

INTEGRATED ANNUAL REPORT 2018

**Our
ethos...
our
strength**

NATIONAL SAVINGS BANK



The National Savings Bank was established in 1972 through a Parliamentary Act that amalgamated four traditional savings organisations in the country into one establishment. At its inception, NSB inherited a savings legacy of over a century old from its predecessor the Ceylon Savings Bank (CSB) established in 1832.

NSB was granted the status of a Licensed Specialised Bank under the Banking Act No. 30 of 1988 to foster a savings culture in all Sri Lankans irrespective of class, race and gender. The Bank holds 20.4 million accounts that attest to the claim of being the bank for all segments of society.

As the only bank in the country offering 100% Government guarantee on all deposits and the interest thereon, NSB is the safest Bank in the country. NSB was rated as the “Safest Bank” in Sri Lanka by Global Finance Magazine for the 3rd consecutive year.

Firmly rooted in the national economy, NSB serves the nation by contributing to the General Treasury by way of taxes, levies, fees, and dividend. By its statute, NSB invests minimum 60% of its deposits in guilt-edged Government securities.

NSB participates in nation building by funding long-term development projects, socio-economic projects of the Government, and helps the Government to maintain stability and sustainability of the financial system.

Equipped with long-term, sustainable business strategies and possessing one of the most experienced corporate management teams in the country, NSB is committed to promote financial inclusivity to empower the Nation to achieve economic strength and financial security.

Vision

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

Mission

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

Values

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

Our Ethos... our Strength

At our core we are an institution committed to fostering a healthy, sustainable, and secure savings protocol for all people of the Nation. The Bank is today one of the strongest and safest financial institutions in the country.

Our ethos is truly our strength

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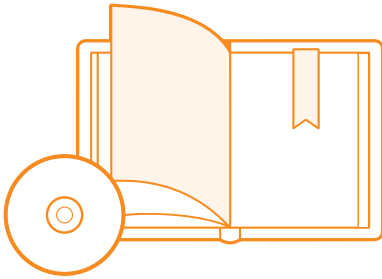
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Milestones



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National Savings Bank is pleased to present its fifth consecutive Integrated Annual Report for the calendar year of 2018. The Report presents detailed information about the Bank's position with regard to its financial performance in the context of the surrounding economic, social, and environmental conditions.

→ Our approach to integrated thinking for value creation

As an exemplary organisation operating in a complex world, we are navigating through the challenges of internal and external drivers, interdependencies and trade-offs that influence our ability to create value. In our process to sustainable value creation, our customers, stakeholders, and our strategy are consistent with our integrated thinking.

→ How to read this Report

This Report is presented in two parts:

Book 1

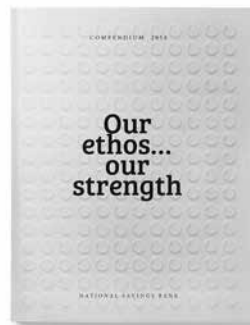
Integrated Annual Report 2018



The Integrated Annual Report 2018 offers a comprehensive insight into the strategy, capital management, risk management and governance of National Savings Bank. It addresses the Bank's value creation process over the short, medium, and long term towards its stakeholders. This section addresses the Bank's operations, its achievements, the execution of strategic objectives, expansion of its product portfolio, its contribution to the community, and its relationship with the environment. Where applicable, information in this report have been extracted from Book Two of the reporting suite.

Book 2

Compendium



Compendium contains a detailed review of the Bank's corporate governance and risk management practices applied at NSB. It includes Audited Financial Statements with notes portraying the financial performance of the Bank and the Group for the year ended 2018 and its financial position as at 31 December 2018 along with supplementary information.

Navigation icons

This Report uses icons for ease of navigation and as a communication tool to support or replace textual content where possible. Icons are developed primarily for capitals, stakeholders, strategic objectives, and materiality issues. An index of the primary icons utilised in the Report will appear on page 7.

About this Report

→ Report boundary, scope, and materiality

GRI 102-10, 45, 46, 48, 49, 50, 51, 52

The overall boundary of this Annual Report comprises the National Savings Bank and its fully-owned Subsidiary, NSB Fund Management Company Ltd., duly identified as the "Bank" individually and "Group" collectively. Consistent with the framework adopted in the 2014 report, key financial aspects are discussed in the context of the Bank as well as the Group, while non-financial aspects are discussed in the context of the Bank unless stated otherwise.

The scope of the NSB Annual Report 2018 covers the 12-month period from 1 January to 31 December 2018, and is consistent with the annual reporting cycle for financial and sustainability reporting. There are no significant changes from previous reporting periods in the scope and aspect boundaries. The most recent Annual Report, dated 12 March 2018, covered the 12-month period ended 31 December 2017. Comparative financial information, if reclassified or restated, has been disclosed and explained in the relevant sections.

This Report focuses on aspects that are material or important. It is an assessment based on the extent to which these factors may substantively affect the Bank's ability to create value over the short, medium, and long term. The materiality assessment process is discussed under the section titled Materiality Matters on page 60.

About this Report

→ Reporting framework and compliance

GRI 102-12, 54

NSB has followed the GRI guidelines in formulating its past Annual Reports. For sustainability reporting, we have transitioned to the recently published Global Reporting Initiative (GRI) Standards since 2017 and this report has been prepared in accordance with the GRI Standards; core option. Sustainability is an integral part of the Bank's overall business, it is subject to the Bank's existing internal and external control and assurance systems.

The primary statutes that govern the activities of the Bank are the National Savings Bank Act No. 30 of 1971 and its amendments, Banking Act No. 30 of 1988 and its amendments, Directives and Guidelines of the Central Bank of Sri Lanka (CBSL), and Regulations and Directions of the Department of Inland Revenue (IRD). The financial information contained in this report, as in the past, is in compliance with all applicable laws, regulations and standards and is declared in several reports and statements that appear under the section on Financial Reports commencing on page 142. This integrated Annual Report draws on concepts, principles, and guidance given in the following, where applicable:

- Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka)
- The International Integrated Reporting Council (IIRC) Framework (www.theiirc.org)
- Global Reporting Initiative (GRI) Sustainability Reporting Guidelines GRI Standards (www.globalreporting.org)
- Code of Best Practice on Corporate Governance issued by the CA Sri Lanka

- Sustainable Development Goals (SDGs) – The UN initiative with 17 aspirational “Global Goals”
- Smart Integrated Reporting Methodology™ (www.smart.lk)

→ External assurance

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

→ Forward looking statements

Certain statements in this report regarding our business operations may constitute forward-looking statements. These include all statements other than statements of historical fact, including those regarding the financial position, business strategy, management plans, and objectives for future operations. Forward-looking statements are necessarily dependent on assumptions, data, or methods that may be incorrect or imprecise and that may be incapable of being realised, and as such, are not intended to be a guarantee of future results, but constitute our current expectations based on reasonable assumptions. The readers are advised to consider this information with due caution and not to place undue reliance on the projected data in making their decisions. We neither intend to nor assume any obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

About this Report

Queries

GRI 102-53

We welcome your comments or inquiries on this Report, which can be addressed to:

The Finance and Planning Division
National Savings Bank,
No. 255, Galle Road, Colombo 3.
nsbgen@nsb.lk

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Capitals



Financial capital



Manufactured capital



Intellectual capital



Human capital



Social and relationship capital



Natural capital

Stakeholders



Shareholder



Customers



Employees



Regulators and Government institutions



Business partners



Society and environment

Long-term strategic objectives



Customer driven



Excellence in governance



Strength and sustainability



Transformation leader

Short to medium-term strategic objectives



Heightening customer experience



Enhancing employee engagement



Reinforcing risk culture



Promoting organic growth



Leading by example

Material matters



Customer service and experience



Risk-focused organisational culture



Digital transformation



Cyber security, fraud prevention, and anti-money laundering



Economic value for contributors



Regulatory compliance



Responsible lending



Financial inclusion



Economic and social impact



Attracting, developing, and retaining talent



Diversity and inclusion



Environmental footprint



Workplace safety, health, and well-being



Supply chain responsibility



Operational efficiency

Highlights GRI 102-7

	Bank			Group		
	2018	2017	Change %	2018	2017	Change %
Results for the year (Rs. Mn.)						
Gross income	111,902	107,996	3.62	112,760	108,235	4.18
Profit before financial VAT and taxation	11,171	17,629	(36.63)	11,181	17,342	(35.52)
Profit before taxation (PBT)	7,941	14,135	(43.82)	7,944	13,751	(42.23)
Income tax expenses	3,441	4,419	(22.13)	3,444	4,595	(25.05)
Profit after taxation (PAT)	4,500	9,716	(53.68)	4,500	9,156	(50.85)
Position at the year end (Rs. Mn.)						
Shareholders' funds (total equity)	43,733	39,096	11.86	44,755	40,140	11.50
Due to other customers/deposits from customers	839,574	737,213	13.88	839,574	737,213	13.88
Financial assets at amortised cost – debt and other instruments (gross)	518,957	555,740	(6.62)	522,982	559,591	(6.54)
Gross loans and receivable	427,378	378,439	12.93	427,403	377,151	13.32
Total assets	1,037,483	1,010,977	2.62	1,051,954	1,017,669	3.37
Information per ordinary share (Rs.)						
Earnings (basic)	6.72	15.67	(57.12)	6.72	14.77	(54.50)
Earnings (diluted)	6.72	15.67	(57.12)	6.72	14.77	(54.50)
Net assets value	46.52	58.35	(20.27)	47.61	59.91	(20.53)
Ratios						
Net interest margin (NIM) (%)	2.43	2.61	(7.07)	2.44	2.62	(6.95)
Return on average shareholders' funds (ROE) (%)	10.87	27.24	(60.11)	10.60	24.77	(57.20)
Return on average assets (ROA) (%)	0.78	1.47	(47.27)	0.77	1.42	(45.87)
Year on year growth in earnings (%)	(53.68)	2.30	(2,436.21)	(50.85)	(4.25)	1,097.91
Statutory ratios:						
Liquid assets (%) – minimum requirement 20%	54.88	73.44	(25.27)	N/A	N/A	-
Liquidity coverage ratio (%)						
Rupee – minimum requirement (2018 – 90%, 2017 – 80%)	245.06	377.57	(35.10)	N/A	N/A	-
All currency – minimum requirement (2018 – 90%, 2017 – 80%)	321.29	376.18	(14.59)	N/A	N/A	-
Capital requirements: Basel III						
Tier 1 – minimum requirement (2018 – 8.875%, 2017 – 7.75%)	13.325	11.931	11.87	14.140	12.651	11.95
Total capital – minimum requirement (2018 – 12.875%, 2017 – 11.75%)	16.138	15.311	5.57	16.882	15.996	5.68

Financial goals and achievements – Bank

Financial indicator	Goals		Achievement			
	2018	2018	2017	2016	2015	2014
Net interest margin (NIM) (%)	2.87	2.43	2.61	2.89	3.32	2.98
Return on average assets (ROA) (%)	1.38	0.78	1.47	1.60	1.51	1.46
Return on average shareholders' funds (ROE) (%)	21.74	10.87	27.24	31.15	29.37	30.20
Growth in income (%)	10.25	3.62	23.57	1.79	10.24	18.78
Growth in profit for the year (PAT)	-6.64	-53.68	2.30	26.29	9.52	479.98
Growth in total assets (%)	2.02	2.62	10.89	8.80	7.50	19.12

Highlights

	2018	2017	Impact
Shareholder			
Profit per employee (Rs. Mn.)	1.76	3.16	↓
Non-performing loan (%) – Gross	1.4	1.3	↑
Dividend paid (Rs. Mn.)	500	5,111	↓
Cost to income without VAT (%)	54.2	37.8	↑
Brand value (USD Mn.)	168	168	–
Customers			
Value distributed to depositors (Rs. Bn.)	85.6	78.45	↑
Number of customer complaints	2,644	3,678	↓
Breaches of customer privacy	Nil	Nil	–
Number of branches	255	253	↑
Number of ATMs including CRMs	310	286	↑
Employees			
Salaries and benefits (Rs. Mn.)	9,263	6,887	↑
Number of new employee hires	145	216	↓
Average hours of training per employee	13	12	↑
Employee retention ratio	98	96.7	↑
Gender ratio at all level (Male:Female)	6:5	6:5	–
Investment in training and development (Rs. Mn.)	38.7	34.4	↑
Regulators and Government Institutions			
Investment in Government securities (Rs. Bn.)	523	548	↓
Investment in Government securities as (%) of total deposits	60.9	62.0	↓
Direct and indirect taxes paid (Rs. Mn.)	6,671	7,913	↓
Fines or penalties for regulatory breaches	Nil	Nil	–
Business partners			
Number of suppliers supported locally	153	147	↑
Spent on Procurement (Rs. Bn.)	2.1	1.1	↑
Number of exchange houses	35	33	↑
Society and environment			
Investments in CSR projects (Rs. Mn.)	17.0	20.0	↓
Percentage of Senior Management hired locally	100%	100%	–
Percentage of women above executive level	24	26	↓
Number of eco loans disbursed	781	902	↓
Energy consumption (Gigajoules)	33,417	27,614	↑
Plants distributed through NSB Agroforestry	76,000	25,000	↑

↑ Increased from 2017, and positive impact

↑ Increased from 2017, but negative impact

– Unchanged from 2017

↓ Decreased from 2017, and negative impact

↓ Decreased from 2017, but positive impact

Chairman's Message

GRI 102-14



Despite economic headwinds and other challenges during the year, we remained resilient and made progress in key areas and achieved controlled, organic growth through the execution of our strategic priorities formulated on our solid foundations.

We are at a seminal juncture in the banking industry where digitalisation and all its implications have dissolved the traditional boundaries between sectors. Consumer expectations and business needs have changed drastically in the past decade where new entrants pose a challenge to established business entities. With our incorporation 46 years ago in 1972, we inherited a financial heritage of over a century old, thus, we are attuned and acclimatised to change.

In 2018, we made steady progress in all our core business areas. Our deposit base recorded its highest mobilisation in history of Rs. 101.6 Bn. during the year and reached Rs. 839.6 Bn. Our assets too grew by 2.6% to reach Rs. 1.04 Tn. I am also proud to declare that we were the first local bank to adopt SLFRS 9 and accordingly prepare the Financial Statements from the first quarter of 2018.

➔ A blueprint for success

As a trusted financial entity in a continuously evolving, disruptive, highly-competitive landscape, we rely on our strong foundations for resilience in the long term and our strategic plan to steer the Bank through the short to medium term. Our strategy forms the blueprint for our success and gives impetus for us to move forward while strengthening our internal processes, diversifying our business operations, expanding our portfolio, managing and mitigating risk, and seeking opportunities for organic, sustainable growth. NSB's strategy consists of

Chairman's Message

four long-term and five short to medium-term strategic objectives that reflect a keen understanding of the operating context.

→ Context matters

The year 2018 was a challenging year for Sri Lanka where the growth momentum within the first two quarters of the year slowed down in the last two due to a variety of factors. The Sri Lankan economy grew by 3.2% in 2018, below the growth forecasts by the Central Bank of Sri Lanka (CBSL), Asian Development Bank (ADB), and the International Monetary Fund (IMF) due to unfavourable domestic and external developments. However, Sri Lanka experienced a recovery in agriculture and the services sectors and, the advances in the export and tourism sectors contributed to the overall performance in 2018 and will drive growth in 2019.

→ Sustainability initiatives

With our status as a State-owned bank, we have a responsibility of being an exemplary corporate citizen to deliver balanced and sustainable outcomes for our customers, community, people, and all stakeholders. The principles of sustainability are seamlessly integrated in our business model and under our long-term strategic objectives of “strength and sustainability” and “transformation leader”. Further, we formulated a Sustainability Policy covering environmental, social, and governance aspects in accordance with the guidelines of “The Sri Lanka Banks Association Sustainable Banking Initiative” and other policies such as Environmental, Human Rights, Corporate Social Responsibility (CSR), and Social and Risk Management. Further, we have pledged our support to achieve the United Nations Sustainable Development Goals (UN SDGs) and have taken tangible steps towards the fulfilment of a number of key SDGs. We continue to promote green banking in our efforts to reduce the negative impact of our operations on the environment.

To support small and medium scale entrepreneurs and to revive the entrepreneurial spirit of young entrepreneurs of the country, we partnered with the Government to realise the objectives of Enterprise Sri Lanka programme. We provide loans at a concessionary rate to small scale farmers, small and medium entrepreneurs, Home-stay owners registered under Sri Lanka Tourism Development Authority (SLTDA), with a special focus to encourage sustainable economic ventures like manufacture of bags and packing utilising biodegradable materials.

→ Future initiatives

We have laid the preliminary groundwork for the acquisition of Sri Lanka Savings Bank (SLSB) by completing due diligence studies. The move to complete the acquisition nears finalisation after its approval by the Monetary Board. SLSB, as a subsidiary of NSB, will allow us to diversify and expand our operations in the Sri Lankan banking sector by reaching untapped market segments with new portfolio of products and financial services.

→ Acknowledgements

I would like to extend my gratitude to my esteemed colleagues in the Board for their wise counsel. My appreciation is also extended to the General Manager and our team of committed employees for serving the Bank with utmost professionalism.

To the Postmaster General, and all officials of the Postal Department, I would like to offer my appreciation for the vital assistance you provide to extend our touchpoints across the island.

I would like to thank the Hon Minister of Finance, Hon State Minister of Finance, the Secretary to the Treasury and the officials, Hon Minister of Public Enterprise, Kandyan Heritage and Kandy Development, Secretary of Public Enterprise, Kandyan Heritage and Kandy Development and Officials, the Governor and officials of the Central Bank of Sri Lanka, the Attorney General, the Auditor General and his team and heads of other regulatory bodies and their teams for their continued support and guidance.



Jayaraja Chandrasekera
Chairman

14 March 2019

General Manager/CEO's Review

GRI 102-14



We took substantial steps towards the digitalisation of our operations, services, and product delivery and have witnessed their contribution towards enhancing customer experience.

We live in a rapidly evolving world where innovation and novel ways of conducting business are challenging the conventional business models. Keenly aware of the changes taking place in the corporate landscape as well as in the local and international banking industry, we have sharpened our focus on ensuring that the Bank remains future fit.

In 2018, amidst a volatile socio-economic backdrop, we continued to work towards fulfilling our mandate to foster a savings culture within Sri Lanka, displaying values of stability and resilience. This was possible due to our far-sighted strategic framework, best practices in corporate governance, and prudent risk management.

→ Expertly steering the regulatory landscape

The enhanced capital adequacy requirements under Basel III became fully effective from 1 January 2019. Over the past several years the Board and Corporate Management has acted swiftly and with foresight to ensure compliance with the new requirements. Consequently, as a “Domestically Systemically Important Bank (D-SIBs)”, NSB achieved Tier I capital adequacy ratio by increasing the capital base. The strong capital adequacy position enabled the Bank to comfortably absorb the Day 1 impact upon adoption of SLFRS 9 which requires impairment losses on loans and receivables to be based on the expected credit loss model. Accordingly, the Tier 1 capital adequacy ratio of the Bank, as at

General Manager/CEO's Review

31 December 2018, decreased only by 0.13% after adjusting the Day 1 impact to the retained earnings. NSB also has a conservative RWA density of 21.7%, which compares favourably with local and international peers.

→ A steady financial outcome

The Bank recorded a total income of Rs. 111.9 Bn. during the year 2018, a marginal growth of 3.6% from 2017 underpinned by strong growth of interest income which represented 98.7% of the total income.

The Bank reported profit before tax (PBT) and profit after tax (PAT) of Rs. 7.9 Bn. and Rs. 4.5 Bn. respectively for the year 2018. Non-recoverability of the upfront payment of WHT on Government Securities invested prior to 1 April 2018 and the Debt Repayment Levy (DRL) which was introduced with effect from 1 October 2018 made a significant negative impact on profits. Further, the increase in operating expenses coupled with a drop in non-interest income and a hike in impairment provisions were also major contributory factors for the decline in profit. Accordingly, Return on Assets (ROA) and Return on Equity (ROE) too have decreased to 0.8% and 10.9% respectively.

The total assets of the Bank grew by 2.6% during the year and reached Rs. 1.04 Tn. at the end of 2018 compared to Rs. 1.01 Tn. in 2017.

During the year, net fee and commission-based income, mostly relating to debit cards, trade finance, remittances, and credit operations, surged by 28.3% to reach Rs. 0.9 Bn., having registered a steady growth over the past five years despite accounting for 0.8% of total income.

As a result of the growth in lending portfolio of the Bank, gross non-performing loans (NPL) and net NPL ratios have increased to 1.44% and 1.22% respectively. Though these ratios are still lower than the industry average of 3.4% and 2.0%, the increases demonstrate a deterioration of asset quality, a trend observed across the industry during the year.

→ Accelerating innovation

We have taken substantial steps towards the digitalisation of our operations, services, and product delivery and have witnessed their contribution towards enhancing customer experience. In 2018, we invested heavily in IT security and IT infrastructure.

Non-personalised MasterCard EMV debit cards were issued from May 2018 to combat fraud and protect sensitive payment data. We completed the Visa Direct Connectivity Project in early 2018 and a project for issuing Visa PayWave debit cards was commenced during the latter part of the year. A new Card Management System (CMS) was also implemented with access to all branches.

With the increase in cybersecurity threats, we recognise IT security as a vital component of our operations. We implemented an Information Security Management System (ISMS) and our employees receive ongoing training in this field. Further, our IT Division was restructured to facilitate the implementation of digital solutions and to standardise all IT operations.

→ Expanding our global footprint

We extended our reach beyond our Nation's shores to build new relationships and strengthened existing ones with global money transferring companies further ensuring secure remittances from anywhere in the world.

We are now connected to 35 exchange houses and 13 correspondent banks facilitating global money transfer services. We expanded the international remittances business by joining remittance service providers such as Small World and G Money (South Korea) during the year.

The Bank was able to obtain foreign currency term loan from Commerzbank for the repayment of the international bond of USD 750 Mn. matured in September. The ability to secure such loans reflects the trust placed in NSB by our international partners.

→ Simplifying banking with NSB Model branch

The NSB Model branch concept, with its bespoke "Smart Zone," was initiated in 2017 to provide a superior banking experience to our customers through the delivery of digital, state-of-the-art services. The Model branches are designed following the 5S standards and all Model branches share a uniformity in appearance. As part of phase 1, a total of 16 branches were completed during 2018. We will expand NSB Model branches to 24 branches in 2019.

General Manager/CEO's Review

➔ Moving forward with UN SDGs

As a leading financial institution in the country, we have been integrating sustainability across the full breadth of our business activities and addressing UN SDGs that are directly related to our operations. Community development initiatives that support quality education (SDG4) are an important component of our corporate social responsibility initiatives. They include the *Hapan* Scholarship seminar series, held for the 14th consecutive year and reaching over 25,000 schoolchildren, and our English language training programme for children in remote areas. Initiatives like our collaboration with HelpAge Sri Lanka to conduct mobile medical and eye camps for senior citizens which benefited over 2,000 elders, and our *Hapan* Scholarship Awards, that recognises children with learning differences, contribute towards their Good Health and Well-Being (SDG 3).

We continued our green banking schemes to promote the proliferation of renewable energy under NSB Eco Loan to support Affordable and Clean Energy (SDG 7). Consequently, 781 green loans were disbursed valued at Rs. 657 Mn. Further, under NSB Agroforestry, our flagship project to improve biodiversity and environmental preservation, over 75,000 plants and 26,000 seed packs were distributed among NSB customers.

➔ Looking ahead

We are in the process of implementing our triennial strategic framework which charts our course for 2019-2021. In 2019, we will continue our investments to improve the digital offering and migrate our internal systems and processes to the virtual domain.

We laid the groundwork for our new core banking solution in 2018 and have finalised the due process in selection of vendor. This modern solution will have the breadth of functionality to handle the latest and the most sophisticated banking requirements with a high level of automation, risk-free deployment, and ease of use.

➔ Acknowledgements

I extend my appreciation to the Chairman and the other members of the Board of Directors for their wise counsel and guidance.

My gratitude is extended to our loyal customer base from all segments of Sri Lankan society for their trust and confidence, and other stakeholders whose contribution we appreciate.

I also extend my gratitude to Hon. Minister of Finance, the Hon. State Minister of Finance, Secretary to the Treasury and the Officials.

I further extend my gratitude to Hon. Minister of Public Enterprise, Kandyan Heritage and Kandy Development, Secretary to the Ministry of Public Enterprise Kandyan Heritage and Kandy Development and the Officials.

I also extend my gratitude to the Governor and Officials of the Central Bank of Sri Lanka, the Postmaster General and his Staff, the Attorney General, the Auditor General and his team, Heads of other regulatory bodies, and their teams.

I also take this opportunity to thank the Management Team for playing an instrumental role in our operations during the year and for their continued support extended to me.

In closing, I would like to express my gratitude to the dedication, loyalty, and commitment of the NSB team.



S D N Perera

General Manager/CEO

14 March 2019

Our Value Creation Model

A comprehensive discussion of the Bank's value creation process guided by NSB's Vision, Mission, Values, and the Strategy. This section includes NSB's Business Model that presents an overview of the value creation process. Further, it presents the operating environment and outlines the Bank's stakeholder engagement process, materiality identification process, and sustainability policy which contributes to the formulation of the Bank's strategy.

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Materiality Matters

Our Sustainable Business Model

Stakeholders (refer pages 54 to 59)

Shareholder



Customer



Employees



Regulators and Government institutions



Business Partners



Society and environment



Volatile and uncertain political and economic environment

Inputs

Financial capital

(Pool of funds available and obtained for use)

- Shareholders' funds
- Customer deposits
- Borrowings from institutions and debt securities
- Other liabilities

pages 66 to 82

Manufactured capital

(Facilities, equipment, and other infrastructure components)

- Physical touchpoints (Branches, ATMs, CRMs and isaver)
- Virtual touchpoints/Digital channels
- Digital infrastructure

pages 83 to 87

Intellectual capital

(Knowledge-based intangibles including intellectual property, brands, systems, protocols, processes, and procedures)

- Corporate culture
- Institutionalised knowledge
- Culture of innovation
- Robust systems and processes

pages 88 to 92

Human capital

(Employee competencies, capabilities, experience and motivation to innovate)

- 145 New recruitments
- Rs. 39 Mn. Investment in training and development
- 133 Promotions
- Equal opportunity employer
- Positive working environment

pages 93 to 105

Social and relationship capital

(Relationships established within and between stakeholders and networks to enhance well-being)

- Extensive product portfolio
- 100% Government guarantee
- 24/7 Customer service through varied channels
- 100% Procurement from local suppliers
- Enhanced relationships with business partners
- Rs. 17 Mn. investments in CSR projects

pages 106 to 119

Natural capital

(Renewable and non-renewable stocks that support current and future prosperity)

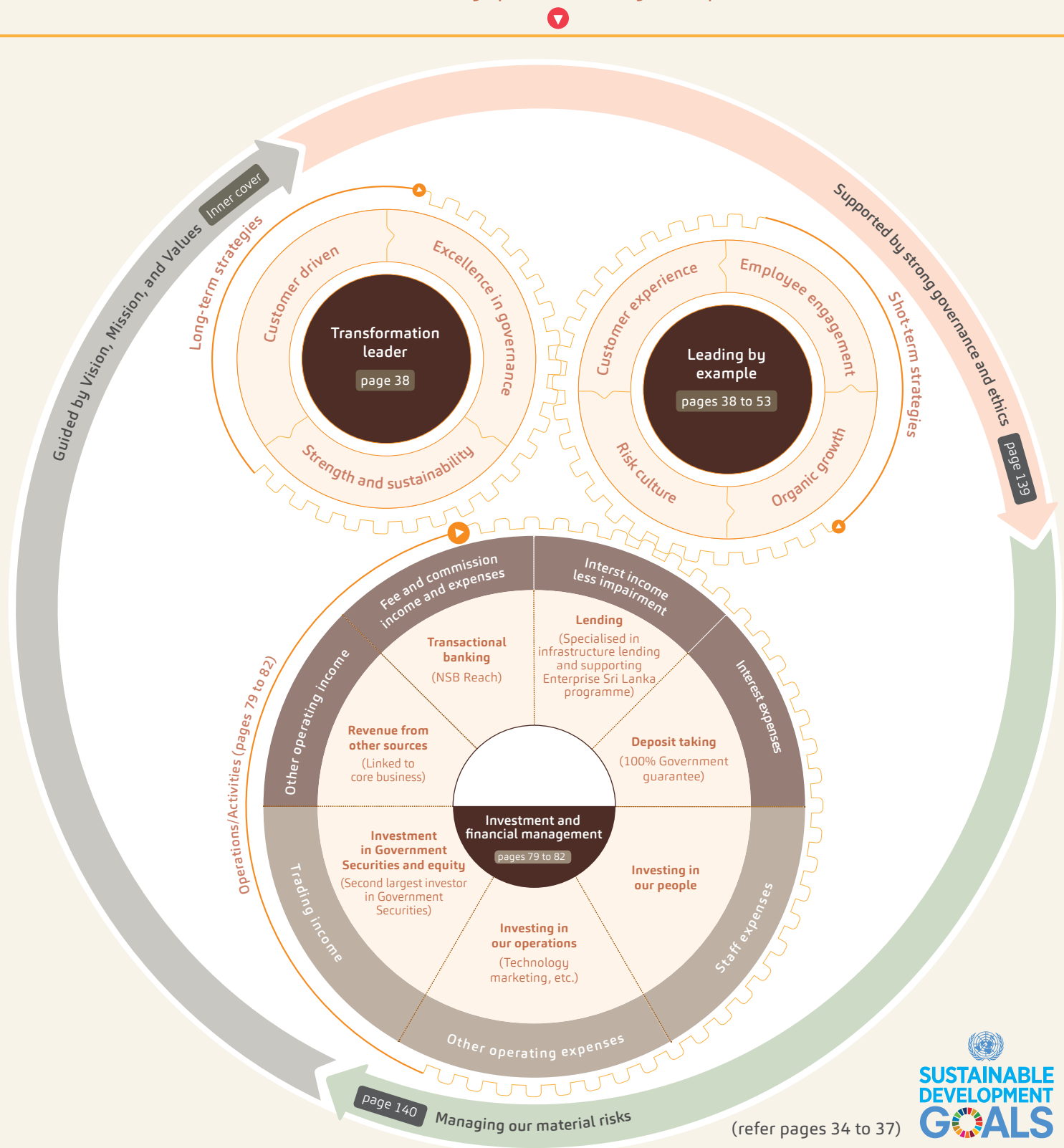
- NSB Sustainability Policy
- Rs. 1.6 Mn. Investment in NSB Agroforestry
- Green banking initiatives
- Digitalisation of operations

pages 120 to 124

Demands on governance regularly and risk management

Transition in demographics and evolving skill requirements

Banking in the digital age with disruptive technologies



Value created (Outputs)

Value shared (Outcomes)*

Products

(page 382)

Deposits

(13.9% of growth)

Savings deposits
Time deposits

Lending products

(12.7% of growth)

Retail lending

Personal loans
Housing loans
Pawning advances
Auto loans
Loans against deposit

Corporate lending

Direct lending to FIs
Loan syndication
Project lending

Services

Inward and outward remittances
Trade finance
Safety deposit lockers

Value added services

Card services
Utility bill payment

Carbon Footprint

GRI Content Index in accordance with Core Criteria (refer pages 125 to 128)

Financial capital

Rs. 4.5 Bn. Profit after tax
Rs. 500 Mn. Dividend paid
Rs. 4.6 Bn. of retained earnings
Rs. 523 Bn. investment in Government Securities (CAR ratio 16.14%)
12.7% Growth in lending

Manufactured capital

255 Branches
310 Secure ATMs
16,000 iSaver points
56,932 Interactions through digital mediums

Intellectual capital

USD 168 Mn. Brand value
5th most valuable bank in Sri Lanka
Introduced new products for different market segments: (NEO, I'M)
Awards and accolades
1,089 Employees with over 10 years of experience

Human capital

98% Retention ratio
2% Turnover ratio
13 Average number of training hours
99.7% Returned after maternity leave
998 Female employees in executive levels

Social and relationship capital

20 million account holders
100% Local employment
82% Customer satisfaction index
25,000 Students reached Hapan Seminar Series
2,000 Elders benefited through mobile medical camps
Rs. 7.5 Bn. contributed to the Government

Natural capital

781 Number of Eco loans disbursed
Rs. 657 Mn. Eco loans disbursed
75,000 plants and 26,000 seed packs distributed
13 branches with solar panels installed
33,416 Gigajoules Energy consumption
76,161 (M3) Water consumption

Economic

- Increase in customer wealth through the interest on their investments and increased trust of the public in the banking sector (customer, investor)*
- Increase in stability and confidence of the Sri Lankan economy (customer, society and environment)*
- Increasing accessibility to the financial services leading to economic growth (customer, society and environment)*
- Enhanced employee wealth and increased standard of Living (employee, society and environment)*
- Economic value generated (investors, Government and regulatory bodies)*

Social

- Convenient banking increasing customer satisfaction (customers)*
- Increased choices of products in selection (customer)*
- Zero non-compliance with regulatory and Government requirements (Government and regulatory, employees, suppliers and service providers)*
- Contribution to the balanced and highly competent workforce (employees, society and environment, customers)*
- Improved economic and social well-being via Vision 2025 (Government and regulatory, society and environment)*
- Increasing the knowledge of future generation through access to seminars and educational loans (society and environment)*
- Contribution to sustainable national development (Government and regulatory, society and environment)*
- Inculcating savings habit reaching remote parts of the country via postal network and contributes to financial inclusiveness (Customer and society and environment)*

Environment

- Supporting low carbon and environmentally friendly economic growth (Society and environment)*
- Supporting the Government/Sri Lanka to achieve SDGs (Society and environment)*
- Promoting the green economy (Society and environment)*

* Related stakeholders

Transformative environment

Operating environment (refer pages 18 to 32)

Operating Environment

GRI 102-11

NSB's approach to sustainability and financial stability focuses on identifying key internal and external elements of the operating context that influence all our operations. Macro-external factors such as economic, technological, socio-political, and regulatory play a vital role in the formulation of NSB's short-term and long-term strategic direction and value creation.

This section is an overview of the latest global and local economic development as well as the current trends in the Sri Lankan banking sector that had an impact on NSB's operations in 2018. It also outlines potential trends and future outlook of the industry and identifies future economic challenges.

Further, we identify the risks and opportunities which determines our short to medium term and long-term strategies emerging from our operating environment.

→ Global economy

Global growth has moderated in 2018 and grew at an estimated 3.7% according to IMF's World Economic Update January 2019. Global economic activity was impacted by trade tensions between China and the US, Brexit and its implications on Europe, and a strong US dollar leading to a tightening of financial policy in the emerging markets. Global economic activity within the year was supported by advanced economies such as the US, UK, and Japan.

In the G7 economies, US leads the pack due to healthy employment growth, increased consumer confidence, corporate profits, increase in oil productions, and solid wage growth. The US dollar had a strong year as a result of the rise in oil prices. The ongoing trade war between China and the US impacted both economies as well as the world as a whole. Japan's momentum was hindered by natural disasters and Canada grew at a robust pace largely due to its strong labour market.

GDP growth in the UK expanded at a meagre pace. Eurozone markets decelerated due to social unrest in France and weak momentum in Germany. Further, Brexit uncertainty continues to influence all European markets.

The Chinese economy is expected to slowdown due to the need of financial regulatory tightening and the ongoing trade war with the US. In the Emerging Market and Developing Economies (EMDEs), borrowing costs have increased. Central banks in the EMDEs raised policy rates as a result of concerns about inflation effects from oil price increase and currency depreciation.

Oil prices remain volatile since August 2018 due to supply influences, the US policy on Iranian oil exports, and fears of softening global demand. Crude oil prices stood at USD 55 a barrel and is expected to remain at USD 55-65 over the next 4-5 years. Oil production in the US from shale regions reached 11.4 million barrels per day in 2018. International gold price fell nearly by 5% in 2018 as investors kept away from the gold market due to rising equity markets. However, the gold market is expected to pick up in 2019.

Outlook →

Despite weaker performance in Eurozone and Asia, the global economy is projected to grow at 3.5% in 2019 and 3.6% in 2020. Brexit remains the principal question mark over the Eurozone, though the markets are able to premeditate its impact. The German elections will also have an impact on the European political and economic landscape.

The impact of the US-China trade was mostly contained within 2018, yet it will affect trade in 2019. The outlook for Emerging Market economies is weak especially in Argentina, Turkey, and South Africa arising from country-specific factors, tighter financial conditions, geopolitical tensions, and higher oil import bills. India is expected to grow in 2019, benefiting from lower oil prices and a slower pace of monetary tightening than previously expected, as inflation pressures ease.

→ Sri Lankan context

Volatile and uncertain political and economic environment →

The year 2018 was a challenging year for Sri Lanka where economic volatility and political tensions impacted the overall economic performance. The growth momentum within the first two quarters of the year slowed down in the last two due to a variety of factors. However, the recovery in agriculture and the services sectors and advances in the export and tourism sectors contributed to the overall performance in 2018 and will drive growth in 2019.

Economic policy →

In 2018, the Government implemented the multipronged structural reforms supported by the IMF to address key structural issues in the economy which included revenue-based fiscal consolidation, improving business climate, and regional integration. The new Inland Revenue Act as well as an automatic fuel pricing formula was implemented.

◀ Our Sustainable Business Model

Operating Environment

In a bid to unlock the growth potential of the country, the Government launched Vision 2025, an ambitious macroeconomic, structural, and social reform plan. This will support IMF recommendations and will lead to medium-term growth.

CBSL maintained a prudent monetary policy stance throughout the year. Due to favourable developments in inflation, inflation outlook, and the trends in the monetary sector, CBSL signalled the end of the tightening cycle in early April 2018 by reducing the Standing Lending Facility Rate (SLFR) by 25 basis points. However, a neutral monetary policy stance was maintained in the ensuing period due to global developments that affected the external sector.

Challenging political environment →

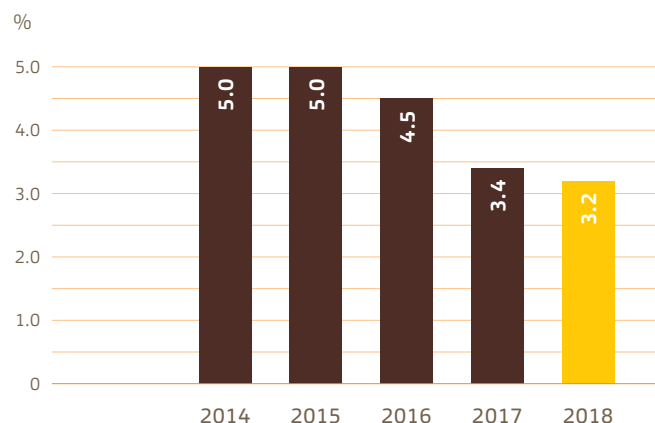
In the last quarter of 2018, Sri Lanka experienced a constitutional crisis that affected macroeconomic stability and impacted international business confidence. Although the issues were resolved in mid-December, it resulted in a worsened perception of the country's risk profile. Three leading agencies Standard & Poor's, Moody's, and Fitch Ratings downgraded Sri Lanka's sovereign ratings during the year with a stable outlook. However, Sri Lanka was ranked at 100 among 190 countries, moving up 11 places, in the Ease of Doing Business Index compiled by the World Bank.

GDP growth →

Sri Lankan economy grew by 3.2% in 2018, well below the growth forecasts by the CBSL, ADB, and the IMF who revised their original stances throughout the year taking into consideration unfavourable domestic and external developments.

Sri Lanka's performance is one of the lowest in the region that experienced a GDP growth of up to 7% previously. Factors such as weak domestic demand, tightening of monetary policy, stagnant fixed investment, and lower net exports contributed to Sri Lanka's below average performance for the year.

GDP Growth →



Inflation →

CBSL maintained its deposit facility rate and standing lending facility rate at 8% and 9%, respectively which led to the containment of inflation at mid-single digit levels. Headline inflation based on National Consumer Price Index (NCPI) closed at 2.1% in 2018 down from 7.7% in 2017. Year on year inflation measured by the Colombo Consumer Price Index (CCPI) was 3.1% in December 2018, which was low compared to 4.3% recorded at the end of 2017 mainly driven by lower food prices compared to those in the drought affected 2017 despite currency depreciation and high oil prices.

Decelerated monetary aggregates →

Monetary and credit expansion decelerated gradually in response to the tight monetary policy stance maintained in the past. The Central Bank maintained a prudent approach in relation to monetary policy and operations, whereby the upper bound of the policy interest rates corridor was revised downwards in April 2018 and the interbank call money market rate was allowed to adjust within the corridor in line with evolving market conditions through appropriate Open Market Operations (OMOs). Despite the rate reduction, interest rates edged up and remained high in the second half of 2018 due to liquidity deficit prevailed in the market.

To release liquidity on a permanent basis, the Central Bank reduced the Statutory Reserve Ratio (SRR) to 6% from 7.5% during the latter part of the year. At the same time, in order to maintain its neutral monetary policy stance, the Central Bank raised policy interest rates: Standing Deposit Facility Rate (SDFR) by 75 basis points to 8% and the Standing Lending Facility Rate (SLFR) by 25 basis points to 9%, thereby narrowing the policy rate corridor to 100 basis points. As a result of the relatively tight policy regime, the growth in monetary aggregates showed a gradual deceleration.

Operating Environment

External sector performance →

Despite political instability, there was spurred activity in key elements of the economy. Exports rose 4.7% last year, eclipsing the previous record set in 2017 of USD 11.4 Bn. Food, tobacco, and beverages sector closed strongly with an increase of 17.7% in 2018. The apparel industry surpassed USD 5 Bn., in export earnings with total earnings amounting to USD 5,318 Mn. in 2018, an increase of 4.7% compared to USD 4,819 Mn. in 2017. The tourism industry grew by 11.6% in 2018 amounting to USD 4,381 Mn. Tourist arrivals in 2018 reached 2.3 million a growth of 10.3%. The construction sector declined by 5.8% displaying the predicted slowdown of industrial activities in 2018.

However, subdued performance of agriculture both on volume and price together with flat position in workers remittances dragged the growth in exports. The deficit in the trade account widened to USD 10.3 Bn. as the growth in imports outpaced the growth in exports mainly derived by higher oil prices and increased imports of vehicles.

Currency →

Due to tightening global financial conditions, the strengthening of the US dollar, and the widened trade deficit caused the net capital outflow from the Government Securities market and the Colombo Stock Exchange which resulted in a sharp depreciation of the Sri Lankan rupee throughout the year, especially in the final quarter. The Rupee depreciated 19% against the Dollar in 2018 pushing up import costs.

Debt management →

The Central Government debt to GDP ratio has increased to 82.9% at the end of 2018 due to the impact of currency depreciation and relatively low nominal GDP and higher net borrowings during the period. The Central Government external debt as a percentage of GDP was 58.7% and the ratio of debt service to Government Revenue was 108.8% in 2018. Keeping with the foreign exchange movements in capital outflows, debt repayment and market intervention, gross official reserves decreased to USD 6.9 Bn. in December from an all-time-high of USD 9.9 Bn. achieved in April 2018.

Outlook →

According to IMF predictions, Sri Lanka is expected to grow by 4% in the medium term. Activity will be supported by robust domestic demand as consumption rebounds following natural disasters, and investment is boosted by infrastructure projects.










Inflation may also be exposed to potential risks arising from global commodity prices, inclement weather, and the after effects of Rupee depreciation to domestic prices. The rupee is expected to largely stabilise during the upcoming period.

The country will continue to benefit from tourism growth and the EU's GSP+ in the medium term. On a positive note, Sri Lanka was named the No. 1 destination to visit in 2019 by Lonely Planet and Colombo was voted Must-photograph travel destination in 2019. This will boost Sri Lanka's chances of achieving tourist arrival targets and increasing annual revenue from the industry.

At the macro level, the maintenance of low and stable inflation under the envisaged Flexible Inflation Targeting (FIT) framework, the competitive exchange rate, and the continuation of the Government's fiscal consolidation efforts are expected to ensure macroeconomic stability in the medium term.

According to Sri Lanka Development update, February 2019 by World Bank, the country is expected to make its first-ever bullet repayment of USD 1.0 Bn. in January 2019 followed by another bullet repayment in April (USD 500 Mn.) on Eurobonds. In total, maturities of bullet repayments on Eurobonds from 2019 to 2023 and from 2025 to 2028 alone amount to USD 12.15 Bn. Given that large bullet repayments of more than USD 500 Mn. are new to Sri Lanka, these repayments could expose the country to refinancing risk and could lead to higher spreads on Sri Lankan debt compared to benchmarks.

Operating Environment

Risks	Impact		Opportunities	Impact		Our response	Material matters	Strategic priorities
	Short to medium term	Long term		Short to medium term	Long term			
<p>→ Challenging macroeconomic environment increase financial burden on customers and impact the savings and investments. Also, Quality of loan portfolio will hinder due to increase in non-performing advances as well as impairments.</p> <p>→ Exposure to the foreign currency borrowings will be hiked following the downgrade of the sovereign credit rating of the country. This could results in accelerated cost of funding.</p> <p>→ Downgrading in the country's sovereign credit rating negatively affected the Bank's credit rating issued by Fitch Rating Lanka Ltd.</p> <p>→ Volatile and uncertainty of the economy will affect the earning growth potential and capital generation.</p>	<p>↑</p> <p>↑</p> <p>↑</p> <p>↑</p>	<p>↑</p> <p>↑</p> <p>↑</p> <p>↑</p>	<p>→ Lower inflation outlook will ease the cost pressures</p> <p>→ Increasing urbanisation, consumption and huge infrastructure investments provide opportunities for financial lending.</p>	<p>↑</p> <p>↑</p> <p>↑</p> <p>↑</p>	<p>→ The Bank can reap the benefits of being the only bank to have the 100% Government guarantee for its depositors in turbulent economy</p> <p>→ Proactive risk management approach by monitoring leading indicators and taking appropriate mitigating actions promptly</p> <p>→ Hedging of foreign exchange and interest rate risks</p> <p>→ Continue to respond to changes with proper strategies to unlock opportunities</p>	     	  	

- ↑ Opportunity increased since 2017
 ↑ Risk increased since 2017
- Risk/opportunity broadly stayed same since 2017
- ↓ Opportunity decreased since 2017
 ↓ Risk decreased since 2017

Operating Environment

Transition in the labour force and evolving skills requirements →

Changes in the demographic structure of the Sri Lankan population is expected to have significant effects on the labour market. Factors directly linked to demographics such as population aging, the number of children, age of childbearing and fertility rates, together with other factors indirectly linked to demographics and associated with cultural norms and social behaviour such as women's labour participation and education attainment – delaying entry in labour markets – are expected to impact people's choices in the labour market.

Shrinking labour supply and growth in dependents →

Sri Lanka which is undergoing a gradual aging process of its population has reached its advance stage of this demographic transition due to prolonged periods of lower fertility and rising life of expectancy of the population over time. Meanwhile, Sri Lanka's share of working-age population peaked in 2005 and it is expected to gradually decline over time.

According to the Sri Lanka Development Update, February 2019: Demographic change in Sri Lanka by World Bank. The World Bank, the dependency ratio (the ratio of youth and elderly to the working-age population) was 51% in 2015. About one-fourth of the population were under 15 years old, whereas one-tenth were 65 years or older. However, by 2050, it is projected that the proportion elderly (23%) to surpass that of the youth percentage. The dependency ratio – the ratio of potentially dependent population, i.e., youth and elderly, to potentially working-age population, i.e., 15-64 – is projected to grow significantly from 51.2% in 2015 to 67.4% in 2050, driven by the increase in the number of the elderly. Further, according to the United Nations Population Division forecasts, Sri Lanka's population is projected to peak around 2035, and to decline thereafter.

Gap in labour force participation →

During the last 20 years, the labour force participation rate (the number of persons that work or are looking to work relative to the working-age population ages 15-64) has remained relatively unchanged, at about 59.4% in 1996 and 58.4% in 2015. There is a large gap in labour force participation rates between men and women across the age spectrum. Only 40% of working-age women

were either working (employed) or looking for a job (unemployed). In contrast, 80% of working-age men were in the labour force (ages 15-64). Female labour force participation in Sri Lanka remained relatively constant over the last two decades despite the lower fertility rates.

Human capital flight →

Migration plays a vital role in deciding Sri Lankan demographic structure. Trends in the migration for employment also changed in the last decade evidenced by 20% decline in total migration in 2017 against that of 2010. However, migrants from professional, middle, clerical, and skilled categories represented 45% of total migrants which increased from 35% registered in 2010. Although migrants for Middle East was on the top with a share of 88%, over the last seven-years period, share of migrants to South East Asia and other miscellaneous countries were increased while to Middle East has demonstrated a declining share. Following this trend, slice of remittances from Middle East shrunk to 52% (vs. 77% in 2010) while proportion of remittances from other countries have improved to 48% in 2017 (vs. 23% in 2010).

Evolving skills requirements →

Banks are larger employers in the economy as well as in the financial services sector and require highly skilled employees in multiple fronts for service delivery at the expected level to fulfil the continuing evolving customers' expectations. Furthermore, it is envisaged that new skills will emerge, the skills currently required will evolve, and some skills will disappear completely, because of digitally enabled products and services, process automation and emergence of disruptive technologies.

Consumerism →

Following the increase of per capita income together with increasing financial literacy and elevation to the upper middle-income category, people are engaged in education, home improvement, automobiles, and other durables. Consumer financing may take a longer horizon as consumers will continue to keep on paying instalments on time. Furthermore, E-commerce is a future prospect of consumerism of the country and the profitability through the E-commerce payments will also be increasing.

Operating Environment

Outlook →

Sri Lanka’s share of working-age population was 68% in 2015 and it is expected to gradually decline, as the country’s old dependency ratio increases over time. Total population is forecasted to peak in 2035 at about 21.5 million persons, and to decline afterwards. The potential working-age population is projected to peak earlier in 2025 at 14 million persons and to decline thereafter.

Increases in female labour force participation are expected to counter the impact of ongoing demographic changes to some extent. This includes improving the supply of childcare and eldercare services and safe transport, and flexible work arrangements for women and will be expected to possess technical skills along with dramatic culture change for the digital transformation.

Risks	Impact		Opportunities	Impact		Our response	Material matters	Strategic priorities
	Short to medium term	Long term		Short to medium term	Long term			
→ Demographic changes (size, age, and household composition) are expected to have an impact on outcomes of savings and investment and long-lasting implications for service delivery (health and education), pensions, employment, and public finances.	⬇️	⬆️	Current tech savvy generations and increasing aging population demands the banking industry to provide an advice or consultancy services (e.g.: retirements plans) rather than traditional banking services.	⬆️	⬆️	→ Focusing on building up agile teams		
			Increase in significant proportion of working age in millennial generation and Generation Z along with emerging new social trends in increasing mobility, diverse families and propensity towards individuality influence the customer behaviour and compel the banks to offer tailor-made products and services as well as customer experience.	⬆️	⬆️	→ Investment in training and developing the skills that are needed to grow in agile working environment and recruiting from broader talent pool and retaining them in new ways.		
→ Highly skilled employees with new and emerging skills are becoming more expensive to recruit and retain amidst the acceleration of skills and academics migration.	⬆️	⬆️	Enabling to be agile in responding to changes in operating environment	⬆️	⬆️	→ Come up with innovative customised products and efficient payment solutions with the aid of technology.		
				⬆️	⬆️	→ Strategies for financial inclusiveness		

- ⬆️ Opportunity increased since 2017
- ⬆️ Risk increased since 2017
- ⬆️ Risk/opportunity broadly stayed same since 2017
- ⬆️ Opportunity decreased since 2017
- ⬆️ Risk decreased since 2017

Operating Environment

Banking in the digital age with disruptive technologies →

Digitalisation of banks and banking operations have dominated the sector in the last decade. The future of banking lies in the digital domain where virtual banking platforms, digital payment mechanisms, and the integration of Information Communication Technology (ICT) will be adopted in all banking operations. Due to increased competition and new entrants to the market, banks that fail to address challenges of digitalisation may face the risk of decrease in customer satisfaction, underachieving revenue targets, and eventually running out of business.

Disruptive technologies disturbing the business model →

Exponential advancement of technology will be the foundation of the next phase of growth in the banking and financial service industry. Disruptive technologies including mobile technology, fintech partnerships, cloud computing, Internet of Things (IoT), big data, advanced analytics or machine learning, blockchain technology, Artificial Intelligence (AI), robotics and biometrics plays an acute role in banking. It is changing all aspects of banking and financial industry, from customer expectations and new products and channels, to regulatory requirements, organisational structure, and processes and attracting and retaining required skills. They are reshaping the business model by changing value proposition of existing products and services and how these are delivered to customers.

Evolving customer expectations →

The increasing role of digitalisation has changed the consumer behaviour. It has heightened customer expectations for personalisation while transforming the manner in which customers interact with banks. Customers are increasingly multi-banked with technologically advanced banks due to increased awareness of the various bank offerings, quality of service and pricing. Furthermore, people turn to banks for advice and assistance for their complex issues including choice of investments, loans related to business, home, and their educations rather than transactional or payment purposes.

Disruptive entrants →

Technological advances facilitates the non-traditional market players such as telecommunication, fintech companies, payment facilitators, medical and insurance

providers to enter into the banking and financial industry with the innovative technology and data. They offer wide range of financial products and services to their existing as well as new customers through cross selling.

Cyber risks →

In an age of cyberattacks, privacy and safety is of paramount concern to the banking sector. Despite the myriad of opportunities provided by the technology, the financial crime has increased dramatically, and cybercriminals and hackers have become more sophisticated. The sector has to provide the flexibility and the convenience of virtual banking to move towards a cashless society while alleviating customer concerns of privacy and safety. Banks must take advantage of new technologies like AI-based machine learning and pattern recognition that may prevent fraud. CBSL has outlined guidelines to improve the preparedness of the sector for such threats. A banking direction in this regard will be issued in 2019.

Digital payments →

Businesses and customers are interested in faster, safer, and more convenient payment methods as cash is obsoleting and they are shifting towards more-technologically driven payment methods. Digital alternatives such as mobile wallets, e-wallets, prepaid cards, contactless cards, and digital currencies are becoming popular among the millennials.

CBSL has taken progressive approach to strengthen the payment and settlement infrastructure of the country to cater to the growing payment needs of the economy. In the bid to develop a national payment and settlement system, CBSL in partnership with LankaClear will implement a National Card Scheme (NCS) under the brand name "LankaPay". This system was launched in 2018. The National Payment Council appointed two committees to study the FinTech sector and blockchain technology. Following the directions of the FinTech committee a National Quick Response Code Standard for local currency payments "LANKAQR" was issued to all financial institutions and operators of mobile based electronic money systems to facilitate QR code-based payments. An inter-industry working committee is developing a framework for a blockchain-based KYC solution. A task force was appointed to study virtual currency schemes and the regulatory measures needed to ensure their safety and stability.

Operating Environment

Outlook →

CBSL has taken measures to create the necessary environment for Sri Lanka to move into virtual banking and benefit from advanced technologies and promoting digital payment mechanisms to establish cash less society. Further, to promote digital payment

mechanisms, CBSL will introduce a National Transit Card for transportation. CBSL intend to promote the usage of digital payment mechanisms by way of encouraging financial institutions to enable digital payment methods and creating awareness among general public on payment options and their benefits. It is also planned to introduce innovative fintech products.

Risks	Impact		Opportunities	Impact		Our response	Material matters	Strategic priorities
	Short to medium term	Long term		Short to medium term	Long term			
→ Digital banking is increasingly becoming an essential and not a differentiator. Therefore, if digital offerings provided by the Bank will not remain competitive, we will tend to lose the revenue as well as market share.	↑	↑	Providing innovative and real time financial solutions and exceeding customer expectations continuously.	↑	↑	→ Continue to invest in technology platforms, processes and controls		
→ Traditional banks challenged by new niche digital banks or payment providers.	↑	↑	Provides the opportunity to respond to customers' growing expectations for personalisation and relevance in an agile operating environment as well as enabling risk taking decisions and mitigating frauds.	↑	↑	→ Maintain IT systems stability through monitoring, enhancement and prioritising key issues		
→ Digitisation requires higher investment in innovation, IT and staff capabilities while the risk of cyberattacks continuing to increase.	↑	↑	Improve our operational efficiency through the automation of simple transactions while increasing our capacity to focus on complex and value adding transactions and reduce the costs in the long term.	↑	—	→ Embedding digital capabilities, introducing innovative digital products and offerings, increase digital experience for customers and employees while ensuring compliance with regulatory requirements will assure the sustainability of the Bank.		
→ Competition for specialised and scarce skills such as information technology, data analytics and risk management.	↑	↑				→ Come up with innovative and personalised offerings with frequent update of value added features which demands a significant investment in technology.		

- ↑ Opportunity increased since 2017
- ↓ Opportunity decreased since 2017
- ↑ Risk increased since 2017
- ↓ Risk decreased since 2017
- Risk/opportunity broadly stayed same since 2017

Operating Environment

Demands on governance, regulation, and risk management →

In the present global financial climate, financial institutions are more prone to risk arising from a multitude of factors. With the global financial crisis, coupled with increasing customer concern, corporate conduct, social responsibility and increasing financial crime and terrorism globally, financial institutions have seen an increase in new regulations aiming to ensure the soundness of banks and to protect customers. CBSL works towards strengthening the regulatory and supervisory framework of the banking sectors and recognises the importance of adhering to international standards and best practices. In 2018, CBSL implemented a number of policy measures on prudent financial and risk management and how to better absorb shocks arising from financial and economic risks. Evolving capital requirements, Net Stable Funding Ratio (NSFR), introduction of Leverage Ratio, implementation of SLFRS 9 and limitation on foreign currency borrowings are examples of regulatory changes that banks have to comply with.

Basel III →

Sri Lanka implemented capital adequacy requirements conforming to Basel III in June 2017. In 2018 CBSL issued Directions on Basel III liquidity standards and Leverage Ratio. To comply with Basel III, most banks have raised capital through right issues and subordinate debentures over the period and maintained capital ratios at a comfortable level up to December 2018. However, some large banks will require substantial fresh capital to meet full Basel III compliance by 2019.

In addition, CBSL issued Directions on foreign currency borrowings by licensed banks with a view to promote transparency and further strengthen risk management aspects of foreign borrowings by banks.

SLFRS 9 →

The Basel III implementation was complemented with the adoption of SLFRS 9, the international best practices in financial accounting standards. Sri Lanka adopted New SLFRS 9 standard set out by the International Accounting Standards Board (IASB), which requires banks to set aside provisions for future losses and introduced a new basis for financial asset classification and a model for hedge accounting. CBSL issued guidelines to banks on the adoption of SLFRS 9 in consultation with The Institute of Chartered Accountants of Sri Lanka for consistent and prudent application of standards.

Income tax →

The effects of the Inland Revenue Act No. 24 of 2017 (IRA) which became effective from 1 April 2018 aims to broaden tax base by removing some tax exemptions such as interest income from USD denominated bonds, professional loans and SMEs and the removal of notional tax credit on Treasury Bills and Bonds. It intends to simplify the tax system, rationalise corporate tax incentives through an investment oriented regime and strengthen powers of the tax administrator. Furthermore, the Government of Sri Lanka (GOSL) recently proposed a 7% Debt Repayment Levy (DRL) on financial institutions which would effectively increase the tax on financial services from 17% to 24%. The GOSL also proposed a transaction tax of 20 cents for every Rs. 1,000.00, in the national budget 2018, where banks were not allowed to recover this from their customers. However, the two proposals hang in the balance with Sri Lanka locked in a constitutional crisis.

Restrictions on foreign currency exposure →

The Government imposed various measures to control foreign exchange outflows through 200% cash margin on letters of credit on imports of vehicles other than buses, lorries, and ambulances and 100% margin on consumer durables, reduction of the LTV, suspension of vehicle imports for government entities and cutting the net open positions of commercial banks to increase dollar liquidity. Meanwhile, the Monetary Board introduces a policy framework for foreign currency borrowings which is an important source of funding for banks to reduce the exposure of banks to foreign exchange risk and minimising the pressure on the reserves and exchange rate of the country arising from large foreign currency borrowings. The maximum outstanding amount of foreign currency borrowing obtained by a licensed bank shall be determined as a percentage of total assets as per the latest annual audited accounts or interim accounts certified by the External Auditor of the Bank combined with capital adequacy level of the Bank.

Other →






- The national audit bill, which strengthens the power of the Auditor General building on the reforms of the 19th Amendment, was passed in July 2018.
- The secured transaction bill, which would help SME finance by allowing movable collateral to be used in banks when borrowing, was approved by the cabinet.

Operating Environment

Outlook →

In a bid to improve the competitiveness of the sector, CBSL signed an MoU with the Securities and Exchange Commission (SEC) and the Insurance Regulatory Commission of Sri Lanka (IRCSL) to conduct effective consolidated risk-based supervision, enabling assessment of contagion and reputation risks that arise from business relationships.

CBSL is in the process of drafting a new Banking Act to further strengthen the regulatory framework. The Act will include an overall mandate for supervision and regulations and address key challenges of the industry such as digital banking, corporate governance, mergers and acquisitions, structures of foreign banks, and other regulatory challenges. In addition, the Banking Sustainability Rating Index (BSRI) will be implemented from 2019 for risk based supervision and planning the supervisory calendar.

Risks	Impact		Opportunities	Impact		Our response	Material matters	Strategic priorities
	Short to medium term	Long term		Short to medium term	Long term			
Increasing regulatory demands are impacting on revenues, costs and capital, as well as the shape of bank balance sheet and additional compliance requirements.	↑	↑	Increased focus on risk management, governance and regulation enables the banks to having stronger bank balance sheet for absorbing unexpected losses in an economic downturn and being well positioned for growth as the economy improves.	↑	↑	Maintain the coordinated, comprehensive and timely approach to identify, assess, and respond to regulatory changes		
Increased complexity and cost of banking and affecting the fixed capital investments such as spending on human capital and IT capabilities, time to deliver innovative and competitive products.	↑	↓	Implementing regulatory requirements in a customer centric, integrated and synergistic manner makes the risk and governance provides the competitive edge to the Bank and acts as a key differentiator.	↑	↑	Strengthening operational resilience, improving stress testing standards, reviewing impact tolerances and refining performance metrics		
Revisiting lending policies and strict credit scoring, resulted in excluding certain customers from qualifying for obtaining loans will lead to slower loan growth.	↑	↓						

Operating Environment

Risks	Impact		Opportunities	Impact		Our response	Material matters	Strategic priorities
	Short to medium term	Long term		Short to medium term	Long term			
The implementation of new or amended governance, regulation and risk management add costs and employees' existing workload.	↑	↓				Understand evolving frameworks and plan, manage and report promptly and appropriate. Introducing new talent, process and technologies to strengthen risk management and compliance.		
Non-compliance with regulations results in penalties and damage the Bank's reputation.	↑	↑						
Vulnerability to dividend demands from state banks could widen the capital shortfall and pose a significant challenge to meet the capital adequacy and leverage ratios.	↑	↓						

↑ Opportunity increased since 2017

↑ Risk increased since 2017

○ Risk/opportunity broadly stayed same since 2017

↓ Opportunity decreased since 2017

↓ Risk decreased since 2017

Transformative environment →

Globally we are facing enormous economic, social, and environmental challenges. Protecting the environment and contributing to the sustainable development are imperative. Without them, we would compromise the ability of future generations to meet their needs. Increasing concerns about the impact of human activity on the environment, businesses today are under pressure to prove their profits do not come at the expense of people and planet.

Global Risks Report, prepared by World Economic Forum examines the evolving macro level risks and major threats that may disrupt the world in 2019 and over next decade. Extreme weather events, failure of climate change mitigation and adoption, major natural disasters, massive incidents of data fraud, large scale cyberattacks, man-made environmental damage and disasters, large scale involuntary migration, major biodiversity loss and ecosystems, water crisis, asset bubbles in major economy are highly ranked based on the possibility of occurrence.

Meeting the expectations of all stakeholders being a responsible business →

There is growing demand for sustainable business and related corporate disclosure from all stakeholders, including customers, suppliers, employees, communities, investors, regulators, and activists. Customers are increasingly seeking responsible brands that promise health, safety, and sustainability for the planet. Investors are changing the way they assess companies' performance, and are making decisions based on criteria that include ethical concerns. Employees are increasingly looking beyond monetary benefits, and seeking out employers whose philosophies and operating practices match their own principles. Businesses need to achieve long-term financial value enabling both society and the planet to thrive.

Transition to sustainable economic model →

Sustainability has become important for the banking sector also as with other businesses. At present context, businesses held accountable more than ever before and they are expected to play a vital role in finding solutions to current social and environmental

Operating Environment

issues including climate change, resource scarcity, ecosystem contamination, wealth inequality, ethical and reputational crisis, corruption, human rights violation and social conflict, and migration. These lead the businesses to choose a sustainable economic model such as green economy, circular economy and collaborative economy to be aligned with their holistic goals.

Climate change →

In the context of Sri Lanka, weather temperature is continuing to increase, and it is causing devastating floods in some places and record-breaking droughts in others. As a result, the food and agriculture sector were negatively affected and pushing up food inflation. The deep interconnectedness of these risks with human well-being is posing systemic challenges to citizens across the nation. Energy management and other environmental concerns are being addressed by banks globally as well as locally. Banks are investing in energy management and many have already taken important steps towards reducing their environmental footprint.

UN Sustainable Development Goals →

The United Nations Sustainability Development Goals (UN SDGs) integrate economic, social, and environmental dimensions of development. In a global and a local environment where all business entities are encouraged to follow common policies and targets laid down by the SDGs, there is a greater need for the banking sector to align with the SDGs and adopt sustainable practices in all operations.




Outlook →

Road Map for Sustainable Finance 2019: CBSL is in the process of developing a directive titled *Road Map for Sustainable Finance 2019* which provides guidance to the financial sector on sustainable practices and the alignment of SDGs in business strategies, plans, initiatives, and throughout all operations. The directive will be drafted by obtaining assistance from International Finance Corporation of the World Bank (IFC-WB) and financial assistance from the United Nations Development Programme (UNDP).

Promoting transparency, better management of natural resources, regeneration of ecosystems, human rights, ethics and improved quality life changed our understanding of our business impacts and responsibilities.

Risks	Impact		Opportunities	Impact		Our response	Material matters	Strategic priorities
	Short to medium term	Long term		Short to medium term	Long term			
The impacts of climate change, which include more natural disasters and related costs to rebuild (or retrofit) infrastructures where required, increased energy costs, water shortage and quality issues, and increased food prices and shortages.	↑	↑	Integrating environmental and social considerations into core banking operations will enable the Bank to minimise our environmental footprint, resource efficiency improvements, corporate social responsibility and sustainable reporting.	↑	↓	→ The Bank can contribute to achieving the SDGs by supporting microfinance institutions, conducting CSR programmes that are specifically aimed at addressing the SDGs, services and products to drive progress, innovative solutions that directly address the goals, and other initiatives.	   	

Operating Environment

Risks	Impact		Opportunities	Impact		Our response	Material matters	Strategic priorities
	Short to medium term	Long term		Short to medium term	Long term			
<p>Extreme weather events affect cash flows of borrowers mainly small and medium enterprises, who would be struggling to meet their financial commitments to the Banks.</p> <p>The businesses which have supplied their stocks to these borrowers are also facing challenges even though they have not borrowed funds directly from banks.</p> <p>Vulnerabilities in environment will lead to certain industries becoming less viable, potentially resulting in job losses, amid growing economic and political instability.</p>	<p>↑</p> <p>↑</p> <p>↑</p>	<p>↑</p> <p>↓</p> <p>↑</p>	<p>Creates a positive image and also reduces costs in several operational areas. Embedding SDGs and Sustainable Banking Principles (SBPs) at the heart of the business strategies ensure competitive advantage.</p> <p>Opportunity to make a positive impact on the society through our business operations and community development programmes.</p>	<p>↑</p> <p>↑</p> <p>↑</p>	<p>↑</p> <p>↑</p> <p>↑</p>	<p>→ Digitalisation of key banking operations is one step towards contributing to the SDGs as it creates a ripple effect that may directly lead to the minimising paper wastage, lowering transport costs, reduction of water, electricity use, and other favourable impacts.</p>	  	

↑ Opportunity increased since 2017

↑ Risk increased since 2017

— Risk/opportunity broadly stayed same since 2017

↓ Opportunity decreased since 2017

↓ Risk decreased since 2017

→ The Sri Lankan banking sector overview

Sri Lanka’s banking sector currently consists of 13 local and 13 International Licensed Commercial Banks (LCB) and seven Licensed Specialised Banks (LSB). Of these, six are Domestically Systematically Important Banks (D-SIBs) maintaining assets over Rs. 500 Bn. each, accounting for 72% of the banking sector in the country. Out of the six D-SIBs, four banks worth over Rs. 1 Tn.

each. Sri Lanka’s financial services sector accounts for 5.7% of the GDP and plays a critical role through financial intermediation in facilitating economic growth. With the Government’s regional development agenda, the banking sector is expected to play an important role in enhancing financial inclusion and providing access to affordable financial solutions across the country.

Operating Environment

Assets →

The banking sector recorded a strong performance in 2018 in asset growth and improvements in liquidity and capital levels. Total assets of the banking sector grew by 14.6% to Rs. 11.8 Tn. at the end of 2018 underpinned by expansion of credit and investment portfolios, compared to 13.8% growth recorded in 2017. Total loan and advances, which is the largest asset base of the banking sector bolstered by 19.6% on the grounds of growth in term loans and overdrafts amidst the challenging business environment.

Asset quality of the banking sector deteriorated during the year hindered due to subdued economic growth together with increasing pressure on disposable income. The gross and net non-performing ratios rose to 3.4% and 2.0% at the end of 2018, compared to 2.5% and 1.3% respectively reported a year ago.

Profitability →

The banking sector witnessed a decline of 9.1% in profitability, recording Rs. 126 Bn. compared to 18.9% growth registered in the 2017 with Rs. 138 Bn. of profit after tax. The main reasons could be attributable to increase in non-interest expenses and impairment provisioning. Accordingly, the sector's Return on Assets (ROA) and Return on Equity (ROE) closed at 1.8 and 13.2% respectively compared to 2.0% and 17.6% recorded at the end of previous year. The substantial increase in impairment provision resulted from the introduction of SLFRS 9 effective from 1 January 2018 coupled with increase in taxation due to the implementation of new Inland Revenue Act with effect from 1 April 2018 and the introduction of Debt Repayment Levy effective from 1 October 2018 exerted further pressure on the bottom lines.

Funding position →

Deposits, which were the main source of funding, represented 72% of the total assets of the banking sector. Total deposit base of the sector recorded an impressive growth of 4.8% to achieve Rs. 8.5 Tn. at the end of the 2018 against the Rs. 7.4 Tn. driven by the term deposits. Sector borrowings also picked up by 9.7% to Rs. 1.8 Tn. during the year.

Capitalisation →

The banking sector was able to maintain sufficient capital levels in order to absorb any adverse shocks throughout the year by maintaining capital adequacy ratios remained at 15.1%, comfortable above the Basel III requirements. The Tier 1 Risk Weighted Capital Adequacy Ratio (RWCAR) and overall RWCAR clocked in 12% and 15.1% respectively in comparison to 12.4% and 15.2% recorded in 2017.

Liquidity →

Liquidity position of the sector continued to maintain at healthy level and Statutory Liquid Assets Ratio (SLAR) was maintained at 27.6% well above the minimum requirement of 20%, whilst the ratio of liquid assets to total assets registered at 25.7% which dropped from the previous year of 28.8%.

Outlook →

The future of banking lies in the digital domain where virtual banking platforms, digital payment mechanisms, and the integration of ICT in all banking operations. The sector has to provide the flexibility and the convenience of virtual banking to move towards a cash-less society while alleviating customer concerns of privacy and safety.

The Government introduced a 200% LC margin while lowering the loan to value ratio on motor car imports and imposed a 100% cash margin requirement on selected consumer goods imports. These measures will have an impact on the industry in 2018.

In a bid to improve the competitiveness of the sector, CBSL signed an MoU with the SEC and the IRCSL to conduct effective consolidated risk-based supervision, enabling assessment of contagion and reputation risks that arise from business relationships.

In an age of cyberattacks, privacy and safety is of paramount concern to the banking sector. CBSL has outlined guidelines to improve the preparedness of the sector for such threats.

Operating Environment

→ Industry attractiveness and competitiveness

We conducted the Porter's Five Forces analysis that assisted the identification of Bank's material issues and the formulation of the Bank's strategic priorities. The identification and analysis of these five important factors helps the Bank realise its strengths and its position to stay competitive in the industry.

Threat from new entrants

- Difficulty of obtaining licence for incorporating a bank due to high capital requirements
- High capital investments in people, IT, delivery channels, and to comply with Basel III
- Increasing demands in regulatory and compliance requirements
- Government of Sri Lanka's plan to establish banks for Import/export and SME

Bargaining power of customers

- Pressure to provide personalised, high standard of service to match evolving customer needs
- Availability of similar products and services in the market
- Customers can switch to competitors and substitutes without incurring high costs
- Lack of customer loyalty in the new generation
- Large lending customers have the ability to negotiate lower rates



Bargaining power of suppliers

- Depositors' demand for higher returns and lower risks
- Higher dependency on vendors and service providers of digital services
- Employees have a higher bargaining power through trade unions
- Lower dependency from other suppliers such as stationery suppliers, outsourcing and contractual employees, and etc.

Competitive rivalry

- Higher number of players in the industry (six large, five medium, and 22 small banks)
- Intense competition among the peers due to lower switching cost and ability to offer similar products and services

Threat of substitutes

- Higher threat from telecommunication companies and other payment providers offering efficient payment solutions
- Availability of similar low-cost products with no differentiation in pricing, quality, or features
- High sensitivity of depositors and lenders to change of prices

Our Strategy

In a constantly evolving context, strong foundations are required for any institution to thrive. Our strategy is built on its strong foundations that reflect the developments in the operating environment and the drive to deliver sustainable value to

our stakeholders in the short, medium, and the long term. A bank-wide, inclusive approach is taken to analyse factors that are material to the Bank, this process takes into account input from employees belonging to every level.

→ SWOT analysis

One of the initial steps in the formulation and the execution of our strategy and strategic priorities was to conduct a SWOT analysis that gives an insight into our internal strengths and weaknesses as well as opportunities and threats in the external environment.

Strengths

- 100% Government guarantee for deposits and interest thereon
- 100% State-owned bank with a savings legacy
- Safest bank in Sri Lanka for the third consecutive year
- Strong brand reputation
- Extensive network of touch-points along with the national postal network
- Strong employee base with higher retention rate
- AA+ credit rating
- Specialised in financing infrastructure projects and clean energy financing
- One of the lower NPL ratio compared to the industry average
- Domestically Systematically Important Bank (D-SIB)

Weaknesses

- Limitation imposed by the NSB Act to expand business lines (Micro finance, lending for SME sector)
- Mandatory requirement of investment of 60% of deposits in Government securities
- Bureaucratic processes and procedures
- Flexibility is limited due to non-availability of fully integrated system.
- Slower adoption to the technologies due to stringent procedures.
- Term deposits remain as the primary source of funding
- Limited avenues for fee and commission base income
- Conservative business policy and risk approach

Opportunities

- Government's commitment towards improving Sri Lanka's infrastructure and NSB's role in its execution
- Increased focus on climate change and green economy
- Growing credit culture and consumerism
- Government's commitment towards UN SDGs
- Increase in small and medium entrepreneurs
- Technological advancements
- Larger market for foreign currency remittances

Leveraging strengths to maximise opportunities

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

Counter weaknesses through exploiting opportunities

- Acquire new customers and increase revenue generation capacity through lending to small and medium entrepreneurs (Promotion of Enterprise Sri Lanka programme)
- Increase efficiency and reduction of errors and time through technological advancements
- Conservative and risk aversion mindset to maintain lower NPL ratio while increasing the lending portfolio
- Process improvements, introduction of convenient methods and greater automation plans to boost savings deposits
- Penetrating remittance market and enhance fee-based income

Threats

- Lower economic growth and political instability
- Intense competition from commercial banks as well as non-banking competitors
- Tighter regulations imposed by Government and regulatory bodies.
- Increase of disruptive technologies
- Frequent change of customer needs and expectations
- Downgrade of credit rating

Leveraging strengths to minimise threats

- Stand out from the competition through strong advertising campaigns emphasising 100% Government guarantee, brand, and unique status of the Bank
- Taking advantage of digital initiatives to extend access points and customer and employee base of the Bank
- Capitalising vast arrays of access channels to provide personalised customer experience and to fulfil customer requirements

Counter weaknesses and threats

- Using technological advancements to make the systems and processes more agile enhancing customer experience
- Acquire new talent with skills required for the future banking (IT, data analytics)
- Pursuing lower-cost deposits, more long-term deposits, and longer tenure borrowings

Our Strategy

➔ Building a more sustainable bank

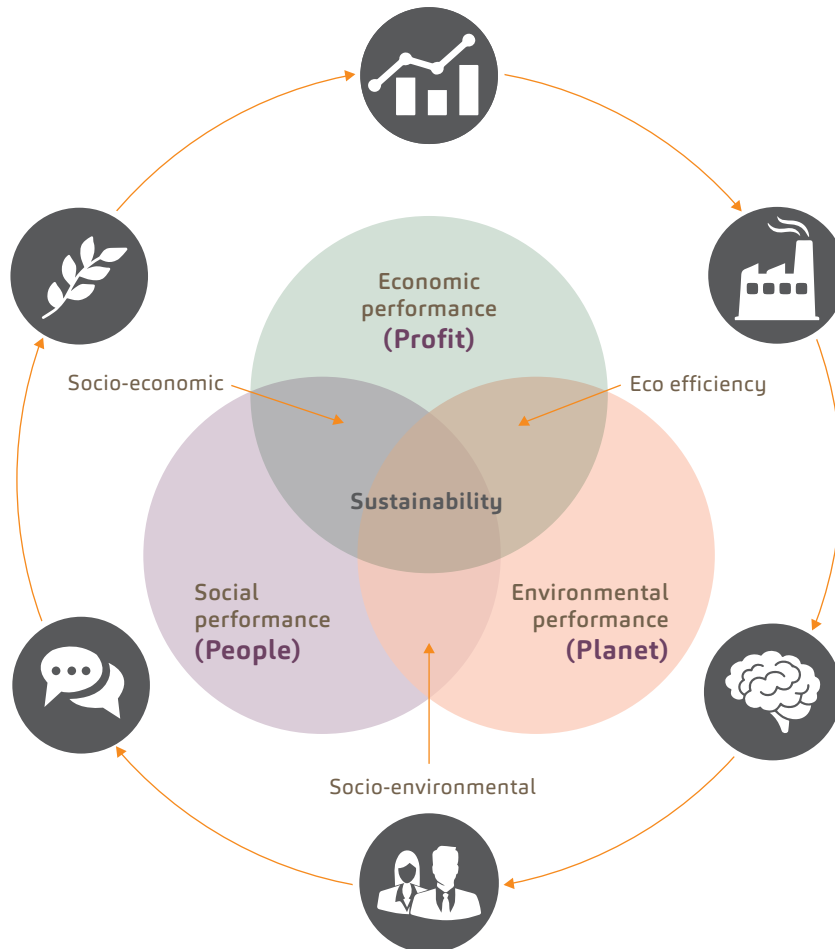
We believe, being sustainable implies doing business and, at the same time, contributing to the economic and social progress of the communities where we operate taking into account its environmental impact while fostering stable relationships with our stakeholders. In this way, we believe that Economic, Social, and Environment (ESE) perspectives and sustainable products are key to creating long-term value for customers, shareholders, and society.

As a State-owned financial institution deeply rooted in society, we have a responsibility to play a central role in Sri Lankan economy to create a positive social and environmental impact. Therefore, we are committed to making banking more sustainable as a better bank contributing to a better world.

Our sustainable business model ➔

We have a sustainable, customer-focused business model oriented towards the generation of stable monetised growth. However, this model integrates not only economic criteria but also ethical, social, environmental, and governance criteria. Our business model, based on a long-term vision, has allowed us to retain its position as the savings giant of the country, anticipating challenges and capitalising the opportunities found in the rapidly changing environment. Refer pages 16 and 17 to our Business Model.

To ensure that we deliver lasting stakeholder value, we are paying careful attention to the positive and negative impact of our activities on different stakeholder groups. We engage in dialogue with our stakeholders to help us better understand their needs and are committed to forging long-term relationships with them. We conduct a materiality assessment to prioritise issues that could be leveraged to play a greater role in internal engagement and sustainability strategy development.



Our Strategy

Sustainable strategy as a part of business strategy →

At present, we do not have a distinct sustainable strategy. We consider sustainable perspectives in the delivery of our products and services, operations, and in our business relationships. Thus, sustainability is integrated into our strategy through main perspectives as illustrated below:



As the largest savings bank of the nation, we will continue to be a profitable, well-capitalised bank with a moderate risk profile while pursuing a prudent risk policy in the diversification of our activities. As part of the moderate risk profile, we also want to maintain a solid capital and liquidity position and a clean and strong financial position. Over the past years, we have built a capital buffer to accommodate for the significant impact of the Basel III reforms. To make sustainability seamlessly integrated into our business model, we have formulated sustainability policies which propels overarching sustainability framework. The policy was augmented by environmental policy, human rights policy, corporate social responsibility policy, and environment, social and risk management policy. We have conducted awareness programmes and capacity development programmes from the operational level to corporate Management level. The discussions on aligning our activities with Sustainable Development Goals (SDGs) have led to various initiatives in our business lines towards the social and environmental perspective.

Sustainability governance →

Strategic positioning with regard to sustainability is a binding part of our business strategy. The Board has overall responsibility for sustainability and considers ESE matters in the formulation of our strategy. ESE matters that are material to value creation are integrated into our balanced scorecard which is used to set objectives, drive behaviours, and measure performance of our people. The Board delegates the execution of the Bank's strategy to the General Manager/CEO, who heads Corporate Management Team and is responsible for managing day-to-day operations of our Bank. During the year, the Corporate Social Responsibility and Sustainability Committee (CSRS) was formulated to monitor the execution of strategies and maintain the dialogue with the Board and other stakeholders.

Our Strategy

Our commitment to sustainability

Infrastructure

As a part of sustainable business approach, we support infrastructure projects which facilitates economic development, empowers local communities and improve lives

in the country. We directly work with Government institutions to invest in transportation, water, telecommunication, and education.

[See more on page 116](#)

Financing for inclusive, sustainable growth

NSB promotes financial inclusion in order to support social and economic progress where it operates. The Bank advocates “Enterprise Sri Lanka” and “Lakdiriya” programmes initiated towards the sustainable and inclusive growth economy, via financing small and medium enterprises.

The Bank makes indirect impact financing to the private institutions which are providing loans to the Small and Medium Entrepreneur.

[See more on page 116](#)

Committed to education, learning, and development

At NSB, we invest in developing our people. Our employee development programmes drive continuous learning and development and ensure we are equipped to meet the demands of rapidly changing digital world of work. We create opportunities for school leavers and graduates

to build career with us. Our CSR programme prioritises supporting education and recognition for achievers in competitive exams along with children in special needs and nurturing aesthetics skills.

[See more on pages 98 and 117 to 119 of this report](#)

Supporting a low carbon economy

In aligning with Government’s strategy of enhancing the share of renewable energy which supports diversification of Sri Lanka’s electricity supply, NSB is committed to lending and financing related to renewable energy generation and small and medium enterprises involved in green products/services

generation. We mainly focuses on solar energy and works in close connection with the electricity providers of the country namely CEB and LECO. NSB uses renewable energy in its own buildings and infrastructure.

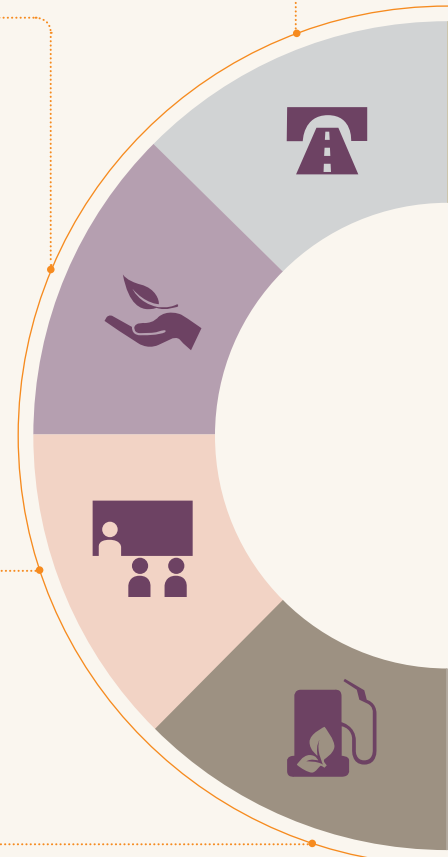
[See more on pages 121 to 124](#)

Transparency

For NSB, transparency goes beyond meeting legal or regulatory disclosure requirements. It means maintaining an open and fluid dialogue with all its stakeholders. This dialogue and the stable, lasting relationships allows us

to be more responsive to relevant issues that can arise and to our stakeholders’ expectations.

[See more on pages 56 to 59 and 115](#)



Our Strategy

Combating financial crime

The banking system plays a central role in collecting and moving funds and effective controlling systems that protects the integrity of the financial system which is crucial to economic and social development. The Bank implemented anti-money laundering system and we continue

to detect and report suspicious financial transactions which is vital in preventing fraud, corruption, and money flows to criminal syndicates and terrorist organisations. NSB has robust controls to protect system integrity and the safety of our customers' funds.

See more on page 110

Health

We care about the health and well-being of our society. While we are committed to safeguard a healthy and safe working environment for employees, the Bank finances to conduct mobile medical camps

for medically vulnerable elderly persons in Sri Lanka. We promote home gardening and organic crop production through distribution of seeds and crops with the view to generate a healthy nation.

See more on pages 118 to 119 and 124

Contribution to the UN SDGs

UN SDGs are a set of 17 Sustainable Development Goals adopted by world leaders at the United Nations Sustainable Development Summit on 25 September 2015 to eradicate poverty by 2030, fight inequality and injustice, and combat climate change. These goals integrate the

economic, social, and environmental dimensions of development while prioritising the management of natural resources for sustainable production and consumption. Our contribution to the UN SDGs is outlined in our capital management report from pages 66 to 124.

Outlook

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

We will continue to develop our approach to sustainability and refine our reporting. We have set key performance indicators (KPIs) and targets to drive sustainability initiatives across the Bank. Further, the CSRS Committee will actively be involved in

monitoring sustainability performance of the Bank and advise the Board on material ESE matters which will contribute to the materiality assessment of the Bank.

The SDGs provide for a universal agreement on economic, social, and environmental priorities to be met by 2030. They represent a powerful lens to identify opportunities for business innovation and growth, and they define the "good" in our purpose. In 2019, we will focus on the what is most material to us to guide our sustainability initiatives and delivery on the UN SDGs.

Our Strategy

Our strategic objectives

Assessment of our Business Model, operating environment, along with proactive stakeholder engagement shaped our material issues and aspects that add or distract value. These along with resultant risk and opportunities lead to the formation of the Bank’s strategy.

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

It is firmly anchored to our vision of being “the most reliable and sought after choice for your savings”. Equipped with a triennial

business plan (2018-2020) the Bank has identified key strategies to focus on. In developing the strategic plan, a company-wide, inclusive approach was taken with the participation of staff and management at different levels. It involved in-depth discussions with all members of the corporate management, highly interactive residential workshops with employees across all the staff categories, and an intensive research where staff had the opportunity to provide their proposals, views and suggestions.

NSB’s strategy consists of four long-term strategic objectives and five short to medium-term strategic objectives.

Long-term strategic objectives



Customer driven

At NSB, the customer is at the heart of everything we do in our goal to become the Bank of choice. We are committed to provide a superior customer experience in all our interactions with the customers. Our offering of products and services, our numerous touchpoints across Sri Lanka, our customer care centres, our online presence and support, and our social media channels are customer driven and are committed to deliver better outcomes for our customers.

Excellence in governance

NSB follows international best practices in maintaining the highest standards in corporate governance and has fostered a culture of risk management and compliance. NSB aims to leverage risk management as a strategic and competitive differentiator.

Strength and sustainability

NSB is committed to achieve strong, sustainable, and balanced growth through improving on the fundamentals. Financial solvency, strength, and sustainability will create long-term value for all our stakeholders.

Transformation leader

NSB as a state-owned specialised bank, has an added responsibility to lead through example. Since our inception, we have contributed to improving the lives of all Sri Lankans through conducting our operations in a conscientious manner. Further, we are committed to support and enable innovation in all business processes, delivery channels, and strategic planning to capitalise on emerging opportunities.

Short to medium-term strategic objectives



Heightening customer experience



Enhancing employee engagement



Reinforcing risk culture



Promoting organic growth

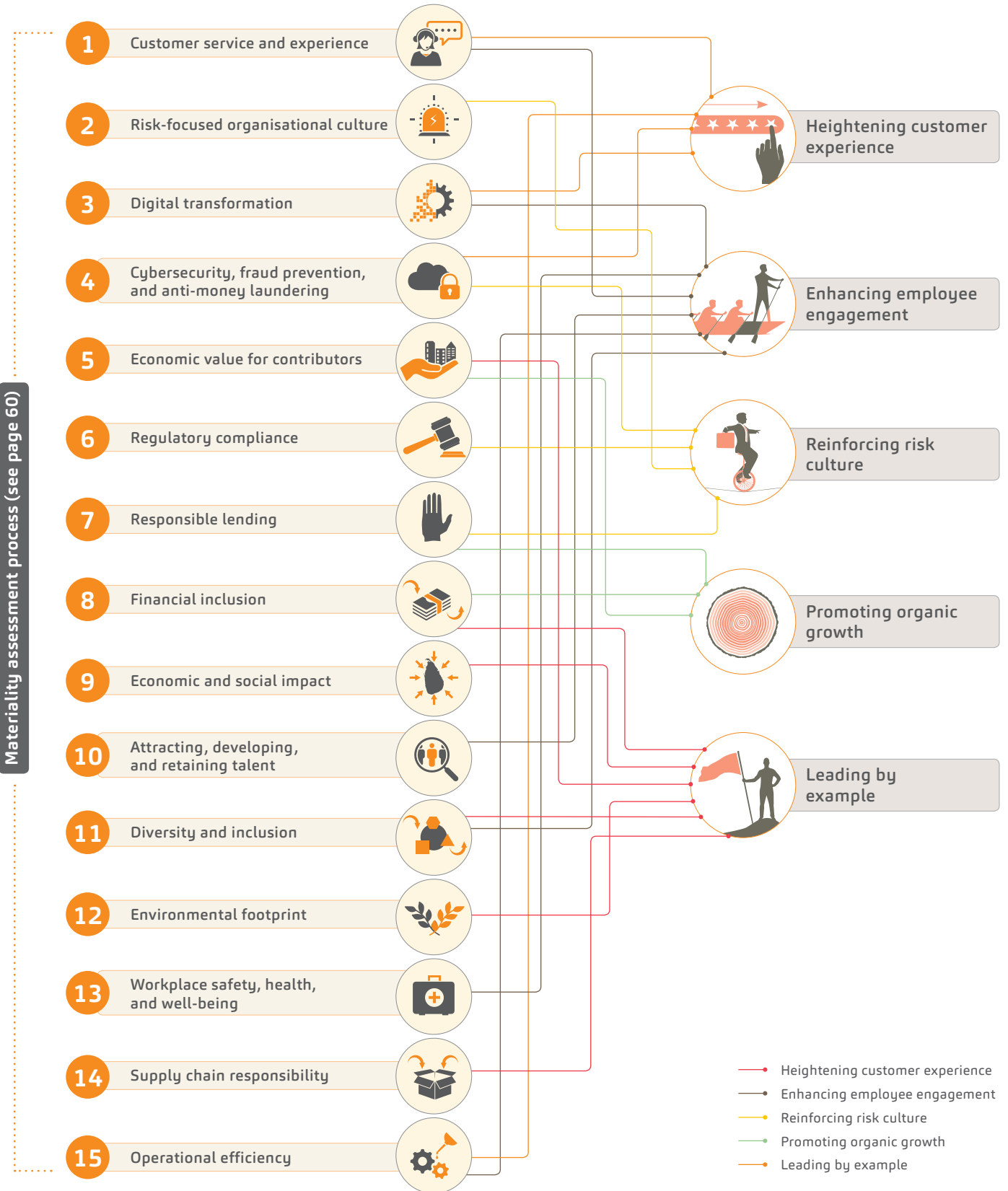


Leading by example

Our Strategy

Material issues of NSB

Short to medium strategic objectives



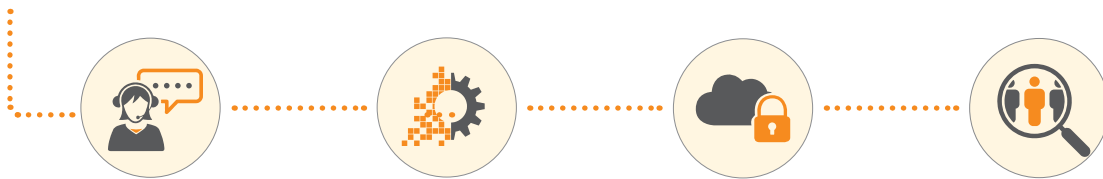
Our Strategy

Heightening customer experience

NSB takes a multi-channel approach to meet multiple customer needs to enhance overall customer experience. We are committed to make a tangible, lasting impact on our customer's financial well-being. We have taken substantial steps to keep up with evolving customer expectations through investing in the latest technology.

While developing our digital infrastructure which allows our customers seamless transition between channels, we sustain and improve on our physical touchpoints. We also invest in our people, processes, products, and service propositions that contribute to heightening customer experience.

Material focus areas



Key priorities

To improve customer satisfaction and to lower complaints

To be recommended by customers

To provide a seamless digital customer experience

To increase revenue from existing and new customers

Progress in 2018

Strengthened our multi-channel delivery across all our touchpoints

See pages 83 to 85



Offered new products to match with customers' requirements

See page 112



Increased awareness of NSB's offering through multiple channels

See pages 83 and 109



Reduced delays and simplified the payment process by redesigning documents and forms

See page 91



Strengthened IT system stability and enhanced security with no major service interruptions

See pages 86 and 87



Priorities in 2019 and beyond

Continue to improve digital experience of our customers by improving our digital infrastructure

Simplifying and increasing process efficiency and automation of payments to reduce delays and errors

Migrating to standardised technology platforms

Conducting data analytics to deliver a more connected, focused customer experience

Providing our customers with the ability to seamlessly shift between NSB digital platforms and physical NSB touchpoints

Our Strategy

Key trade-offs

Enhance customer experience and operational efficiency through digital infrastructure



The cost involved in relation to regular investments to maintain stability and security and the sharp depreciation of IT infrastructure

Development of innovative, state-of-the-art digital solutions

Safeguarding customer privacy and combating cybersecurity risk

Heightening customer experience – operational KPIs

KPI	Stakeholder group	Value created	YoY Change	2018	2017	Outlook
Interest paid to depositors (Rs. Bn.)		Return for the depositors	↑	69.0	60.2	Increase the return for customer investments
Loan payouts (Housing, Project and Personal (Rs. Bn.))		New loans disbursed to customers	↓	87.5	88.5	Managing credit responsibly
Customer satisfaction index (%)		Quality of service experienced	↑	82	-	Improving service quality
Number of customer complaints		Quality of service experienced	↓	2,644	3,678	Reducing customer complaints
Investment in IT infrastructure (Rs. Mn.)		Digitally-enabled solutions and operational efficiency	↑	772	712	Providing customers with a superior digital experience
New style outlets converted as model branches		Accessibility and convenience	↑	16	1	Improving customer experience in branches
Number of enquiries received		Direct mode of communication between the Bank and customers	↑	251,516	228,332	Improving overall customer experience

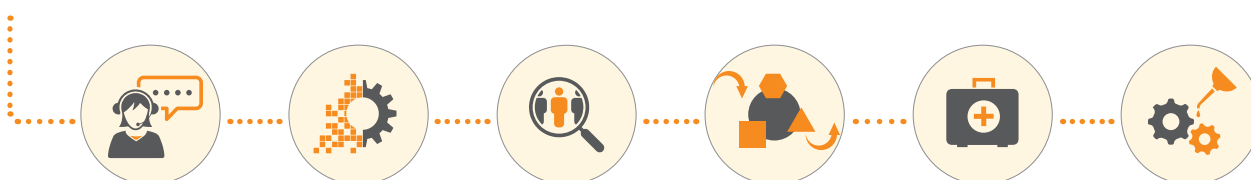
Our Strategy

Enhancing employee engagement

An engaged employee is more productive and delivers better customer outcomes and experiences. Creating a team of engaged, energised employees who embody the values of NSB is an essential step in delivering value to

our customers. NSB is committed to create a team of engaged employees who are highly-skilled, transparent, leads by example, possessing good communicative skills, receptive, and responsible.

Material focus areas



Key priorities

To attract and retain the best of the best

To increase productivity through engaged, and energised employees

To create a professional, customer-centric, flexible working culture and connecting employees to a shared purpose

To produce thought leaders of the industry and empower career growth

To create a diverse, inclusive, and equal opportunity working environment

Progress in 2018

Invested in training and development initiatives to empower employees

See page 98



Initiated health and wellness programmes to employees

See pages 102 and 103



Provided employment opportunities for school-leavers

See pages 96 and 97



Increased benefits and incentives offered to employees

See pages 101 and 102



Priorities in 2019 and beyond

Improving all digital platforms and internal digital systems and processes to support our employees to better meet customer expectations

Identifying and attracting talent to NSB and continue employee retention efforts

Continue to provide first-job work experience for school-leavers and graduates

Optimise training and development programmes to meet employee training needs and expectations

Our Strategy

Key trade-offs

Attracting, developing and retaining scarce or emerging skills

Delivering our strategic objectives

Employees are key to remain competitive as they are changing the way we do business



Significant cost related to training and development

Managing digital infrastructure in a responsible manner

Balancing commercial pragmatism and social consideration

Enhancing employee engagement – operational KPIs

KPI	Stakeholder group	Value created	YoY Change	2018	2017	Outlook
Staff costs (Rs. Bn.)		Remuneration, benefits, and other incentives	↑	9.3	6.9	Maintain competitive remuneration
Unionised salary increases (Based on three-year collective agreement) (%)		Salary increases upon bargaining	↑	22	18	Being a competitive salary paying employer
Employee turnover (%)		Employee retention	↓	2.0	3.3	Maintain and improve employee retention ratio
Gender ratio (male: female) at all levels		Diverse, equal opportunity workplace	–	6:5	6:5	Continue women empowerment
Percentage of women in Executive level and above (%)			↓	24	26	
Employee grievances as a percentage of total employees		Employee satisfaction	↓	0.85	1.1	Reducing the grievances
Investment in training and development (Rs. Mn.)		Highly-skilled, engaged workforce	↑	38.7	34.4	Continue investments in training and development
Number of training hours			↑	13	12	
Number of training programmes		Highly-skilled, engaged workforce	↑	312	252	Increasing number of training programmes according to training-need analysis
Number of distance learning activities (Webinars)		Convenience, and the creation of a highly-skilled, engaged workforce	↑	3	–	Increasing e-training methods

Our Strategy

Reinforcing risk culture

Developing a solid risk culture where we anticipate and manage risks arising from a multitude of factors including the external operating context is an essential component of the Bank. We have aligned our strategies, and operations along with a robust business

model to prudently manage and respond to uncertainties and risks. At NSB, we work towards reinforcing our risk culture by being compliant with regulations and following required standards and international best practices in ethical and responsible business in all our operations.

Material focus areas



Key priorities

To conduct the right business in the right way, without exception

To assess current and emerging risks

To educate employees on complying with regulatory frameworks

To avoid any material breaches of legislation

To adopt sophisticated fraud detection and mitigation tools

Progress in 2018

Analysed the impact of Basel III Capital Adequacy Ratios, LCR, NSFR requirements by January 2018

See pages 50 to 52



Successfully implemented Basel III requirements in capital adequacy, liquidity standards, and leverage ratio

See pages 50 to 52



Bolstered IT security capabilities to reduce digital fraud

See pages 85 to 87



Successfully adopted SLFRS 9, the international best practices in financial accounting standards on financial instruments

See pages 52 and 53



Conducted regular awareness programmes for customer and staff on risk identification and prudent management

See page 115



Priorities in 2019 and beyond

Regularly review and amend the risk appetite as a response to evolving context

Align our strategy, risk, compliance and processes to better respond to changes in the operating environment

Manage risk prudently

Continue to inculcate a culture of ethical behaviour

Invest in IT capabilities to combat financial crime and cyber risks

Our Strategy

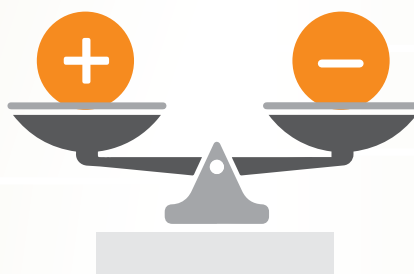
Key trade-offs

Managing the lending exposures considering social impacts

Tightening of risk measurement and narrowing our risk appetite

Compliance with evolving regulatory requirements to become a trusted organisation

Hinders revenue generation and growth in customer base



Increase the complexity of processes and causes inconvenience to customers

Technology-based risk and compliance solutions

Cost incurred in compliance requirements, systems, employee training, and adoptions to business operations

Reinforcing risk culture – operational KPIs

KPI	Stakeholder group	Value created	YoY Change	2018 %	2017 %	Outlook
CAR – Tier 1 and Total Capital Ratios – Basel III compliance		Strength of capital position	↑	13.325	11.931	Achieving a ratio above regulatory minimum
LCR – Basel III compliance (All Currency)		Strength of liquidity position	↓	321.3	376.2	
NSFR – Basel III compliance		Strength of stable funding	↑	147	135	
Leverage – Basel III compliance		Strength of borrowing position	↑	4.86	2.23	
Regulatory fines or penalties during the year		Adherence to regulatory requirements	–	Nil	Nil	Continue to comply with regulatory requirements
NPL ratio		Strength of asset quality	↑	1.44	1.34	Maintaining below, than the industry average
Number of technology-related incidents during the year (e.g., Cyber crime)		A resilient IT infrastructure	–	Nil	Nil	Continue to invest in the latest technology to prevent technology-related incidents

Our Strategy

Promoting organic growth

Since our inception in 1972, we have directed our systems, operations, and strategic priorities to achieve our mandate to foster a savings culture in Sri Lanka. In our 46 years of operations, we have become an entity that is trusted by all Sri Lankans. We leverage our already

existing systems and processes to achieve financial stability and organic growth. Through bank-wide, multi-channel efforts, we focus on improving customer experience, employee engagement, and prudent risk management to grow and create sustainable returns to our stakeholders.

Material focus areas



Key priorities

To increase market share

To improve revenue generation capacity by diversifying income base

To reduce earnings volatility

To enhance cost efficiency and cost reduction

Progress in 2018

Managed cost base below industry average

See page 71



Conducted regular risk assessments and adjusted risk appetite

See pages 50 to 52 and 140



Maintain the capital well above the regulatory requirements

See pages 50 to 52



Introduced new products and services and expanded our operations and delivery channels

See page 112



Expanded international operations

See pages 81 and 114



Priorities in 2019 and beyond

Continue to respond effectively to macroeconomic challenges

Continue to diversify NSB's offerings to generate revenue and reduce earnings volatility

Streamlining internal systems and processes to drive organic growth

Improving shareholder returns by raising medium-term ROE target range from 10%-15%

Increase deposits and lending growth in line with the industry growth

Arresting the declining market share

Our Strategy

Key trade-offs

Diversification of NSB's portfolio

Cost of investment in people, processes and systems

Growth in market share

Increasing complexity

Satisfying customer requirements

Failure to adoption to changing conditions

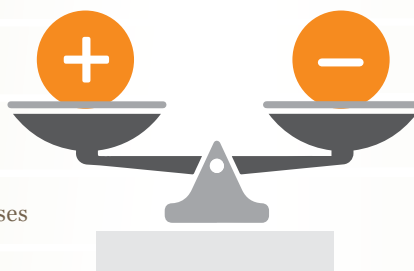
Efficiency of resource usage

Increased requirements of capitals

Streamlining internal systems and processes

Cost incurred in meeting customer needs

Reinforcing internal systems and processes for organic growth



Promoting organic growth – operational KPIs

KPI	Stakeholder group	Value created	YoY Change	2018	2017	Outlook
Dividend per share	↑	Dividend for shareholder	↓	0.75	8.24	Improve the capacity to pay more dividends
Shareholder's funds (Rs. Bn.)		Retaining for future growth	↑	43.7	39.1	
ROE (%)		Returns that shareholders receive on their capital	↓	10.87	27.24	10% – 15% in the short to medium term
Profit after tax (Rs. Bn.)	↓	Contributing to the national economy and value for the shareholder	↓	4.5	9.7	Driving continuous growth
Fee-based income (Rs. Bn.)		Reducing earnings volatility and dependency on interest income	↓	1.25	4.31	Enhance fee-based income through card, international, and credit operations
Cost to income ratio (%)		Managing costs effectively	↑	54.2	37.7	Maintaining a ratio below the industry average
Market share – Deposits (%)		An attractive source of funding for while maintaining customer loyalty	↓	9.58	9.65	Maintaining current market share in the short term and improving in the medium to long term
Market share – Loans and Advances		Driver of revenue growth	↓	5.62	5.89	Maintain and increase the market share
Net interest margin		Extent to which interest income covers interest expenses	↓	2.43	2.61	>2.6% in the short to medium term
Brand value ranking in Sri Lanka (Rank)		Growth of customer base	-	5	5	Improving brand ranking

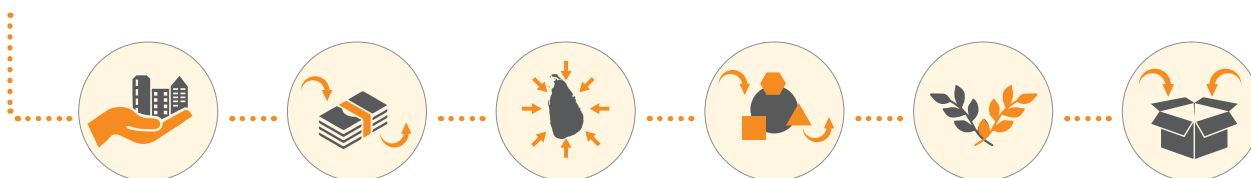
Our Strategy

Leading by example

As a government entity with deep social roots, NSB has a responsibility of being an exemplary corporate citizen and leading by example. We strive for sustainability in all endeavours of our business and we are committed to achieve the UN SDGs. Sustainability has become a

cornerstone of our long-term strategic objectives as well as our short to medium-term objectives. We are aware of our impact on society and environment and committed to create social value through engaging in exemplary, responsible, and sustainable business practices.

Material focus areas



Key priorities

To secure a prosperous future for all our stakeholders through our business decisions and growth philosophy

To proactively manage environmental and societal impacts of our business

To maintain accessible and affordable banking facilities

To generate economic value in a sustainable manner

To become a responsible provider of financial services

Progress in 2018

Supported GOSL's initiatives towards achieving Vision 2025

See page 112



Made progress towards aligning our strategies with UN SDGs

See pages 34 to 37



Conducted, initiated, and continued community development programmes in 2018

See pages 116 to 119



Supported financial growth through our lending operations

See pages 79, 80 and 116



Adopted green building principles to reduce impact on the environment

See page 122



Continued efforts in green lending initiatives

See page 121



Priorities in 2019 and beyond

Continuing our efforts towards the achievement of UN SDGs and alignment of SDGs with our strategy and business operations

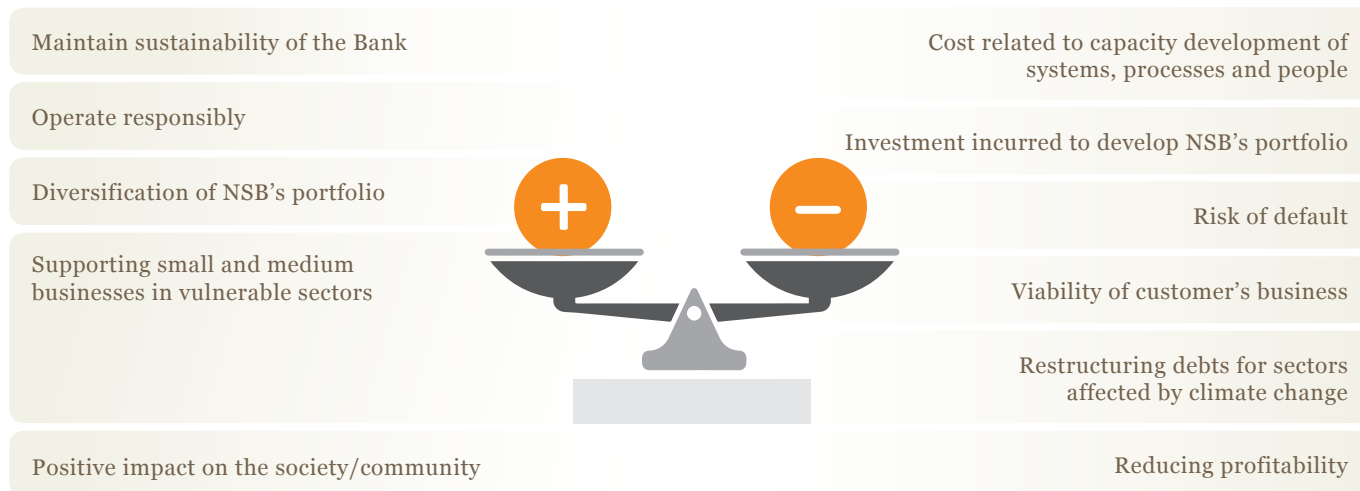
Reducing our environmental footprint in all our business operations

Uplifting local communities and supporting community building initiatives

Managing social and environmental concerns in relation to lending operations

Our Strategy

Key trade-offs



Leading by example – operational KPIs

KPI	Stakeholder group	Value created	YoY Change	2018	2017	Outlook
Total investment in CSR (Rs. Mn.)		Community development	↓	17	20	Achieving the budgetary targets and making a positive impact to the society
Number of lending schemes for low-income earners		Financial inclusivity	↑	3	2	To be in line with lending targets
Number of student scholarships offered under children with special needs category		Supporting education	↑	20	13	Aligning impact with strategy
Number of students participated at the seminars held during the year			↑	90,000	72,000	
Number of entrepreneurs supported		Accessible finance for small and medium business customers	↑	1,525	331	In line with lending targets
Females in executive level and above (%)		Women empowerment and diversity	↓	24.2	25.5	Continue to drive diversity
Infrastructure financing (Rs. Bn.)		Contribution to the economic development	↓	5.1	19.14	Continue to support infrastructure development
Direct and indirect taxes paid (Rs. Bn.)		Contribution to the National Treasury	↓	6.7	7.9	Continue to contribute directly to the national economy
Number of suppliers, and service providers		Contributing to local community development	↑	153	147	Continue to support local suppliers
Proportion of spending on local suppliers (%)			-	100	100	
Number of eco-loans granted		Supporting low carbon economy	↓	781	902	Continue investing in sustainable initiatives
Number of solar panel installed branches connected to net metering			↑	13	5	
Number of plants distributed through NSB Agroforestry			↑	76,000	25,000	

Our Strategy

➔ Capital funding and liquidity management

Capital management ➔

NSB manages its capital levels in line with a number of factors, including our internal assessment of the level of risk being taken, the expectations of the rating agencies, the requirements of the regulators and the returns expected by shareholder. NSB also seeks to ensure that its capital structure takes full advantage of the range of capital instruments and capital management activities available in optimising the financial efficiency and loss absorption capacity of its capital base. NSB has performed extensive and comprehensive stress testing during this period and concludes that the Bank remains well-capitalised relative to its business activities, the Board's strategic plans, risk appetite, risk profile and the external environment in which it operates.

Capital management objectives ➔

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

The Bank's capital management objectives can be summarised as follows:

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

Factors affecting capital ➔

Restrictive capital definitions, difficulty in raising fresh capital, higher risk-weighted assets, additional capital buffers, and higher capital adequacy ratios required under Basel III regulations are already in place pressuring capital requirements of banks. In addition, higher impairment provisioning based on the expected credit loss model under SLFRS 9 as opposed to the incurred loss model under LKAS 39 which makes the provisions better aligned with the higher revenues from riskier loans, too have implications on capital. In addition, the Debt Repayment Levy proposed in

the Government Budget 2018 which is borne by the financial institutions and the removal of most of the tax concessions increases the tax payments, also resulted a significant impact on the amount of capital that banks can internally generate.

Progress in 2018 ➔

CBSL imposed BASEL III capital adequacy requirements on the Sri Lankan Banking industry with effect from 1 July 2017, with the full implementation taking place in three phases over a period of 18 months and completed on 1 January 2019. Accordingly, with effect from January 2019, NSB being a "Domestic Systemically Important Bank" will be required to maintain its Tier I Capital Adequacy Ratio (CAR) at 10% and its total CAR at 14%. In order to fall in line with these new regulatory requirements, the Bank raised Rs. 2.7 Bn. worth of Tier 1 Capital by way of capitalising the unclaimed deposit reserves in December 2018.

During the year, the Bank assessed its capital requirements under the Internal Capital Adequacy Assessment Process (ICAAP) using standardised approach for credit and standardised measurement approach for market risk and basic indicator approach for operational risk, taking into account a broader range of risks and the Bank's risk and capital management capabilities.

NSB has maintained its strong capital adequacy position over the years, which enabled the Bank to absorb the adverse impact of SLFRS 9, day 1 capital impact associated with the adoption of SLFRS 9's Expected Credit Loss model. As per the directive by Central Bank of Sri Lanka on adoption of Sri Lanka Accounting Standard – SLFRS 9 – "Financial Instruments", for the purpose of calculating Capital Adequacy Ratio, Bank has considered the day 1 impact arising from the adoption of SLFRS 9 at the transition date, 1 January 2018. Accordingly, the Tier 1 Capital Adequacy Ratios as at 31 December 2018 of the Bank decreased only by 0.13% after adjusting 25% of the Day 1 impact to the retained earnings.

NSB also has a conservative Risk Weighted Assets (RWA) density of 21.7%, which compares favourably with local and international peers.

Total RWA under Credit Risk has increased to Rs. 185.4 Bn. in 2018 from Rs. 157.3 Bn. reported in 2017. Total RWA for Market Risk has reduced to Rs. 11.4 Bn. in 2018 compared to Rs. 22.1 Bn. in 2017. The RWA for Operational Risk meanwhile has decreased to Rs. 31.2 Bn. during 2018 compared to Rs. 34.9 Bn. in 2017. The overall increase in RWA during 2018 was Rs. 13.8 Bn.

Our Strategy

which has been mainly contributed by the growth in loan book. The CET 1 Capital stood at 13.325% as against the regulatory requirement of minimum 8.875%. The total capital ratio had improved to 16.138% in 2018 compared to 15.311% in 2017 which was well above the regulatory requirement of 12.875%.

Commencing 1 January 2019, the minimum ratio under Basel III Leverage Ratio for licensed banks shall be 3%. According to the circular No. 3 of 2018, the CBSL has decided to permit NSB to exclude investments in Government Securities representing 60% of the money deposited in savings and deposit accounts of the Bank from the exposure measure when calculating Leverage Ratio. Leverage ratio as at 31 December 2018 stood at 4.86%.

Corporate Management of the Bank met periodically to assess the capital adequacy and other capital-related issues and to formulate and escalate its suggestions for implementation by way of strategies. The Bank has been historically generating capital through retained earnings. Dividend payout ratio for 2018 was only 11.1%.

Outlook →

A substantial Tier 1 capital surplus of Rs. 30.43 Bn. in 2018, is prudent and includes management buffers earmarked to absorb the impact of new accounting and regulatory changes (SLFRS 16 in 2019) and other regulatory reforms (prudential requirements and tax) over the medium to long term and are aligned with Bank's capital plan.

Implementation of SLFRS 9 and Basel III have a material impact on regulatory capital requirements. The capital planning therefore has become a critical exercise for banks. Bank also aligned its strategies to optimise the level of capital. Bank will upgrade risk profile of its asset portfolio by continuously striving to maintain a high-quality asset book through careful and strict risk assessments at the time of on-boarding new customers.

Funding and liquidity management →

Liquidity risk is the risk of not having sufficient funds to meet financial obligations in time and in full, at a reasonable cost. Liquidity risk arises from mismatches in the timing of cash flows, while funding risk arises when illiquid asset positions cannot be funded at the expected terms and when required. Liquidity and funding risk is measured using a range of metrics, including Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).

Bank accords as much importance to funding and liquidity as for capital, for ensuring that the Bank has sustainable sources of funding and maintains adequate levels of liquidity at all times to maintain public trust in the Bank and the financial services system. NSB never compromises on its liquidity in its drive to generate returns for shareholder. 60% of deposits are invested in Government Securities as per the NSB Act which are highly quality liquid and risk-free assets.

The liquidity risk management process includes regular analysis and monitoring of the liquidity position by Assets Liability Committee (ALCO) and maintenance of market accessibility. Regular cash flow forecasts, liquidity ratios and maturity gap analysis are used as analytical tools by the ALCO.

Objectives of the Bank's funding and liquidity management efforts comprises honouring customer deposit maturities/withdrawals and other cash commitments efficiently under both normal as well as stressed operating conditions, compliance with the regulatory requirements, supporting the desired credit rating and ensuring smooth transition to Basel III funding and liquidity requirements.

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

Progress in 2018 →

Bank maintained optimum levels of funding and liquidity throughout the year. The Bank has a well set out framework for liquidity risk management and a Board-approved contingency funding plan.

Major portion of the Bank's assets are funded by customer deposits and customer deposits made up 84.5% of the liabilities as at 31 December 2018. The Bank's concentration of funding remains low due to high concentration towards retail deposits since 80% of the deposits are funded by retail depositors. Relative to the wholesale funding sources, retail customer deposits tend to be more stable since a core component therein is likely to remain with the Bank for the medium to long term.

Our Strategy

NSB's liquidity ratios are significantly higher than the prescribed minimum due to its large holding of Government Securities. As at 31 December 2018, Statutory Liquid Asset Ratio was 54.88% and the LCR was 321.29% (for all currencies), well above the minimum requirement of 20% and 90% respectively. The NSFR, which became a prudential requirement with effect from January 1, 2019, was at 146.67% as at 31 December 2018 against the minimum requirement of 90%.

In September 2018, NSB redeemed USD 750 Mn. senior note at maturity with the funds internally existed and

obtained a term loan of USD 100 Mn. for 3 years as a low cost foreign currency borrowing.

Outlook →

In order to comply Basel III funding and liquidity requirements, NSB will continue to migrate short term reliance for funding towards medium to long-term tenors and also concentrate on improving the funding profile of the Bank. In this regard, the Bank is well-prepared for the settlement of USD 250 Mn. senior notes which falls due on September 2019.

SLFRS 9 – Financial instruments

Key accounting concept

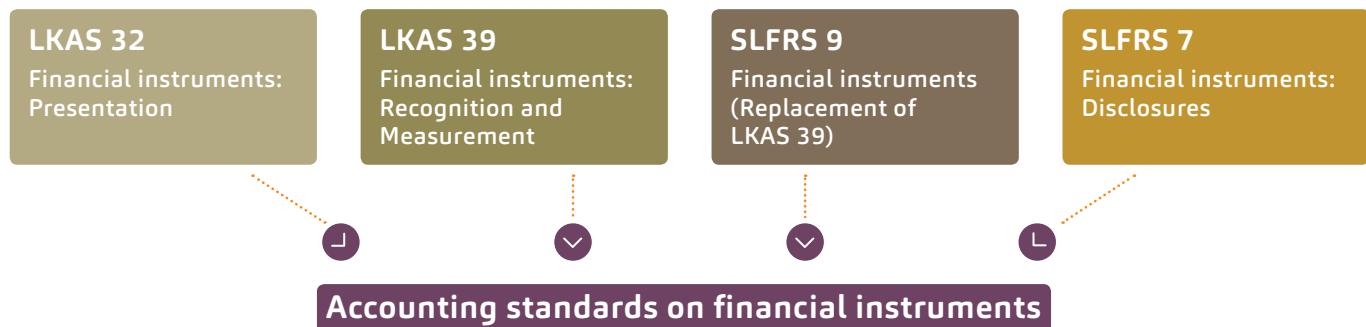
The Bank and the Group has adopted SLFRS 9 – “Financial Instruments” SLFRS 9, which came into effect from 1 January 2018. Since SLFRS 9 changes the way that the Group classifies and measures financial assets and liabilities and, most notably, the way the Group estimates its expected credit losses, we have provided a summary of how the adoption of SLFRS 9 affected the Group from 2018.

Key change

The requirements of expected credit loss impairment under the SLFRS 9 have materially impacted on the Group Financial Statements. Furthermore, the credit impairments is recognised on expected credit loss basis which differs significant from the incurred loss basis under LKAS 39 – “Financial Instruments: Recognition and Measurement”. The expected credit loss basis requires us to consider past, current and future expected events in determining ECL requirements.

It is important to note that the ultimate cash credit loss recognised on loans to customers will not be changed because of SLFRS 9. If a customer is going to default, the ultimate cash loss under both IAS 39 (the requirements applied in preparing the Group's 2017 financial results) and SLFRS 9 will be identical.

The only difference between LKAS 39 and IFRS 9 is the timing of how we recognise credit losses.



Capital implications

As per the Directive No. 4 of 2018 issued by Central Bank of Sri Lanka on “Adoption of Sri Lanka Accounting Standard – SLFRS 9: “Financial Instruments”, for the purpose of calculating capital adequacy ratio, Banks shall stagger additional credit loss provision arising from SLFRS 9 at the transition date 1 January 2018. Accordingly, Bank has charged

only 25% of the Day 1 impact (Rs. 281.5 Mn.) against the Retained Earnings of the Bank for the purpose of calculating Capital Adequacy Ratio as at 31 December 2018. Due to this adjustment, the Tier I capital adequacy ratio and total capital adequacy ratio were decreased by 0.13%.

Our Strategy

SLFRS 9 – Drivers

1 12-month expected credit loss for performing exposures

All financial investments should be subjected to expected loss provisioning in line with SLFRS 9, and for the financial investments which are not significantly deteriorated, the Bank shall consider 12 months ECL.

3 ECL held for unutilised credit exposures, guarantees and letters of credit

The requirement for impairments to be recognised for unutilised credit facilities, guarantees, and letters of credit will result in additional balance sheet impairments.

2 Lifetime credit losses for exposures that exhibit a significant increase in credit risk

All financial investments should be subjected to expected loss provisioning in line with SLFRS 9, and for the financial investments which are significantly credit deteriorated, Bank shall consider Lifetime ECL.

4 Forward-looking economic expectations for ECL

The inclusion of forward-looking economic information is expected to increase the level of provisions held on our balance sheet due to the nature and timing of both current and forecasted economic assumptions.

Expected Credit Loss Model

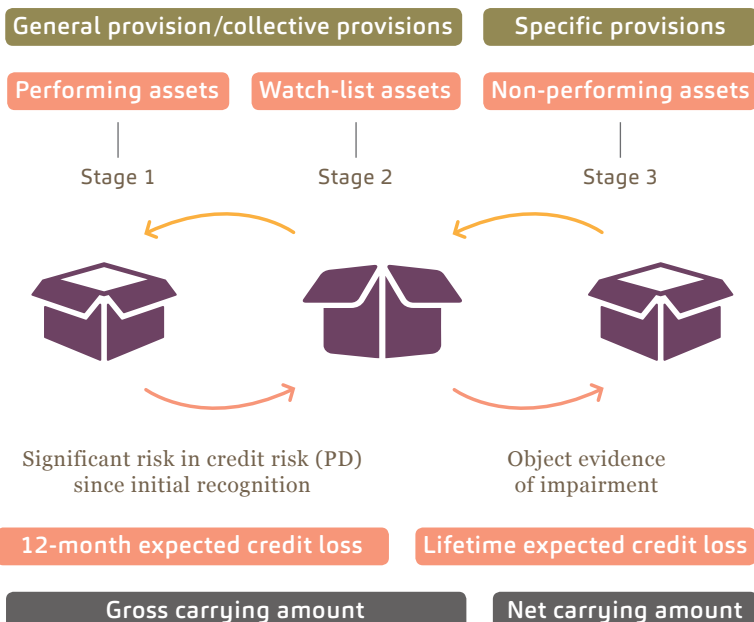
IAS 39 – Incurred loss model

Credit losses are recognised only on the occurrence of a loss event balance sheet impairments



SLFRS 9 – Forward-looking expected credit loss model

Recognises 12 months loss allowance at initial recognition and lifetime loss allowance on significant increase in credit risk



Stakeholders

At NSB, we engage with a wide range of stakeholders who are vital for all operations. Over the years, we are recognised as a trusted financial partner acting in accordance with our values and mandate, creating long-term value for all our stakeholders. We consider close dialogue with our stakeholders is an integral part of all our operations. Constructive stakeholder engagement allows us to serve the needs of customers more effectively and helps us continuously improve and make progress towards our strategic goals.

We conduct an annual materiality assessment (see page 60) to understand what our stakeholders consider to be important. We secure insights that matter most to them and that are relevant to our business

by taking into consideration their expectations and concerns by gathering stakeholder feedback through dialogue, collaboration and cooperation, assessing the environmental, social and governance risks, as well as our opportunities across our business.

This approach allowed us to identify topics that have a direct or indirect impact on our Bank's ability to create, preserve or erode economic, environmental and social value – not only for ourselves, but also for our stakeholders. Feedback from our stakeholders helps us to build on our strategy which outlines clearly our commitment to deliver sustainable value to our stakeholders, expand our offering, and initiate programmes and services to better serve our stakeholders.

➔ Stakeholder engagement process

GRI 102-42

Our stakeholder engagement process involves three stages:









Stakeholders

Identification of stakeholders →

GRI 102-40

We define our stakeholders as those individuals or groups we influence through our activities, products and services and in turn those individuals and groups that have an interest in our success or failure and whose opinions and actions can impact on our ability to execute our strategy and conduct our business activities.

The first step of the process is to identify NSB's stakeholders (Individuals, groups, and organisations) that directly or indirectly influence our operations. We have identified the following six stakeholder groups with whom we consistently strive to build and maintain relationship:

 <p>Customers</p>	<ul style="list-style-type: none"> → Individuals → Institutions → Corporates → Entrepreneurs 	<ul style="list-style-type: none"> → Customers are at the centre of our business and customer focus provides the basis to achieve a profitable and sustainable business. → Customers provide the source of funds that allow us to fund lending activities.
 <p>Employees</p>	<ul style="list-style-type: none"> → Permanent employees → Employees on contract basis → Outsourced personnel → Trade unions 	<ul style="list-style-type: none"> → Skills, experience, and activities that our employees carry out drive the day-to-day operations of our business. → How our people think and feel about work are directly connected with customer satisfaction levels.
 <p>Shareholder</p>	<ul style="list-style-type: none"> → The Government of Sri Lanka 	<ul style="list-style-type: none"> → Government of Sri Lanka as the sole shareholder expects the Bank to be a major contributor for financial stability and resilience of the economy.
 <p>Regulators and Government institutions</p>	<ul style="list-style-type: none"> → CBSL → Ministry of Finance → Auditor Generals Department → Other Government and professional organisations 	<ul style="list-style-type: none"> → They provide the licence to operate the Banking business.
 <p>Business partners</p>	<ul style="list-style-type: none"> → Suppliers → Utility service providers → Other service providers → Exchange houses and correspondent banks 	<ul style="list-style-type: none"> → They provide the equipment and expertise support services needed to develop and maintain our operations. → Impact on our ability to provide products and services cost effectively.
 <p>Society and environment</p>	<ul style="list-style-type: none"> → Society at large → Pressure groups → Community organisations → Non-Government organisations → Media 	<ul style="list-style-type: none"> → Social relevance is fundamental to our survival and success, and underpins our purpose and vision. → Ensures continued viability of the business into the long term. We aim to contribute positively to the communities and environment in which we operate.

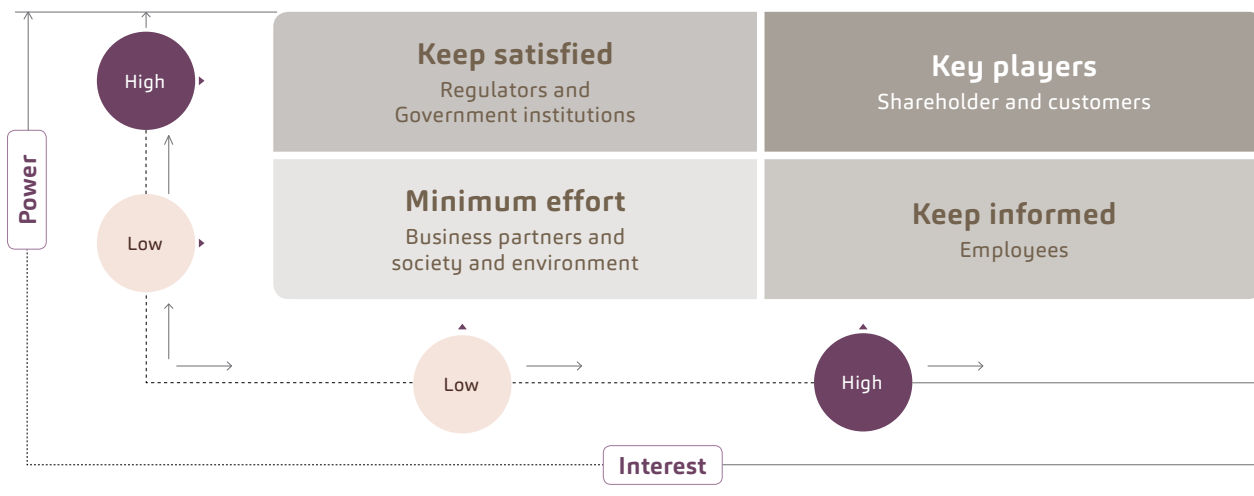
Stakeholders

Prioritising Key Stakeholders >

GRI 102-42

We identify key stakeholders based on their relevance and ability to impact our business operations. We use the Mendelows matrix to analyse our stakeholder groups based on “Power” (the ability to influence business operations) and “Interest” (how interested the stakeholder groups are in the Bank’s operations).

The Bank continuously address and monitor these stakeholders’ needs and expectations to create value, stay in business or grow as well as to find a way to balance the conflicting priorities of our stakeholders.




Engagement with stakeholders >


GRI – 43, 44

Based on the assessment we carried out, we engage with a number of stakeholder groups on issues that impact our business. This engagement is fundamental to our operations where stakeholder insights help us make better decisions, to fulfil needs, and to become a better bank.



We build different communication platforms for each stakeholder group and attaches great importance to engaging in a dialogue with them. The following table outlines NSB’s methods of engaging with stakeholder groups and its outcomes in 2018:

Stakeholder group	Method of engagement	Frequency of engagement								Stakeholder’s concerns	Value created	
		As required	Regularly	Periodically	Annually	Quarterly	Monthly	Once in three years	As issued			Continuously
	Annual report				✓						Sustainable financial return and growth strategy	Generating sustainable financial returns (while respecting environmental limits), enabled by growing revenues, managing risks within an acceptable risk appetite and managing our expenses wisely, while optimising our cost base
	Financial statements								✓			
	Corporate website		✓								Sound balance sheet to protect downside risk through strong and experienced management	Maintaining a strong balance sheet, which contributes to a safe and stable banking system that instils confidence and protects against downside risk
	Media releases and press conferences		✓							Strong governance and transparent disclosure		
										The Bank’s resilience to challenging economic conditions		



Stakeholders

Stakeholder group	Method of engagement	Frequency of engagement								Stakeholder's concerns	Value created	
		As required	Regularly	Periodically	Annually	Quarterly	Monthly	Once in three years	As issued			Continuously
	One on one meetings	✓									Safety for their money and investments	Safeguarding deposits and investments while growing returns
	Customer access points	✓									Cheaper and more convenient banking services	Rolling out more efficient channels and providing cheaper, more convenient banking options
	School collection centres		✓								Improving banking experience	Understanding the needs of our customers and providing personalised and comprehensive financial solutions
	Call centre	✓									Excellence in customer service	Enabling our people to provide excellent and consistent customer service and experience
	Surveys on customer satisfaction		✓								Value for money banking	Enabling our people to provide excellent and consistent customer service and experience
	Corporate events	✓									Combating cybercrime and fraud	Increasing digitisation and innovation while making it safer
	Corporate website	✓									Responsible banking services and solutions	Proactively responding to cybersecurity threats and ensuring customer privacy and security
	Customer awareness programmes		✓								Reducing delays, errors, and complexity in processes	Maintaining the stability, security and speed of our IT systems.
	CSR activities	✓										Financial inclusion through our products, delivery channels and markets
	Promotional campaigns			✓								Increasing process efficiency and automation
	Print and electronic media	✓										Increased capacity in our contact points and strengthen multi-channel delivery
	Social media channels		✓									Simplifying process

Stakeholders

Stakeholder group	Method of engagement	Frequency of engagement								Stakeholder's concerns	Value created
		As required	Regularly	Periodically	Annually	Quarterly	Monthly	Once in three years	As issued		
	Formal meetings			✓						Recognition and career advancement opportunities	Offering attractive remuneration and reward for the value they are adding
	Informal/Adhoc meetings	✓								Training and development to enhance current skills and develop new skills in a changing operating environment	Developing our workforce to be agile and remain relevant in rapidly changing environment
	Review meetings			✓						Employee health and well-being in a changing working environment	Creating an inspired environment which enables our people to be engaged
	Performance appraisals				✓					Competitive remuneration and effective performance management	Employing people in the community in which we operate leveraging diversity and inclusivity
	Internal newsletter					✓				Safe, positive, and inspiring work environment	Training and development programmes
	Operational circulars and guidelines	✓								Providing new employment opportunities with emphasis on diversity and inclusivity	Job security and freedom for collective bargaining
	Training programmes		✓							Ability to raise voices and grievances individually and collectively	
	Intranet		✓								
	Welfare events and activities			✓							
	Negotiations on collective agreements							✓			
	Directives and circulars								✓	Compliance with all legal and regulatory requirements	Being in compliance with rules and regulation to mitigate against systemic risk
	Financial statements			✓	✓	✓				Embedding risk and compliance culture	Embracing sustainable banking practices and regulatory compliance that enable a safe and stable banking system and a thriving society
	Statutory Examination				✓					Enhancing trust and maintaining stability in the banking sector	Ensuring customer confidence in the Bank and reducing potential for reputational risk
	Regulatory reporting		✓	✓						Being a responsible tax payer	Providing timely and detailed regulatory updates and disclosures
	Interviews and meetings with representatives of regulators	✓									Contributing meaningfully to Government budgets through our own corporate taxes, staff paying PAYE taxes
	Industry forums and meetings	✓									Active participation in Government securities investments
	Onsite surveillance			✓							

Stakeholders

Stakeholder group	Method of engagement	Frequency of engagement									Stakeholder's concerns	Value created
		As required	Regularly	Periodically	Annually	Quarterly	Monthly	Once in three years	As issued	Continuously		
	Procurement plan					✓					Fulfilling contractual obligation with prompt payment	Maintaining healthy, mutually beneficial relationships with suppliers and service providers
	Procurement process	✓									Transparency in procurement practices	Having regular direct communication with major suppliers
	Meetings with suppliers and service providers	✓									Long-term business relationships	Awarding the contract within the minimum time period possible and making the payments promptly
	Site Inspections	✓										Procurement from local suppliers
	Tender notices	✓										
	Product demonstrations	✓										
	Publication of information/ notices	✓										
	Delivery channels									✓	Playing major role in society with social, economic, and environmental concerns	Accelerating inclusive economic growth and facilitating transactions that are the backbone of economic value exchange
	Corporate website									✓	Reducing the environmental footprint and using resources efficiently	Creating stable and permanent jobs that helps to improve the development of society and enhance the standard of living
	Call centre									✓	Contributing to initiatives that address societal, economic and environmental challenges across the nation	Transforming economy and society positively through supporting Sustainable Development Goals (SDGs)
	Press releases, conferences and media campaigns	✓									Accessibility to everyday banking facilities at affordable prices	Making a difference through our community engagement projects
	Sponsorships	✓										Investing in Sri Lanka's infrastructure notably in transport, health and other sectors
	Public relation activities	✓										
	Funding Government infrastructure projects	✓										
	CSR projects	✓										

Materiality Matters

NSB’s has adopted an integrated approach to reporting on material matters related to socio-economic, environmental, and governance information. We consider a matter to be material if it could substantively affect the Bank’s ability to create value over the short, medium, and long term. In the formulation of our strategy, we identify and assess material issues, which enables us to prioritise certain areas over others to better focus our energy and resources.

➔ Materiality assessment process

Our materiality assessment process is aligned with UN SDGs, GRI Standards, and the IIRC Framework. It is a process that continuously evolve. It includes three principal steps: Identification, prioritisation, and application and evaluation.

Material matters are identified through studying internal input and reviews from our key business lines and divisions, committee reports, etc., and using external information such as publications and reports from regulatory bodies, issues raised by the parliament, reports from industry analysts, and etc. Once identified, material issues are plotted on a materiality map, according to its impact on operations and stakeholder relationships and the boundary of the topic. Then material matters are applied in our long-term strategic objectives and short to medium-term strategic objectives which leads to creating better value. The matters are evaluated annually to ensure that the Bank’s strategy remains robust and relevant.

Internal information

Issues that received the most attention of the Board and the Management during the year:

Management Committee Reports

Board Committee Reports

Research analysis done by the Research and Development Division on market conditions and sentiments

Internal Audit Reports

Employee workshops

External information

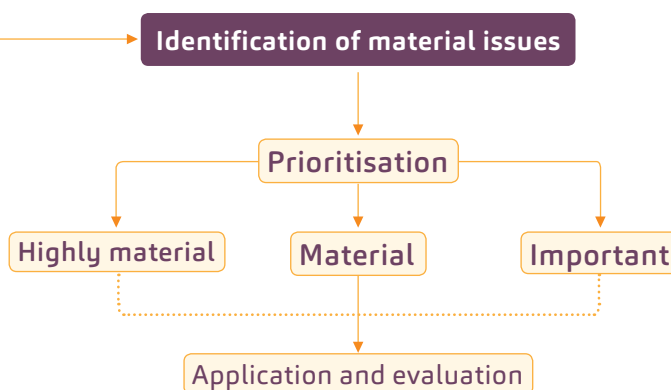
Reports and publications from regulatory bodies

Issues raised in parliamentary speeches, committees, statements, and policy documents

Reports and articles by industry analysts

Media coverage

Global and regional development concerns



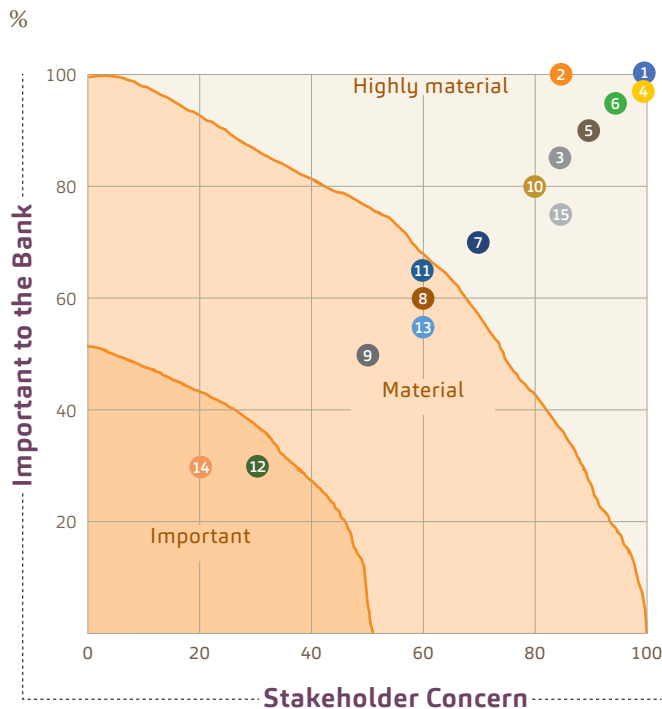
Materiality Matters

→ NSB's material issues

GRI 102-47

Following our materiality assessment process, we identified 15 material issues that have the potential to impact our operations and are of great importance to our stakeholders. The material issues have been grouped under three main pillars: Economic, environment, and social, as illustrated by the following diagram. We have also prioritised matters and plotted them on the materiality matrix diagram below:

Materiality matrix



- 1 Customer service and experience
- 2 Risk-focused organisational culture
- 3 Digital transformation
- 4 Cyber security, fraud prevention, and anti-money laundering
- 5 Economic value for contributors
- 6 Regulatory compliance
- 7 Responsible lending
- 8 Financial Inclusion
- 9 Economic and social impact
- 10 Attracting, developing, and retaining talent
- 11 Diversity and inclusion
- 12 Environmental footprint
- 13 Workplace safety, health, and well-being
- 14 Supply chain responsibility
- 15 Operational efficiency

Economic

- Economic value for contributors
- Economic and social impact
- Financial inclusion
- Operational efficiency























Environment

- Environmental footprint

Social

- Customer service and experience
- Risk-focused organisational culture
- Digital transformation
- Cybersecurity, fraud prevention, and anti-money laundering
- Regulatory compliance
- Responsible lending
- Economic and social impact
- Attracting, developing, and retaining talent
- Diversity and inclusion
- Workplace safety, health, and well-being
- Supply chain responsibility

Materiality Matters

























Material issue	Value creation	GRI topic	GRI Boundary*	Stakeholders	Short to medium-term strategic objective	Related risk**	Reference
1. Customer service and experience	<ul style="list-style-type: none"> → Understanding customer needs and meeting them → Treating customers with integrity, trust, and respect 	401 employment communities 416 Customer health and safety 417 Marketing and labelling	Within and outside	 	 	4 5 6 9	pages 107 to 112
2. Risk-focused organisational culture	<ul style="list-style-type: none"> → Maintaining high standards of corporate governance and a robust risk management framework to protect the interests of our stakeholders → Being agile to seize business opportunities amidst a fast-changing environment 	205 Anti-corruption 206 Anti-competitive behaviour 403 occupational health safety 418 customer privacy	Within and outside		 	1 – 11	pages 89, 90, 110 and 115
3. Digital transformation	<ul style="list-style-type: none"> → Making banking simpler and safer for our customers through innovation and technology 	418 Customer privacy 413 Local communities 401 employment	Within and outside	 	 	4 – 9	pages 90, 91, 109 and 110
4. Cyber security, fraud prevention, and anti-money laundering	<ul style="list-style-type: none"> → Protecting customers from cyber security threats through robust risk management systems and processes → Assisting regulators in preventing cyber crime, money laundering, and funding of terrorism 	418 Customer privacy 205 Anti-corruption	Within and outside	 	 	4 – 9	pages 86, 110 and 115
5. Economic value for contributors	<ul style="list-style-type: none"> → Delivering consistent returns for our investors. → Contributing to the local economies through taxes, job creation, facilitating trade and industries, and building financial resilience of our stakeholders 	201 Economic performance 203 Indirect economic impacts	Within and outside	    	 	1 – 11	pages 66 to 78 and 116 to 118

* Where the impact occurs within or outside NSB.

** To know more about our related risks see “Statement on Risk Management” on page 140.

- 1 Credit risk
- 2 Market risk
- 3 Liquidity risk
- 4 Operational risk
- 5 Compliance risk
- 6 Reputational risk
- 7 Strategic risk
- 8 Cybersecurity risk
- 9 Regulatory risk
- 10 Model risk
- 11 Contingent risk

Materiality Matters

Material issue	Value creation	GRI topic	GRI Boundary*	Stakeholders	Short to medium-term strategic objective	Related risk**	Reference
6. Regulatory compliance	<ul style="list-style-type: none"> → Maintaining sound risk management systems → Complying with applicable laws, rules, regulations, and standards 	205 Anti-corruption 206 Anti-competitive behaviour	Within and outside	  		4 5 6 7 9	page 115
7. Responsible lending	<ul style="list-style-type: none"> → Addressing environment, social, and governance issues when making lending decisions 	201 Economic performance 203 Indirect economic impacts 417 Marketing and labelling 418 Customer privacy	Within and outside	  		1 4 5 6 7 9	pages 121 to 123
8. Financial inclusion	<ul style="list-style-type: none"> → Making banking services and products accessible to all segments of society to meet their needs and expectations 	413 Local communities 203 Indirect economic impacts	Outside	 		1 – 11	pages 110, 111 and 116, 117
9. Economic and social impact	<ul style="list-style-type: none"> → Supporting social development in the areas of art, children, and education → Encouraging innovation and enterprise → Nurturing start-ups and SMEs 	202 Market presence 203 Indirect economic Impacts 413 Local communities	Outside	 		4 7	pages 66, 112 and 116 to 118
10. Attracting, developing, and retaining talent	<ul style="list-style-type: none"> → Treating our people with care and respect. → Investing in training and development 	202 Market presence 401 Employment 404 Training and education 407 Freedom of association and collective bargaining	Within and outside	  		4	pages 96 to 99
11. Diversity and inclusion	<ul style="list-style-type: none"> → Hiring from diverse cultural backgrounds, age groups, gender, and abilities 	401 Employment 405 Diversity and equal opportunity	Within and outside	   	 	4 6	pages 97 to 100

* Where the impact occurs within or outside NSB.

** To know more about our related risks see “Statement on Risk Management” on page 140.

- 1 Credit risk
- 2 Market risk
- 3 Liquidity risk
- 4 Operational risk
- 5 Compliance risk
- 6 Reputational risk
- 7 Strategic risk
- 8 Cybersecurity risk
- 9 Regulatory risk
- 10 Model risk
- 11 Contingent risk

Materiality Matters

Material issue	Value creation	GRI topic	GRI Boundary*	Stakeholders	Short to medium-term strategic objective	Related risk**	Reference
12. Environmental footprint	→ Managing our resources wisely by saving energy, reducing carbon emissions and resource consumption, and minimising waste	302 Energy 303 Water 305 Emissions 306 Effluents and waste	Within and outside			4 6	pages 122 and 123
13. Workplace safety, health, and well-being	→ Providing our people with a conducive work environment	403 Occupational health and safety	Within		 	4 6	page 102
14. Supply chain responsibility	→ Addressing sustainability risks in our supply chain	204 Procurement practices 407 Freedom of association and collective bargaining	Within and outside			4 5 6 7 9	pages 113 and 114
15. Operational efficiency	→ Streamlining operations to improve process to provide quality service → Optimising cost and deliver at better prices	205 Anti-corruption 401 Training and education	Within	 	 	1 – 11	pages 90 and 91

* Where the impact occurs within or outside NSB.

** To know more about our related risks see "Statement on Risk Management" on page 140.

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- 2 Market risk
- 3 Liquidity risk
- 4 Operational risk
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- 7 Strategic risk
- 8 Cybersecurity risk
- 9 Regulatory risk
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- 11 Contingent risk

Management Discussion and Analysis

This section is a comprehensive overview of NSB's operations, performance, challenges, and future outlook according to each capital. Further, it outlines NSB's position with regard to sustainability as a binding part of our business operations and performance.

66

Financial Capital

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Manufactured Capital

88

Intellectual Capital

93

Human Capital

106

Social and Relationship Capital

120

Natural Capital

125GRI Content Index
in accordance with
Core Criteria

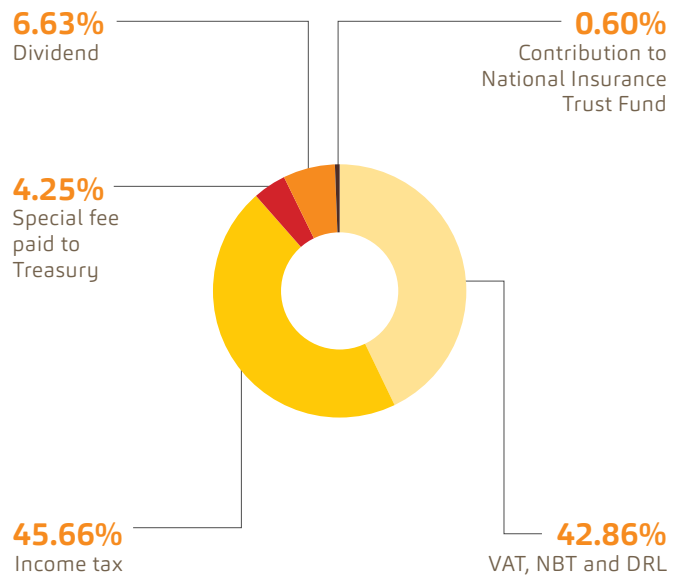
Financial Capital



Funds generated through financial capital are utilised for operations, capital investment projects and to create sustainable returns within the approved risk appetite.



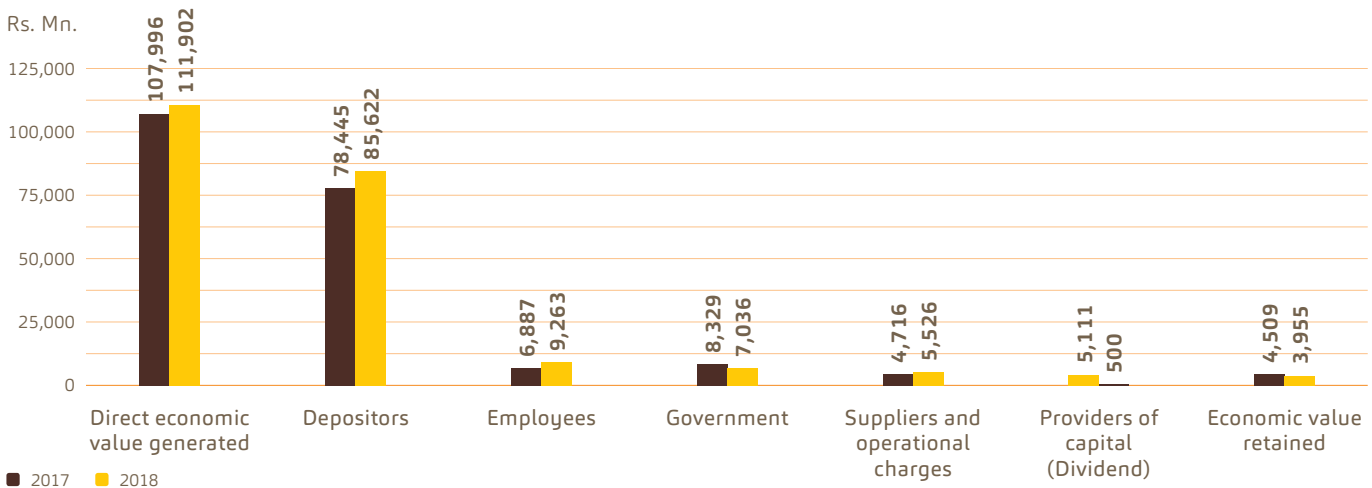
Contributions to the Nation →



Economic value added →

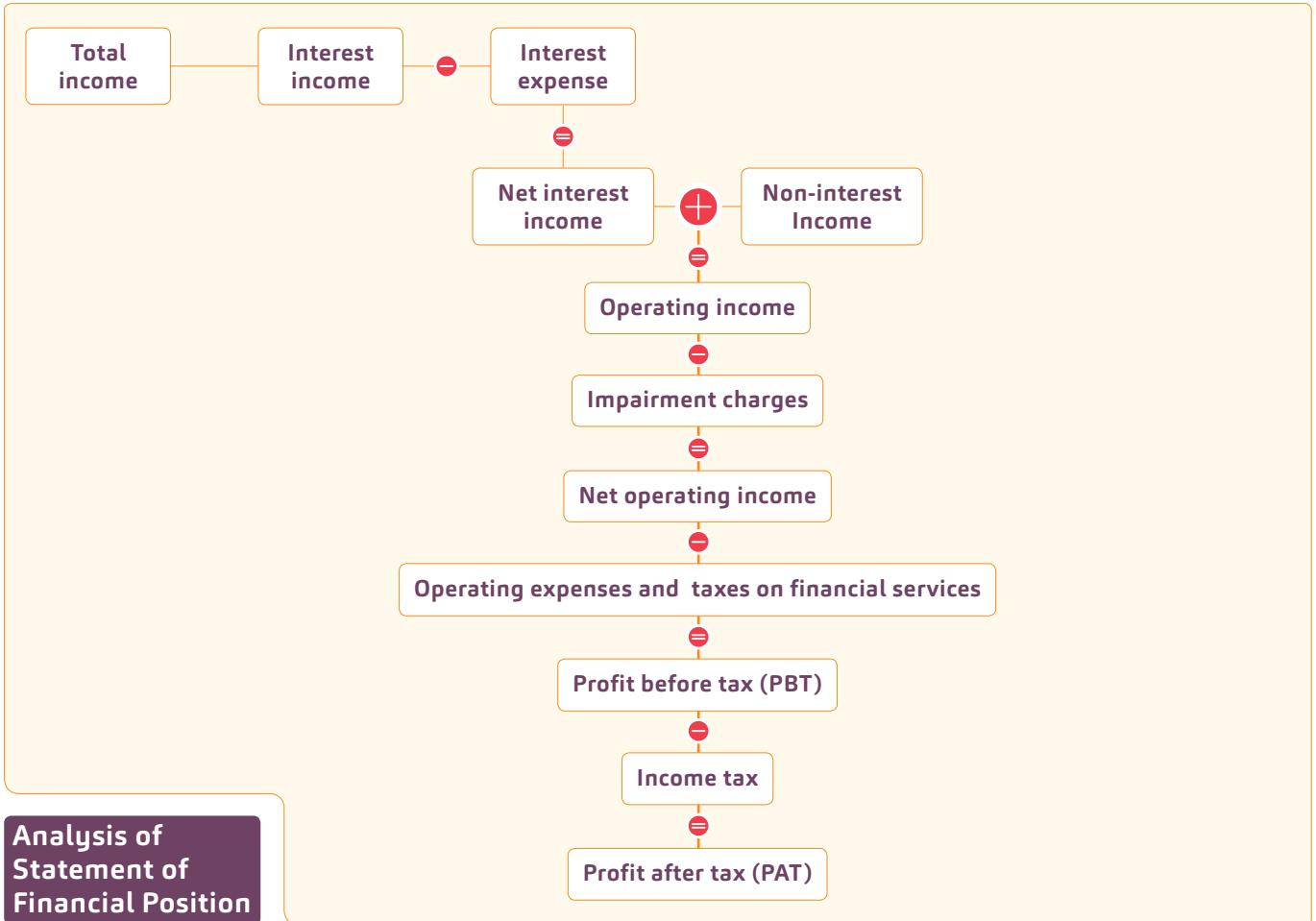
NSB utilises the six capitals to create the value that sustains the business and provides shareholder returns. The value created is shared with our stakeholders to support the economy, government and communities where our employees live.

GRI 201-1

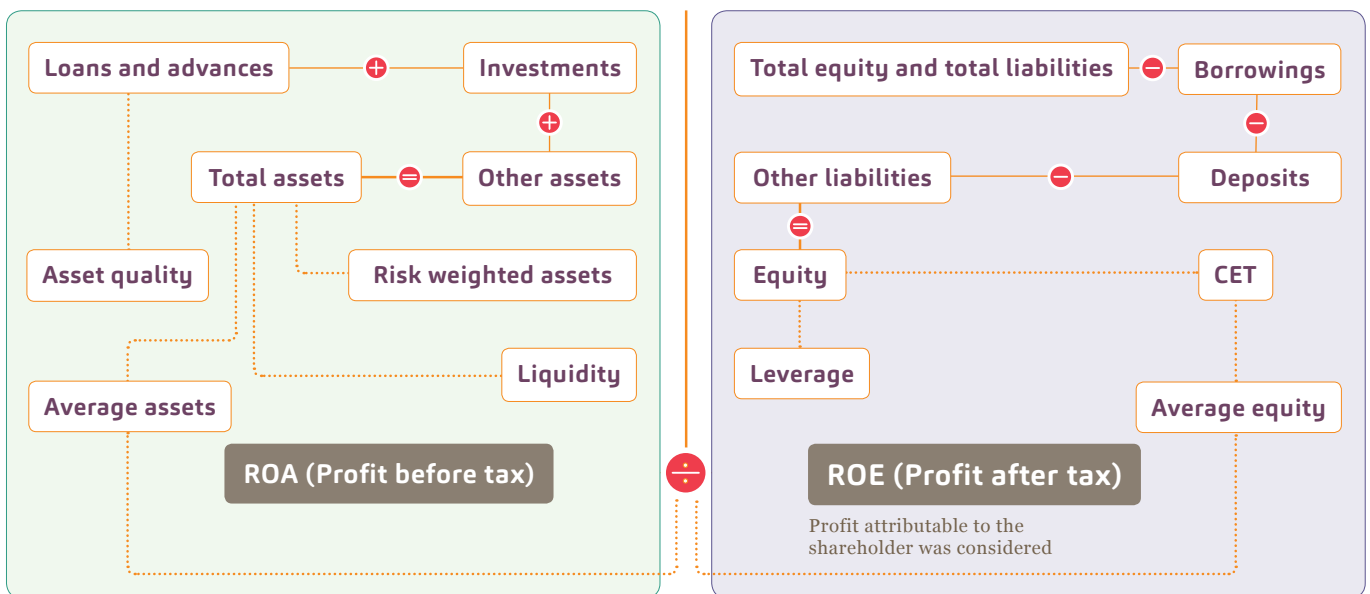


Financial Capital

Analysis of Income Statement



Analysis of Statement of Financial Position



Financial Capital

Analysis of Income Statement

Total income

The Bank recorded a total income of Rs. 111.9 Bn. during the year 2018, a marginal growth of 3.6% from 2017 underpinned by strong growth of interest income which represented 98.7% of the total income. The rest comprises non-interest income, namely, net fee and commission income, net gains and losses from trading activities, and other operating income.

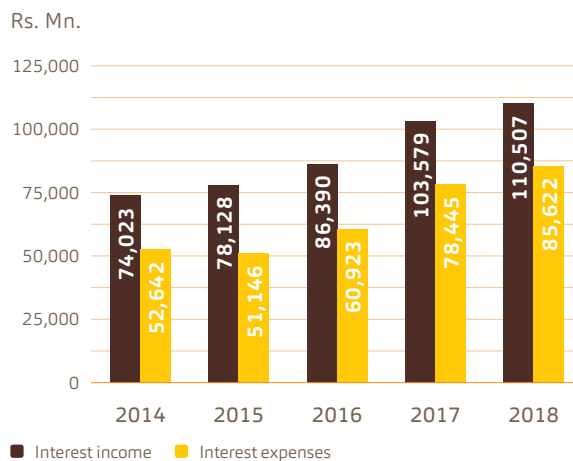
Interest income

Interest income increased by 6.7% to Rs. 110.5 Bn. in 2018 compared to Rs. 103.6 Bn. reported in 2017. Interest income from retail and corporate lending accounted for 45.2% of the total interest income which recorded a notable growth of 17.0% to reach Rs. 49.9 Bn. from Rs. 42.6 Bn. in 2017 supported by 12.7% increase in lending portfolio. Interest income from Government securities continues to be the largest contributor to the Bank's interest income with a share of 51.8%. During the year there was a marginal decline of 2.8% to Rs. 57.2 Bn. from Rs. 58.9 Bn. in 2017. This was largely due to the maturity of Sri Lanka Development Bonds (SLDB) of USD 375 Mn.

Interest expense

Interest expense increased by 9.1% to Rs. 85.6 Bn. against Rs. 78.4 Bn. reported in 2017. This could be mainly attributable to the increase of 14.6% in interest expense due to depositors which amounted to Rs. 68.9 Bn. The increase is due to the increase in higher cost funding base of fixed deposits by 17.1%.

Interest income vs Interest expenses

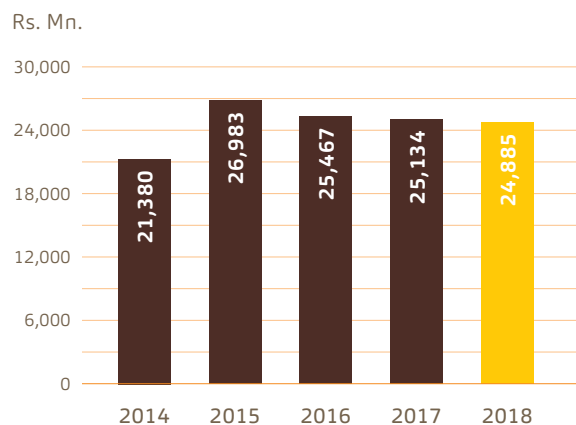


Financial Capital

Net interest income

Net interest income marginally declined by 1.0% to Rs. 24.9 Bn. compared to Rs. 25.1 Bn. in 2017 due to increased interest cost associated with the funding profile. Consequently, net interest margin (NIM) dropped to 2.4% in 2018 compared to 2.6% reported in the previous year. Withholding tax on interest income from Government securities was removed with the implementation of new Inland Revenue Act with effect from 1 April 2018. As a result, a loss of Rs. 3.6 Bn. of interest income on investments in Government securities made prior to 1 April 2018 adversely affected the NIM.

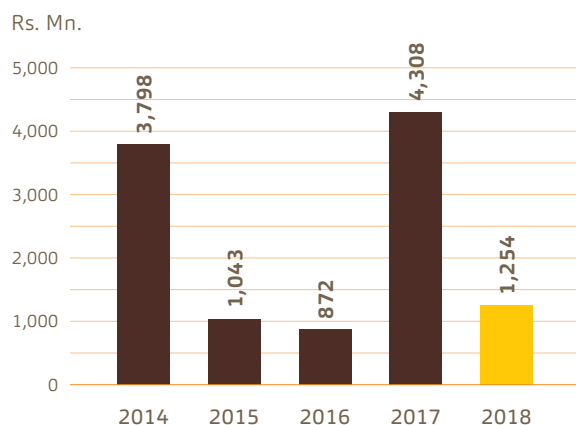
Net interest income



Non-interest income

The non-interest income witnessed a sharp decline of 70.9% to reach Rs. 1.3 Bn. compared to Rs. 4.3 Bn. reported in previous year. This resulted from mark to market losses and reduction in realised gains in both Government securities and equity trading portfolios due to unfavourable market conditions along with non declaration of cash/scrip dividend by the subsidiary. Nevertheless, net fee and commission based income mostly related to debit cards, trade finance, remittances, and credit operations surged by 28.3% during the year to reach Rs. 0.9 Bn.

Non-interest income

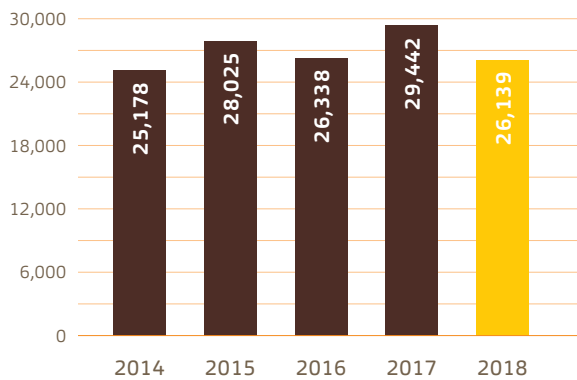


Financial Capital



Operating income

Rs. Mn.

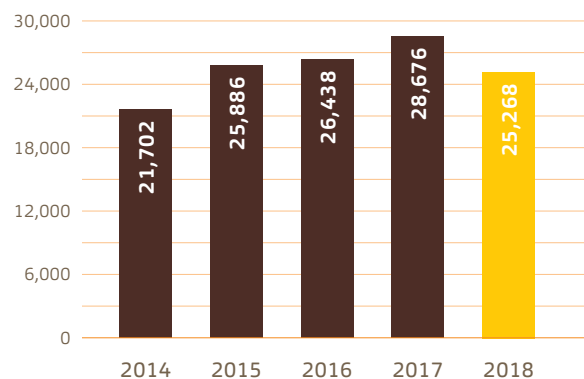


Impairment charges

The impairment charges of Rs. 1,111.5 Mn. on lending portfolio net of the reversal of Rs. 260.1 Mn. on other financial assets due to maturity of SLDB was charged to the income statement. Further, Rs. 19.6 Mn. also has been charged to the income statement during the year as write-off/wave-off of capital and interest on loans and advances. Accordingly, total impairment charges to the income statement increased by 13.7% to Rs. 871.0 Mn. during the year 2018 against Rs. 765.8 Mn. reported in the previous year mainly due to increase in personal lending portfolio and implementation of SLFRS 9. Also, a sum of Rs. 1,126.1 Mn. was provided as Day 1 impact against the shareholders' equity as of 1 January 2018.

Net operating income

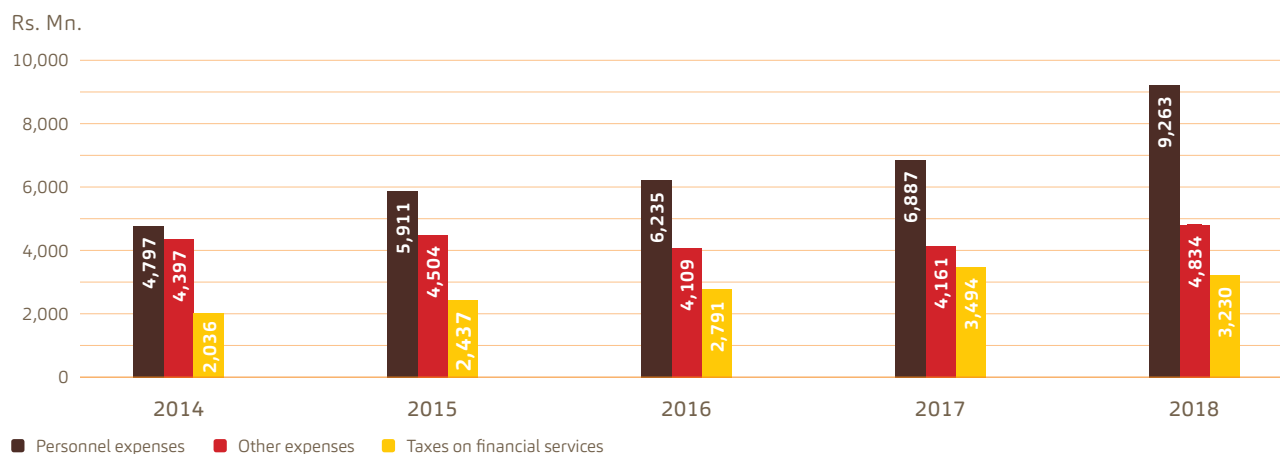
Rs. Mn.



Financial Capital

Operating expenses and taxes on financial services

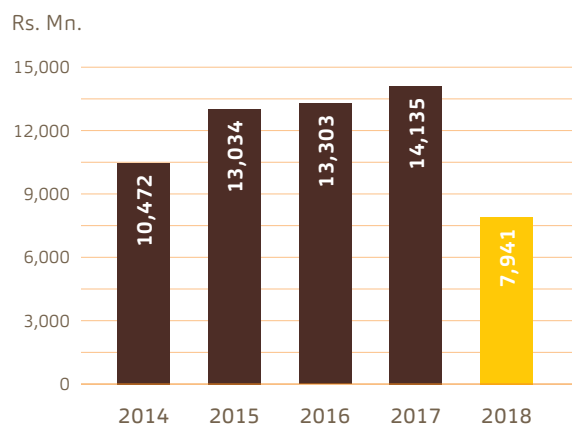
Operating expenses consisting of staff costs and other administrative expenses surged to Rs. 14.1 Bn., an increase of 27.6% from Rs. 11.0 Bn. in 2017 due to the increase of salary and non-salary benefits once in every three years according to the collective agreement. The Bank absorbed contract, outsourced employees to the permanent cadre and invested heavily on IT infrastructure. Staff expenses that comprise 65.7% of the operating expenses reached Rs. 9.3 Bn., an increase of 34.5% compared to 2017 which consequently increased the cost to income ratio to 54.2% from 37.8% in 2017. Further, the VAT and NBT on financial services declined to Rs. 2.9 Bn. during the year from Rs. 3.5 Bn. in 2017, recording a decrease of 16.4%. Nevertheless with the introduction of Debt Repayment Levy on financial services effective from 1 October 2018, the Bank has paid Rs. 308 Mn. during the last 3 months of 2018.



Profit before tax

The Bank has reported profit before tax (PBT) of Rs. 7.9 Bn. compared to Rs. 14.1 Bn. in 2017, a decline of 43.8%.

Profit before tax (PBT)

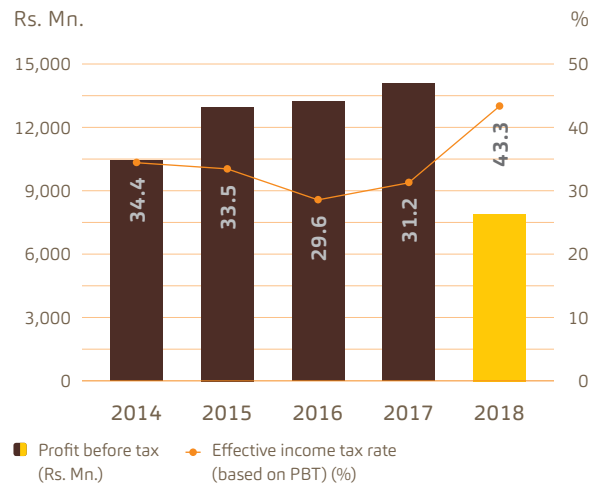


Financial Capital

Income tax

The income tax for the year decreased by 22.1% to Rs. 3.4 Bn. against Rs. 4.4 Bn. reported a year before. However, the effective income tax rate increased from 31.3% in 2017 to 43.3% in 2018 due to the removal of tax exemptions.

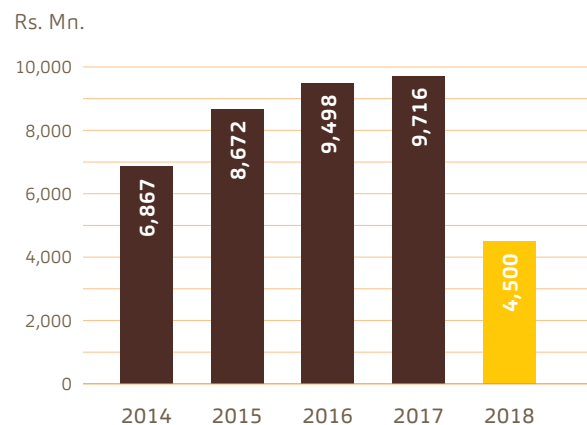
Effective income tax rate



Profit after tax

The Bank reported profit after tax (PAT) of LKR 4.5 Bn. compared to LKR 9.7 Bn. in 2017, a decline of 53.7%. A sharp increase in the effective tax rate due to the reasons explained above under taxation caused this decline.

Profit after tax (PAT)

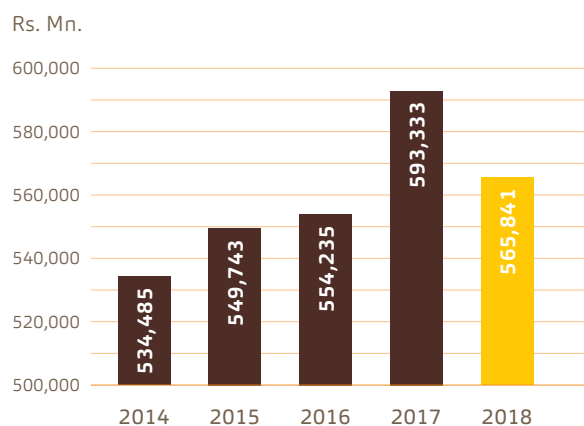


Financial Capital

Analysis of Statement of Financial Position

Investments

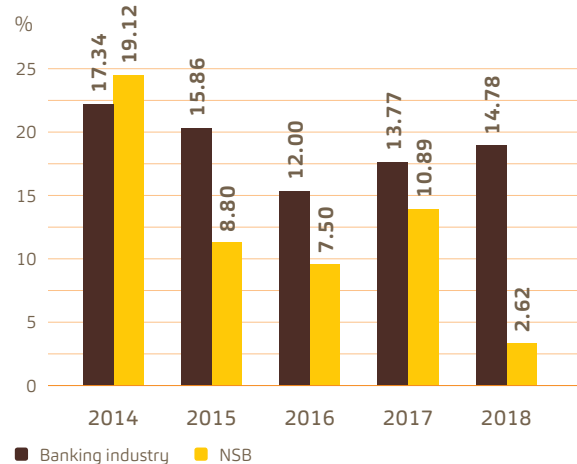
Investment portfolio at the end of 2018 closed at Rs. 565.8 Bn. a dip of 4.6% compared to Rs. 593.3 Bn. last year, primarily owing to the maturity of Sri Lanka Development Bonds (SLDB) of USD 375 Mn. Accordingly, Government securities portfolio also decreased to Rs. 523.2 Bn. from Rs. 548.5 Bn. in 2017, thereby bringing down the Government securities to Deposits ratio from 62.0% to 60.9% at the end of 2018.



Total assets

Total assets of the Bank grew marginally by 2.6% during the year and reached Rs. 1.04 Tn. at the end of 2018 compared to Rs. 1.01 Tn. as at end 2017. This is mainly due to the maturity of USD 375 Mn. SLDB investment and usage of foreign currency placements for the settlement of USD 750 Mn. bond which matured in September 2018. While 76.7% of the growth in assets were driven by loans and investments, 23.3% of the assets grew due to the increase in non-interest earning assets.

Asset growth



Loans and advances

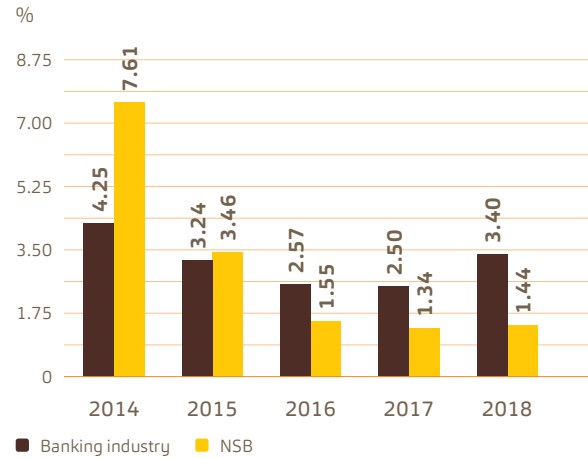
Total loans and advances rose by 12.7% to reach Rs. 423.5 Bn. in comparison to the previous year of Rs. 375.7 Bn. underpinned by increased credit demand from the retail credit lines of personal loans, loans against deposits, and pawning advances. Contribution to the total assets from the total loans and advances increased to 40.8% at the end of 2018, compared to 37.2% in 2017. The loans and receivables portfolio was diversified across several industry sectors concentrating on infrastructure, construction/housing, agriculture and fishing, financial and business services, educational sectors, green energy products, and consumption purposes.

Financial Capital

Asset quality

Gross Non-Performing Loans (NPL) and Net NPL ratios increased to 1.44% and 1.22% respectively in line with the growth in lending portfolio of the Bank and the deteriorating asset quality witnessed across the industry. Despite being the lower than the industry average of 3.4%, the increase in the NPL ratio as well as NPL in absolute terms reflects the deteriorating asset quality.

NPL ratio – Gross

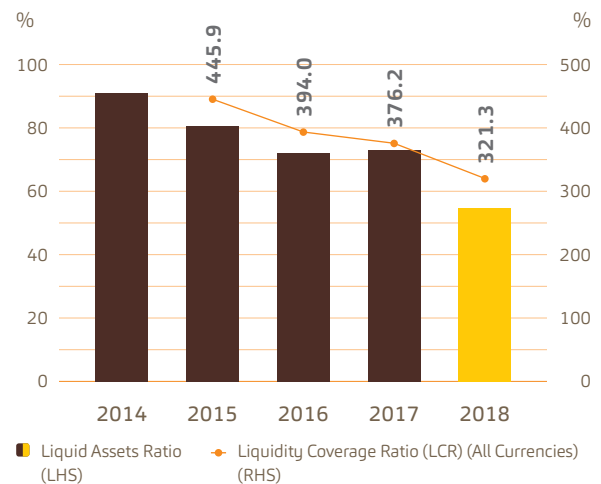


Liquidity

The Bank's Statutory Liquid Assets Ratio (SLAR) stood at 54.88%, a reduction from 73.44% in 2017 although well above the regulatory minimum requirement of 20%. In accordance with Basel III the Liquidity Coverage Ratio (LCR) which explains the availability of high-quality liquid assets at the disposal of the Bank within 30 days amounted to 321.29% as at the end of 2018, well above the statutory minimum of 90%.

The Bank's liquidity position was healthy based on availability of stable funding as per the definitions prescribed by CBSL. The Net Stable Funding Ratio (NSFR) stood at 146.7% as at 31 December 2018 against the minimum requirement of 90% by 1 January 2019 and 100% by 1 July 2019.

Liquidity ratios



Financial Capital

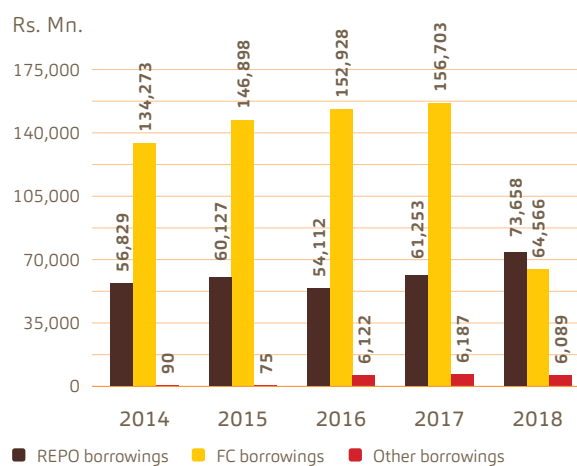
Total equity and total liabilities

Total equity of the Bank has increased by 11.9% to Rs. 43.7 Bn. during the year compared to Rs. 39.1 Bn. in 2017 mainly due to increase in stated capital and other reserves. Total liabilities encompasses deposits (84.5%), borrowings (14.5%), and other liabilities (1.0%). Total liabilities for the period under review increased to Rs. 993.7 Bn., recording a minimal growth of 2.2% against last year, led by expansion in customer deposits. Accordingly, the Bank has a strong and resilient funding profile.

Borrowings

Borrowings comprising REPO borrowings, debt securities issued, and other borrowings plummeted by 35.6% to Rs. 144.3 Bn. as at the end of 2018, compared with Rs. 224.1 Bn. reported a year ago. This resulted in 67.8% drop in debt securities issued, which was caused by settlement of USD 750 Mn. bond in September 2018. However, a foreign borrowing of USD 100 Mn. for the settlement of the above bond as well as REPO borrowings which accounted for 51.0% of the total borrowings, triggered an increase in borrowings.

Borrowings



Financial Capital

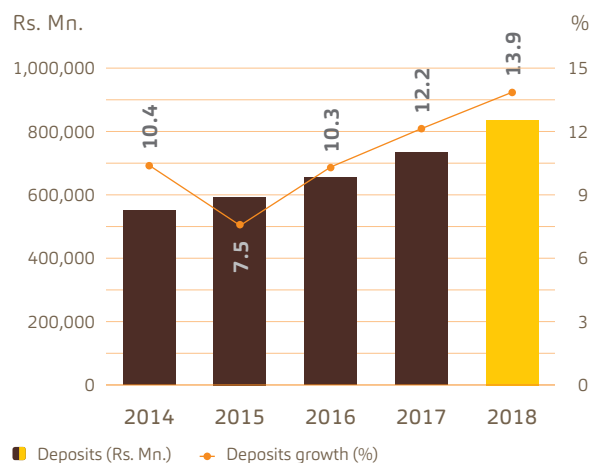


Deposits

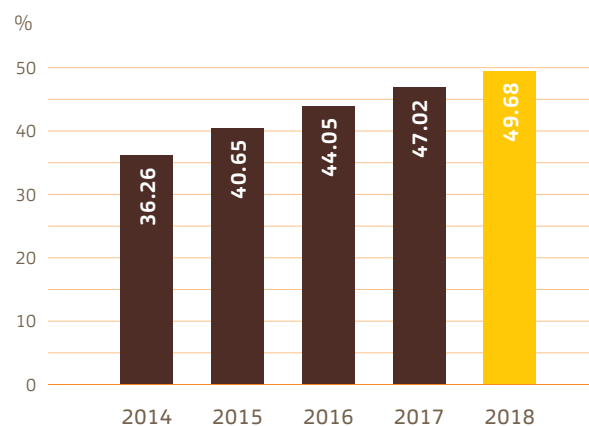
Deposits accounted for 80.9% of total assets as at end of 2018, an increase from 72.9% recorded in 2017. The Bank's deposit base recorded its highest mobilisation in the history of the Bank by mobilising Rs. 101.6 Bn. during the year to reach the total base of Rs. 839.6 Bn., a 13.9% increase from 2017 base of Rs. 737.2 Bn. The growth of the banking industry moderated to 14.8% during the year under review.

Time deposits increased by 16.8% to reach Rs. 641.2 Bn. against Rs. 549.0 Bn. in 2017 which compelled the time deposits in the deposit mix to increase from 74.5% to 76.4% during the year under review. Meanwhile, savings deposits reported a moderate growth of 5.4%, registering Rs. 198.3 Bn. compared to Rs. 188.2 Bn. in 2017. These funds were mainly utilised for disbursement of loans rather than investment in Government securities. Accordingly, loans to deposits ratio increased to 49.7% from 47.0% reported in 2017.

Deposits growth



Loans to deposits



Financial Capital

Equity

The Bank's stated capital increased by Rs. 2.7 Bn. through capitalisation of unclaimed deposits reserve balances at the end of 2018 to Rs. 9.4 Bn. against the Rs. 6.7 Bn. registered in 2017. Increased stated capital combined with retained earnings has led to the moderate growth of 11.9% in shareholders' funds, which closed at Rs. 43.7 Bn. at the end of 2018 against the Rs. 39.1 Bn. in 2017. Equity was utilised to fund 4.2% of the total assets as at the end of the current year, an improvement in comparison to the 3.9% at end of year 2017.

The CBSL introduced BASEL III Capital Requirements to the Sri Lankan Banking Industry with effect from 1 July 2017. The full implementation would take place in three phases over a period of 18 months, targeting to be completed by 1 January 2019, at which point the Bank would need to maintain its Tier I Capital Adequacy Ratio (CAR) at 10.0% and its total CAR at 14.0%. The Tier 1 CAR and Total CAR of the Bank clocked at 13.325% and 16.138% respectively at the end of 2018 which remained well above the regulatory limits of 8.875% for Tier I and 12.875% for Total CAR.

Leverage

The Bank was able to maintain the Leverage Ratio at 4.86% at the end of December 2018, above the minimum requirement of Basel III Compliance of 3%, effective from 1 January 2019.



CET

Financial Capital

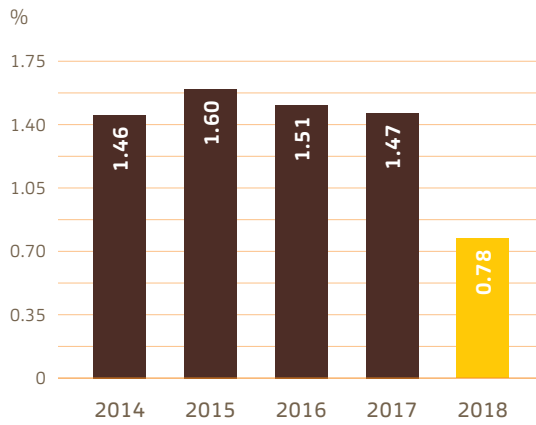
Average assets



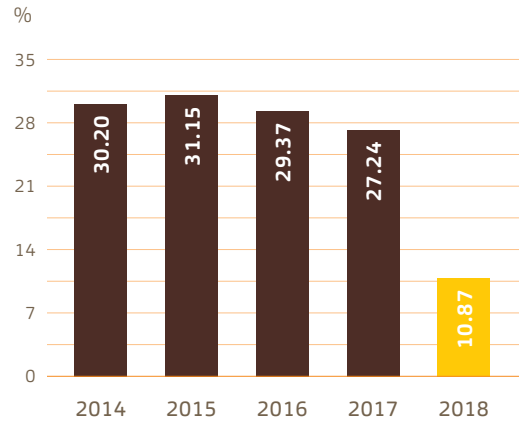
Average equity



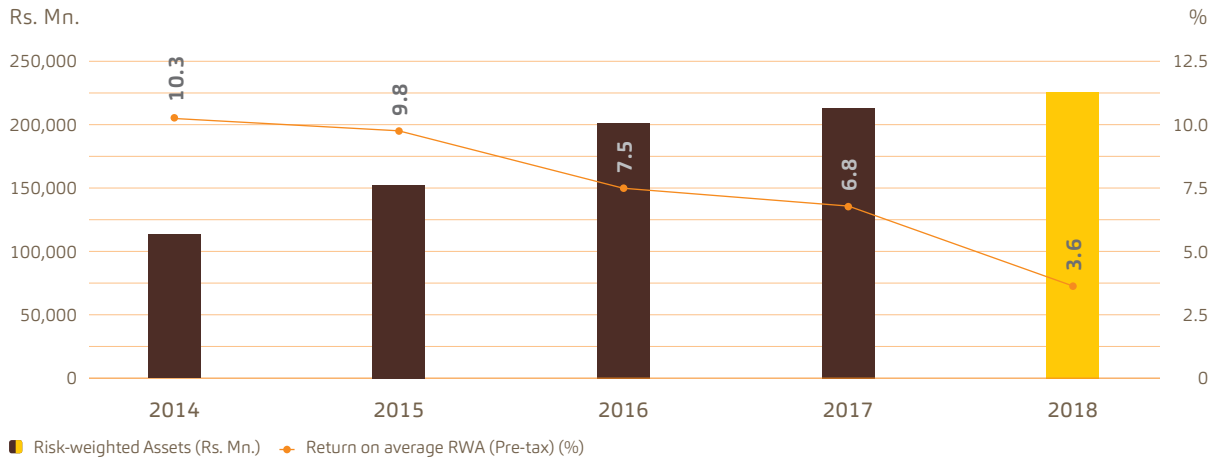
ROA (Profit before tax)



ROE (Profit after tax)



RWA and return on average RWA (Pre-tax)



Financial Capital

→ Review of key business lines

To provide for our extensive customer base and to achieve operational excellence, we have diversified our operations, services, and products along segmented business lines. The management of the core business lines have led to better performance and the increase of capital. The following discusses our core business lines in details:



Branch banking

Products and services and customers	Performance in 2018	Key metrics	Outlook	Target
<p>Products:</p> <p>→ Full range of services including deposit taking, retail lending solutions, card solutions, and transactional banking, (See more on page 111)</p> <p>Customers:</p> <p>→ Natural persons and legal persons</p> <p>Delivery channels:</p> <p>→ Branches, ATMs, Post offices and Sub-post offices, CDM/CRM Machines, Online banking, iSaver points, and call centre</p>	<p>→ Achieved “Excellent” in customer satisfaction score for:</p> <p>Savings – 82%</p> <p>Fixed Deposit – 85%</p> <p>Lending – 81%</p> <p>→ Achieved highest ever mobilisation of Rs. 101.6 Bn. deposits through branches and postal network</p> <p>→ Credit quality remained strong, maintained NPL at 1.44% lower than the industry average of 3.4% due to proactive risk management</p> <p>→ Reduced loss-making branches by 28%</p> <p>→ Review of forms and procedures for improving customers’ payments and widened the authority delegations to increase efficiency</p> <p>→ Revamp the product targeted to youth segment and introduced the new product for teen age segment</p> <p>→ Increase the ATM operations by 6% from previous year</p>	<p>→ 13.9% of Growth in Deposits</p> <p>→ 19% of growth in retail lending</p> <p>→ Market share of 9.6% in deposits</p> <p>→ Transaction value through digital channels</p>	<p>→ Continue to innovate and roll out digital channels enable customers to migrate and empower our staff with digital tools to serve customers</p> <p>→ Continued focus on people with a shift towards digital talent</p> <p>→ Ongoing focus on cost optimisation strategies and leverage technology to drive operational efficiency</p>	<p>→ Increasing deposit market share by 40 basis points through a delightful customer experience, simpler processes and cost effective operations</p> <p>→ Increasing retail lending portfolio by over the mid-single digit growth</p> <p>→ Strengthening credit quality more than the industry average</p> <p>→ Reducing cost level by over the mid single digital level through by managing costs wisely</p> <p>→ Interest income growth more than the nominal GDP growth</p>

Financial Capital



Corporate finance

Products and services and customers	Performance in 2018	Key metrics	Outlook	Target
<p>Products:</p> <ul style="list-style-type: none"> → Direct lending to financial institutions and their subsidiaries → Structuring financial facilities (Derivative products for the clients) → Plays the role of agent for syndicated facilities who coordinates the settlement and transactions between the lenders and the borrower/s → Investing in trust certificates, private placements and debenture issuance → Leading industry expertise in funding for infrastructure projects <p>Customers:</p> <ul style="list-style-type: none"> → Corporates, State-owned enterprises, financial institutions, and private institutions → Medium-scale entrepreneurs who have an annual turnover of Rs. 10-300 Mn. and 10-300 employees (Enterprise Lanka – <i>Jaya Isuru</i>) <p>Delivery channels:</p> <ul style="list-style-type: none"> → Direct approach 	<ul style="list-style-type: none"> → Granted the Bank's first foreign currency loan for RPI (Private) Ltd. to constructing resort with a facility limit of USD 9 Mn. (disbursed around 85%) → Successfully implemented risk-based pricing policy → Maintaining NPA ratio at zero level → Successfully implemented the strategies by leveraging low cost funding, to repay the 750 Mn. worth of USD Bond which was matured on September 2018 	<ul style="list-style-type: none"> → 14.7% of growth in corporate lending – local currency → 165.5% growth in fee-based income 	<ul style="list-style-type: none"> → Enabling revenue generation through stronger client relationships and new client acquisition. → Looking for opportunities for collaboration 	<ul style="list-style-type: none"> → Contribute to increase fee-based income by achieving mid-single digit YoY growth → Non-performing loans at current desired level → Achieving mid-single digit growth in corporate lending

Financial Capital



International

Products and services and customers	Performance in 2018	Key metrics	Outlook	Target
<p>Products:</p> <ul style="list-style-type: none"> → Foreign currency deposits (Savings and FD) in USD, EUR, GBP, AUD 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 <p>Customers:</p> <ul style="list-style-type: none"> → Residents in Sri Lanka → Sri Lankans resident outside the country → Foreigners resident in Sri Lanka <p>Delivery channels:</p> <ul style="list-style-type: none"> → Branches, online banking, correspondent banks, exchange houses, world-wide money transfer companies, Eurogiro postal network and overseas representatives, telephony, and call centre 	<ul style="list-style-type: none"> → Recorded Rs. 39 Bn. worth of foreign remittances → Recorded Rs. 278 Mn. worth of letter of credit value → Identified new markets and expanded remittance arms which include Doha Bank Qatar, Small World Global and Commerz Bank AG as a correspondence bank → Performance-based incentive structure for International Business Relationship Officers → Delivered new differentiated loyalty and reward programmes 	<ul style="list-style-type: none"> → 17.3% of growth in Foreign Currency deposits → 3.1% market share in remittances → 1% growth in letter of credit value → 268% growth in trade-related fee and commission income 	<ul style="list-style-type: none"> → Deepening collaboration and pursuing new opportunities for growth → Driving market share growth in remittances market → Penetrate markets in prominent countries for inward remittances (LKR/FC) and outward remittances → Access market for trade services permitted to the Bank through arrangements with Government institutions/ trade unions/new automobile dealers 	<ul style="list-style-type: none"> → Achieving double digit growth in foreign currency deposits and remittances

Financial Capital



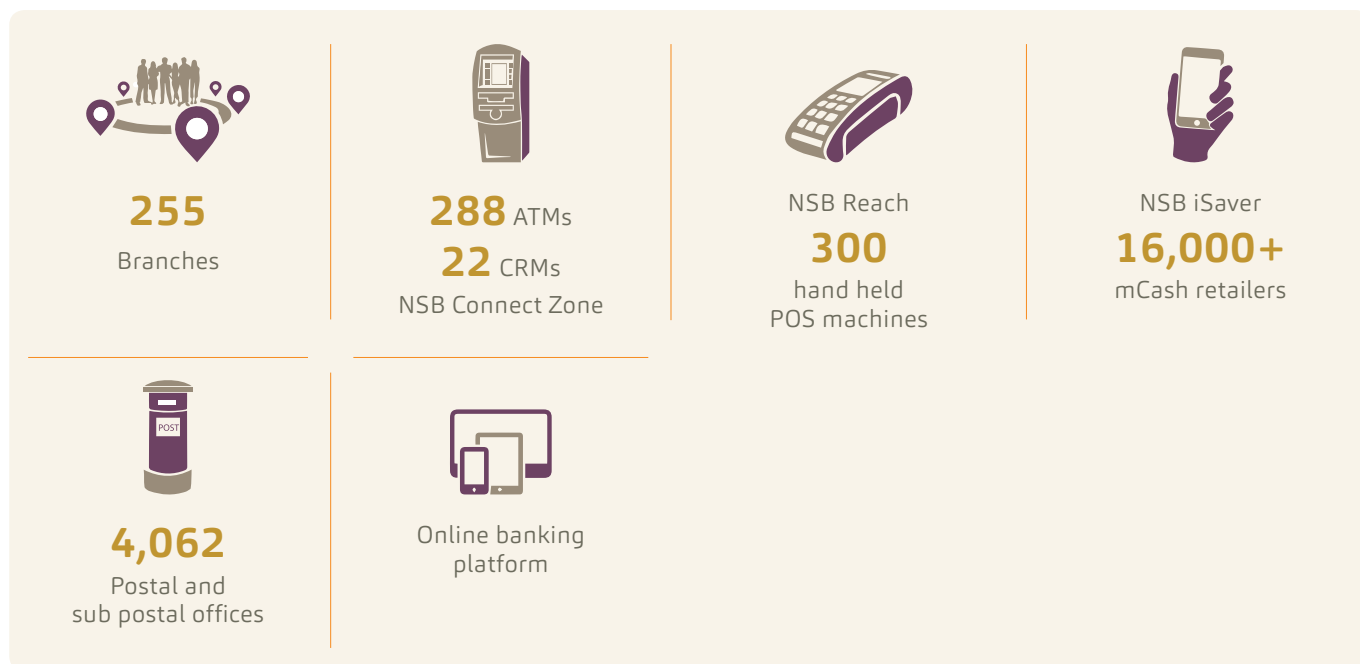
Treasury

Products and services and customers	Performance in 2018	Key metrics	Outlook	Target
<p>Products:</p> <ul style="list-style-type: none"> → Investment in Government securities, equities, FX, REPO borrowings and reverse REPO lending <p>Customers:</p> <ul style="list-style-type: none"> → Financial institutions, non-financial institutions, individuals, SOEs <p>Delivery channels:</p> <ul style="list-style-type: none"> → Direct access, online trading platforms 	<ul style="list-style-type: none"> → Trading income and earnings were impacted by subdued markets, negative investor sentiments and higher interest rates of Government securities 	<ul style="list-style-type: none"> → 60.9% Government securities to deposits ratio → Portfolio growth – Government securities – 6.9% → Portfolio return – Government securities – 10.6% → Contribution to the total interest income – 51.8% 	<ul style="list-style-type: none"> → Ongoing focus on delivering outstanding and long-term investment performance track record → Capitalising opportunities in higher growth markets → Contributing significantly to Bank's profit through a sensible expansion approach (risk mitigation and capital efficient) → Simpler processes, cost effective operations → Executing strategies to raise the funds for settlement of USD 250 Mn. bond payment of the bond to be matured in September 2019 → Automation of cash management among the NSB branches to minimise the unutilised cash balances 	<ul style="list-style-type: none"> → Double digit growth in trading gains on fixed income securities, Foreign exchange and equity portfolio → Enhance yield of Government securities held for collection portfolio at double digit

Manufactured Capital



The proper management of manufactured capital plays an integral role to the success of the Bank since it will directly affect the customer experience, operational efficiency, profitability, and sustainable growth.



Pertinent material issues



Pertinent strategic objectives



➔ Why manufactured capital is important to us

We use our manufactured capital, which includes properties, plant, equipment, and infrastructure including digital platforms, IT systems and software, and network of retail branches to create value to our stakeholders. The ongoing evolution of financial

services gives customers a choice from a range of relevant physical and digital channels suitable to their needs and preferences. Our multi-channel strategy provides customers with a range of platforms from face-to-face and technology based solutions. They are:

- ➔ **Physical infrastructure:** Network of branches, ATMs, CRMs, Merchant Point of Sale, Hand held Point of Sale machine, Post offices and sub-post offices, and mCash retailers
- ➔ **Digital platforms:** Internet banking, Chatbox, and presence in social media.

We envisage that expanding our manufactured capital is strategically important to us. Our branches are key outlets for our customers as it plays a vital role in maintaining human interactions typically for financial advice and routine transactional banking to the some extent. However, customer behaviour is changing and there are more ways to bank now than ever before. More customers are choosing physical outlets like ATM and digital platforms such as, mobile and online over traditional branch counters and we must envision to respond to these changes.

Manufactured Capital

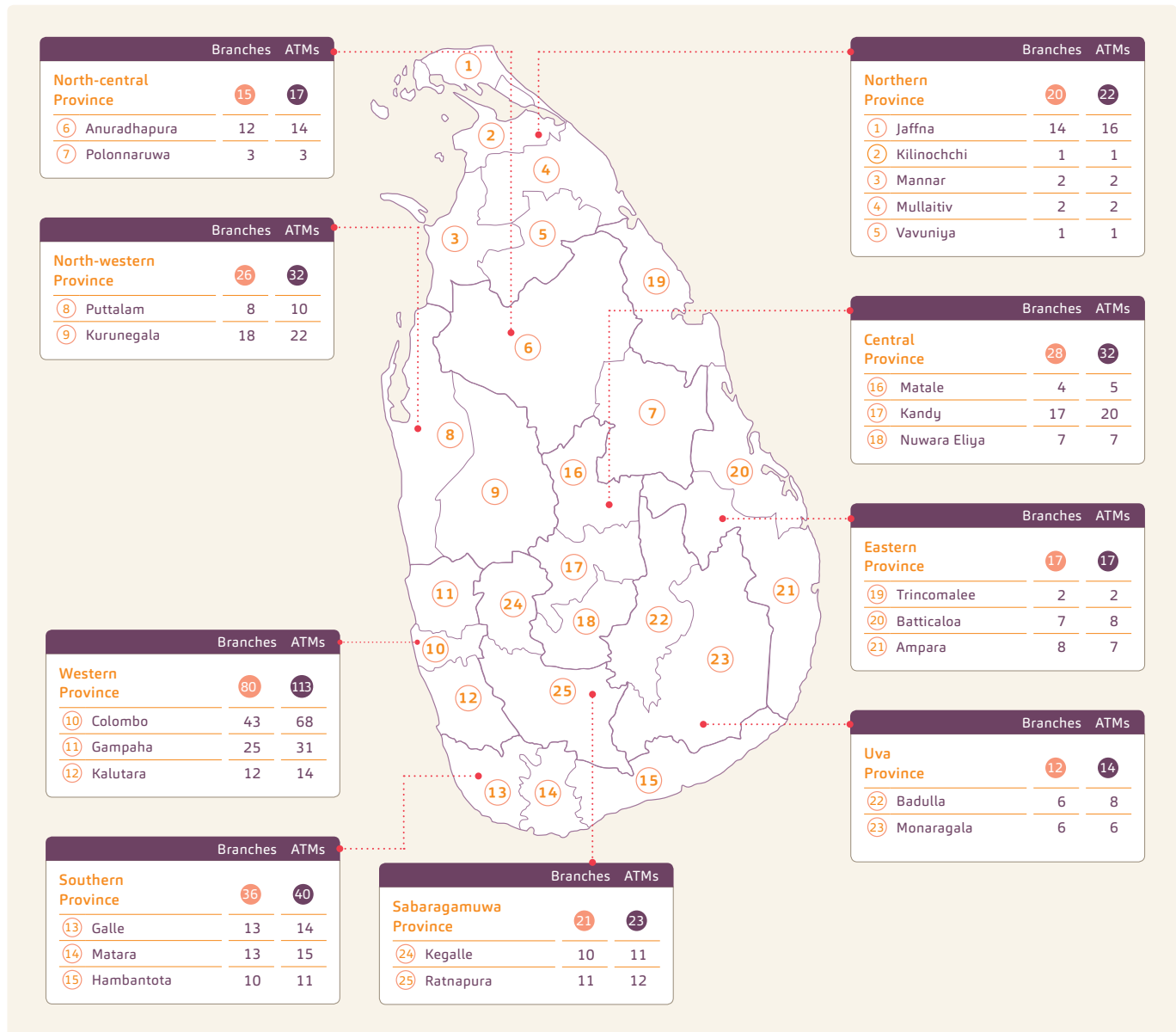
The proper management of manufactured capital plays an integral role to the success of the Bank since it will directly affect the customer experience, operational efficiency, profitability, and sustainable growth. We continue to invest in the components of manufactured capital which in turn helps to better serve our customers.

→ Our presence

GRI 102-4, 6

One of the founding principles of NSB is financial inclusion where NSB has become the Bank that serves all segments of the society. Our greatest asset is our

extensive, island-wide reach with 255 branches including 6 super grade branches, 9 regional offices, 4,062 post offices and sub-post offices, and 310 ATMs network providing MasterCard and Visa debit card facilities. Further, we are accessible through over 16,000 mCash retailers island-wide and through hand-held Point of Sale (POS) machines. NSB is also a part of LankaPay, the national payment network that connects over 4,400 ATMs including Cash Deposit Machine (CDP) and Cash Recycling Machine across the nation. Our services are offered every day of the year through our 365 day banking in selected branches implemented in 2018.



Manufactured Capital

→ How we nurture manufactured capital

The net book value of property, plant and equipment reflected in the Statement of Financial Position at the end of 31 December 2018 with the value of Rs. 13.5 Bn., comprises land and buildings of Rs. 10.2 Bn., while the rest represents leasehold properties and improvements to rent/lease hold buildings, computer hardware and software, furniture fittings and equipment, and motor vehicles. New additions to property, plant and equipment during 2018 amounted to Rs. 2.1 Bn. due to increased investment in digital as well as physical infrastructure. Investment in physical infrastructure reflects branch openings, relocations, improvements, and refurbishments made to owned, rented, and leased branches, while investment in digital infrastructure represents systems for automation, strengthening digital and self-service channels, and IT security.

Expanding NSB's physical presence in 2018 →

While we invest in digitalisation of all banking operations to heighten our customer experience, we recognise our strength in manufactured capital in the form of nation-wide physical touchpoints. We continue to improve existing branch network, while adding new branches in strategic locations. Two new branches were established in Deyandara and Pannala during the year. We also undertook relocation, expansion, and renovation in branches and divisions in terms of upgrading safety and interior aspects during the year to increase customers' service quality and convenience, enhance their experience, as well as to energise our work force enabling a positive working environment.

Model branch →

In the current banking climate where customer needs are fulfilled at the touch of a button, customers look for a bank that can provide a superior banking experience. In the drive to provide access to digital, state-of-the-art services and to enhance customer experience, the model branch concept was launched in 2017 to bring the uniformity for all the branches with a bespoke "Smart Zone" to enhance customer convenience. As a part of phase 1, a total of 16 branches were completed during 2018. Branding works and signage displays were designed and fixed according to the 5S standards.

Access at NSB branches for differently-abled people →



NSB is aware of the particular needs of people with disabilities or physical restrictions. That's why we are always focused to meet these needs and enable them to bank with us without difficulties. We continued to provide accessibility to customers with disabilities in our branches. Disability access is provided at 221 branches in the country. The Bank has taken measures to ensure this requirement is addressed in the construction of new branches as well expansions and relocations of existing branches.

Energy efficient buildings →



Tapping into a wide array of proven technologies and policies to improve energy efficiency and capture cost-effective energy savings in buildings will move the Bank towards sustainable growth and saving the planet. We have taken tangible steps towards making our branches energy efficient through the use of technology and the adoption of renewable energy such as solar power. Our branch premises are designed with glazed windows that creates thermal insulation that reduces the flow of incoming and outgoing heat. This results in lower energy consumption as less energy is used to cool down spaces.

All new branches are constructed according to our green building concept, as followed in the Kataragama circuit bungalow, where the building is designed to maximise the usage of natural air and light. In 2018, we have installed solar power systems as an alternate source of power in 30 branches and 13 branches have connected with net metering in 2018. This initiative will continue in 2019.

Digital infrastructure →

Investment in digital infrastructure encompasses strengthening digital capabilities and self-service propositions, expansion of payment solutions, information security, and investments in digital solutions for simplifying process.

Manufactured Capital

Enhancing technical capabilities →

Our IT Division underwent a restructuring process, to facilitate the implementation of new digital-based solutions to the Bank and to standardise all IT operations of the Bank in accordance with international best practices. Considering future requirements of becoming a digitalised bank in medium term, we recruited 10 IT professionals in diverse areas and we will continue to attract talent with digital skills. With the view of improving the internal service standards in terms of technology, the Bank selected an industry leading solution for Help Desk Management and the implementation of the system is expected to complete by 2019.

Strengthening self-banking propositions →

We understood that strengthening our self-banking channels is a crucial aspect in the execution of our strategic priority “customer experience”. We step into next generation ATM technology adding Cash Recycle Machine (CRM) which enables the capability of cash withdrawals as well as deposits and Integrated Digital Media Signage (IDMS) to the existing ATM machines under the brand of “NSB Connect”. We have initiated the project in 2017 and we commissioned (3) three new ATMs along with 21 cash recycler machines during the year, bringing the total network as at 31 December 2018 to 310.

Expansion of payment solutions →

The Bank was recognised by MasterCard as the leader in MasterCard debit card issuance in Sri Lanka. The Bank completed the Visa Direct Connectivity Project in early 2018 and a project for issuing of Visa PayWave debit cards was commenced at the latter part of the year. A new Card Management System (CMS) was implemented providing the CMS access to all the Branches enhancing customer service.

To combat fraud and protect sensitive payment data, the Bank commenced the issuing of Non Personalised MasterCard EMV debit cards from May 2018 and along with that enabled the MasterCard EMV chip debit cards for e-commerce transactions. There are number of projects in the pipeline to enhance the card operations of the Bank which includes providing PIN to customers via secured SMS, converting entire magstripe card base to EMV cards, issuing of NFC debit cards and enabling Visa debit card for e-commerce transactions and obtaining Payment Card Security Standards (PCIDSS) certification.

Information security →

Information security is of paramount importance to all IT/digital operations given the intense threat of IT and cybersecurity risks. We have a team of Information Security specialists who monitor, detect, and respond to potential cybersecurity threats. In order to comply with the baseline security standards of CBSL based on ISO 27001:2013, we implemented Information Security Management System (ISMS), which outlines our cybersecurity policies, guidelines, and tools to protect our customers’ and the Bank’s data and assets such as financial information, intellectual property, employee details, or information entrusted to the Bank by third parties. We also provide all employees with ongoing training about cybersecurity threats. We are committed to develop an Internal Security Operations Centre in the future to monitor and mitigate all risks related to security.

Digital systems implemented and improved in 2018 →

In the digital age of banking, we recognised the importance of integrating ICT to all banking operations and we continue to maintain and improve our systems and processes. Following our strategic objective of heightening customer experience, we strive to create a safe, secure, and trusted banking system. Improving our systems and processes help us to stay ahead of the curve to respond to the evolving customer expectations in the digital age and to achieve operational excellence.

Core banking solution →

The ground work for the core banking solution was completed in 2017 and 2018, and NSB expects to complete the procurement of a core banking solution in 2019. This modern solution will have the breadth of functionality to handle the most sophisticated banking requirements with high levels of automation, risk-free deployment, ease of use, and maximise operational efficiency. The solution will ensure compliance with regulatory requirements and to maintain international best practices.

New data centre facility →

NSB has recognised that the key to 360 customer view and seamless customer experience is the Bank’s ability to handle bigdata or the management of the scale and volume of data and its storage. Thus, the Bank has taken

Manufactured Capital

steps to build a state-of-the-art primary data centre based on TIA 942 (Tier III) international standard. This will ensure speed of service, reliability, and availability and integrate banking services to fulfil customer satisfaction and internal service excellence.

Document Management System (DMS) →

This system was initiated in 2017 and has been implemented in 2018 to increase the operational efficiency of banking operations via expanding the digital storage of customer related documents. This enabled retrieving customer documents by any branch and enhance the customer service levels.

Anti-Money Laundering (AML) solution →

This facilitates the monitoring and tracking of transactions to prevent fraud and money laundering activities. The AML solution used by the Bank will complement with the introduction of core banking solution and other cloud-based solutions to digitalise and automate all banking operations at NSB.

Treasury management system →

The Bank is in the process of implementing a new treasury management solution that integrates, strengthens, and streamlines all treasury functions of the Bank. The solutions will offer greater flexibility in reporting, workflow and intraday reconciliation process and to reduce risks from manual error.

Slip-less banking →

As an initiative of introducing green banking concept, the Bank implemented a pilot project for slip-less banking and digitalised account opening. The Bank will roll out those facilities throughout the entire branch network during the year 2019.

→ Challenges

- Capital spending, particularly with regard to energy and operational efficiency, involves large investment of money and requires a thorough financial review to reduce the possibility of over-improved and underused capital assets.
- Striking the balance between the banking experience of aging population which requires physical banking and millennials who are seeking digitalisation and AI based banking.

→ Capital trade-offs

- Enhance customer convenience and accessibility through expanding our networks improve Social and Relationship Capital but reduce our Financial Capital and negatively affect Natural Capital.
- However, this investment made over our network and efficient modern equipment will bolster our business and led to the increase in financial capital in the longer term.

→ Outlook

To realise the medium-term target of converting the Bank to a digitalised bank, the Bank has initiated several IT projects including a procurement of a core banking solution. With the implementation of a new core banking solution and other related state-of-the-art IT solutions, the Bank is looking forward to achieving the goal of a fully-automated, secure, digital platform which will enhance the customer convenience and reachability while conforming to industry standards and best practices. This will empower the Bank to modernise customer interactions by driving channel optimisation, improve customer engagement, and identify the right customers to increase profitability. We will continue to revamp our other self-service banking channels like internet banking and introduce banking app under the brand name of “NSB e-connect” in the medium term.

Intellectual Capital



We develop our intellectual capital through strong process flows, partnership with other institutions, and encouragement for learning and experimentation.

 <p>USD 168 Mn. Brand value</p>	 <p>5th most valuable brand Brand finance ranking</p>
 <p>B Stable Global ratings from Fitch Ratings</p>	 <p>B Stable Global ratings from S&P Global</p>
 <p>Safest Bank in Sri Lanka Global Finance Magazine</p>	 <p>100% Government guarantee on deposits and interest thereon</p>
 <p>AA+(lka) National rating from Fitch Ratings Lanka Ltd.</p>	 <p>126 Professionally-qualified employees at the Bank</p>
 <p>511 Employees completing more than 20 years of service</p>	

Pertinent material issues



Pertinent strategic objectives



➔ Why intellectual capital is important to us

Our intellectual capital comprises institutionalised knowledge, customer confidence, brand and reputation, internal systems and process and internal ethical standards policies, and corporate culture that we use to create value. These components are largely intangible assets that give us a source of sustainable, competitive advantage. Intellectual capital components interact to create value to our customers and are closely linked with our performance. Therefore, we regularly study the interaction effects between intellectual capital and organisational performance. Since intellectual capital is a strategic enabler, we take into account the role of intellectual capital in formulation of our strategy. Thus, intellectual capital and our strategy is intricately woven.

➔ How we nurture intellectual capital

We develop our intellectual capital through strong process flows, partnership with other institutions and encouragement for learning and experimentation. We nurture our intellectual capital through development of new products, improvement of systems and processes that enable us to be more efficient while reducing the environmental impact and operating costs, by enhancing our corporate image, and consumer confidence.

Intellectual Capital

A trusted brand →

Over the years of our journey we have become a respected bank associated with trust, safety, and strength. As a deposit-taking bank, since our establishment in 1972, we have earned the trust of all our stakeholders to become a household brand in Sri Lanka. In 2018, NSB was ranked 5th among the 10 most valuable brands in Sri Lanka by Brand Finance Lanka and Global Finance Magazine has affirmed NSB as the safest Bank in Sri Lanka for the 3rd consecutive year in 2018. These accolades, among numerous others, serve to strengthen the NSB brand with each passing year.

To maintain the sustainable, competitive advantage the NSB brand provides, we engage in a number of brand building initiatives throughout the year such as special marketing campaigns, advertising, events, exhibitions, and sponsorships.

Building and retaining customer confidence with our brand is a top priority for NSB. Over the last 46 years, we have been able to retain customer trust and confidence in all our operations. NSB is the safest bank in the country, where the Government has offered 100% statutory guarantee on people's deposits with NSB and due interest. This guarantee and our long-standing success in the sector has contributed to maintain customer confidence.

Values aligned corporate culture →

GRI 102-16



An essential component of the theme for year 2018, Our ethos...our strength, is the corporate culture that exists in NSB. It aligns digitalisation and our operations, embraces innovation and sound strategic direction, promotes an openness and transparency. It is a culture of utmost professionalism, teamwork, transparency, diversity, and respect among individuals.

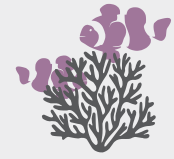
Corporate values →

NSB's corporate values that have evolved over 46 years, provide a clear statement of our corporate vision, what we are trying to achieve, and what drives our actions. These values are embedded in the culture that exists at NSB and contributes our ethos, our identity, and our philosophy. They guide us to fulfil our mission and our mandate.



Trust

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



Mutual respect

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



Integrity

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



Creativity

Challenging existing practices whilst continuously seeking out for novel concepts



Safety

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

Business ethics and integrity →

As a leading financial services entity in Sri Lanka, we recognise that our business goes beyond banking. Our Code of Conduct guides us to be accountable and to be respectful with all our endeavours with stakeholders. Ethics and integrity forms an integral part of NSB, its corporate culture, and is embedded in our values.

Risk and compliance-focused culture →

We constantly monitor industry developments, the pace and complexity of regulatory change, coupled with the increase in regulatory scrutiny and enforcement action by relevant authorities. Risk management and compliance is a top concern for the Board, driving a growing cultural shift within the Bank to view compliance and risk

Intellectual Capital

management as an integral strategic investment. Our compliance accountability starts with a strong culture of risk awareness starting at the top and across the Three Lines of Defence. We review and enhance high standards of corporate governance, robust risk management framework, and compliance capabilities within our Bank and strengthen our values-based risk focused organisational culture.

A culture of innovation →

In order to survive in a continually evolving market and cater to the expectations and requirements of rapidly changing customer demands, we encourage a culture that sustains and supports innovation. We constantly strive to doing things differently, catering to market needs, and adapting to changing technologies to improve on processes, people, and productivity. As outlined under social and relationship capital, we launched new products for teens, migrant community, and small and medium entrepreneurs during the year.

Culture carriers →

As an employer of choice, NSB attracts, inspires, and empowers employees with opportunities to learn, foster personal responsibility and accountability, and lead change. All our employees are committed to fulfil the vision and mandate of the Bank. To nurture the corporate culture and the sense of family that prevails within NSB, we organise various events and programmes as outlined in our human capital throughout the year.

To promote a sense of fellowship, other activities were organised through NSB Sports Club, Buddhist Society, Christian Society, NSB Welfare Society, and *Kala Kawayaya* (Arts Circle). For more details on how we care about our people and how we have developed communication channels for the exchange of ideas and understanding our employees and other stakeholders could be found on human capital on page 93 and engagement with stakeholders on page 56 respectively.

Engaging with community →

Since we are a national organisation, connecting with and giving back to the local community are also a part of the fabric of our corporate culture. See more details on our commitment to the national and community development in social and relationship capital on page 116.

Institutionalised knowledge →

Our institutionalised knowledge comprises the tacit knowledge, skills, and experiences derived from serving the nation for over 46 years. We understand that the knowledge is a quintessential resource that affects all our operations and we have made efforts to manage knowledge and especially to ensure that there exists a system such as structured training programmes, culture of mentoring and informal ways for knowledge management, sharing, and transition.

Our employees belonging to different geographies, generations, and backgrounds bring diverse knowledge and skills to the NSB family. The top executives of Corporate Management hold more than fifteen years of experience in the financial sector while 26% of total employees completed more than 10 years of service in 2018.

Our internal training and induction programmes conducted by our experienced staff members serve to transfer existing knowledge to our new employees. We recognise that our ability to retain experienced employees is a vital step in the management of institutionalised knowledge that is clearly unveiled through our staff retention ratio of 98% in 2018.

Robust systems and processes →

We maintain the robustness of our systems and processes to uphold our role in ensuring a safe, secure, and trusted banking system, improving operational excellence in all we do and delivering innovative products to enhance customer experiences. Following key process improvements during the year have reduced turnaround times, enhanced accuracy and customer service quality and freeing resources for more value adding activities.

5S Implementation →

We continued the implementation of “*Seiton*”, one of the 5S concepts, under the guidance of the National Productivity Secretariat (NPS). The Boralessgamuwa branch, which was developed as a model branch with its interior and façade development completed the process of implementing *Seiton* in order to obtain the 5S certification from the NPS. Following this, the concept will be expedited in other branches as well as in all divisions.

Intellectual Capital

New payment dispute management system →

At present, our customers opt for electronic payments using cards over cash payments in all transactions. With the growth of card transactions, so does the number of fraud or disputable transactions. We have implemented a new dispute management system to facilitate rapid and efficient resolution of disputes to card transactions.

Other measures in 2018, to streamline and simplify processes →

- Streamlined the process of issuing duplicate passbooks on savings accounts for lost or damaged books
- Expedited the execution of mortgage bonds and examination of title, providing title comments to execute a mortgage bond within three days from the date of receiving instructions

- Appointed recovery officers at regional level to fasten the loan recovery process
- Introduced a process to facilitate fund transfer requests made by overseas customers along with redesigned forms for money changing, remittances, and trade services to increase efficiency
- Simplified the process to release the funds held in the accounts of mentally-disabled customers
- Redesigned the standing order form and KYC form for the convenience of customers and to facilitate internal operations
- Introduced a single payment voucher to simplify the payment process
- Our corporate website was revamped and relaunched with a fresh outlook and easy navigation

Awards and recognition →

Witnessing numerous awards and accolades received during the year at national, regional, and international level endorsed our enhanced know-how knowledge and approach to building the NSB brand among our stakeholders.

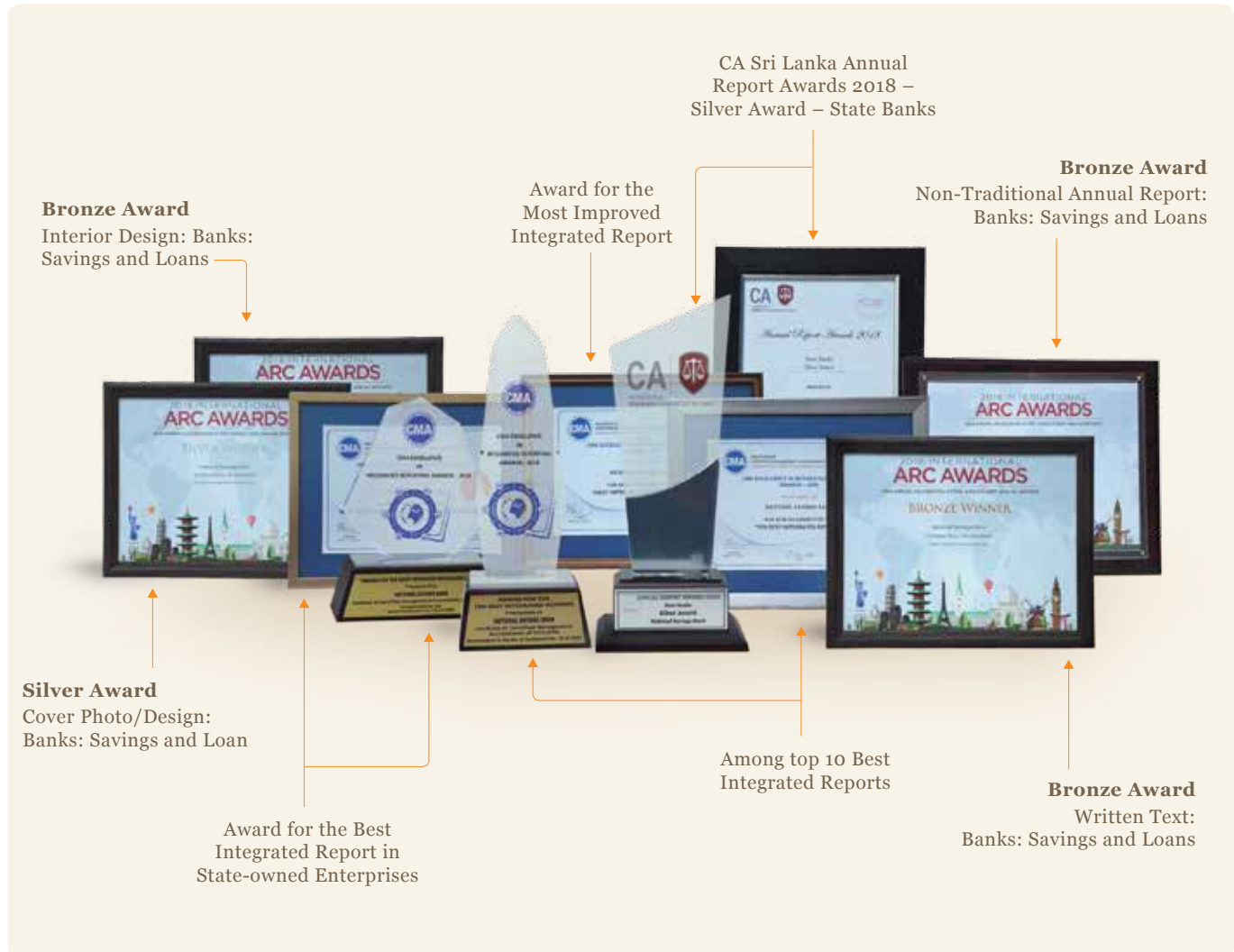


NSB secured The Silver Award at the Annual Report Awards – 2018 for State Banks Category by CA Sri Lanka



NSB won the Most Popular Corporate Website Award at Bestweb.lk 2018 competition

Intellectual Capital



➔ Challenges

- ➔ Retirement of some employees with critical knowledge and expertise that formed a part of institutionalised knowledge leads to intellectual losses.
- ➔ As a dynamic industry, continuous innovation of products and services is essential.
- ➔ We require new skills to develop new revenue streams.

➔ Capital trade-offs

- ➔ Investment in systems, processes and people reduced our financial capital in the short term.

- ➔ However, in the long term, financial as well as manufactured, natural, human, and social and relationship capitals are likely to enhance as positive impact on skills and innovation, new products and services and new revenue streams will boost the human capital, social and relationship capital and financial capital.

➔ Outlook

In 2019, we will continue to implement the 5S concept in our branch network. We will establish a productivity resource centre, *Kaizen* Concept and quality circles. Our investments in digital banking will continue where we will implement digitalised banking solutions and automations of payment processes to improve convenience.

GRI 102-8

Human Capital



As we look to the future it is our human capital that will help us achieve our goals in an unpredictable environment.

133

Number of promotions in 2018



91.6%

Employees covered by the collective agreement



145

New recruitments in 2018

New



Category of employees



25

Senior Grade
1%



540

Managers
13%



1,235

Executives
30%



1,917

Staff assistants
46%



414

Office assistants
10%

Categorisation of employees based on experience

1,836

Less than 5 years

1,206

5 to 10 years

486

11 to 15 years

92

16 to 20 years

511

More than 21 years

Pertinent material issues



Pertinent strategic objectives



Human Capital

→ Why human capital is important to us

Our employees play a pivotal role in our endeavours to create value. The implementation of our strategies, the achievement of our goals and the positive bearing we have on the nation are only possible because of them.

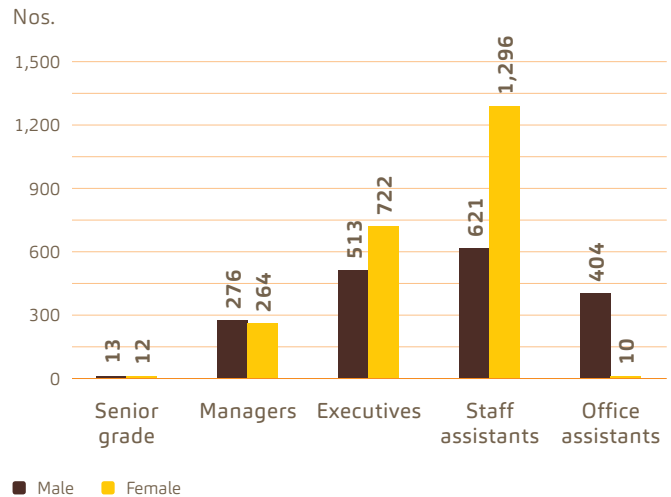
Their skills, experience, and commitment have provided the Bank with a unique understanding of our customer’s particular banking needs. Their loyalty, diversity, and years of service at the Bank have translated into long-standing relationships with our customers. Their dedication, creativity, and enthusiasm have made it possible for the Bank to successfully ride out storms or take on new ventures for the benefit of all our stakeholders over the years. Staying true to the values of the Bank, our people continue to offer customers straightforward products and services that they can trust. In turn the Bank makes every effort to deliver value to them, as outlined in the pages that follow.

As we look to the future it is our human capital that will help us achieve our goals in an unpredictable environment. The world of banking has never seen such rapid and unexpected developments as we are seeing today. Through this explosion of change our employees learn and adapt while remaining engaged to ensure that the Bank continues to be a pillar of strength to all its stakeholders. Our employees remain the cornerstone of the Bank’s success.

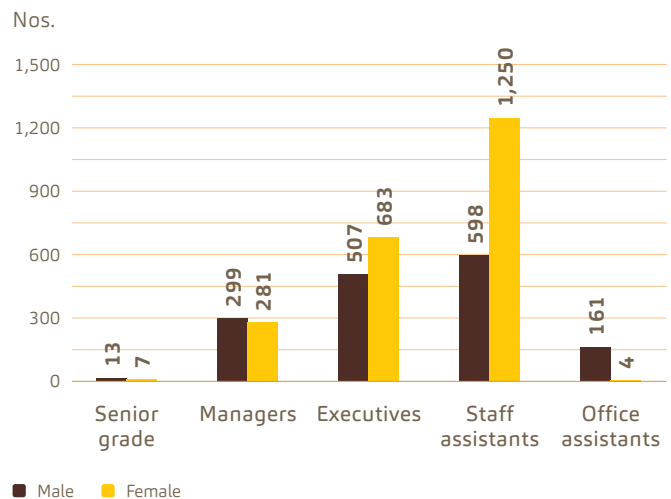
→ Our team

The total staff strength stood at 4,512 in 2018 consisting of 381 contract employees. During the year there were a total of 145 people who joined the NSB family. Our retention rate stood at a competitive 98% and over 26% of our employees have been in the Bank for more than 10 years which illustrates the trust and loyalty that our employees have placed on us. The following offer a detailed statistical representation of NSB’s workforce in 2018:

Staff grade category by gender – 2018 →

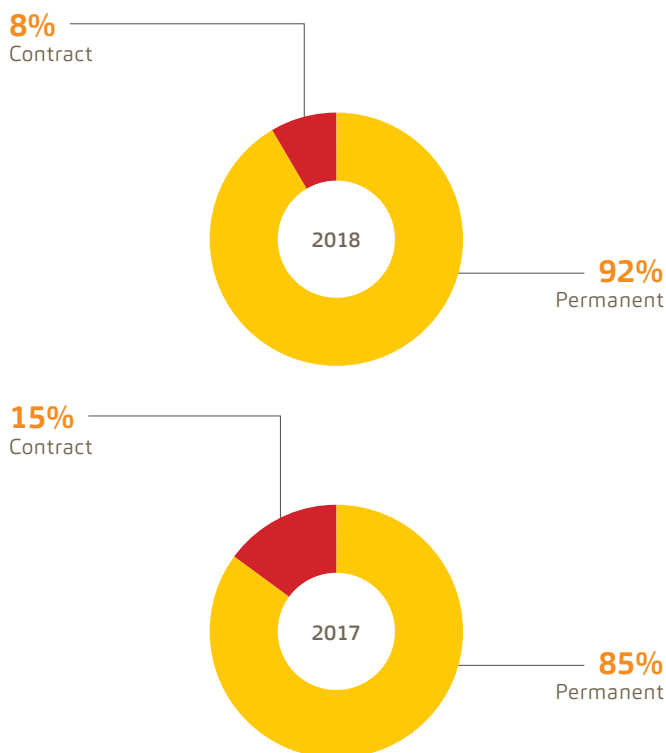


Staff grade category by gender – 2017 →

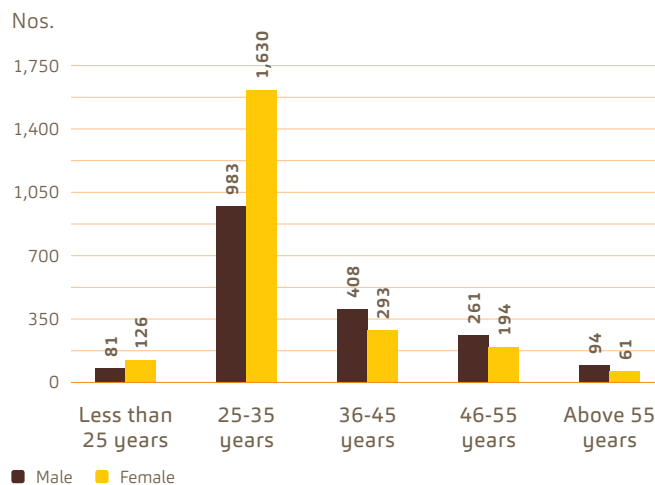


Human Capital

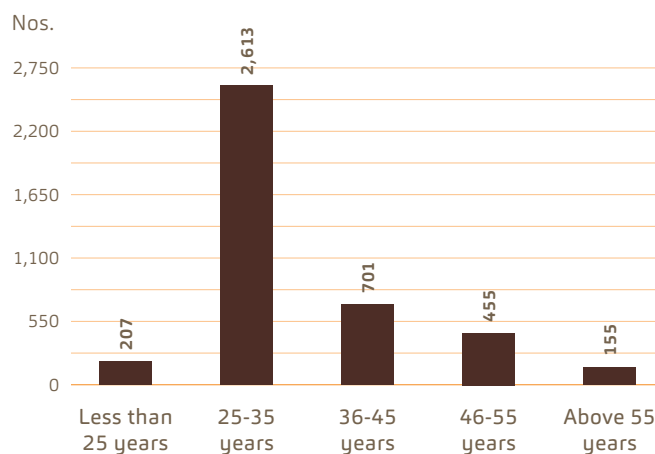
Employees by employment type →



Permanent employees by age and gender 2018 →



Permanent employees by age →



Analysis of employee service years by grade and gender

Grade category	Less than 5 years		5-10 years		11-15 years		16-20 years		More than 21 years		Total	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Senior grade	2	-	2	3	1	1	2	3	6	5	13	12
Managers	23	24	47	37	31	19	19	14	156	170	276	264
Executives	111	251	141	225	205	170	10	15	46	61	513	722
Staff assistants	282	756	247	501	21	37	20	-	51	2	621	1,296
Office assistants	378	9	2	1	1	-	9	-	14	-	404	10
Total	796	1,040	439	767	259	227	60	32	273	238	1,827	2,304

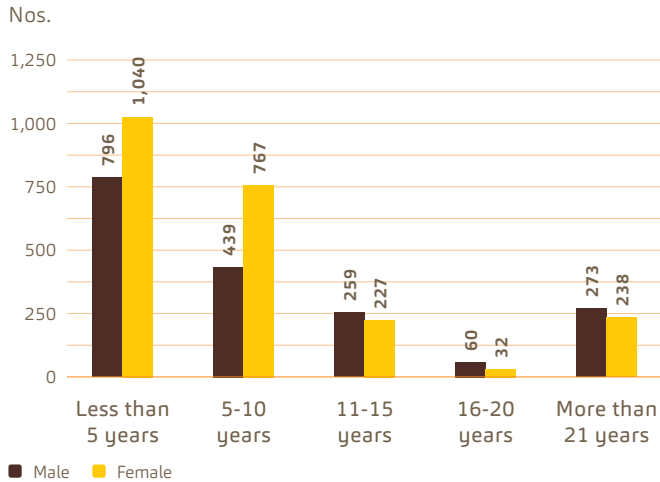
Senior grade (GM/CEO, Senior DGM, DGM, AGMs)

Managers (Grade I, II, III - I, III, II)

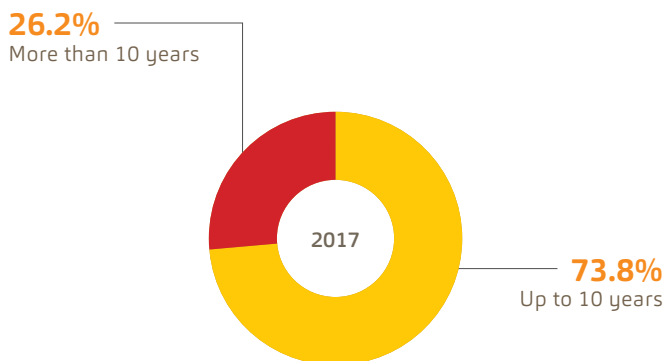
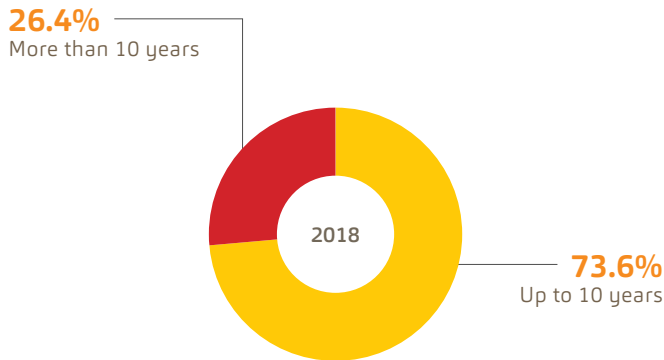
Executives (III-III and IV), Staff Assistants (V and VI), Office Assistants (VII)

Human Capital

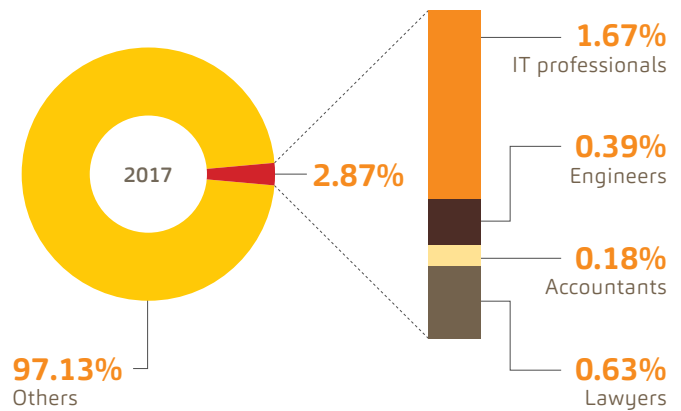
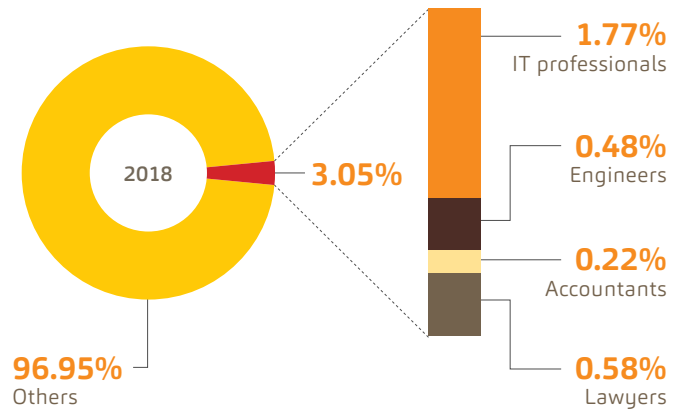
Service years by gender →



Service years analysis →



Professionally qualified employees in permanent cadre →



→ How we nurture human capital

Attracting and retaining talent →

GRI 202-2 401-1

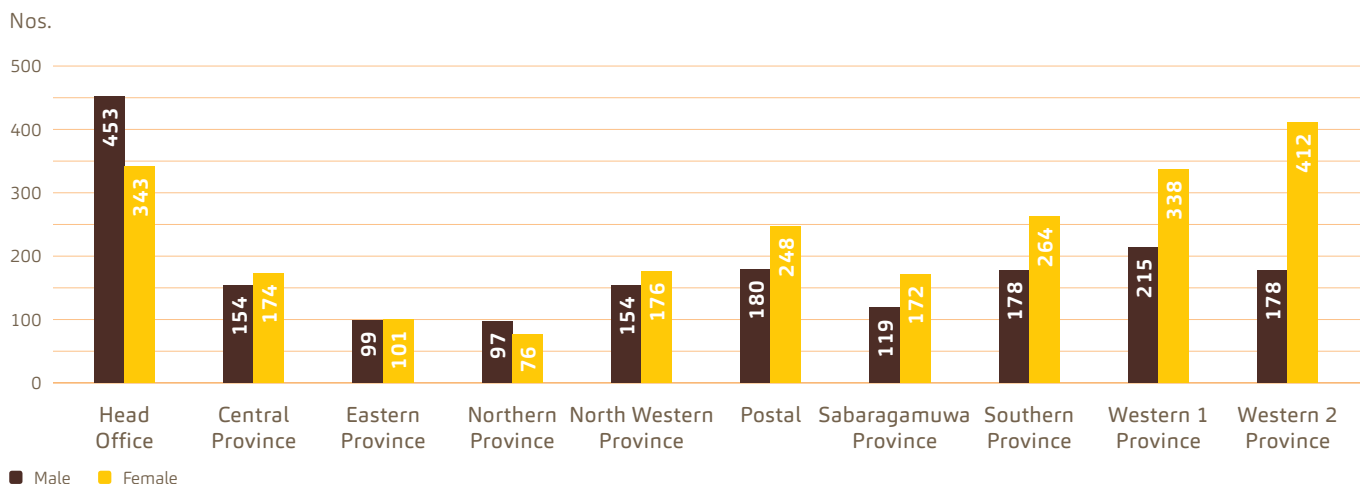


Taking care of our employees begins with the recruitment process. Ensuring we attract a diverse group of people that reflects our varied customer segments is essential for maintaining our relevance and effectiveness in serving the latter's banking needs. It is for this reason that we aim at all times to recruit the best personnel in terms of qualifications, skills, and experience in relation to the respective roles, without bias.

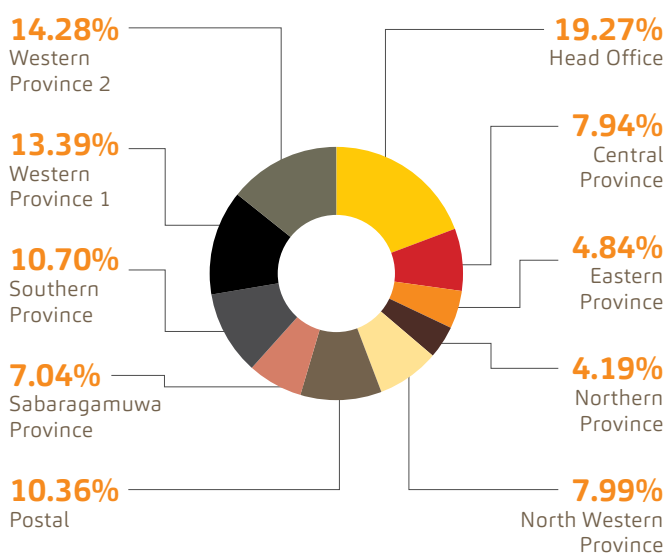
Human Capital

During the year under review our permanent employee cadre increased to 4,131 from 3,803 in 2017. Where possible we hire from local communities especially for the Senior Management roles, this ensures that the diversity within the Organisation reflects that of our customer base. A healthy male-female ratio of 6:5 (at all levels) is testament to the emphasis we place on equal opportunity.

Geographical diversity of staff by gender →



Geographical diversity of staff 2018 →



Our recruitment process is exacting, with suitable assessments specifically designed for each role type. This stringent and transparent process ensures that

we consistently hire the right people for the job. In addition, we use a diverse range of competitive exams and interviews and require selected candidates to complete a probationary period of one year. We are committed to recruiting employees from local community and 100% of our Senior Management is hired locally.

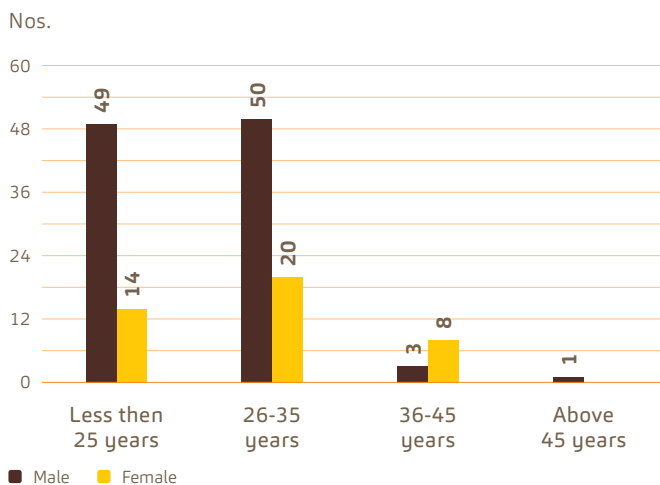
We recognise our responsibility as a State-bank serving the people of the Nation to offer opportunities for our younger generation to gain valuable experience working at a leading corporate in the country. We thus, provide employment and internship opportunities for youth and school leavers. In 2018, we recruited 133 of youth and provided internships to 19 school leavers.

Our recruitment also focuses on skills-based recruitment, where we hire people who have specialised skills. This process has helped to streamline the recruitment process by matching the skills required to perform set tasks with an applicant's skill.

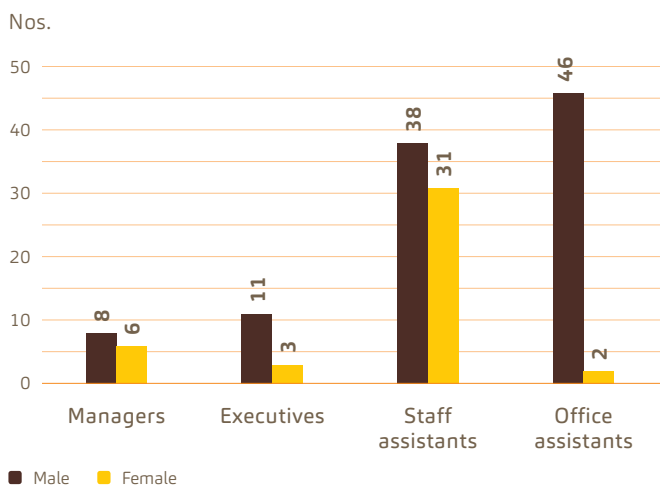
During the year under review we recruited 145 people down from 216 the previous year, a total of 3.2% of the total cadre down from 5.3% in 2017 including permanent and contract based employees. The majority of our recruits joined us at entry level.

Human Capital

New recruits by age and gender →



New recruits by grade and gender →



Developing our people →

GRI 404-1, 2



At NSB we value creativity and innovation but in the banking world these must be exercised within the complex framework of regulatory obligations and established systems and processes to ensure the strength of the financial capital entrusted to us. For this reason, ensuring that our employees remain highly skilled, qualified, and experienced remains of paramount importance, as we strive to achieve our strategic goals.

Training Needs Analysis (TNA) →

Using our Training Needs Analysis, we identified the training and development needs of our employees using various methods such as the annual training needs survey, interviews with the respective team leaders, consultations with the General Manager (GM)/Chief Executive Officer and DGMs, reviews of customer complaints, performance appraisals, and questionnaires. We then took the necessary steps to fill any gaps with quality material.

The TNA process includes:

- Identifying the required skills set
- Assessing existing skill levels
- Determining the training gap
- Assessing findings
- Determining the required types of training and development programmes

Nurturing our people through training and development →

NSB provides its employees with a range of professional development opportunities including on-the-job, in-house, and external training in both local and foreign locations, sponsorships, and educational incentives.

Throughout the career lifecycle we offer our employees many types of training including:

- Induction
- On-board training
- Learning through feedback
- Technical skills development
- Soft skills development
- Leadership skills development

These training programmes are geared towards developing functional and technical expertise that is required as an employee of NSB from the day he/she joins the Bank. The programmes focus on new recruits to gain valuable experience and job-specific skills, as well as to enhance the skills of employees who have been with the Bank for a longtime.

Training through webinar: During the year under review, the HRD Division enlisted the help of the Training and Development Division to launch formal webinars for branches. Training programmes through three webinar sessions under “Knowledge sharing via E-Learning” programme was conducted for greater employee awareness. This programme allows Head Office staff and the branches to connect, share information and solve problems in real time no matter where in the country they may be stationed.

Human Capital

During the year under review, we invested over Rs. 38.6 Mn. in 312 foreign and local training programmes, up from Rs. 34.4 Mn. the previous year. Together our employees logged in 58,590 training hours up from 45,347 in 2017. During the year, 41 staff members participated at overseas training programmes. The average number of training hours per employee was 13 hours and the participation ratio was 91% up from 12 hours and 88% respectively year on year.

Managing our people →

Once recruited, all employees are inducted to the wider family of the Bank. This ensures that they bring with them their individuality and creativity in a way that enriches our talent pool. While career progression in banks tends to be much slower than that of start-ups or non-traditional types of businesses, we make every effort to support career growth and promotion within the ranks.

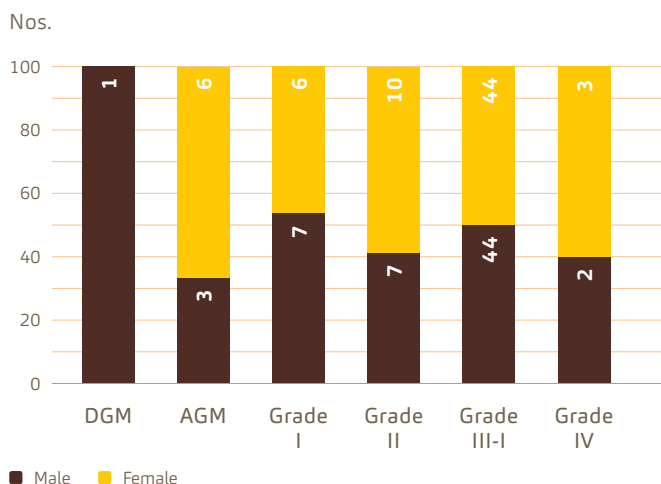
Promoting the best for each role →

Whenever vacancies appear in either banking or non-banking streams which can be filled by internal promotions, we make every effort to do so. This allows us to speed up career progression while also retaining people who have already garnered experience at the Bank.

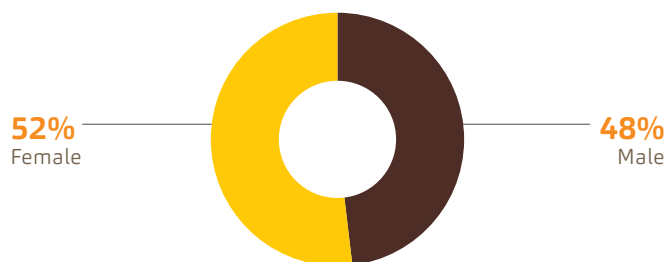
When employees apply for promotions, we conduct a comparative review of work-related factors such as their qualifications, ability, and the quality of past work performance. No extraneous, unrelated factors are taken into consideration to ensure that in all our selection and employment processes all individuals are granted equal employment opportunity.

During the year, we promoted a total of 69 women and 64 men – a majority of whom were in the 46-55 age group.

Promotions by grade and gender →



Promotions by gender →



Performance management →

GRI 404-3

The Bank employs a performance management system to continually assess performance. For employees, this means receiving continuous constructive feedback on areas of weakness and commendations for their performance. This motivates them to optimise their performance throughout the year rather than learning about any performance gaps at the end of the year when there is little time for corrective measures.

The Bank’s performance management policy focuses on the following key elements in pursuit of achieving the Bank’s overall objectives:

- Identifying performance gaps and improving employee performance
- Identifying individual and team for training and development needs
- Identifying increments, promotions, and reviews for employee remuneration packages

At NSB, we possess an equitable, transparent appraisal system. All employees are evaluated formally on an annual basis and assessed against a set of predetermined criteria each year. Appraisal of the Corporate Management is based on the Key Performance Indicators (KPI) using Balanced ScoreCard system. However, the Bank is in the process of introducing comprehensive KPI based performance management and appraisal system across the Bank to develop a performance driven culture. This system aims to eliminate any biases and instead encourages objective evaluation.

Upholding the highest professional and ethical standards →

GRI 205-2

The NSB’S Code of Conduct sets out the principles of personal and professional conduct expected of our people. It also reflects the Bank’s commitment to ensure merit-based, equal employment opportunities. It defines the

Human Capital

standards we require to offer a safe working environment that is free from discrimination, bullying, and harassment. All new employees upon joining Bank are informed of their obligations and rights under the Code of Conduct.

The Bank’s Disciplinary Code of Conduct is designed to guide and educate employees in matters relating to discipline. The Disciplinary Code of Conduct has been revised in 2017 based on the provisions of the Government Establishments Code Volume II and modified to suit the particular needs of the Bank. Maintaining “zero-tolerance” for all forms of corruption, bribery, and extortion practices, the Bank takes strict disciplinary actions against employees who violate the Disciplinary Code or indulge in malpractices.

Supporting diversity and equal opportunity →

GRI 401-3 GRI 406-1



The Bank provides equal employment opportunities for all persons regardless of race, colour, religion, gender, age, marital status, national origin, or disability, except

where a *bona fide* occupational qualification is required. This applies to every aspect of an employee’s experience with the Bank, including:

- Recruitment
- Compensation
- Benefits
- Transfers
- Training and development
- Educational assistance
- Recreational programmes
- Promotions

Females accounted for 56% of our permanent employees as at the end of 2018 and 29% of all the hires in 2018. In Senior Management and middle management roles, women made up 48% and 49% respectively.

We offer female employees parental (maternity) leave of 84 days, with full benefits and no constraints. We also make it a point to facilitate their return to work. The Bank offers paternity leave of three days to male employees. Accordingly, during the year 269 females took maternity leave, while 122 paternity leaves were recorded. 99.7% of them returned to work upon completion of their leave.

While the Bank promptly investigates all complaints regarding violations of the policy of equal employment opportunity, during the year 2018, there were no such complaints reported.



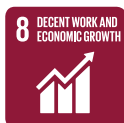
Human Capital

Rewarding performance →

GRI 202-1

GRI 401-2

GRI 405-2



The Bank offers employees fair, competitive, and attractive compensation packages. In 2018, the Collective Agreement for Salary Revision for the period of 2018 – 2020 was successfully signed between the Management and the Trade Unions. Salaries and other financial benefits from the Chief Manager's grade and below are structured according to the agreed terms and conditions set out in the Collective Agreement with the Trade Unions.

All salary scales are published on the Bank's intranet to ensure transparency. Agreements for both salary and non-salary benefits are revised once in every three years subsequent to the discussions between the Management and the Unions of the Bank. We ensure that all personnel who have similar responsibilities are paid within the same salary range irrespective of gender, though individual salaries will vary based on an employee's length of service and past performance.

Financial benefits →

Defined as all payments an employee receives apart from his or her salary, financial benefits are provided for all regular, full-time employees who are confirmed in their service. These include:

Fixed and variable cash benefits

- Competitive salary
- Bonuses, provided in April and December if the Board decides to reward achievement of set targets for the year
- Encashment of privilege and medical leave up to a maximum of seven days for each type at year end
- An annual increment for those who perform satisfactorily over the preceding 12-month period
- Fuel/travelling, accommodation assistance, subsistence and duty travel provisions
- Job-specific allowance and overtime
- A non-contributory pension scheme and a contributory widows and orphans scheme

Reimbursement

- Membership fees for professional institutions
- Honoraria payment for employees completing at the intermediate level in Applied Banking and Finance and Diploma level in Applied Banking and Finance Institute of Bankers of Sri Lanka (IBSL)
- Sponsorship of selected, relevant study courses completed by employees

Subsidised loan benefits

- Housing, Vehicle loans, other subsidised loans such as consumption and distress loans and festival advances.

Medical assistance schemes

- Employee medical assistance scheme which offers coverage for specialist/OPD medical charges, hospitalisation, critical illnesses, eye and dental care for all permanent employees including probationers
- Compensation scheme for permanent employees, in case of death, permanent disabilities, or partial disabilities up to a maximum of Rs. 1 Mn.

Human Capital

Retirement benefits →

GRI 201-3

All permanent employees are covered by non-contributory pension schemes where terms and conditions vary depending on the pension scheme in place at the date of appointment.

The types of retirement benefit plan obligations include:

- Pension Fund (Scheme I and Scheme II)
- Contributory Widows/Widowers and Orphans Fund (only for Scheme II)
- Contributory retirement medical scheme

The Bank's Pension Fund is fully insured. The projected unit credit actuarial valuation method is used to ascertain the cost of providing benefits under the defined benefit pension plan.

The Pension Fund (Scheme I) applies to employees recruited before 1 October 1995. The Bank's contribution to it, during the year, was Rs. 523 Mn. Unfunded liability stood at Rs. 2,596 Mn.

Pension Fund (Scheme II) applies to employees recruited on or after 1 October 1995. The Bank's contribution to it, during the year, was Rs. 167.8 Mn. We contribute 12% of the employee's gross salary to this fund.

The Retirement Medical Scheme and Widows, Widowers and Orphans Fund are both contributory schemes. Bank contributed Rs. 135.7 Mn. to Retirement Medical Scheme and unfunded liability stood at Rs. 1,234.7 Mn. at the year end. The amount of monthly contribution to the Retirement Medical Scheme is determined by age. The employee/member's contribution of Widows, Widowers and Orphans Fund is determined by the basic salary of employees. Members of the Fund should contribute 5% of their basic salary as a monthly contribution.

New additions to employee benefits in 2018 →

New or amended employee benefits launched during the year under review include:

- Increase of deductions allowed from gross salary for loans granted
- Increase in medical reimbursement facilities for retired employees under Contributory Medical Assistance Scheme – hospitalisation, routine/specialist, eye, lenses, corrective appliance and dental, critical illnesses along with increase in monthly contribution by pensioner

- New payment of subsistence allowance for recovery assistants on contract basis
- Performance-based incentive structure for International Business Relationship Officers

Recognising our employees' dedication →

To thank our people for their commitment and loyalty to NSB, we recognise and reward employees' long service at our annual felicitation ceremony to recognise employees who have completed 25 and 35 years of service. In 2018, 26 employees received the reward, 14 of whom were honoured for their 35 years of service.

Also, the annual Achievers Award Ceremony is held to felicitate academic achievements (GCE Ordinary Level, GCE Advanced Level, and Grade Five Scholarship Examinations) and non-academic achievements in sports and extracurricular activities of the children of the employees.

Ensuring health, safety and well-being of our employees →

GRI 403-9

Taking care of our employees' health and safety is a key focus at NSB. A range of initiatives are already in place to ensure the best conditions for a positive working environment. This includes:

- In-house medical centre at NSB Head Office run by a leading private hospital and managed by the Bank's Welfare Division
- Bi-monthly visits by specialised doctors at the medical centre.
- Medical clinics conducted by leading private hospitals
- Regular seminars conducted by professional resource personnel on stress management, eye care, and prevention of cardiovascular diseases.
- The Security Division of NSB is present at every NSB branch and is under strict instructions to follow stringent procedures, from crisis management to alarm systems, which ensure a safe, secure workplace.

During the year, the Bank reported three minor accidents on its premises.

In the near future NSB's focus on health and safety will encompass:

- Enhancing an occupational safety and health system at National Savings Bank with adherence to the provisions of the National Occupational Safety and Health Policy and the Shop and Office Employees Act No. 19 of 1954.

Human Capital

- To appoint two individuals from each branch/division to ensure health and safety work environment in the respective branch/division.
- Secure the health, safety, and welfare of employees at work.
- Identify potential risks to employees at workplace.
- Promote an office environment for employees that are adapted to their health and safety needs.

Promoting work-life balance →

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

The Bank maintains 15 holiday resorts in different areas of the country as at December 2018: in Anuradhapura, Kandy, Ambalantota, Nuwara Eliya (two bungalows), Mahiyanganaya, Galle, Bandarawela, Badulla, Dambulla, Chawakachcheri, Beliatta, Marawila, Katharagama and Diyathalawa.

Throughout the year, multireligious ceremonies and events like *Vesak Bakthi Gee*, *Avurudu Pola*, and Christmas Carols are organised by the Welfare Division to spread spiritual and religious harmony among the members of the staff. We also organise an “*Avurudu Uthsawaya*” every year with the participation of employees and their families. A sports meet is also held annually, with regional sports meets held before the final sports meet held in Kandy. There are also various sports teams of our employees ranging from cricket, football, volleyball, and etc.

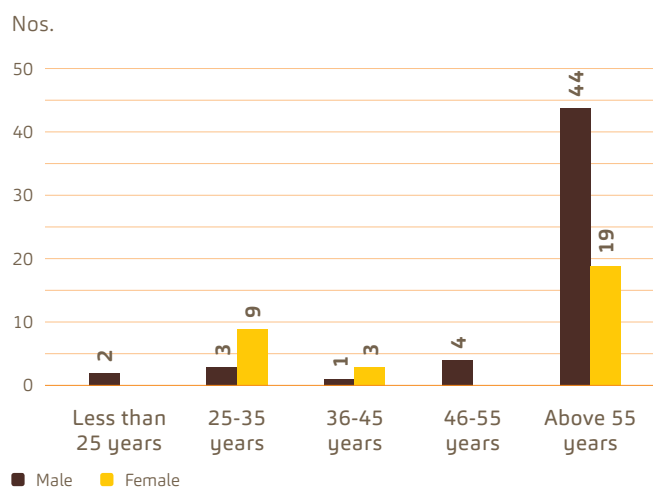
Our employees also come together for the numerous CSR events that are conducted throughout the year. Moreover, the Bank provides library facilities and NSB Sports Club maintains an in-house gym in the Bank's Head Office premises. Concessionary rates for food from the Head Office canteen is provided to our employees and the Bank provides monetary assistance for day outings organised by branches and divisions.

Focusing on retention →

GRI 401-1

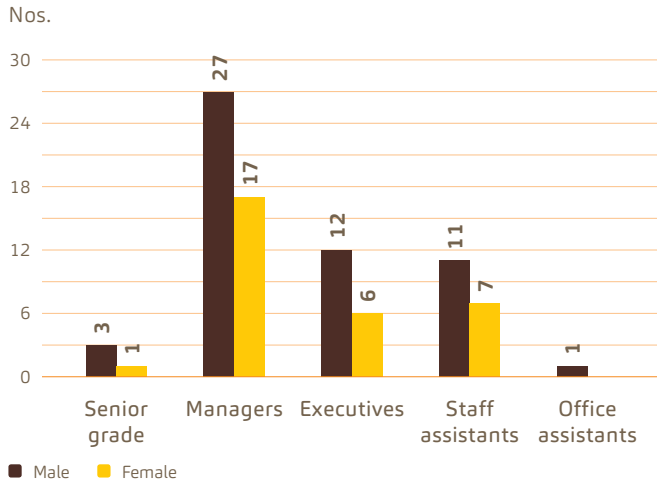
The retention rate for permanent employees for the year under review stood at 98% up from 96.7% while our turnover rate for the year was 2% down from 3.3% the previous year. Our high retention rate and low turnover rate has given us a reputation for being a coveted employer. Our retention ratio was one of the highest among the industry. We attribute this achievement to the safe working environment and culture at NSB which is conducive to high productivity and supports employee development.

Turnover by age and gender →

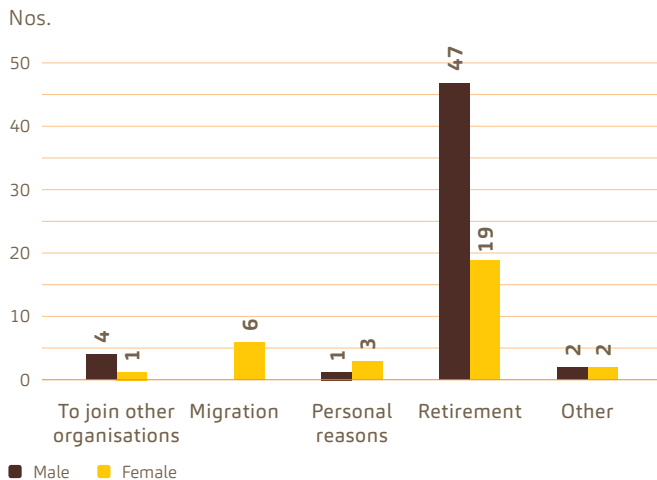


Human Capital

Turnover by grade and gender →



Reasons for turnover by gender →



Further, contributors to our high employee retention levels are the benefits and incentives provided by NSB. The fact that only 19 employees left the Bank during the year for reasons other than retirement shows the sustainable working culture we have created at NSB.

Keeping communication lines open →

We understand the importance of keeping communication channels open between Management and employees. For example, our Management actively encourage employees

to bring suggestions, problems, and solutions to them in a proactive manner. This goes a long way towards creating a friendly work atmosphere that is conducive to employee engagement and boosts productivity. Despite this, we have also employed formal channels to provide employees with the necessary opportunities to collaborate, communicate, and flag any issues that could hinder the productivity of the Bank.

Employee communication channels →

Many other effective communication channels are also available to ensure that employees are aware of everything from strategic direction to policies and procedures. They also provide an avenue for employees to provide feedback to Management. Where possible all employee communications are provided in English, Sinhala and Tamil.

Our other employee channels include:

- Employee Surveys
- Intranet
- Circulars
- Staff notice board
- Emails from Management
- Formal letters from HR Department

Freedom of association and collective bargaining →

GRI 102-41

GRI 407-1

Keeping communication lines open with trade unions is equally important to the Bank. During the year under review, the Collective Agreement for Salary Revision for the period of 2018 – 2020 was successfully signed between the Management of the Bank and the trade unions. The freedom of association of its employees and the effective recognition of the right to collective bargaining continue to be upheld by the Bank.

The Bank's relationship with trade unions operating within the Bank, including the *Jathika Sevaka Sangamaya*, Ceylon Bank Employees' Union, Sri Lanka Independent Bank Employees' Union, Executive Officers' Association, and All Ceylon Bank Employees' Union, continues to be very healthy.

Its relationship with unions and other representative associations sustains its long-term developments and is mutually beneficial to the Bank and its employees. Such strong relationships and effective communications allow union members to gain a complete understanding of the Bank's goals and business activities. The agreed terms

Human Capital

and conditions set out in the collective agreement with the trade unions affect the salaries and other financial benefits of the Bank's employees.

Employee grievance mechanisms →

The Bank applies both the “Step Ladder System” where a grievance can be resolved according to a hierarchy, beginning with the person's immediate superior, and the “Open Door Policy” where the grievance can be directly forwarded to an independent party nominated by the HR Committee. Employees are encouraged to resolve issues using the former as much as possible.

During the year, the total number of grievances filed through formal grievance mechanisms numbered 35, of which all were addressed during the year and 19 resolved. All grievances are handled impartially.

Whistle-blower policy →

NSB's whistle-blower policy was established to assure employees that they would not be penalised in any way – through discrimination or dismissal for example – for reporting instances of corruption or fraud. The policy covers prevention, early detection, reporting, monitoring, recovery, and follow-up actions. Through it, employees can blow the whistle on misconduct relating to a range of areas including accounting, auditing, coercion, collusion, corruption, internal controls, irregularity, financial reporting, frauds, and misappropriation.

→ Challenges of 2018

The challenges continued to be largely the same as the previous year. These include:

- Contending with an aging workforce combined with shortage of qualified, tech-savvy talent
- Connecting new generation employees who are less traditional, more technologically savvy and ambitious to the goals and culture of the Bank
- Attracting and meeting the expectations of multiskilled, qualified millennials who may expect fasttrack career progression and higher wages and benefits
- Managing organisational change resulting from greater pressure for profitability and the need for continued mergers, acquisitions, and strategic alliances

- Navigating union and political influences that may disrupt best practices
- Keeping up with new competitors and new labour markets which require more sophisticated skills in managing and operating human resources

→ Capital trade-offs

- Recruitments, promotions, health benefits and well-being has positively impacted human and social and relationship capitals and negatively affected financial capital.
- Through investments in training employees of the Bank and efficient use of employees we have grown our in-house skills and has resulted in a growth of intellectual capital.

→ Outlook

To overcome the challenges outlined above, the Bank is investing in sustainable IT solutions including automating and integrating HR functions and expediting the disciplinary inquiry process aimed at improving the efficiency of human capital. Other HR processes and documentation will also be improved.

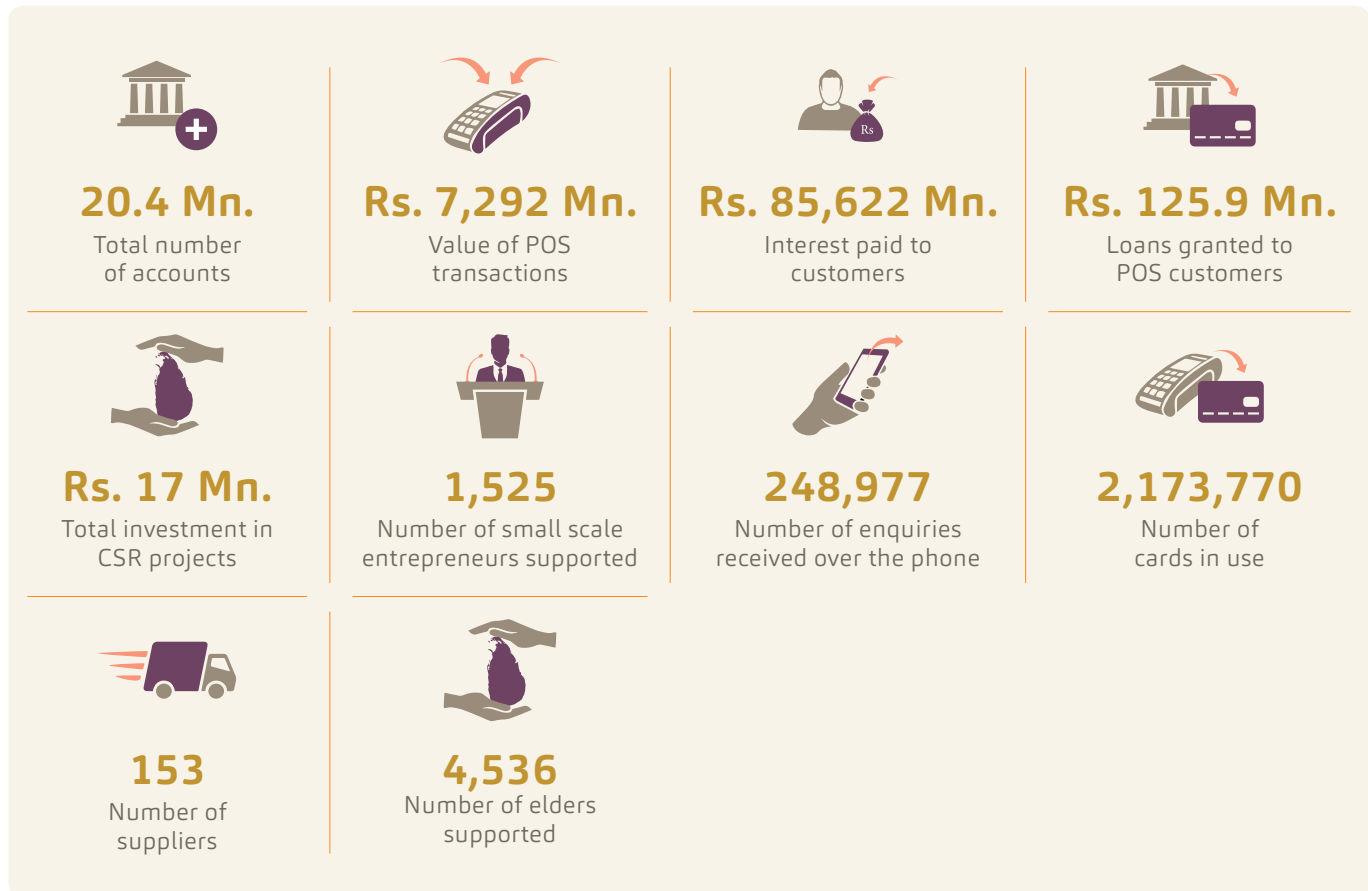
A comprehensive plan has been drawn up to provide new entrants and existing employees with a thorough grounding in product knowledge, customer service techniques, and soft skills to ensure that NSB stands out in the field of customer service. The target-based performance evaluation system will improve employee evaluations, ensuring that the best people are selected for business critical and other roles.

The Bank will continue to look for ways and means to attract and retain accountable employees who are keen on providing quality, accurate, and speedy customer service that increases productivity. To ensure the achievement and results, we will implement a learning culture with a special focus on employee development and engagement. Special focus will continue to be on frontline employees and the provision of world-class customer service.

Social and Relationship Capital



Our relationship with all our stakeholder is essential to build trust and to make informed decisions that create value for all.



→ Why social and relationship capital is important to us

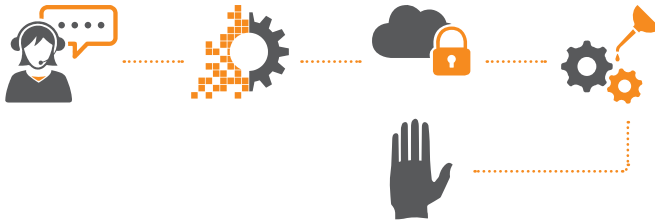
We are cognisant that the viability of our social and legal license to operate depends on our ability to sustain strong relationship with the customers and with the wider community for whom we create value individually as well as collectively. These relationships shape crucial perceptions of our Bank. Our relationship with all our stakeholders are essential to build trust and to make informed decisions that create value for all.

We have identified customers, employees, investors, Government and regulatory bodies, business partners and society, and environment as our key stakeholders. Identifying our key stakeholders, our process for managing these relationships, and how we create value for these key relationships are laid out on page 54 on stakeholders and page 60 on our materiality matters. Relationship with our employees outlined in human capital on page 93 while relationship with environment will be covered in natural capital on page 120. Thereby, this section discusses the relationship with our customers, regulators, business partners, and community.

Social and Relationship Capital

Customer Capital

Pertinent material issues



Pertinent strategic objectives



➔ Why customer capital is important to us

With over 20 million accounts, NSB can claim of possessing the most diversified customer base in the island. Our focus is to meet all needs of our customers and to improve their financial well-being which is why we have identified service quality and customer experience as our primary material issue and to be customer driven is our primary strategic objective. The customer is at the heart of everything we do, and to retain existing and acquire new customers, we have to remain relevant by offering appropriate and innovative products and solutions at their right cost.

We have an integrated approach to provide a superior customer experience in all our interactions through multiple channels like our extensive branch network, mobile and Internet banking, and other platforms. To improve our customers’ experience, we have adopted the latest methods in measuring customer satisfaction, responding to customer queries and complaints, providing an extensive product portfolio aimed at customers from all segments of society, and continuing the multi-generational relationships we have built as a bank for all Sri Lankans.

How we nurture customer capital ➔

Customer service and measuring satisfaction ➔

In our efforts to improve customer service, we are dedicated to offer our customers with a wholesome

experience delivering exceptional service. In this endeavour, we have appointed a customer service officer at branch level for selected branches, implemented loyalty programmes and reward schemes for Debit card holders, and continue to measure customer satisfaction to identify customer-centric improvements.

Customers can forward their queries, complaints, grievances, and other remarks to the NSB Call Centre which is operational 24/7, our trained staff at our branches island-wide, suggestion boxes at branch premises, through social media, and the website www.nsb.lk, and other digital methods such as email, skype, and web chat.

In the process of measuring customer satisfaction, we conducted a survey in 2018 to measure the quality of services provided by each sector. The primary objective of the survey is to identify the shortcomings by section and to take corrective measures that contribute to building customer loyalty and helps improve overall customer experience. We recorded over 80% satisfaction rate in all sections in 2018.

Section	Excellent %	Very good %	Good %	Poor %
Fixed deposit	85	12	2	1
Savings	82	13	4	1
Loans	81	12	6	1
Bank counter	81	15	4	–
Pawning	82	13	5	–

Resolving customer concerns effectively ➔

We take customer complains seriously and have robust procedures to address them. We have provided numerous platforms to forward their grievances through Call centre, online channels, and branches. Our Call Centre is the primary mode of communication between the Bank and our customers dedicated to handling customer queries and grievances. A customer can reach the Call Centre where calls are handled by trained, highly-skilled customer service representatives. The query is initially handled by the agents and then directed to the relevant departments. Customers are given a reference number which could be used to follow up on their query. Complaints are tracked until they are resolved and the actions taken are compiled every month to be presented to the Management.

Social and Relationship Capital

Through our “across the Bank” training programme, we equip our employees with the necessary skills to attend to customer complaints, to resolve issues and to turn difficult situations around. There is a significant increase in handling and resolving customer complaints in 2018 that recorded 73% of resolved cases from 16% in

2017 which show the improved efficiency in the handling of complaints.

Customer enquiries over digital mediums such as facebook, twitter, linkedin, and the website, have also increased by 86% (56,932 interactions) in 2018 compared to 2017.

Number of inquiries received over the phone

2018

248,977

2017 – 222,950

2016 – 200,045

Number of email inquiries

2018

2,539

2017 – 2,382

2016 – 2,218

Number of complaints related to cards – Card Queries

2018

836

2017 – 1,534

2016 – 1,673

Number of customer complaints made by customers

2018

220

2017 – 176

2016 – 184

Number of complaints to CBSL

2018

N/A

2017 – N/A

2016 – N/A

Number of customer complaints resolved

2018

160

2017 – 28

2016 – 26

Number of complaints to Financial Ombudsman

2018

N/A

2017 – N/A

2016 – N/A

Number of complaints related to cards – Point of Sale

2018

1,588

2017 – 1,968

2016 – 1,673

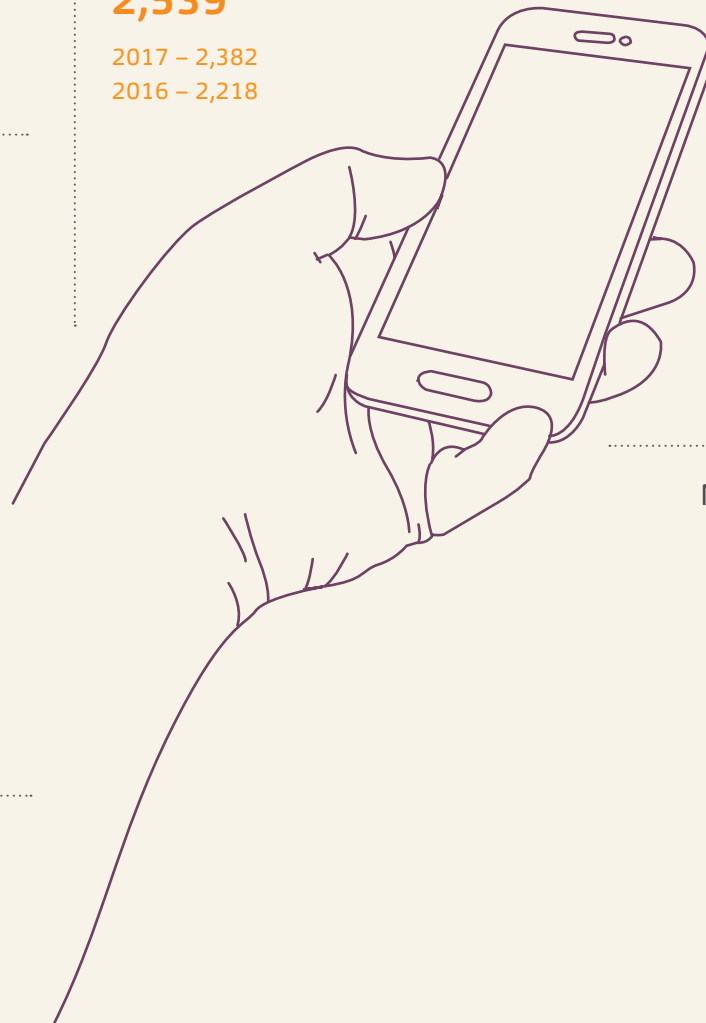
Average time taken to answer a call

2018

<30 Sec

2017 – <30 Sec

2016 – <30 Sec



Social and Relationship Capital

A superior customer experience with NSB →

Customer experience is of critical importance to the sustained growth of our business. We strive to create unforgettable customer moments across every stage of customer journey through our channels, people and products. In 2018, we provided delightful customer experience by improving customer convenience, accessibility, efficiency, financial well-being and literacy and introduction of new products in our engagements with our customers.

Engaging customers digitally and enhance digital experience →

We enhance our customers experience through newly established NSB Connect anytime zones including ATM, CRM (Cash Recycling Machines) and IDMS 24/7 at their own convenience. For further details see more on manufactured capital on page 83.

In a banking eco-system that is undergoing rapid change, we have taken necessary steps to facilitate our customers

who prefer to access banking facilities digitally. We continue to invest in technology to enhance our product and service offerings and capabilities that fit our customers' fast-changing lifestyles and business needs. In 2018, we redesigned our corporate website and in process to revamp our Internet banking platform to offer a better and more consistent customer experience.

To expedite obtaining of Internet banking facility, we delegated the authority to our branches to approve Internet banking requests while the required IT infrastructure needed to complete these requests have also been provided to the branches. Further, with the increased withdrawal limit of debit card, Internet banking facility has also been improved to provide fund transfer facility from Personal Foreign Currency Accounts (PFCAs) to Rupee (LKR) accounts with improved security measures. We enable our customers to carry out e-commerce transactions on locally hosted websites but cross boarder e-commerce transactions upon the customer request.

During the year, we deepened our online engagement with our customers through social media.

Website

www.nsb.lk

Average monthly visitors 47,000. New website was launched on 26 April 2018.

Visitors **47,000** Growth **48%**



Facebook

www.facebook.com/NSBSLOfficial

Facebook reach per month 1,502,194 (average)

Followers **86,579**

Growth **185%**



Twitter

twitter.com/NSBSLOfficial

63 Followers – Purely organic growth

Growth **142%**



LinkedIn

www.linkedin.com/company/nsbslofficial/

385 Followers - Purely organic growth

Growth **96%**



Youtube

www.youtube.com/c/NationalSavingsBankNSBSLOfficial

557 Subscribers - Purely organic growth

Growth **731%**



Social and Relationship Capital

Banking made simple →

We continue to focus on becoming efficient with the flexibility to respond fast-changing customer needs and to provide a flawless and faster customer service. During the year, we re-engineered and simplified process in relation to savings accounts, credit and payments to customers and suppliers by removing non-value adding activities (See page 91) and delegating authority levels which reduce waiting times and freeing up top level management to concentrate on what matters most. Furthermore, several projects have been commenced during the year to increase automation of end to end customer journeys through system enhancement and integration. (See page 86)

Serving customers with special needs →



Treating all the people who come to our Bank with individual respect and courtesy is at the heart of excellent customer service. Taking acting role in championing more inclusive society, we understand the special needs of customers and provide a smooth banking experience for them in our branches. During the year, we reviewed and eased the procedures of releasing funds held in the accounts of mentally disabled customers. We strive to establish our branches with facility of access for differently abled people and this is compulsorily provided for all new branches and relocations of existing branches

Protecting customer data and privacy →

GRI 418-1

We have identified cyber security as a material issue at NSB, since protecting customer data and privacy is crucial to maintaining customers' trust. Thus, our commitment to safeguard customer privacy extends to the digital domain as well, where we use the latest technology in digital banking. The NSB Act, customer charter, as well as our Information Security policy outline how the Bank ensures the security of our system. We also conduct regular tests to assess and to ensure the security of our systems. The Bank has appointed a Chief Information Security Officer (CISO) who independently monitors and informs the Board on implementation and any exceptions

if any with regard to cybersecurity risk management. There were no complaints pertaining to the breach of customer privacy or loss of customer data, nor any fine or other sanction imposed on the Bank in 2018.

Dealing with responsibility →

GRI 417-2, 3

Responsibility is deeply embedded in all aspects of our relationship with customers from how we develop our products and services to marketing and sales. We ensure being responsibility is rooted to our corporate culture by:

- Offering products and services that are suitable for our customers
- Communicating clear, relevant and timely information to make informed decisions
- Dealing with feedback in an effective and prompt manner
- Building competency of our workforce to understand customers and provide quality service

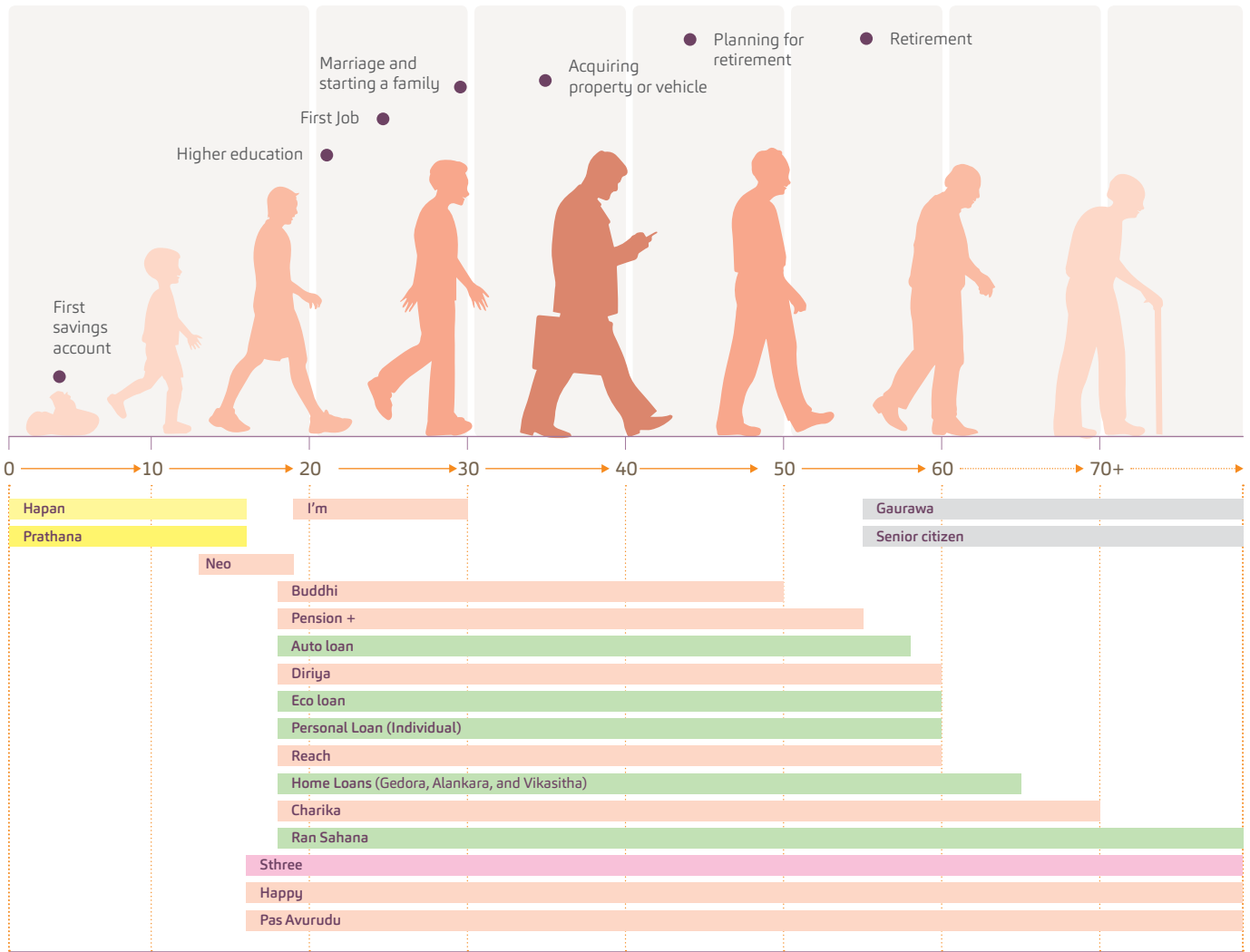
We display all relevant data on our loan and deposit products, such as interest rates, exchange rates, lending rates via displays at branches, electronic media and corporate website. The Customer Charter, prepared according to CBSL guidelines, provides details on all terms and conditions applicable to products and services and the Bank's complaints handling procedure. The Bank has displayed complaints redress process through the Financial Ombudsman at all branches in accordance with CBSL guidelines.

In line with the Right to Information Act, the Bank has appointed a public information officer and set out the procedure to ensure the right to access the information for the public. During the period under review, there were no instances of non-compliance to any product and service labelling or marketing communication related regulations or other guidelines.

Being there when it matters →

We serve customers that come from all segments of the Sri Lankan society and our leading products are aimed at providing for every banking need. We offer a range of innovative and affordable solutions effectively at every life events of our customers and delight customers by being with them at right moments. Our products and services meet customer needs at every life stage, as illustrated by the following diagram:

Social and Relationship Capital



Social and Relationship Capital

Products and services added to our portfolio in 2018 →

NSB offers personalised products and services that satisfy all needs of customers that come from different segments of society. Following a comprehensive marketing strategy, NSB launched new products responding and satisfying customers' needs and desires effectively.

i. Launch of Neo savings account



To fulfil the goal of fostering a savings culture in Sri Lankans, NSB launched Neo, designed for teenagers. Neo accounts can be opened without the presence of a guardian. Concessionary rates are offered and account holders are entitled to an international debit card with special discounts from selected merchants. Neo account holders will be eligible for scholarships upon university entrance.

ii. Launch of NSB reality savings plan

A new savings plan was introduced for Sri Lankan migrant community with attractive interest rates to encourage them to save for a long-term time horizon to ensure their future financial stability. The new savings plan will come under the Five Year Savings Scheme of the Bank with a new brand name.

iii. “Enterprise Sri Lanka”



This programme was instituted by the Sri Lankan Government to revive the entrepreneurial spirit of young entrepreneurs of the country in line with Vision 2025 which underscores priority reforms to help the country become more prosperous. Under the theme of the “Enterprise Sri Lanka”, the Government is driven it forces to emerging the production economy in order to achieve the Government medium target such as per capita income of USD 5,000, one million new jobs, doubling exports, more than 5% continuous GDP growth. NSB, in partnership with the programme, is committed to provide loans at a concessionary rate to entrepreneurs starting businesses or an industry. The following are the new loan products that were introduced under the programme during the year:

→ *Govi Navoda*

This loan scheme is designed to encourage farmers to utilise the latest technology and practices in agriculture. It provides financial assistance to farmers to purchase machinery needed for agricultural purposes.

→ *Ran Aswenna*

Another loan scheme aimed at farmers to enhance productivity by using the latest methods and technology. This scheme is aimed at small-scale farmers, agro and fish processing, and commercial-scale farmers.

→ **Loans for homestay owners**

This loan scheme is aimed at those who operate homestays for local and foreign tourists registered under the Sri Lanka Tourist Development Authority (SLTDA). Loans are given at a concessionary rate. This initiative will help boost revenue from tourism to Sri Lanka.

→ *Jaya Isura*

This scheme is directed at medium-scale entrepreneurs under two categories in the agriculture, fishery, gardening, printing, tourism, handicraft, and information technology sectors.

→ **Green loans**

This scheme is to encourage micro and small scale manufacturers of green, environmentally-friendly products. The loan is offered at attractive rates to manufactures of bags and packing utilising biodegradable materials such as banana, fibre, palm leaves, coir, or bamboo.

iv. *Lakdiriya* programme

NSB, in partnership with Enterprise Sri Lanka, the Ministry of Public Enterprise, and Kandyan Heritage and Kandy City Development introduced *Lakdiriya* special loan scheme to provide financial assistance to middle and low income earners and young entrepreneurs. The beneficiaries are able to obtain loans under concessionary rates and relaxed credit terms.

v. **Auto loans for permit holders**

The Bank offers auto loans after a reduction of 1% p.a. from the rate applicable for all permit holders and to further reduce 0.5% p.a. to the permit holders who open LCs through the Bank.

vi. **Vikasitha middle income home ownership programme**

This scheme was launched in 2018 under the Fiscal Budget to grant housing loans to middle-income citizens at a concessionary rate.

Social and Relationship Capital

Business Partner Capital

GRI 102-9

Pertinent material issues



Pertinent strategic objectives



→ Why business partner capital is important to us

We are a trusted entity in the Sri Lankan financial sector and our high-impact partnerships with local and international bodies have yielded interdependent results. Further, long-term, productive partnerships have been maintained with corresponded banks, exchange houses, suppliers, outsource service providers, and other business partners. We see our business partners as an extension of our business and key in helping us become the Bank of Choice. These relationships help us deliver a high quality services to our customers seamlessly and helps to run a business in a smooth way without any interruptions.

→ How we nurture business partner capital

Policies for strategic partnership →

As a State-owned bank, we set an example through clear, systematic, transparent policies in our engagement with local and international bodies. The following are the policies followed by the Bank in strategic partnerships:

Procurement →

GRI 204-1



We see our suppliers as strategic partners and in return, demand that they adhere to the highest standards of quality, service and ethics. We work closely with our

local community and 100% of our goods and services are procured from local suppliers. Total procurement spend across the Bank amounted to Rs. 2.1 Bn. during the year. Ethics is strongly entrenched in our supplier selection and in the procurement process revolving around non-discrimination and equality treatment, transparency, confidentiality, fairness, openness and accountability.

NSB's procurements policy encourages a diversified supply chain to help generating value in a balanced manner.

The Bank has implemented a robust procurement process in place to promote the goals of economy, efficiency, fairness, and transparency in the procurement process.

- Maximise economy and efficiency in procurement
- Adhering to prescribed standards, specifications, rules, and regulations
- Maximising income in the disposal of acquired assets or in granting of rights, concessions, or exclusive benefits
- Providing fair and equal opportunity for interested parties to participate in procurement
- Expeditious execution of works and delivery of goods and services
- Compliance with local laws and international obligations
- Ensuring transparency and uniformity in the evaluation and selection procedure
- Retaining confidentiality of information provided by bidder

The procurement plan is updated annually according to changing needs. We obtain the services of outside suppliers for services such as the purchase of fixed assets, consumable items, gift items, printing, marketing and promotional activities, maintenance and construction services, and consultancy assistance in special cases. The policy of the Bank clearly stipulates the various procedure for different procurements comprising general procurement of goods and services, non-consultancy services, uniforms for staff, procurement of spare parts, repairs and maintenance, repairs to motor vehicles and maintenance, periodicals and publications, purchasing of fuel and information systems. Procurement procedures are overseen by the respective procurement committees, Technical Evaluation Committee, and Bid Opening Committee appointed by Board of Directors, GM/CEO or delegated authority.

The most common selection criteria are quality of services or products, competitive prices, experience and competence, financial soundness, flexibility and capacity to meet our requirements in proposed timelines and compliance with legal requirements. We have taken initial steps to integrate economic, social, and environmental impact into our procurement process activities.

Social and Relationship Capital

Further, the Procurement Division is responsible to monitor and ensure Initial Environment Examinations (IEE), Environmental Impact Assessments (EIA) and obtaining necessary approvals from authorities when it is required.

Outsource service providers →

During the year, we made payments of Rs. 368.5 Mn. to our outsource workers including employees on contract basis within the Bank. NSB's outsourcing policy is a framework that provides guidelines on outsourcing and specifies the criteria to assess the need of an outsourced activity, service, process, or function and its implementation. The policy is also put in place to manage risks arising from outsourcing. The policy is prepared in accordance with the Banking Act Direction No. 2 of 2012 in the exercise of the powers conferred by Sections 46 (1) and 76 (J) (1) of the Banking Act No. 30 of 1988, last amended by the Banking (Amendment) Act No. 46 of 2006, on outsourcing of Business Operations of a Licensed Commercial Bank and a Licensed Specialised Bank, respectively.

Communication between business partners →

All communications of the Bank are handled with utmost responsibility, accountability, consistency, and transparency in all internal and external communications outlined by communication policy. Our Communication Policy is an effective framework to facilitate timely dissemination of information with accountability to enhance brand image, customer loyalty, and stakeholder awareness.

Enhanced relationship with business partners →

NSB has formed strategic alliances with several international bodies during the year to share resources and expertise to achieve shared business objectives. These partnerships have resulted in a competitive edge for NSB and provided opportunities for increasing profit potential and enterprise value.

We strive to grow our global footprint by extending our reach beyond national boundaries. We have secured important links with global money transferring companies to enable secure remittances from anywhere in the globe. We are a member of SWIFT and Eurogiro postal, a low cost, secure, and speedy money transfer system. Through our remittance service, NSB U-Trust, we serve Sri Lankans expatriates and migrant workers.

We are connected to 35 exchange houses and 13 correspondent banks to facilitate global money transfer services.

The following are some of the initiatives towards improving business partnerships in 2018:

- NSB expanded its remittances arm by forging new relationships with correspondence banks namely Doha Bank Qatar, Commerz Bank AG and exchange house of Small World Global. (See more details on exchange houses and correspondent banks on page 407 to 409).
- Continued to build strong ties with exchange houses for money transfer services, remittances, and corresponding banks agreements to increase coverage of markets of Middle East, Italy, Cyprus, South Korea, Australia.
- NSB staff representatives were deployed in the Middle East. Overseas representatives were appointed for Italy and South Korea.
- 165 MoUs were signed with Government and private-sector establishments to improve the housing and personal loan portfolios.

Industry networks →

GRI 102-13

Over the years we have played a vital role in contributing to the progress of the Sri Lankan financial sector, as a key player, through our engagement with industry peers. We hold memberships in the following organisations:

- The National Chamber of Commerce
- Lanka Clear Private Limited
- Employers' Federation of Ceylon
- Society for World-wide Interbank Financial Telecommunication (SWIFT)
- The Sri Lanka SWIFT User Group
- Eurogiro Global Payment Community
- The World Savings Banking Institute

Social and Relationship Capital

Regulatory capital

Pertinent material issues



Pertinent strategic objectives



→ Why regulator capital is important to us

Government and regulatory bodies ensure a sound and stable banking system and promotes healthy functioning of an economy. We are incorporated by a special law, the National Savings Bank Act No. 30 of 1971 and its amendments and as a licensed specialised bank by the Banking Act No. 30 of 1988 and its amendments. As a State-owned bank, we have a responsibility to comply fully with regulatory requirements and having good governance as our failure would weaken public trust on the Bank as well as on the economy as a whole. Failure to comply with regulations lead to loss of operating license and affects our reputation. The taxes we pay to the Government also play an imperative role in economic and social development of the country.

→ How we nurture regulatory capital

Compliance with laws and regulations →

In a changing banking environment shaped by digitalisation, banks and regulatory bodies must evolve to meet emerging challenges. At NSB, there exists a culture of compliance where transparency is valued above all else and as a State-owned bank, is a highly regulated entity adhering to provisions of acts: The Banking Act, Finance Act, Financial Transactions Reporting Act, Exchange Control Act, NSB Act, and other regulations issued by the Central Bank of Sri Lanka (CBSL). NSB complies with all necessary regulatory requirements and maintains a close relationship with the Ministry of Finance, the Department of Inland Revenue, Auditor

General's Department, Attorney General's Department, Sri Lanka Accounting and Auditing Standards Monitoring Board, and the Parliament. NSB follows all directives issued by the CBSL and submits periodic information related to the Bank's operations.

Anti-money laundering, bribery, and corruption →

GRI 205-2, 3 & 206-1

Effective anti-money laundering controls are necessary to protect the integrity of the financial system. NSB is aware of the growing concern of cyber security that digitisation brings which is why cyber security, fraud prevention, and anti-money laundering is one of the principal material issues identified by the Bank's material analysis. There is a robust risk management system in place to protect our customers from fraud. NSB continues to assist regulators to prevent cybercrime, money laundering, and funding of terrorism by identifying and reporting suspicious activities.

During the period under review, no fines or non-monetary sanctions were 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 integrated risk management and governance →

NSB possesses a strong risk management policy and governance system that monitors the effectiveness of the Bank's risk management system. Reinforcing risk culture is one of the short-term strategic priorities of the Bank. Over the years, we have developed a strong risk culture where we are able to anticipate, manage, and mitigate risks arising from the internal and external environment. The governance at NSB supports prudent risk management where there is a systematic approach to supervising the Bank's risk management system. See more details on our report on "Risk Management" page 194.

Paying and collecting taxes →

As a State-owned bank, NSB sets an example to financial entities of the country by paying and collecting taxes on behalf of the Government. NSB pays all relevant taxes payable on-behalf of and in respect of employees of the Bank, 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.

Social and Relationship Capital

Community Capital

GRI 413-1

Pertinent material issues



Pertinent strategic objectives



➔ Why community capital is important to us

As a responsible provider of financial services, we play an essential role in the community that we operate in. Long-term sustainability is one of the greatest challenges of our time and it will require unprecedented collaboration among all communities in order to create the kind of future we want for ourselves and future generations. Following our mandate as a State-owned bank, our legacy, we have a special responsibility to give back to the communities where our people and our customers build their lives and our role in the community results in our work towards creating a thriving local community.

➔ How we nurture community capital

Ensuring sustainable economic growth through infrastructure development projects ➔

GRI 203-1



As part of our sustainable business approach, we support investment which facilitates long-term economic growth, empowers local communities, and improves all lives.

To drive progress in the country and uplift the local communities, we support the Government in large-scale infrastructure development projects in the country. We focus on investing in sectors which aim to deliver long-term progress and prosperity. The following projects were carried out during the year with the support of NSB:

- ➔ Rs. 11.8 Bn. was provided to Road Development Authority in its improvements of the roads and highways network of Sri Lanka.
- ➔ Rs. 50.0 Mn. was provided to National Water Supply and Drainage Board to carry out various development projects aimed at providing clean water to rural communities.
- ➔ Rs. 5.0 Bn. was provided to Sri Lanka Telecom to enhance capital expenditure.

Financial inclusivity ➔



We continue to focus on supporting initiatives that provides digital and non-digital channels to promote wider and more convenient access to financial services among underprivileged or unbanked customers.

We are able to inculcate the savings culture to remote or unbanked customers through our postal and sub-postal network. In our total deposit portfolio, the postal deposits represent 2%. NSB Reach provides door to door cash deposit facility for NSB customers who are unable to visit during the usual business hours through POS machines and Palm Top Machines.

NSB iSaver is a digital innovation which provides customer convenience through Mobitel outlets at any time during the day (extended operational hours) without any fees. This innovative service is expected to further inculcate the habit of savings amongst Sri Lanka’s populace, thus resulting in wealth creation and mobility of funds for investment. During the year, we have implemented 365-day banking service to three branches namely Maharagama, Kandy City Centre, and Kiribathgoda as a pilot project to ensure convenient banking experience for customers.

We offer products and services that meet customer needs and financial literacy to empower customers. In every branch activation programme and promotion conducted by branches and Marketing Division, the importance of thrift and savings is conveyed. Specially, iSaver and

Social and Relationship Capital

NSB Reach promotional campaigns conducted by the Bank emphasise the importance of daily savings. Around 38,000 new accounts were opened through several programmes by educating the customers about the importance of the savings. The *Lakdiriya* mobile credit fair was held in Kandy and Ratnapura Districts for three consecutive dates with a view to provide convenient credit facilities for the people in the area and to reach untouched markets. More than 1,000 people attended the programme.

Grama Shakthi People's Movement (GSP), launched in 2017, is especially designed to support the eradication of poverty by year 2030. Under the initial phase of the GSP Movement, *Grama Shakthi* People's Societies will be setup in 1000 selected *Grama Niladari* Divisions and they will be registered under the Department of Registrar of Companies. Partnering with the Government, each *Grama Shakthi* People's Society is expected to open an account with an initial deposit of Rs. 10,000.00 at a State bank.

Strengthening the social fabric →

We believe giving back to the communities in which we operate to strengthen our social fabric. Each year we continue, design, and implement community development programmes and initiatives to deliver balanced and sustainable outcomes for the community and people. We support a range of community organisations and community building programmes and initiatives where we address issues such as improving social well-being, uplifting education, supporting healthcare, and other various social, cultural, and religious programmes. In addition to the wide range of community initiatives that we drive, we contributed to the community during the year through our sponsorships, donations and scholarships, and fund raised by our people.

Advancing childcare and child education →

Hapan Scholarship seminar series 2018 →



NSB's flagship CSR initiatives, *Hapan* seminar series, was conducted for the 18th consecutive year in 2018. This initiative is aimed at bolstering education of young Sri Lankans to prepare them to face the Scholarship Examination with confidence and self-belief. In 2018, 50 seminars were conducted by instructors of the National Institute of Education (NIE) in partnership with

branches, schools, and Zonal Education Offices. There were 25,000 students, 500 parents, and 100 teachers participated in the seminars and awareness programmes. Model papers were distributed to over 90,000 students island-wide.

The seminars also focus on educating parents and teachers of the dangers of non-communicable diseases. Awareness sessions were conducted on how to prevent child abuse and protect the rights of children. The awareness programmes were conducted by medical professionals from Sri Lanka College of Endocrinologists and officers of the National Child Protection Authority.

14th *Hapan* scholarship awards →

Each year, NSB recognises the high-achievers of the Grade Five Scholarship Examination. The 14th edition of the *Hapan* Scholarship Awards was held at BMICH on 31 October 2018. The Bank continued to support children with learning difficulties and applauds their courage and determination to succeed. At the ceremony, 20 students achievers of the examination were felicitated under the category of special needs for the fourth consecutive year.

Campaign with National Child Protection Authority (NCPA) →

NSB in partnership with the NCPA commemorated the World Children's Day 2018 by opening accounts for children from underprivileged backgrounds. The district offices of NCPA supported the identification of children in need. 1,000 new accounts were opened where the Bank contributed an initial amount. School stationery was also distributed among students.

Connecting the community through art →

Paata Paata Hapankam art competition 2018 →

To nurture and encourage art in children, the 3rd consecutive *Paata Paata Hapankam* competition was conducted in partnership with the Aesthetic Division of Ministry of Education in 2018. The competition was held alongside the 70th anniversary of independence under the theme "*Nidhase paata paata hapankam*". Over 10,000 Schoolchildren island-wide participated in the first round of the competition held at provincial educational offices. There were five categories and winners were awarded cash prizes and gifts. The winners of the provincial competitions (135 students) were selected to the Grand Finale held at the BMICH.

Social and Relationship Capital

Art competition in the Mullaitivu District >

The Bank in partnership with the 64th Division Headquarters Sri Lanka Army (Oddusudan) organised an art competition under the theme “*Paata karamu lama lokaya*” to the students of the Mullaitivu District. The competition was open to school students of grades 1-13 under five different age categories. 210 students were selected to the final competition which was held at Oddusudan Maha Vidyalaya.

NSB contributed drawing materials, certificates, gift tokens and educational material for the final competition and award ceremony. The Oddusudan Army Camp of 64th Division renovated the Oddusudan Maha Vidyalaya for the final event.

Making a difference in elderly healthcare >

Mobile medical camps with HelpAge Sri Lanka >



In partnership with HelpAge Sri Lanka, an approved humanitarian organisation, NSB conducted mobile medical camps island-wide for those in need, with special focus on the elderly. The project is aimed at underprivileged elders in rural and suburban areas to receive mobile medical care. Accordingly eye clinics and free cataract surgeries were conducted. 15 mobile camps were conducted island-wide and over 2,000 elders benefitted from the project.

International elders day celebration >

Commemorating International Elders Day, a national event was organised in partnership with National Secretariat for Elders (NSE) along with the Ministry of Social Welfare and Primary Industries. NSB sponsored the event where special tribute were given to elders over 100 years. Consequently, 347 elders were honoured at the event.

→ Challenges

- New entrants to the market who provides similar services at a lower cost which increases the cost of customer acquisition and retention
- Developing innovative solutions to meet changing customer expectations in the digital age
- Higher capital investment required to provide a seamless digital experience to customers
- Challenges in the regulatory landscape
- Managing conflicting interests between the different stakeholders

→ Capital trade-offs

- Investment made in Social and Relationship Capital reduces financial capital in the short term
- Transform society through our various skills and localisation initiatives build the social and relationship capital, intellectual capital, natural capital and financial capital in the long run

→ Outlook

The year 2019 will usher in wealth of opportunities and challenges in our efforts to improve customer experience. The changing lifestyle of customers and expansion of middle-income earners can present new opportunities as well as challenges like the growth in market for youth products and investments plans in the coming years. We are equipped to handle these markets through innovative new products and by reorienting existing products to better serve our customer base. We have proposed to make the necessary capital investments to keep abreast of the latest technologies that potentially improve convenience and service delivery.

A renewed focus will be given to strengthen digital marketing where it will be directed at capturing new market segments. There is a drive to relaunch key products of the Bank to reinvigorate their offering and their customer base. Marketing campaigns will engage different segments of society, attract new customers, and will make existing customers aware. There will be reactivation programmes conducted at branches to increase customer engagement.

Social and Relationship Capital

As a bank that serves the nation and plays a leading role in the Sri Lankan financial sector, NSB considers its responsibility to increase financial literacy of Sri Lankans. Programmes directed towards developing financial literacy of the rural population and effective financial management programme for women will be initiated through branch reactivation programmes.

A dedicated Customer Response Management (CRM) solution will be implemented at the NSB Call Centre linking the entire branch network and the head office to ensure prompt response to customer grievances as well as other queries. This would enable both higher customer retention proceeding a grievance as well as capture new customers who seek financial services. The customer service team will also be expanded to provide uninterrupted service

The Bank will continue to work towards the development of local community by strengthening existing CSR initiatives in multiple domains touching the lives of millions island-wide. NSB will add new projects to the existing programmes in 2019 especially designed for achieving Sustainable Development Goals:

→ **Improving the standards of English education**

Supporting national education is one of NSB's main concerns. According to statistics, English literacy in the country, where English is one of the national languages, is only 22%. Recognising the critical need to improve the standards of English in schoolchildren, the Bank, in collaboration with the Ministry of Education, will introduce a new project that will contribute to the enhancement of English language proficiency in 2019.

→ **Prevention of obesity and NCDs among schoolchildren**

This initiative will address one of the pressing health issues in the country prevalent among the younger generation. Over the last few years, Sri Lanka has experienced a surge in health issues in both urban and rural areas. According to Health Promotion Bureau, Ministry of Health 15% of schoolchildren are obese most are addicted to sugar. With the aim of helping schoolchildren reach their full potential, NSB will initiate a systematic programme to combat NCDs, obesity, and other health issues among schoolchildren. This programme will come into effect in 2019.

Natural Capital



As an exemplary corporate entity of the country with deep social roots, our economic conduct is aimed at promoting sustainability.



Rs. 1.6 Mn.

Investment in
NSB Agroforestry



33,417

Gigajoules
Energy consumption



76,000

Number of plants
distributed through
NSB Agroforestry



76,161 (M3)

Water consumption



781

Number of Eco loans
disbursed

Rs. 656.6 Mn.

Total amount of Eco loans
disbursed



30

Solar panel systems
installed branches

Pertinent material issues



Pertinent strategic objectives



➔ Why natural capital is important to us

Business organisations around the globe have been confronted with a myriad of environmental challenges and growing pressure to deliver products and services which are environmentally compatible. Our environmental approach is inspired by our sense of responsibility, our awareness that our activities have an impact on the environment, and the knowledge that we have an obligation to reduce that impact as much as possible. As an exemplary corporate entity of the country with deep social roots, our economic conduct is aimed at

promoting sustainability. We help to drive changes aimed at processes that lead to harmful effects and minimising the impact of business operations on the environment. We have identified environmental footprint as a material issue affecting the Bank which have led to formulation of long term and short to medium-term strategic plans to address it. In doing so, we do not lose sight of the necessity of financial returns that safeguard and ensure sustainability of the Bank.

Natural Capital



➔ How we nurture natural capital

The increasing importance of climate change raise the voice for a transition to a low carbon economy to ensure a sustainable world. This requires behavioural and management innovations in banking practices that contribute to reduce negative environmental impacts.

In 2018, we continued our work towards to help mitigate climate change, promote diversity, and protect the biosphere by integrating various environmental policies and programmes into our operations, strategy and specific decisions concerning operations we are engaged in. We have embraced green finance as a key to the future of sustainable development. In this endeavour, we promote green lending schemes through NSB Eco loan that supports middle-income households to invest in solar energy.

We are in the process of converting our branch buildings to use renewable energy sources, while adopting branch-wide practices in responsible consumption of all resources. We conduct awareness programmes for our customers and our employees to encourage them to switch to digital methods of communication in our bid to minimise paper use. The following describes in detail the initiatives that we have taken and continued in 2018 towards nurturing natural capital.

Green lending ➔

NSB Eco loan ➔



We continued our efforts in the implementation and proliferation of renewable energy in the country by driving green lending schemes through our flagship product NSB Eco loan to support the community-based power generation project *Soorya Bala Sangramaya*. The programme was launched in 2016 in partnership with the Ministry of Power and Renewable Energy, Ceylon Electricity Board, and the Lanka Electricity Company Private Limited to promote the setting up of smaller solar power plants on the rooftops of households, religious places, hotels, commercial establishments, and industries. LECO and CEB have teamed up with us to introduce a concessionary scheme to purchase solar panels. Customers can select one of several options including Net Metering Scheme, Net Accounting Scheme and Net Plus Scheme enabling them to go green to save the planet while saving on their electricity bills.

	Number of loans granted	Amount granted Rs. Mn.
2016	35	26.42
2017	902	685.58
2018	781	656.61

Natural Capital

Green loans under “Enterprise Sri Lanka” →



As the savings giant of the country, we play an integral role in “Enterprise Sri Lanka”, the Government’s programme to reinvigorate young entrepreneurs of the country. In supporting the GOSL initiative, we are providing loans at a concessionary rate to entrepreneurs starting out business ventures. Loans are offered at attractive rates to manufacturers of bags and packing utilising biodegradable materials such as banana, fibre, palm leaves, coir, or bamboo.

Digitalisation and environment protection →



Our strategy is aligned with digitalisation of the operations we are engaged in and encouraging our customers to migrate to online-based, Internet or mobile banking to complete their daily banking transactions through an extensive offering of digital products. We implemented a pilot project for slip-less banking and digitalised account opening during the year while the introduction to the entire branch network of these facilities will be completed in the coming year. Further, we have conducted three training programmes to branches using webinar which not only reduce the costs and time but also reduces our carbon footprint associated mainly with travelling.

Even though, our paper consumption during the year increased, we have taken steps to create a paperless environment within our Bank by implementing the following initiatives during the year:

- Encouraging customers to subscribe e-renewal letters instead of printed statements to reduce the usage of paper
- Encourage our customers to use Internet banking, mobile banking, and SMS Banking as a payment method to save time and resources
- Increase the usage of digital and social media marketing instead of print media
- Move towards biodegradable promotional materials in our way forward to be eco-friendly.

- Promoting a culture to increase the usage of email instead of paper-based communication methods.
- Redesigned and simplified application forms to reduce paper usage

Green buildings →

Being a responsible corporate citizen, we help save the planet through going green by transferring our existing branch network into energy-efficient buildings to drive our green finance initiatives. Our branch premises are designed with glazed windows that creates thermal insulation that reduces the flow of incoming and outgoing heat which is enriched with unique advantages such as lower energy consumption due to less energy used in cooling down spaces while bringing in the natural beauty of interior where our office premises becomes a happy place.

Our new branches are constructed following the green buildings concept where spaces are designed to maximise the usage of natural air and light. Our circuit bungalow was designed following our energy-efficient practices. Our conversion to renewable energy as an alternative source of power continued in 2018 with the installation of solar panel systems in 30 branches.

Responsible consumption →

Energy →

GRI 302-1



Supporting the Vision 2025 of GOSL for economic growth and sustainable development requires us to reduce our ecological footprint by changing the way we produce and consume goods and resources. The efficient management of our energy consumption is an important target to achieve this goal.

The primary source of energy at NSB is electricity through the national grid and the electricity generated through solar panel systems. In 2018, energy consumption was 33,417 gigajoules. The solar panels were installed during the latter part of the year, therefore their impact in the overall annual consumption was insignificant. However, they will have a significant impact in 2019.

Natural Capital

We promote employee engagement on responsible consumption of energy and the collective commitment required to minimise the environmental footprint through usage of energy saving lamps, unplugging electronic equipment when not in use, and switching off unnecessary lights to go green at work. We are cognisant that substantial benefits from energy efficiency will be realised more quickly and at lower cost through collaborative action, and we are driving initiatives to accelerate the dynamic reduction of energy consumption through:

- Using only energy-saving light bulbs and LED screen computer monitors
- Limiting the use of air conditioning to normal banking hours
- Restricting working hours on holiday
- Replacement of Split AC units with inverter operated systems at Head Office and branches is also identified as Eco-friendly initiatives.
- Committed to reusing stationery items such as A4 papers, envelopes and files
- Using only CFC-free air conditioning units

Water →

GRI 303-5

Water scarcity is a recognised global problem, with demand for water projected to exceed supply by 40% by 2030. We continuously improve current practices in managing water to identify opportunities for prudent usage. The average monthly consumption of water at our Head Office stands at 1,593 (M3). Our water consumption during the year was 76,161 (M3). Our systematic drainage system disposes storm water through the public water drainage system, and waste water is disposed through standard soakage pits inside the premises.

In our efforts to reduce the impact in environment, we have equipped some of our newly constructed branches with rainwater harvesting that can provide a key source of alternative water. Alternative water offsets the use of freshwater from surface and groundwater sources and helps our branches improve their water security. Rainwater harvesting captures, diverts, and stores rainwater from rooftops for later use.

Waste →

Managing waste more efficiently is a core component of achieving sustainability. Our employees are well-informed about waste management practices through awareness programmes conducted across the branch network. Waste paper is collected and handed over to the Paper Corporation for recycling. Food and polythene wastes are also collected and handed to municipal Solid Waste Management.

Responsible financing →



We recognise that promoting long-term sustainable development is fundamental to our continuing success. In this regard, we are committed to advancing environmental and social progress and to conducting our business in a responsible manner.

Our responsible financing approach integrates environmental, social and governance (ESG) considerations into our credit and risk evaluation process for our lending practices. Our Corporate Credit Policy includes an exclusion list to which activities the Bank should not lend. We will not engage in or knowingly finance any activity where there is clear evidence of immitigable adverse impact to the environment, people or society. At a minimum, we expect our customers to meet all local ESG-related laws and regulations. Potential borrowers must produce an environmental impact assessment to obtain loans. Beyond that, we seek to positively influence our customers' behaviour by engaging them in further adopting appropriate sustainable practices to meet higher ESG industry expectations over time.

We take a risk-based approach towards managing ESG risk where transactions that carry high ESG risks are subject to enhanced evaluation and approval requirements.

We have taken further strides to conduct financial operations in an environmentally responsible manner by formulating an Extensive Social Risk Management (ESRM) Policy with clear guidelines and roles and responsibilities for due diligence as well as governance.

NSB sustainability policy →

To deliver our strategy of being a transformation leader and our drive to become the most trusted financial institution in the country, we formulated a sustainability policy covering environmental, social and governance aspects in accordance with the guidelines of "The Sri Lanka Banks Association sustainable banking initiative" launched in 2015. This policy is complemented with our environmental policy that directs our actions towards minimising our environmental footprint. The NSB Sustainability Policy addresses long-term outcomes to make the world a more resilient place.

Natural Capital

NSB Agroforestry →



Sri Lanka has a long, proud history of engaging in agriculture as its primary economic venture. NSB Agroforestry is our endeavour to continue this long tradition to retain, protect and where possible improve the existing biodiversity, and to inculcate the habit of saving from one's very own garden. This programme was conducted in collaboration with the Ministry of Primary Industry's *Dhana Saviya* programme and the Coconut Cultivation Board with the objective of creating a new source of income while protecting the environment.

This flagship project focused towards environmental preservation is initiated under two phases. Phase I was implemented in 2017 in celebration of the 93rd World Thrift Day (31 October 2017) where export-quality agricultural crops; mango (variety of Tom EJC) and sour sap (Hybrid) were distributed among the customers of NSB. The hybrid crops can be grown within a small space and these crops are in demand in both local and export markets. The total investment was Rs. 1.6 Mn. and 76,000 plants were distributed. Phase 2 was initiated commemorating the 94th World Thrift Day and 26,000 seed packs containing five types of vegetable seeds were distributed among NSB customers.

→ Challenges

- The principal pillar of the banking sector is to generate profit. The added focus on the environmental sustainability aspect requires the Bank to invest heavily to implement energy efficient methods
- Migration to renewable energy systems such as solar power systems requires high capital investment
- The implementation of a proper waste management system across the branch network in the island and the difficulty to determine its outcome
- The reduction of electronic wastage disposal
- The reduction of energy consumption in a continuously expanding business where new branches are constructed and new employees are recruited

→ Capital trade-offs

- By pursuing growth projects to increase the stock of manufactured capital adversely impacting natural capital and in the short term financial capital.
- But, our commitment to energy efficiency financing and reduce the environmental footprint ultimately build the human, intellectual and financial capital.

→ Outlook

We recognised that environmental sustainability is a journey. In this regard, we have incorporated the principles of sustainability in our strategy formulation, our policies, and all our operations. We are guided by and committed to the UN SDGs in our efforts to reduce negative impact of our operations on the environment.

We will continue our efforts in the expansion of renewable energy through our green lending products and through the installation of solar power systems in our branches. 30 branches were converted in 2018, and we are hoping to expand this to 50 in the coming year. Our investments in digitalisation will directly result in reducing our carbon footprint. We are hoping to reap the benefits our investments in the near future.

The following are some of the initiatives we have planned for the year 2019:

- A waste water treatment plan to manage waste water and a sewage system will be constructed in the proposed new building at Anuradhapura
- Lightning arresters will be installed along with solar power systems to secure electrical and electronics appliances in branches
- IP Based PABX systems will be installed at Head Office building to enhance the system functions for effective communication
- Issuing of the Green Pin
- Carry out carbon footprint verification and energy audit through SLCF at Head Office premises
- Developing paperless business practices to protect resources and run various practices to reduce paper consumption at different departments
- Enabling online digitalised functionalities such as account opening and slip-less cash deposits

GRI 102-55

GRI Content Index in accordance with Core Criteria

GRI Standard	Disclosures	Page Nos.	Remarks/Omission
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Governance

This section discusses the integrated systemic processes of corporate governance and compliance and a framework of regulations and practices by which NSB is governed. Corporate governance at NSB provides a sound basis for the Bank's operations to maintaining a healthy relationship with all stakeholders.

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Board of Directors



Board of Directors

1

Mr Jayaraja Chandrasekera

Chairman

Mr Jayaraja Chandrasekera is a senior banking professional who has held Senior Corporate Management positions in Sri Lanka's leading private commercial bank, Hatton National Bank PLC, during his career spanning over 35 years. He has held Senior Corporate Management positions and handled Banking and Bancassurance related responsibilities during his long term of experience in the Financial Services Industry. He was appointed to the Board of Directors of NSB on 31 January 2019.

Before joining the NSB Board, he served as a member of the Board of Directors of Pan Asia Banking Corporation (PABC Bank) since 2015.

He holds an MBA from the University of Sunderland, UK and a Postgraduate Diploma in Strategic Management. He is also a member of The Association of Professional Bankers, Sri Lanka and has undergone extensive training in banking, leadership, and management both locally and at prestigious overseas institutions such as Mount Eliza Business Faculty, Melbourne University, Australia, National University of Singapore, Lloyds Bank TSB, UK, Development Bank of Philippines and AOTS, Japan. He is 65 years of age.

2

Mr Anil Rajakaruna

Senior Director

Mr Rajakaruna holds First in Laws (LLB, Part 1) from the University of Colombo. He is an Attorney-at-Law with 22 years of experience. He holds a Diploma in External Affairs from the Centre for Bandaranaike International Studies.

Mr Rajakaruna was appointed to the NSB Board on 22 February 2019. This is the third term of Directorship with NSB including the period of serving as Working Director of the Bank during 2002-2004 and 2 November 2015 to 31 December 2018 as a Director. Mr Rajakaruna was appointed as Senior Director on 2 October 2018 and reappointed on 14 March 2019. He is 64 years of age.

Mr Rajakaruna currently serves as Vice Chairman, Compensation Board and a Council Member, University of Colombo.

3

Mr U G R Ariyaratne

Director – Postmaster General

Mr U G R Ariyaratne was appointed to the Board of Directors of National Savings Bank on 31 August 2018. He holds Bachelor of Commerce, Master in Sociology and Postgraduate Diploma in Regional Planning from the University of Kelaniya. He has obtained Postgraduate Diploma in Education from the University of Peradeniya. He is 54 years of age.

He has also obtained Certificate of Public Administration, Certificate of General Management and Capacity Building Programme for SLAS Class I Officer from SLIDA

He is currently serving as the Postmaster General, Department of Posts (from August 2018 to date) and has served the Government of Sri Lanka through various appointments during his 22 years of service including District Secretary of the District Secretariat of Polonnaruwa, Additional Secretary of Social Development, Additional Secretary of Rural Development of Ministry of Social Empowerment and Welfare, Director General of Coconut Development Authority.

He has undergone extensive training programmes on Child Rights Sensitisation, Thailand and Emotional Balancing for Higher Productivity, India. He has also been a resource person at MDTU, North Western Provincial Council and Police, Service Training Centre, North Central Province.

4

Mr P Algama

Director

Mr Algama was appointed to the NSB Board on 28 February 2019. He holds a Bachelor of Commerce, (BCom-Special) from the University of Kelaniya, Sri Lanka (March 1981 to October 1984) and Master of Business Administration (MBA) from Nanyang Technological University, Singapore and the Sloan School of Management of the Massachusetts Institute of Technology (MIT) Boston, USA (2001/2002). He is also an Associate Member of the CPA Australia. He is 58 years of age.

He is currently serving as the Director General of Department of Public Finance of Ministry of Finance and Planning (October 2012 to date). During his 18 years of service at the Ministry of Finance and Planning, he has served as the Director of

Board of Directors

Department of Public Enterprises, Director/Deputy Director Budget (Economic Infrastructure Development Cluster) of Department of National Budget and Assistant Director of Department of State Accounts.

He has undergone several overseas training programmes on Public Financial Management in changing world, Project Planning and Management Techniques, Financial Management, National Budgeting, Techniques of Financial Analysis and Programming at various prestigious institutions such as Kennedy Schools of Government, Harvard University, Boston, USA, Asian Institute of Technology, Bangkok, Thailand, National Institute of Financial Management, Faridabad, India, International Law Institute, Washington, DC, USA and International Monetary Fund, Washington, DC, USA.

5

Mr Ajith Pathirana

Director

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

Mr Pathirana is an Attorney-at-Law who possesses experience of more than 29 years. He is also an Unofficial Magistrate, a Justice of Peace, and a practitioner in Criminal Law and has appeared in many prominent cases in courts throughout the country.

He was appointed to the NSB Board on 22 February 2019. This is his second term of Directorship with NSB and NSB Fund Management Company Limited He has served as a member of the Board of Directors of NSB from 20 March 2015 to 19 July 2018. Mr Pathirana is 54 years of age.

6

Dr D Shanmugasundaram

Director

Dr D Shanmugasundaram was appointed as a Director of the National Savings Bank on 19 July 2018. He holds an Honorary Doctorate in Business Administration. He is the Chairman of Union Development and Investment Co. (Pvt) Ltd. and the Vice Chairman of Rajathi Group of Companies. He is 63 years of age.

He serves as a member of the Board of Directors of following entities.

- Director, Eswaran Brothers Exports (Pvt) Ltd.
- Director, Eswaran Brothers (Ceylon) Ltd.
- Director, Esika (Pvt) Ltd.
- Director, Eswaran Brothers Duty Free (Pvt) Ltd.
- Director, V T V Foundation Ltd.
- Director, Wow Events & Productions (Pvt) Ltd.
- Chairman, Eco Solar Rays (Pvt) Ltd.

He was an ex-member of the Board of Directors of following entities.

- Road Development Authority
- Ceylon Ceramic Corporation
- Lanka Walltiles PLC
- Breeze Hotels Ltd.

Board of Directors

7

Mr Nazri Nizar**Director**

Mr Nazri Nizar holds a Bachelor of Science in Business Administration from University of Pennsylvania with a major in Economics.

He is the Co-Founder and Managing Director of Richardson Group and he serves as the Managing Director of Richardson Projects (Pvt) Limited, Richardson Outdoor (Pvt) Limited, Richardson Engineering (Pvt) Limited and Richardson Technologies (Pvt) Limited.

Training through first principles, Marketing, Micromanagement, Cost Oriented, Resiliency, Future Focused, Leadership, Creativity, Time Management, Persistence, Turning ideas into companies and long-term thinking are some of his skills and competencies.

He joined the Board of Directors of the National Savings Bank on 22 February 2019. He is 47 years of age.

Mr S D N Perera**General Manager/CEO**

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

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

He is a Director of NSB Fund Management Company Limited.

Mr Perera was a Director of “Rajarata Sanwardana Bank” and ‘Regional Development Bank’ for over 10 years.

Ms Anupama Muhandiram**Secretary to the Board**

Ms Anupama Muhandiram, an Attorney-at-Law holds Master of Laws Degree (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.

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 Company Ltd., from 2015 to 2017. Out of 23 years experience in Banking and Finance sector, she had served more than 18 years at People’s Bank as a Legal Officer and an Assistant Secretary to the Board of Directors.

Ms Muhandiram is also a visiting Lecturer (Commercial Law) at the University of Sabaragamuwa, and she is the Founder Secretary of Association of Board/Company Secretaries of Banks Sri Lanka.

Corporate Management



**1****Mr K Raveendran**

DGM (Research and Development)

2**Mr J K Gamanayake**

Senior DGM

3**Mr S D N Perera**

General Manager/CEO

4**Mr K B Wijeyaratne**

DGM (Finance and Planning)

5**Mr M P A W Peiris**

DGM (Operations)

6**Mr G W E Jayaweera**

DGM (Audit)

7**Ms G V A D D Silva**

DGM (Treasury)

8**Mr K K V V L W Karunatilaka**

DGM (Marketing)

9**Ms B P J Gunasekera**

DGM (International)

10**Mr M Kiritharan**

Consultant (Legal)

11**Ms C S Jesudian**

DGM (Credit)

Executive Management





1

Mr K S Weerasena
AGM (HRD)

2

Mr J H T Chandraratne
AGM (Engineering)

3

Mr A K L Illesinghe
AGM (IT)

4

Mr A L A Haleem
AGM (Support Services)

5

Mr K M W M Karunaratne
AGM (Engineering)

6

Ms I K L Sasi Mahendren
Compliance Officer

7

Ms M A Gomes
AGM (Planning)

8

Ms K P D M De Silva
AGM (Operations I)

9

Mr M T A J F Gomis
AGM (Operations II)

10

Ms W P U A De Silva
AGM (Recoveries)

11

Ms R A N N Wijesinghe
AGM (International)

12

Ms R P A M P Rajanayake
Chief Risk Officer

13

Ms M N A Fernando
AGM (HRD)

14

Ms H M S L Fernando
AGM (Operations III)

15

Ms R C Samarasinghe
AGM (Credit)

Chief Managers

Ms D D Wickramasinghe

Regional Office
Regional Manager – Southern

Ms H R Karunamuni

Regional Office
Regional Manager – Western II

Mr D C Olaboduwa

Regional Office
Regional Manager – North Western

Ms C N Ekanayake

Regional Office
Acting Regional Manager – Western I

Ms A M C Attanayaka

Regional Office
Acting Regional Manager –
Sabaragamuwa

Mr S Sivasorupan

Regional Office
Acting Regional Manager – Eastern

Mr N Baheerathan

Regional Manager
Regional Manager – Northern

Mr G M S P Fernando

Information Technology Division
Chief Manager – ICT Operations

Mr W M R B Weerakoon

Branch Management Division
Chief Manager

Mr H M G P J Herath

Treasury Division
Chief Manager – Treasury

Mr P T A Perera

Credit Division
Chief Manager
(Retired w.e.f. 28 March 2019)

Mr A B C R Wijayapala

Branch Management Division
Chief Manager – Pawning

Ms C W Pathirana

Supplies Division
Chief Manager – Supplies

Mr M C Rajapakse

Information Technology Division
Chief Manager – IT

Mr U Wattuhewa

Internal Audit Division
Chief Manager – Audit

Mr P A Perera

Internal Audit Division
Chief Manager – Audit

Mr M V G Susil Kumara

International Banking Division
Chief Manager

Ms S W A Weerasinghe

Treasury Division
Chief Manager – Treasury

Mr L C Senanayake

Information Technology Division
Chief Manager – Systems

Ms M A P Muhandiram

Secretaries Division
Secretary to the Board of Directors

Mr K T S S Gunawardena

Security Division
Chief Manager – Security

Mr U Munasinghe

Battaramulla Branch
Chief Manager

Mr D L P Abayasinghe

NSB Fund Management Co. Ltd.
Chief Executive Officer

Mr M W K C De Silva

Research and Development Division
Chief Manager – Research and
Development

Mr S B Suranga

Galle Branch
Chief Manager

Mr K D K K Wijewardane

Card Centre
Chief Manager

Mr D M C P B Dissanayake

General Manager's Division
Chief Manager

Mr A P R De Zoysa

Information Technology Division
Chief Manager – IS Security

Mr K A R Gunathilake

Welfare Division
Chief Manager – Welfare

Ms S S J P S De Silva

Finance and Planning Division
Chief Manager – Finance

Mr H S P Ranaweera

Finance and Planning Division
Chief Manager – Finance

Ms W D L Asoka

Veyangoda Branch
Chief Manager
(Retired w.e.f. 15 March 2019)

Ms S A M A C J S K Senarathne

Legal Division
Chief Manager – Legal

Mr S A A Batuwanthudawa

Administration Division
Chief Manager

Ms D A V Wijewantha

Kiribathgoda Branch
Chief Manager

Ms S H A S Kumari

Superannuation Division
Chief Manager – Superannuation

Ms N I Gunathilake

Credit Division
Chief Manager – Credit Administration

Statement on Corporate Governance

“Trust begins with trustworthy leadership”

Corporate governance is the process of rules under which an institution is managed on behalf of shareholders and other stakeholders. The Bank’s corporate governance framework which includes governance structures and policy frameworks explicitly define how the Bank will conduct business in responding to the opportunities and threats presented by the operating environment whilst maintaining the right balance between rights and obligations of stakeholders.

We are operating in a highly regulated industry with increasing supervision and regulatory measures primarily uphold the public trust and protecting depositors. Therefore corporate governance is the key for stability, sustainable value creation, compliance, and managing business and reputational risk of the Bank.

The Board of Directors (the “Board”) of National Savings Bank (“NSB”) believes that corporate governance is a vital tool which enhances its influence, efficiency and independence while providing a sound basis for the Bank’s operations and maintaining a healthy relationship with customers, employees, shareholders, and all other stakeholders. As part of the Bank’s vision to be the most reliable and sought-after choice for savings and investment solutions, NSB sets itself high standards in corporate governance. NSB believes corporate governance should stem from the corporate culture and values of the Bank and not restricted to written laws and standards.

Accordingly, we are pleased to confirm that, as at the date of this Annual Report, we have complied with all the Corporate Governance Rules enumerated by laws, rules, regulations and codes on good corporate governance.

We periodically review the principles, structures, frameworks, and processes of our governance system to assess its effectiveness and refine it as necessary to suit the evolving needs of our enterprise and the regulatory environment enabling value creation and growth. For detailed information on corporate governance of the National Savings Bank refer to [\(Book 2\)](#) Compendium.

Statement on Risk Management

“We understand the psychology and the mathematics of risk”

NSB takes an informed and transparent approach to risk management as a central component of its business model and strategy that are geared for sustainable value creation. NSB’s overall objective is to manage its operations and the associated risks in a balanced manner serving the interests of its customers, investors, and other stakeholders. Risk management function of the Bank requires to identify, assess, measure, aggregate, and manage risks and to monitor optimum capital allocation among business operations. Failure to manage the impact from internal and external risks may damage the Bank’s reputation, affect its financial performance, or lead to regulatory non-compliances; all negatively affecting the primary strategic objective of value creation.

Our business strategy is aligned with our enterprise risk management strategy and the risk appetite which is set at the Board level. Board-appointed Risk Management Committee i.e. Board Integrated Risk Management Committee operates with the objective of creating awareness about the effectiveness appropriateness of the risk management strategies put in to place by the Board.

The scope of risk management is not limited to NSB, but also with the fully-owned subsidiary NSB Fund Management Company. The subsidiary company engages in Primary Dealer functions.

➔ Outlook

The Bank adopted a credit risk management system comprising rating and scoring models to evaluate, monitor and manage principal and material risks assumed in the course of its operations. Further, the procurement of the core banking solution and treasury solution will further improve effective risk management.

Risk management at NSB

Our Bank remained sound and stable in its state on overall risk management throughout the year 2018, withstanding the financial stress and unexpected losses despite the headwinds in the macroeconomic and political environments, regulatory changes and increased risk levels. Our risk appetite is cascaded down to the more detailed portfolio level from the corporate level. Our risk appetite is measured and monitored against the pre-determined limits on a daily, monthly and quarterly basis.

Main risk areas

- Credit risk
- Market risk
- Liquidity Risk
- Operational risk
- Compliance risk
- Reputational risk
- Strategic risk

Emerging risk areas

- Cyber security risk
- Regulatory risk
- Model risk
- Contingent risk

Material Risk category	YoY Change*
Credit risk	Increase
Market risk	Decrease
Liquidity risk	Increase
Operational risk	Stable
Compliance risk	Stable
Reputational risks	Stable
Strategic risks	Stable

* YoY change in impact on earnings and capital

For detailed information on National Savings Bank’s risk management refer to [Book 2](#) Compendium.

Financial Reports

The Financial Statements along with the Notes to the Financial Statements are depicted in [Book 2](#) Compendium under Financial Reports.

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Income Statement

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Comprehensive Income**144**Statement of
Financial Position

Income Statement

For the year ended 31 December	Note	Bank			Group		
		2018	2017	Change	2018	2017	Change
		Rs. '000	Restated Rs. '000	%	Rs. '000	Restated Rs. '000	%
Gross income	3	111,902,078	107,995,784	4	112,760,454	108,234,622	4
Interest income		110,506,931	103,578,838	7	111,718,948	104,424,417	7
Less: Interest expenses		85,622,275	78,444,825	9	86,460,269	78,987,596	9
Net interest income	4	24,884,656	25,134,013	(1)	25,258,679	25,436,821	(1)
Fee and commission income		1,005,262	782,776	28	1,008,482	785,077	28
Less: Fee and commission expenses		141,196	109,082	29	144,685	113,037	28
Net fee and commission income	5	864,066	673,694	28	863,797	672,040	29
Net gain/(loss) from trading	6	(707,433)	1,206,408	(159)	(1,062,421)	1,520,740	(170)
Net fair value gains/(losses) from financial instruments at fair value through profit or loss	7	-	-	-	-	-	-
Net gains/(losses) from derecognition of financial assets	8	6,906	707,491	(99)	6,906	707,491	(99)
Net other operating income	9	1,090,412	1,720,272	(37)	1,088,539	796,897	37
Total operating income		26,138,607	29,441,877	(11)	26,155,500	29,133,988	(10)
Less: Impairment charges	10	871,049	765,847	14	870,994	765,858	14
Net operating income		25,267,558	28,676,030	(12)	25,284,506	28,368,130	(11)
Less: Expenses							
Personnel expenses	11	9,262,705	6,886,505	35	9,302,548	6,918,813	34
Depreciation and amortisation expenses		638,795	423,547	51	639,779	424,352	51
Other expenses	12	4,194,979	3,737,364	12	4,160,782	3,682,765	13
Operating profit before value added tax (VAT), nation building tax (NBT) and debt repayment levy (DRL) on financial services		11,171,079	17,628,615	(37)	11,181,397	17,342,200	(36)
Less: VAT on financial services		2,577,657	3,082,619	(16)	2,584,220	3,168,299	(18)
NBT on financial services		343,688	411,016	(16)	344,563	422,440	(18)
DRL on financial services		308,371	-	100	308,371	-	100
Operating profit after VAT, NBT and DRL on financial services		7,941,364	14,134,980	(44)	7,944,243	13,751,461	(42)
Share of profits of associates and joint ventures		-	-	-	-	-	-
Profit before income tax		7,941,364	14,134,980	(44)	7,944,243	13,751,461	(42)
Less: Income tax expenses	13	3,441,213	4,419,019	(22)	3,444,056	4,595,065	(25)
Profit for the year		4,500,151	9,715,961	(54)	4,500,187	9,156,396	(51)
Profit attributable to:							
Equity holders of the Bank		4,500,151	9,715,961	(54)	4,500,187	9,156,396	(51)
Non-controlling interests		-	-	-	-	-	-
Profit for the year		4,500,151	9,715,961	(54)	4,500,187	9,156,396	(51)
Earnings per share on profit							
Basic earnings per ordinary share (Rs.)	14	6.72	15.67	(57)	6.72	14.77	(55)
Diluted earnings per ordinary share (Rs.)		6.72	15.67	(57)	6.72	14.77	(55)
Profit for the year		4,500,151	9,715,961	(54)	4,500,187	9,156,396	(51)

Statement of Comprehensive Income

For the year ended 31 December	Note	Bank			Group		
		2018	2017	Change	2018	2017	Change
		Rs. '000	Restated Rs. '000	%	Rs. '000	Restated Rs. '000	%
Profit for the year		4,500,151	9,715,961	(54)	4,500,187	9,156,396	(51)
Items that will be reclassified to income statement							
Exchange differences on translation of foreign operations		-	-	-	-	-	-
Net gains/(losses) on cash flow hedges		(291,924)	290,074	(201)	(291,924)	290,074	(201)
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		(127,741)	693,559	(118)	(149,144)	858,802	(117)
Less: Fair value gains/(losses) transferred to income statement on disposal of debt instrument at fair value through other comprehensive income		1,370	(690,388)	99	1,370	(690,388)	99
Less: Tax expense relating to items that will be reclassified to income statement		-	-	-	-	-	-
Total items that will be reclassified to income statement		(418,295)	293,245	(243)	(439,698)	458,488	(196)
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		(690,435)	(36,752)	1,779	(690,435)	(36,752)	1,779
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		-	-	-	-	-	-
Remeasurement of post-employment benefit obligations		(210,861)	(2,072,425)	(90)	(211,258)	(2,072,155)	(90)
Changes in revaluation surplus		-	4,508,480	(100)	-	4,508,480	(100)
Share of profits of associates and joint ventures		-	-	-	-	-	-
Less: Tax expense relating to items that will not be reclassified to income statement		-	-	-	-	-	-
Total items that will not be reclassified to income statement		(901,296)	2,399,303	(138)	(901,694)	2,399,573	(138)
Other comprehensive income for the year, net of taxes		(1,319,591)	2,692,547	(149)	(1,341,392)	2,858,060	(147)
Total comprehensive income for the year		3,180,560	12,408,508	(74)	3,158,795	12,014,456	(74)
Attributable to:							
Equity holders of the Bank		3,180,560	12,408,508	(74)	3,158,795	12,014,456	(74)
Non-controlling interests		-	-	-	-	-	-
Total comprehensive income for the year		3,180,560	12,408,508	(74)	3,158,795	12,014,456	(74)

Statement of Financial Position

As at 31 December	Note	Bank			Group		
		2018	2017	Change	2018	2017	Change
		Rs. '000	Restated Rs. '000	%	Rs. '000	Restated Rs. '000	%
Assets							
Cash and cash equivalents	16	3,434,524	3,849,530	(11)	3,436,929	3,853,989	(11)
Balances with central banks	17	-	-	-	177	94	89
Placements with banks	18	17,588,445	23,437,274	(25)	17,588,445	23,437,274	(25)
Derivative financial instruments	19	4,740,106	1,360,714	248	4,740,106	1,360,714	248
Financial assets recognised through profit or loss	20						
– measured at fair value		16,680,382	6,472,314	158	26,867,533	9,389,950	186
– designated at fair value		-	-	-	-	-	-
Financial assets at amortised cost							
– loans and advances	21	423,532,145	375,703,730	13	423,557,119	374,416,626	13
– debt and other instruments	22	518,947,969	555,468,618	(7)	522,973,159	559,319,752	(6)
Financial assets measured at fair value through other comprehensive income	23	6,184,430	5,693,829	9	7,788,560	7,513,932	4
Investments in subsidiaries	24	1,700,000	900,000	89	-	-	-
Investments in associates and joint ventures	25	-	-	-	-	-	-
Property, plant and equipment	26	13,465,755	12,395,684	9	13,468,776	12,399,334	9
Investment properties	27	-	-	-	-	-	-
Goodwill and intangible assets	28	-	-	-	-	-	-
Deferred tax assets	29	-	-	-	73	-	100
Other assets	30	31,209,216	25,695,689	21	31,532,684	25,976,944	21
Total assets		1,037,482,973	1,010,977,382	3	1,051,953,560	1,017,668,610	3
Liabilities							
Due to banks	31	77,119,146	48,596,591	59	83,615,264	49,352,574	69
Derivative financial instruments	32	1,533	956,937	(100)	1,533	956,937	(100)
Financial liabilities recognised through profit or loss	33	-	-	-	-	-	-
Financial liabilities at amortised cost	34						
– due to depositors		839,574,411	737,212,640	14	839,574,411	737,212,640	14
– due to debt securities holders		-	-	-	-	-	-
– due to other borrowers		14,804,802	12,837,008	15	21,750,178	17,545,212	24
Debt securities issued	35	52,389,133	162,709,027	(68)	52,389,133	162,709,027	(68)
Retirement benefit obligations	36	3,830,795	3,711,431	3	3,832,777	3,712,665	3
Current tax liabilities	37	-	-	-	-	137,344	(100)
Deferred tax liabilities	29	582,463	507,063	15	582,463	507,138	15
Other provisions	38	-	-	-	-	-	-
Other liabilities	39	5,447,277	5,350,244	2	5,452,317	5,394,795	1
Due to subsidiaries	40	750	750	-	-	-	-
Total liabilities		993,750,308	971,881,691	2	1,007,198,076	977,528,332	3

Statement of Financial Position

As at 31 December	Note	Bank			Group		
		2018	2017	Change	2018	2017	Change
		Rs. '000	Restated Rs. '000	%	Rs. '000	Restated Rs. '000	%
Equity							
Stated capital/assigned capital	41	9,400,000	6,700,000	40	9,400,000	6,700,000	40
Statutory reserve fund	42	3,227,960	3,002,952	7	3,227,960	3,002,952	7
Retained earnings	43	4,622,080	1,102,798	319	5,198,451	1,679,540	210
Other reserves	44	26,482,625	28,289,941	(6)	26,929,074	28,757,786	(6)
Total shareholders' equity		43,732,665	39,095,691	12	44,755,484	40,140,278	11
Non-controlling interests	45	-	-	-	-	-	-
Total equity		43,732,665	39,095,691	12	44,755,484	40,140,278	11
Total equity and liabilities		1,037,482,973	1,010,977,382	3	1,051,953,560	1,017,668,610	3
Contingent liabilities and commitments							
	46	4,481,397	18,320,312	(76)	4,481,397	18,320,312	(76)
Memorandum information							
Number of employees		4,512	4,470				
Number of branches		255	253				

Note: Amounts stated are net of impairment and depreciation.

The Notes to the Financial Statements disclosed on pages 258 to 380 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 2018 and its profit for the year ended.



Kithsiri Wijeyaratne

Deputy General Manager (Finance and Planning)

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

Approved and signed for and on behalf of the Board,



Jayaraja Chandrasekera

Chairman



Anil Rajakaruna

Senior Director



Dammika Perera

General Manager/CEO

14 March 2019

Colombo
Sri Lanka

Corporate Information

Name of the Bank

National Savings Bank

Legal Form

GRI 102-5

A Government-owned bank incorporated in Sri Lanka by the National Savings Bank Act No. 30 of 1971 and was granted the status of the Licensed Specialised Bank in terms of the Banking Act No. 30 of 1988.

Registered Office and Head Office

GRI 102-3

“Savings House”,
No. 255, Galle Road, Colombo 03, Sri Lanka.
Tel: +94 11 257 3008-15
Fax: +94 11 257 3178
Email: nsbgen@nsb.lk
Website: <http://www.nsb.lk>
Swift code: NSBALKLX

Service Outlets

255 Branches
310 ATMs

Agency Network

653 Post Offices and 3,409 Sub-post Offices throughout the Island.

Credit Rating

The Bank has been assigned AA+ (Ika) long-term credit rating by the Fitch Rating Lanka Ltd.

B Stable International Credit Rating from Standard & Poor's.

B Stable International Credit Rating by Fitch Ratings.

Board of Directors*

H N J Chandrasekera – Chairman
Anil Rajakaruna – Senior Director
U G R Ariyaratne – Director (Ex Officio)
D Shanmugasundaram – Director
Ajith Pathirana – Director
P Algama – Director (Ex Officio)
M Nazri Nizar – Director

General Manager/CEO

S D N Perera

Board Secretary

Ms M A P Muhandiram

Board Audit Committee (BAC)*

P Algama – Chairman
Anil Rajakaruna – Member
Nazri Nizar – Member

Board Integrated Risk Management Committee (BIRMC)*

P Algama – (Chairman)
U G R Ariyaratne – Member
Dr D Shanmugasundaram – Member

Board Human Resources and Remunerations Committee (BHRRC)*

Jayaraja Chandrasekera – Chairman
Anil Rajakaruna – Member
Ajith Pathirana – Member

Board Nominations Committee (BNC)*

Anil Rajakaruna – Chairman
U G R Ariyaratne – Member
Dr D Shanmugasundaram – Member

Board Credit Committee (BCC)*

Jayaraja Chandrasekera – Chairman
Anil Rajakaruna – Member
Ajith Pathirana – Member

Board IT Strategic Committee (BITSC)*

Jayaraja Chandrasekera – Chairman
U G R Ariyaratne – Member
Nazri Nizar – Member

Compliance Officer

Ms I K L Sasi Mahendran

Auditors

Auditor General

Subsidiary

Name of the Company

NSB Fund Management Co. Ltd.

Registered Office and Head Office

1st Floor, “Savings House”, National Savings Bank,
No. 255, Galle Road, Colombo 03, Sri Lanka.

Tel.: +94 11 256 4601, 246 7731

Fax: +94 11 256 4706

Email: nsbfmc@nsb.lk

Swift code: NSBFLKXXXX

Board of Directors

H N J Chandrasekera – Chairman
S D N Perera – Director
Ajith Pathirana – Director
D S Kudahetty – Director
Ms R E Dangalla – Director
K D A G Wickramasinghe – Director
K D M P Weerasinghe – Director

Chief Executive Officer

D L P Abayasinghe

Auditors

Auditor General

Company Secretary

Ms Farzana Aniff

* Given information are of the present Board and Board Subcommittees. Refer page 152 to 153 in the section of Corporate Governance for details of the Board of Directors and Board Subcommittees during the year 2018.



This Annual Report is Carbon Neutral

Produced by Smart Media (Pvt) Limited, a carbon neutral company that offsets its direct and indirect GHG emissions through verified sources.



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www.gsarn.org



www.SmartAnnualReport.com



www.carbonfund.org

