– How forward-looking information has been incorporated into the determination of ECL.	Note 2.5.2.6 – Forward looking information	**254**
– Changes in estimation techniques or significant assumptions made during the reporting period.	Note 2.2 – Changes in accounting policies	**247**
(f) Amounts arising from ECL: – Reconciliation for each class of financial instrument of the opening balance to the closing balance of the impairment loss allowance.	Note 16 – Cash and cash equivalent Note18 – Placement with banks Note 21 (d) – Movements in impairment during the year	**275** **276** **283**
– Explain the reasons for changes in the loss allowances in the reconciliation.	Note 22.4 – Movement in impairment during the year	**290**
(g) Collateral: – Bank's maximum exposure to credit risk at the reporting date	Notes to the Financial Statements: Note 54.1.1 (a) – Net exposure to Credit risk by class of financial assets	**349**
– Description of collateral held as security and other credit enhancements	Note 54.1.1 (b) – Management of the credit portfolio	**351**
(h) Written-off assets	Notes to the Financial Statements: Note 21 (d) – Movements in impairment during the year	**283**
i. Pillar III disclosures of the Banking Act Directions No. 1 of 2016 on Capital requirements under Basel III for Licensed Banks	Risk review	**191-213**
ii. Liquidity risk (a) A maturity analysis of financial liabilities.	Notes to the Financial Statements: Note 55 – Maturity analysis	**375**
(b) Description of approach to risk management.	Notes to the Financial Statements: Note 54 – Financial risk management Risk review	**343** **191-213**
(c) Pillar III disclosures of the Banking Act Direction No. 1 of 2016 on capital requirements under Basel III for Licensed Banks.	Risk review	**191-213**
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	**363** **191-213**
(b) Additional information, if the sensitivity analysis is not representative of the Bank's risk exposure.	Risk review	**191-213**

Other Disclosure requirements as required by CBSL

	Disclosure requirements	Description	Page number/s
	(c) Pillar III disclosures of the Banking Act Direction No. 1 of 2016 on capital requirements under Basel III for Licensed Banks.	Risk review	**191-213**
	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	**191-213**
	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	**290**
	• 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	**290**
	(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	**277** **290**
	• 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	**263** **264**
	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	**343** **191-213**
	(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	**191-213**
2.2.3	Information on concentrations of risk	Notes to the Financial Statements: Note 54 Financial risk management Risk review	**343** **191-213**

Other Disclosure requirements as required by CBSL

	Disclosure requirements	Description	Page number/s
3	**Other disclosures**		
3.1	**Capital structure**		
	i. Qualitative disclosures		
	• Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of innovative, complex or hybrid capital instruments.	Basel III Disclosures as per schedule III of Banking Act Direction No. 1 of 2016 Risk review	**420-431** **191-213**
	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	**420-431**
	(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	**191-213**
	ii. Quantitative disclosures		
	(a) Capital requirements for credit risk, market risk and operational risk.	Risk review	**191-213**
	(b) Total and Tier 1 capital ratio.	Risk review	**191-213**

Basel III Disclosures as per Schedule III of Banking Act Direction No. 1 of 2016

Market Discipline – Minimum Disclosure Requirements under Pillar III

Key Regulatory Ratios – Capital and Liquidity

As at 31 December Item	Bank		Group	
	2023	2022	**2023**	2022
Regulatory capital (Rs. '000)				
Common equity Tier 1	**48,539,426**	50,531,185	**59,238,806**	58,439,854
Tier 1 capital	**53,539,426**	55,531,185	**64,238,806**	63,439,854
Total capital	**60,998,920**	63,346,963	**71,634,169**	70,727,946
Regulatory capital ratios (%)				
Common equity Tier 1 capital ratio (minimum requirement: 2023 – 7%, 2022 – 6.5%)	**15.329**	14.357	**18.391**	16.492
Tier 1 capital ratio (minimum requirement: 2023 – 8.5%, 2022 – 8%)	**16.908**	15.778	**19.943**	17.903
Total capital ratio (minimum requirement: 2023 – 12.5%, 2022 – 12%)	**19.263**	17.999	**22.239**	19.959
Leverage ratio (minimum requirement: 3%)	**6.225**	7.425	**7.053**	8.140
Regulatory liquidity				
Statutory liquid assets (Rs. '000)	**810,782,666**	578,088,976	**N/A**	N/A
Statutory liquid assets ratio (minimum requirement – 20%)				
Domestic banking unit (%)	**54.99**	40.62	**N/A**	N/A
Off-shore banking unit (%)	**–**	–	**–**	–
Liquidity coverage ratio(%) – Rupee (minimum requirement: 2023 – 100%, 2022 – 90%)	**299.20**	195.54	**N/A**	N/A
Liquidity coverage ratio (%) – All currency (minimum requirement: 2023 – 100%, 2022 – 90%)	**293.71**	193.59	**N/A**	N/A
NSFR (%) – (minimum requirement: 2023 – 100%, 2022 – 90%)	**180.49**	180.51	**N/A**	N/A

Basel III Disclosures as per Schedule III of Banking Act Direction No. 1 of 2016

Basel III Computation of Capital Ratios

	Bank		Group	
As at 31 December Item	2023 Rs. '000	2022 Rs. '000	2023 Rs. '000	2022 Rs. '000
Common equity Tier 1 (CET1) capital after adjustments	48,539,426	50,531,185	59,238,806	58,439,854
Total common equity Tier 1 (CET1) capital	67,507,737	62,054,991	71,108,806	63,477,365
Equity capital (stated capital)/assigned capital	9,400,000	9,400,000	9,400,000	9,400,000
Reserve fund	5,369,172	5,224,842	5,464,218	5,281,952
Published retained earnings/(accumulated retained losses)	9,057,105	6,008,140	12,485,813	7,469,197
Published accumulated other comprehensive income (OCI)	589,575	(1,669,876)	666,898	(1,765,661)
General and other disclosed reserves	43,091,885	43,091,885	43,091,877	43,091,877
Unpublished current year's profit/(losses) and gains reflected in OCI	–	–	–	–
Ordinary shares issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	–	–	–	–
Total adjustments to CET1 capital	18,968,309	11,523,806	11,869,998	5,037,511
Goodwill (net)	–	–	–	–
Intangible assets (net)	744,715	747,248	747,225	752,221
Revaluation losses of property, plant and equipment	51,023	32,902	51,023	32,902
Deferred tax assets (net)	5,885,288	2,892,984	5,885,288	2,894,972
Cash flow hedge reserve	–	–	–	–
Gains on sale related securitisation transactions	–	–	–	–
Defined benefit pension fund assets (net)	2,230,673	–	2,230,673	–
Investments in the capital of banking and financial institutions where the Bank does not own more than 10% of the issued ordinary share capital of the entity	2,776,029	1,112,367	2,955,791	1,357,416
Significant investments in the capital of financial institutions where the Bank owns more than 10 percent of the issued ordinary share capital of the entity	6,752,800	6,738,305	–	–
Shortfall of the capital in financial subsidiaries	527,783	–	–	–
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	7,459,494	7,815,778	7,395,363	7,288,092
Total Tier 2 capital	7,459,494	7,815,778	7,478,325	7,819,473
Qualifying Tier 2 capital instruments	–	–	–	–
Revaluation gains	4,243,803	4,243,803	4,243,803	4,243,803
Loan loss provisions	3,215,691	3,571,975	3,234,522	3,575,670
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	–	–	–	–
Total adjustments to Tier 2 capital	–	–	82,962	531,381

Basel III Disclosures as per Schedule III of Banking Act Direction No. 1 of 2016

	Bank		Group	
As at 31 December Item	2023 Rs. '000	2022 Rs. '000	2023 Rs. '000	2022 Rs. '000
Investment in own shares	–	–	–	–
Investments in the capital of financial institutions and where the Bank does not own more than 10% of the issued capital carrying voting rights of the issuing entity	–	–	82,962	531,381
CET1 capital	48,539,426	50,531,185	59,238,806	58,439,854
Total Tier 1 capital	53,539,426	55,531,185	64,238,806	63,439,854
Total capital	60,998,920	63,346,963	71,634,169	70,727,946
Total risk weighted assets (RWA)	316,656,440	351,954,628	322,111,226	354,357,340
RWAs for credit risk	257,255,264	285,757,970	258,761,746	286,053,591
RWAs for market risk	9,393,488	11,242,508	11,735,368	13,012,300
RWAs for operational risk	50,007,688	54,954,150	51,614,112	55,291,450
CETI capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on D-SIBs (%)	15.329	14.357	18.391	16.492
of which: capital conservation buffer (%)	2.500	2.000	2.500	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 (%)	16.908	15.778	19.943	17.903
Total capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on D-SIBs) (%)	19.263	17.999	22.239	19.959
of which: capital conservation buffer (%)	2.500	2.000	2.500	2.000
of which: countercyclical buffer (%)	0.000	0.000	0.000	0.000
of which: capital surcharge on D-SIBs (%)	0.000	0.000	0.000	0.000

The difference arises between the retained earnings balance in Basel III Capital Adequacy Computation and the financial reporting are due to the following:

(1) The Bank's practice was to transfer the current year retained earnings to the General Reserve until end of 2015 and it was changed to maintain part of the current year retained earnings to a separately maintained Retained Earnings Reserve with effect from 31 December 2016. Therefore one of the differences between the retained earnings balance in the financial reporting and the Basel III Capital Adequacy Computation is the accumulated actuarial loss of Rs. 5.351 Bn. on Retirement Benefit Plan which has been adjusted to the General Reserve prior to 2016.

Basel III Disclosures as per Schedule III of Banking Act Direction No. 1 of 2016

Computation of Leverage Ratio

As at 31 December	Bank		Group	
Item	**2023 Rs. '000**	2022 Rs. '000	**2023 Rs. '000**	2022 Rs. '000
Tier 1 capital	**53,539,426**	55,531,185	**64,238,805**	63,439,855
Total exposures	**860,118,126**	747,916,275	**910,855,706**	779,339,904
On-balance sheet items (excluding derivatives, and securities financing transactions, but including collateral)	**769,356,091**	729,875,036	**801,059,315**	743,808,308
Derivative exposures	**20,140**	60,087	**20,140**	70,194
Securities financing transaction exposures	**86,645,709**	23,538,929	**105,637,425**	34,524,795
Other off-balance sheet exposures	**4,096,187**	5,933,129	**4,138,826**	5,941,217
Basel III leverage ratio (%) (Tier 1/total exposure)	**6.22**	7.42	**7.05**	8.14

Basel III Computation of Liquidity Coverage Ratio (Bank)

As at 31 December	2023		2022	
Item	**Total unweighted value Rs. '000**	**Total weighted value Rs. '000**	Total unweighted value Rs. '000	Total weighted value Rs. '000
Total stock of high-quality liquid assets (HQLA)	**788,932,254**	**788,514,204**	560,865,001	559,128,186
Total adjusted Level 1A assets	**789,711,440**	**789,711,440**	559,137,772	559,137,772
Level 1 assets	**787,746,153**	**787,746,153**	557,391,372	557,391,372
Total adjusted Level 2A assets	**500,000**	**425,000**	–	–
Level 2A assets	**500,000**	**425,000**	–	–
Total adjusted Level 2B assets	**686,100**	**343,050**	3,473,629	1,736,814
Level 2B assets	**686,100**	**343,050**	3,473,629	1,736,814
Total cash outflows	**1,493,012,180**	**283,885,370**	1,483,215,394	301,166,630
Deposits	**1,212,597,820**	**121,259,782**	1,174,723,061	117,472,306
Unsecured wholesale funding	**241,474,027**	**158,369,494**	279,963,300	180,014,686
Secured funding transactions	**25,992,671**	**–**	14,529,768	–
Undrawn portion of committed (Irrevocable) facilities and other contingent funding obligations	**12,363,356**	**3,671,788**	13,384,008	3,064,381
Additional requirements	**584,307**	**584,307**	615,257	615,257
Total cash inflows	**40,224,812**	**15,417,697**	24,225,947	12,347,005
Maturing secured lending transactions backed by collateral	**13,241,124**	**3,563,632**	5,246,374	4,507,345
Committed facilities	**–**	**–**	–	–
Other inflows by counterparty which are maturing within 30 days	**20,491,958**	**11,850,077**	13,159,177	7,835,640
Operational deposits	**6,484,677**	**–**	5,812,357	–
Other cash inflows	**7,052**	**3,988**	8,038	4,019
Liquidity coverage ratio (%) (stock of high quality liquid assets/total net cash outflow over the next 30 calendar days)*100	**–**	**293.71**	–	193.59

Basel III Disclosures as per Schedule III of Banking Act Direction No. 1 of 2016

Computation of Net Stable Funding Ratio (Bank)

As at 31 December Item	2023 Rs. '000	2022 Rs. '000
Total available stable funding	**1,130,807,499**	1,127,944,641
Required stable funding-on balance sheet assets	**626,157,020**	624,406,071
Required stable funding-off balance sheet items	**366,395**	473,176
Total required stable funding	**626,523,415**	624,879,247
Net stable funding ratio (NSFR)	**180.49**	180.51

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	27th October 2020
Par value of instrument	100
Perpetual or dated	Perpetual
Original maturity date	–
Amount recognised in regulatory capital (Rs. '000)	5,000,000
Accounting classification (equity/liability)	Liability
Issuer call subject to prior supervisory approval	
Optional call date, contingent call dates and redemption amount (Rs. '000)	N/A
Subsequent call dates	N/A
Coupons/dividends	
Fixed or floating dividend/coupon	Floating/Fixed
Coupon rate and any related index	Six (06) months Treasury Bill Rate +1.50%/9.25%(Fixed)
Non-cumulative or cumulative	Non-Cumulative
Convertible or non-convertible	
If convertible, conversion trigger(s)	N/A
If convertible, fully or partially	N/A
If convertible, mandatory or optional	N/A
If convertible, conversion rate	N/A

Summary discussion on adequacy/meeting current and future capital requirements

For summary discussion on adequacy/meeting current and future capital requirements, refer Risk Management Report on pages 191 to 213.

Basel III Disclosures as per Schedule III of Banking Act Direction No. 1 of 2016

Credit Risk under Standardised Approach (Bank)

Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects

As at 31 December 2023	Exposures before credit conversion factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA density	
Item	On-balance sheet amount Rs. '000	Off-balance sheet amount Rs. '000	On-balance sheet amount Rs. '000	Off-balance sheet amount Rs. '000	RWA Rs. '000	RWA density (*)
Claims on Central Government and CBSL	882,539,471	–	872,840,857	–	–	–
Claims on foreign sovereigns and their central banks	–	–	–	–	–	–
Claims on public sector entities	205,403,399	972,220	833,012	12,965	845,977	100.00
Claims on official entities and multilateral development banks	–	–	–	–	–	–
Claims on banks exposures	29,757,459	3,697,912	29,757,459	1,513,958	14,035,006	44.88
Claims on financial institutions	1,101,489	–	1,101,489	–	940,851	85.42
Claims on corporates	2,849,304	–	2,849,304	–	1,394,309	48.94
Retail claims	359,083,550	2,104,277	316,967,314	–	167,587,537	52.87
Claims secured by residential property	69,535,793	177,024	69,535,793	88,512	24,799,480	35.62
Claims secured by commercial real estate	–	–	–	–	–	–
Non-performing assets (NPAs)	11,065,122	–	11,065,122	–	9,783,016	88.41
Higher risk categories	558,200	–	558,200	–	1,395,502	250.00
Cash items and other assets	37,025,673	2,480,750	37,025,673	2,480,750	36,473,589	92.32
Total	1,598,919,461	9,432,184	1,342,534,224	4,096,187	257,255,268	19.10

Note: (*) RWA Density - Total RWA/Exposures post CCF and CRM.

Basel III Disclosures as per Schedule III of Banking Act Direction No. 1 of 2016

Credit Risk under Standardised Approach (Group)

Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects

As at 31 December 2023	Exposures before credit conversion factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA density	
Item	On-balance sheet amount Rs. '000	Off-balance sheet amount Rs. '000	On-balance sheet amount Rs. '000	Off-balance sheet amount Rs. '000	RWA Rs. '000	RWA density (*)
Claims on Central Government and CBSL	888,017,032	–	881,610,757	–	–	–
Claims on foreign sovereigns and their central banks	–	–	–	–	–	–
Claims on public sector entities	205,403,564	972,220	833,176	12,965	846,141	100.00
Claims on official entities and multilateral development banks	–	–	–	–	–	–
Claims on banks exposures	30,891,821	3,697,912	30,891,821	1,513,958	14,473,200	44.66
Claims on financial institutions	1,625,705	–	1,625,705	–	1,202,959	74.00
Claims on corporates	2,854,869	–	2,854,869	–	1,399,874	49.03
Retail claims	359,565,789	2,104,477	317,446,736	100	167,974,778	52.91
Claims secured by residential property	69,637,279	179,787	69,637,279	89,894	24,902,346	35.71
Claims secured by commercial real estate	–	–	–	–	–	–
Non-performing assets (NPAs)	11,112,352	–	11,112,352	–	9,829,458	88.46
Higher risk categories	–	–	–	–	–	–
Cash items and other assets	38,646,857	2,521,908	38,646,857	2,521,908	38,132,990	92.63
Total	1,607,755,267	9,476,305	1,354,659,552	4,138,826	258,761,749	19.04

Note: (*) RWA Density - Total RWA/Exposures post CCF and CRM.

Basel III Disclosures as per Schedule III of Banking Act Direction No. 1 of 2016

Credit Risk under Standardised Approach: Exposures by Asset Classes and Risk Weights (Bank)

As at 31 December 2023 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	872,840,857	–	–	–	–	–	–	–	872,840,858
Claims on foreign sovereigns and their central banks	–	–	–	–	–	–	–	–	–
Claims on public sector entities	–	–	–	–	–	845,977	–	–	845,977
Claims on official entities and multilateral development banks	–	–	–	–	–	–	–	–	–
Claims on banks exposures	–	6,173,256	–	24,595,612	–	502,549	–	–	31,271,417
Claims on financial institutions	–	–	–	321,277	–	780,212	–	–	1,101,489
Claims on corporates	–	535,140	–	2,053,766	–	260,398	–	–	2,849,303
Retail claims	93,806,650	–	–	–	222,292,506	868,158	–	–	316,967,314
Claims secured by residential property	–	–	68,961,270	–	–	663,035	–	–	69,624,305
Claims secured by commercial real estate	–	–	–	–	–	–	–	–	–
Non-performing assets (NPAs)	–	–	–	3,544,588	–	6,540,158	980,376	–	11,065,122
Higher risk categories	–	–	–	–	–	–	–	558,200	558,200
Cash items and other assets	2,963,569	86,582	–	–	–	36,456,273	–	–	39,506,424
Total	969,611,076	6,794,977	68,961,270	30,515,243	222,292,506	46,916,761	980,376	558,200	1,346,630,410

Credit Risk under Standardised Approach: Exposures by Asset Classes and Risk Weights (Group)

As at 31 December 2023 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	881,610,757	–	–	–	–	–	–	–	881,610,758
Claims on foreign sovereigns and their central banks	–	–	–	–	–	–	–	–	–
Claims on public sector entities	–	–	–	–	–	846,141	–	–	846,141
Claims on official entities and multilateral development banks	–	–	–	–	–	–	–	–	–
Claims on banks exposures	–	6,603,213	–	25,300,017	–	502,549	–	–	32,405,780
Claims on financial institutions	–	–	–	845,493	–	780,212	–	–	1,625,705
Claims on corporates	–	535,140	–	2,053,766	–	265,963	–	–	2,854,868
Retail claims	93,806,650	–	–	–	222,661,633	978,553	–	–	317,446,836
Claims secured by residential property	–	–	68,961,270	–	–	765,902	–	–	69,727,172
Claims secured by commercial real estate	–	–	–	–	–	–	–	–	–
Non-performing assets (NPAs)	–	–	–	3,548,528	–	6,581,082	982,742	–	11,112,352
Higher risk categories	–	–	–	–	–	–	–	–	–
Cash items and other assets	2,966,510	86,582	–	–	–	38,115,674	–	–	41,168,765
Total	978,383,917	7,224,935	68,961,270	31,747,805	222,661,633	48,836,076	982,742	–	1,358,798,378

Basel III Disclosures as per Schedule III of Banking Act Direction No. 1 of 2016

Market Risk under Standardised Measurement Method

As at 31 December Item	Bank RWA amount 2023 Rs. '000	Group RWA amount 2023 Rs. '000
(a) RWA for interest rate risk	6,201,553	8,567,916
General interest rate risk	6,201,553	8,567,916
(i) Net long or short position	6,201,553	8,567,916
(ii) Horizontal disallowance	–	–
(iii) Vertical disallowance	–	–
(iv) Options	–	–
Specific interest rate risk	–	–
(b) RWA for equity	1,777,528	1,753,036
(i) General equity risk	987,246	973,358
(ii) Specific equity risk	790,283	779,677
(c) RWA for Foreign Exchange and Gold	1,414,411	1,414,411
Capital charge for market risk [(a)+(b)+(c)] *CAR	1,174,188	1,466,921

Operational Risk under Basic Indicator Approach

Bank

Capital charge	Capital charge factor %	Gross income as at 31 December 2023 1st year Rs. '000	 2nd year Rs. '000	 3rd year Rs. '000	Rs. '000
The basic indicator approach	15	58,100,713	34,079,124	32,839,381	
Capital charge					6,250,961
Risk weighted amount for operational risk					50,007,688

Group

Capital charge	Capital charge factor %	Gross income as at 31 December 2023 1st year Rs. '000	 2nd year Rs. '000	 3rd year Rs. '000	Rs. '000
The basic indicator approach	15	58,466,126	32,834,430	37,734,740	
Capital charge					6,451,765
Risk weighted amount for operational risk					51,614,112

Basel III Disclosures as per Schedule III of Banking Act Direction No. 1 of 2016

Differences between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories

Bank only

As at 31 December 2023	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	1,686,964,591	1,686,964,591	1,337,847,178	76,896,390	272,221,023
Cash and cash equivalents	9,508,563	9,508,563	9,474,242	34,321	–
Balances with Central Bank	246,998	246,998	246,998	–	–
Placements with banks	22,576,750	22,576,750	22,576,750	–	–
Derivative financial instruments	924	924	–	–	924
Financial assets recognised through profit or loss measured at fair value/other financial assets held for trading	17,748,501	17,748,501	–	17,427,071	321,430
Financial assets designated at fair value through profit or loss	–	–	–	–	–
Financial assets at amortised cost:	–	–	–	–	–
– **Loans and advances**	–	–	–	–	–
– Loans and receivables to banks	2,430,842	2,430,842	384,437	–	2,046,405
– Loans and receivables to other customers	524,089,688	524,089,688	270,074,826	–	254,014,862
– **Debt and other instruments/financial Investments held to maturity**	943,704,684	943,704,684	943,704,684	–	–
Financial assets measured at fair value through OCI/financial investments available for sale	61,924,412	61,924,412	34,815	59,434,998	2,454,598
Investments in subsidiaries	7,311,000	7,311,000	558,200	–	6,752,800
Investments in associates and joint ventures	–	–	–	–	–
Property, plant and equipment	17,248,961	17,248,961	17,248,961	–	–
Investment properties	–	–	–	–	–
Intangible assets	744,715	744,715	–	–	744,715
Deferred tax assets	5,885,288	5,885,288	–	–	5,885,288
Other assets	73,543,265	73,543,265	73,543,265	–	–

Basel III Disclosures as per Schedule III of Banking Act Direction No. 1 of 2016

Differences between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories (Contd.)

Bank only (Contd.)

As at 31 December 2023	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	1,605,590,338	1,605,590,338	–	–	–
Due to banks	8,984,779	8,984,779	–	–	–
Derivative financial instruments	201	201	–	–	–
Financial liabilities recognised through profit	–	–	–	–	–
Financial liabilities at amortised cost:	–	–	–	–	–
– Due to depositors	1,482,532,430	1,482,532,430	–	–	–
– Due to debt securities holders	–	–	–	–	–
– Due to other borrowers	61,611,014	61,611,014	–	–	–
Debt securities issued	18,698,020	18,698,020	–	–	–
Retirement benefit obligations	18,100,399	18,100,399	–	–	–
Current tax liabilities	–	–	–	–	–
Deferred tax liabilities	–	–	–	–	–
Other provisions	–	–	–	–	–
Other liabilities	10,555,001	10,555,001	–	–	–
Due to subsidiaries	–	–	–	–	–
Subordinated term debt	5,108,493	5,108,493	–	–	–
Off-balance sheet liabilities	9,884,874	9,884,874	7,327,906	–	2,556,967
Guarantees	2,104,277	2,104,277	–	–	2,104,277
Performance bonds	–	–	–	–	–
Letters of credit	452,690	452,690	–	–	452,690
Other contingent items	1,346,162	1,346,162	1,346,162	–	–
Undrawn loan commitments	3,500,994	3,500,994	3,500,994	–	–
Other commitments	2,480,750	2,480,750	2,480,750	–	–
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	14,408,117	14,408,117	–	–	–
Accumulated other comprehensive income	1,286,464	1,286,464	–	–	–
Other reserves	56,279,672	56,279,672	–	–	–
Total shareholders' equity	81,374,253	81,374,253	–	–	–

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 191 to 213.

D-SIB Assessment Exercise – 2023

(As per the Banking Act Direction No. 10 of 2019)	Group Rs. Mn.
Size indicator	
Section 1 – Total exposures	
Total exposures measure	1,800,375
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)	30,685
(i) Funds deposited	28,310
(ii) Lending	2,375
b. Holdings of securities issued by other financial institutions	4,932
c. Net positive current exposure of securities financing transactions (SFTs) with other financial institutions	4,712
d. Over-the-counter (OTC) derivatives with other financial institutions that have a net positive mark to market value	1
Intra-financial system assets	40,330
Section 3 – Intra-financial system liabilities	
a. Funds deposited by or borrowed from other financial institutions (including unused portion of committed lines obtained)	2,685
(i) Funds deposited	2,493
(ii) Borrowings	192
b. Net negative current exposure of securities financing transactions with other financial institutions	654
c. Over-the-counter derivatives with other financial institutions that have a net negative mark to market value	–
Intra-financial system liabilities	3,339
Section 4 – Securities outstanding	
Securities outstanding	23,880
Substitutability/Financial institution infrastructure indicators	
Section 5 – Payments made in the reporting year (excluding intragroup payments)	
Payments activity	1,332,702
Section 6 – Assets Under custody	
Assets under custody	–
Section 7 – Underwritten transaction	
Underwritten transaction	–
Section 8 – Trading volume	
Trading Volume (Number of shares)	52,259,954

D-SIB Assessment Exercise – 2023

(As per the Banking Act Direction No. 10 of 2019)	Group Rs. Mn.
Complexity indicators	
Section 9 – Notional amount of over-the-counter (OTC) Derivatives	
OTC derivatives	1,346
Section 10 – Level 2 assets	
Level 2 assets	1,190
Section 11 – Trading and available-for-sale (AFS) securities	
Trading and available for sale (AFS) securities	102,895
a. debt instruments	98,824
b. equity instruments	4,060
c. derivatives	11
Section 12 – Cross-jurisdictional liabilities	
Foreign liabilities (excluding derivatives and intragroup liabilities)	1,426
Cross-jurisdictional liabilities	
Section 13 – Cross-jurisdictional claims	
Foreign claims (excluding derivatives and intragroup claims)	3,638
Cross-jurisdictional claims	

GRI content index

Statement of use

National Savings Bank has reported the information cited in this GRI content index for the period 1 January 2023 to 31 December 2023 with reference to the GRI Standards.

GRI 1 used

GRI 1: Foundation 2021

GRI Standard	Disclosure		Location/Explanation
GRI 2: General Disclosures 2021	2-1	Organisational details	**9**
	2-2	Entities included in the organisation's sustainability reporting	**3**
	2-3	Reporting period, frequency and contact point	**3-5**
	2-4	Restatements of information	**3-4**
	2-5	External assurance	**153**
	2-6	Activities, value chain and other business relationships	**60**
	2-7	Employees	**124-135**
	2-8	Workers who are not employees	**128**
	2-9	Governance structure and composition	**170**
	2-10	Nomination and selection of the highest governance body	**177**
	2-11	Chair of the highest governance body	**170**
	2-12	Role of the highest governance body in overseeing The management of impacts	**178**
	2-13	Delegation of responsibility for managing impacts	**170**
	2-14	Role of the highest governance body in sustainability reporting	**64**
	2-15	Conflicts of interest	**173, 180**
	2-16	Communication of critical concerns	**178-179**
	2-17	Collective knowledge of the highest governance body	**158-160**
	2-18	Evaluation of the performance of the highest governance body	**181**
	2-19	Remuneration policies	**131, 181**
	2-20	Process to determine remuneration	**181**
	2-21	Annual total compensation ratio	**266-268**
	2-22	Statement on sustainable development strategy	**63-66**
	2-23	Policy commitments	**134**
	2-24	Embedding policy commitments	**134**
	2-25	Processes to remediate negative impacts	**132-134**
	2-26	Mechanisms for seeking advice and raising concerns	**132-134**
	2-27	Compliance with laws and regulations	**143-144**
	2-28	Membership associations	**143**
	2-29	Approach to stakeholder engagement	**81-93**
	2-30	Collective bargaining agreements	**130**
GRI 3: Material Topics 2021	3-1	Process to determine material topics	**45**
	3-2	List of material topics	**47**
	3-3	Management of material topics	**48-59**

GRI content index

GRI Standard	Disclosure		Location/Explanation
GRI 201: Economic Performance 2016	201-1	Direct economic value generated and distributed	**98**
	201-2	Financial implications and other risks and opportunities due to climate change	**146-150**
	201-3	Defined benefit plan obligations and other retirement plans	**132, 255-257, 316-327**
GRI 202: Market Presence 2016	202-1	Ratios of standard entry level wage by gender compared to local minimum wage	**131**
	202-2	Proportion of senior management hired from the local community	**129**
GRI 203: Indirect Economic Impacts 2016	203-1	Infrastructure investments and services supported	**107**
GRI 204: Procurement Practices 2016	204-1	Proportion of spending on local suppliers	**142**
GRI 205: Anti-corruption 2016	205-2	Communication and training about anti-corruption policies and procedures	**143-144**
	205-3	Confirmed incidents of corruption and actions taken	**144**
GRI 206: Anti-competitive Behaviour 2016	206-1	Legal actions for anti-competitive behaviour, anti-trust and monopoly practices	**144**
GRI 207: Tax 2019	207-1	Approach to tax	**258, 269-270**
	207-2	Tax governance, control, and risk management	**258, 269-270**
	207-3	Stakeholder engagement and management of concerns related to tax	**101, 258, 269-270**
GRI 302: Energy 2016	302-1	Energy consumption within the organisation	**149**
GRI 303: Water and Effluents 2018	303-5	Water consumption	**149**
GRI 401: Employment 2016	401-1	New employee hires and employee turnover	**129, 134-135**
	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	**131-133**
	401-3	Parental leave	**134**

GRI content index

GRI Standard	Disclosure		Location/Explanation
GRI 403: Occupational Health and Safety 2018	403-9	Work-related injuries	**134**
GRI 404: Training and Education 2016	404-1	Average hours of training per year per employee	**124**
	404-2	Programs for upgrading employee skills and transition assistance programs	**130-131**
	404-3	Percentage of employees receiving regular performance and career development reviews	**132**
GRI 405: Diversity and Equal Opportunity 2016	405-1	Diversity of governance bodies and employees	**128, 134**
	405-2	Ratio of basic salary and remuneration of women to men	**131-132**
GRI 406: Non-discrimination 2016	406-1	Incidents of discrimination and corrective actions taken	**134**
GRI 413: Local Communities 2016	413-1	Operations with local community engagement, impact assessments, and development programs	**145**
GRI 417: Marketing and Labelling 2016	417-2	Incidents of non-compliance concerning product and service information and labelling	**140**
	417-3	Incidents of non-compliance concerning marketing communications	**140**
GRI 418: Customer Privacy 2016	418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	**140**

Income Statement in US Dollars

For the year ended 31 December	Bank 2023 USD '000	Bank 2022 USD '000	Bank Change %	Group 2023 USD '000	Group 2022 USD '000	Group Change %
Gross income	716,298	476,849	50	737,165	478,070	54
Interest income	700,565	472,505	48	713,643	480,236	49
Less: Interest expenses	609,308	383,810	59	615,065	388,424	58
Net interest income	91,257	88,695	3	98,578	91,811	7
Fee and commission income	4,918	5,937	(17)	4,956	5,957	(17)
Less: Fee and commission expenses	979	636	54	979	643	52
Net fee and commission income	3,940	5,301	(26)	3,976	5,314	(25)
Net gain/(loss) from trading	4,401	(2,654)	266	11,426	(9,535)	220
Net fair value gains/(losses) from financial instruments at fair value through profit or loss	–	–	–	–	–	–
Net gains/(losses) from de-recognition of financial assets	5,620	(72)	7,950	5,620	(72)	7,950
Net other operating income	794	1,133	(30)	1,520	1,484	2
Total operating income	106,011	92,403	15	121,121	89,003	36
Less: Impairment charges	13,145	13,284	(1)	12,840	13,484	(5)
Net operating income	92,866	79,119	17	108,280	75,519	43
Less: Expenses						
Personnel expenses	49,727	37,678	32	50,697	38,572	31
Depreciation and amortisation expenses	4,422	3,865	14	4,471	3,912	14
Other expenses	21,466	16,366	31	21,908	17,356	26
Operating profit before VAT and SSCL on financial services	17,251	21,209	(19)	31,204	15,678	99
Less: Value Added Tax (VAT) on financial services	3,527	8,704	(59)	5,657	9,089	(38)
Social Security Contribution Levy (SSCL) on financial services	490	184	167	785	197	299
Operating profit after VAT and SSCL on financial services	13,234	12,321	7	24,762	6,393	287
Share of profits of associates and joint ventures	–	–	–	–	–	–
Profit before income tax	13,234	12,321	7	24,762	6,393	287
Less: Income tax expenses	(9,041)	5,410	(267)	(4,921)	3,799	(230)
Profit for the year	22,275	6,912	222	29,684	2,593	1,045
Profit attributable to:						
Equity holders of the Bank	22,275	6,912	222	29,684	2,593	1,045
Non-controlling interests	–	–	–	–	–	–
Profit for the year	22,275	6,912	222	29,684	2,593	1,045
Earnings per share on profit						
Basic earnings per ordinary share (USD)	0.02	0.01	222	0.03	0.00	1,045
Diluted earnings per ordinary share (USD)	0.02	0.01	222	0.03	0.00	1,045
Profit for the year	22,275	6,912	222	29,684	2,593	1,045

Statement of Comprehensive Income in US Dollars

For the year ended 31 December	Bank 2023 USD '000	Bank 2022 USD '000	Bank Change %	Group 2023 USD '000	Group 2022 USD '000	Group Change %
Profit for the year	22,275	6,912	222	29,684	2,593	1,045
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	11,551	(1,800)	742	12,097	(1,630)	842
Fair value gains/(losses) transferred to income statement on disposal of debt instrument at fair value through other comprehensive income	(5,620)	22	(26,092)	(5,620)	22	(26,092)
Deferred tax effect on above	(1,779)	604	(395)	(1,943)	604	(422)
Total items that will be reclassified to income statement	4,152	(1,175)	453	4,534	(1,004)	551
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	6,085	(1,589)	483	6,392	(1,759)	463
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	(18,851)	(2,406)	684	(18,849)	(2,410)	682
Deferred tax effect on above	5,321	3,347	59	5,320	3,347	59
Re-measurement of post-employment benefit obligations (net of taxes)	(13,530)	941	(1,537)	(13,529)	937	(1,544)
Changes in revaluation surplus	6,408	–	100	7,203	–	100
Deferred tax effect on above	(1,925)	(1,518)	27	(1,925)	(1,518)	27
Changes in revaluation surplus (net of taxes)	4,483	(1,518)	395	5,278	(1,518)	448
Share of profits of associates and joint ventures	–	–	–	–	–	–
Total items that will not be reclassified to income statement	(2,962)	(2,166)	37	(1,859)	(2,340)	(21)
Other comprehensive income for the year, net of taxes	1,190	(3,341)	136	2,675	(3,345)	180
Total comprehensive income for the year	23,465	3,571	557	32,358	(752)	4,403
Attributable to:						
Equity holders of the Bank	23,465	3,571	557	32,358	(752)	4,403
Non-controlling interests	–	–	–	–	–	–
Total comprehensive income for the year	23,465	3,571	557	32,358	(752)	4,403
US Dollars conversion rate (Rs.)	323.9773	366.0075		323.9773	366.0075	

Statement of Financial Position in US Dollars

As at 31 December	Bank 2023 USD '000	Bank 2022 USD '000	Bank Change %	Group 2023 USD '000	Group 2022 USD '000	Group Change %
Assets						
Cash and cash equivalents	29,349	23,863	23	29,467	23,996	23
Balances with central banks	762	646	18	763	647	18
Placements with banks	69,686	28,596	144	72,903	30,148	142
Derivative financial instruments	3	77	(96)	35	97	(64)
Financial assets recognised through profit or loss						
– measured at fair value	54,783	38,726	41	124,049	63,487	95
– designated at fair value	–	–	–	–	–	–
Financial assets at amortised cost						
– loans and advances	1,625,177	1,510,973	8	1,616,808	1,511,041	7
– debt and other instruments	2,912,873	2,511,231	16	2,941,738	2,535,239	16
Financial assets measured at fair value through other comprehensive income	191,138	75,580	153	193,515	77,190	151
Investments in subsidiaries	22,566	19,975	13	–	–	–
Investments in associates and joint ventures	–	–	–	–	–	–
Property, plant and equipment	53,241	40,316	32	56,761	42,747	33
Right-of-used assets	3,595	3,316	8	3,683	3,405	8
Investment properties	–	–	–	1,077	560	92
Goodwill and intangible assets	2,299	2,042	13	2,306	2,055	12
Deferred tax assets	18,166	7,904	130	18,166	10,010	81
Other assets	223,407	153,841	45	223,998	154,578	45
Total assets	5,207,046	4,417,085	18	5,285,271	4,455,200	19
Liabilities						
Due to banks	27,733	11,166	148	47,531	34,729	37
Derivative financial instruments	1	–	100	1	–	100
Financial liabilities recognised through profit or loss	–	–	–	–	–	–
Financial liabilities at amortised cost						
– due to depositors	4,576,038	4,034,726	13	4,577,330	4,032,181	14
– due to debt securities holders	–	–	–	–	–	–
– due to other borrowers	190,171	45,808	315	224,990	51,609	336
Lease Liability	4,215	3,763	12	4,323	3,866	12
Debt securities issued	73,482	64,967	13	73,708	65,168	13
Retirement benefit obligations	55,869	34,122	64	56,081	34,283	64
Current tax liabilities	–	7,543	(100)	944	8,042	(88)
Deferred tax liabilities	–	–	–	181	11	1,494
Other provisions	–	–	–	–	–	–
Other liabilities	28,365	15,836	79	29,210	16,600	76
Due to subsidiaries	–	–	–	–	–	–
Total liabilities	4,955,873	4,217,930	17	5,014,300	4,246,490	18
Equity						
Stated capital/assigned capital	29,014	25,683	13	29,014	25,683	13
Statutory reserve fund	16,573	14,275	16	16,866	14,431	17
Retained earnings	44,473	31,035	43	57,429	37,128	55
Other reserves	161,113	128,162	26	167,661	131,469	28
Total shareholders' equity	251,173	199,155	26	270,971	208,711	30
Non-controlling interests	–	–	–	–	–	–
Total equity	251,173	199,155	26	270,971	208,711	30
Total equity and liabilities	5,207,046	4,417,085	18	5,285,271	4,455,200	19
Contingent liabilities and commitments	30,511	39,389	(23)	30,647	39,939	(23)
US Dollars conversion rate (Rs.)	323.9773	366.0075		323.9773	366.0075	

Statistical indicators 2014-2023

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Operating results (Rs. Mn.)										
Gross income	232,064	174,530	134,939	127,547	121,929	111,902	107,996	87,399	79,282	77,890
Interest income	226,967	172,940	131,438	122,512	118,730	110,507	103,579	86,390	78,128	74,023
Interest expenses	197,402	140,477	76,809	87,622	89,898	85,622	78,445	60,923	51,146	52,642
Net interest income	29,565	32,463	54,630	34,890	28,832	24,885	25,134	25,467	26,983	21,380
Other income	4,780	1,357	3,293	4,881	3,067	1,254	4,308	872	1,043	3,798
Operating expenses, impairment and VAT	30,058	29,311	29,542	24,126	21,438	18,197	15,307	13,036	14,991	14,706
Profit before tax	4,287	4,510	28,381	15,645	10,462	7,941	14,135	13,303	13,034	10,472
Income tax	(2,929)	1,980	6,262	5,537	4,080	3,441	4,419	3,805	4,361	3,606
Profit after tax	7,216	2,530	22,120	10,108	6,381	4,500	9,716	9,498	8,672	6,867
Dividends paid	–	–	3,500	1,000	2,000	500	5,111	12,026	2,800	4,000
Assets (Rs. Mn.)										
Cash and short-term funds	9,756	8,971	7,656	6,492	5,377	3,435	3,850	4,620	3,240	1,927
Loans and advances	526,521	553,027	538,942	516,795	454,395	422,895	375,704	323,811	271,751	222,696
Investments	1,053,266	978,772	980,672	798,811	647,760	565,841	593,333	554,235	549,743	534,485
Property, plant and equipment	19,158	16,717	17,068	17,230	15,237	13,466	12,396	7,277	7,025	5,594
Other assets	78,264	59,200	34,760	24,480	35,198	31,209	25,696	21,761	16,320	14,764
Total	1,686,965	1,616,686	1,579,098	1,363,808	1,157,967	1,036,846	1,010,977	911,704	848,079	779,466
Liabilities and shareholders' funds (Rs. Mn.)										
Total deposits	1,482,532	1,476,740	1,428,467	1,237,124	1,016,574	839,574	737,213	657,280	595,776	554,060
Repo/borrowings/subordinated liabilities	94,402	44,631	52,935	52,796	82,940	144,313	224,143	213,162	207,101	191,192
Deferred taxation	–	–	–	–	482	582	507	416	504	270
Other liabilities	28,657	22,423	21,683	19,475	12,045	9,280	10,019	8,600	12,274	10,684
Shareholders' funds	81,374	72,892	76,013	54,414	45,925	43,095	39,096	32,246	32,424	23,260
Total	1,686,965	1,616,686	1,579,098	1,363,808	1,157,967	1,036,846	1,010,977	911,704	848,079	779,466
Performance ratios (%)										
Income growth	32.97	29.34	5.80	4.61	8.96	3.62	23.57	10.24	1.79	18.78
Interest margin	1.79	2.03	3.71	2.77	2.63	2.43	2.61	2.89	3.32	2.98
NIM/gross income	12.74	18.60	40.48	27.35	23.65	22.24	23.27	29.14	34.03	27.45
Personnel cost/gross income	6.94	7.90	9.61	7.81	8.33	8.28	6.38	7.13	7.46	6.16
Overheads (excluding VAT and provision)/gross income	10.69	12.28	14.29	12.25	12.96	12.72	10.33	11.99	13.28	11.89
Profit before tax/gross income	1.85	2.58	21.03	12.27	8.58	7.10	13.09	15.22	16.44	13.44
Cost to deposits	1.77	1.70	1.91	1.72	2.26	2.22	2.10	2.12	2.25	2.14
Cost to income with financial taxes	75.34	72.48	43.77	48.61	65.57	66.47	49.58	50.13	46.07	44.76
Cost to income without financial taxes	71.59	62.93	33.17	39.12	49.35	54.18	37.75	39.59	37.41	36.69
Return on average shareholders' funds (ROE)	9.36	3.40	33.92	20.15	14.34	10.95	27.24	29.37	31.15	30.20
Return on average assets (ROA)	0.26	0.28	1.93	1.24	0.95	0.78	1.47	1.51	1.60	1.46
Provision coverage – IFRS	91.34	75.22	73.52	61.88	59.06	62.68	54.73	36.14	34.07	24.12
Net Stage 3 loans to total loans	2.41	2.82	2.54	2.28	1.48	1.05	0.99			
Stage 3 provision coverage	53.28	38.86	31.52	30.38	26.20	30.66	28.41			
Assets and liabilities related ratios (%)										
Assets growth	4.35	2.38	15.79	17.78	11.68	2.56	10.89	7.50	8.80	19.12
Loans growth	(4.79)	2.61	4.29	13.73	7.45	12.56	16.03	19.16	22.03	33.82
Deposits growth	0.39	3.38	15.47	21.70	21.08	13.88	12.16	10.32	7.53	10.39
Government securities to deposits – Bank	68.62	64.76	67.38	62.65	60.89	60.94	62.40	66.68	73.92	69.51
Loans to deposits	35.51	37.45	37.73	41.77	44.70	50.37	50.96	49.27	45.61	40.19

Statistical indicators 2014-2023

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Deposits as a percentage of assets	87.88	91.34	90.46	90.71	87.79	80.97	72.92	72.09	70.25	71.08
Liquidity ratios (%)										
Statutory Liquid Assets Ratio (Minimum 20%)	54.99	40.62	59.63	69.10	60.20	54.88	73.44	72.56	81.08	91.50
Rupee Liquidity Coverage Ratio (Minimum 100%)	299.20	195.44	240.84	311.02	278.12	245.06	377.57	379.26	441.19	–
All Currency Liquidity Coverage Ratio (Minimum 100%)	293.71	193.49	240.43	307.22	276.64	321.29	376.18	393.96	445.88	–
Net Stable Funding Ratio (Minimum 100%)	180.49	180.51	160.78	168.54	175.18	146.67	–	–	–	–
Capital and related ratios (%)										
Capital adequacy – Tier I (Minimum 5%)			–	–	–	–	–	12.53	17.90	20.46
Capital adequacy – Tier II (Minimum 10%)			–	–	–	–	–	14.68	16.40	18.98
Basel III – Tier I (Minimum 8.5%)	16.91	15.78	18.70	13.65	13.49	13.08	11.93	11.31	–	–
Basel III – Total Capital (Minimum 12.5%)	19.26	18.00	20.83	16.45	15.82	15.90	15.31	13.86	–	–
Leverage Ratio– Minimum requirement (3%)	6.22	7.43	8.93	6.64	5.76	4.76				
Employee statistics and ratios (%)										
Number of employees	4358	4528	4616	4,641	4,715	4,512	4,470	4,384	3,636	3,358
Profit per employee (Rs. '000)	984	996	6,148	3,371	2,219	1,760	3,162	3,034	3,585	3,119
Deposit per employee (Rs. '000)	340,186	326,135	309,460	266,564	215,604	186,076	164,925	149,927	163,855	164,997
Other information (Nos.)										
Number of branches	262	262	261	259	256	255	253	250	245	236
Post offices/sub post offices	4,006	3,996	4,064	4,063	4,063	4,062	4,062	4,061	4,063	4,063
Number of active accounts (Mn.)	13.03	12.98	12.91	12.63	12.25	11.84	11.39	10.84	10.54	10.22

Analysis of deposits

	2023 Rs. Mn.	2022 Rs. Mn.	2021 Rs. Mn.	2020 Rs. Mn.	2019 Rs. Mn.	2018 Rs. Mn.	2017 Rs. Mn.	2016 Rs. Mn.	2015 Rs. Mn.	2014 Rs. Mn.
Local currency deposits										
Savings	272,106	257,569	320,887	275,839	215,010	194,946	185,201	173,583	160,814	139,384
Time	1,183,554	1,192,621	1,091,918	945,650	789,540	633,632	542,647	475,220	427,588	408,309
	1,455,660	1,450,190	1,412,805	1,221,489	1,004,549	828,579	727,849	648,803	588,402	547,692
Growth %	0.4	2.6	15.7	21.6	21.2	13.8	12.2	10.3	7.4	11.1
Foreign currency deposits										
Savings	6,100	6,970	4,733	4,194	3,541	3,376	2,990	2,764	2,568	2,215
Time	20,773	19,580	10,930	11,441	8,484	7,620	6,373	5,714	4,806	4,153
	26,873	26,550	15,662	15,635	12,025	10,996	9,364	8,478	7,373	6,368
Growth %	1.2	69.5	0.2	30.0	9.4	17.4	10.5	15.0	15.8	-27.3
Total deposits	1,482,532	1,476,740	1,428,467	1,237,124	1,016,574	839,574	737,213	657,280	595,776	554,060
Growth %	0.4	3.4	15.5	21.7	21.1	13.9	12.2	10.3	7.5	10.4

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Al Ansari Exchange LLC
Al Ansari Business Centre
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Al Fardan Exchange – Qatar
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Korea Post
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339-012 Sejong City,
Republic of Korea
www.koreapost.go.kr

Glossary of Financial and Banking Terms

A

Actuarial Assumptions
An entity's unbiased and mutually compatible best estimates of the demographic and financial variable that will determine the ultimate cost of providing post-employment benefits.

Accounting policies
The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

Accrual basis
Recognizing the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalent.

Actuarial gain/Loss
Gain or loss arising from the difference between estimates and actual experience in an entity's pension plan.

Amortisation
The systematic allocation of the depreciable amount of an intangible asset over its useful life.

Amortised cost
The amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and minus any reduction for impairment or uncollectability.

Available-for-sale financial assets
Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for sale or are not classified as loans and receivables, held to-maturity investments or financial assets at fair value through profit or loss.

B

Basel III
Basel III is the global voluntary regulatory framework issued by the Basel Committee on Banking Supervision (BCBS) on Bank Capital Adequacy and Liquidity.

Basis point (BP)
One hundredth of a percentage point (0.01 per cent); 100 basis points is 1 percentage point. Used in quoting movements in interest rates or yields on securities.

Business model assessment
Business model assessment is carried out as the first step of the financial assets classification process. Business model refers to how an entity manages its financial assets in order to generate cash flows. It is determined at a level that reflects how groups of financial assets are managed rather than at an instrument level. SLFRS 9 identifies three types of business models: "hold to collect", "hold to collect and sell" and "other". In order to determine the business model, it is necessary to understand the objectives of each business model. An entity would need to consider all relevant information including, for example, how business performance is reported to the entity's Key Management personnel and how Managers of the business are compensated

C

Capital adequacy ratio
The percentage of risk-adjusted assets supported by capital as defined under the framework of risk-based capital standards developed by the Bank for International Settlements (BIS) and as modified to suit local requirements by the Central Bank of Sri Lanka.

Capital conservation buffer (CCB)
It is designed to ensure that banks build up capital buffers outside periods of stress which can be drawn down as losses are incurred. Should a bank's capital levels fall within the capital conservation buffer range, capital distributions will be constrained by the regulators.

Capital expenditure
Total of additions to property, plant, and equipment.

Capital gain (capital profit)
The gain on the disposal of an asset calculated by deducting the cost of the asset from the proceeds received on its disposal.

Capital reserves
Capital reserves consist of revaluation reserves arising from revaluation of properties owned by the Bank and Reserve Fund set aside for specific purposes defined under the Banking Act No. 30 of 1988 and shall not be reduced or impaired without the approval of the Monetary Board.

Carrying value
Value of an asset or a liability as per books of the Organisation before adjusting for fair value

Cash Generating Unit (CGU)
The smallest group of assets that independently generates cash flow and the cash flow is largely independent of the cash flows generated by other assets.

Cash equivalents
Short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Collective agreement
A tripartite agreement entered into among the NSB, Ministry of Finance and Trade Unions.

Collectively assessed loan impairment provisions
Also known as portfolio impairment provisions. Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses that has been incurred but has not yet been identified at the reporting date. Loans (housing, personal, auto loans etc.) are assessed on a portfolio basis

Commitments
Credit facilities approved but not yet utilized by the clients as at the reporting date.

Concentration risk
A condition or situation, the ultimate outcome of which (gain or loss) will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

Contingencies
A condition or situation, the ultimate outcome of which (gain or loss) will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

Corporate governance
The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the Management and the direction of entity, the supervision of executive actions and accountability to owners and others.

Glossary of Financial and Banking Terms

Cost/income ratio
Operating expenses excluding impairment provision and provisioning for fall in value in dealing securities as a percentage of net income.

Cost method
A method of accounting whereby the investment is recorded at cost. The Income Statement reflects income from the investment only to the extent that the investor receives distributions from accumulated net profits of the investee arising subsequent to the date of acquisition.

Credit ratings
An evaluation of a corporate's ability to repay its obligation or the likelihood of not defaulting, carried out by an independent rating agency.

Credit risk
Credit risk or default risk is most simply defined as the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms and conditions.

Currency SWAPs
The simultaneous purchase of an amount of a currency for spot settlement and the sale of the same amount of the same currency for forward settlement.

Customer deposits
Money deposited by account holders. Such funds are recorded as liabilities.

Credit risk mitigation
A technique to reduce the credit risk associated with an exposure by application of credit risk mitigants such as collateral, guarantee and credit protection.

D

Debt Restructuring/ Rescheduling
This is when the terms and provisions of outstanding debt agreements are changed. This is often done in order to improve cash flow and the ability of the borrower to repay the debt. It can involve altering the repayment schedules as well as debt or interest charge reduction

Dealing securities
Marketable securities that are acquired and held with the intention of reselling them in the short-term.

Debenture
A medium-term debt instrument issued by a corporate entity

Deferred taxation
Sum set aside for tax in the Financial Statements that will become payable in a financial year other than the current financial year.

Depreciation
The systematic allocation of the depreciable amount of an asset over its useful life.

Derecognition
Removal of previously recognised financial assets or financial liability from an entity's statement of financial position

Delinquency
A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. Loans and advances are considered to be delinquent when consecutive payments are missed. Also known as "Arrears"

Derivative
A derivative is a financial instrument or other contract, the value of which changes in response to some underlying variable (e.g., an interest rate).

Documentary letters of credit (LCs)
Written undertakings by a bank on behalf of its customers, authorising a third party to draw on the Bank up to a stipulated amount under specific terms and conditions. Such undertakings are established for the purpose of facilitating international trade.

Domestic systemically important banks (d-sibs)
Systemically Important Banks (SIBs) are perceived as banks that are "Too Big to Fail". D-SIBs are critical for the uninterrupted availability of essential banking services to the country's real economy even during crisis. The CBSL has designated LCBs with total assets equal to or greater than Rs. 500 Bn. as D-SIBs

Discount Rate
A rate used to place a current value on future cash flows. It is needed to reflect the fact that money has a time value

E

Earnings per ordinary share (EPS)
Profit attributable to ordinary shareholders divided by the number of ordinary shares in issue.

Economic value added (EVA)
A measure of productivity which takes into consideration cost of total invested equity.

Effective income tax rate
Provision for taxation divided by the profit before taxation.

Effective interest rate (EIR)
Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate a shorter period to the net carrying amount of the financial asset or financial liability.

Equity instrument
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all its liabilities

Equity method
The equity method is a method of accounting whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee

Equity risk
Risk of depreciating equity investments due to stock market dynamics.

Exposure at default (EAD)
EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest and expected drawdowns of committed facilities.

Expected credit losses (ECLs)
CL approach is the loan loss impairment method under SLFRS 9 on "Financial Instruments". ECLs are the discounted product of the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). ECL measurements are unbiased and are determined by evaluating a range of possible outcomes.

Exchange gain/loss
Profit earned on foreign currency transactions arising from the difference in foreign exchange rates between the transaction/ last reporting date and the settlement/ reporting date. Also arises from trading in foreign currencies

Glossary of Financial and Banking Terms

F

Fair value
The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Financial asset
Financial asset is any asset that is cash, an equity instrument of another entity or a contractual right to receive cash or another financial asset from another entity.

Financial assets measured at amortised cost
A financial asset is measured at amortised cost if the asset is held within a business model whose objective is to hold assets to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at fair value through other comprehensive income (FVOCI)
FVOCI include debt and equity instruments measured at fair value through other comprehensive income.
A debt instrument is measured at FVOCI, if it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Equity investments may be irrevocably classified as FVOCI when they meet the definition of Equity under LKAS 32 Financial Instruments: Presentation and are not held for trading.

Financial assets measured at fair value through profit or loss (FVPL)
All financial assets other than those classified at amortised cost or FVOCI are classified as measured at FVPL. These are held for trading or managed, and their performance is evaluated on a fair value basis as they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Financial instrument
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial liability
A contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity.

Foreclosed properties
Properties acquired in full or partial, satisfaction of debts.

Foreign currency risk
Risk exists in transaction other than the local currency. Adverse movements in foreign exchange rates may decline the value of assets/liabilities held in terms of foreign currency.

Foreign exchange contract
Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

G

General provisions
These are provisions made on loans and advances for anticipated losses on aggregate exposures where credit losses cannot yet be determined on an individual facility basis.

Group
A group is a parent and all its subsidiaries.

Guarantees
Three party agreement involving a promise by one party (the guarantor) to fulfil the obligations of a person owing a debt if that person fails to perform.

Global Reporting Initiatives (GRI)
The GRI is an international independent standards organisation that helps businesses, governments and other organisations to understand and communicate their impacts on issues such as climate change, human rights and corruption. GRI promotes sustainability reporting as a way for organisations to become more sustainable and contribute to sustainable development.

Going concern
The Financial Statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to liquidate or curtail materially or the scale of its operations.

Goodwill
An asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised.

H

Hedging
A strategy under which transactions are effected with the aim of providing cover against the risk of unfavourable price movements (interest rates and prices of commodities etc.).

Held-to-maturity investments (HTM)
Non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

Held-for-trading (HFT)
Debt and equity investments that are purchased with the intent of selling them within a short period of time (usually less than one year).

High quality liquid assets (HQLA)
HQLA are assets that can be easily and immediately converted into cash at little or no loss of value, that can be readily sold or used as collateral to obtain funds in a range of stress scenarios and are unencumbered, without legal, regulatory or operational impediments. These include, for example, cash and claims on central governments and central banks.

I

ICCAP
Process by which the Bank ensures additional capital is provided for banking risks other than those covered in Pillar.

Impairment
This occurs when recoverable amount of an asset is less than its carrying amount.

Impaired assets portfolio
Impaired assets portfolio is the total of the individually significant impaired loans and individually insignificant loans which are overdue above 180 days.

Glossary of Financial and Banking Terms

Impairment allowances
Impairment allowances are provisions held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred loss. An impairment allowance may either be identified or unidentified as individual (specific) or collective (portfolio) impairment allowance

Impairment charge/(reversal)
The difference between the carrying value of an asset and the sum of discounted future cash flows generating from the same asset.

Impaired loans
Impaired loans are loans where the Group does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

Individually assessed impairment
Exposure to loss is assessed on all individually significant accounts and all other accounts that do not qualify for collective assessment.

Intangible asset
An asset that is not physical in nature. Corporate intellectual property (items such as patents, trademarks, copyrights, business methodologies), goodwill software and brand recognition are all common intangible assets in today's marketplace.

Interest in suspense
Interest suspended on non-performing loans and advances.

Interest Margin
Net interest income expressed as a percentage of average interest earning assets.

Interest rate risk
The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Interest spread
The represents the difference between the average interest rate earned and the average interest rate paid on interest earning assets and interest-bearing liabilities, respectively. variables such as interest rates, exchange rates, credit spreads and other asset prices.

Investment properties
Investment property is property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use or sale.

Investment securities
Securities acquired and held for yield or capital growth purposes and are usually held-for maturity.

Interest rate SWAP
An agreement between two parties (known as counter parties) where one stream of future interest payments is exchanged for another stream of future interest payments based on a specified principal amount.

K

Key Managerial Personnel (KMP)
Key managerial personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

L

Leverage ratio
A measure that is the ratio of tier 1 capital to total exposures. This supplementary measure to the risk-based capital requirements is intended to constrain the build-up of excess leverage in the banking sector.

Liquid assets
Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, bills of exchange and Treasury Bills.

Liquid assets ratio
Assets that are held in cash or in a form that can be converted to cash readily (as prescribed by the Central Bank of Sri Lanka) divided by the total liabilities including contingent liabilities.

Lifetime expected credit losses (LTECL)
Assets that are held in cash or in a form that can be converted to cash readily (as prescribed by the Central Bank of Sri Lanka) divided by the total liabilities including contingent liabilities.

Liquidity coverage ratio – LCR
Ratio of stock of high-quality liquid assets available to total net cash outflows over next 30 calendar days. LCR is expected to improve the banking sector's ability to absorb shocks arising from financial and economic stress, thus, reducing the risk of spillover from the financial sector to the real economy.

Liquidity risk
The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Loans and advances
Conventional loan assets that are unquoted (originated or acquired).

Loss given default (LGD)
LGD is the percentage of an exposure that a lender expects to loose in the event of obligor default.

Loan-to-value ratio (LTV)
The loan-to-value (LTV) ratio is a financial term used by lenders to express the ratio of a loan to the value of an asset purchased. The term is commonly used to represent the ratio of the first mortgage lien as a percentage of the total appraised value of real property. The LTV ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower.

M

Market risk
This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

Materiality
The relative significance of a transaction or an event, the omission or misstatement of which could influence the decisions of users of Financial Statements.

N

Net interest income (NII)
The difference between the amount a bank earns on assets such as loans and securities and the amount it pays on liabilities such as deposits, refinance funds and inter-bank borrowings.

Net interest margin (NIM)
The margin is expressed as net interest income divided by average interest earning assets.

Non-performing loans (NPL)
The loans which are in default for more than three months.

NOSTRO accounts
A bank account held in foreign country by a domestic bank,

Glossary of Financial and Banking Terms

denominated in the currency of that country. Nostro accounts are used to facilitate the settlement of foreign exchange trade transactions.

NPL ratio
Total non-performing loans and advances (net of interest in suspense) divided by total loans and advances portfolio (net of interest in suspense).

Net stable funding ratio (NSFR)
Measures the amount of longer term, stable sources of funding employed by a bank relative to the liquidity profiles of the assets funded and the potential for contingent calls on funding liquidity arising from off balance sheet commitments and obligations.

Non-controlling interest/ minority interest
A loan or a receivable placed on cash basis (Interest income is only recognized when cash is received) because, in the opinion of management, there is reasonable doubt regarding the collectability of principal or interest.

O

Off-balance sheet transactions
Transactions that are not recognized as assets or liabilities in the Statement of Financial Position, but which give rise to contingencies and commitments.

Operational risk
This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events including legal risk.

Open credit exposure ratio
Total net non-performing loans and advances expressed as a percentage of regulatory capital base.

P

Parent
A parent is an entity that has one or more subsidiaries.

Portfolio
A pool of investments including investment in Government Securities, loans and advances, equities, etc.

Probability of default (PD)
PD is an internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation.

Projected Unit Credit Method (PUC)
An actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. Inclusion of a degree of caution in the exercise of judgement needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated, and liabilities or expenses are not understated.

R

Return on average assets (ROA)
Profit after tax expressed as a percentage of the average assets.

Return on average equity (ROE)
Net profit attributable to owners expressed as a percentage of average ordinary shareholders' equity.

Related parties
Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

Related party transaction (RPT)
RPT is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

REPOs
Repurchase agreements. Securities sold to lenders with the commitment to buy back on a later date at a fixed price plus interest.

Reverse repurchase agreement
Transaction involving the purchase of securities by a bank or a dealer and resale back to the seller at a future date at a specified price.

Revenue reserve
Reserves set aside for future distribution and investment.

Risk-weighted assets
The sum of assets as per the Statement of Financial Position and the credit equivalent of assets that are not on the Statement of Financial Position multiplied by the relevant risk weighting factors.

Rupee loan
Rupee securities issued by the Central Bank of Sri Lanka on behalf of the Government of Sri Lanka.

Remittances
A remittance is a transfer of money by a foreign worker to an individual in his or her home country.

S

Shareholders' funds
A capital reserve created as per the provisions of the Banking Act No. 30 of 1988.

Significant increase in credit risk (SICR)
According to SLFRS 9, an entity should assess whether the risk of default on a financial instrument has increased significantly since initial recognition. The assessment should consider reasonable and supportable information that is relevant and available without undue cost or effort. There is a rebuttable presumption in the Standard that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.

SPPI Test
Solely Payments of Principal and Interest Test (SPPI) is carried out as the second step of the classification process. "Principal" is defined as the fair value of the financial asset at initial recognition and may change due to repayments of principal or amortization of the premium or discount. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding. If a financial asset passes the SPPI test, then it will either be classified at amortized cost if the "hold to collect" business model test is met, or at Fair Value Through Other Comprehensive Income (FVOCI) if the "hold to collect and sell" business model test is met. If a financial asset fails, the SPPI test it must be classified at Fair Value Through Profit or Loss (FVPL) in its entirety.

Statutory reserve fund
A capital reserve created as per the provisions of the Banking Act No. 30 of 1988.

Subordinated liabilities
Liabilities that rank after the claims of other creditors of the issuer in the event of insolvency or liquidation.

Stress test
Integrated test that shows to varying degrees whether the Bank can withstand unforeseen scenarios of varying severity.

Glossary of Financial and Banking Terms

Subsidiary
An entity that is controlled by another entity.

Substance over form
The consideration that the accounting treatment and the presentation in Financial Statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

Swaps (currency)
The simultaneous purchase of an amount of a currency for spot settlement and the sale of the same amount of the same currency for forward settlement. Alternatively, a simultaneous spot sale and forward purchase of a currency.

T

Tier 1 capital
A component of regulatory capital, comprising common equity Tier 1 and additional Tier 1 capital. Core measure of financial strength of the Bank representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

Tier 2 capital
Tier 2 capital represents revaluation gains, general provisions and other capital instruments which combine certain characteristics of equity and debt such as subordinated term debts.

Total capital
Total Capital is summation of the Tier 1 and the Tier 2 capital.

Treasury Bill
A short-term debt instrument issued on auction basis by the Central Bank of Sri Lanka on behalf of the Government of Sri Lanka.

Treasury Bond
A long-term debt instrument issued on auction basis by the Central Bank of Sri Lanka on behalf of the Government of Sri Lanka.

Twelve-month expected credit losses (12-Month ECL)
The portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12-months after the reporting date.

U

Unit trust
An undertaking formed to invest in securities under the terms of a trust deed.

Useful life
Useful life is the period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity.

V

Value added
Value added is the wealth created by providing banking services less the cost of providing such services. The value added is allocated among the employees, the providers of capital, to government by way of taxes and retained for expansion and growth.

Value at risk ("VaR")
A measure of the loss that could occur on risk positions as a result of adverse movements in market risk factors (e.g., rates, prices, volatilities) over a specified time horizon and to a given level of confidence.

Y

Yield to maturity (YTM)
Discount rate at which the present value of future cash flows would equal the security's current price.

Corporate Information

Name of the Bank
National Savings Bank

Legal Form
A Government-owned bank incorporated in Sri Lanka by the National Savings Bank Act No. 30 of 1971 and was granted the status of the Licensed Specialised Bank in terms of the Banking Act No. 30 of 1988.

Registered Office and Head Office
'Savings House',
No. 255, Galle Road, Colombo 03,
Sri Lanka.
Tel: +94 11 257 3008-15
Fax: +94 11 257 3178
Customer Care Hotline: +94 11 237 9379
Short Code: 1972
E-mail: nsbgen@nsb.lk
Website: http://www.nsb.lk
Swift Code: NSBALKLX
Bank Code:7719
Taxpayer Identification Number (TIN): 409046266

Service Outlets
262 Branches
417 ATMs/CRMs

Agency Network
652 Post Offices and 3,354 Sub-Post Offices throughout the Island.

Local Ratings
AAA (Stable) Credit rating by the Lanka Rating Agency (LRA)

Board of Directors*
Dr Harsha Cabral – Chairman
Mr Jude Nilukshan – Director (Ex Officio)
Mr S R W M Ruwan Palitha Sathkumara – Director (Ex Officio)
Mr Dushyanta Basnayake – Director
Mr Ashane Jayasekara – Director

General Manager/CEO
Ms Shashi Kandambi

Board Secretary
Ms Anupama Muhandiram

Board Audit Committee (BAC)*
Mr Ashane Jayasekara – Chairman
Mr Dushyanta Basnayake
Mr Jude Nilukshan

Board Human Resources and Remunerations Committee (BHRRC)*
Mr S R W M Ruwan Palitha Sathkumara – Chairman
Mr Jude Nilukshan
Mr Ashane Jayasekara

Board Nominations Committee (BNC)*
Mr S R W M Ruwan Palitha Sathkumara – Chairman
Mr Jude Nilukshan
Mr Dushyanta Basnayake

Board Integrated Risk Management Committee (BIRMC)*
Mr Jude Nilukshan – Chairman
Mr S R W M Ruwan Palitha Sathkumara
Mr Ashane Jayasekara

Board Non-urgent and Non-essential Expenses Committee (BNNEC)*
Dr Harsha Cabral PC – Chairman
Mr Dushyanta Basnayake
Mr Jude Nilukshan

Board IT Strategic Committee (BITSC)*
Mr Dushyanta Basnayake – Chairman
Mr Jude Nilukshan
Mr S R W M Ruwan Palitha Sathkumara
Mr Ashane Jayasekara

Compliance Officer
Ms I K L Sasi Mahendran

Public Information Officer
(As per Right to Information Act No. 12 of 2016)
Ms Karnika Jayatilake

Auditors
Auditor General

Accounting Year
31 December

Subsidiaries of National Savings Bank
Name of the Company
NSB Fund Management Co. Ltd.

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Sri Lanka.
Tel.: +94 11 242 5010 – 12
+94 11 256 5956
Fax: +94 11 257 4387
E-mail: nsbfmc@nsb.lk
Swift Code: NSBFLKLX
Tax Payer Identification Number (TIN): 134008512

Chief Executive Officer
D L P Abayasinghe

Auditors
Auditor General

Company Secretary
Ms Farzana Aniff

Name of the Company
Sri Lanka Savings Bank Limited

Registered Office and Head Office
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Tel.: +94 11 267 4700/1/2/3, 269 1721-2
Fax: +94 11 267 4705/6
E-mail: info@slsbl.lk
Tax Payer Identification Number (TIN): 134013370

General Manager/CEO
Mr M A S Fernando

Auditors
Auditor General

Company Secretary
Ms D R N U Peramuna

*The Members of the Committee as reconstituted on 20 February 2024

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