

Notes to the Financial Statements

1 Reporting Entity

1.1 Corporate Information

Bank of Ceylon (“the Bank”) is a Government-owned bank domiciled in Sri Lanka, duly incorporated on 1 August 1939 under the Bank of Ceylon Ordinance No. 53 of 1938. It is a licensed commercial bank established under the Banking Act No. 30 of 1988 and amendments thereto. The Registered Office of the Bank is situated at “BOC Square”, No. 01, Bank of Ceylon Mawatha, Colombo 01, Sri Lanka. The debentures issued by the Bank are listed on the Colombo Stock Exchange and the senior notes amounting to USD 500.0 million are listed on the Singapore Stock Exchange. The staff strength of the Bank as at 31 December 2017 was 7,587 (2016 – 7,569).

1.2 Consolidated Financial Statements

The Consolidated Financial Statements are prepared as at and for the year ended 31 December 2017 comprise the Bank (“Parent”), its Subsidiaries (together referred to as the “Group” and individually as “Group Entities”) and the Group’s interests in its associate companies. The Financial Statements of the companies in the Group have a common financial year which ends on 31 December, except the associate companies, Transnational Lanka Records Solutions (Private) Limited and Ceybank Asset Management Limited. The Bank is the ultimate parent of the Group.

1.3 Principal Activities

1.3.1 Bank

The principal activities of the Bank during the year were, personal banking, corporate banking, development banking, offshore banking, trade financing, lease financing, primary dealing, investment banking and treasury operations, correspondent banking and money remittances, Islamic banking, bancassurance, pawning, credit card facilities, foreign currency operations, and other financial services.

1.3.2 Subsidiaries

The principal activities of the Subsidiaries of the Bank are as follows:

Name of the Company	Principal Business Activities
Property Development PLC	Own, maintain and manage the Bank of Ceylon head office building.
Merchant Bank of Sri Lanka & Finance PLC	Leasing, hire purchase, corporate and retail credit facilities, corporate advisory services, capital market operations, margin trading, microfinancing, agricultural credit facilities, real estate, pawning and accepting deposits.
BOC Management & Support Services (Private) Limited	Not in operation and in the process of liquidation.
BOC Property Development & Management (Private) Limited	Renting of office space of BOC Merchant Tower in Colombo 03 and Ceybank House in Kandy.
BOC Travels (Private) Limited	Engages in travel-related services.
Hotels Colombo (1963) Limited	Provides hotel services.
Ceybank Holiday Homes (Private) Limited	Maintaining of pilgrims rests/holiday homes/guest houses.
MBSL Insurance Company Limited	Underwriting of all classes of life and general insurance.
Koladeniya Hydropower (Private) Limited	Hydropower generation.
Bank of Ceylon (UK) Limited	Authorised licensed commercial bank by Prudential Regulation Authority of the United Kingdom, engages in retail and corporate banking, treasury operations, correspondent banking services and trade finance services.

1.3.3 Associates

The principal activities of the associates of the Bank are as follows:

Name of the Company	Principal Business Activities
Ceybank Asset Management Limited	Management of unit trust funds and other private portfolios.
Lanka Securities (Private) Limited	Registered stockbroker, engages in equity trading, debt trading and margin trading.
Transnational Lanka Records Solutions (Private) Limited	Renting properties and real estates.
Southern Development Financial Company Limited	Not in operation and in the process of liquidation.

There were no significant changes in the nature of principal activities of the Bank, Subsidiaries and Associates during the year under review. BOC Management & Support Services (Private) Limited (MSS) has not carried out its core business activities since 2007 and the Board of the Bank has granted the approval to wind-up the company. Southern Development Financial Company Limited (SDFCL) is also not in operations. The Board of Directors of SDFCL has decided to wind-up the company and is in the process of liquidation.

2 Directors' Responsibility for Financial Statements

2.1 Preparation and Presentation of the Financial Statements

The Board of Directors is responsible for the preparation and presentation of the Financial Statements of the Bank and its Subsidiaries and Associates in compliance with the requirements of the Bank of Ceylon Ordinance No. 53 of 1938 and its amendments, Banking Act No. 30 of 1988 and its amendments thereto and Sri Lanka Accounting Standards (SLFRSs and LKASs). These Financial Statements comprises

- Statement of Profit or Loss
- Statement of Comprehensive Income
- Statement of Financial Position
- Statement of Changes in Equity
- Statement of Cash Flows
- Notes to the Financial Statements

2.2 Approval of Financial Statements

The Financial Statements for the year ended 31 December 2017 were authorised for issue on 27 March 2018 by the Board of Directors.

3 Basis of Preparation

3.1 Statement of Compliance

The Consolidated Financial Statements of the Group and the separate Financial Statements of the Bank have been prepared in accordance with Sri Lanka Accounting Standards comprising of Sri Lanka Financial Reporting Standards (SLFRSs) and Sri Lanka Accounting Standards (LKASs) laid down by The Institute of Chartered Accountants of Sri Lanka (together referred to as SLFRSs in these Financial Statements). The preparation and presentation of these Financial Statements are in compliance with the requirements of the Bank of Ceylon Ordinance, the Banking Act No. 30 of 1988 and the Companies Act No. 07 of 2007. The Group has prepared Financial Statements which comply with SLFRSs applicable for the year ended 31 December 2017, together with the comparative year data as at and for the year ended 31 December 2016, as described in the accounting policies.

3.2 Basis of Measurement

The Financial Statements have been prepared on the basis of historical cost convention which has been applied on a consistent basis, except for the following:

- Derivative financial instruments are measured at fair value (Notes 24 and 40)
- Financial instruments held for trading are measured at fair value (Note 25)
- Available for Sale financial investments are measured at fair value (Note 28)
- Owner-occupied freehold land and buildings and buildings on leasehold lands are measured at revalued amount less any subsequent accumulated depreciation and impairment losses (Note 33)
- Defined benefit obligations are actuarially valued and recognised at the present value of the defined benefit obligation less total of the fair value of plan assets (Note 46)

No adjustments have been made for inflationary factors affecting the Financial Statements.

3.3 Presentation of Financial Statements

Items in the Financial Position of the Bank and the Group are grouped by nature of such item and presented broadly in order of their relative liquidity and maturity pattern. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 56.

3.3.1 Functional and Presentation Currency

Items included in the Financial Statements are measured and presented in Sri Lankan Rupees ("LKR") which is the functional currency of the primary economic environment in which the Bank operates.

3.3.2 Accrual Basis of Accounting

The Financial Statements, except for information on Statement of Cash Flows have been prepared following the accrual basis of accounting.

3.3.3 Offsetting

Financial assets and financial liabilities are generally reported gross in the Statement of Financial Position. They are only offset and reported net when, in addition to having an unconditional legally enforceable right to offset the recognised amounts without being contingent on a future event, the parties also intend to settle on a net basis in all of the following circumstances:

- The normal course of business
- The event of default
- The event of insolvency or bankruptcy of the Bank and/or its counterparties.

Income and expenses are not offset in the Statement of Profit or Loss unless required or permitted by any accounting standard or interpretation and as specifically disclosed in the accounting policies of the Group. Statement of Cash Flows has been prepared by using of “Indirect Method” in accordance with LKAS 7 – “Statement of Cash Flows”, whereby the profit is adjusted to derive the cash flows from operating activities. Cash and cash equivalents comprise cash in hand, other short-term highly liquid investments with maturity less than seven days from date of acquisition and bank overdrafts.

3.3.4 Comparative Information

The comparative information is provided in narrative and descriptive nature, if it is relevant to understand the current period’s Financial Statements and reclassified wherever necessary to conform to the current year’s presentation.

3.3.5 Materiality and Aggregation

In compliance with LKAS 1 – “Presentation of Financial Statements”, each material class of similar items are presented separately in the Financial Statements. Items of dissimilar nature or functions are presented separately unless they are immaterial.

3.3.6 Rounding

The amounts in the Financial Statements have been rounded-off to the nearest Rupees thousands, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard LKAS 1 – “Presentation of Financial Statements”.

3.3.7 Use of Significant Accounting Judgements, Estimates and Assumptions

The preparation of the Financial Statements requires management to exercise judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The judgements, estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances and reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and/or in future periods if the revision affects future periods too.

In the process of applying the Group’s accounting policies, management has made the following judgements, estimates and assumptions, which have the most significant effect on the amounts recognised in the Financial Statements.

3.3.7.1 Going Concern

The Management has made an assessment on the Group’s ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group’s ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on the going concern basis.

3.3.7.2 Commitment and Contingent Liabilities

All discernible risks are accounted for in determining the amount of all known and measurable liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless its considered remote that the Group will be liable to settle the possible obligation.

3.3.7.3 Fair Value of Financial Instruments

When the fair value of financial assets and financial liabilities, recorded in the Statement of Financial Position cannot

be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, however, if such data are not available, a degree of judgement is exercised in establishing fair values which minimise the effect of use of unobservable inputs. The valuations of financial instruments are described comprehensively in Note 59.

3.3.7.4 Impairment Losses on Loans and Advances

The measurement of impairment of loans and advances requires management’s best estimate of the losses incurred in the portfolio at reporting date.

The Group reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the Statement of Profit or Loss. In particular, management’s judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found to be not impaired, all such individually insignificant loans and advances are assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made based on incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio (such as loan type, levels of arrears etc.), and judgements on the effect of concentrations of risks and economic data (including levels of unemployment, real estate price indices, country risk and the performance of different individual groups). Details of impairment losses on loans and advances are given in Note 27.

3.3.7.5 Impairment of Available for Sale Investments

The Group reviews its debt securities classified as available for sale investments at each reporting date to assess whether they are impaired.

The Group also records impairment charges on equity investments classified as available for sale when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is “significant or prolonged” requires judgement. In making this judgement, the Group evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its carrying value. Details of impairment of available for sale investments are given in Note 28.

3.3.7.6 Impairment of Investment in Subsidiaries, Other Financial Assets and Non-Financial Assets

The Group and the Bank follow the guidance of LKAS 36 – “Impairment of Assets” and LKAS 39 – “Financial Instruments: Recognition and Measurement” in determining whether an investment or a financial asset is impaired. Determination and identification of impairment indicators require the Group and the Bank to evaluate duration and extent to which the fair value of an investment for a financial asset is less than its cost and the financial stability of the near term business outlook of the investment or the financial asset, considering the factors such as performance of the sector and industry, technology and operational environmental changes along with future cash flows. This process involves with significant judgement in aforesaid areas and details are given under respective Notes.

3.3.7.7 Defined Benefit Obligation

The cost of the defined benefit pension plans and other post employment benefit plans are determined using an actuarial valuation. An actuarial valuation involves making various assumptions determining the discount rates, expected rates of

return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date and assumptions used in the year are given in Note 46.

3.3.7.8 Fair Value of Land and Buildings

The freehold land and buildings and the buildings on leasehold land of the Group are reflected at fair value less accumulated depreciation. The Group engaged independent valuation specialists to determine fair value of such properties in terms of the SLFRS 13 – “Fair Value Measurement”. The details of valuation of freehold land and buildings and the buildings on leasehold land are given in Note 33.

3.3.7.9 Useful Life of the Property, Plant and Equipment and Intangible Assets

The Group reviews the residual values, useful lives and methods of depreciation of Property, Plant and Equipment and intangible assets at each reporting date. Judgement of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty. The details of the depreciation methods and rates used for each assets category are given in Note 33.

3.3.7.10 Classification of Investment Properties

Management is required to use its judgement to determine whether a property qualified as an investment property. A property that is held to earn rentals or for capital appreciation or both and which generates cash flows largely independently of the other assets held by the Group are accounted for as investment properties. On the other hand, properties that are used for operations or for the process of providing services or for administration purposes and which do not directly generate cash flows as stand-alone assets are accounted as Property, Plant and Equipment.

3.3.7.11 Taxation

The Group is subject to income tax, Value Added Tax (VAT) and Nation Building Tax (NBT) and other applicable taxes.

A judgement is required to determine the total provision for current, deferred and other taxes due to the uncertainties that exists with respect to the interpretation of the applicable tax laws at the time of preparing these Financial Statements. The details on the applicable tax rates and other information are given under Notes 17 and 36.

The Group is subject to transfer pricing regulations and it is necessitated using management judgement to determine the impact of transfer pricing regulations. Accordingly, critical judgements and estimates were used in applying the regulations in aspects including but not limited to identifying associated undertakings, estimation of the respective arm’s length prices and selection of appropriate pricing mechanism. The current tax charge is subject to such judgements. Differences between estimated income tax charge and actual payable may arise as a result of Management’s interpretation and application of transfer pricing regulation.

4 Significant Accounting Policies

The significant accounting policies applied by the Bank and the Group in preparation of its Financial Statements are included below and have been consistently applied to all periods presented in these Financial Statements of the Group and the Bank, unless otherwise indicated. A more detailed description of policies adopted are set out in the respective notes, where relevant.

4.1 Basis of Consolidation

The Group’s Financial Statements comprise consolidation of the Financial Statements of the Bank and its Subsidiaries in terms of SLFRS 10 – “Consolidated Financial Statements”

and LKAS 27 – “Consolidated and Separate Financial Statements” and the proportionate share of the profit or loss and net assets of its Associates in terms of the Sri Lanka Accounting Standard LKAS 28 – “Investments in Associates and Joint Ventures”.

The Bank’s Financial Statements comprise the amalgamation of the Financial Statements of the Domestic Banking Unit, the Offshore Banking Unit and the overseas operations of the Bank.

The detailed accounting policies pertaining to the consolidation of Subsidiaries and Associates are given in the Notes 30 and 31.

4.1.1 Business Combinations

The Group determines whether a transaction or other event is a business combination by applying the definition in SLFRS 3 – “Business Combination”, which requires that the assets acquired and liabilities assumed constitute a business. Business combinations are accounted for using the acquisition method. As of the acquisition date, the amount of non-controlling interest is measured either at fair value or at the non-controlling interests’ proportionate share of the acquirer’s identifiable net assets.

Acquisition related cost are costs the acquirer incurs to effect a business combination. Those costs include finder’s fees, advisory, legal, accounting, valuation and other professional consulting fees, general administrative costs, including the cost of maintaining an Internal Acquisition Department and cost of registering and issuing debt and equity securities.

Acquisition-related costs, other than those associated with the issue of debt or equity securities are expensed in the periods in which the costs are incurred and the services are received.

The Group elects on a transaction by transaction basis whether to measure non-controlling interests at its fair value, or at its proportionate share of the recognised amount of the identifiable net assets, at the acquisition date. Transaction costs, other than those associated with the issue of debt or equity securities that the Group incurs in connection with a business combination are expensed as incurred.

4.1.2 Loss of Control

When the Group loses control over a Subsidiary, it derecognises the assets and liabilities of the Subsidiary, and any related Non-Controlling Interest (NCI) and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former Subsidiary is measured at fair value when control is lost. Further, the Bank’s share of components previously recognised in Other Comprehensive Income (OCI) is reclassified to Profit or Loss or retained earnings as appropriate. Any surplus or deficit arising on the loss of control is recognised in the Profit or Loss. If the Group retains any interest in the previous Subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or in accordance with the Group’s accounting policy for financial instruments depending on the level of influence retained.

4.2 Foreign Currency Translations

4.2.1 Foreign Currency Transactions and Balances

At the initial recognition, transactions in foreign currency are translated into the functional currency of the operation which is Sri Lankan Rupees (LKR) at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currency at the reporting date are retranslated into the functional currency at the spot exchange

rate at that date and all differences arising on non-trading activities are taken to “other operating income” in the Statement of Profit or Loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the initial recognition.

Non-monetary assets and liabilities denominated in foreign currency that are measured at fair value are retranslated into the functional currency at the spot exchange rate including any exchange gain or loss component at the date on which the fair value is determined. When a gain or loss on a non-monetary item including exchange component is recognised in Other Comprehensive Income. Forward exchange contracts are valued at the forward market rates ruling on the reporting date and resulting net unrealised gains or losses are dealt within the Statement of Profit or Loss.

4.2.2 Foreign Operations

The results and financial position of foreign operations, whose functional currencies are not Sri Lankan Rupees, are translated into Sri Lankan Rupees as follows:

The assets and liabilities of foreign operations are translated into Sri Lankan Rupees at spot exchange rate as at the reporting date. The income and expenses of foreign operations are translated at average rate for the period. Foreign currency differences on the translation of foreign operations are recognised in Other Comprehensive Income (OCI).

When a foreign operation is disposed off, the relevant amount in the translation reserve is transferred to the profit or loss as part of the profit or loss on disposal in other operating income or other operating expenses.

4.3 Classification of Financial Instruments between Debt and Equity

Classification of financial instruments between debt and equity depends on following characteristics of such instruments:

- Name or labels given to the instruments
- Presence or absence of a fixed maturity date
- Life of the instrument
- Source of payments
- Right to enforce payments
- Rights to participate in management
- Risk involved in the instruments
- Volatility of cash flows
- Securities given as collaterals

4.4 Financial Assets and Financial Liabilities

4.4.1 Classification of Financial Assets and Financial Liabilities

The classification of financial assets and liabilities at initial recognition depends on their purpose, characteristics, and the Management's intention in acquiring them.

4.4.1.1 At the Inception, the Financial Assets are Classified in One of the Following Categories:

- Financial assets at fair value through profit or loss
 - Financial instruments – Held for trading (Note 25)
 - Financial assets designated through profit or loss
- Financial investments – Loans and receivables (Note 26)
- Financial investments – Available for sale (Note 28)
- Financial investments – Held to maturity (Note 29)

4.4.1.2 At the Inception, the Financial Liabilities are Classified in One of the Following Categories:

- Financial liabilities at fair value through profit or loss
 - Financial liabilities – Held for trading
 - Financial liabilities designated through profit or loss
- Financial liabilities – Other financial liabilities

4.4.2 Date of Recognition

All financial assets and liabilities are initially recognised on the settlement date, i.e. the date that the Group becomes a party to the contractual provisions of the instrument. This includes; “regular way trades”. Regular way trade means purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

4.4.3 Initial Measurements of Financial Instruments

Financial assets and liabilities are initially measured at their fair value plus transaction cost, except in the case of financial assets and liabilities recorded at fair value through profit or loss. Transaction cost in relation to financial assets and liabilities at fair value through profit or loss are dealt with in the Statement of Profit or Loss.

4.4.4 “Day One” Profit or Loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a “Day One” Profit or Loss) in the Statement of Profit or Loss. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the Statement of Profit or Loss over the life of the instrument.

4.4.5 Reclassification of Financial Assets

The Group does not reclassify any financial instrument into the “fair value through profit or loss” category after initial recognition. Further, the Group does not reclassify any financial instrument out of the “fair value through profit or loss” category if upon initial recognition it was designated as at fair value through profit or loss. The Group reclassifies non-derivative financial assets out of the “held for trading” category and into the “available for sale”, “loans and receivables” or “held to maturity” categories as permitted by the Sri Lanka Accounting Standard LKAS 39 – “Financial Instruments: Recognition and Measurement”. Further, in certain circumstances, the Group is permitted to reclassify financial instruments out of the “available for sale” category and into the “loans and receivables” or “held to maturity” category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

For a financial asset reclassified out of the “available for sale” category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the Effective Interest Rate (EIR). Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to the Statement of Profit or Loss.

The Group may reclassify a non-derivative trading asset out of the “held for trading” category and into the “loans and receivables” category if it meets the definition of loans and receivables and the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Bank subsequently increases its estimates of future cash receipts as a result of increased

recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

However, sale or reclassification of a more than insignificant amount of HTM investments would result in the reclassification of all HTM investments as “available for sale” and would prevent the Group from classifying any financial asset as “held to maturity” for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- Sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial assets’ fair value
- Sales or reclassifications after the Group has collected substantially all of the assets’ original principal
- Sales or reclassifications attributable to non-recurring isolated events beyond the Group’s control that could not have been reasonably anticipated

Reclassification is at the election of management and is determined on an instrument by instrument basis.

4.4.6 Derecognition

4.4.6.1 Derecognition of Financial Assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial assets expire, or when it transfers the financial assets in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial assets.

Any interest in transferred financial assets that qualify for derecognition that are created or retained by the Group is recognised as a separate asset or liability in the Statement of Financial Position.

On derecognition of financial assets –

- The difference between the carrying amount of the assets (or the carrying amount allocated to the portion of the assets transferred) and the sum of the consideration received (including any new asset obtained less any new liability assumed); and
- Any cumulative gain or loss that had been recognised in other comprehensive income is recognised in the profit or loss.

The Group enters into transactions whereby it transfers assets recognised on its Statement of Financial Position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions as the Group retains all or substantially all the risks and rewards of ownership of such assets.

The transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee

is more than adequate (asset) or is less than adequate (liability) for performing the service.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

4.4.6.2 Derecognition of Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability.

The difference between the carrying value of the original financial liability and the consideration paid is recognised in the Statement of Profit or Loss.

4.4.7 Impairment of Assets

4.4.7.1 Impairment of Financial Assets

At each reporting date, the Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired, when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the estimated future cash flows of the asset(s) that can be estimated reliably. Impairment details of Financial investments – Loans and Receivables, Loans and Advances to customers, Financial investments – Available for sale and Financial investments – Held to maturity are given in Notes 26, 27, 28 and 29 respectively.

4.4.7.2 Impairment of Non-Financial Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell or its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly-traded subsidiaries or other valuable fair value indicators.

4.4.8 Fiduciary Services

The Group provides fiduciary services to third parties that result in holding of the assets on behalf of its customers. Assets held in fiduciary capacity are not recognised in the Financial Statements, as the Group is not the beneficial owner or does not control such assets.

4.5 Provisions

A provision is recognised as a result of a past event, when the Group has a present (legal or constructive) obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognised is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation at that date. Where a provision is measured using the cash flows estimated to settle the present obligation, its

carrying amount is determined based on the present value of those cash flows. A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured as the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

4.6 Income Tax Expense and Other Taxes

4.6.1 Income Tax Expense

Income tax expense comprises current and deferred tax. More details are given in Note 17.

4.6.2 Value Added Tax (VAT) on Financial Services

The base for Value Added Tax computation is arrived by aggregating the accounting profit before income tax and emoluments of employees, which is adjusted for the depreciation computed on prescribed rates. During the year, the Group's total value addition was subjected to 15% (2016 – 15%) VAT as per Section 25 (a) of the Value Added Tax Act No. 14 of 2002 and amendments thereto. Also the Group is following value attributable method to compute VAT on financial services.

4.6.3 Withholding Tax (WHT) on Dividends

- Withholding tax on dividends distributed by the Bank.

No withholding tax is paid by the Bank, since Bank distributes dividend to its sole shareholder, the Government of Sri Lanka.

- Withholding tax on dividends distributed by the Subsidiaries and Associates.

Dividend distributed out of taxable profit of the Subsidiaries and Associate companies attracts a 10% deduction at source and is not available for set-off against the tax liability, since it is treated as a final tax.

4.6.4 Economic Service Charge (ESC)

As per provisions of the Economic Service Charge (ESC) Act No.13 of 2006 and amendments thereafter, ESC is payable at 0.5% on Bank's liable turnover and is deductible from income tax payable. With effect from 1 April 2012 as per the ESC Amendment Act No. 11 of 2012 ESC is payable on turnover of the Bank and is deductible from income tax payable.

4.6.5 Crop Insurance Levy (CIL)

As per the provisions of the Section 15 of the Finance Act No. 12 of 2013, the CIL was introduced with effect from 1 April 2013 and is payable 1% of the profit after tax to the National Insurance Trust Fund Board.

4.6.6 Nation Building Tax (NBT) on Financial Services

NBT on financial services is calculated in accordance with Nation Building Tax (NBT) Act No. 9 of 2009 and subsequent amendments. NBT on financial services is calculated at 2% of the value addition used for the purpose of VAT on Financial Services.

5 Insurance Business

5.1 Reinsurance

The Group cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Group

may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. The impairment loss is recorded in the Statement of Profit or Loss.

Premiums and claims are presented on a gross basis for reinsurance. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

5.2 Insurance Receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration receivable. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the Statement of Profit or Loss.

5.3 Deferred Expenses

5.3.1 Deferred Acquisition Costs (DAC)

The costs of acquiring new businesses including commission, underwriting, marketing and policy issue expenses which vary with and directly related to production of new businesses and/or investment contracts with Discretionary Participation Features (DPF), are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred. Subsequent to initial recognition, DAC for general insurance is amortised over the period on the basis unearned premium is amortised. The reinsurances' share of deferred acquisition cost is amortised in the same manner as the underlying assets amortisation is recorded in the Statement of Profit or Loss.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in

the assets are accounted for by changing the amortisation period and are treated as a change in an accounting estimate. DAC are derecognised when the related contracts are either expired or cancelled.

5.4 Reinsurance Commissions

Commissions receivable on outwards reinsurance contracts are deferred and amortised over the period of reinsurance.

5.5 Investment Contract Liabilities

Investment contracts are classified between contracts with and without DPF. The accounting policies for investment contract liabilities with DPF are the same as those for life insurance contract liabilities.

Investment contract liabilities without DPF are recognised when contracts are entered into and premiums are charged. These liabilities are initially recognised at fair value being the transaction price excluding any transaction costs directly attributable to the issue of the contract. Subsequent to initial recognition, investment contract liabilities are measured at fair value through profit or loss.

Deposits and withdrawals are recorded directly as an adjustment to the liability in the Statement of Financial Position. Fair value adjustments are performed at each reporting date and are recognised in the Statement of Profit or Loss. Fair value is determined through the use of prospective discounted cash flow techniques. For unutilised contracts, fair value is calculated as the number of units allocated to the policyholder in each unit linked fund multiplied by the unit price of those funds at the reporting date. The fund assets and fund liabilities used to determine the unit prices at the reporting date are valued on a basis consistent with their measurement basis in the Statement of Financial Position adjusted to take account of the effect on the liabilities of the deferred tax on unrealised gains on assets in the fund.

Non-utilised contracts are subsequently carried at fair value, which is determined by using valuation techniques such as discounted cash flows and stochastic modelling. Models are validated, calibrated and periodically reviewed by an independent qualified person.

The liability is derecognised when the contract expires, is discharged or is cancelled. For a contract that can be cancelled by the policyholder, the fair value cannot be less than the surrender value. When contracts contain both a financial risk component and a significant insurance risk component and the cash flows from the two components are distinct and can be measured reliably, the underlying amounts are unbundled. Any premiums relating to the insurance risk component are accounted for on the same bases as insurance.

5.6 Discretionary Participation Features (DPF)

A DPF is a contractual right that gives holders of these contracts the right to receive as a supplement to guaranteed benefits, significant additional benefits which are based on the performance of the assets held within the DPF portfolio. Under the terms of the contract, surpluses in the DPF funds can be distributed to policyholders and shareholders on a 90/10 basis. The Group has the discretion over the amount and timing of the distribution of these surpluses to policyholders. All DPF liabilities including unallocated surpluses, both guaranteed and discretionary, at annually are held within insurance or investment contract liabilities as appropriate.

5.7 Unearned Premium Reserve

Unearned premium reserve represents the portion of the premium written in the year but relating to the unexpired term of coverage. Unearned premiums are calculated on the 1/24th basis.

6 New Accounting Standards Issued But Not Effective as at the Reporting Date

The following Sri Lanka Accounting Standards were issued by The Institute of Chartered Accountants of Sri Lanka which are not yet effective as at 31 December 2017. Accordingly, these Accounting Standards have not been applied in the preparation of the Financial Statements for the year ended 31 December 2017.

We have identified following Standards where this applies to the Group and further details are set out below:

(i) SLFRS 9 – “Financial Instruments”:

SLFRS 9 – “Financial Instruments” will replace LKAS 39 for annual periods on or after 1 January 2018 with early adoption permitted. In 2016, the Bank set up a multidisciplinary implementation team (“the Team”) with members from its Risk, Finance and Operations teams to prepare for SLFRS 9 implementation (“the Project”). The Project implementation is continuously monitored by the Project Steering Committee which is headed by the Chief Financial Officer.

The Project has clear individual work streams within two sub-teams for classification and measurement and impairment. The initial assessment and analysis stage was completed for impairment in 2016, and the sub-team is finalising the classification and measurement phase.

The Bank performed the Diagnostic Phase (Preliminary Impact Assessment Exercise) and Implementation Phase (Solution Development) on SLFRS 9 – “Financial Instruments”.

The Bank has undertaken a significant analysis of how SLFRS 9 should be implemented and has taken tentative accounting policy decisions.

Classification and Measurement

From a classification and measurement perspective, the new Standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity’s business model for managing the assets and the instruments’ contractual cash flow characteristics.

Business Model Assessment

The Bank determines its business model at the level that best reflects how it manages the financial assets to achieve its objectives. The Bank’s business model is not assessed on an instrument by instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial asset held within that business model are evaluated and reported to the entity’s Key Management Personnel
- The risks that affects the performance of the business model (and the financial asset held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flow collected)
- The expected frequency, value and timing of sales are also important aspect of the Bank’s assessment

The business model assessment is based on reasonably expected scenarios without taking “Worst Case” or “Stress Case” scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank’s original expectation, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets.

Contractual Cash Flow Characteristic Test

As the second test of the classification process the Bank assesses the contractual terms of the financial asset to identify whether they meet Solely the Payment of Principle and Interest (SPPI) Principle for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principle or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make SPPI assessment, the Bank applies judgement and considers relevant factors such as currency in which the financial asset is denominated and the period for which the interest rate is set.

In contrast to contractual exposures that introduce a more than de minimise exposure to risk or volatility, in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely the payment of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at “Fair Value Through Profit or Loss”.

Impairment of Financial Assets

Overview of Expected Credit Loss Principle (ECL) SLFRS 9 will principally change the Bank’s loan loss provision method by replacing LKAS 39 – “Financial Instrument Recognition and Measurement’s” incurred loss approach with a forward looking ECL Approach.

ECL allowance will be based on credit losses expected to arise over the life of the asset (Lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination in which case the loss allowance will be 12 month expected credit loss (12mECL)

12mECL is the portion of LTECL that represent the ECL that results from default events on a financial instrument that are possible within 12 months after the reporting date.

The Bank has established a policy to perform an assessment, at the end of each reporting period of whether a financial instrument's credit risk has increased significantly since initial recognition. Based on such process the Bank groups loans into Stage 1, Stage 2, and Stage 3 as described below:

- **Stage 1:** When loans are first recognised, the Bank recognises an allowance based on 12mECL. Stage 1 loans also include the facilities where the credit risk has improved and the loans has been reclassified from Stage 2. Assessment of Stage 1 will be performed collectively.
- **Stage 2:** When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3. Assessment of Stage 2 will be performed collectively.
- **Stage 3:** Loan considered to be credit impaired/contains objective evidence of incurred losses records an allowance for the LTECL. Stage 3 assessment will be performed Individually/Collectively Significant Increase in Credit Risk.

The Bank continuously monitors all assets subject to ECL, in order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assess whether there has been a significant increase in credit risk since initial recognition. The Bank considers an exposure to have significantly increased in credit risk when the either of the following criteria are met:

- Facilities exceeding 30 days past due
- Counterparties/facilities reflected coded any elevated risk industries as per the assessment performed by the Credit Risk Management Team

- Restructured facilities
Secondary qualitative indicators triggering a significant increase in credit risk for an asset, such as moving a customer/facility to watch list

Individually Significant Assessment and Not Impaired Individually

The Bank will individually assess all customer exposures which are above the predetermined threshold. Individual assessment will be performed for all the customers with Objective evidence of incurred losses (under Stage 3). Loans which are individually significant but not impaired will be assessed collectively for impairment either under Stage 1 or Stage 2 based on the criteria whether there has been significant credit deterioration since origination.

While establishing significant credit deterioration the Bank will consider the following criteria:

- Other changes in the rates or terms of an existing financial instrument that would be significantly different if the instrument was newly originated.
- Significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instrument.
- Other Information related to the borrower, such as changes in the price of a borrower's debt/equity instrument.
- An actual/expected internal credit rating downgrade for the borrower or decrease in behavioural score used to assess credit risk internally.
- Existing or forecast adverse changes in business, financial or economic condition that are expected to cause significant change in the borrower's ability to meet its obligation.
- An actual or expected significant change in the operating results of the borrower in relating to actual/expected decline in revenue, increase in operating risk, working capital deficiency, decrease in asset quality, increase in gearing, liquidity management problems.

- Significant increase in credit risk on other financial instruments of the same borrower.
- An actual or expected significant adverse change in the regulatory, economic or technological environment of the borrower that result in a significant change in the borrower's ability to meet the debt obligation.

Grouping Financial Assets Measured on a Collective Basis

As explained above, the Bank calculates ECL either on a collective or individual basis. Asset classes where the Bank calculates ECL on an individual basis includes all individually significant assets which are belong to Stage 3. All assets which belong to Stages 1, 2 and individually non-impaired assets will be assessed collectively for impairment.

The Bank groups these exposures for smaller homogeneous exposures, based on a combination of internal and external characteristics of the loan as described below:

- Product Type
- Type of Collateral
- Days Past Due
- Industry

The Calculation of ECL

The Bank calculates ECL-based on three probability weighted scenarios to measure expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculation are outlined below and the key elements are as follows:

- **PD:** The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- **EAD:** Exposure At Default is the estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of the principle and interest, whether scheduled by contract or otherwise, expected draw downs on committed facilities.

- **LGD:** Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lenders would expect to receive, including realisation of any collateral. It is usually expressed as a percentage of the EAD.

When estimating the ECL, the Bank considers three scenarios (Base Case, Best Case and Worst Case). Each of these scenarios associated with different loss rates. For all products, the maximum period of which the credit losses are determined is the contractual life of a financial instrument.

Forward Looking Information

In the ECL model the Bank relies on broad range qualitative/quantitative forward looking information as economic input such as:

Quantitative	Qualitative
GDP Growth	Government Policies
Inflation	Status of the Industry Business
Unemployment	Regulatory Impact
Interest Rates	
Exchange Rates	

Impact to the Bank on SLFRS 9 is presented in below table in a summarised format:

Impacted Area	Requirement under LKAS 39	Requirement under SLFRS 9	Possible impact
Financial asset classification and measurement	Classification is based on ability and intention to hold and the marketability of the instrument. There are four categories as follows: <ul style="list-style-type: none"> • Held to Maturity • Loans and Receivables • Fair Value Through Profit or Loss • Available for Sale 	Classification is based on characteristics of financial instruments and the business model of the portfolio. There are three categories as follows: <ul style="list-style-type: none"> • Amortised cost • Fair Value Through Profit or Loss • Fair Value Through OCI 	Any gain/loss on fair value cannot be recognised in Profit or Loss, if equity instrument is classified as Fair Value Through OCI. No significant impact
Financial liabilities	Two categories has been defined as: <ul style="list-style-type: none"> • Fair Value Through Profit or Loss • Amortised cost 	Two categories has been defined as: <ul style="list-style-type: none"> • Fair Value Through Profit or Loss • Amortised cost 	No change
Impairment	Incurred loss model	Expected loss model	<ul style="list-style-type: none"> • Sri Lanka Development Bond (SLDB) and corporate debentures are subject to impairment • Under performing loans which are having significant deterioration in credit risk are considered for life time expected loss • Undrawn and unutilised exposures are subject to impairment • Forward looking information is incorporated through economic factor adjustment
Hedge accounting	Retrospective effectiveness of the hedging instrument is considered and the results should be within the range of 80%-125%	Quantitative threshold of 80%-125% is removed and qualitative threshold is used for recognising effectiveness of the hedge	No impact

The transition work has not been finalised yet since the Bank is refining and finalising its models for expected credit loss calculations and the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Bank finalises its first Financial Statements that include the date of initial application. The Bank is in the process of assessing the impact for the balances as at 31 December 2017, therefore the quantified impact of the above is not disclosed. The Group also has not quantified the impact of the above as at 31 December 2017.

(ii) SLFRS 15 – “Revenue from Contracts with Customers”

SLFRS 15 states the principles that an entity shall apply to report useful information to users of Financial Statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.

SLFRS 15 introduces a five step approach for revenue recognition from contracts with customers and replaces all other currently applicable revenue standards and related interpretations (LKAS 18 – “Revenue”, LKAS 11 – “Construction Contracts”, IFRIC 13 – “Customer Loyalty Programs”).

SLFRS 15 will become effective on 1 January 2018, with early adoption is permitted. However, the Group does not expect significant impact on its Financial Statements resulting from SLFRS 15.

(iii) SLFRS 16 – “Leases”

SLFRS 16 eliminates the current dual accounting model for lessees which distinguishes between On-Balance Sheet finance leases and Off-Balance Sheet operating leases. Instead there will be a single On-Balance Sheet accounting model that is similar to current finance lease accounting. This Standard will be replaced LKAS 17 – “Leases”, IFRIC 4 – “Determining whether an Arrangement Contains a Lease”, SIC 15 – “Operating Leases – Incentives” and SIC 27 – “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”.

SLFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Group is assessing the potential impact on its Financial Statements resulting from the application of SLFRS 16.

7 Total Income

Accounting Policy

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank/Group and the revenue can be reliably measured.

For the year ended 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Interest income [Note 8.1]	171,343,888	134,685,338	177,746,357	139,701,569
Fee and commission income [Note 9.1]	9,178,655	8,739,625	9,436,780	8,983,083
Net gains/(losses) from trading [Note 10]	2,802,048	2,061,616	2,822,168	2,037,390
Net gains/(losses) from financial investments [Note 11]	905,527	273,881	925,733	312,273
Other operating income [Note 12]	4,981,277	8,360,912	6,081,923	8,666,910
Total income	189,211,395	154,121,372	197,012,961	159,701,225

8 Net Interest Income

Accounting Policy

Interest income and expense are recognised in the Statement of Profit or Loss using the effective interest rate (EIR).

Interest income and expense presented in the Statement of Profit or Loss include interest on:

- Financial assets and financial liabilities measured at amortised cost
- Financial instruments classified as held for trading
- Financial investments classified as available for sale

Effective Interest Rate (EIR)

The “EIR” is the rate that exactly discounts the estimated future cash payments and receipts throughout the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to calculate the carrying amount of the financial asset or financial liability. When calculating the EIR, the Group estimates future cash flows, considering all contractual terms of the financial instruments.

The calculation of the EIR includes any discount or premium on acquisition of financial instrument, transaction costs and fees paid or received that are an integral part of the EIR. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

For credit impaired financial assets, credit adjusted EIR is calculated using estimated future cash flows.

8.1 Interest Income

For the year ended 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Cash and cash equivalents	716,983	464,027	794,400	560,812
Placements with banks	623,881	580,833	688,805	646,813
Securities purchased under resale agreements	1,082,293	561,823	1,059,185	615,444
Financial instruments – Held for trading	585,342	428,314	586,073	428,314
Financial investments – Loans and receivables	11,540,713	11,807,028	11,661,827	11,847,619
Loans and advances to customers	124,890,681	93,898,806	130,663,714	98,376,809
Financial investments – Available for sale	754,802	151,785	996,946	342,840
Financial investments – Held to maturity	31,149,193	26,792,722	31,295,407	26,882,918
Total interest income	171,343,888	134,685,338	177,746,357	139,701,569

Interest income on loans and advances to customers includes interest on impaired loans LKR 1,258.7 million for the year 2017 (2016 – LKR 441.5 million).

8.2 Interest Expenses

For the year ended 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Due to banks	30,262	11,607	33,853	262,192
Securities sold under repurchase agreements	5,464,801	6,521,994	5,495,603	6,559,119
Due to customers	92,229,110	57,907,175	94,518,371	59,437,884
Other borrowings	10,249,478	11,716,862	10,510,630	11,663,625
Debt securities issued	399,087	1,365,604	1,147,939	2,026,725
Subordinated term debts	4,614,958	3,204,608	4,549,859	3,145,532
Total interest expenses	112,987,696	80,727,850	116,256,255	83,095,077
Net interest income	58,356,192	53,957,488	61,490,102	56,606,492

8.3 Net Interest Income from Sri Lanka Government Securities

For the year ended 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Interest income	32,623,129	27,710,618	32,823,130	27,905,965
Less: Interest expenses	5,464,801	6,521,994	5,495,603	6,559,119
Net interest income from Sri Lanka Government Securities	27,158,328	21,188,624	27,327,527	21,346,846

8.4 Notional Tax Credit on Secondary Market Transactions

In terms of the Section 137 of the Inland Revenue Act No. 10 of 2006 and the amendments thereto, a company which derives interest income from the secondary market transactions in Government Securities would be entitled to a notional tax credit [being one ninth (1/9) of the net interest income], provided such interest income forms a part of statutory income of the Company for that year of assessment. Accordingly, the net interest earned by the Bank and the Group on secondary market transactions in Government Securities for the year has been grossed up in the Financial Statements and the resulting notional tax credit amounted to a sum of LKR 2,165.0 million (2016 – LKR 1,844.3 million) for the Bank and LKR 2,206.4 million (2016 – LKR 1,893.6 million) for the Group.

9 Net Fee and Commission Income

Accounting Policy

Fee and commission income comprises with the fee and commission earned by the Group, providing diverse range of services. Those can be divided into following two main categories.

(i) Fee and commission income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and private wealth and asset management fees, custody and other management and advisory fees.

(ii) Fee and commission income from providing transaction services and earned on the execution of a significant act

Fees and commission arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement/participation or negotiation of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Fees and commission expenses relating to transactions are expensed as the services are received and are recognised on an accrual basis.

9.1 Fee and Commission Income

For the year ended 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Trade services	2,017,427	1,925,657	2,157,147	1,966,365
Debit and credit cards	2,646,648	2,061,285	2,646,648	2,061,285
Travel and remittances services	916,007	833,768	916,007	833,768
Custodial services	65,514	57,183	65,514	57,183
Retail banking services	2,107,808	2,212,222	2,117,176	2,212,222
Guarantees and related services	1,220,235	1,313,247	1,221,301	1,314,382
Other financial services	205,016	336,263	312,987	537,878
Total fee and commission income	9,178,655	8,739,625	9,436,780	8,983,083

9.2 Fee and Commission Expenses

For the year ended 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Trade services	95,306	79,710	95,306	79,710
Debit and credit cards	1,448,287	1,100,633	1,448,287	1,100,633
Travel and remittances	105,762	93,857	105,762	93,857
Retail banking services	216,860	221,193	227,999	221,193
Guarantees and related services	8,562	9,241	8,562	9,241
Other financial services	8,525	15,556	86,458	102,637
Total fee and commission expenses	1,883,302	1,520,190	1,972,374	1,607,271
Net fee and commission income	7,295,353	7,219,435	7,464,406	7,375,812

10 Net Gains/(Losses) from Trading

Accounting Policy

Net gains/(losses) from trading comprise foreign exchange gain or losses arising from trading activities, realised gains or losses from investment in equities and fixed income securities classified as held for trading and unrealised gains and losses due to changes in fair value of such instruments, dividend income from trading equities and gains or losses arising from changes in fair value of derivative financial instruments.

Dividend income is recognised when the Group's right to receive the dividend is established.

For the year ended 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Foreign exchange				
From banks	1,479	6,959	20,403	24,561
From other customers	2,709,355	2,075,002	2,721,536	2,086,767
Government Securities				
Gains/(Losses) on marked to market valuation	75,448	1,865	75,448	1,865
Gains/(Losses) on sale	48,276	405,122	48,276	405,122
Equities				
Gains/(Losses) on marked to market valuation	(174,510)	(560,428)	(170,717)	(587,115)
Gains/(Losses) on sale	30,217	19,422	7,008	(20,611)
Dividend income	111,783	113,674	120,214	126,801
Net gains/(losses) from trading	2,802,048	2,061,616	2,822,168	2,037,390

11 Net Gains/(Losses) from Financial Investments

Accounting Policy

Net gains/(losses) from financial investments include profit or loss on sale of financial investments and dividend income of financial investments classified as available for sale. Dividend income is recognised when the Group's right to receive the dividend is established.

For the year ended 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Financial investments – Available for sale				
Gains/(Losses) on sale of Government Securities	332,937	107,708	332,937	107,708
Dividend income	572,590	166,173	592,796	204,565
Net gains/(losses) from financial investments	905,527	273,881	925,733	312,273

12 Other Operating Income

Accounting Policy

Dividend Income from Subsidiaries and Associates

Dividend income from subsidiaries and associates is recognised when the Bank's right to receive the dividend is established.

Gains/(Losses) from Disposal of Non-Financial Assets

Net gains or losses arising from the disposal of Property, Plant and Equipment and other non-current assets including investments in subsidiaries and associates are accounted for in the Statement of Profit or Loss after deducting the carrying amount of such assets and the related selling expenses from the proceeds on disposal.

Gains/(Losses) on Revaluation of Foreign Exchange

Foreign currency positions are revalued at each reporting date. Gains/(Losses) arising from changes in fair value are included in the Statement of Profit or Loss in the period in which they arise.

Rental Income

Rental income is recognised on an accrual basis. This includes rent recovered from the Bank's premises, quarters, safety lockers, and lease rent recovered from branch premises etc.

Service Income

Service income is recognised on an accrual basis and includes income earned through documentation charges recovered from loans and leases, CRIB charges, legal fees, correspondent banking services charges and automated cheque clearing etc.

Gross Insurance Premium

Gross recurring premiums on life and investment contracts with Discretionary Participation Features (DPF) are recognised as revenue when receivable from the policyholder. For single premium business, revenue is recognised on the date on which the policy is effective.

Gross general insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognised on the date on which the policy commences.

For the year ended 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Dividend income from subsidiaries and associates	76,680	1,102,158	–	–
Gains from disposal of non-financial assets*	–	3,130,000	–	2,378,666
Gains/(Losses) on revaluation of foreign exchange	701,621	1,069,579	701,621	1,069,579
Gains/(Losses) on sale of Property, Plant and Equipment	55,105	51,643	59,399	87,249
Gains/(Losses) on sale of foreclosed properties	70,866	19,052	70,866	19,052
Rental income	250,454	231,326	329,905	298,791
Service income	2,043,604	2,143,545	2,403,599	2,611,013
Profit from sale of gold bullion	15,342	13,025	15,342	13,025
Miscellaneous income	1,554,635	448,187	1,656,118	797,373
Gross insurance premium	–	–	632,103	1,239,765
Net income from Islamic banking [Note 12.1]	212,970	152,397	212,970	152,397
Total other operating income	4,981,277	8,360,912	6,081,923	8,666,910

*Gains from disposal of non-financial assets included gain on disposal of Mireka Capital Land (Private) Limited, an associate company of the Bank.

12.1 Net Income from Islamic Banking

For the year ended 31 December	Bank/Group	
	2017 LKR '000	2016 LKR '000
Income from Islamic banking operations	364,126	252,846
Less: Profit paid to investors	151,156	100,449
Net income from Islamic banking	212,970	152,397

13 Impairment Charge/(Reversal) for Loans and Other Losses

Accounting Policy

The Bank and Group recognise the changes in the impairment provisions for loans and advances, which are assessed as per Sri Lanka Accounting Standard – LKAS 39 – “Financial Instruments: Recognition and Measurement”. Details are given under loans and advances to customers (Note 27). Further, the Bank/Group recognises an impairment loss when the carrying amount of a non-financial asset exceeds the estimated recoverable amount of that asset as per Sri Lanka Accounting Standard – LKAS 36 – “Impairment of Assets”.

For the year ended 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Net impairment charge/(reversal) for loans and advances [Note 13.1]	9,640,658	4,396,761	9,884,889	4,421,000
Net impairment charge/(reversal) for other investments [Note 30.2]	(300,000)	–	–	–
Impairment charge/(reversal) for loans and other losses	9,340,658	4,396,761	9,884,889	4,421,000

13.1 Net Impairment Charge/(Reversal) for Loans and Advances

For the year ended 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Individual impairment for loans and advances [Note 13.1.1]	9,631,746	6,685,680	9,676,575	6,765,378
Collective impairment charge/(reversal) for loans and advances	8,912	(2,288,919)	208,314	(2,344,378)
Net impairment charge/(reversal) for loans and advances	9,640,658	4,396,761	9,884,889	4,421,000

13.1.1 Individual Impairment for Loans and Advances

For the year ended 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Impairment charge during the year	11,713,536	9,209,538	11,758,365	9,289,236
Less: Amount reversed or recovered during the year	2,081,790	2,523,858	2,081,790	2,523,858
Net individual impairment charge/(reversal) during the year	9,631,746	6,685,680	9,676,575	6,765,378

14 Personnel Expenses

Accounting Policy

Personnel expenses include staff emoluments, contribution to defined contribution/benefit plans and other staff related expenses. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus, if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Employees are eligible for contribution to defined contribution/benefit plans in accordance with the respective internal and external statutes and regulations.

Defined benefit plan contributions and provisions for accumulated leave are recognised in the Statement of Profit or Loss based on actuarial valuations carried out in accordance with Sri Lanka Accounting Standard – LKAS 19 – “Employee Benefits”.

For the year ended 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Staff emoluments	13,142,117	12,679,264	14,335,669	13,888,137
Contributions to defined contribution plans [Note 14.1]	1,032,383	1,043,376	1,167,164	1,170,963
Contributions to defined benefit plans [Note 14.2]	495,125	1,188,793	562,159	1,250,027
Other personnel expenses	2,326,551	1,932,998	2,658,558	2,100,202
Total personnel expenses	16,996,176	16,844,431	18,723,550	18,409,329

14.1 Contributions to Defined Contribution Plans

A Defined Contribution Plan (DCP) is a post employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an expense in the Statement of Profit or Loss when they are due in respect of service rendered before the end of the reporting period. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a DCP that is due more than 12 months after the end of the reporting period in which the employees render the service are discounted to their present value at the reporting date.

Bank of Ceylon Provident Fund

All employees of the Bank are members of the “Bank of Ceylon Provident Fund” to which the Bank contributes 12% of employees’ monthly gross salary while employees contribute 8%. This Fund is an approved fund, which is independently administered.

Employees’ Provident Fund

The subsidiaries and their employees (other than Bank of Ceylon and its employees) contribute 12% (15% by Property Development PLC) and 8% (10% by Property Development PLC’s employees) respectively on monthly gross salary of each employee to Employees’ Provident Fund, in terms of the Employees’ Provident Fund Act No. 15 of 1958 and subsequent amendments thereto. The respective Fund is managed by the Central Bank of Sri Lanka.

Employees' Trust Fund

All employees of the Bank and its subsidiaries are members of the Employees' Trust Fund to which the Bank and the Group contributes 3% of the employee's monthly gross salary, in terms of Employees' Trust Fund Act No. 46 of 1980.

For the year ended 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Employers' contribution to:				
Bank of Ceylon/Employees' Provident Funds	827,212	836,910	938,876	939,617
Employees' Trust Fund	205,171	206,466	228,288	231,346
Total contributions to defined contribution plans	1,032,383	1,043,376	1,167,164	1,170,963

14.2 Contributions to Defined Benefit Plans

A Defined Benefit Plan (DBP) is a post employment benefit plan other than a DCP. The Group's net obligation in respect of DBP is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods and discounting that benefit to determine its present value and then deducting the fair value of any plan assets. The discount rate is the yield at the reporting date on long-term treasury bond rate for discount rates actually used that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the Projected Unit Credit method.

The Group recognises all actuarial gains and losses arising from DBP in the OCI and the expenses related to DBP under personnel expenses in the Statement of Profit or Loss. Details of defined benefit plans are given in "Employee retirement benefit plans" (Note 46).

For the year ended 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Employers' contribution to:				
Bank of Ceylon Pension Trust Fund [Note 46.1.1]	936,596	619,988	936,596	619,988
Bank of Ceylon Widows'/Widowers' and Orphans' Pension Fund [Note 46.2.1]	(830,309)	(369,423)	(830,309)	(369,423)
Terminal gratuity [Note 46.3]	41,964	23,263	101,498	77,425
Bank of Ceylon Pension Fund – 2014 [Note 46.4.1]	137,767	699,789	137,767	699,789
Provision for encashment of medical leave	209,107	215,176	209,107	215,176
Pension fund – Bank of Ceylon (UK) Limited	–	–	7,500	7,072
Total contributions to defined benefit plans	495,125	1,188,793	562,159	1,250,027

15 Other Expenses

Accounting Policy

Other expenses have been recognised in the Statement of Profit or Loss as they are incurred in the period to which they relate. All expenditure incurred in the operation of the business and in maintaining the capital assets in a state of efficiency has been charged to revenue in arriving at the Group's profit for the year. Provisions in respect of other expenses are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Deposit Insurance Premium

As per the Sri Lanka Deposit Insurance and Liquidity Support Scheme introduced under the Banking Act Direction No. 05 of 2010, the Bank is required to make quarterly payments of 0.1% or 0.125% on the eligible deposit liabilities, from 1 October 2010. The premium rate depends on the Capital Adequacy Ratio (CAR) of the immediate preceding Audited Financial Statements.

Reinsurance Premium, Claims and Other Benefits

Gross benefits and claims for life insurance contracts and for investment contracts with Discretionary Participation Features (DPF) include the cost of all claims arising during the year including internal and external claims handling costs that are directly related to the processing and settlement of claims and policyholder bonuses declared on DPF contracts, as well as changes in the gross valuation of insurance and investment contract liabilities with DPF. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due. Interim payments and surrenders are accounted at the time of settlement.

General insurance include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Claims, expenses and liabilities for outstanding claims are recognised in respect of direct and inward reinsurance business. The liability covers claims reported but not yet paid, Incurred But Not Reported (IBNR) claims and the anticipated direct and indirect costs of settling those claims. Claims outstanding are assessed by review of individual claim files and estimating changes in the ultimate cost of settling claims. The provision in respect of IBNR is actuarially valued on an annual basis to ensure a more realistic estimation of the future liability based on past experience and trends.

While the Directors consider that the provision for claims is fairly stated on the basis of information currently available, the ultimate liability will vary as a result of subsequent information and events. This may result in adjustment to the amounts provided. Such amounts are reflected in the Financial Statements for that period. The methods used and the estimates made are reviewed regularly.

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

For the year ended 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Directors' emoluments	6,255	7,055	14,229	14,348
Auditors' remuneration				
Audit fees	15,145	17,767	28,220	28,391
Non-audit fees	–	–	127	1,301
Deposit insurance premium	1,615,314	1,280,587	1,643,869	1,304,401
Professional and legal expenses	136,301	143,182	197,102	198,417
Depreciation of investment properties	117,072	–	2,906	2,961
Depreciation of Property, Plant and Equipment	1,523,783	1,263,914	2,197,108	1,758,041
Net revaluation loss on buildings	44,661	–	52,820	–
Amortisation of leasehold properties	2,821	2,814	4,178	4,175
Amortisation of intangible assets	281,326	186,468	338,288	234,727
Fixed assets maintenance expenses	4,588,624	4,124,359	4,061,002	3,707,238
Provision charge/(reversal) on gold in hand	(3,306,545)	1,733,508	(3,306,545)	1,733,508
Reinsurance premium, claims and other benefits	–	–	446,723	1,114,074
Office administration and establishment expenses	5,387,040	4,418,852	6,300,825	5,636,207
Total other expenses	10,411,797	13,178,506	11,980,852	15,737,789

16 Share of Profits/(Losses) of Associate Companies, Net of Tax

The aggregate of the Group's share of profits or losses of associates is shown in the Statement of Profit or Loss under the equity method of accounting.

For the year ended 31 December	Group	
	2017 LKR '000	2016 LKR '000
Ceybank Asset Management Limited	26,600	30,156
Lanka Securities (Private) Limited	1,362	(8,885)
Mireka Capital Land (Private) Limited	–	21,148
Transnational Lanka Records Solutions (Private) Limited	24,062	20,533
Total share of profits/(losses) of associate companies, net of tax	52,024	62,952

17 Income Tax Expense

Current tax and deferred tax are recognised in the Statement of Profit or Loss except to the extent that it relates to items recognised directly in equity or in Other Comprehensive Income (OCI).

Current Taxation

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years. The amount of current tax receivable or payable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes if any.

Accordingly, provision for taxation is made on the basis of the accounting profit for the year, as adjusted for taxation purposes, in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and amendments thereto.

Provision for taxation on the overseas operations is made on the basis of the accounting profit for the year, as adjusted for taxation purposes, in accordance with the provisions of the relevant laws and regulations in those countries, using the tax rates enacted or substantively enacted as at the reporting date.

Deferred Taxation

Details are given in Note 36.

Following details are provided as required by the Sri Lanka Accounting Standard – LKAS 12 – “Income Taxes”.

17.1 Components of Income Tax Expense

For the year ended 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Current Tax Expense				
Income tax on profit for the year	8,068,543	5,495,446	8,268,754	5,877,192
Adjustments in respect of prior years	860,873	956,808	876,874	953,463
Deferred Tax Expense				
Charge/(Reversal) of deferred tax [Note 36]	101,280	(54,565)	183,290	(99,550)
Income tax expense for the year	9,030,696	6,397,689	9,328,918	6,731,105

17.2 Reconciliation of Accounting Profit and Income Tax Expense

For the year ended 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Accounting profit before income tax	30,342,980	31,188,685	30,815,563	30,117,032
Add: Dividend income from subsidiaries and associates	–	–	76,680	1,102,158
	30,342,980	31,188,685	30,892,243	31,219,190
Add: Disallowable expenses	24,093,557	12,188,589	27,755,668	14,845,661
	54,436,537	43,377,274	58,647,911	46,064,851
Less: Allowable expenses	9,198,542	4,900,759	12,690,036	6,606,075
Less: Tax exempt income	19,405,951	21,889,267	19,463,696	21,941,912
Taxable income	25,832,044	16,587,248	26,494,179	17,516,864
Current tax at rate of 28% (2016 – 28%)	7,232,972	4,644,429	7,418,370	4,904,722
Effect of different tax rates in the Group	–	–	7,694	7,803
Effect of different tax rates in other countries	835,571	851,017	835,571	851,017
10% withholding tax on inter company dividends	–	–	7,120	113,650
Adjustments in respect of prior years	860,873	956,808	876,873	953,463
Charge/(Reversal) of deferred tax [Note 36]	101,280	(54,565)	183,290	(99,550)
Income tax expense for the year	9,030,696	6,397,689	9,328,918	6,731,105
The effective income tax rate (%)	29.8	20.5	30.3	22.3

17.3 The tax liabilities of resident companies are computed at the standard rate of 28% (2016 – 28%), except following Bank operations and companies which enjoy full or partial exemptions and concessions.

For the year ended 31 December	2017 %	2016 %
Tax rates applicable on local operations		
BOC Travels (Private) Limited	12	12
Hotels Colombo (1963) Limited	12	12
Ceybank Holiday Homes (Private) Limited	12	12
Koladeniya Hydropower (Private) Limited*	10	Nil
Tax rates applicable on foreign operations		
Banking operations in Male	25	25
Banking operations in Chennai	40	40
Banking operation in Seychelles		
Up to SCR 1,000,000	25	25
Balance	33	33
Bank of Ceylon (UK) Limited	19	20

*In accordance with the agreement with the Board of Investment of Sri Lanka (BOI), Koladeniya Hydropower (Private) Limited is entitled to a tax exemption period of five years from the year in which the company commences to make profits or not later than two years from the date of commencement of commercial operations, whichever is earlier as may be specified in a certificate issued by the the Board of Investment. The tax holiday ended on 31 December 2016. After the tax exemption period, the Company will be liable to tax on its trading profit at a concessionary rate of 10% for 2 years and at 20% thereafter.

18 Earnings Per Share and Dividend Per Share

18.1 Basic Earnings Per Share

In accordance with the Sri Lanka Accounting Standard – LKAS 33 – “Earnings Per Share”, basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank (the numerator) by the weighted average number of ordinary shares in issue (the denominator) during the year.

For the year ended 31 December	Bank		Group	
	2017	2016	2017	2016
Profit attributable to ordinary shareholder of the Bank (LKR '000)	21,312,284	24,790,996	21,470,163	23,496,656
Weighted average number of ordinary shares in issue [Note 18.1.1]	11,479,452	10,000,000	11,479,452	10,000,000
Basic earnings per share (LKR)	1,856.56	2,479.10	1,870.31	2,349.67

18.1.1 Weighted Average Number of Ordinary Shares in Issue

	Bank		Group	
	2017	2016	2017	2016
Number of ordinary shares in issue as at 1 January	10,000,000	10,000,000	10,000,000	10,000,000
Weighted average number of ordinary shares issued during the year	1,479,452	–	1,479,452	–
Weighted average number of ordinary shares in issue as at 31 December	11,479,452	10,000,000	11,479,452	10,000,000

18.2 Diluted Earnings Per Share

Diluted earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholder of the Bank (the numerator) by the weighted average number of ordinary shares in issue during the year after adjusting for effect of all dilutive potential ordinary shares (the denominator).

For the year ended 31 December	Bank		Group	
	2017	2016	2017	2016
Profit attributable to ordinary shareholder of the Bank (LKR '000)	21,312,284	24,790,996	21,470,163	23,496,656
Weighted average number of ordinary shares after adjusting for dilution [Note 18.2.1]	15,068,493	10,164,384	15,068,493	10,164,384
Diluted earnings per share (LKR)	1,414.36	2,439.01	1,424.84	2,311.67

18.2.1 Weighted Average Number of Ordinary Shares After Adjusting for Dilution

For the year ended 31 December	Bank		Group	
	2017	2016	2017	2016
Weighted average number of ordinary shares in issue	11,479,452	10,000,000	11,479,452	10,000,000
Weighted average number of potential ordinary shares under pending allotment during the year	3,589,041	164,384	3,589,041	164,384
Weighted average number of ordinary shares after adjusting for dilution	15,068,493	10,164,384	15,068,493	10,164,384

18.3 Dividend Per Share

Dividend per share is calculated by dividing the total dividend allocated to shareholder (the numerator) by the weighted average number of ordinary shares in issue (the denominator) during the year.

For the year ended 31 December	Bank		Group	
	2017	2016	2017	2016
Total dividend allocated to shareholder during the year (LKR '000)	12,346,410	17,346,410	12,346,410	17,346,410
Weighted average number of ordinary shares in issue [Note 18.1.1]	11,479,452	10,000,000	11,479,452	10,000,000
Dividend per share (LKR)	1,075.52	1,734.64	1,075.52	1,734.64

There were six dividend payments during the year and weighted average number of outstanding shares was used to compute dividend per share.

19 Analysis of Financial Instruments by Measurement Basis

All financial assets and liabilities are measured under the following headings as per the LKAS 39 – “Financial Instruments: Recognition and Measurement”.

19.1 Bank

As at 31 December	2017			
	Fair Value through Profit or Loss LKR '000	Fair Value through OCI LKR '000	Amortised Cost LKR '000	Total LKR '000
Financial Assets				
Cash and cash equivalents	–	–	72,843,108	72,843,108
Balances with central banks	–	–	68,689,012	68,689,012
Placements with banks	–	–	8,067,490	8,067,490
Securities purchased under resale agreements	–	–	18,455,555	18,455,555
Derivative financial instruments	1,618,823	–	–	1,618,823
Financial instruments – Held for trading	8,359,274	–	–	8,359,274
Financial investments – Loans and receivables	–	–	213,167,048	213,167,048
Loans and advances to customers	–	–	1,163,160,914	1,163,160,914
Financial investments – Available for sale	–	17,921,170	–	17,921,170
Financial investments – Held to maturity	–	–	308,256,082	308,256,082
Total financial assets	9,978,097	17,921,170	1,852,639,209	1,880,538,476

As at 31 December	2017		
	Fair Value through Profit or Loss LKR '000	Amortised Cost LKR '000	Total LKR '000
Financial Liabilities			
Due to banks	–	2,203,199	2,203,199
Securities sold under repurchase agreements	–	44,487,462	44,487,462
Derivative financial instruments	70,715	–	70,715
Due to customers	–	1,546,832,036	1,546,832,036
Other borrowings	–	178,191,089	178,191,089
Debt securities issued	–	–	–
Subordinated term debts	–	42,570,457	42,570,457
Total financial liabilities	70,715	1,814,284,243	1,814,354,958

As at 31 December	2016			
	Fair Value through Profit or Loss LKR '000	Fair Value through OCI LKR '000	Amortised Cost LKR '000	Total LKR '000
Financial Assets				
Cash and cash equivalents	–	–	67,705,791	67,705,791
Balances with central banks	–	–	56,387,741	56,387,741
Placements with banks	–	–	11,674,664	11,674,664
Securities purchased under resale agreements	–	–	1,901,618	1,901,618
Derivative financial instruments	5,300,844	–	–	5,300,844
Financial instruments – Held for trading	8,474,041	–	–	8,474,041
Financial investments – Loans and receivables	–	–	191,874,638	191,874,638
Loans and advances to customers	–	–	1,000,082,574	1,000,082,574
Financial investments – Available for sale	–	10,463,046	–	10,463,046
Financial investments – Held to maturity	–	–	243,178,400	243,178,400
Total financial assets	13,774,885	10,463,046	1,572,805,426	1,597,043,357

As at 31 December	2016		
	Fair Value through Profit or Loss LKR '000	Amortised Cost LKR '000	Total LKR '000
Financial Liabilities			
Due to banks	–	2,042,322	2,042,322
Securities sold under repurchase agreements	–	59,424,629	59,424,629
Derivative financial instruments	171,663	–	171,663
Due to customers	–	1,256,589,490	1,256,589,490
Other borrowings	–	195,469,853	195,469,853
Debt securities issued	–	3,427,058	3,427,058
Subordinated term debts	–	38,645,546	38,645,546
Total financial liabilities	171,663	1,555,598,898	1,555,770,561

19.2 Group

As at 31 December	2017			
	Fair Value through Profit or Loss LKR '000	Fair Value through OCI LKR '000	Amortised Cost LKR '000	Total LKR '000
Financial Assets				
Cash and cash equivalents	–	–	78,005,362	78,005,362
Balances with central banks	–	–	68,689,012	68,689,012
Placements with banks	–	–	5,319,602	5,319,602
Securities purchased under resale agreements	–	–	19,872,247	19,872,247
Derivative financial instruments	1,618,823	–	–	1,618,823
Financial instruments – Held for trading	8,596,548	–	–	8,596,548
Financial investments – Loans and receivables	–	–	214,349,624	214,349,624
Loans and advances to customers	–	–	1,194,294,394	1,194,294,394
Financial investments – Available for sale	–	22,552,292	–	22,552,292
Financial investments – Held to maturity	–	–	308,750,317	308,750,317
Total financial assets	10,215,371	22,552,292	1,889,280,558	1,922,048,221

As at 31 December	2017		
	Fair Value through Profit or Loss LKR '000	Amortised Cost LKR '000	Total LKR '000
Financial Liabilities			
Due to banks	–	2,194,266	2,194,266
Securities sold under repurchase agreements	–	44,628,686	44,628,686
Derivative financial instruments	70,715	–	70,715
Due to customers	–	1,566,376,418	1,566,376,418
Other borrowings	–	184,330,181	184,330,181
Debt securities issued	–	5,667,514	5,667,514
Subordinated term debts	–	42,226,067	42,226,067
Total financial liabilities	70,715	1,845,423,132	1,845,493,847

As at 31 December	2016			
	Fair Value through Profit or Loss LKR '000	Fair Value through OCI LKR '000	Amortised Cost LKR '000	Total LKR '000
Financial Assets				
Cash and cash equivalents	–	–	73,244,043	73,244,043
Balances with central banks	–	–	56,387,741	56,387,741
Placements with banks	–	–	12,931,605	12,931,605
Securities purchased under resale agreements	–	–	2,350,704	2,350,704
Derivative financial instruments	5,300,844	–	–	5,300,844
Financial instruments – Held for trading	8,804,647	–	–	8,804,647
Financial investments – Loans and receivables	–	–	191,984,082	191,984,082
Loans and advances to customers	–	–	1,027,768,110	1,027,768,110
Financial investments – Available for sale	–	16,263,641	–	16,263,641
Financial investments – Held to maturity	–	–	243,253,967	243,253,967
Total financial assets	14,105,491	16,263,641	1,607,920,252	1,638,289,384

As at 31 December	2016		
	Fair Value through Profit or Loss LKR '000	Amortised Cost LKR '000	Total LKR '000
Financial Liabilities			
Due to banks	–	2,053,945	2,053,945
Securities sold under repurchase agreements	–	58,925,801	58,925,801
Derivative financial instruments	171,663	–	171,663
Due to customers	–	1,273,631,287	1,273,631,287
Other borrowings	–	204,485,301	204,485,301
Debt securities issued	–	8,360,333	8,360,333
Subordinated term debts	–	38,295,318	38,295,318
Total financial liabilities	171,663	1,585,751,985	1,585,923,648

20 Cash and Cash Equivalents

Accounting Policy

Cash and cash equivalents include local and foreign currency notes and coins in hand, unrestricted balances held with central banks, balances with other banks and highly liquid financial assets with original maturities of less than seven days, which are subject to insignificant risk of changes in their fair value and are used by the Group to manage its short-term commitments.

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Local currency in hand	40,267,119	27,454,238	40,459,621	27,641,383
Foreign currency in hand	1,507,867	1,446,976	1,516,294	1,454,169
Balances with banks	12,429,737	14,492,569	11,798,422	14,434,784
Money at call and short notice	18,638,385	24,312,008	24,231,025	29,713,707
Total cash and cash equivalents	72,843,108	67,705,791	78,005,362	73,244,043

21 Balances with Central Banks

Accounting Policy

Balances with central banks are carried at amortised cost in the Statement of Financial Position.

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Central Bank of Sri Lanka [Note 21.1]	64,800,808	51,055,931	64,800,808	51,055,931
Reserve Bank of India [Note 21.2]	165,035	161,463	165,035	161,463
Maldives Monetary Authority [Note 21.3]	3,239,492	4,900,518	3,239,492	4,900,518
Central Bank of Seychelles [Note 21.4]	483,677	269,829	483,677	269,829
Total balances with central banks	68,689,012	56,387,741	68,689,012	56,387,741

21.1 Central Bank of Sri Lanka (CBSL)

In terms of the provisions of Section 93 of the Monetary Law Act No. 58 of 1949, the Bank is required to maintain a cash reserve with Central Bank of Sri Lanka. The minimum cash reserve requirement as of 31 December 2017 was 7.5% (2016 – 7.5%) of Sri Lankan Rupee deposit liabilities. There is no reserve requirement for foreign currency deposit liabilities maintained by domestic branches and the deposit liabilities of the Offshore Banking Division in Sri Lanka (2016 – Nil).

21.2 Reserve Bank of India (RBI)

In terms of the provisions of Section 42 (1) of the Reserve Bank of India (RBI) Act No. 02 of 1934, the branch in Chennai is required to maintain a cash reserve with RBI. The minimum cash reserve as of 31 December 2017 was 4% on its demand and term deposit liabilities (2016 – 4%).

21.3 Maldives Monetary Authority (MMA)

In accordance with the prevailing regulations of Maldives Monetary Authority (MMA), the branch in Maldives is required to maintain a reserve deposit based on 10% of the branch's commercial deposits and liabilities to the public in the Maldives in Maldivian Rufiyaa and United States Dollar separately (2016 – 10%).

21.4 Central Bank of Seychelles (CBS)

In accordance with the regulations of Central Bank of Seychelles, the branch in Seychelles is required to maintain a reserve deposit based on 13% of the branch's commercial deposits liabilities to the public in Seychelles (2016 – 13%).

22 Placements with Banks

Accounting Policy

“Placements with banks” includes balances with other banks with original maturities of more than seven days which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Bank intends to sell immediately or in the near term and those that the Bank, upon initial recognition, designates as at fair value through profit or loss
- Those that the Bank, upon initial recognition, designates as available for sale
- Those for which the Bank may not recover substantially all of its initial investment, other than – Due to credit deterioration

Placements with banks are initially measured at fair value. After initial measurement, they are subsequently measured at amortised cost using the Effective Interest Rate (EIR), less allowance for impairment. Interest income from placements with banks is included in “Interest income” (Note 8.1) in the Statement of Profit or Loss. The losses arising from impairment are recognised in “Impairment charge/(reversal) for loans and other losses” (Note 13) in the Statement of Profit or Loss.

The Group writes off certain placements with banks when they are determined to be uncollectible.

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Within Sri Lanka	4,399,062	–	4,399,062	–
Outside Sri Lanka	3,668,428	11,674,664	920,540	12,931,605
Total placements with banks	8,067,490	11,674,664	5,319,602	12,931,605

23 Securities Purchased Under Resale Agreements

Accounting Policy

Securities purchased under resale agreements (Reverse Repos) are purchase of securities with the agreement to sell them at a higher price at a specific future date. The consideration paid and accrued interest (measured by using the EIR) are recorded in the Statement of Financial Position, reflecting the transaction’s economic substance as an advance granted by the Group. The difference between the purchase and resale price is recorded as “Interest income” and is accrued over the life of the agreement.

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
With banks	15,157,328	–	15,195,040	62,707
With customers	3,298,227	1,901,618	4,677,207	2,287,997
Total securities purchased under resale agreements	18,455,555	1,901,618	19,872,247	2,350,704

24 Derivative Financial Instruments

Accounting Policy

Derivatives are financial instruments that derive their value in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk, indices etc. Derivatives are categorised as trading unless they are designated as hedging instruments. All derivatives are initially recognised and subsequently measured at fair value, with all revaluation gains or losses recognised in the Statement of Profit or Loss under “Net gains/(losses) from trading” (Note 10). Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Fair value is determined using the forward market rates ruling on the reporting date.

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Foreign currency derivatives				
Forward exchange contracts	4,288	9,063	4,288	9,063
Currency SWAPs	1,614,535	5,291,781	1,614,535	5,291,781
Total derivative financial instruments	1,618,823	5,300,844	1,618,823	5,300,844

25 Financial Instruments – Held for Trading

Accounting Policy

Financial instruments are classified as held for trading if they have been acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short-term profit or position taking.

All financial assets under this category are initially and subsequently measured at fair value. Upon initial recognition, transaction costs which are directly attributable to the acquisition are recognised in the Statement of Profit or Loss as incurred. Changes in fair value and dividend are recognised in “Net gains/(losses) from trading” (Note 10). Interest income is recorded in “Interest income” (Note 8.1) according to the terms of the contract.

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Treasury Bills	4,749,058	4,538,007	4,749,058	4,538,007
Treasury Bonds	682,169	681,439	682,169	681,439
Sri Lanka sovereign bonds	166,863	156,142	166,863	156,142
Quoted equities [Note 25.1]	2,761,184	3,098,453	2,993,845	3,426,824
Quoted debt securities [Note 25.2]	–	–	4,613	2,235
Total financial instruments – Held for trading	8,359,274	8,474,041	8,596,548	8,804,647

The Bank has not pledged any Treasury Bills or Treasury Bonds – Held for trading as collateral as at 31 December 2017 (2016 – Nil).

25.1 Quoted Equities

25.1.1 Sector Wise Composition of Quoted Equities

As at 31 December	2017			2016		
	Cost of Investment	Market Value	Sector-Wise Composition of Market Value %	Cost of Investment	Market Value	Sector-Wise Composition of Market Value %
	LKR '000	LKR '000		LKR '000	LKR '000	
Bank [Note 25.1.2]						
Banks, Finance and Insurance	13,872	15,190	0.6	19,611	19,303	0.6
Beverage, Food and Tobacco	443,439	423,214	15.3	494,031	436,191	14.1
Chemicals and Pharmaceuticals	261,945	112,586	4.1	261,945	146,703	4.7
Construction and Engineering	205,814	83,247	3.0	206,144	74,943	2.4
Diversified Holdings	1,334,634	877,614	31.7	1,372,393	892,243	28.7
Footware and Textiles	23,668	16,141	0.6	22,793	16,152	0.5
Health Care	30,545	26,017	0.9	20,425	17,335	0.6
Hotels and Travels	718,505	319,581	11.6	717,456	386,666	12.5
Investment Trusts	168,781	62,854	2.3	168,781	63,399	2.0
Land and Property	24,815	16,857	0.6	24,685	19,056	0.6
Manufacturing	647,413	446,308	16.2	703,129	575,116	18.6
Motors	149,185	78,812	2.9	149,185	89,177	2.9
Oil Palms	83,965	25,104	0.9	83,965	33,392	1.1
Plantations	142,099	61,102	2.2	156,335	61,541	2.0
Power and Energy	206,555	101,505	3.7	206,555	153,181	4.9
Services	22,759	13,486	0.5	22,759	14,261	0.5
Stores and Supplies	21,923	12,054	0.4	21,923	11,274	0.4
Telecommunications	7,496	6,099	0.2	8,166	8,380	0.3
Trading	142,914	63,413	2.3	148,765	80,140	2.6
Total	4,650,327	2,761,184	100.0	4,809,046	3,098,453	100.0

As at 31 December	2017			2016		
	Cost of Investment	Market Value	Sector Wise Composition of Market Value	Cost of Investment	Market Value	Sector Wise Composition of Market Value
	LKR '000	LKR '000	%	LKR '000	LKR '000	%
Group [Note 25.1.3]						
Banks, Finance and Insurance	145,778	117,828	3.9	166,491	133,672	3.9
Beverage, Food and Tobacco	471,558	438,292	14.6	517,762	451,249	13.2
Chemicals and Pharmaceuticals	263,572	113,903	3.8	262,531	147,213	4.3
Construction and Engineering	213,559	86,250	2.9	217,426	81,681	2.4
Diversified Holdings	1,359,383	895,941	29.9	1,457,200	977,666	28.5
Footware and Textiles	25,983	17,974	0.6	23,666	16,946	0.5
Health Care	31,045	26,432	0.9	20,425	17,335	0.5
Hotels and Travels	782,318	354,199	11.8	796,149	435,925	12.7
Information Technology	120	89	0.0	–	–	–
Investment Trusts	183,093	72,399	2.4	190,115	76,976	2.2
Land and Property	27,706	19,365	0.6	25,232	19,478	0.6
Manufacturing	688,467	477,670	16.1	736,956	601,573	17.6
Motors	151,210	80,762	2.7	149,185	89,177	2.6
Oil Palms	83,965	25,104	0.8	83,965	33,392	1.0
Plantations	143,594	62,512	2.1	173,972	68,211	2.0
Power and Energy	213,851	107,853	3.6	211,419	158,331	4.6
Services	23,775	14,265	0.5	23,868	15,121	0.4
Stores and Supplies	21,923	12,054	0.4	21,923	11,274	0.3
Telecommunications	7,496	6,099	0.2	9,315	9,430	0.3
Trading	144,655	64,854	2.2	151,484	82,174	2.4
Total	4,983,051	2,993,845	100.0	5,239,084	3,426,824	100.0

25.1.2 Quoted Equities – Bank

As at 31 December	Bank							
	2017				2016			
	Number of Ordinary Shares	Cost of Investment LKR '000	Market Price Per Share LKR	Market Value LKR '000	Number of Ordinary Shares	Cost of Investment LKR '000	Market Price Per Share LKR	Market Value LKR '000
Banks, Finance and Insurance								
Hatton National Bank PLC	61,005	13,872	249.00	15,190	85,793	19,611	225.00	19,303
		13,872		15,190		19,611		19,303
Beverage, Food and Tobacco								
Bairaha Farms PLC	119,942	31,789	147.30	17,667	119,942	31,789	181.50	21,769
Cargills (Ceylon) PLC	1,298,613	267,368	199.90	259,593	1,303,613	268,297	194.40	253,422
Ceylon Tobacco Company PLC	143,178	137,101	1,004.50	143,822	194,178	185,937	806.50	156,605
HVA Foods PLC	20,000	905	6.10	122	20,000	905	6.00	120
Lucky Lanka Milk Processing PLC – Voting	1,000,000	6,000	1.90	1,900	1,000,000	6,000	3.20	3,200
Lucky Lanka Milk Processing PLC – Non-voting	91,900	276	1.20	110	91,900	276	1.40	129
Three Acre Farms PLC	–	–	–	–	7,000	827	135.10	946
		443,439		423,214		494,031		436,191

As at 31 December	Bank							
	2017				2016			
	Number of Ordinary Shares	Cost of Investment LKR '000	Market Price Per Share LKR	Market Value LKR '000	Number of Ordinary Shares	Cost of Investment LKR '000	Market Price Per Share LKR	Market Value LKR '000
Chemicals and Pharmaceuticals								
Chemanex PLC	100,000	16,685	51.50	5,150	100,000	16,685	59.60	5,960
CIC Holdings PLC – Voting	770,657	124,284	62.00	47,781	770,657	124,284	91.40	70,438
CIC Holdings PLC – Non-voting	416,189	40,011	47.40	19,727	416,189	40,011	68.00	28,301
Haycarb PLC	251,067	48,262	147.50	37,032	251,067	48,262	150.00	37,660
Lankem Ceylon PLC	72,400	32,703	40.00	2,896	72,400	32,703	60.00	4,344
		261,945		112,586		261,945		146,703
Construction and Engineering								
Access Engineering PLC	162,000	3,859	23.50	3,807	177,000	4,189	24.80	4,390
Colombo Dockyard PLC	897,622	201,955	88.50	79,440	897,622	201,955	78.60	70,553
		205,814		83,247		206,144		74,943
Diversified Holdings								
Aitken Spence PLC	2,596,230	360,512	54.60	141,754	2,596,230	360,512	65.00	168,756
Browns Capital PLC	200,000	991	3.20	640	200,000	991	1.10	220
Browns Investments PLC	3,073,412	13,317	2.60	7,991	3,073,412	13,317	1.40	4,303
Carson Cumberbatch PLC	313,352	141,328	176.00	55,150	313,352	141,328	173.80	54,461
C T Holdings PLC	–	–	–	–	244,944	36,788	125.20	30,667
Expolanka Holdings PLC	1,716,193	15,964	5.30	9,096	1,716,193	15,964	6.30	10,812
Hayleys PLC	68,097	21,556	241.00	16,411	68,097	21,556	270.00	18,386
John Keells Holdings PLC	3,299,657	575,620	148.50	489,999	3,305,714	576,591	145.00	479,329
Richard Pieris and Company PLC	6,889,225	90,662	13.00	89,560	6,889,225	90,662	8.00	55,114
Softlogic Holdings PLC	1,696,191	33,415	12.50	21,202	1,696,191	33,415	13.00	22,050
The Colombo Fort Land & Building PLC	149,500	10,307	19.00	2,841	149,500	10,307	20.00	2,990
Vallibel One PLC	2,427,704	70,962	17.70	42,970	2,427,704	70,962	18.60	45,155
		1,334,634		877,614		1,372,393		892,243
Footware and Textiles								
Hayleys Fabric PLC	774,098	14,343	13.50	10,450	724,098	13,468	15.00	10,861
ODEL PLC	222,295	9,325	25.60	5,691	222,295	9,325	23.80	5,291
		23,668		16,141		22,793		16,152
Health Care								
Nawaloka Hospitals PLC	–	–	–	–	19,081	79	4.50	86
Singhe Hospitals PLC	4,000,000	10,000	1.70	6,800	4,000,000	10,000	1.90	7,600
The Lanka Hospital Corporation PLC	309,949	20,545	62.00	19,217	148,450	10,346	65.00	9,649
		30,545		26,017		20,425		17,335
Hotels and Travels								
Aitken Spence Hotel Holdings PLC	2,547,422	232,670	29.50	75,149	2,547,422	232,670	43.10	109,794
Amaya Leisure PLC	569,845	53,019	51.30	29,233	569,845	53,019	65.50	37,325
Asian Hotels & Properties PLC	2,367,741	225,781	52.80	125,017	2,367,741	225,781	57.00	134,961
Citrus Leisure PLC	100,000	10,112	7.50	750	100,000	10,112	9.50	950
Eden Hotel Lanka PLC	775,550	41,864	14.20	11,013	775,550	41,864	13.50	10,470
Galadari Hotels (Lanka) PLC	61,030	927	8.00	488	61,030	927	10.70	653
John Keells Hotels PLC	893,487	14,553	8.80	7,863	893,487	14,553	10.90	9,739
Marawila Resorts PLC	100,000	782	1.90	190	100,000	782	2.40	240

As at 31 December	Bank							
	2017				2016			
	Number of Ordinary Shares	Cost of Investment LKR '000	Market Price Per Share LKR	Market Value LKR '000	Number of Ordinary Shares	Cost of Investment LKR '000	Market Price Per Share LKR	Market Value LKR '000
Tal Lanka Hotels PLC	447,400	30,043	15.90	7,114	447,400	30,043	25.20	11,274
Tangerine Beach Hotels PLC	50,000	5,056	52.00	2,600	50,000	5,056	59.90	2,995
The Fortress Resorts PLC	1,461,100	50,506	9.30	13,588	1,461,100	50,506	13.60	19,871
The Kingsbury PLC	304,166	4,785	13.50	4,106	232,668	3,736	15.20	3,537
Trans Asia Hotels PLC	477,200	48,407	89.00	42,470	477,200	48,407	94.00	44,857
		718,505		319,581		717,456		386,666
Investment Trusts								
Ceylon Guardian Investment Trust PLC	107,847	32,747	85.00	9,167	107,847	32,747	105.50	11,378
Ceylon Investment PLC	446,203	73,124	44.70	19,945	446,206	73,124	49.10	21,909
Lanka Century Investments PLC	385,000	23,271	12.10	4,659	385,000	23,271	11.80	4,543
Renuka Holdings PLC	1,211,821	39,639	24.00	29,083	1,211,821	39,639	21.10	25,569
		168,781		62,854		168,781		63,399
Land and Property								
Overseas Realty (Ceylon) PLC	957,792	24,815	17.60	16,857	952,792	24,685	20.00	19,056
		24,815		16,857		24,685		19,056
Manufacturing								
Abans Electricals PLC	196,303	26,807	84.50	16,588	196,303	26,807	100.10	19,650
ACL Cables PLC	1,005,246	45,924	42.40	42,622	1,005,246	45,924	60.50	60,817
ACME Printing & Packaging PLC	1,078,700	35,020	6.60	7,119	1,078,700	35,020	6.20	6,688
Alumex PLC	-	-	-	-	100,529	2,037	20.20	2,031
Central Industries PLC	62,560	2,575	41.00	2,565	113,156	4,562	49.50	5,601
Ceylon Grain Elevators PLC	612,498	60,754	66.10	40,486	403,709	45,057	82.90	33,467
Chevron Lubricants Lanka PLC	837,966	154,550	119.00	99,718	837,966	154,550	157.10	131,644
Kelani Tyres PLC	1,016,213	75,060	44.40	45,120	1,016,213	75,060	64.90	65,952
Lanka Cement PLC	7,265,828	63,576	5.70	41,415	9,014,438	78,876	5.90	53,185
Lanka Tiles PLC	973,200	130,512	115.00	111,918	973,200	130,512	95.90	93,330
Lanka Walltiles PLC	-	-	-	-	53,046	4,890	99.70	5,289
Orient Garments PLC	82,150	2,568	7.00	575	82,150	2,568	7.00	575
Piramal Glass Ceylon PLC	3,288,600	32,322	5.80	19,074	3,288,600	32,322	5.30	17,430
Royal Ceramics Lanka PLC	1,399	165	114.50	160	152,294	17,962	115.50	17,590
Sierra Cables PLC	329,525	1,090	2.50	824	129,525	465	3.30	427
Swisstek (Ceylon) PLC	161,929	11,283	62.00	10,040	216,709	15,317	68.90	14,931
Teejay Lanka PLC	-	-	-	-	565,103	10,638	42.80	24,186
Tokyo Cement Company (Lanka) PLC – Voting	36,669	1,807	66.00	2,420	200,000	11,911	59.20	11,840
Tokyo Cement Company (Lanka) PLC – Non-voting	96,000	3,400	59.00	5,664	203,563	8,651	51.50	10,483
		647,413		446,308		703,129		575,116
Motors								
C M Holdings PLC	50,857	17,422	73.00	3,713	50,857	17,422	85.20	4,333
Diesel & Motor Engineering PLC	77,935	84,514	490.00	38,188	77,935	84,514	581.00	45,280
Sathosa Motors PLC	16,000	6,198	335.10	5,362	16,000	6,198	298.70	4,779
United Motors Lanka PLC	404,478	41,051	78.00	31,549	404,478	41,051	86.00	34,785
		149,185		78,812		149,185		89,177

As at 31 December	Bank							
	2017				2016			
	Number of Ordinary Shares	Cost of Investment LKR '000	Market Price Per Share LKR	Market Value LKR '000	Number of Ordinary Shares	Cost of Investment LKR '000	Market Price Per Share LKR	Market Value LKR '000
Oil Palms								
Bukit Darah PLC	119,257	83,965	210.50	25,104	119,257	83,965	280.00	33,392
		83,965		25,104		83,965		33,392
Plantations								
Agalawatte Plantations PLC	45,600	4,608	20.00	912	45,600	4,608	17.50	798
Balangoda Plantations PLC	30,000	2,184	30.20	906	30,000	2,184	12.20	366
Horana Plantations PLC	513,000	43,752	26.00	13,338	513,000	43,752	17.90	9,183
Kahawatte Plantations PLC	758,536	30,683	38.90	29,507	838,629	33,921	37.70	31,616
Kegalle Plantations PLC	50,600	13,703	70.00	3,542	50,600	13,703	48.50	2,454
Kotagala Plantations PLC	486,665	34,711	12.20	5,937	486,665	34,711	8.90	4,331
Namunukula Plantations PLC	80,000	12,458	87.00	6,960	80,000	12,458	73.70	5,896
Watawala Plantations PLC	–	–	–	–	350,100	10,998	19.70	6,897
		142,099		61,102		156,335		61,541
Power and Energy								
Laugfs Gas PLC – Voting	168,727	4,688	23.50	3,965	168,727	4,688	33.30	5,619
Laugfs Gas PLC – Non-voting	3,420,538	142,754	20.00	68,411	3,420,538	142,754	32.90	112,536
Lotus Hydro Power PLC	173,194	1,427	5.80	1,005	173,194	1,427	6.60	1,143
Panasian Power PLC	1,029,200	6,407	2.70	2,779	1,029,200	6,407	3.00	3,088
Resus Energy PLC	1,117,700	45,609	18.20	20,342	1,117,700	45,609	22.30	24,925
Vallibel Power Erathna PLC	667,050	5,670	7.50	5,003	667,050	5,670	8.80	5,870
		206,555		101,505		206,555		153,181
Services								
John Keells PLC	250,200	22,759	53.90	13,486	250,200	22,759	57.00	14,261
		22,759		13,486		22,759		14,261
Stores and Supplies								
Hunters & Company PLC	27,100	21,923	444.80	12,054	27,100	21,923	416.00	11,274
		21,923		12,054		21,923		11,274
Telecommunications								
Dialog Axiata PLC	–	–	–	–	64,408	670	10.50	676
Sri Lanka Telecom PLC	214,000	7,496	28.50	6,099	214,000	7,496	36.00	7,704
		7,496		6,099		8,166		8,380
Trading								
Brown & Company PLC	809,616	133,026	70.50	57,078	809,616	133,026	84.00	68,008
Ceylon & Foreign Trades PLC	830,100	8,533	6.20	5,147	830,100	8,533	5.30	4,400
C. W. Mackie PLC	25,812	1,355	46.00	1,188	54,890	2,959	54.70	3,002
Singer (Sri Lanka) PLC	–	–	–	–	37,481	4,247	126.20	4,730
		142,914		63,413		148,765		80,140
Total quoted equities		4,650,327		2,761,184		4,809,046		3,098,453

25.1.3 Quoted Equities – Group

As at 31 December	Group							
	2017				2016			
	No. of Ordinary Shares	Cost of Investment LKR '000	Market Price Per Share LKR	Market Value LKR '000	No. of Ordinary Shares	Cost of Investment LKR '000	Market Price Per Share LKR	Market Value LKR '000
Banks, Finance and Insurance								
Amāna Takaful PLC	500,000	450	0.80	400	–	–	–	–
Asia Asset Finance PLC	639,289	1,023	1.40	895	–	–	–	–
Central Finance Company PLC	46,331	5,842	92.30	4,276	45,000	5,842	100.00	4,500
Ceylinco Insurance PLC	–	–	–	–	1,810	2,851	1,490.00	2,697
Chilaw Finance PLC	–	–	–	–	3,753	87	20.40	77
Citizens Development Business Finance PLC – Non-voting	44,733	3,992	56.00	2,505	44,733	3,992	62.10	2,778
Commercial Bank of Ceylon PLC – Voting	–	–	–	–	9,964	1,714	145.00	1,445
Commercial Bank of Ceylon PLC – Non-voting	40,000	4,202	105.00	4,200	–	–	–	–
Commercial Credit and Finance PLC	22,500	1,498	43.00	968	30,000	1,998	56.30	1,689
DFCC Bank PLC	120,000	24,993	122.80	14,736	120,000	24,993	122.50	14,700
Hatton National Bank PLC	61,005	13,872	249.00	15,190	85,793	19,611	225.00	19,303
HDFC Bank of Sri Lanka	–	–	–	–	26,500	1,832	47.20	1,251
HNB Assurance PLC	–	–	–	–	7,500	621	58.80	441
Janashakthi Insurance Company PLC	669,893	12,975	15.70	10,517	674,893	13,072	16.40	11,068
Lanka Orix Leasing Company PLC	–	–	–	–	133,100	15,180	72.50	9,650
LOLC Finance PLC	–	–	–	–	500,000	1,300	2.60	1,300
LB Finance PLC	12,500	1,645	122.10	1,526	–	–	–	–
National Development Bank PLC	74,286	16,253	136.40	10,133	72,704	16,513	156.00	11,342
Nations Trust Bank PLC	210,032	20,657	78.00	16,382	210,032	20,657	80.90	16,992
Pan Asia Banking Corporation PLC	30,000	516	15.70	471	–	–	–	–
Sanasa Development Bank PLC	18,152	1,829	101.90	1,850	256	27	103.70	27
Seylan Bank PLC – Voting	137,789	13,846	87.20	12,015	135,000	13,846	90.00	12,150
Seylan Bank PLC – Non-voting	341,439	17,845	56.00	19,121	330,000	17,845	59.00	19,470
Softlogic Finance PLC	60,515	3,340	36.40	2,203	60,515	3,340	34.00	2,058
The Finance Company PLC – Non-voting	200,000	1,000	2.20	440	200,000	1,000	2.90	580
Union Bank of Colombo PLC	–	–	–	–	10,000	170	15.40	154
		145,778		117,828		166,491		133,672
Beverage, Food and Tobacco								
Bairaha Farms PLC	144,942	35,752	147.30	21,350	119,942	31,789	181.50	21,769
Cargills (Ceylon) PLC	1,298,613	267,268	199.90	259,593	1,303,613	268,297	194.40	253,422
Ceylon Tobacco Company PLC	143,178	137,101	1,004.50	143,822	194,178	185,937	806.50	156,605
HVA Foods PLC	45,000	1,060	6.10	275	20,000	905	6.00	120
Keells Food Products PLC	27,672	4,746	140.00	3,874	27,672	4,746	158.00	4,372
Lion Brewery Ceylon PLC	672	370	540.00	363	–	–	–	–
Lucky Lanka Milk Processing PLC – Voting	3,657,487	21,808	1.90	6,949	3,657,487	21,808	3.20	11,704
Lucky Lanka Milk Processing PLC – Non-voting	91,900	276	1.20	110	91,900	276	1.40	129
Renuka Agri Foods PLC	752,274	3,177	2.60	1,956	752,274	3,177	2.90	2,182
Three Acre Farms PLC	–	–	–	–	7,000	827	135.10	946
		471,558		438,292		517,762		451,249

As at 31 December	Group							
	2017				2016			
	No. of Ordinary Shares	Cost of Investment LKR '000	Market Price Per Share LKR	Market Value LKR '000	No. of Ordinary Shares	Cost of Investment LKR '000	Market Price Per Share LKR	Market Value LKR '000
Chemicals and Pharmaceuticals								
Chemanex PLC	100,000	16,685	51.50	5,150	100,000	16,685	59.60	5,960
CIC Holdings PLC – Voting	772,657	124,427	62.00	47,905	770,657	124,284	91.40	70,438
CIC Holdings PLC – Non-voting	441,353	41,494	47.40	20,920	423,689	40,596	68.00	28,811
Haycarb PLC	251,067	48,263	147.50	37,032	251,067	48,263	150.00	37,660
Lankem Ceylon PLC	72,400	32,703	40.00	2,896	72,400	32,703	60.00	4,344
		263,572		113,903		262,531		147,213
Construction and Engineering								
Access Engineering PLC	162,000	3,859	23.50	3,807	177,000	4,189	24.80	4,390
Colombo Dockyard PLC	897,622	201,955	88.50	79,440	915,540	205,492	78.60	71,961
MTD Walkers PLC	130,000	7,745	23.10	3,003	130,000	7,745	41.00	5,330
		213,559		86,250		217,426		81,681
Diversified Holdings								
Aitken Spence PLC	2,706,230	371,623	54.60	147,760	2,711,230	372,128	65.00	176,230
Browns Capital PLC	200,000	990	3.20	640	200,000	990	1.10	220
Browns Investments PLC	3,823,412	15,799	2.60	9,941	3,073,412	13,324	1.40	4,303
Carson Cumberbatch PLC	313,352	141,328	176.00	55,150	313,352	141,328	173.80	54,461
C T Holdings PLC	–	–	–	–	244,944	36,788	125.20	30,667
Dunamis Capital PLC	27,500	719	23.40	644	–	–	–	–
Expolanka Holdings PLC	1,716,193	15,964	5.30	9,096	1,716,193	15,964	6.30	10,812
Hayleys PLC	68,597	21,697	241.00	16,532	68,097	21,556	270.00	18,386
John Keells Holdings PLC	3,336,028	581,139	148.50	495,400	3,591,712	619,573	145.00	520,798
Melstacorp Limited	5,000	305	59.50	298	600,000	28,973	59.30	35,580
Richard Pieris and Company PLC	6,889,225	90,662	13.00	89,560	6,889,225	90,662	8.00	55,114
Softlogic Holdings PLC	1,696,191	33,415	12.50	21,202	1,696,191	33,415	13.00	22,050
Sunshine Holdings PLC	35,211	2,119	57.00	2,007	–	–	–	–
Taprobane Holdings PLC	30,000	180	5.50	165	–	–	–	–
The Colombo Fort Land & Building PLC	194,299	11,531	19.00	3,692	194,500	11,537	20.00	3,890
Vallibel One PLC	2,477,704	71,912	17.70	43,854	2,427,704	70,962	18.60	45,155
		1,359,383		895,941		1,457,200		977,666
Footware and Textiles								
Ceylon Leather Products PLC	8,000	615	60.40	483	11,348	873	70.00	794
Hayleys Fabric PLC	874,098	16,043	13.50	11,800	724,098	13,468	15.00	10,861
ODEL PLC	222,295	9,325	25.60	5,691	222,295	9,325	23.80	5,291
		25,983		17,974		23,666		16,946
Health Care								
Ceylon Hospitals PLC	5,000	500	83.00	415	–	–	–	–
Nawaloka Hospitals PLC	–	–	–	–	19,081	79	4.50	86
Singhe Hospital PLC	4,000,000	10,000	1.70	6,800	4,000,000	10,000	1.90	7,600
The Lanka Hospital Corporation PLC	309,949	20,545	62.00	19,217	148,450	10,346	65.00	9,649
		31,045		26,432		20,425		17,335

As at 31 December	Group							
	2017				2016			
	No. of Ordinary Shares	Cost of Investment LKR '000	Market Price Per Share LKR	Market Value LKR '000	No. of Ordinary Shares	Cost of Investment LKR '000	Market Price Per Share LKR	Market Value LKR '000
Hotels and Travels								
Aitken Spence Hotel Holdings PLC	2,610,641	238,463	29.50	77,014	2,610,641	238,463	43.10	112,519
Amaya Leisure PLC	569,845	53,019	51.30	29,233	569,845	53,019	65.50	37,325
Asian Hotels & Properties PLC	2,367,741	225,781	52.80	125,017	2,500,558	235,726	57.00	142,532
Bansei Royal Resorts Hikkaduwa PLC	100,000	100	0.80	80	–	–	–	–
Ceylon Hotels Corporation PLC	–	–	–	–	2,930	75	20.30	59
Citrus Leisure PLC	100,000	10,112	7.50	750	100,000	10,112	9.50	950
Eden Hotel Lanka PLC	903,293	45,541	14.20	12,827	903,293	45,541	13.50	12,194
Galadari Hotels (Lanka) PLC	61,030	927	8.00	488	81,030	1,219	10.70	867
John Keells Hotels PLC	968,487	15,728	8.80	8,523	968,487	15,728	10.90	10,557
Marawila Resorts PLC	100,000	782	1.90	190	1,059,168	5,438	2.40	2,542
Palm Garden Hotels PLC	147,472	10,928	26.10	3,849	147,472	10,928	28.30	4,173
Tal Lanka Hotels PLC	447,400	30,043	15.90	7,114	447,400	30,043	25.20	11,274
Tangerine Beach Hotels PLC	50,000	5,056	52.00	2,600	50,000	5,056	59.90	2,995
The Fortress Resorts PLC	1,461,100	50,506	9.30	13,588	1,461,100	50,506	13.60	19,871
The Kingsbury PLC	2,241,893	46,619	13.50	30,266	2,170,395	45,582	15.20	32,990
Trans Asia Hotels PLC	477,200	48,407	89.00	42,470	477,200	48,407	94.00	44,857
Waskaduwa Beach Resort PLC	50,000	306	3.80	190	50,000	306	4.40	220
		782,318		354,199		796,149		435,925
Information Technology								
E-Channelling PLC	15,000	120	5.90	89	–	–	–	–
		120		89	–	–	–	–
Investment Trusts								
Ceylon Guardian Investment Trust PLC	107,847	32,747	85.00	9,167	107,847	32,747	105.50	11,378
Ceylon Investment PLC	511,933	79,536	44.70	22,883	537,370	82,017	49.10	26,385
Guardian Capital Partners PLC	18,472	1,006	30.10	556	18,472	1,006	38.90	719
Lanka Century Investments PLC	885,000	30,165	12.10	10,709	905,000	30,440	11.80	10,679
Renuka Holdings PLC	1,211,821	39,639	24.00	29,084	1,318,262	43,905	21.10	27,815
		183,093		72,399		190,115		76,976
Land and Property								
Cargo Boat Development Company PLC	9,984	899	84.00	839	–	–	–	–
Colombo Land & Development Company PLC	2,700	96	19.80	53	2,700	96	26.90	73
Commercial Development Company PLC	4,649	451	70.00	325	4,649	451	75.10	349
East West Properties PLC	8,000	120	11.30	90	–	–	–	–
Overseas Realty (Ceylon) PLC	957,792	24,815	17.60	16,858	952,792	24,685	20.00	19,056
R I L Property PLC	25,000	200	7.20	180	–	–	–	–
Serendib Land PLC	75,000	1,125	13.60	1,020	–	–	–	–
		27,706		19,365		25,232		19,478

As at 31 December	Group							
	2017				2016			
	No. of Ordinary Shares	Cost of Investment LKR '000	Market Price Per Share LKR	Market Value LKR '000	No. of Ordinary Shares	Cost of Investment LKR '000	Market Price Per Share LKR	Market Value LKR '000
Manufacturing								
Abans Electricals PLC	201,303	27,327	84.50	17,010	196,303	26,807	100.10	19,650
ACL Cables PLC	1,055,246	48,791	42.40	44,742	1,005,246	45,924	60.50	60,817
ACME Printing & Packaging PLC	1,078,700	35,020	6.60	7,119	1,209,723	36,221	6.20	7,500
Alufab PLC	60,000	1,660	23.00	1,380	–	–	–	–
Alumex PLC	–	–	–	–	100,529	2,037	20.20	2,031
Central Industries PLC	62,560	2,575	41.00	2,565	118,156	4,812	49.50	5,849
Ceylon Grain Elevators PLC	672,498	64,940	66.10	44,452	403,709	45,057	82.90	33,467
Chevron Lubricants Lanka PLC	872,966	159,206	119.00	103,883	837,966	154,550	157.10	131,644
Dankotuwa Porcelain PLC	–	–	–	–	630,902	6,301	7.10	4,479
Kelani Tyres PLC	1,131,213	84,083	44.40	50,226	1,131,213	84,083	64.90	73,416
Lanka Cement PLC	7,265,828	63,576	5.70	41,415	9,014,438	78,876	5.90	53,185
Lanka Tiles PLC	973,200	130,512	115.00	111,918	1,021,453	136,302	95.90	97,957
Lanka Walltiles PLC	–	–	–	–	53,046	4,890	99.70	5,289
Orient Garments PLC	82,150	2,568	7.00	575	82,150	2,568	7.00	575
Piramal Glass Ceylon PLC	3,288,600	32,322	5.80	19,074	4,088,600	37,427	5.30	21,670
Richard Pieris Exports PLC	2,000	470	177.00	354	–	–	–	–
Royal Ceramics Lanka PLC	69,722	8,905	114.50	7,983	152,294	17,962	115.50	17,590
Sierra Cables PLC	1,719,525	7,247	2.50	4,299	1,519,525	6,622	3.30	5,014
Swisstek (Ceylon) PLC	161,929	11,283	62.00	10,040	216,709	15,317	68.90	14,931
Teejay Lanka PLC	75,000	2,775	34.00	2,550	565,103	10,638	42.80	24,186
Tokyo Cement Company (Lanka) PLC – Voting	36,669	1,807	66.00	2,420	200,000	11,911	59.20	11,840
Tokyo Cement Company (Lanka) PLC – Non-voting	96,000	3,400	59.00	5,665	203,563	8,651	51.50	10,483
		688,467		477,670		736,956		601,573
Motors								
C M Holdings PLC	50,857	17,422	73.00	3,713	50,857	17,422	85.20	4,333
Diesel & Motor Engineering PLC	77,935	84,514	490.00	38,188	77,935	84,514	581.00	45,280
Sathosa Motors PLC	16,000	6,198	335.10	5,362	16,000	6,198	298.70	4,779
United Motors Lanka PLC	429,478	43,076	78.00	33,499	404,478	41,051	86.00	34,785
		151,210		80,762		149,185		89,177
Oil Palms								
Bukit Darah PLC	119,257	83,965	210.50	25,104	119,257	83,965	280.00	33,392
		83,965		25,104		83,965		33,392
Plantations								
Agalawatte Plantations PLC	45,600	4,608	20.00	912	45,600	4,608	17.50	798
Balangoda Plantations PLC	30,000	2,184	30.20	906	527,486	17,180	12.20	6,435
Elpitiya Plantations PLC	50,000	1,496	28.20	1,410	–	–	–	–
Horana Plantations PLC	513,000	43,752	26.00	13,338	513,000	43,752	17.90	9,183
Kahawatte Plantations PLC	758,536	30,683	38.90	29,507	838,629	33,921	37.70	31,616
Kegalle Plantations PLC	50,600	13,702	70.00	3,542	50,600	13,702	48.50	2,454
Kotagala Plantations PLC	486,665	34,711	12.20	5,937	554,109	37,353	8.90	4,932
Namunukula Plantations PLC	80,000	12,458	87.00	6,960	80,000	12,458	73.70	5,896
Watawala Plantations PLC	–	–	–	–	350,100	10,998	19.70	6,897
		143,594		62,512		173,972		68,211

As at 31 December	Group							
	2017				2016			
	No. of Ordinary Shares	Cost of Investment LKR '000	Market Price Per Share LKR	Market Value LKR '000	No. of Ordinary Shares	Cost of Investment LKR '000	Market Price Per Share LKR	Market Value LKR '000
Power and Energy								
Laugfs Gas PLC – Voting	243,727	6,650	23.50	5,728	168,727	4,689	33.30	5,619
Laugfs Gas PLC – Non-voting	3,445,538	143,705	20.00	68,911	3,446,626	143,747	32.90	113,394
Lotus Hydro Power PLC	173,194	1,427	5.80	1,005	173,194	1,427	6.60	1,143
Panasian Power PLC	1,029,200	6,407	2.70	2,779	1,029,200	6,407	3.00	3,088
Resus Energy PLC	1,290,737	49,020	18.20	23,490	1,290,437	49,020	22.30	28,777
Vallibel Power Erathna PLC	792,050	6,642	7.50	5,940	717,050	6,129	8.80	6,310
		213,851		107,853		211,419		158,331
Services								
Ceylon Tea Brokers PLC	114,778	556	4.30	494	192,655	937	3.90	751
John Keells PLC	250,200	22,759	53.90	13,486	250,200	22,759	57.00	14,261
Renuka Capital PLC	13,500	172	4.50	60	135	172	804.80	109
Paragon Ceylon PLC	50,000	288	4.50	225	–	–	–	–
		23,775		14,265		23,868		15,121
Stores and Supplies								
Hunters & Company PLC	27,100	21,923	444.80	12,054	27,100	21,923	416.00	11,274
		21,923		12,054		21,923		11,274
Telecommunications								
Dialog Axiata PLC	–	–	–	–	164,408	1,819	10.50	1,726
Sri Lanka Telecom PLC	214,000	7,496	28.50	6,099	214,000	7,496	36.00	7,704
		7,496		6,099		9,315		9,430
Trading								
Brown & Company PLC	828,677	134,637	70.50	58,422	814,794	133,566	84.00	68,443
Ceylon & Foreign Trades PLC	830,100	8,533	6.20	5,146	830,100	8,533	5.30	4,400
C. W. Mackie PLC	25,812	1,355	46.00	1,186	54,890	2,959	54.70	3,002
Eastern Merchants PLC	–	–	–	–	257,922	2,179	6.20	1,599
Tess Agro PLC	100,000	130	1.00	100	–	–	–	–
Singer (Sri Lanka) PLC	–	–	–	–	37,481	4,247	126.20	4,730
		144,655		64,854		151,484		82,174
Total quoted equities		4,983,051		2,993,845		5,239,084		3,426,824

25.2 Quoted Debt Securities

As at 31 December	Group							
	2017				2016			
	No. of Debentures	Cost of Investment LKR '000	Market Price Per Debenture LKR	Market Value LKR '000	No. of Debentures	Cost of Investment LKR '000	Market Price Per Debenture LKR	Market Value LKR '000
Listed Debentures								
Commercial Credit and Finance PLC	20,000	2,141	116.25	2,325	20,000	2,141	111.76	2,235
Hatton National Bank PLC	26,000	2,377	88.00	2,288	–	–	–	–
Total quoted debt securities		4,518		4,613		2,141		2,235

26 Financial Investments – Loans and Receivables

Accounting Policy

Financial investments – Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Those are initially measured at fair value and subsequently measured amortised cost using the Effective Interest Rate (EIR), less allowance for impairment. The corresponding interest income being recognised in “Interest income” (Note 8.1) in the Statement of Profit or Loss. The loss arising from impairment are recognised in “Impairment charge/(reversal) for loans and other losses” (Note 13) in the Statement of Profit or Loss.

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Sri Lanka Development Bonds [Note 26.1]	185,337,468	162,734,051	185,337,468	162,734,051
Government of Sri Lanka Restructuring Bonds (Note 26.2)	8,968,474	8,968,474	8,968,474	8,968,474
Debentures [Note 26.3]	5,641,373	5,225,215	5,486,875	5,070,645
Trust certificates [Note 26.4]	768,799	965,457	768,799	965,457
Government securities – Local	5,709,127	5,492,644	5,709,127	5,492,644
Government securities – Other countries	6,741,807	8,488,797	6,741,807	8,488,797
Other investments	–	–	1,337,074	264,014
Total financial investments – Loans and receivables	213,167,048	191,874,638	214,349,624	191,984,082

26.1 Sri Lanka Development Bonds (US Dollar Bonds)

As at 31 December	Date of Maturity	Bank/Group			
		2017		2016	
		Cost of Investment LKR '000	Amortised Cost LKR '000	Cost of Investment LKR '000	Amortised Cost LKR '000
6 months LIBOR plus 340 basis points	21.01.2017	–	–	3,745,000	3,820,023
6 months LIBOR plus 345 basis points	21.01.2017	–	–	3,745,000	3,820,874
6 months LIBOR plus 350 basis points	21.01.2017	–	–	7,490,000	7,643,450
6 months LIBOR plus 360 basis points	17.03.2017	–	–	749,000	759,649
6 months LIBOR plus 365 basis points	17.03.2017	–	–	1,498,000	1,519,516
6 months LIBOR plus 375 basis points	17.03.2017	–	–	3,745,000	3,799,882
6 months LIBOR plus 380 basis points	17.03.2017	–	–	1,498,000	1,520,171
6 months LIBOR plus 390 basis points	17.03.2017	–	–	1,498,000	1,520,607
6 months LIBOR plus 400 basis points	17.03.2017	–	–	749,000	760,522
6 months LIBOR plus 405 basis points	17.03.2017	–	–	1,498,000	1,521,262
6 months LIBOR plus 410 basis points	17.03.2017	–	–	1,498,000	1,521,480
6 months LIBOR plus 435 basis points	17.03.2017	–	–	1,498,000	1,522,570
6 months LIBOR plus 440 basis points	17.03.2017	–	–	1,498,000	1,522,788
6 months LIBOR plus 450 basis points	17.03.2017	–	–	2,996,000	3,046,449
6 months LIBOR plus 455 basis points	17.03.2017	–	–	1,498,000	1,523,442
6 months LIBOR plus 460 basis points	17.03.2017	–	–	749,000	761,830
6 months LIBOR plus 345 basis points	30.04.2017	–	–	3,745,000	3,775,137
6 months LIBOR plus 350 basis points	30.04.2017	–	–	3,745,000	3,775,455
6 months LIBOR plus 325 basis points	30.06.2017	–	–	2,247,000	2,247,282

As at 31 December	Date of Maturity	Bank/Group			
		2017		2016	
		Cost of Investment LKR '000	Amortised Cost LKR '000	Cost of Investment LKR '000	Amortised Cost LKR '000
6 months LIBOR plus 375 basis points	30.06.2017	–	–	3,745,000	3,745,521
6 months LIBOR plus 300 basis points	21.01.2018	3,821,370	3,898,799	–	–
6 months LIBOR plus 425 basis points	21.01.2018	7,642,740	7,790,539	–	–
6 months LIBOR plus 435 basis points	21.01.2018	3,821,370	3,897,006	–	–
6 months LIBOR plus 375 basis points	16.03.2018	4,585,644	4,656,260	4,494,000	4,560,484
6 months LIBOR plus 430 basis points	28.03.2018	3,821,370	3,864,512	–	–
6 months LIBOR plus 435 basis points	28.03.2018	3,821,370	3,865,011	–	–
6 months LIBOR plus 435 basis points	30.04.2018	1,528,548	1,539,918	–	–
6 months LIBOR plus 440 basis points	30.04.2018	1,528,548	1,540,048	–	–
6 months LIBOR plus 415 basis points	01.07.2018	107,467,624	110,542,609	105,319,886	108,045,657
6 months LIBOR plus 325 basis points	30.01.2019	3,821,370	3,898,627	–	–
6 months LIBOR plus 335 basis points	30.01.2019	3,821,370	3,900,266	–	–
6 months LIBOR plus 345 basis points	30.01.2019	3,821,370	3,901,905	–	–
6 months LIBOR plus 330 basis points	17.03.2019	4,585,644	4,649,581	–	–
6 months LIBOR plus 335 basis points	17.03.2019	4,585,644	4,650,249	–	–
6 months LIBOR plus 340 basis points	17.03.2019	4,078,166	4,136,216	–	–
6 months LIBOR plus 370 basis points	17.03.2020	3,821,370	3,879,106	–	–
6 months LIBOR plus 375 basis points	17.03.2020	4,585,644	4,655,595	–	–
6 months LIBOR plus 380 basis points	17.03.2020	764,274	776,043	–	–
6 months LIBOR plus 360 basis points	01.04.2020	3,821,370	3,870,952	–	–
6 months LIBOR plus 370 basis points	01.04.2020	3,821,370	3,871,916	–	–
6 months LIBOR plus 385 basis points	17.05.2022	1,528,548	1,552,310	–	–
Total Sri Lanka Development Bonds		181,094,724	185,337,468	159,247,886	162,734,051

26.2 Government of Sri Lanka Restructuring Bonds

As at 31 December	Rate %	Date of Issue	Date of Maturity	Bank/Group			
				2017		2016	
				Cost of Investment LKR '000	Carrying Value LKR '000	Cost of Investment LKR '000	Carrying Value LKR '000
For recapitalisation purposes	12.00	24.03.1993	24.03.2023	4,780,000	5,015,714	4,780,000	5,015,714
For settlement of loans	12.00	24.03.1993	24.03.2023	3,767,000	3,952,760	3,767,000	3,952,760
Total Government of Sri Lanka Restructuring Bonds				8,547,000	8,968,474	8,547,000	8,968,474

26.3 Debentures

As at 31 December	Date of Maturity	Coupon Rate %	Bank					
			2017			2016		
			No. of Debentures	Cost of Investment LKR '000	Amortised Cost LKR '000	No. of Debentures	Cost of Investment LKR '000	Amortised Cost LKR '000
Access Engineering PLC	18.11.2020	10.25	2,000,000	200,000	202,370	2,000,000	200,000	202,370
Citizen Development Business Finance PLC	03.06.2021	12.75	500,000	50,000	50,492	500,000	50,000	50,482
Commercial Bank of Ceylon PLC	08.03.2021	10.75	1,000,000	100,000	103,326	1,000,000	100,000	103,326
Commercial Bank of Ceylon PLC	27.10.2021	12.00	779,600	77,960	79,568	779,600	77,960	79,569
Commercial Credit and Finance PLC	01.06.2020	10.50	530,519	53,052	54,450	530,519	53,052	54,447
Commercial Credit and Finance PLC	10.12.2020	10.40	3,665,600	366,560	368,702	3,665,600	366,560	368,706
Commercial Leasing & Finance PLC	21.07.2020	9.75	750,000	75,000	82,302	750,000	75,000	82,292
DFCC Bank PLC	18.03.2018	10.63	2,500,000	250,000	270,729	2,500,000	250,000	270,732
DFCC Bank PLC	10.06.2020	9.40	332,100	33,210	34,916	332,100	33,210	34,918
DFCC Bank PLC	09.11.2021	12.15	1,892,800	189,280	192,391	1,892,800	189,280	192,397
First Capital Treasuries PLC	05.02.2020	9.50	500,000	50,000	54,727	500,000	50,000	54,262
Hatton National Bank PLC	28.03.2021	11.25	1,000,000	100,000	108,456	1,000,000	100,000	108,458
Hatton National Bank PLC	01.11.2023	13.00	193,300	19,330	19,722	193,300	19,330	19,722
Hayleys PLC	31.05.2019	11.99	1,000,000	100,000	100,844	1,000,000	100,000	100,994
HDFC Bank of Sri Lanka	23.10.2017	15.00	-	-	-	779,400	77,940	80,895
HDFC Bank of Sri Lanka	20.11.2020	10.50	2,000,000	200,000	202,308	2,000,000	200,000	202,311
Hemas Holdings PLC	29.04.2019	11.00	173,500	17,350	17,826	173,500	17,350	17,825
Kotagala Plantations PLC	26.05.2018	14.25	165,975	16,598	17,797	165,975	16,598	17,800
Kotagala Plantations PLC	26.05.2019	14.50	165,975	16,598	17,815	165,975	16,598	17,814
Kotagala Plantations PLC	26.05.2020	14.75	165,975	16,598	17,832	165,975	16,598	17,830
Kotagala Plantations PLC	26.05.2021	15.00	165,975	16,598	17,852	165,975	16,598	17,850
Lanka Orix Leasing Company PLC	24.11.2019	9.00	1,000,000	100,000	102,257	1,000,000	100,000	102,246
Lanka Orix Leasing Company PLC	30.07.2022	13.00	2,500,000	250,000	263,662	-	-	-
LB Finance PLC	28.11.2018	15.00	445,200	44,520	51,098	445,200	44,520	50,984
LB Finance PLC	11.12.2022	12.75	2,500,000	250,000	251,280	-	-	-
Merchant Bank of Sri Lanka & Finance PLC	27.03.2018	16.70	938,600	93,860	97,815	938,600	93,860	97,829
Merchant Bank of Sri Lanka & Finance PLC	12.11.2019	9.00	1,135,200	113,520	123,760	1,135,200	113,520	123,765
MTD Walkers PLC	30.09.2018	9.75	500,000	50,000	51,207	500,000	50,000	51,207
National Development Bank PLC	19.12.2018	13.00	542,700	54,270	57,834	542,700	54,270	57,836
National Development Bank PLC	24.06.2020	9.40	534,500	53,450	58,469	534,500	53,450	58,463
Nawaloka Hospitals PLC	30.09.2019	14.15	1,000,000	100,000	109,459	1,000,000	100,000	112,405
Orient Finance PLC	26.12.2019	9.05	500,000	50,000	50,073	500,000	50,000	52,275
Pan Asia Banking Corporation PLC	29.09.2019	10.00	486,112	48,611	49,818	486,112	48,611	49,817
People's Leasing & Finance PLC	23.09.2018	9.63	73,500	7,350	8,061	73,500	7,350	8,060
People's Leasing & Finance PLC	12.11.2019	9.60	945,000	94,500	95,672	945,000	94,500	95,673
People's Leasing & Finance PLC	16.11.2021	12.60	2,000,000	200,000	203,032	2,000,000	200,000	203,036
Regional Development Bank	29.01.2020	9.00	4,250,000	425,000	463,115	4,250,000	425,000	460,193
Richard Pieris and Company PLC	16.05.2017	10.75	-	-	-	156,500	15,650	16,069
Sampath Bank PLC	14.12.2019	8.25	1,000,000	100,000	108,265	1,000,000	100,000	108,279
Sampath Bank PLC	18.11.2020	9.90	898,400	89,840	90,881	898,400	89,840	90,869
Sampath Bank PLC	10.06.2021	12.75	1,500,000	150,000	160,400	1,500,000	150,000	160,405
Sanasa Development Bank PLC	31.12.2020	10.00	1,500,000	150,000	157,608	1,500,000	150,000	157,583

As at 31 December	Date of Maturity	Coupon Rate %	Bank					
			2017			2016		
			No. of Debentures	Cost of Investment LKR '000	Amortised Cost LKR '000	No. of Debentures	Cost of Investment LKR '000	Amortised Cost LKR '000
Sanasa Development Bank PLC	31.12.2020	10.30	1,500,000	150,000	157,836	1,500,000	150,000	157,811
Senkadagala Finance PLC	09.11.2018	13.25	320,000	32,000	32,578	320,000	32,000	32,579
Senkadagala Finance PLC	10.12.2018	15.00	817,653	81,765	82,327	817,653	81,765	82,359
Senkadagala Finance PLC	10.11.2019	12.50	320,000	32,000	32,546	320,000	32,000	32,547
Seylan Bank PLC	22.12.2019	8.60	1,500,000	150,000	150,271	1,500,000	150,000	150,271
Seylan Bank PLC	15.07.2021	13.00	451,600	45,160	47,870	451,600	45,160	47,872
Singer Finance PLC	06.04.2020	12.00	1,000,000	100,000	102,784	1,000,000	100,000	102,784
Singer (Sri Lanka) PLC	07.06.2018	8.60	500,000	50,000	52,170	500,000	50,000	52,162
Singer (Sri Lanka) PLC	14.03.2019	10.50	2,500,000	250,000	257,746	2,500,000	250,000	257,788
Singer (Sri Lanka) PLC	17.06.2020	9.95	309,300	30,930	34,010	309,300	30,930	34,006
Siyapatha Finance PLC	20.09.2019	13.00	1,000,000	100,000	103,475	1,000,000	100,000	103,474
Softlogic Finance PLC	29.08.2019	10.00	190,900	19,090	19,569	190,900	19,090	19,568
Total debentures			5,414,000	5,641,373		5,007,590	5,225,215	

As at 31 December	Date of Maturity	Coupon Rate %	Group					
			2017			2016		
			No. of Debentures	Cost of Investment LKR '000	Amortised Cost LKR '000	No. of Debentures	Cost of Investment LKR '000	Amortised Cost LKR '000
Access Engineering PLC	18.11.2020	10.25	2,000,000	200,000	202,370	2,000,000	200,000	202,370
Citizen Development Business Finance PLC	03.06.2021	12.75	500,000	50,000	50,492	500,000	50,000	50,482
Commercial Bank of Ceylon PLC	08.03.2021	10.75	1,000,000	100,000	103,326	1,000,000	100,000	103,326
Commercial Bank of Ceylon PLC	27.10.2021	12.00	779,600	77,960	79,568	779,600	77,960	79,569
Commercial Credit and Finance PLC	01.06.2020	10.50	530,519	53,052	54,450	530,519	53,052	54,447
Commercial Credit and Finance PLC	10.12.2020	10.40	3,665,600	366,560	368,702	3,665,600	366,560	368,706
Commercial Leasing & Finance PLC	21.07.2020	9.75	750,000	75,000	82,302	750,000	75,000	82,292
DFCC Bank PLC	18.03.2018	10.63	2,500,000	250,000	270,729	2,500,000	250,000	270,732
DFCC Bank PLC	10.06.2020	9.40	332,100	33,210	34,916	332,100	33,210	34,918
DFCC Bank PLC	09.11.2021	12.15	1,892,800	189,280	192,391	1,892,800	189,280	192,397
First Capital Treasuries PLC	05.02.2020	9.50	500,000	50,000	54,727	500,000	50,000	54,262
Hatton National Bank PLC	28.03.2021	11.25	1,000,000	100,000	108,456	1,000,000	100,000	108,458
Hatton National Bank PLC	01.11.2023	13.00	193,300	19,330	19,722	193,300	19,330	19,722
Hayleys PLC	31.05.2019	11.99	1,000,000	100,000	100,844	1,000,000	100,000	100,994
HDFC Bank of Sri Lanka	23.10.2017	15.00	-	-	-	779,400	77,940	80,895
HDFC Bank of Sri Lanka	20.11.2020	10.50	2,000,000	200,000	202,308	2,000,000	200,000	202,311
Hemas Holdings PLC	29.04.2019	11.00	173,500	17,350	17,826	173,500	17,350	17,825
Kotagala Plantations PLC	26.05.2018	14.25	165,975	16,598	17,797	165,975	16,598	17,800
Kotagala Plantations PLC	26.05.2019	14.50	165,975	16,598	17,815	165,975	16,598	17,814
Kotagala Plantations PLC	26.05.2020	14.75	165,975	16,598	17,832	165,975	16,598	17,830
Kotagala Plantations PLC	26.05.2021	15.00	165,975	16,598	17,852	165,975	16,598	17,850
Lanka Orix Leasing Company PLC	24.11.2019	9.00	1,000,000	100,000	102,257	1,000,000	100,000	102,246
Lanka Orix Leasing Company PLC	30.07.2022	13.00	2,500,000	250,000	263,662	-	-	-

As at 31 December	Date of Maturity	Coupon Rate %	Group					
			2017			2016		
			No. of Debentures	Cost of Investment LKR '000	Amortised Cost LKR '000	No. of Debentures	Cost of Investment LKR '000	Amortised Cost LKR '000
LB Finance PLC	28.11.2018	15.00	445,200	44,520	51,098	445,200	44,520	50,984
LB Finance PLC	11.12.2022	12.75	2,500,000	250,000	251,280	–	–	–
MTD Walkers PLC	30.09.2018	9.75	500,000	50,000	51,207	500,000	50,000	51,207
National Development Bank PLC	19.12.2018	13.00	542,700	54,270	57,834	542,700	54,270	57,836
National Development Bank PLC	24.06.2020	9.40	534,500	53,450	58,469	534,500	53,450	58,463
Nawaloka Hospitals PLC	30.09.2019	14.15	1,000,000	100,000	109,459	1,000,000	100,000	112,405
Orient Finance PLC	26.12.2019	9.05	500,000	50,000	50,073	500,000	50,000	52,275
Pan Asia Banking Corporation PLC	29.09.2019	10.00	486,112	48,611	49,818	486,112	48,611	49,817
People's Leasing & Finance PLC	26.03.2018	17.00	500,000	50,000	50,104	500,000	50,000	50,050
People's Leasing & Finance PLC	23.09.2018	9.63	73,500	7,350	8,061	73,500	7,350	8,060
People's Leasing & Finance PLC	12.11.2019	9.60	945,000	94,500	95,672	945,000	94,500	95,673
People's Leasing & Finance PLC	16.11.2021	12.60	2,000,000	200,000	203,032	2,000,000	200,000	203,036
Regional Development Bank	29.01.2020	9.00	4,250,000	425,000	463,115	4,250,000	425,000	460,193
Richard Pieris and Company PLC	16.05.2017	10.75	–	–	–	156,500	15,650	16,069
Sampath Bank PLC	14.12.2019	8.25	1,000,000	100,000	108,265	1,000,000	100,000	108,279
Sampath Bank PLC	18.11.2020	9.90	898,400	89,840	90,881	898,400	89,840	90,869
Sampath Bank PLC	10.06.2021	12.75	1,500,000	150,000	160,400	1,500,000	150,000	160,405
Sanasa Development Bank PLC	31.12.2020	10.00	1,500,000	150,000	157,608	1,500,000	150,000	157,583
Sanasa Development Bank PLC	31.12.2020	10.30	1,500,000	150,000	157,836	1,500,000	150,000	157,811
Senkadagala Finance PLC	09.11.2018	13.25	320,000	32,000	32,578	320,000	32,000	32,579
Senkadagala Finance PLC	10.12.2018	15.00	817,653	81,765	82,327	817,653	81,765	82,359
Senkadagala Finance PLC	10.11.2019	12.50	320,000	32,000	32,546	320,000	32,000	32,547
Seylan Bank PLC	21.02.2018	15.50	150,000	15,000	16,973	150,000	15,000	16,974
Seylan Bank PLC	22.12.2019	8.60	1,500,000	150,000	150,271	1,500,000	150,000	150,271
Seylan Bank PLC	15.07.2021	13.00	451,600	45,160	47,870	451,600	45,160	47,872
Singer Finance PLC	06.04.2020	12.00	1,000,000	100,000	102,784	1,000,000	100,000	102,784
Singer (Sri Lanka) PLC	07.06.2018	8.60	500,000	50,000	52,170	500,000	50,000	52,162
Singer (Sri Lanka) PLC	14.03.2019	10.50	2,500,000	250,000	257,746	2,500,000	250,000	257,788
Singer (Sri Lanka) PLC	17.06.2020	9.95	309,300	30,930	34,010	309,300	30,930	34,006
Siyapatha Finance PLC	20.09.2019	13.00	1,000,000	100,000	103,475	1,000,000	100,000	103,474
Softlogic Finance PLC	29.08.2019	10.00	190,900	19,090	19,569	190,900	19,090	19,568
Total debentures			5,271,620	5,486,875		4,865,210	5,070,645	

26.4 Trust Certificates

As at 31 December	Bank/Group			
	2017		2016	
	Cost of Investment LKR '000	Amortised Cost LKR '000	Cost of Investment LKR '000	Amortised Cost LKR '000
LOLC Finance PLC	314,611	360,317	500,000	520,438
People's Leasing & Finance PLC	239,200	277,506	320,300	329,068
Sanasa Development Bank PLC	111,846	130,976	111,846	115,951
Total trust certificates	665,657	768,799	932,146	965,457

27 Loans and Advances to Customers

Accounting Policy

Loans and advances to customers include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Group intends to sell immediately or in the near term and those that the Group, upon initial recognition, designates as at fair value through profit or loss
- Those that the Group, upon initial recognition, designates as available for sale
- Those for which the Group may not recover substantially all of its initial investment, other than due to credit deterioration

“Loans and advances to customers” are initially measured at fair value and subsequently measured at amortised cost using the Effective Interest Rate (EIR), less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in “Interest income” (Note 8.1) in the Statement of Profit or Loss. The losses arising from impairment are recognised in “Impairment charge for loans and other losses” (Note 13) in the Statement of Profit or Loss.

Write-Off of Loans and Receivables

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If a write-off is later recovered, the recovery is recognised in the “Other operating income” (Note 12).

Collateral Valuation

The Group seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, gold, securities, letters of credit/guarantees, real estate, inventories, other non-financial assets and credit enhancements such as netting arrangements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the guidelines issued by Central Bank of Sri Lanka.

Non-financial collaterals, including immovable and movables, are valued based on data provided by third parties such as independent professional valuers and Audited Financial Statements and other independent sources.

Collaterals Repossessed

The Group’s policy is to dispose of repossessed properties (Foreclosed properties) in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

Renegotiated Loans

Where possible, the Group seeks to reschedule/restructure loans rather than take possession of collateral. This may involve extending the payment arrangements and agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. The Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan’s original EIR.

Allowance for Impairment Losses

The Group assesses at each Reporting date, whether there is any objective evidence that loans and advances to customers are impaired.

The Group first assesses individually, whether objective evidence of impairment exist for loans and advances to customers that are individually significant and that are not individually significant assesses collectively.

Objective evidence for loans and advances to customers that are impaired can include and not limited to significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, renegotiating of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower will enter bankruptcy and other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Group or economic conditions that correlate with defaults in the Group.

If there is objective evidence on that an impairment loss has been incurred, the amount of the loss is measured as the difference between carrying amount of the loans and advances and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of loans and advances is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Profit or Loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of "Interest income" (Note 8.1).

All individually significant loans and advances found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment by grouping together loans and advances with similar risk characteristics.

In assessing collective impairment, the Group uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for Management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling.

Impairment of loans and advances portfolios are based on the judgements in past experience of portfolio behaviour. However, these portfolios are not gone through the full economic life cycle. It may not encounter any future uncertainties that could arise. Therefore, to avoid this limitation, an economic factor adjustment has been incorporated in the Financial Statements.

If in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the existing impairment.

27.1 Net Loans and Advances to Customers

27.1.1 Bank

As at 31 December	2017				2016			
	Individually Significant Loans	Retail Loans	Staff Loans	Total	Individually Significant Loans	Retail Loans	Staff Loans	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Gross loans and advances	663,904,153	539,999,527	16,010,801	1,219,914,481	554,030,753	477,345,815	15,813,122	1,047,189,690
Less: Individual impairment	28,928,388	–	157,217	29,085,605	19,247,084	–	128,088	19,375,172
Collective impairment	1,451,058	26,216,904	–	27,667,962	3,088,387	24,643,557	–	27,731,944
Net loans and advances	633,524,707	513,782,623	15,853,584	1,163,160,914	531,695,282	452,702,258	15,685,034	1,000,082,574

27.1.2 Group

As at 31 December	2017				2016			
	Individually Significant Loans	Retail Loans	Staff Loans	Total	Individually Significant Loans	Retail Loans	Staff Loans	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Gross loans and advances	679,001,234	557,080,950	16,281,172	1,252,363,356	567,790,592	492,132,248	16,029,313	1,075,952,153
Less: Individual impairment	29,394,405	–	168,279	29,562,684	19,637,627	–	139,150	19,776,777
Collective impairment	1,451,058	27,055,220	–	28,506,278	3,088,387	25,318,879	–	28,407,266
Net loans and advances	648,155,771	530,025,730	16,112,893	1,194,294,394	545,064,578	466,813,369	15,890,163	1,027,768,110

27.2 Movement in Impairment for Loans and Advances to Customers

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Movement in Individual Impairment				
As at 1 January	19,375,172	12,629,562	19,776,777	13,396,778
Charge during the year	11,713,536	9,209,538	11,758,365	9,289,236
Amount reversed or recovered during the year	(2,081,790)	(2,523,858)	(2,081,790)	(2,523,858)
Exchange rate variance on foreign currency impairment	143,324	172,083	143,324	172,083
Amount written off	(26,944)	(15,452)	(37,546)	(460,761)
Other movements	(37,693)	(96,701)	3,554	(96,701)
As at 31 December	29,085,605	19,375,172	29,562,684	19,776,777
Movement in Collective Impairment				
As at 1 January	27,731,944	29,897,086	28,407,266	30,637,409
Charge/(reversal) during the year	8,912	(2,288,919)	208,314	(2,344,378)
Exchange rate variance on foreign currency impairment	15,815	13,106	15,815	13,106
Amount written off	(1,153,687)	(15,492)	(1,153,687)	(15,492)
Other movements	1,064,978	126,163	1,028,570	116,621
As at 31 December	27,667,962	27,731,944	28,506,278	28,407,266
Total of individual and collective impairment	56,753,567	47,107,116	58,068,962	48,184,043

27.3 Analysis of Gross Loans and Advances – By Product

As at 31 December	2017			2016		
	Local Currency Loans LKR '000	Foreign Currency Loans LKR '000	Total LKR '000	Local Currency Loans LKR '000	Foreign Currency Loans LKR '000	Total LKR '000
Bank						
Term loans	258,559,100	246,534,671	505,093,771	220,511,465	170,726,008	391,237,473
Loans under schemes	89,621,904	48,022	89,669,926	80,127,478	1,017,341	81,144,819
Housing loans	56,520,480	170,674	56,691,154	48,851,923	–	48,851,923
Trade finance	46,910,127	31,728,812	78,638,939	38,183,554	29,854,206	68,037,760
Personal loans	175,226,804	–	175,226,804	160,170,812	–	160,170,812
Overdrafts	169,123,476	11,801,933	180,925,409	157,764,525	13,753,894	171,518,419
Credit cards	3,840,479	–	3,840,479	3,370,916	–	3,370,916
Lease rentals receivable [Note 27.6]	48,199,691	236,682	48,436,373	47,111,702	363,587	47,475,289
Pawning	51,540,743	–	51,540,743	47,191,558	–	47,191,558
Foreclosed properties	1,097,220	523,495	1,620,715	547,785	513,033	1,060,818
Staff loans	16,000,936	9,865	16,010,801	15,803,961	9,161	15,813,122
Other loans	10,280,816	1,938,551	12,219,367	9,986,891	1,329,890	11,316,781
Gross loans and advances	926,921,776	292,992,705	1,219,914,481	829,622,570	217,567,120	1,047,189,690

As at 31 December	2017			2016		
	Local Currency Loans LKR '000	Foreign Currency Loans LKR '000	Total LKR '000	Local Currency Loans LKR '000	Foreign Currency Loans LKR '000	Total LKR '000
Group						
Term loans	264,188,350	249,119,988	513,308,338	224,572,914	172,551,191	397,124,105
Loans under schemes	90,662,792	48,022	90,710,814	81,120,650	1,017,341	82,137,991
Housing loans	56,520,480	170,674	56,691,154	48,888,959	–	48,888,959
Trade finance	47,538,632	31,728,812	79,267,444	39,179,748	29,854,206	69,033,954
Personal loans	180,549,642	–	180,549,642	164,852,154	–	164,852,154
Overdrafts	169,120,155	11,989,037	181,109,192	157,732,793	13,926,430	171,659,223
Credit cards	3,840,479	–	3,840,479	3,370,916	–	3,370,916
Lease rentals receivable [Note 27.6]	64,287,980	236,682	64,524,662	62,422,939	363,587	62,786,526
Pawning	52,240,377	–	52,240,377	47,691,413	–	47,691,413
Foreclosed properties	1,097,220	523,495	1,620,715	547,785	513,033	1,060,818
Staff loans	16,263,739	17,433	16,281,172	16,017,452	11,861	16,029,313
Other loans	10,280,816	1,938,551	12,219,367	9,986,891	1,329,890	11,316,781
Gross loans and advances	956,590,662	295,772,694	1,252,363,356	856,384,614	219,567,539	1,075,952,153

27.4 Analysis of Gross Loans and Advances – By Currency

As at December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Sri Lankan Rupee	926,921,776	829,622,570	956,590,662	856,384,614
United States Dollar	277,458,160	202,881,696	277,458,160	202,881,696
Great Britain Pound	441,083	383,159	3,221,072	2,383,577
Maldivian Rufiyaa	7,730,018	7,767,141	7,730,018	7,767,141
Euro	383,252	286,748	383,252	286,748
Indian Rupee	5,589,102	6,210,730	5,589,102	6,210,730
Other currencies	1,391,090	37,646	1,391,090	37,647
Gross loans and advances	1,219,914,481	1,047,189,690	1,252,363,356	1,075,952,153

27.5 Analysis of Loan Impairment – By Product

As at 31 December	2017			2016		
	Gross Loans and Advances LKR '000	Total Impairment LKR '000	Net Loans and Advances LKR '000	Gross Loans and Advances LKR '000	Total Impairment LKR '000	Net Loans and Advances LKR '000
Individually Assessed Loans						
Bank						
Term loans	424,747,378	22,448,598	402,298,780	328,656,206	13,377,106	315,279,100
Loans under schemes	24,139,204	1,075,195	23,064,009	25,479,115	876,115	24,603,000
Housing loans	–	–	–	–	–	–
Trade finance	66,704,091	1,323,611	65,380,480	57,304,419	4,006,721	53,297,698
Personal loans	–	–	–	–	–	–
Overdrafts	129,056,633	5,347,740	123,708,893	119,048,316	3,629,754	115,418,562
Credit cards	–	–	–	–	–	–
Lease rentals receivable	16,370,241	12,693	16,357,548	19,828,062	152,500	19,675,562
Pawning	–	–	–	–	–	–
Foreclosed properties	–	–	–	–	–	–
Staff loans	16,010,801	157,217	15,853,584	15,813,122	128,088	15,685,034
Other loans	2,886,606	171,609	2,714,997	3,714,635	293,275	3,421,360
Total	679,914,954	30,536,663	649,378,291	569,843,875	22,463,559	547,380,316
Group						
Term loans	430,920,415	22,593,111	408,327,304	336,443,825	13,486,121	322,957,704
Loans under schemes	24,676,839	1,075,195	23,601,644	25,479,115	876,115	24,603,000
Housing loans	–	–	–	–	–	–
Trade finance	67,277,685	1,446,277	65,831,408	58,102,070	4,129,595	53,972,475
Personal loans	–	–	–	–	–	–
Overdrafts	129,240,416	5,347,740	123,892,676	119,048,316	3,629,754	115,418,562
Credit cards	–	–	–	–	–	–
Lease rentals receivable	24,269,644	222,593	24,047,051	25,002,631	311,154	24,691,477
Pawning	–	–	–	–	–	–
Foreclosed properties	–	–	–	–	–	–
Staff loans	16,281,172	168,279	16,112,893	16,029,313	139,150	15,890,163
Other loans	2,616,235	160,547	2,455,688	3,714,635	293,275	3,421,360
Total	695,282,406	31,013,742	664,268,664	583,819,905	22,865,164	560,954,741

As at 31 December	2017			2016		
	Gross Loans and Advances LKR '000	Total Impairment LKR '000	Net Loans and Advances LKR '000	Gross Loans and Advances LKR '000	Total Impairment LKR '000	Net Loans and Advances LKR '000
Collectively Assessed Loans						
Bank						
Term loans	80,346,393	3,212,546	77,133,847	62,581,267	2,214,742	60,366,525
Loans under schemes	65,530,722	3,167,291	62,363,431	55,665,704	3,941,780	51,723,924
Housing loans	56,691,154	559,721	56,131,433	48,851,923	594,573	48,257,350
Trade finance	11,934,848	1,132,000	10,802,848	10,733,341	1,165,470	9,567,871
Personal loans	175,226,804	950,508	174,276,296	160,170,812	587,318	159,583,494
Overdrafts	51,868,776	7,919,020	43,949,756	52,470,103	7,628,229	44,841,874
Credit cards	3,840,479	169,161	3,671,318	3,370,916	151,269	3,219,647
Lease rentals receivable	32,066,132	859,938	31,206,194	27,647,227	789,295	26,857,932
Pawning	51,540,743	680,263	50,860,480	47,191,558	1,043,342	46,148,216
Foreclosed properties	1,620,715	953,612	667,103	1,060,818	658,841	401,977
Staff loans	–	–	–	–	–	–
Other loans	9,332,761	6,612,844	2,719,917	7,602,146	5,868,698	1,733,448
Total	539,999,527	26,216,904	513,782,623	477,345,815	24,643,557	452,702,258
Group						
Term loans	82,387,923	3,821,544	78,566,379	60,680,280	2,421,033	58,259,247
Loans under schemes	66,033,975	3,167,291	62,866,684	56,658,876	3,963,156	52,695,720
Housing loans	56,691,154	559,721	56,131,433	48,888,959	621,197	48,267,762
Trade finance	11,989,759	1,143,743	10,846,016	10,931,884	1,177,238	9,754,646
Personal loans	180,549,642	950,508	179,599,134	164,852,154	677,090	164,175,064
Overdrafts	51,868,776	7,919,020	43,949,756	52,610,907	7,756,756	44,854,151
Credit cards	3,840,479	169,161	3,671,318	3,370,916	151,269	3,219,647
Lease rentals receivable	40,255,018	1,077,513	39,177,505	37,783,895	954,287	36,829,608
Pawning	52,240,377	680,263	51,560,114	47,691,413	1,069,314	46,622,099
Foreclosed properties	1,620,715	953,612	667,103	1,060,818	658,841	401,977
Staff loans	–	–	–	–	–	–
Other loans	9,603,132	6,612,844	2,990,288	7,602,146	5,868,698	1,733,448
Total	557,080,950	27,055,220	530,025,730	492,132,248	25,318,879	466,813,369

27.6 Lease Rentals Receivable

Accounting Policy

Assets leased to customers, which transfer substantially all the risks and rewards associated with ownership, other than legal title, are classified as finance leases. Amounts receivable under finance leases are classified as lease rentals receivables and presented within loans and receivables to customers in the Statement of Financial Position, after deduction of unearned interest income and the impairment for rentals doubtful of recovery.

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Gross Lease Rentals Receivable				
Less than one year	22,288,103	19,699,478	30,913,316	26,386,101
One to five years	35,433,813	36,715,009	47,343,619	49,201,396
More than five years	135,059	247,274	135,059	247,274
Total lease rentals receivable	57,856,975	56,661,761	78,391,994	75,834,771
Less: Unearned interest income	9,420,602	9,186,472	13,867,332	13,048,245
Gross lease rentals receivable	48,436,373	47,475,289	64,524,662	62,786,526
Less: Provision for impairment losses	872,631	941,795	1,300,106	1,265,441
Net lease rentals receivable	47,563,742	46,533,494	63,224,556	61,521,085

28 Financial Investments – Available for Sale

Accounting Policy

All non-derivative financial assets that are not in any of following three categories are classified under, financial investments – available for sale:

- Financial instruments – Held for trading
- Financial investments – Loans and receivables
- Financial investments – Held to maturity

Available for Sale (AFS) financial investments include equity and debt securities. Equity investments classified as AFS are those which are neither classified as held for trading nor designated at fair value through profit or loss. Quoted equities include strategic investments held by the Group at the year end.

Debt securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions. The Group has not designated any loans or receivables as AFS.

All AFS financial investments are initially and subsequently measured at fair value. Unrealised gains and losses are recognised directly in equity in the “available for sale reserve” through Other Comprehensive Income. When the investment is disposed off, the cumulative gain or loss previously recognised in available for sale reserve is recognised in the Statement of Profit or Loss and reflected in “Net gains/(losses) from financial investments” (Note 11). Interest earned whilst holding available for sale financial investments is reported as “Interest income” (Note 8.1). Dividends earned, whilst holding available for sale financial investments, are recognised in the Statement of Profit or Loss under in “Net gains/(losses) from financial investments” (Note 11), when the right to receive the dividend is established.

Impairment of Financial Investments – Available for Sale

The Group assesses at each reporting date whether there is an objective evidence to determine that AFS investment is impaired.

Debt instruments classified as available for sale, the Group assesses individually whether there is an objective evidence of impairment occurred as at the each reporting date. The amount of impairment is measured as the difference between the carrying amount and the fair value of such asset.

Equity investments classified as available for sale are treated as impaired, if objective evidence includes a “significant” or “prolonged” decline in the fair value of the investment exist.

Impairment losses are recognised in the Statement of Profit or Loss in “Impairment (charge)/reversal for loans and other losses” (Note 13). If cumulative mark to market losses recognised in Other Comprehensive Income for a instrument, impairment losses are recognised for such instrument by transferring the cumulative loss that has been recognised in Other Comprehensive Income to the profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from Other Comprehensive Income to the profit or loss, is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in the Statement of Profit or Loss. Changes in impairment provisions attributable to time value are reflected as a component of “Interest income” (Note 8.1).

If, in a subsequent period, the fair value of an impaired AFS debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the Statement of Profit or Loss. If the impairment loss is reversed, the amount of the reversal recognised in the Statement of Profit or Loss. However, impairment losses on equity investments are not reversed through the Statement of Profit or Loss, any subsequent recovery in the fair value of an impaired AFS equity investment is recognised in Other Comprehensive Income. The Group writes off certain financial investments – Available for sale when they are determined to be uncollectible.

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Government Securities				
Treasury Bills	4,044,815	–	4,236,635	2,320,821
Treasury Bonds	4,153,858	434,475	4,945,270	1,164,971
In other countries	1,478,870	1,627,319	3,718,590	2,915,692
Quoted equities [Note 28.1]	3,687,567	3,938,737	5,009,964	5,325,122
Units in unit trusts [Note 28.2]	3,626,484	3,764,963	3,660,702	3,798,173
Unquoted equities [Note 28.3]	929,576	697,552	981,131	738,862
Total financial investments – Available for sale	17,921,170	10,463,046	22,552,292	16,263,641

28.1 Quoted Equities

As at 31 December	2017			2016		
	Number of Ordinary Shares	Cost of Investment LKR '000	Market Value LKR '000	Number of Ordinary Shares	Cost of Investment LKR '000	Market Value LKR '000
Bank						
National Development Bank PLC	16,995,471	787,207	2,318,182	16,371,076	691,862	2,553,888
People's Leasing & Finance PLC	11,453,600	206,165	194,711	11,453,600	206,165	197,002
Seylan Bank PLC	13,471,025	493,427	1,174,674	13,198,305	466,700	1,187,847
Total quoted equities	1,486,799	3,687,567		1,364,727	3,938,737	
Group						
National Development Bank PLC	16,995,471	787,207	2,318,182	16,371,076	691,862	2,553,888
People's Leasing & Finance PLC	11,453,600	206,165	194,711	11,453,600	206,165	197,002
Seylan Bank PLC	13,471,025	493,427	1,174,674	13,198,305	466,700	1,187,847
The Lanka Hospital Corporation PLC	21,329,000	213,290	1,322,397	21,329,000	213,290	1,386,385
Total quoted equities	1,700,089	5,009,964		1,578,017	5,325,122	

28.2 Units in Unit Trusts

As at 31 December	2017			2016		
	Number of Units	Cost of Investment LKR '000	Market Value LKR '000	Number of Units	Cost of Investment LKR '000	Market Value LKR '000
Bank						
Ceybank Unit Trust	120,986,551	1,889,364	2,650,815	120,986,551	1,889,364	3,089,997
Ceybank Century Growth Fund	8,284,896	146,101	554,839	8,284,896	146,101	553,348
Ceybank High Yield Fund	29,763,086	300,000	300,164	–	–	–
Ceybank Surekum Gilt Edged Fund	11,389,982	114,148	120,666	11,389,982	114,148	121,618
Total units in unit trusts	2,449,613	3,626,484		2,149,613	3,764,963	
Group						
Ceybank Unit Trust	120,986,551	1,889,364	2,650,815	120,986,551	1,889,364	3,089,997
Ceybank Century Growth Fund	8,284,896	146,101	554,839	8,284,896	146,101	553,348
Ceybank High Yield Fund	29,763,086	300,000	300,164	–	–	–
Ceybank Surekum Gilt Edged Fund	11,389,982	114,148	120,666	11,389,982	114,148	121,618
Comtrust Money Market Fund	163,821	1,500	2,458	163,821	1,500	2,238
First Capital Asset Management Limited	25,932	29,350	31,760	25,932	29,350	30,972
Total units in unit trusts	2,480,463	3,660,702		2,180,463	3,798,173	

28.3 Unquoted Equities

As at 31 December	2017			2016		
	Number of Ordinary Shares	Cost of Investment LKR '000	Fair Value LKR '000	Number of Ordinary Shares	Cost of Investment LKR '000	Fair Value LKR '000
Bank						
Credit Information Bureau of Sri Lanka	46,600	41,542	41,542	46,600	41,542	41,542
Fitch Ratings Lanka Limited	62,500	625	625	62,500	625	625
LankaClear (Private) Limited	2,100,000	21,000	21,000	2,100,000	21,000	21,000
Lanka Financial Services Bureau Limited	225,000	2,250	2,250	225,000	2,250	2,250
Magpek Exports Limited	300,000	4,355	–	300,000	4,355	–
MasterCard Incorporated	17,200	–	397,941	17,200	–	266,030
Regional Development Bank	16,448,448	162,300	162,300	16,448,448	162,300	162,300
Visa Inc.	17,438	–	303,918	17,438	–	203,805
		232,072	929,576		232,072	697,552
Fair value adjustment		701,859			469,835	
Provision for impairment [Note 28.4]		(4,355)			(4,355)	
Total unquoted equities		929,576	929,576		697,552	697,552
Group						
Ceylinco Investment Company Limited	500,000	5,000	–	500,000	5,000	–
Credit Information Bureau of Sri Lanka	47,140	41,596	41,596	47,140	41,596	41,596
Fitch Ratings Lanka Limited	62,500	625	625	62,500	625	625
LankaClear (Private) Limited	2,100,000	21,000	21,000	2,100,000	21,000	21,000
Lanka Financial Services Bureau Limited	225,000	2,250	2,250	225,000	2,250	2,250
LVL Energy Fund (Private) Limited	2,500,000	20,000	26,500	2,500,000	20,000	20,000
Magpek Exports Limited	300,000	4,355	–	300,000	4,355	–
MasterCard Incorporated	17,200	–	397,941	17,200	–	266,030
Mega Containers Limited	1,000,000	10,000	23,794	1,000,000	10,000	20,491
Regional Development Bank	16,448,448	162,300	162,300	16,448,448	162,300	162,300
Ranwan Industries (Private) Limited	165,790	3,600	–	165,790	3,600	–
San Michele Limited	50,000	500	–	50,000	500	–
UB Finance Company Limited	2,506,562	17,546	1,207	2,506,562	17,546	765
Visa Inc.	17,438	–	303,918	17,438	–	203,805
		288,772	981,131		288,772	738,862
Fair value adjustment		722,153			480,326	
Provision for impairment [Note 28.4]		(29,794)			(30,236)	
Total unquoted equities		981,131	981,131		738,862	738,862

28.4 Movement in Provision for Impairment on Unquoted Investments

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Balance as at 1 January	4,355	4,355	30,236	30,236
Provision made/(reversal) during the year	–	–	(442)	–
Balance as at 31 December	4,355	4,355	29,794	30,236

29 Financial Investments – Held to Maturity

Accounting Policy

Held to Maturity (HTM) financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intent and ability to hold to maturity.

HTM financial investments are initially measured at fair value. After initial measurement, subsequently measured at amortised cost using the Effective Interest Rate (EIR) less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in “Interest income” (Note 8.1) in the Statement of Profit or Loss. The losses arising from impairment of such investments are recognised in the Statement of Profit or Loss under “Impairment charge/(reversal) for loans and other losses” (Note 13).

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Government Securities				
Treasury Bills	105,225,107	24,236,802	105,239,979	24,254,603
Treasury Bonds	202,562,239	218,941,598	203,041,602	218,999,364
Sovereign Bond	468,736	–	468,736	–
Total financial investments – Held to maturity	308,256,082	243,178,400	308,750,317	243,253,967

The Bank has pledged Treasury Bonds – Held to maturity of LKR 52,186.5 million as collateral as at 31 December 2017 (2016 – LKR 84,117.4 million).

30 Investment in Subsidiary Companies

Accounting Policy

Subsidiaries are entities that are controlled by the Bank. Control is achieved when the Bank is exposed or has rights, to variable returns from its involvement with the investee and has the ability to affect the returns of those investees through its power over the investee. Specifically, the Bank controls an investee if, and only if, the Bank has:

- power over the investee
- exposure or rights to variable returns from its involvement with the investee
- the ability to use its power over the investee to affect its returns

The Financial Statements of Subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases. The Bank reassesses whether it has control if there are changes to one or more of the elements of control. A change in the ownership interest of a Subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a Subsidiary, it derecognises the related assets (including goodwill), liabilities, Non-Controlling Interest (NCI) and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value at the date of loss of control.

The Consolidated Financial Statements are prepared for the common financial year end of 31 December and have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. All intra-group balances, income and expenses (except for foreign currency translation gains or losses) arising from intra-group transactions are eliminated on consolidation. Unrealised gains and losses resulting from transactions between the Group and its associates are also eliminated on consolidation to the extent of the Group’s interests in the associates. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

There are no significant restrictions on the ability of Subsidiaries to transfer funds to the parent in the form of cash dividends or to repay loans and advances. All Subsidiaries of the Bank have been incorporated in Sri Lanka except for Bank of Ceylon (UK) Limited, which is incorporated in the United Kingdom. A list of the Bank’s Subsidiaries is given in Note 30.5 to the Financial Statements.

As at 31 December	2017 LKR '000	2016 LKR '000
Investment in quoted subsidiaries [Note 30.3]	3,114,952	3,114,952
Investment in unquoted subsidiaries [Note 30.4]	3,798,096	3,798,096
Total investment in Subsidiaries	6,913,048	6,913,048
Less: Provision for impairment of investment in subsidiaries [Note 30.2]	400,000	700,000
Carrying value of investment in subsidiary companies	6,513,048	6,213,048

30.1 Movement in Investment in Subsidiary Companies

	2017 LKR '000	2016 LKR '000
Balance as at 1 January	6,913,048	6,913,048
Increase/(Decrease) in Investments	–	–
Balance as at 31 December	6,913,048	6,913,048

30.2 Provision for Impairment of Investment in Subsidiaries

	2017 LKR '000	2016 LKR '000
Balance as at 1 January	700,000	700,000
Impairment charge/(reversal) during the year	(300,000)	–
Balance as at 31 December	400,000	700,000

30.3 Investment in Quoted Subsidiaries

As at 31 December	Bank			
	2017		2016	
	Cost LKR '000	Market Value LKR '000	Cost LKR '000	Market Value LKR '000
Property Development PLC (63,064,957 ordinary shares)	860,270	6,120,211	860,270	6,593,423
Merchant Bank of Sri Lanka & Finance PLC (123,562,267 ordinary shares)	2,254,682	1,668,091	2,254,682	1,680,447
Total investment in quoted subsidiaries	3,114,952	7,788,302	3,114,952	8,273,870

30.4 Investment in Unquoted Subsidiaries

As at 31 December	Bank			
	2017		2016	
	Cost LKR '000	Directors' Valuation LKR '000	Cost LKR '000	Directors' Valuation LKR '000
BOC Management & Support Services (Private) Limited (99,996 Ordinary shares)	1,000	1,000	1,000	1,000
BOC Property Development & Management (Private) Limited (100,999,998 Ordinary shares)	1,010,000	1,010,000	1,010,000	1,010,000
BOC Travels (Private) Limited (250,004 ordinary shares)	2,500	2,500	2,500	2,500
Bank of Ceylon (UK) Limited (15,000,000 ordinary shares)	2,683,859	2,283,859	2,683,859	1,983,859
Hotels Colombo (1963) Limited (10,073,667 ordinary shares)	100,737	100,737	100,737	100,737
Total investment in unquoted subsidiaries	3,798,096	3,398,096	3,798,096	3,098,096

30.5 Information Relating to Subsidiaries of the Bank

As at 31 December	Ownership Interest Held by the Bank	
	2017 %	2016 %
Quoted Subsidiaries		
Property Development PLC (PDL)	95.55	95.55
Merchant Bank of Sri Lanka & Finance PLC (MBSL)	74.49	74.49
Unquoted Subsidiaries		
BOC Management & Support Services (Private) Limited (MSS)*	100.00	100.00
BOC Property Development & Management (Private) Limited (PDML)	100.00	100.00
BOC Travels (Private) Limited (TRAVELS)	100.00	100.00
Hotels Colombo (1963) Limited (HCL)	99.99	99.99
Ceybank Holiday Homes (Private) Limited (HH)**	100.00	100.00
MBSL Insurance Company Limited (MBSL INS)**	62.66	62.66
Koladeniya Hydropower (Private) Limited (KHP)**	95.55	95.55
Bank of Ceylon (UK) Limited (BoC UK)	100.00	100.00

* Not in operation and in the process of liquidation.

**Ceybank Holiday Homes (Private) Limited, MBSL Insurance Company Limited and Koladeniya Hydropower (Private) Limited are indirect subsidiaries of the Bank.

30.6 Non-Controlling Interest (NCI) of Subsidiaries

	2017				
	PDL	MBSL	MBSL INS	KHP	HCL
Equity interest held by the NCI (%)	4.45	25.51	37.34	4.45	0.01
Profit/(Loss) allocated during the year (LKR '000)	21,278	26,045	(24,705)	2,562	(4)
Accumulated balance of NCI as at 31 December (LKR '000)	166,381	722,238	12,788	25,947	19
Dividends paid to NCI (LKR '000)	–	–	–	–	–

	2016				
	PDL	MBSL	MBSL INS	KHP	HCL
Equity interest held by the NCI (%)	4.45	25.51	37.34	4.45	0.01
Profit/(Loss) allocated during the year (LKR '000)	18,500	44,936	(87,842)	2,312	1
Accumulated balance of NCI as at 31 December (LKR '000)	159,105	660,677	34,318	25,323	22
Dividends paid to NCI (LKR '000)	52,866	–	–	–	–

30.7 Summarised Financial Information of Subsidiaries

For the year ended 31 December	2017				
	PDL LKR '000	MBSL LKR '000	MSS LKR '000	PDML LKR '000	TRAVELS LKR '000
Statement of Profit or Loss					
Total income	961,666	6,402,825	793	387,617	104,354
Profit/(Loss) after tax	478,147	104,218	274	181,612	21,755
Other comprehensive income	(65,991)	26,454	–	(65)	240
Total comprehensive income	412,156	130,672	274	181,547	21,995
Statement of Financial Position					
Total assets	4,073,519	35,694,695	1,130	1,749,624	304,363
Total liabilities	596,008	32,450,534	318	115,223	75,494
Net assets	3,477,511	3,244,161	812	1,634,401	228,869
Dividends paid	–	–	9,000	50,500	5,000
Statement of Cash Flows					
Operating cash flows	457,345	2,052,584	(118)	129,781	21,468
Investing cash flows	(382,011)	(1,038,885)	10,036	(69,268)	(237)
Financing cash flows	(982,782)	(905,114)	(9,000)	(50,500)	(7,350)
Net increase/(decrease) in cash and cash equivalents	(907,448)	108,585	918	10,013	13,881
For the year ended 31 December	2016				
	PDL LKR '000	MBSL LKR '000	MSS LKR '000	PDML LKR '000	TRAVELS LKR '000
Statement of Profit or Loss					
Total income	839,397	4,888,154	671	271,601	110,073
Profit/(Loss) after tax	415,723	176,149	419	108,014	26,711
Other comprehensive income	100,983	(79,086)	–	(341)	546
Total comprehensive income	516,706	97,063	419	107,673	27,257
Statement of Financial Position					
Total assets	4,659,695	31,933,847	9,925	1,582,329	300,012
Total liabilities	1,594,340	28,828,725	387	78,975	87,944
Net assets	3,065,355	3,105,122	9,538	1,503,354	212,068
Dividends paid	1,188,000	–	–	20,200	5,000
Statement of Cash Flows					
Operating cash flows	194,024	(783,969)	(273)	91,228	(11,622)
Investing cash flows	328,616	(484,106)	56	(158,614)	(19,884)
Financing cash flows	(179,857)	1,345,090	–	(20,200)	(7,351)
Net increase/(decrease) in cash and cash equivalents	342,783	77,015	(217)	(87,586)	(38,857)

For the year ended 31 December	2017				
	HCL LKR '000	HH LKR '000	MBSL INS LKR '000	KHP LKR '000	BoC UK LKR '000
Statement of Profit or Loss					
Total income	188,612	79,145	800,359	113,692	463,616
Profit/(Loss) after tax	(39,671)	2,382	(66,163)	57,584	3,552
Other comprehensive income	–	–	8,256	(148)	280,354
Total comprehensive income	(39,671)	2,382	(57,907)	57,436	283,906
Statement of Financial Position					
Total assets	298,187	39,180	1,366,270	491,817	20,414,678
Total liabilities	107,866	36,157	1,332,029	38,687	17,673,031
Net assets	190,321	3,023	34,241	453,130	2,741,647
Dividends paid	–	–	–	43,400	–
Statement of Cash Flows					
Operating cash flows	(13,081)	2,095	(165,261)	39,494	(17,471)
Investing cash flows	(6,082)	(772)	189,797	28,820	(14,593)
Financing cash flows	(1,300)	–	–	(43,400)	–
Net increase/(decrease) in cash and cash equivalents	(20,463)	1,323	24,536	24,914	(32,064)

For the year ended 31 December	2016				
	HCL LKR '000	HH LKR '000	MBSL INS LKR '000	KHP LKR '000	BoC UK LKR '000
Statement of Profit or Loss					
Total income	237,237	146,221	1,503,367	92,572	434,757
Profit/(Loss) after tax	12,709	(99)	(235,248)	51,950	(24,417)
Other comprehensive income	–	–	(10,620)	103	(396,425)
Total comprehensive income	12,709	(99)	(245,868)	52,053	(420,842)
Statement of Financial Position					
Total assets	285,483	28,871	1,769,111	466,631	25,673,579
Total liabilities	64,898	27,831	1,677,211	27,537	23,215,837
Net assets	220,585	1,040	91,900	439,094	2,457,742
Dividends paid	–	–	–	–	–
Statement of Cash Flows					
Operating cash flows	6,731	63	(234,589)	60,205	(139,137)
Investing cash flows	249	(1,608)	218,070	(78,262)	(9,386)
Financing cash flows	(1,750)	–	–	–	–
Net increase/(decrease) in cash and cash equivalents	5,230	(1,545)	(16,519)	(18,057)	(148,523)

31 Investment in Associate Companies

Associates are those entities in which the Bank has significant influence, but not control, over the financial and operating policies. Investments in associate entities are accounted for using the equity method (equity-accounted investees) and are recognised initially at cost. The cost of the investment includes transaction costs.

The Consolidated Financial Statements include the Bank's share of the profit or loss and other comprehensive income, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Bank's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reported at nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee. If the associate subsequently reports profits, the Bank resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

A list of the Bank's associates is shown in Note 31.4 to the Financial Statements.

The Bank discontinues the use of the Equity Method from the date that it ceases to have significant influence over an associate and accounts for such investments in accordance with the Sri Lanka Accounting Standard – LKAS 39 – “Financial Instruments: Recognition and Measurement”.

Upon loss of significant influence over the associate, the Bank measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

31.1 Unquoted Associates

As at 31 December	Bank				Group			
	2017		2016		2017		2016	
	Cost LKR '000	Directors' Valuation LKR '000	Cost LKR '000	Directors' Valuation LKR '000	Equity Value LKR '000	Directors' Valuation LKR '000	Equity Value LKR '000	Directors' Valuation LKR '000
Ceybank Asset Management Limited (1,240,002 ordinary shares)	31,048	31,048	31,048	31,048	225,282	225,282	216,704	216,704
Lanka Securities (Private) Limited (3,594,857 ordinary shares)	41,940	41,940	41,940	41,940	134,490	134,490	131,006	131,006
Southern Development Financial Company Limited (2,500,001 ordinary shares)	25,000	–	25,000	–	–	–	–	–
Transnational Lanka Records Solutions (Private) Limited (2,000,000 ordinary shares)	20,000	20,000	20,000	20,000	87,021	87,021	72,959	72,959
Total investment in unquoted associates	117,988	92,988	117,988	92,988	446,793	446,793	420,669	420,669
Provision for impairment of investments in associates (Note 31.3)	(25,000)	–	(25,000)	–	–	–	–	–
Net investment in unquoted associates	92,988	92,988	92,988	92,988	446,793	446,793	420,669	420,669

31.2 Movement in Investment in Associate Companies

	Bank		Group	
	Cost		Equity Value	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Balance as at 1 January	117,988	867,988	420,669	1,912,317
Aquisitions/(Disposals) in investments	–	(750,000)	–	(1,501,333)
Share of profits/(losses), net of tax (Note 16)	–	–	52,024	62,952
Share of other comprehensive income, net of tax	–	–	(6,600)	2,174
Share of dividends	–	–	(19,300)	(55,441)
Balance as at 31 December	117,988	117,988	446,793	420,669

31.3 Movement in Provision for Impairment of Investment in Associate Companies

	Bank	
	2017 LKR '000	2016 LKR '000
Balance as at 1 January	25,000	25,000
Impairment charge during the year	–	–
Balance as at 31 December	25,000	25,000

31.4 Share Holding Structure of Associate Companies

Name of the Company	Equity Interest %		Shareholding Structure	
	2017	2016	Name	Holding %
Ceybank Asset Management Limited (CAML)	43.36	43.36	Bank of Ceylon	43.36
			Sri Lanka Insurance Corporation	26.57
			Unit Trust of India	17.48
			Carson Cumberbatch PLC	12.59
Lanka Securities (Private) Limited (LSL)	41.60	41.60	First Capital Securities Corporation Limited	51.00
			Merchant Bank of Sri Lanka & Finance PLC	29.00
			Bank of Ceylon (Bank of Ceylon indirectly hold 21.6%)	20.00
Transnational Lanka Records Solutions (Private) Limited (TLRS)	24.69	24.69	Transnational (Pte) Limited – Singapore	62.96
			Bank of Ceylon	24.69
			Seylan Bank PLC	12.35
Southern Development Financial Company Limited (SDFC)*	41.67	41.67	Bank of Ceylon	41.67
			People's Bank	41.67
			Southern Development Authority of Sri Lanka	16.66

* SDFC is not in operation and in the process of liquidation.

31.5 Summarised Financial Information of Associates

For the year ended 31 December	2017		
	CAML LKR '000	LSL LKR '000	TLRS LKR '000
Statement of Profit or Loss			
Total income	170,234	121,062	72,154
Profit/(Loss) before tax	73,499	3,557	110,500
Profit/(Loss) after tax	58,912	3,273	103,459
Other comprehensive income	(20,115)	5,101	–
Total comprehensive income	38,797	8,374	103,459
Statement of Financial Position			
Current assets	296,552	578,740	27,723
Total assets	562,591	615,545	609,533
Current liabilities	20,052	263,100	41,306
Total liabilities	43,029	292,259	257,071
Net assets	519,562	323,286	352,462
Dividends paid	21,450	–	40,500
Dividends received to the Bank (net)	9,300	–	10,000
For the year ended 31 December	2016		
	CAML LKR '000	LSL LKR '000	TLRS LKR '000
Statement of Profit or Loss			
Total income	173,482	89,605	121,861
Profit/(Loss) before tax	84,185	(18,749)	89,617
Profit/(Loss) after tax	69,514	(21,358)	83,158
Other comprehensive income	(11,809)	3,569	–
Total comprehensive income	57,705	(17,789)	83,158
Statement of Financial Position			
Current assets	380,618	356,787	30,443
Total assets	551,965	391,591	503,735
Current liabilities	30,220	46,976	4,877
Total liabilities	52,187	76,676	208,230
Net assets	499,778	314,915	295,505
Dividends paid	17,160	–	32,400
Dividends received to the Bank (net)	7,156	–	10,500

32 Investment Property

Accounting Policy

Recognition

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Measurement

Investment property is accounted for under Cost Model in the Financial Statements. Accordingly, after initial recognition as an asset, the property is carried at its cost, less accumulated depreciation and impairment losses.

If any property is reclassified to investment property due to changes in its use, fair value of such property at the date of reclassification becomes its cost for subsequent accounting.

Depreciation

Depreciation is provided on a straight-line basis over the estimated life of the class of asset from the date of purchase up to the date of disposal. Provision for depreciation is made over the period of 20 years at the rate of 5% per annum using the straight-line method for buildings classified as investment property. Land is not depreciated under normal circumstances.

Derecognition

Investment properties are derecognised when they are disposed of or permanently withdrawn from use since no future economic benefits are expected. Transfers are made to and from investment property only when there is a change in use. When the use of a property changes such that it is reclassified as Property, Plant and Equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Cost				
Balance as at 1 January	3,000,000	–	150,085	165,876
Disposals during the year	–	–	(991)	(15,791)
Transfers from Property, Plant and Equipment	–	3,000,000	–	–
Balance as at 31 December	3,000,000	3,000,000	149,094	150,085
Less: Accumulated Depreciation				
Balance as at 1 January	–	–	22,415	20,036
Charge for the year	117,072	–	2,906	2,961
Disposal/Transfer	–	–	–	(582)
Balance as at 31 December	117,072	–	25,321	22,415
Net investment properties	2,882,928	3,000,000	123,773	127,670

During the year 2016 the Bank classified the property at York Street, Colombo 01 as Investment Property due to cessation of the owner occupation. This property covers land area of 181.85 perches and building at site runs to six floors with a basement floor consists with 261,610 square feet.

The entire property was valued to LKR 3,000 million by Mr K T D Tissera – Chartered Valuation Surveyor [Diploma in Valuation (Sri Lanka), FRICS (Eng.), FIV(Sri Lanka)] based on the investment method of valuation as at 31 December 2016.

32.1 Unobservable Inputs Considered in Measuring Fair Value

Significant Unobservable Inputs	Range of Estimates for Unobservable Inputs	Sensitivity of Fair Value to Unobservable Inputs
Estimated value per perch	LKR 12.0 million – LKR 16.0 million	Positive correlated sensitivity

32.2 Investment Properties Held by the Group

As at 31 December	Building (Sq. ft.)	Extent of Land (Perches)	2017				2016	
			Cost			Fair Value Total LKR '000	Cost Total LKR '000	Fair Value Total LKR '000
			Land LKR '000	Building LKR '000	Total LKR '000			
Nos. 64 and 66, Nonagama Road, Pallegama, Embilipitiya	–	16.61	1,750	–	1,750	30,000	1,750	26,200
No. 385/1, Kotte Road, Pittakotte	2,896	19.01	2,958	1,730	4,688	5,298	4,688	5,298
Nos. 116/4, 116/7, 116/26, 116/27, 116/29, 1st Cross Street, Colombo 01	–	12.35	1,249	–	1,249	2,602	1,249	2,602
No. 102 and 104, Dam Street, Colombo 12	20,368	50.70	17,970	11,989	29,959	233,000	29,959	233,000
Kumbuththukuliya Watte, Bangadeniya Road, Puttalam	–	320.00	600	–	600	3,400	600	3,400
Mirissawelawatta Hena; Thekkawatta, Dambadeniya	–	188.00	162	–	162	600	162	2,000
No. 50/21, Old Kesbawa Road, Raththanapitiya, Boralesgamuwa	–	364.35	65,604	44,396	110,000	298,015	110,000	298,015
No. 64, Gabadawa Estate, Pitipana, Homagama	–	10.00	686	–	686	1,394	686	1,400
No. 2, Plan No. 1206, Silverberst Estate, Pitipana, Homagama	–	100.70	–	–	–	–	991	2,014
Total			90,979	58,115	149,094	574,309	150,085	573,929

Note:

32.2. a The fair value of the investment properties as at 31 December 2017 was based on market valuations carried out in the years 2013, 2014, 2016 and 2017 by Mr D N Dhammika Baranage [RICS (UK), DIV AIS (SL)] and Mr H A W Perera [BSc Estate Management and Valuation (Special)], Mr Samantha Kumara Madawan Arachchi [BSc Estate Management and Valuation (Special), City Planning (JP), Dip (UPM) NI, AIREV] and Mr A G Gunarathne [BSc. Estate Mgt. & Valuation, FIV (Sri Lanka)], Mr L G T Thungasiri [(AIV) FIV (Sri Lanka), Dip. in Valuation (SLTC)], who are independent valuers not connected with the companies. The Directors have reviewed values of the investment properties as at 31 December 2017 and concluded that there was no impairment.

33 Property, Plant and Equipment

Recognition

Property, Plant and Equipment (PPE) are recognised if it is probable that future economic benefits associated with the assets will flow to the Group and the cost of the asset can be reliably measured.

Measurement

Cost of Property, Plant and Equipment includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Items of Property, Plant and Equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Revaluation model is applied for entire class of freehold land and buildings and buildings on leasehold lands. The market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use are taken into account in measuring the fair value.

Properties that carried at revaluation amount being their fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Freehold land and building of the Group are revalued every three to five years or more frequently if the fair values are substantially different from their carrying amounts to ensure that the carrying amounts do not differ from the fair values at the reporting date. Any surplus arising on revaluation of an asset is accumulated under the Revaluation Reserve in Equity through Other Comprehensive Income. However, if there is any revaluation deficit of the same asset previously recognised on profit or loss, revaluation surplus is recognised on profit or loss to the extent it reverse such deficit. Any deficit arising on revaluation of a asset is recognised in profit or loss and such deficit is recognised in Other Comprehensive Income to the extend of any credit balance existing in the revaluation reserve in respect of that asset.

Accumulated depreciation as at revaluation date is eliminated against the gross carrying amount of assets and the net amount restated to the revalued amount of the assets. Where the carrying value of the Property, Plant and Equipment are reviewed for impairment, when an event or changes in circumstances indicate that the carrying value may not be recoverable.

When parts of an item of Property, Plant and Equipment have different useful lives, they are accounted for as separate items (major components) of Property, Plant and Equipment.

Subsequent Costs

The cost of replacing a part of an item of Property, Plant and Equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of Property, Plant and Equipment are recognised in the Statement of Profit or Loss in "Other expenses" (Note 15) as incurred.

Capital Work in Progress

Capital work in progress is stated at cost. These are expenses of a capital nature directly incurred in the construction of buildings, awaiting capitalisation.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that the Bank incurs in connection with the borrowing of funds.

Depreciation

Depreciation is recognised in Statement of Profit or Loss on a straight-line basis over the estimated useful lives of each part of an item of Property, Plant and Equipment since this method most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. Further, cost of expansion and major renovations on the building are depreciated over the remaining useful lives of the original buildings.

Provisioning for depreciation of Property, Plant and Equipment is made on *pro rata* basis.

The Group's estimated useful lives for the current and comparative periods are as follows:

Freehold buildings	40-60 years
Office equipment	08 years
Furniture and fittings	08 years
Computer equipment	05 years
Motor vehicles	04 years
Power plant	20 years

Depreciation methods, useful lives and residual values are reassessed at each financial year end and adjusted if appropriate.

Useful Life and Residual Values

Residual value is the amount that Group could receive for an asset at the reporting date if the asset was already at the age and in the condition that it will be in when the Group expects to dispose it.

The residual and useful life of an asset are reviewed at least at each reporting date, changes in the residual value and useful life are accounted for prospectively as a change in an accounting estimate only if the residual value is material.

Derecognition

The carrying amount of an item of Property, Plant and Equipment is derecognised on disposal, replacement or when no future economic benefits are expected from its use. The gain or loss arising from the de-recognition of an item of Property, Plant and Equipment is included in the "Other operating income (Note 12)/Other operating expenses (Note 15)" in the Statement of Profit or Loss in the year the item is derecognised.

Reclassification as Investment Property

When the use of property changes such that is reclassified as investment property, its fair value at the date of reclassification becomes its cost for subsequent accounting. Any gain arising on remeasurement is recognised in the Statement of Profit or Loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in Other Comprehensive Income and presented in revaluation reserve in equity. Any loss is recognised immediately in the Statement of Profit or Loss.

33.1 Bank

	Freehold Land	Freehold Building	Buildings on Leasehold Land	Equipment (Note 33.12.1)	Motor Vehicles	Leasehold Motor Vehicles	Capital Work in Progress	2017 Total	2016 Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cost or Valuation									
As at 1 January	7,914,625	2,437,312	1,686,582	11,107,522	1,255,144	43,317	316,172	24,760,674	25,580,341
Additions during the year									
Acquisitions	389,759	91,280	34,089	1,891,028	380,502	–	291,630	3,078,288	2,052,805
Capitalisations	–	384,201	65,617	–	–	–	(449,818)	–	–
Changes in revaluation surplus/(deficit)	4,389,015	547,851	1,078,188	–	–	–	–	6,015,054	1,394,640
Transfer of accumulated depreciation on asset revaluation	–	(257,913)	(728,274)	–	–	–	–	(986,187)	(146,155)
Disposals during the year	(1,193)	–	–	(164,893)	(62,585)	–	–	(228,671)	(1,122,991)
Impairment to profit or loss	–	–	–	(711)	–	–	–	(711)	(2,127)
Exchange rate adjustments	–	–	–	12,345	405	–	–	12,750	4,161
Transfers to investment property	–	–	–	–	–	–	–	–	(3,000,000)
As at 31 December	12,692,206	3,202,731	2,136,202	12,845,291	1,573,466	43,317	157,984	32,651,197	24,760,674
Accumulated Depreciation									
As at 1 January	–	170,155	648,642	7,523,805	892,592	43,317	–	9,278,511	9,254,582
Charge for the year	–	88,607	79,736	1,136,960	218,480	–	–	1,523,783	1,263,914
Transfer of accumulated depreciation on assets revaluation	–	(257,913)	(728,274)	–	–	–	–	(986,187)	(146,155)
Disposals during the year	–	–	–	(161,658)	(59,661)	–	–	(221,319)	(1,096,473)
Exchange rate adjustments	–	–	–	9,882	413	–	–	10,295	2,643
As at 31 December	–	849	104	8,508,989	1,051,824	43,317	–	9,605,083	9,278,511
Net book value as at 31 December 2017	12,692,206	3,201,882	2,136,098	4,336,302	521,642	–	157,984	23,046,114	–
Net book value as at 31 December 2016	7,914,625	2,267,157	1,037,940	3,583,717	362,552	–	316,172	–	15,482,163

33.2 Group

	Freehold Land	Freehold Building	Buildings on Leasehold Land	Equipment (Note 33.12.2)	Motor Vehicles	Leasehold Motor Vehicles	Capital Work in Progress	2017 Total	2016 Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cost or Valuation									
As at 1 January	10,606,090	5,336,764	8,976,883	12,518,143	1,400,488	55,894	371,145	39,265,407	36,391,846
Additions during the year									
Acquisitions	403,759	93,240	35,586	1,982,539	388,781	–	293,408	3,197,313	2,389,786
Capitalisations	–	384,201	65,617	–	–	–	(449,818)	–	–
Changes in revaluation surplus/(deficit)	4,535,254	747,690	1,070,484	–	–	–	–	6,353,428	2,307,452
Transfer of accumulated depreciation on asset revaluation	–	(285,779)	(1,042,551)	–	–	–	–	(1,328,330)	(517,643)
Disposals during the year	(1,193)	(8,973)	(317)	(183,592)	(71,858)	–	–	(265,933)	(1,208,750)
Impairment to profit/loss	–	–	–	(711)	–	–	–	(711)	(2,127)
Exchange rate adjustments	31,164	32,238	–	16,951	405	–	–	80,758	(87,937)
Transfers/Adjustments	–	(135)	768,774	4,453	1,558	–	(499)	774,151	(7,220)
As at 31 December	15,575,074	6,299,246	9,874,476	14,337,783	1,719,374	55,894	214,236	48,076,083	39,265,407
Accumulated Depreciation									
As at 1 January	–	423,040	332,582	8,290,717	965,151	53,881	–	10,065,371	9,950,043
Charge for the year	–	268,564	433,243	1,260,285	234,098	917	–	2,197,107	1,758,041
Transfer of accumulated depreciation on assets revaluation	–	(285,779)	(1,042,551)	–	–	–	–	(1,328,330)	(517,643)
Disposals during the year	–	(8,459)	(317)	(179,980)	(68,857)	–	–	(257,613)	(1,115,944)
Exchange rate adjustments	–	2,781	–	12,201	413	–	–	15,395	(1,906)
Transfers/Adjustments	–	4,003	768,774	3,158	(701)	–	–	775,234	(7,220)
As at 31 December	–	404,150	491,731	9,386,381	1,130,104	54,798	–	11,467,164	10,065,371
Net book value as at 31 December 2017	15,575,074	5,895,096	9,382,745	4,951,402	589,270	1,096	214,236	36,608,919	–
Net book value as at 31 December 2016	10,606,090	4,913,724	8,644,301	4,227,426	435,337	2,013	371,145	–	29,200,036

33.3 Title Restriction on Property, Plant and Equipment

There were no restrictions that existed in the title of the Property, Plant and Equipment of the Bank and the Group as at the reporting date.

33.4 Property, Plant and Equipment Pledged as Security for Liabilities

Freehold Property, Plant and Equipment have not been pledged as security for any liability.

33.5 Compensation from Third Parties for Items of Property, Plant and Equipment

There were no compensation received/receivable from third parties for items of Property, Plant and Equipment which were impaired or given up.

33.6 Fully-Depreciated Property, Plant and Equipment

The initial cost of fully-depreciated Property, Plant and Equipment which are still in use are as follows:

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Motor vehicles	854,835	578,506	889,474	613,438
Computer equipment	2,694,496	2,533,514	2,832,713	2,671,694
Equipment, furniture and fittings	1,292,375	1,055,784	1,422,797	1,201,608
Buildings on leasehold lands	178,947	98,684	178,947	98,684
Plant and machinery	1,120,447	970,897	1,120,723	971,173
Total	6,141,100	5,237,385	6,444,654	5,556,597

33.7 Temporarily Idle Property, Plant and Equipment

There were no temporarily idle Property, Plant and Equipment as at the reporting date.

33.8 Property, Plant and Equipment Retired from Active Use

The Group held no Property, Plant and Equipment retired from active use and which were not classified as held for sale in accordance with SLFRS 5 – “Non-Current Assets held for sale and discontinued operations”.

33.9 Freehold Properties

The carrying value of freehold properties, that would have been recognised in the Financial Statements, if they were carried at cost less accumulated depreciation is as follows:

33.9.1 Bank

As at 31 December	2017			2016		
	Cost LKR '000	Accumulated Depreciation LKR '000	Net Book Value LKR '000	Cost LKR '000	Accumulated Depreciation LKR '000	Net Book Value LKR '000
Land	877,895	–	877,895	488,167	–	488,167
Building	1,518,050	(532,316)	985,734	1,042,569	(505,403)	537,166
Total	2,395,945	(532,316)	1,863,629	1,530,736	(505,403)	1,025,333

33.9.2 Group

As at 31 December	2017			2016		
	Cost LKR '000	Accumulated Depreciation LKR '000	Net Book Value LKR '000	Cost LKR '000	Accumulated Depreciation LKR '000	Net Book Value LKR '000
Land	901,856	–	901,856	498,128	–	498,128
Building	2,640,420	(960,415)	1,680,005	2,171,952	(900,148)	1,271,804
Total	3,542,276	(960,415)	2,581,861	2,670,080	(900,148)	1,769,932

33.10 Revaluation of Leasehold/Freehold Properties – Group

The following freehold lands and buildings on leasehold/freehold lands of the subsidiaries were revalued during the year by professionally qualified independent valuers.

Leasehold Buildings Details of Properties	2017				
	Valuer	Basis of Valuation	Carrying Value LKR '000	Revalued Amount of Building LKR '000	Surplus/ (Loss) of Building LKR '000
Property Development PLC Bank of Ceylon Head Office Building “BoC Square”, Colombo 01 (Revalued as at 31 December 2017)	M/s P B Kalugalagedara & Associates	Market value method	6,811,894	6,775,000	(36,894)
BOC Property Development & Management (Private) Limited Bank of Ceylon – Ceybank House No. 86, Sri Dalada Veediya, Kandy (Revalued as at 31 December 2017)	M/s P B Kalugalagedara & Associates	Market value method	443,371	472,561	29,190

Freehold Land Details of Properties	2017				
	Valuer	Basis of Valuation	Carrying Value LKR '000	Revalued Amount of Land LKR '000	Surplus/ (Loss) of Land LKR '000
Merchant Bank of Sri Lanka & Finance PLC No. 470, Hendala Road, Wattala (Revalued as at 31 December 2017)	Mr S A N A Perera	Market value method	9,961	75,200	65,239
Merchant Bank of Sri Lanka & Finance PLC Kurunduwatta, Ekala (Revalued as at 31 August 2017)	Mr D N Dhammika Baranage	Market value method	14,000	95,000	81,000

Freehold Buildings Details of Properties	2017				
	Valuer	Basis of Valuation	Carrying Value LKR '000	Revalued Amount of Building LKR '000	Surplus/ (Loss) of Building LKR '000
BOC Property Development & Management (Private) Limited Bank of Ceylon – Merchant Tower St. Micheal's Road, Colombo 03 (Revalued as at 31 December 2017)	M/s P B Kalugalagedara & Associates	Market value method	1,822,171	2,019,000	196,829
Merchant Bank of Sri Lanka & Finance PLC No. 470, Hendala Road, Wattala (Revalued as at 31 December 2017)	Mr S A N A Perera	Market value method	1,190	4,200	3,010

33.11 Unobservable Inputs Considered in Measuring Fair Value

The following table depicts information about significant unobservable inputs used in measuring fair value of the assets categorised under Level 3 of the fair value hierarchy:

33.11.1 Bank

Type of Asset	Fair Value as at 31.12.2017 LKR '000	Valuation Technique	2017		
			Significant Unobservable Inputs	Range of Estimates for Unobservable Inputs	Sensitivity of Fair Value to Unobservable Inputs
Freehold land	12,692,206	Market comparable method	Estimated cost per perch	LKR 24,500 – LKR 14,493,000	Positively correlated sensitivity
Freehold buildings	3,201,882	Market comparable method	Estimated cost per square feet	LKR 400 – LKR 55,400	Positively correlated sensitivity
Buildings on leasehold lands	2,136,098	Rental value basis	Estimated rental value per square feet	LKR 840 – LKR 6,426	Positively correlated sensitivity
			Expected market rental growth	0%	Positively correlated sensitivity
			Discount rate	6% – 8%	Negatively correlated sensitivity

33.11.2 Group

Type of Asset	Fair Value as at 31.12.2017 LKR '000	Valuation Technique	2017		
			Significant Unobservable Inputs	Range of Estimates for Unobservable Inputs	Sensitivity of Fair Value to Unobservable Inputs
Freehold land	15,575,074	Market comparable method	Estimated cost per perch	LKR 24,500 – LKR 14,493,000	Positively correlated sensitivity
Freehold buildings	5,895,096	Market comparable method	Estimated cost per square feet	LKR 400 – LKR 55,400	Positively correlated sensitivity
Buildings on leasehold lands	9,382,745	Rental value basis	Estimated rental value per square feet	LKR 110 – LKR 6,426	Positively correlated sensitivity
			Expected market rental growth p.a.	5%	Positively correlated sensitivity
			Anticipated maintenance cost	40%	Positively correlated sensitivity
			Discount rate	5.5% – 8.0%	Negatively correlated sensitivity

33.12 Equipment

33.12.1 Bank

	Computer Equipment LKR '000	Furniture and Fittings LKR '000	Office Equipment LKR '000	2017 Total LKR '000	2016 Total LKR '000
Cost					
Balance as at 1 January	5,362,695	3,225,270	2,519,557	11,107,522	10,686,794
Additions during the year	1,254,898	344,896	291,234	1,891,028	1,462,444
Disposals during the year	(72,366)	(36,999)	(55,528)	(164,893)	(1,043,664)
Impairment to profit or loss	(531)	–	(180)	(711)	(2,127)
Exchange rate adjustments	11,524	303	518	12,345	4,075
Balance as at 31 December	6,556,220	3,533,470	2,755,601	12,845,291	11,107,522
Accumulated Depreciation					
Balance as at 1 January	3,705,884	2,103,657	1,714,264	7,523,805	7,670,294
Charge for the year	672,470	269,863	194,627	1,136,960	893,038
Disposals during the year	(71,894)	(34,543)	(55,221)	(161,658)	(1,042,241)
Exchange rate adjustments	9,185	532	165	9,882	2,714
Balance as at 31 December	4,315,645	2,339,509	1,853,835	8,508,989	7,523,805
Net book value as at 31 December 2017	2,240,575	1,193,961	901,766	4,336,302	
Net book value as at 31 December 2016	1,656,811	1,121,613	805,293		3,583,717

33.12.2 Group

	Computer Equipment LKR '000	Furniture and Fittings LKR '000	Office Equipment LKR '000	Power Plant LKR '000	2017 Total LKR '000	2016 Total LKR '000
Cost						
Balance as at 1 January	5,764,866	3,834,084	2,620,195	298,998	12,518,143	11,955,654
Additions during the year	1,304,462	385,707	292,370	–	1,982,539	1,623,667
Disposals during the year	(72,788)	(54,965)	(55,839)	–	(183,592)	(1,050,920)
Impairment to profit or loss	(531)	–	(180)	–	(711)	(2,127)
Exchange rate adjustments	12,712	3,721	518	–	16,951	(911)
Transfers/Adjustments	5,010	(263)	(294)	–	4,453	(7,220)
Balance as at 31 December	7,013,731	4,168,284	2,856,770	298,998	14,337,783	12,518,143
Accumulated Depreciation						
Balance as at 1 January	3,967,883	2,507,372	1,746,064	69,398	8,290,717	8,345,779
Charge for the year	716,225	331,114	197,996	14,950	1,260,285	1,001,893
Disposals during the year	(72,274)	(52,183)	(55,523)	–	(179,980)	(1,048,871)
Exchange rate adjustments	10,248	1,788	165	–	12,201	(864)
Transfers/Adjustments	(790)	4,158	(210)	–	3,158	(7,220)
Balance as at 31 December	4,621,292	2,792,249	1,888,492	84,348	9,386,381	8,290,717
Net book value as at 31 December 2017	2,392,439	1,376,035	968,278	214,650	4,951,402	
Net book value as at 31 December 2016	1,796,983	1,326,712	874,131	229,600		4,227,426

33.13 The details of freehold land and building held by the Bank as at 31 December 2017 are as follows:

Name of Premises	Extent (Perches)	Building (Square Feet)	Date of Valuation	Valuer	
Central Province					
Galaha Branch No. 59/37, Deltota Road, Galaha	15.00	5,353	30.09.2017	N M Keppetipola	
Gampola Branch No. 44, Kadugannawa Road, Gampola	175.00	9,677	30.09.2017	N M Keppetipola	
Galewela Land No. 158, Dhambulla Road, Galewela	47.00	–	24.03.2017	R W N S B Rajapaksha	
Hatton Branch and Staff Quarters No. 46, Circular Road, Hatton	139.50	15,359	30.09.2017	N M Keppetipola	
Kandy 2nd City Branch No. 22, Dalada Veediya, Kandy	42.81	27,081	30.09.2017	A G Gunaratna	
Maskeliya Branch No. 66, Upcot Road, Maskeliya	42.05	6,130	30.09.2017	N M Keppetipola	
Nawalapitiya Branch No. 106, Gampola Road, Nawalapitiya	21.92	5,534	30.09.2017	N M Keppetipola	
Nuwara Eliya Branch No. 43, Lawson Street, Nuwara Eliya	133.50	9,713	30.09.2017	R H Jayawardana	
Nuwara Eliya Staff Quarters (Clerical) No. 14,19, Hill Street, Nuwara Eliya	75.70	7,562	30.09.2017	R H Jayawardana	
Nuwara Eliya Property No. 12, Hill Street, Nuwara Eliya	82.53	4,638	30.09.2017	R H Jayawardana	
Talawakelle Branch No. 23,25,29, Hatton Road, Talawakelle	25.30	7,332	30.09.2017	R H Jayawardana	
Talawakelle Staff Quarters Talawakelle Estate Plantation	160.00	4,898	30.09.2017	R H Jayawardana	
Eastern Province					
Batticaloa Branch No. 21 and 21 1/1 Govington Road, Batticaloa	64.85	7,774	30.09.2017	R W N S B Rajapaksha	
Muttur Branch No. 36/1, Ward No. 7, Main street, Muttur	71.00	7,566	30.09.2017	P P T Mohideen	
Pottuvil Branch Main Street, Pottuvil	10.70	4,077	30.09.2017	R W N S B Rajapaksha	
Trincomalee Branch No. 24, Inner Harbour Road, Trincomalee	90.00	10,810	30.09.2017	P P T Mohideen	
Trincomalee City Branch No. 09, Main Street, Trincomalee	21.90	2,670	30.09.2017	P P T Mohideen	
Valaichchenai Branch Main Street, Valaichchenai	47.34	6,621	30.09.2017	R W N S B Rajapaksha	
Northern Province					
Jaffna Area Office and Branch No. 476, 476A, Hospital Road, Jaffna	166.25	21,393	30.11.2014	S Sivakantha	
Karainagar Branch Post Office View, Karainagar	63.22	5,720	30.11.2014	S Sivakantha	

Basis of Valuation	Carrying Value of Land LKR '000	Revalued Amount of Land LKR '000	Surplus/(Loss) of Land LKR '000	Carrying Value of Building LKR '000	Revalued Amount of Buildings LKR '000	Surplus/(Loss) of Buildings LKR '000	Total Revaluation Surplus/(Loss) LKR '000
Contractor's Method	15,000	15,000	–	16,336	18,700	2,364	2,364
Investment Method	180,675	105,000	(75,675)	14,621	31,000	16,379	(59,296)
Investment Method	97,759	97,759	–	–	–	–	–
Contractor's Method	168,000	97,000	(71,000)	29,600	43,500	13,900	(57,100)
Contractor's Method	214,000	428,000	214,000	13,913	27,000	13,087	227,087
Contractor's Method	31,000	25,000	(6,000)	11,700	15,000	3,300	(2,700)
Contractor's Method	14,000	33,000	19,000	12,950	17,000	4,050	23,050
Contractor's Method	460,000	667,500	207,500	38,804	38,436	(368)	207,132
Contractor's Method	41,000	151,400	110,400	1	21,400	21,399	131,799
Contractor's Method	15,000	142,600	127,600	925	15,200	14,275	141,875
Contractor's Method	29,920	33,520	3,600	13,232	16,947	3,715	7,315
Contractor's Method	9,600	10,400	800	11,322	11,635	313	1,113
	1,275,954	1,806,179	530,225	163,404	255,818	92,414	622,639
Contractor's Method	26,000	48,500	22,500	15,342	19,000	3,658	26,158
Contractor's Method	8,000	15,585	7,585	73,271	41,600	(31,671)	(24,086)
Contractor's Method	10,750	17,000	6,250	14,569	13,000	(1,569)	4,681
Contractor's Method	49,500	72,000	22,500	17,367	25,149	7,782	30,282
Contractor's Method	24,000	35,000	11,000	3,360	3,360	–	11,000
Contractor's Method	28,400	30,500	2,100	17,371	14,500	(2,871)	(771)
	146,650	218,585	71,935	141,280	116,609	(24,671)	47,264
Market Value	249,500	249,500	–	31,610	31,610	–	–
Market Value	3,300	3,300	–	4,984	4,984	–	–

Name of Premises	Extent (Perches)	Building (Square Feet)	Date of Valuation	Valuer	
Mannar Branch, Manager and Staff Quaters (Ice Factory) No. 52, Pallimunai Road, Grand Bazaar, Mannar	162.04	7,661	30.11.2014	S Sivakantha	
Nelliadi Branch No. 23, Kodikamam Road, Nelliadi	22.11	2,718	30.11.2014	S Sivakantha	
North Western Province					
Alawwa Branch No. 64, Giriulla Road, Alawwa	30.80	7,011	30.09.2017	R W N S B Rajapaksha	
Bingiriya Land Wariyapola Road, Bingiriya	40.00	–	02.05.2017	S A R Amarasinghe	
Chilaw Branch Radaguru Edmund Peiris Mawatha, Chilaw	38.25	8,248	30.09.2017	Sumedha Hapugoda	
Dummalasuriya Branch No. 227, Kuliyaipitiya – Madampe Road, Dummalasuriya	41.68	5,611	30.09.2017	Sumedha Hapugoda	
North Western Province Office, AGM's Quarters, and CM Quarters. No. 18, Mihindu Mawatha, Kurunegala	225.00	19,437	30.09.2017	R H Jayawardana	
Kurunegala Super Grade Branch Commercial Complex, Kurunegala	–	12,242	30.09.2017	R H Jayawardana	
Kurunegala 2nd City Branch (Bazaar) No. 34, Colombo Road, Kurunegala	46.80	16,677	30.09.2017	R H Jayawardana	
Madampe Branch No. 10, Station Road, Madampe	86.10	7,260	30.09.2017	Sumedha Hapugoda	
Madurankuliya Branch No. 66, Colombo Road, Madurankuliya	46.00	6,083	30.09.2017	Sumedha Hapugoda	
Malsiripura Branch (Proposed) No. 254, Dambulla Road, Malsiripura	46.20	–	06.06.2015	D P L C De Silva	
Narammala Branch No. 139, Negombo Road, Narammala	117.50	7,190	30.09.2017	R W N S B Rajapaksha	
Nattandiya Land No. 115, Marawila Road, Nattandiya	67.50	–	18.01.2017	K T D Tissera	
Waikkal Land Puttalam Road, Thoppuwa, Waikkal	36.00	–	05.03.2017	R W N S B Rajapaksha	
Sabaragamuwa Province					
Balangoda Branch No. 137, Main Street, Balangoda	14.50	3,202	30.09.2017	A G Gunaratna	
Dehiowita Branch No. 62, Main Street, Dehiowita	38.60	3,818	30.09.2017	A G Gunaratna	
Kegalle Branch No. 110, Colombo Road, Kegalle	120.00	14,680	30.09.2017	N M Keppetipola	
Ratnapura Branch No. 04, Dharmapala Mawatha, Ratnapura	99.70	9,808	30.09.2017	W D P Rupananda	
Land in Ratnapura No. 195, Main Street, Ratnapura	31.69	–	30.09.2017	W D P Rupananda	

	Basis of Valuation	Carrying Value of Land LKR '000	Revalued Amount of Land LKR '000	Surplus/(Loss) of Land LKR '000	Carrying Value of Building LKR '000	Revalued Amount of Buildings LKR '000	Surplus/(Loss) of Buildings LKR '000	Total Revaluation Surplus/(Loss) LKR '000
	Contractor's Method	9,500	9,500	–	8,407	8,407	–	–
	Contractor's Method	17,750	17,750	–	32,525	32,525	–	–
		280,050	280,050	–	77,526	77,526	–	–
	Contractor's Method	32,440	46,000	13,560	20,258	23,000	2,742	16,302
	Investment Method	21,199	21,199	–	–	–	–	–
	Contractor's Method	47,000	66,000	19,000	16,720	24,000	7,280	26,280
	Contractor's Method	22,672	30,000	7,328	11,403	16,000	4,597	11,925
	Contractor's Method	157,500	560,000	402,500	27,727	40,000	12,273	414,773
	Investment Method	–	–	–	90,188	134,400	44,212	44,212
	Contractor's Method	174,125	234,000	59,875	15,824	15,824	–	59,875
	Contractor's Method	34,900	38,000	3,100	12,117	19,000	6,883	9,983
	Contractor's Method	11,000	60,000	49,000	23,125	36,000	12,875	61,875
	Investment Method	46,799	46,799	–	–	–	–	–
	Contractor's Method	61,806	87,000	25,194	41,336	39,500	(1,836)	23,358
	Investment Method	47,399	47,399	–	–	–	–	–
	Investment Method	44,799	44,799	–	–	–	–	–
		701,639	1,281,196	579,557	258,698	347,724	89,026	668,583
	Investment Method	21,750	40,000	18,250	2,263	1,280	(983)	17,267
	Contractor's Method	8,288	15,180	6,892	6,319	2,568	(3,751)	3,141
	Contractor's Method	104,190	146,000	41,810	24,547	36,000	11,453	53,263
	Contractor's Method	69,500	82,000	12,500	15,987	31,000	15,013	27,513
	Comparison Method	58,000	85,000	27,000	–	–	–	27,000
		261,728	368,180	106,452	49,116	70,848	21,732	128,184

Name of Premises	Extent (Perches)	Building (Square Feet)	Date of Valuation	Valuer	
Southern Province					
Ambalangoda Branch No. 345, Galle Road, Ambalangoda	58.00	7,575	30.09.2017	S A R Amarasinghe	
Ambalantota Branch No. 11A, Wanduruppa Road, Ambalantota	38.00	5,410	30.09.2017	U Rajapaksha	
Ahangama Branch Matara Road, Ahangama	33.35	–	21.02.2017	E Dayasena	
Beliatta Branch No. 67, Walasmulla Road, Beliatta	53.02	6,200	30.09.2017	U Rajapaksha	
Southern Province Office No. 02, Light House Street, Fort, Galle	32.63	14,250	30.09.2017	S A R Amarasinghe	
Galle Branch No. 02, Gamini Road, Galle	31.50	10,800	30.09.2017	S A R Amarasinghe	
Hakmana Branch Beliatta Road, Hakmana	36.70	3,400	30.09.2017	S A R Amarasinghe	
Imaduwa Branch Ahangama Road, Imaduwa	83.50	3,300	30.09.2017	S A R Amarasinghe	
Karapitiya Land No. 105, Hirimbura Cross Road, Karapitiya, Galle	35.00	–	01.02.2017	E Dayasena	
Matara Branch No. 11, Kumaratunga Mawatha, Matara	104.40	15,905	30.09.2017	U Rajapaksha	
Matara City Branch No. 58, New Tangalle Road, Kotuwegoda, Matara	49.25	7,105	30.09.2017	U Rajapaksha	
Nagoda Branch Nagoda	40.00	2,985	30.09.2017	S A R Amarasinghe	
Tangalle Branch No. 145/147, Sea Street, Tangalle	21.05	5,370	30.09.2017	U Rajapaksha	
Weeraketiya Branch Beliatta Road, Weeraketiya	36.87	4,480	30.09.2017	U Rajapaksha	
Weligama Branch No. 239, Main Street, Weligama	97.75	8,110	30.09.2017	S A R Amarasinghe	
Walasmulla Land No. 453, Walasmulla South, Walasmulla	38.00	–	09.12.2016	K T D Tissera	
Uva Province					
Uva Province Office Bank Road, Badulla	118.75	7,366	30.11.2014	D P L C De Silva	
Bandarawela Branch No. 198B, Badulla Road, Bandarawela	10.60	7,731	30.09.2017	L H Lickson	
Ettampitiya Branch No. 23, Nuwara Eliya Road, Ettampitiya	20.35	3,729	30.09.2017	L H Lickson	
Haputale Branch (Browns) No. 20, Station Road, Haputale	158.70	7,361	30.09.2017	L H Lickson	
Monaragala Branch, Manager Quarters and Staff Quarters No. 401, Wellawaya Road, Monaragala	160.00	15,000	30.11.2014	D P L C De Silva	

	Basis of Valuation	Carrying Value of Land LKR '000	Revalued Amount of Land LKR '000	Surplus/(Loss) of Land LKR '000	Carrying Value of Building LKR '000	Revalued Amount of Buildings LKR '000	Surplus/(Loss) of Buildings LKR '000	Total Revaluation Surplus/(Loss) LKR '000
	Contractor's Method	49,300	203,000	153,700	13,230	25,500	12,270	165,970
	Contractor's Method	14,000	36,200	22,200	12,676	15,800	3,124	25,324
	Investment Method	20,007	20,007	–	–	–	–	–
	Contractor's Method	37,800	59,000	21,200	32,953	40,500	7,547	28,747
	Contractor's Method	130,000	228,000	98,000	18,000	25,000	7,000	105,000
	Contractor's Method	155,000	236,000	81,000	18,000	21,000	3,000	84,000
	Contractor's Method	28,700	36,700	8,000	7,937	8,800	863	8,863
	Contractor's Method	20,000	58,500	38,500	7,467	8,600	1,133	39,633
	Contractor's Method	62,599	62,599	–	–	–	–	–
	Contractor's Method	186,600	261,000	74,400	12,705	25,000	12,295	86,695
	Contractor's Method	114,350	123,500	9,150	32,005	41,500	9,495	18,645
	Contractor's Method	9,400	16,000	6,600	17,989	12,000	(5,989)	611
	Contractor's Method	19,000	26,500	7,500	21,275	31,500	10,225	17,725
	Contractor's Method	20,250	42,600	22,350	12,487	25,900	13,413	35,763
	Contractor's Method	44,000	73,300	29,300	21,600	22,700	1,100	30,400
	Investment Method	32,717	32,717	–	–	–	–	–
		943,723	1,515,623	571,900	228,324	303,800	75,476	647,376
	Market Value	11,750	11,750	–	9,521	9,521	–	–
	Investment Method	25,000	33,000	8,000	18,500	15,000	(3,500)	4,500
	Contractor's Method	5,792	10,105	4,313	8,993	9,956	963	5,276
	Contractor's Method	18,313	36,000	17,687	7,178	11,000	3,822	21,509
	Market Value	50,000	50,000	–	29,276	29,276	–	–
		110,855	140,855	30,000	73,468	74,753	1,285	31,285

Name of Premises	Extent (Perches)	Building (Square Feet)	Date of Valuation	Valuer	
Western Province North					
Borella Branch No. 71, Danister de Silva Mawatha, Borella	48.65	20,173	30.09.2017	W D P Rupananda	
Borella Branch Parking Borella	6.65	–	06.01.2013	K T D Tissera	
City Office No. 41, Bristol Street, Colombo 1	39.50	31,443	30.09.2017	W D P Rupananda	
Grand Pass Branch No. 703, Sirimavo Bandaranaike Mawatha, Grandpass	20.12	6,210	30.09.2017	A G Gunaratna	
Gampaha Branch No. 16, Rest House Road, Gampaha	34.06	–	30.09.2017	W D P Rupananda	
Ja-Ela Branch No. 19, Negombo Road, Ja-Ela	40.64	8,090	30.09.2017	H A Jayaratne	
Kadawatha Branch No. 469, Ragama Road, Kadawatha	30.71	6,138	30.09.2017	H A Jayaratne	
Negombo Branch No. 118, Rajapakse Broadway, Negombo	97.25	16,760	30.11.2014	D C Sosa	
Negombo City No. 75, 77, Main Street, Negombo	10.76	8,355	07.06.2017	S A R Amarasinghe	
Pettah Branch No. 212/63, Gas Works Street, Colombo 11	28.29	25,222	30.09.2017	W D P Rupananda	
Dematagoda Branch (Proposed) No. 45, 47, Kolonnawa Road, Colombo 09	38.14	–	30.09.2017	W D P Rupananda	
Western Province South					
Aluthgama Branch No. 14, Douglas Gunawardana Mawatha, Aluthgama	36.60	7,914	30.09.2017	D P L C De Silva	
Bambalapitiya Branch No. 20, Unity Plaza Building, Galle Road, Colombo 04	–	7,776	30.09.2017	A G Gunaratna	
Beruwala Branch No. 165A, Galle Road, Beruwala	21.50	5,937	30.09.2017	D P L C De Silva	
Bulathsinhala Branch No. 40, Horana Road, Athura, Bulathsinhala	53.85	7,190	30.09.2017	D P L C De Silva	
Dehiwala Branch No. 207, Galle Road, Dehiwala	22.00	12,422	30.09.2017	R W N S B Rajapaksha	
Horana Branch No. 87, Anguruwatota Road, Horana	70.02	10,611	30.09.2017	D P L C De Silva	
Idama (Moratuwa) Branch No. 707, Galle Road, Moratuwa	61.12	8,272	30.09.2017	R W N S B Rajapaksha	
Kalutara Area Office No. 108, Old Road, Kalutara	52.65	3,300	30.11.2014	L S K De Silva	
Kalutara Branch No. 218, Galle Road, Kalutara South, Kalutara	45.86	11,436	30.09.2017	D P L C De Silva	
Maharagama Branch and Central Training Institute No. 88, High Level Road, Maharagama	179.21	82,121	30.09.2017	A G Gunaratna	
Matugama Branch No. 72, Agalawatte Road, Matugama	9.50	4,158	30.09.2017	A G Gunaratna	

Basis of Valuation	Carrying Value of Land LKR '000	Revalued Amount of Land LKR '000	Surplus/(Loss) of Land LKR '000	Carrying Value of Building LKR '000	Revalued Amount of Buildings LKR '000	Surplus/(Loss) of Buildings LKR '000	Total Revaluation Surplus/(Loss) LKR '000
Contractor's Method	163,000	357,000	194,000	61,750	74,000	12,250	206,250
Investment Method	31,199	31,199	–	–	–	–	–
Contractor's Method	280,000	495,000	215,000	87,875	55,000	(32,875)	182,125
Contractor's Method	70,420	120,720	50,300	19,639	24,280	4,641	54,941
Comparison Method	102,180	85,000	(17,180)	–	–	–	(17,180)
Contractor's Method	81,280	121,920	40,640	15,869	20,000	4,131	44,771
Contractor's Method	24,500	92,130	67,630	13,718	17,500	3,782	71,412
Market Value	171,160	171,160	–	37,050	37,050	–	–
Contractor's Method	46,998	46,998	–	56,287	56,287	–	–
Investment Method	212,000	410,000	198,000	125,545	48,000	(77,545)	120,455
Comparison Method	112,359	205,000	92,641	–	–	–	92,641
	1,295,096	2,136,127	841,031	417,733	332,117	(85,616)	755,415
Contractor's Method	25,620	62,220	36,600	34,965	26,550	(8,415)	28,185
Income Method	–	–	–	158,730	204,000	45,270	45,270
Contractor's Method	42,800	48,376	5,576	3,569	11,496	7,927	13,503
Contractor's Method	29,750	40,388	10,638	9,562	23,575	14,013	24,651
Contractor's Method	77,500	99,000	21,500	30,987	34,000	3,013	24,513
Contractor's Method	60,000	245,063	185,063	3,813	32,531	28,718	213,781
Contractor's Method	135,000	150,000	15,000	10,155	13,400	3,245	18,245
Market Value	34,000	34,000	–	2,975	2,975	–	–
Contractor's Method	77,630	88,720	11,090	23,000	30,272	7,272	18,362
Contractor's Method	443,458	507,380	63,922	151,343	177,620	26,277	90,199
Contractor's Method	27,000	33,250	6,250	14,733	4,250	(10,483)	(4,233)

Name of Premises	Extent (Perches)	Building (Square Feet)	Date of Valuation	Valuer	
Nugegoda Branch					
No. 174, High Level Road, Nugegoda,	67.50	45,584	30.09.2017	R W N S B Rajapaksha	
Panadura Branch					
No. 21, Susantha Mawatha, Panadura	80.00	10,509	30.09.2017	A G Gunaratna	
Panadura City Branch (Proposed)					
No. 17/3D, Jayathilake Mawatha, Panadura	36.00	–	30.09.2017	A G Gunaratna	
Wadduwa Branch					
No. 557/A, Galle Road, Wadduwa	29.00	–	30.09.2017	D P L C De Silva	
Wellawatte Branch					
No. 149/2, Galle Road, Colombo 06	51.25	15,832	30.09.2017	A G Gunaratna	
Holiday Homes and Rests					
Badulla Fernham Bungalow and Property					
No. 153, Spring Valley Road, Badulla	222.25	4,580	30.11.2012	P P T Mohideen	
Bandarawela Holiday Home					
Bandarawela	115.00	3,028	30.09.2017	N M Keppetipola	
Dickoya Upper Glencarn Bungalow					
Dickoya	189.65	8,665	30.09.2017	N M Keppetipola	
Dickoya Lower Glencarn Bungalow					
Dickoya	100.00	5,925	30.09.2017	N M Keppetipola	
Haputale Woodland Bungalow					
Haputale	135.00	3,010	30.09.2017	N M Keppetipola	
Jaffna Bank Rest					
No. 34-34/3, Rasavinthoddam Road, Jaffna	166.25	–	30.11.2014	S Sivakantha	
Kandy Holiday Home (New)					
No. 18/5, Dangolla Road, Getambe	39.00	3,600	07.10.2016	R W N S B Rajapaksha	
Lindula Ridge Holiday Home					
Lindula	175.00	3,010	30.09.2017	N M Keppetipola	
Nuwara Eliya Holiday Home					
No. 16, Hill Street, Nuwara Eliya	35.27	3,388	30.09.2017	N M Keppetipola	
Ceybank Rest, Nuwara Eliya (Phase 1)					
No. 12, Hill Street, Nuwara Eliya	67.54	3,820	30.09.2017	N M Keppetipola	
Others					
GM's Bungalow					
No. 75, Ananda Kumaraswamy Mawatha, Colombo 07	79.80	6,380	30.09.2017	A G Gunaratna	
Colombo Darley Road Stores					
Browns Building					
No. 481, T B Jayah Mawatha, Colombo 10	151.00	28,777	30.09.2017	W D P Rupananda	
World Trade Centre					
No. 08, 8-2/1, Bank of Ceylon Mawatha, Colombo 01	–	6,345	30.09.2017	P P T Mohideen	
Walker's & Sons					
No. 28, St. Michael's Road, Cololmbo 03	57.00	–	30.09.2017	P P T Mohideen	
Grand Total					

	Basis of Valuation	Carrying Value of Land LKR '000	Revalued Amount of Land LKR '000	Surplus/(Loss) of Land LKR '000	Carrying Value of Building LKR '000	Revalued Amount of Buildings LKR '000	Surplus/(Loss) of Buildings LKR '000	Total Revaluation Surplus/(Loss) LKR '000
	Contractor's Method	235,000	337,500	102,500	480,751	512,500	31,749	134,249
	Contractor's Method	120,000	140,000	20,000	21,399	25,870	4,471	24,471
	Contractor's Method	26,638	36,000	9,362	–	–	–	9,362
	Contractor's Method	34,625	40,600	5,975	–	–	–	5,975
	Contractor's Method	230,626	281,875	51,249	34,190	39,125	4,935	56,184
		1,599,647	2,144,372	544,725	980,172	1,138,164	157,992	702,717
	Market Value	20,000	20,000	–	–	–	–	–
	Contractor's Method	8,000	14,400	6,400	5,517	7,300	1,783	8,183
	Market Value	4,500	7,400	2,900	12,813	23,000	10,187	13,087
	Market Value	2,500	6,000	3,500	10,360	18,000	7,640	11,140
	Market Value	10,800	15,000	4,200	4,720	6,600	1,880	6,080
	Market Value	86,250	86,250	–	–	–	–	–
	Contractor's Method	48,999	48,999	–	8,063	8,063	–	–
	Market Value	3,000	4,300	1,300	5,440	7,500	2,060	3,360
	Contractor's Method	35,000	53,000	18,000	31,641	9,800	(21,841)	(3,841)
	Contractor's Method	55,000	91,000	36,000	8,837	15,000	6,163	42,163
		274,049	346,349	72,300	87,391	95,263	7,872	80,172
	Contractor's Method	359,100	798,000	438,900	6,779	12,760	5,981	444,881
	Contractor's Method	880,000	1,200,000	320,000	14,000	25,000	11,000	331,000
	Rental Value Basis	–	–	–	156,140	351,500	195,360	195,360
	Market Value	174,700	456,690	281,990	–	–	–	281,990
		1,413,800	2,454,690	1,040,890	176,919	389,260	212,341	1,253,231
		8,303,191	12,692,206	4,389,015	2,654,031	3,201,882	547,851	4,936,866

33.14 The details of revalued building on leasehold lands held by the Bank as at 31 December 2017 are as follows:

Name of Premises	Building (Square Feet)	Date of Valuation	Valuer	Basis of Valuation	Carrying Value of Building LKR '000	Revalued Amount of Buildings LKR '000	Surplus/(Loss) of Buildings LKR '000
Central Province							
Digana Branch	1,810	30.09.2017	R H Jayawardane	Contractor's Method	904	4,344	3,440
Dambulla Branch	9,700	30.09.2017	T B Balasooriya	Depreciated Replacement Cost Method	18,904	30,000	11,096
Matale Branch and Managers' Quarters	14,499	30.09.2017	R H Jayawardane	Contractor's Method	1	79,947	79,946
Ududumbara Branch	4,662	30.09.2017	R H Jayawardane	Contractor's Method	16,647	8,000	(8,647)
					36,456	122,291	85,835
Eastern Province							
Kalmunai Branch and Managers' Quarters	9,500	30.09.2017	T B Balasuriya	Depreciated Replacement Cost Method	1	40,000	39,999
Kantale Staff Quarters	2,620	30.09.2017	P P T Mohideen	Depreciated Replacement Cost Method	6,472	12,500	6,028
Kantale Bazaar Branch	4,000	30.09.2017	P P T Mohideen	Depreciated Replacement Cost Method	11,750	16,275	4,525
					18,223	68,775	50,552
Northern Province							
Mannar Branch and Managers' Quarters	4,305	30.09.2017	P P T Mohideen	Depreciated Replacement Cost Method	9,020	18,400	9,380
Vavuniya Branch and Managers' Quarters	6,032	30.09.2017	P P T Mohideen	Depreciated Replacement Cost Method	16,702	21,200	4,498
Vavuniya Staff Quarters	9,382	30.09.2017	P P T Mohideen	Depreciated Replacement Cost Method	3,397	29,550	26,153
Vavuniya Area Office and Quarters	8,770	30.09.2017	P P T Mohideen	Depreciated Replacement Cost Method	2	26,300	26,298
					29,121	95,450	66,329
North Central Province							
North Central Province Office – Anuradhapura	12,700	30.09.2017	S A R Amarasinghe	Depreciated Replacement Cost Method	1,584	31,400	29,816
Anuradhapura Branch	7,000	30.09.2017	S A R Amarasinghe	Depreciated Replacement Cost Method	2,102	16,500	14,398
Anuradhapura Staff Quarters	825	30.09.2017	S.A.R Amarasinghe	Depreciated Replacement Cost Method	1	4,600	4,599
Anuradhapura Bachelors Quarters	12,255	30.09.2017	S A R Amarasinghe	Depreciated Replacement Cost Method	2	29,600	29,598
Aralaganwila Branch	8,969	30.09.2017	R H Jayawardane	Contractor's Method	42,240	42,360	120
Bakamuna Branch	3,377	30.09.2017	S A R Amarasinghe	Depreciated Replacement Cost Method	3,008	11,600	8,592
Dehiattakandiya Branch	5,857	30.09.2017	R H Jayawardane	Contractor's Method	4,557	13,890	9,333
Galenbindunuwewa Branch	5,160	30.09.2017	S A R Amarasinghe	Depreciated Replacement Cost Method	3,799	14,400	10,601
Galkiriyagama Branch	5,580	30.09.2017	P P T Mohideen	Depreciated Replacement Cost Method	1	21,500	21,499
Galnewa Branch	5,580	30.09.2017	P P T Mohideen	Depreciated Replacement Cost Method	1	17,755	17,754
Horowpathana Branch	5,480	30.09.2017	S A R Amarasinghe	Depreciated Replacement Cost Method	4,577	17,400	12,823
Ipalogama Branch	1,860	30.09.2017	P P T Mohideen	Depreciated Replacement Cost Method	9,716	8,170	(1,546)
Kahatagasdigiliya Branch	4,490	30.09.2017	S A R Amarasinghe	Depreciated Replacement Cost Method	4,530	16,000	11,470

Name of Premises	Building (Square Feet)	Date of Valuation	Valuer	Basis of Valuation	Carrying Value of Building LKR '000	Revalued Amount of Buildings LKR '000	Surplus/(Loss) of Buildings LKR '000
Kekirawa Branch	9,010	30.09.2017	P P T Mohideen	Depreciated Replacement Cost Method	934	31,875	30,941
Kebithigollewa Branch and Managers' Quarters	7,570	30.09.2017	S A R Amarasinghe	Depreciated Replacement Cost Method	38,124	30,000	(8,124)
Madatugama Branch	5,332	30.09.2017	P P T Mohideen	Depreciated Replacement Cost Method	1	16,974	16,973
Medawachchiya Branch	3,805	30.09.2017	S A R Amarasinghe	Depreciated Replacement Cost Method	2,859	10,100	7,241
Medirigiriya Branch	8,425	30.09.2017	R H Jayawardane	Contractor's Method	5,429	23,670	18,241
Meegallewa Branch	5,580	30.09.2017	P P T Mohideen	Depreciated Replacement Cost Method	1	17,735	17,734
Mihintale Branch	6,812	30.09.2017	R H Jayawardane	Contractor's Method	6,639	21,450	14,811
Welikanda Branch	8,340	30.09.2017	R H Jayawardane	Contractor's Method	44,875	34,665	(10,210)
Nochchiyagama Branch and Staff Quarters	5,580	30.09.2017	P P T Mohideen	Depreciated Replacement Cost Method	315	19,415	19,100
Padavi Parakramapura Branch and Staff Quarters	7,209	30.09.2017	R H Jayawardane	Contractor's Method	4,967	23,350	18,383
Polonnaruwa New Town Branch	9,990	30.09.2017	R H Jayawardane	Contractor's Method	405	29,300	28,895
Polonnaruwa New Town Staff Quarters	6,382	30.09.2017	R H Jayawardane	Contractor's Method	1	11,660	11,659
Thambuttegama Branch and Staff Quarters	5,580	30.09.2017	P P T Mohideen	Depreciated Replacement Cost Method	1,011	22,275	21,264
Thirappane Branch	6,435	30.09.2017	S A R Amarasinghe	Depreciated Replacement Cost Method	44,925	26,000	(18,925)
					226,604	563,644	337,040
North Western Province							
Anamaduwa Branch	5,912	30.09.2017	G H K Wickhremathilake	Depreciated Replacement Cost	45,436	28,000	(17,436)
Galgamuwa Branch	9,658	30.09.2017	G H K Wickhremathilake	Depreciated Replacement Cost	4,932	35,000	30,068
Nikaweratiya Branch	8,370	30.09.2017	G H K Wickhremathilake	Depreciated Replacement Cost	811	23,000	22,189
Puttalam Branch and Managers Quarters	5,002	30.09.2017	G H K Wickhremathilake	Depreciated Replacement Cost	198	14,000	13,802
Pannala Branch	7,131	30.09.2017	R W M S B Rajapaksha	Contractor's Method	5,860	30,000	24,140
					57,237	130,000	72,763
Sabaragamuwa Province							
Avissavella Branch	8,996	30.09.2017	A G Gunarathne	Cost Approach	13,138	28,217	15,079
Embilipitiya Branch	8,432	30.09.2017	A G Gunarathne	Cost Approach	2,699	29,388	26,689
Embilipitiya Staff Quarters	4,637	30.09.2017	A G Gunarathne	Cost Approach	3,018	7,785	4,767
Kuruwita Branch	6,754	30.09.2017	A G Gunarathne	Cost Approach	19,344	13,165	(6,179)
Nivithigala Branch	6,660	30.09.2017	A G Gunarathne	Cost Approach	7,670	5,599	(2,071)
Rambukkana Branch	5,545	30.09.2017	A G Gunarathne	Cost Approach	2,399	10,924	8,525
					48,268	95,078	46,810

Name of Premises	Building (Square Feet)	Date of Valuation	Valuer	Basis of Valuation	Carrying Value of Building LKR '000	Revalued Amount of Buildings LKR '000	Surplus/(Loss) of Buildings LKR '000
Southern Province							
Elpitiya Branch	6,060	30.09.2017	S A R Amarasinghe	Depreciated Replacement Cost	1	12,120	12,119
Hambantota Branch AM's Quarters, and Staff Quarters	13,260	30.09.2017	S A R Amarasinghe	Depreciated Replacement Cost	1	35,000	34,999
Hikkaduwa Branch	7,050	30.09.2017	S A R Amarasinghe	Depreciated Replacement Cost	13,996	17,000	3,004
Kamburupitiya Branch and Managers' Quarters	5,850	30.09.2017	S A R Amarasinghe	Depreciated Replacement Cost	3,632	15,000	11,368
Kataragama Branch	7,240	30.09.2017	S A R Amarasinghe	Depreciated Replacement Cost	361	19,500	19,139
Koggala Branch	6,060	30.09.2017	S A R Amarasinghe	Depreciated Replacement cost	9,408	17,700	8,292
Middeniya Branch	7,640	30.09.2017	S A R Amarasinghe	Depreciated Replacement Cost	27,642	43,700	16,058
Pitigala Branch	2,050	30.09.2017	S A R Amarasinghe	Depreciated Replacement Cost	2,910	4,600	1,690
Talgaswela Branch	4,600	30.09.2017	S A R Amarasinghe	Depreciated Replacement Cost	1	8,300	8,299
Tissamaharama Branch	7,140	30.09.2017	S A R Amarasinghe	Depreciated Replacement Cost	14,200	32,000	17,800
					72,152	204,920	132,768
Uva Province							
Buttala Branch	5,095	30.09.2017	U Rajapaksha	Contractor's Method	905	17,350	16,445
Wellawaya Branch	6,905	30.09.2017	U Rajapaksha	Contractor's Method	1,775	22,275	20,500
					2,680	39,625	36,945
Western Province							
North							
Kolonnawa Branch	7,469	30.09.2017	R W M S B Rajapaksha	Contractor's Method	43,737	48,000	4,263
Kadawatha Branch	4,652	28.12.2017	H A Jayarathne	Depreciated Replacement Method	11,372	20,934	9,562
Ragama Branch	7,562	28.12.2017	H A Jayarathne	Depreciated Replacement Method	80,832	34,000	(46,832)
					135,941	102,934	(33,007)
Western Province							
South							
Bandaragama Branch	9,024	30.09.2017	D P L C Silva	Depreciated Replacement Method	15,745	48,550	32,805
					15,745	48,550	32,805
Others							
Ceybank Rest, Anuradhapura	49,255	30.09.2017	S A R Amarasinghe	Depreciated Replacement Method	9,900	240,000	230,100
Ceybank Rest, Katharagama	15,435	30.09.2017	S A R Amarasinghe	Depreciated Replacement Method	15,352	34,600	19,248
					25,252	274,600	249,348
Grand Total					667,679	1,745,867	1,078,188

34 Leasehold Properties

Accounting Policy

The determination of whether an arrangement is a lease or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset/assets or the arrangement conveys a right to use the asset/assets, even if that right is not explicitly specified in an arrangement.

Group as a Lessee

Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group, are capitalised at the commencement of the lease at the lower of fair value of the leased property or present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the Statement of Profit or Loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset or the lease term.

Operating lease payments are recognised as an operating expense in the Statement of Profit or Loss on a straight line basis over the lease term.

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Cost				
Balance as at 1 January	126,715	126,715	192,948	192,948
Additions during the year	2,464	–	2,464	–
Balance as at 31 December	129,179	126,715	195,412	192,948
Accumulated Amortisation				
Balance as at 1 January	24,876	22,062	56,793	52,618
Amortisation during the year	2,822	2,814	4,178	4,175
Balance as at 31 December	27,698	24,876	60,971	56,793
Net book value	101,481	101,839	134,441	136,155

Leasehold properties represent the leasehold interest in the lands held for own use. The value of buildings situated in the leasehold land is shown separately under Property, Plant and Equipment. The interest on leasehold land is stated at cost less accumulated amortisation.

35 Intangible Assets

Accounting Policy

Basis of Recognition

An intangible asset is recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the Group and the cost of the asset can be measured reliably. An intangible asset is initially measured at cost.

Intangible assets represent the value of computer application software and licenses, other than software applied to the operating software system of computers.

Measurement

Intangible assets acquired by the Group are stated at cost less accumulated amortisation and accumulated impairment losses. Subsequent expenditure incurred on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation and Impairment

Amortisation is recognised in the Statement of Profit or Loss on a straight line basis over the estimated useful lives of the intangible assets, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of intangible assets is five years or the best estimate of its useful economic life whichever is lower. The intangible assets with finite lives are reviewed for impairment whenever there is an indication for impairment and recognised as expenses in the Statement of Profit or Loss to the extent that they are no longer probable of being recovered from the expected future benefits. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Derecognition

Intangible assets are derecognised when it reveals that they will not generate economic benefits or circumstances indicate that the carrying value is impaired.

Gains or losses arising from derecognition of an intangible assets are measured as the difference between the net disposal proceeds and the carrying amount of the assets and are recognised in Statement of Profit or Loss.

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Cost				
Balance as at 1 January	2,508,841	2,230,371	2,832,758	2,554,377
Additions during the year	528,566	376,643	764,014	393,152
Derecognised during the year	(178)	(98,173)	(178)	(98,173)
Exchange rate adjustment	–	–	14,441	(19,695)
Adjustments/Transfers	–	–	(12,517)	3,097
Balance as at 31 December	3,037,229	2,508,841	3,598,518	2,832,758
Accumulated Amortisation				
Balance as at 1 January	1,945,351	1,857,056	2,177,128	2,050,419
Amortisation during the year	281,326	186,468	338,289	234,727
Derecognised during the year	(178)	(98,173)	(178)	(98,173)
Exchange rate adjustment	–	–	11,846	(12,847)
Adjustments/Transfers	–	–	(3,003)	3,002
Balance as at 31 December	2,226,499	1,945,351	2,524,082	2,177,128
Net book value	810,730	563,490	1,074,436	655,630

35.1 Fully-Amortised Intangible Assets

The initial cost of fully-amortised intangible assets which are still in use are as follows:

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
As at 31 December				
Computer software	1,632,796	1,479,233	1,716,848	1,562,982
	1,632,796	1,479,233	1,716,848	1,562,982

36 Deferred Tax (Assets)/Liabilities

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences:

- The initial recognition of goodwill.
- The initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.
- Differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The following table shows deferred tax recorded in the Statement of Financial Position and charge/(reversal) recorded in the income tax expense (Note 17).

36.1 Bank

As at 31 December	2017				2016			
	Deferred Tax Assets	Deferred Tax Liabilities	Statement of Profit or Loss	Other Comprehensive Income/Equity	Deferred Tax Assets	Deferred Tax Liabilities	Statement of Profit or Loss	Other Comprehensive Income/Equity
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Retirement benefits	–	(58,136)	(11,750)	8,400	–	(54,786)	(5,192)	(32,038)
Impairment allowance for loans and advances	–	(890,683)	–	–	–	(890,683)	–	–
Revaluation of Property, Plant and Equipment*	–	4,568,746	–	4,094,358	–	474,388	–	–
Investment in financial instruments	–	308,560	–	177,006	–	131,554	–	8,893
Other temporary differences	–	1,891,842	113,030	–	–	1,778,812	(49,373)	–
	–	5,820,329	101,280	4,279,764	–	1,439,285	(54,565)	(23,145)

36.2 Group

As at 31 December	2017				2016			
	Deferred Tax Assets	Deferred Tax Liabilities	Statement of Profit or Loss	Other Comprehensive Income/Equity	Deferred Tax Assets	Deferred Tax Liabilities	Statement of Profit or Loss	Other Comprehensive Income/Equity
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Retirement benefits	(6,525)	(60,231)	(370)	(8,363)	(5,328)	(52,696)	(4,663)	(30,061)
Impairment allowance for loans and advances	–	(890,683)	–	–	–	(890,683)	–	–
Revaluation of Property, Plant and Equipment*	–	7,215,790	–	4,191,387	–	3,024,403	–	255,587
Investment in financial instruments	–	308,560	–	177,006	–	131,554	–	8,893
Other temporary differences	(2,096)	2,051,783	183,660	–	(128)	1,866,156	(94,887)	–
	(8,621)	8,625,219	183,290	4,360,030	(5,456)	4,078,734	(99,550)	234,419

*As per the Inland Revenue Act No. 24 of 2017, which will become effective from 1 April 2018 Capital Assets/Business Assets will attract tax at applicable corporate tax rate on the gains at the time of disposal. Accordingly, deferred tax liability has been recognised at 28% on the revaluation surplus relating to freehold land and building in these Financial Statements.

37 Other Assets

Pre Paid Staff Cost

Staff loans are initially recognised at fair value according to LKAS 39 – “Financial Instruments: Recognition and Measurement”. The difference between granted amount and its fair value is treated as pre paid staff cost and amortised over the loan period.

Gold Stock in Hand

The gold inventory is valued at lower of cost or net realisable value. Cost includes all cost of purchase, cost of conversion and other costs incurred in bringing the inventory to its present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost necessary to make the sale.

Employee Benefit Asset

Employee benefit asset represents net retirement benefit assets of Bank of Ceylon Pension Fund – 2014. For more details, refer Note 46.

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Consumable stock in hand	536,938	735,746	629,075	812,406
Prepaid staff cost	11,472,036	9,689,695	11,492,621	9,735,168
Cheques in transit – Local	1,233,167	1,361,061	1,233,167	1,361,061
Cheques in transit – Foreign	30,933	12,514	30,933	12,514
Tax recoverable	–	6,048	13,783	27,482
Gold bullion and coins in hand	18,316	65,576	18,316	65,576
Gold stock in hand	843,950	13,410,931	843,950	13,410,931
Net employee benefit asset [Note 46]	2,096,019	1,789,844	2,096,019	1,789,844
Other	21,586,829	19,722,974	22,607,115	20,506,719
Total other assets	37,818,188	46,794,389	38,964,979	47,721,701

38 Due to Banks

Accounting Policy

Due to banks represents credit balances in Nostro Accounts and short-term borrowings from banks. These are initially recognised at fair value. Subsequent to initial recognition, these are measured at their amortised cost using the Effective Interest Rate (EIR) method. Amortised cost is calculated by taking into account any transaction costs that are an integral part of the EIR. The EIR amortisation is included in “Interest expenses” (Note 8.2) in the Statement of Profit or Loss.

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Deposits from other banks	1,091,599	1,234,969	1,091,599	1,234,969
Bank overdrafts	1,111,600	807,353	1,102,667	818,976
Total due to banks	2,203,199	2,042,322	2,194,266	2,053,945

39 Securities Sold Under Repurchase Agreements

Accounting Policy

Securities sold under repurchase agreements at a specified future date are not derecognised from the Statement of Financial Position as the Group retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the Statement of Financial Position as an asset with a corresponding obligation to return it, including accrued interest as a liability within “Other borrowings”, reflect the transaction’s economic substance as a borrowing to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using EIR.

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
With Banks	1,547,501	1,646,744	437,672	746,096
With Customers	42,939,961	57,777,885	44,191,014	58,179,705
Total securities sold under repurchase agreements	44,487,462	59,424,629	44,628,686	58,925,801

40 Derivative Financial Instruments

Accounting Policy

Derivative financial instruments include contracts which are entered by the Bank that are not designated as hedging instruments in hedge relationships as per the Sri Lanka Accounting Standard – LKAS 39 – “Financial Instruments: Recognition and Measurement”.

Derivatives are recorded at fair value and carried as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in “Net gains/(losses) from trading” (Note 10) in Statement of Profit or Loss.

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Foreign Currency Derivatives				
Forward exchange contracts	2,584	8,210	2,584	8,210
Currency SWAPs	68,131	163,453	68,131	163,453
Total derivative financial instruments	70,715	171,663	70,715	171,663

41 Due to Customers

Accounting Policy

Due to customers include non-interest-bearing deposits, savings deposits, term deposits, deposits payable at call and certificate of deposits, which are initially recognised at fair value. Subsequent to initial recognition, deposits are measured at their amortised cost using the Effective Interest Rate (EIR) method, except where the Group designates liabilities at fair value through profit or loss. The EIR amortisation is included in “Interest expenses” (Note 8.2) in the Statement of Profit or Loss.

41.1 By Product

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Local Currency Deposits				
Demand deposits	113,404,221	110,289,302	113,047,717	110,085,641
Savings deposits	352,068,521	321,546,458	352,930,501	322,247,426
Time deposits	739,171,377	509,930,350	757,236,651	525,465,049
Certificates of deposit	2,315	4,315	7,048	8,918
Other deposits	2,828,892	3,172,486	2,828,892	3,172,486
Total local currency deposits	1,207,475,326	944,942,911	1,226,050,809	960,979,520
Foreign Currency Deposits				
Demand deposits	22,344,522	33,967,358	22,893,509	34,548,616
Savings deposits	88,397,442	77,935,473	88,725,067	78,259,071
Time deposits	227,389,171	198,582,914	227,481,458	198,683,246
Other deposits	1,225,575	1,160,834	1,225,575	1,160,834
Total foreign currency deposits	339,356,710	311,646,579	340,325,609	312,651,767
Total deposits	1,546,832,036	1,256,589,490	1,566,376,418	1,273,631,287

41.2 By Currency

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Sri Lankan Rupee	1,207,475,326	944,942,911	1,226,050,809	960,979,520
United States Dollar	255,968,922	232,593,675	255,978,377	232,607,478
Great Britain Pound	29,361,033	27,759,556	30,313,899	28,744,868
Maldivian Rufiyaa	30,511,710	29,039,013	30,511,710	29,039,013
Seychellois Rupee	1,583,668	1,501,364	1,583,668	1,501,364
Euro	7,191,167	7,522,874	7,197,745	7,528,947
Australian Dollar	6,862,385	7,658,880	6,862,385	7,658,880
Indian Rupee	3,779,151	4,397,059	3,779,151	4,397,059
Other	4,098,674	1,174,158	4,098,674	1,174,158
Total deposits	1,546,832,036	1,256,589,490	1,566,376,418	1,273,631,287

Note: The maturity analysis of deposits is given in Note 56.

42 Other Borrowings

Accounting Policy

Other borrowings represent Senior notes, Term borrowings from banks abroad and in Sri Lanka, Term borrowings from other financial institutions in Sri Lanka and refinance borrowings which are initially recognised at fair value. Subsequent to initial recognition, these borrowings are measured at their amortised cost, using the Effective Interest Rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in “Interest expenses” (Note 8.2) in the Statement of Profit or Loss.

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Senior notes [Note 42.1]	77,253,833	151,331,226	77,253,833	151,331,226
Call borrowings from banks and other financial institutions in Sri Lanka	3,439,502	–	3,439,502	–
Term borrowings from banks abroad	64,760,742	41,523,039	68,280,063	48,290,569
Term borrowings from banks and other financial institutions in Sri Lanka	29,325,247	–	31,945,018	2,247,918
Refinance borrowings	3,411,765	2,615,588	3,411,765	2,615,588
Total other borrowings	178,191,089	195,469,853	184,330,181	204,485,301

42.1 Senior Notes

Senior notes represent two senior unsecured notes, each worth of USD 500 million which are listed in Singapore Stock Exchange. Interest paid semi-annually, based on fixed coupon rate.

As at 31 December	Issued Date	Maturity Date	Coupon Rate %	Bank		Group	
				2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Senior note 1	03.05.2012	03.05.2017	6.875	–	75,686,428	–	75,686,428
Senior note 2	16.04.2013	16.04.2018	5.325	77,253,833	75,644,798	77,253,833	75,644,798
				77,253,833	151,331,226	77,253,833	151,331,226

43 Debt Securities Issued

Accounting Policy

Debt securities issued represent funds borrowed for long-term funding purposes where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. Debt securities are initially recognised at fair value. Subsequent to initial recognition these are measured at their amortised cost using the Effective Interest Rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in “Interest expenses” (Note 8.2) in the Statement of Profit or Loss.

43.1 Senior Debentures

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Listed Debentures				
Unsecured, redeemable debentures of LKR 100 each	–	–	5,667,514	4,933,275
Unlisted Debentures				
Unsecured, redeemable debentures of LKR 100 each (private placement)	–	3,427,058	–	3,427,058
Total debt securities issued	–	3,427,058	5,667,514	8,360,333

43.2 Movement in Senior Debentures

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Balance as at 1 January	3,427,058	3,427,058	8,360,333	8,703,747
Issued during the year	–	–	2,000,000	–
Redemptions	(3,427,058)	–	(4,797,781)	(336,238)
Amortisation adjustment	–	–	104,962	(7,176)
Balance as at 31 December	–	3,427,058	5,667,514	8,360,333

43.3 Senior Debentures

	Notes	Interest Payable Frequency	Issue Date	Maturity Date	Coupon Rate		Amount as at 31 December			
							Bank		Group	
					2017 %	2016 %	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Fixed Interest Rate										
Unsecured, redeemable debentures		Semi-annually	18.06.2012	17.06.2017	–	14.75	–	1,286,404	–	1,286,404
Unsecured, redeemable debentures		Annually	07.12.2012	06.12.2017	–	15.50	–	2,140,654	–	2,140,654
Unsecured, redeemable debentures	(a)	Annually	28.03.2013	27.03.2018	17.50	17.50	–	–	735,857	735,088
Unsecured, redeemable debentures	(a)	Annually	28.03.2013	27.03.2017	–	17.25	–	–	–	569,943
Unsecured, redeemable debentures	(a)	Quarterly	28.03.2013	27.03.2018	16.70	16.70	–	–	655,844	655,752
Unsecured, redeemable debentures	(a)	Monthly	28.03.2013	27.03.2018	16.50	16.50	–	–	168,793	168,786
Unsecured, redeemable debentures	(a)	Annually	17.12.2013	16.12.2017	–	14.25	–	–	–	771,044
Unsecured, redeemable debentures	(a)	Quarterly	17.12.2013	16.12.2017	–	13.50	–	–	–	18,137
Unsecured, redeemable debentures	(a)	Monthly	17.12.2013	16.12.2017	–	13.25	–	–	–	11,599
Unsecured, redeemable debentures	(a)	Annually	13.11.2014	12.11.2019	9.00	9.00	–	–	867,739	868,031
Unsecured, redeemable debentures	(a)	Annually	13.11.2014	12.11.2019	8.75	8.75	–	–	1,132,445	1,134,895
Unsecured, redeemable debentures	(a)	Annually	12.05.2017	03.05.2022	15.00	–	–	–	884,335	–
Unsecured, redeemable debentures	(a)	Semi-annually	12.05.2017	03.05.2022	14.50	–	–	–	1,221,467	–
Unsecured, redeemable debentures	(a)	Semi-annually	12.05.2017	03.05.2022	13.89	–	–	–	1,034	–
Total debt securities issued							–	3,427,058	5,667,514	8,360,333

Note: (a) Debentures that are listed in Colombo Stock Exchange.

44 Insurance Contract Liabilities

Accounting Policy

Life Insurance Contract Liabilities

These liabilities are measured by using the gross premium valuation method as prescribed by the Regulation of Insurance Industry Act No. 43 of 2000. The liability is determined as the discounted value of the expected contractual cash outflows less the discounted value of the expected premiums. Valuation assumptions are derived based on the best estimate experience with a prescribed risk margin to allow for adverse deviations.

At each reporting date, an assessment is made of whether the recognised life insurance liabilities are adequate, by using a liability adequacy test.

Liability Adequacy Test (LAT)

At each reporting date, an assessment is made of whether the recognised life insurance liabilities are adequate by using an existing liability adequacy test as laid out under SLFRS 4. The liability value is adjusted to the extent that it is adequate to meet future benefits and expenses.

Any deficiency is recognised in the Income Statement by setting up a provision for liability adequacy.

Non-Life Insurance Contract Liabilities

Non-life insurance contract liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are known as the outstanding claims provision, which are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

Liability Adequacy Test (LAT)

The provision for unearned premiums represents premiums received for risks that have not yet expired. Generally the reserve is released over the term of the contract and is recognised as premium income. At each reporting date the Company reviews its unexpired risk and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums.

This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant non-life insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate, the deficiency is recognised in the Statement of Comprehensive Income by setting up a provision for liability adequacy.

44.1 Insurance Provision – Life

	Group	
	2017 LKR '000	2016 LKR '000
Balance as at 1 January	514,675	444,257
Increase in life fund	15,436	70,357
Fair value reserve	1,285	(16,803)
Unclaimed benefits	15,630	16,864
Balance as at 31 December	547,026	514,675

44.2 Insurance Provision – Non-Life

As at 31 December	Group	
	2017 LKR '000	2016 LKR '000
Provision for reported claims by policy holders	356,018	407,014
Provision for claims on Incurred But Not Reported (IBNR)	39,792	50,002
Outstanding claims provision	395,810	457,016
Provision for unearned premiums	31,819	324,018
Deferred acquisition	2,464	(5,659)
Total insurance provision – Non-life	430,093	775,375

45 Other Liabilities

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Cheques sent on clearing	272,383	886,701	272,383	886,701
Lease creditors				
Within 12 months	–	–	4,526	5,057
Later than 12 months	–	–	7,851	10,686
Dividend payable	–	–	–	58,253
Net employee benefit liabilities [Note 46]	3,146,728	5,876,927	3,488,193	6,161,273
Other	15,177,138	12,468,205	16,163,525	14,534,543
Total other liabilities	18,596,249	19,231,833	19,936,478	21,656,513

46 Employee Retirement Benefit Plans

Accounting Policy

The Bank has the pension schemes established under an Industrial Award which are solely funded by the Bank. There is also a Widows'/Widowers' and Orphans' Pension Scheme established by the members who joined the Bank before 1 January 1996.

The assets of these three plans are held independently of the Bank's assets and administered by Boards of Trustees/Managers, representing the management and the employees, as provided in the Trust Deed/Rules of the respective funds.

These funds are subject to annual audits independent to the audit of the Bank, by a firm/s of Chartered Accountants appointed by the members and actuarial valuations are carried out as per the rules governing these funds.

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Net Employee Benefit Liabilities				
Bank of Ceylon Pension Trust Fund [Note 46.1]	2,521,730	5,409,473	2,521,730	5,409,473
Provision for terminal gratuity [Note 46.3]	207,627	195,663	549,092	480,009
Provision of encashment of medical leave	417,371	271,791	417,371	271,791
Total net employee benefit liabilities	3,146,728	5,876,927	3,488,193	6,161,273
Net Employee Benefit Assets				
Bank of Ceylon Widows'/Widowers' and Orphans' Pension Fund [Note 46.2]	–	–	–	–
Bank of Ceylon Pension Fund – 2014 [Note 46.4]	2,096,019	1,789,844	2,096,019	1,789,844
Total net employee benefit assets	2,096,019	1,789,844	2,096,019	1,789,844

46.1 Bank of Ceylon Pension Trust Fund

The “Bank of Ceylon Pension Trust Fund” is a funded, non-contributory, defined retirement benefit plan, operated for the payment of pensions until death of the permanent employees who have completed a minimum of ten years of continuous service with the Bank, at their retirement on reaching the retirement age on or after 55 years or on medical grounds, before reaching retirement age. The pension is computed as a percentage of the last drawn salary excluding certain allowances.

Contributions to the Pension Trust Fund are made monthly, based on the advice of a qualified actuary, currently at 56.8% of gross salary. The Fund is valued by a qualified actuary annually. This Fund has been approved by the Government and administrated independently. The subsidiaries and associate companies of the Group do not have pension funds.

An actuarial valuation of the Pension Trust Fund as at 31 December 2017 was carried out by Messrs Actuarial & Management Consultants (Pvt) Limited.

The valuation has been done using the “Projected Unit Credit Method”, which is recommended in the Sri Lanka Accounting Standard – LKAS 19 – “Employee Benefits”. The benefit is available to all permanent employees who have joined the Bank prior to 1 January 1996. The results of the actuarial valuation of the Pension Trust Fund is summarised as follows:

46.1.1 Net Benefit Expense (Recognised Under Personnel Expenses)

For the year ended 31 December	Bank/Group	
	2017 LKR '000	2016 LKR '000
Current service cost	314,507	377,255
Net interest expenses	622,089	242,733
Net benefit expense	936,596	619,988

46.1.2 Amount Recognised in Other Comprehensive Income

For the year ended 31 December	Bank/Group	
	2017 LKR '000	2016 LKR '000
Actuarial losses on the defined benefit obligation	(3,777,610)	(3,006,581)
Actuarial gains/(losses) on plan assets	6,793,826	(384,886)
Net actuarial gains/(losses) recognised in other comprehensive income	3,016,216	(3,391,467)

46.1.3 Retirement Benefit Liability

As at 31 December	Bank/Group	
	2017 LKR '000	2016 LKR '000
Fair value of plan assets [Note 46.1.4]	62,827,692	55,033,729
Defined benefit obligation [Note 46.1.5]	65,349,422	60,443,202
Net retirement benefit liability	2,521,730	5,409,473

46.1.4 Changes in Fair Value of Plan Assets

	Bank/Group	
	2017 LKR '000	2016 LKR '000
Opening fair value of plan assets	55,033,729	54,595,690
Expected return	6,328,879	5,459,570
Contribution by employer	808,121	1,029,318
Benefits paid	(6,136,863)	(5,665,963)
Actuarial gains/(losses)	6,793,826	(384,886)
Closing fair value of plan assets	62,827,692	55,033,729

46.1.5 Changes in the Present Value of the Defined Benefit Obligation

	Bank/Group	
	2017 LKR '000	2016 LKR '000
Opening defined benefit obligation	60,443,202	57,023,026
Interest cost	6,950,968	5,702,303
Current service cost	314,507	377,255
Benefits paid	(6,136,865)	(5,665,963)
Losses due to change in assumptions	2,303,936	(6,522,289)
Actuarial losses on obligation	1,473,674	9,528,870
Closing defined benefit obligation	65,349,422	60,443,202

The present value of the Defined Benefit Obligation as of the valuation date with respect to active employees and pensioners are LKR 10,035.4 million and LKR 55,314.1 million respectively.

46.1.6 Plan Assets Consist of the Following

As at 31 December	Bank/Group	
	2017 LKR '000	2016 LKR '000
Fixed deposits	23,975,252	15,407,000
Treasury Bonds	6,920,120	9,486,293
Debentures	21,225,141	17,883,209
Investment in shares	6,827,937	4,973,588
Government bonds	2,805,519	3,000,000
Others	1,073,723	4,283,639
Total plan assets	62,827,692	55,033,729

46.1.7 Actuarial Assumptions

	Bank/Group	
	2017 %	2016 %
Future salary increment rate	6.5 p.a	6.5 p.a
Increase in future Cost of Living Allowance (COLA)	5.5 p.a	5.5 p.a
Increase in pension in payment (basic)	Nil	Nil
Discount rate	11.0 p.a	11.5 p.a
Attrition rate	Nil	Nil

The Bank uses IALM (2006-2008) Ultimate Mortality Table issued by the Institute of Actuaries of India.

Increase/decrease in the following assumptions will change the present value of defined benefit obligation as illustrated below:

	Bank/Group	
	0.5% increase LKR '000	0.5% decrease LKR '000
Discount rate	63,032,263	67,827,573
Salary increment	65,422,821	65,277,301
Cost of Living Allowance	66,829,004	63,959,483

Further, the remaining years of benefit payments are expected to be 8.1 years.

The following payments are expected from the Pension Trust Fund in future years.

As at 31 December	Bank/Group	
	2017 LKR '000	2016 LKR '000
Within the next 12 months	6,441,698	5,976,289
Between 1 and 5 years	25,057,110	23,344,228
Between 5 and 10 years	15,732,887	14,467,992
Beyond 10 years	18,117,727	16,654,693
Total expected payments	65,349,422	60,443,202

46.2 Bank of Ceylon Widows'/Widowers' and Orphans' Pension Fund

The Bank is liable for and guarantees the payments to the beneficiaries of the "Bank of Ceylon Widows'/Widowers' and Orphans' Pension Fund" to which the Bank's employees monthly contribute 8% of their gross salary. The Bank's liability towards the beneficiaries of the employees arises when an employee who has contributed to the fund for five continuous years dies while in service or on the death of a pensioner where the Bank will be liable to pay Widows' and Orphans' Pension to his/her beneficiaries monthly. The pension to the beneficiaries of an employee who dies while in service is based on the last drawn salary excluding certain allowances.

An actuarial valuation of the Widows'/Widowers' and Orphans' Pension Fund as at 31 December 2017 was carried out by Messrs Actuarial & Management Consultants (Pvt) Limited. Funding would be done in consultation with the Actuary, trustees and beneficiaries.

This fund has been approved by the Government and administered independently.

The valuation has been done using the "Projected Unit Credit Method", which is recommended in the Sri Lanka Accounting Standard – LKAS 19 – "Employee Benefits". The results of the actuarial valuation of the Widows'/Widowers' and Orphans' Pension Fund is summarised as follows:

46.2.1 Net Benefit Expense (Recognised Under Personnel Expenses)

For the year ended 31 December	Bank/Group	
	2017 LKR '000	2016 LKR '000
Current service cost	34,952	36,139
Net interest income	(865,261)	(405,562)
Net benefit expense	(830,309)	(369,423)

46.2.2 Amount Recognised in Other Comprehensive Income

For the year ended 31 December	Bank/Group	
	2017 LKR '000	2016 LKR '000
Actuarial gains/(losses) on the defined benefit obligation	(1,215,098)	2,477,376
Actuarial gains/(losses) on plan assets	1,214,884	44,247
Actuarial gains/(losses) on actuarial valuation	(214)	2,521,623
Derecognition of plan asset	214	(2,521,623)
Net actuarial gains/(losses) recognised in other comprehensive income	-	-

46.2.3 Retirement Benefit Assets

As at 31 December	Bank/Group	
	2017 LKR '000	2016 LKR '000
Fair value of plan assets (Note 46.2.4)	22,692,572	19,471,795
Defined benefit obligation (Note 46.2.5)	(13,789,177)	(11,947,782)
Retirement benefit assets*	8,903,395	7,524,013

*The Bank does not have direct control over the above Fund as it is administered separately with specific rules and regulations of the Fund. Therefore, the above surplus has not been recognised in the Financial Statements as the existing arrangements prevent the recognition of assets.

46.2.4 Changes in Fair Value of Plan Assets

	Bank/Group	
	2017 LKR '000	2016 LKR '000
Opening fair value of plan assets	19,471,795	17,823,591
Expected return	2,239,256	1,782,359
Contribution paid into plan	93,287	121,356
Actual employer contribution	456,000	456,000
Benefits paid	(782,650)	(755,758)
Actuarial gains/(losses) on plan asset	1,214,884	44,247
Closing fair value of plan assets	22,692,572	19,471,795

46.2.5 Changes in the Present Value of the Defined Benefit Obligation

	Bank/Group	
	2017 LKR '000	2016 LKR '000
Opening defined benefit obligation	11,947,782	13,767,980
Interest cost	1,373,995	1,376,798
Current service cost	34,952	36,139
Benefits paid	(782,650)	(755,758)
Actuarial (gains)/losses on obligation	492,833	(239,511)
Gain due to change in assumptions	722,265	(2,237,866)
Closing defined benefit obligation	13,789,177	11,947,782

The present value of the Defined Benefit Obligation as of the valuation date with respect to active employees, pensioners, and family pensioners who are receiving benefits are LKR 1,083.3 million, LKR 4,558.8 million and LKR 8,147.1 million respectively.

46.2.6 Plan Assets Consist of the Following

As at 31 December	Bank/Group	
	2017 LKR '000	2016 LKR '000
Fixed deposits	18,859,654	9,279,000
Treasury Bonds	1,766,231	3,729,092
Debentures	2,032,273	5,455,511
Others	34,414	1,008,192
Total plan assets	22,692,572	19,471,795

46.2.7 Actuarial Assumptions

	Bank/Group	
	2017 %	2016 %
Future salary increment rate	6.5 p.a	6.5 p.a
Increase in future Cost of Living Allowance (COLA)	5.5 p.a	5.5 p.a
Increase in Widows'/Widowers' and Orphans' pension in payment (Basic)	Nil	Nil
Discounting rate	11.0 p.a	11.5 p.a
Attrition rate	Nil	Nil

The Bank uses IALM (2006-2008) Ultimate Mortality Table issued by the Institute of Actuaries of India.

Increase/decrease in the following assumptions will have an impact on the present value of defined benefit obligation as illustrated below:

	Bank/Group	
	0.5% Increase LKR '000	0.5% Decrease LKR '000
Discount rate	13,063,041	14,586,647
Salary increment	13,792,580	13,785,832
Cost of Living Allowance	14,363,690	13,258,317

Further, the remaining years of benefit payments are expected to be 12.2 years.

The following payments are expected from the fund in future years.

	Bank/Group	
	2017 LKR '000	2016 LKR '000
As at 31 December		
Within the next 12 months	812,415	721,485
Between 1 and 5 years	3,630,427	3,178,975
Between 6 and 10 years	2,955,764	2,540,208
Beyond 10 years	6,390,571	5,507,114
Total expected payments	13,789,177	11,947,782

46.3 Provision for Terminal Gratuity

In compliance with the Payment of Gratuity Act No. 12 of 1983 provision is made in the accounts from the first year of service for gratuity payable to employees who has not completed ten years of service as they are not in pensionable service of the Bank. Provision has not been made in the Financial Statements for retirement gratuity for the employees who are eligible for the retirement benefits under the pension schemes in force. However, employees whose services are terminated after five years other than by retirement are eligible to receive a terminal gratuity under the Payment of Gratuity Act No. 12 of 1983, at the rate of one half of the basic or consolidated wage or salary, cost of living and all other allowances applicable to the last month of the financial year, for each year of continuous service.

In terms of LKAS 19 – “Employee Benefits”, the Bank and its subsidiaries have calculated the post employment benefit obligations, based on the actuarial valuation method recommended in the standard. The gratuity liabilities are not externally funded.

An actuarial valuation of the Gratuity Fund as at 31 December 2017 was carried out by Messrs Actuarial & Management Consultants (Pvt) Limited.

The valuation has been done using the “Projected Unit Credit Method”, which is recommended in the Sri Lanka Accounting Standard – LKAS 19 – “Employee Benefits”.

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Balance as at 1 January	195,663	62,700	480,009	372,079
Provision charge/(reversal) during the year	41,964	23,263	101,498	77,425
Actuarial (gain)/losses	25,678	114,419	48,924	73,076
Payment made during the year	(55,678)	(4,719)	(77,653)	(46,134)
Adjustment/transfers	–	–	(3,686)	3,563
Balance as at 31 December	207,627	195,663	549,092	480,009

The principal actuarial assumptions used in the valuation were as follows:

	Bank/Group	
	2017 %	2016 %
Future salary increment rate	6.5 p.a	6.5 p.a
Increase in future Cost of Living Allowance (COLA)	5.5 p.a	5.5 p.a
Discount rate	11.5 p.a	12.0 p.a

The Bank uses IALM (2006-2008) Ultimate Mortality Table issued by the Institute of Actuaries of India. Further, the remaining year of benefit payments are expected to be 9.3 years.

Increase/decrease in the following assumptions will change the present value of defined benefit obligation as illustrated below:

	Bank		Group	
	0.5% Increase LKR '000	0.5% Decrease LKR '000	0.5% Increase LKR '000	0.5% Decrease LKR '000
Discount rate	199,275	216,646	527,004	572,944
Salary increment	213,674	201,992	565,084	534,189

46.4 Bank of Ceylon Pension Fund – 2014

Under the directions of the Ministry of Finance and Planning, this pension scheme was approved by the Board of Directors of the Bank with effect from 16 December 2014 for the employees recruited to the Bank on or after 1 January 1996. Minimum period of 120 months uninterrupted active service in the Bank at the time of retirement is required to be eligible for any retirement benefit under this pension scheme. Further, the beneficiaries under this pension scheme will not be entitled for rights and privileges under the current service gratuity scheme of the Bank except death gratuity payment. Contribution to this pension scheme is made monthly, based on the advice of a qualified actuary, currently at 12% of gross salary. The liability under this pension scheme has been valued by a qualified Actuary at the year-end.

An actuarial valuation of this fund as at 31 December 2017 was carried out by Messrs Actuarial & Management Consultants (Pvt) Limited.

The valuation has been done using the “Projected Unit Credit Method”, which is recommended in the Sri Lanka Accounting Standard – LKAS 19 – “Employee Benefits”. The results of the actuarial valuation of this Pension Fund is summarised as follows:

46.4.1 Net Benefit Expense (Recognised Under Personnel Expenses)

For the year ended 31 December	Bank/Group	
	2017 LKR '000	2016 LKR '000
Current service cost	352,548	269,350
Net interest (income)/expenses	(214,781)	430,439
Net benefit expense	137,767	699,789

46.4.2 Amount Recognised in Other Comprehensive Income

For the year ended 31 December	Bank/Group	
	2017 LKR '000	2016 LKR '000
Actuarial gains/(losses) on the defined benefit obligation	(278,904)	1,716,311
Actuarial gains/(losses) on plan assets	78,295	167,671
Net actuarial gains/(losses) recognised in other comprehensive income	(200,609)	1,883,982

46.4.3 Retirement Benefit Assets

As at 31 December	Bank/Group	
	2017 LKR '000	2016 LKR '000
Fair value of plan assets (Note 46.4.4)	5,429,485	4,203,634
Defined benefit obligation (Note 46.4.5)	(3,333,466)	(2,413,790)
Net retirement benefit assets	2,096,019	1,789,844

46.4.4 Changes in Fair Value of Plan Assets

	Bank/Group	
	2017 LKR '000	2016 LKR '000
Opening fair value of plan assets	4,203,634	–
Expected return	504,436	–
Actual employer contribution	644,551	4,037,415
Benefits paid	(1,431)	(1,452)
Actuarial gains/(losses) on plan asset	78,295	167,671
Closing fair value of plan assets	5,429,485	4,203,634

46.4.5 Changes in the Present Value of the Defined Benefit Obligation

	Bank/Group	
	2017 LKR '000	2016 LKR '000
Opening defined benefit obligation	2,413,790	3,431,764
Interest cost	289,655	430,439
Current service cost	352,548	269,350
Benefits paid	(1,431)	(1,452)
Actuarial (gains)/losses on obligation	(78,125)	(783,622)
(Gains)/Losses due to change in assumptions	357,029	(932,689)
Closing defined benefit obligation	3,333,466	2,413,790

46.4.6 Plan Assets Consist of the Following

As at 31 December	Bank/Group	
	2017 LKR '000	2016 LKR '000
Fixed deposits	2,872,880	2,770,000
Debentures	2,555,352	1,386,100
Others	1,253	47,534
Total plan assets	5,429,485	4,203,634

46.4.7 Actuarial Assumptions

	Bank/Group	
	2017 %	2016 %
Future salary increment rate	6.5 p.a	6.5 p.a
Increase in future Cost of Living Allowance (COLA)	5.5 p.a	5.5 p.a
Increase in pension in payment (Basic)	Nil	Nil
Discounting rate	11.5 p.a	12.0 p.a
Attrition rate	Nil	Nil

The Bank uses IALM (2006-2008) Ultimate Mortality Table issued by the Institute of Actuaries of India.

Increase/decrease in the following assumptions will have an impact on the present value of defined benefit obligation as illustrated below:

	Bank/Group	
	0.5% Increase LKR '000	0.5% Decrease LKR '000
Discount rate	2,945,145	3,785,175
Salary increment	3,520,953	3,163,254
Cost of living allowance	3,444,893	3,229,994

Further, the remaining years of benefit payments are expected to be 28 years.

The following payments are expected from the Pension Fund in future years.

As at 31 December	Bank/Group	
	2017 LKR '000	2016 LKR '000
Within the next 12 months	3,132	953
Between 1 and 5 years	49,944	31,520
Between 6 and 10 years	162,867	110,870
Beyond 10 years	3,117,523	2,270,447
Total expected payments	3,333,466	2,413,790

47 Subordinated Term Debts

Accounting Policy

Subordinated term debts include funds borrowed for long-term funding purposes which are subordinated to other claims. These are initially recognised at fair value. Subsequent to initial recognition subordinated term debts are measured at their amortised cost, using the Effective Interest Rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in "Interest expenses" (Note 8.2) in the Statement of Profit or Loss.

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Listed Debentures				
Unsecured, subordinated, redeemable debentures of LKR 100 each	32,563,940	38,645,546	32,219,550	38,295,318
Unlisted Debentures				
Unsecured, subordinated, redeemable debentures of LKR 100 each (private placement)	10,006,517	–	10,006,517	–
Total subordinated term debts	42,570,457	38,645,546	42,226,067	38,295,318

47.1 The Movement in Subordinated Term Debts

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Balance as at 1 January	38,645,546	35,627,450	38,295,318	35,290,007
Issued during the year	10,000,000	8,000,000	10,000,000	7,990,000
Redemptions	(6,074,665)	(5,032,015)	(6,069,600)	(5,032,015)
Amortisation adjustment	(424)	50,111	349	47,326
Balance as at 31 December	42,570,457	38,645,546	42,226,067	38,295,318

47.2 Types of Debentures

	Notes	Interest Payable Frequency	Issue Date	Maturity Date	Coupon Rate		Amount as at 31 December			
							Bank		Group	
					2017 %	2016 %	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Fixed Interest Rate										
Unsecured, subordinated, redeemable debentures		Annually	30.11.2012	29.11.2017	–	16.00	–	6,034,052	–	6,028,987
Unsecured, subordinated, redeemable debentures		Semi-annually	30.11.2012	29.11.2017	–	15.25	–	40,189	–	40,189
Unsecured, subordinated, redeemable debentures		Annually	25.10.2013	24.10.2018	13.00	13.00	3,869,827	3,869,827	3,869,827	3,869,827
Unsecured, subordinated, redeemable debentures		Semi-annually	25.10.2013	24.10.2018	12.60	12.60	220,369	220,369	220,369	220,369
Unsecured, subordinated, redeemable debentures		Annually	25.10.2013	24.10.2021	13.25	13.25	1,226,594	1,226,594	1,226,594	1,226,594
Unsecured, subordinated, redeemable debentures		Annually	25.10.2013	24.10.2022	13.25	13.25	1,227,617	1,227,617	1,227,617	1,227,617
Unsecured, subordinated, redeemable debentures		Annually	25.10.2013	24.10.2023	13.75	13.75	1,638,142	1,638,142	1,638,142	1,638,142
Unsecured, subordinated, redeemable debentures		Annually	22.09.2014	21.09.2019	8.00	8.00	5,234,969	5,234,969	5,234,969	5,234,969
Unsecured, subordinated, redeemable debentures		Quarterly	22.09.2014	21.09.2019	7.75	7.75	216,182	216,182	216,182	216,182
Unsecured, subordinated, redeemable debentures		Annually	22.09.2014	21.09.2022	8.25	8.25	1,873,793	1,873,793	1,873,793	1,873,793

	Notes	Interest Payable Frequency	Issue Date	Maturity Date	Coupon Rate		Amount as at 31 December			
					2017 %	2016 %	Bank		Group	
							2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Unsecured, subordinated, redeemable debentures		Annually	06.10.2015	05.10.2020	8.25	8.25	293,991	293,991	293,991	293,991
Unsecured, subordinated, redeemable debentures		Quarterly	06.10.2015	05.10.2020	8.00	8.00	12,449	12,449	12,449	12,449
Unsecured, subordinated, redeemable debentures		Annually	06.10.2015	05.10.2023	9.50	9.50	1,205,580	1,205,580	1,205,580	1,205,580
Unsecured, subordinated, redeemable debentures		Annually	29.12.2016	28.12.2021	13.25	13.25	8,003,631	8,003,631	7,993,622	7,993,622
Unsecured, subordinated, redeemable debentures		Annually	29.12.2016	28.12.2024	12.75	12.75	784	784	784	784
Unsecured, subordinated, redeemable debentures		Annually	29.12.2017	28.12.2022	12.50	–	5,003,228	–	5,003,228	–
Unsecured, subordinated, redeemable debentures		Annually	29.12.2017	28.12.2025	12.75	–	5,003,289	–	5,003,289	–
Total fixed interest rate subordinated debentures							35,030,445	31,098,169	35,020,436	31,083,095
Floating Interest Rate										
Unsecured, subordinated, redeemable debentures [6 months TB rate (gross) plus 125 basis points]	(a)	Semi-annually	30.11.2012	29.11.2017	–	12.04	–	424	–	424
Unsecured, subordinated, redeemable debentures [6 months TB rate (gross) plus 100 basis points]	(a)	Semi-annually	25.10.2013	24.10.2018	11.13	11.51	204	204	204	204
Unsecured, subordinated, redeemable debentures [6 months TB rate (gross) plus 100 basis points]	(a)	Semi-annually	25.10.2013	24.10.2021	11.13	11.51	1,020	1,021	1,020	1,021
Unsecured, subordinated, redeemable debentures [6 months TB rate (gross) plus 50 basis points]	(a)	Semi-annually	22.09.2014	21.09.2019	10.43	11.29	848,392	850,292	514,011	515,138
Unsecured, subordinated, redeemable debentures [6 months TB rate (gross) plus 50 basis points]	(a)	Semi-annually	22.09.2014	21.09.2022	10.43	11.29	31	31	31	31
Unsecured, subordinated, redeemable debentures [6 months TB rate (gross) plus 125 basis points]	(a)	Semi-annually	06.10.2015	05.10.2020	11.34	11.68	4,595,440	4,598,903	4,595,440	4,598,903
Unsecured, subordinated, redeemable debentures [6 months TB rate (gross) plus 125 basis points]	(a)	Semi-annually	06.10.2015	05.10.2023	11.34	11.68	2,093,885	2,095,461	2,093,885	2,095,461
Unsecured, subordinated, redeemable debentures [6 months TB rate (gross) plus 125 basis points]	(a)	Semi-annually	29.12.2016	28.12.2021	10.47	11.95	1,020	1,021	1,020	1,021
Unsecured, subordinated, redeemable debentures [6 months TB rate (gross) plus 125 basis points]	(a)	Semi-annually	29.12.2016	28.12.2024	10.47	11.95	20	20	20	20
Total floating interest rate subordinated debentures							7,540,012	7,547,377	7,205,631	7,212,223
Total subordinated debentures							42,570,457	38,645,546	42,226,067	38,295,318

Notes: Debentures that are listed in the Colombo Stock Exchange. Some of these have been traded in the Colombo Stock Exchange during the year.

2013/2023 – (Highest price – LKR 101.50, Lowest price – LKR 100.82, Last transaction price – LKR 101.50)

2015/2020 – (Highest price – LKR 98.00, Lowest price – LKR 94.00, Last transaction price – LKR 94.00)

(a) Weighted average six months Treasury Bill interest rate before deducting 10% withholding tax at the primary quotations as announced by the Central Bank of Sri Lanka, at the preceding week of the interest resetting date.

48 Share Capital

48.1 Ordinary Shares

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Authorised				
50,000,000 ordinary shares	50,000,000	50,000,000	50,000,000	50,000,000
Issued and Fully Paid				
Balance as at 1 January (10,000,000 ordinary shares)	10,000,000	10,000,000	10,000,000	10,000,000
Share issued during the year (5,000,000 ordinary shares)	5,000,000	–	5,000,000	–
Balance as at 31 December (15,000,000 ordinary shares)	15,000,000	10,000,000	15,000,000	10,000,000
Assigned Capital*				
Capital infusion during the year	5,000,000	5,000,000	5,000,000	5,000,000
Balance as at 31 December	20,000,000	15,000,000	20,000,000	15,000,000

***Assigned capital**

During the year 2017, the Bank issued five million ordinary shares at LKR 1,000 each to the Government of Sri Lanka and transferred LKR 5,000 million prevailed under assigned capital at the end of 2016. Further, the Bank received LKR 5,000 million from the Government of Sri Lanka, the first phase of the total amount of LKR 10,000 million allocated to the Bank under the National Budget 2018. This amount has been reported under capital pending allotment as of 31 December 2017. The Bank is making arrangement to issue five million ordinary shares at LKR 1,000 each to the Government of Sri Lanka and thereby will transfer the assigned capital to issued and fully paid share capital during the year 2018.

48.2 Net Assets Value Per Share

As at 31 December	Bank		Group	
	2017	2016	2017	2016
Amount Used as the Numerator				
Total equity attributable to equity holder of the Bank (LKR '000)	111,155,075	92,849,595	121,399,125	102,475,291
Number of Ordinary Shares Used as Denominator				
Total number of ordinary shares issued	15,000,000	10,000,000	15,000,000	10,000,000
Net asset value per share (LKR)	7,410.34	9,284.96	8,093.28	10,247.53

49 Permanent Reserve Fund

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Balance as at 1 January	7,996,000	5,209,955	7,996,000	5,209,955
Transfers during the year	2,431,000	2,786,045	2,431,000	2,786,045
Balance as at 31 December	10,427,000	7,996,000	10,427,000	7,996,000

The permanent reserve fund is maintained as required by Bank of Ceylon Ordinance (Chapter 397) whereby the Bank must, out of net profit after taxation, but before any dividend is declared, transfer to a reserve, a sum equivalent to not less than 20% of such profit, until the reserve is equivalent to 50% of the issued and paid-up capital and thereafter, an appropriate amount determined at 2% per annum in terms of Section 20 (1) and (2) of the Banking Act No. 30 of 1988 until the reserve is equal to the paid-up capital.

In order to meet the requirement, an amount of LKR 2,431.0 million was transferred to the permanent reserve during the year 2017. (2016: LKR 2,786.0 million).

The balance in the permanent reserve fund will be used only for the purposes specified in the Section 20 (2) of the Banking Act No. 30 of 1988.

50 Other Reserves

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Revaluation reserve [Note 50.1]	11,966,489	10,002,294	18,681,265	16,494,059
Free reserve [Note 50.2]	169,067	169,067	366,644	366,644
Exchange translation reserve [Note 50.3]	1,401,743	1,040,368	1,703,785	1,060,420
Available for sale reserve [Note 50.4]	3,718,526	4,487,181	4,760,616	5,562,266
Statutory reserve [Note 50.5]	–	–	358,944	336,899
Total other reserves	17,255,825	15,698,910	25,871,254	23,820,288

50.1 Revaluation Reserve

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Balance as at 1 January	10,002,294	8,607,654	16,494,059	14,469,008
Change in revaluation surplus/(deficit)	6,059,715	1,394,640	6,406,248	2,307,452
Deferred tax effect on above	(4,094,358)	–	(4,191,387)	(255,587)
Revaluation surplus of disposed property	(1,162)	–	(1,162)	–
Transferred to non-controlling interest	–	–	(26,493)	(26,814)
Balance as at 31 December	11,966,489	10,002,294	18,681,265	16,494,059

The revaluation reserve represents the surpluses arising on the revaluation of freehold properties which are still in use.

According to the Basel III regulatory directives, issued by Central Bank of Sri Lanka, the Bank can consider the revaluation surplus as supplementary capital in computing capital adequacy ratio, once in every three years.

50.2 Free Reserve

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Balance as at 1 January	169,067	169,067	366,644	366,644
Balance as at 31 December	169,067	169,067	366,644	366,644

Free reserve has been created for unforeseeable risks and future losses.

50.3 Exchange Translation Reserve

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Balance as at 1 January	1,040,368	874,575	1,060,420	1,288,487
Exchange gains/(losses) arising from translating the Financial Statement of foreign operations	361,375	165,793	643,365	(228,067)
Balance as at 31 December	1,401,743	1,040,368	1,703,785	1,060,420

This represents the exchange differences arising from translating investments made in the capital and net exchange movement arising on the translation of net equity of Bank of Ceylon (UK) Limited and foreign branches and also exchange differences arising from translation of the results of foreign branches for this year from the average rate to the exchange rate ruling at the year end.

50.4 Available for Sale Reserve

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Balance as at 1 January	4,487,181	5,537,359	5,562,266	6,539,515
Gains/(Losses) on remeasuring available for sale financial investments	(595,034)	(1,025,760)	(619,591)	(957,182)
Deferred tax effect on above	(177,006)	(8,893)	(177,006)	(8,893)
Realised gains/(losses) on available for sale financial investments transferred to profit or loss	3,385	(15,525)	3,385	(15,525)
Transferred to non-controlling interest	–	–	(8,438)	4,351
Balance as at 31 December	3,718,526	4,487,181	4,760,616	5,562,266

50.5 Statutory Reserve

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Balance as at 1 January	–	–	336,899	301,669
Transfers during the year	–	–	22,045	35,230
Balance as at 31 December	–	–	358,944	336,899

Statutory reserve represents the reserve funds maintained by Merchant Bank of Sri Lanka & Finance PLC, in terms of the Finance Companies (Capital Funds) Direction No. 01 of 2003, issued by the Central Bank of Sri Lanka.

51 Non-Controlling Interest

As at 31 December	Group	
	2017 LKR '000	2016 LKR '000
Property Development PLC	166,381	159,105
Merchant Bank of Sri Lanka & Finance PLC	722,238	660,677
MBSL Insurance Company Limited	12,788	34,318
Hotels Colombo (1963) Limited	19	22
Koladeniya Hydropower (Private) Limited	25,949	25,323
Total non-controlling interest	927,375	879,445

52 Notes to the Statement of Cash Flows

52.1 Change in Operating Assets

For the year ended 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Change in deposits with regulatory authorities	(12,301,271)	(17,447,951)	(12,301,271)	(17,447,951)
Loans and advances to customers	(167,274,301)	(177,678,392)	(171,623,297)	(180,373,019)
Net decrease in financial instruments – Held for trading	1,091,495	3,545,462	1,184,827	3,583,801
Net (increase)/decrease in securities purchased under resale agreements	(12,946,763)	26,698,388	(9,909,540)	26,752,059
Net decrease in derivative financial instruments	3,682,021	2,118,444	3,682,021	2,118,444
Change in other operating assets	11,125,803	2,096,611	11,492,994	1,407,765
Total	(176,623,016)	(160,667,438)	(177,474,266)	(163,958,901)

52.2 Change in Operating Liabilities

For the year ended 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Net decrease in deposits from banks	(143,370)	(8,211)	(143,370)	(8,211)
Net increase in deposits from customers	279,690,784	169,076,395	282,519,404	170,504,609
Net decrease in securities sold under repurchase agreements	(14,937,167)	(27,928,525)	(14,297,115)	(27,288,164)
Net increase/(decrease) in short-term borrowings	32,824,007	(12,257,447)	33,195,860	(12,388,503)
Net increase/(decrease) in derivative financial instruments	(100,948)	15,361	(100,948)	15,361
Change in other operating liabilities	6,829,664	2,514,223	5,155,514	4,060,248
Total	304,162,970	131,411,796	306,329,345	134,895,340

52.3 Other Non-Cash Items Included in Profit Before Tax

For the year ended 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Exchange revaluation	(701,621)	(1,069,579)	(701,621)	(1,069,579)
Contribution paid to defined benefit plans	281,914	929,084	340,747	1,034,752
Loan impairment charges	9,340,658	4,396,761	9,884,889	4,421,000
Depreciation of investment property	117,072	–	2,906	2,961
Depreciation of Property, Plant and Equipment	1,523,783	1,263,914	2,197,108	1,758,040
Amortisation of intangible assets and leasehold properties	284,148	189,282	342,466	238,902
Accrual for expenses and other non-cash items	26,333	(1,877,363)	36,343	(1,495,233)
Total	10,872,287	3,832,099	12,102,838	4,890,843

53 Contingent Liabilities and Commitments

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be readily measured as defined in the Sri Lanka Accounting Standard – LKAS 37 – “Provisions, Contingent Liabilities and Contingent Assets”.

In the normal course of business, the Bank undertakes commitments and incurs contingent liabilities with legal recourse to its customers to accommodate the financial and investment needs of clients, to conduct trading activities and to manage its own exposure to risk. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans. Operating lease commitments of the Bank (as a lessor and as a lessee) and pending legal claims against the Bank also form part of commitments of the Bank.

Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote. These financial instruments generate interest or fees and carries elements of credit risk in excess of those amounts recognised as assets and liabilities in the Statement of Financial Position. However no material losses are anticipated as a result of these transactions.

These commitments and contingencies are quantified below:

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Contingent liabilities [Note 53.1]	323,104,305	386,661,049	324,229,150	387,580,301
Undrawn and undisbursed facilities [Note 53.2]	170,849,311	149,416,786	170,849,328	149,416,786
Capital commitments [Note 53.3]	11,184,205	8,603,409	11,187,521	8,603,409
Lease commitments [Note 53.4]	2,121,000	2,717,381	2,133,377	2,733,124
Total contingent liabilities and commitments	507,258,821	547,398,625	508,399,376	548,333,620

53.1 Contingent Liabilities

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Acceptances and documentary credit	147,887,385	133,108,741	147,963,606	133,763,857
Bills for collection	6,812,882	4,924,009	6,812,882	4,924,009
Forward exchange contracts	39,125,183	78,538,947	39,125,183	78,538,947
Guarantees	83,593,855	88,636,554	83,794,517	88,975,690
Other commitments [Note 53.1.1]	45,685,000	81,452,798	46,532,962	81,377,798
Total contingent liabilities	323,104,305	386,661,049	324,229,150	387,580,301

53.1.1 Other Commitments

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Purchase commitment of securities for secondary market	–	–	–	–
Purchase commitment of securities for primary market	–	2,075,000	–	2,075,000
Sale commitment of securities for primary market	–	75,000	–	–
Forward exchange sales with financial institutions	81,500	65,298	81,500	65,298
Currency swaps	45,603,500	79,237,500	45,603,500	79,237,500
Other commitments	–	–	847,962	–
Total other commitments	45,685,000	81,452,798	46,532,962	81,377,798

53.2 Undrawn and Undisbursed Facilities

The unutilised value of irrevocable commitments, which cannot be withdrawn at the discretion of the Bank, without risk of incurring significant penalties or expenses are as follows:

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Undisbursed amount of loans	31,942,266	33,906,107	31,942,266	33,906,107
Undrawn limits of overdrafts	78,612,709	75,505,676	78,612,719	75,505,676
Undrawn limits of credit cards	7,964,314	7,344,133	7,964,314	7,344,133
Undrawn limits of letters of credit	31,618,687	18,213,723	31,618,694	18,213,723
Undrawn limits of letters of guarantee	20,711,335	14,447,147	20,711,335	14,447,147
Total undrawn and undisbursed facilities	170,849,311	149,416,786	170,849,328	149,416,786

53.3 Capital Commitments

Capital expenditure approved by the Directors, for which, no provision has been made in the Financial Statements, amounts to:

53.3.1 Capital Commitments in Relation to Property, Plant and Equipment

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Approved and contracted for	2,431,828	1,170,440	2,433,822	1,170,440
Approved but not contracted for	3,914,797	5,565,334	3,914,797	5,565,334
Total capital commitments in relation to Property, Plant and Equipment	6,346,625	6,735,774	6,348,619	6,735,774

53.3.2 Capital Commitments in Relation to Intangible Assets

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Approved and contracted for	1,961,567	1,867,635	1,962,889	1,867,635
Approved and not contracted for	2,876,013	–	2,876,013	–
Total capital commitments in relation to intangible assets	4,837,580	1,867,635	4,838,902	1,867,635
Total capital commitments	11,184,205	8,603,409	11,187,521	8,603,409

53.4 Lease Commitments

53.4.1 Operating Lease Commitments

Future minimum lease payments under non-cancellable operating leases, where the Bank is the lessee, are as follows:

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Not later than 1 year	1,178,812	1,082,266	1,178,812	1,082,266
Later than 1 year and not later than 5 years	858,822	1,590,947	858,822	1,590,947
Later than 5 years	83,366	44,168	83,366	44,168
Total operating lease commitments	2,121,000	2,717,381	2,121,000	2,717,381

53.4.2 Finance Lease Commitments

Future minimum lease payments under non-cancellable finance leases, where the Bank is the lessee, are as follows:

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Not later than 1 year	–	–	4,526	5,057
Later than 1 year and not later than 5 years	–	–	7,851	10,686
Later than 5 years	–	–	–	–
Total finance lease commitments	–	–	12,377	15,743
Total lease commitments	2,121,000	2,717,381	2,133,377	2,733,124

53.5 Litigation

Litigations are anticipated in the context of business operations due to the nature of the transactions involved. The Bank and the Group's companies are involved in various such legal actions and the controls have been established to deal with such legal claims. There are pending litigations existing as at the end of the reporting period against the Bank, resulting through normal business operations.

Litigations against the Bank have been assessed in terms of the probability of any claims or damages arising against the Bank, which require provisions to be made in the Financial Statements as per LKAS 37 – “Provisions, Contingent Liabilities and Contingent Assets”.

As of 31 December 2017, claims for the Legal Actions against the Bank approximately amount to LKR 3,431.2 million (2016: LKR 2,523.7 million), nevertheless the Bank has no impact over such claims whatsoever affecting to the business, operations or image of the Bank.

54 Assets Pledged as Security

The securities sold under repurchase agreement issued by the Bank and the Group and details of assets pledged by the Bank and the Group, to secure those liabilities are given below:

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Borrowings;				
Securities sold under repurchase agreements	44,487,462	59,424,629	44,628,686	58,925,801
Refinance purposes	–	–	–	361,197
	44,487,462	59,424,629	44,628,686	59,286,998
Secured by:				
Treasury Bonds	52,186,541	84,117,378	52,327,765	83,411,272
Lease/Hire purchase rentals receivables	–	–	–	325,867
Fixed deposits	–	–	–	35,330
Total assets pledged as securities	52,186,541	84,117,378	52,327,765	83,772,469

55 Events After the Reporting Date

Events after the reporting date are those events, favourable and unfavourable, that occur between the reporting date and the date the Financial Statements are authorised for issue. There are no events occurring after the reporting date which require adjustments to or disclosure in the Financial Statements.

56 Maturity Analysis of Assets and Liabilities

The analysis of total assets and liabilities of the Bank and the Group into relevant maturity groupings based on the remaining period as at 31 December 2017, into the contractual maturity date, is given in the table below:

As at 31 December 2017	Bank			Group		
	Within 12 Months LKR '000	After 12 Months LKR '000	Total LKR '000	Within 12 Months LKR '000	After 12 Months LKR '000	Total LKR '000
Assets						
Cash and cash equivalents	72,843,108	–	72,843,108	78,005,362	–	78,005,362
Balances with central banks	68,689,012	–	68,689,012	68,689,012	–	68,689,012
Placements with banks	4,462,929	3,604,561	8,067,490	5,319,602	–	5,319,602
Securities purchased under resale agreements	18,455,555	–	18,455,555	19,872,247	–	19,872,247
Derivative financial instruments	1,618,823	–	1,618,823	1,618,823	–	1,618,823
Financial instruments – Held for trading	8,359,274	–	8,359,274	8,596,548	–	8,596,548
Financial investments – Loans and receivables	150,674,377	62,492,671	213,167,048	151,522,089	62,827,535	214,349,624
Loans and advances to customers	485,754,236	677,406,678	1,163,160,914	497,372,906	696,921,488	1,194,294,394
Financial investments – Available for sale	17,374,068	547,102	17,921,170	20,334,325	2,217,967	22,552,292
Financial investments – Held to maturity	130,516,236	177,739,846	308,256,082	130,951,274	177,799,043	308,750,317
Investment in subsidiary companies	–	6,513,048	6,513,048	–	–	–
Investment in associate companies	–	92,988	92,988	–	446,793	446,793
Investment properties	–	2,882,928	2,882,928	–	123,773	123,773
Property, Plant and Equipment	–	23,046,114	23,046,114	–	36,608,919	36,608,919
Leasehold properties	–	101,481	101,481	–	134,441	134,441
Intangible assets	–	810,730	810,730	–	1,074,436	1,074,436
Deferred tax assets	–	–	–	–	8,621	8,621
Other assets	24,251,340	13,566,848	37,818,188	38,929,343	35,636	38,964,979
Total assets	982,998,958	968,804,995	1,951,803,953	1,021,211,531	978,198,652	1,999,410,183
Percentage (%)	50.4	49.6	100.0	51.1	48.9	100.0
Liabilities						
Due to banks	2,203,199	–	2,203,199	2,194,266	–	2,194,266
Securities sold under repurchase agreements	44,487,462	–	44,487,462	44,628,686	–	44,628,686
Derivative financial instruments	70,715	–	70,715	70,715	–	70,715
Due to customers	1,497,427,661	49,404,375	1,546,832,036	1,512,555,634	53,820,784	1,566,376,418
Other borrowings	170,562,796	7,628,293	178,191,089	173,772,117	10,558,064	184,330,181
Debt securities issued	–	–	–	3,409,462	2,258,052	5,667,514
Current tax liabilities	1,877,342	–	1,877,342	2,051,020	–	2,051,020
Deferred tax liabilities	–	5,820,329	5,820,329	2,369,044	6,256,175	8,625,219
Insurance provision – Life	–	–	–	–	547,026	547,026
Insurance provision – Non-life	–	–	–	–	430,093	430,093
Other liabilities	16,226,541	2,369,708	18,596,249	16,912,525	3,023,953	19,936,478
Subordinated term debts	4,090,400	38,480,057	42,570,457	3,746,010	38,480,057	42,226,067
Equity	3,825,318	107,329,757	111,155,075	3,831,895	118,494,605	122,326,500
Total liabilities and equity	1,740,771,434	211,032,519	1,951,803,953	1,765,541,374	233,868,809	1,999,410,183
Percentage (%)	89.2	10.8	100.0	88.3	11.7	100.0
Net gap	(757,772,476)	757,772,476	–	(744,329,843)	744,329,843	–

The analysis of total assets and liabilities of the Bank and the Group into relevant maturity groupings based on the remaining period as at 31 December 2016 into the contractual maturity date is given in the table below:

As at 31 December 2016	Bank			Group		
	Within 12 Months LKR '000	After 12 Months LKR '000	Total LKR '000	Within 12 Months LKR '000	After 12 Months LKR '000	Total LKR '000
Assets						
Cash and cash equivalents	67,705,791	–	67,705,791	73,244,043	–	73,244,043
Balances with central banks	56,387,741	–	56,387,741	56,387,741	–	56,387,741
Placements with banks	8,349,116	3,325,548	11,674,664	12,931,605	–	12,931,605
Securities purchased under resale agreements	1,901,618	–	1,901,618	2,350,704	–	2,350,704
Derivative financial instruments	5,300,844	–	5,300,844	5,300,844	–	5,300,844
Financial instruments – Held for trading	8,474,041	–	8,474,041	8,804,647	–	8,804,647
Financial investments – Loans and receivables	61,404,333	130,470,305	191,874,638	63,658,362	128,325,720	191,984,082
Loans and advances to customers	515,932,747	484,149,827	1,000,082,574	525,522,406	502,245,704	1,027,768,110
Financial investments – Available for sale	379,780	10,083,266	10,463,046	2,883,852	13,379,789	16,263,641
Financial investments – Held to maturity	86,711,371	156,467,029	243,178,400	86,715,615	156,538,352	243,253,967
Investment in subsidiary companies	–	6,213,048	6,213,048	–	–	–
Investment in associate companies	–	92,988	92,988	–	420,669	420,669
Investment properties	–	3,000,000	3,000,000	–	127,670	127,670
Property, Plant and Equipment	–	15,482,163	15,482,163	–	29,200,036	29,200,036
Leasehold properties	–	101,839	101,839	–	136,155	136,155
Intangible assets	–	563,490	563,490	–	655,630	655,630
Deferred tax assets	–	–	–	–	5,456	5,456
Other assets	38,045,288	8,749,101	46,794,389	38,935,923	8,785,778	47,721,701
Total assets	850,592,670	818,698,604	1,669,291,274	876,735,742	839,820,959	1,716,556,701
Percentage (%)	51.0	49.0	100.0	51.1	48.9	100.0
Liabilities						
Due to banks	2,042,322	–	2,042,322	2,053,945	–	2,053,945
Securities sold under repurchase agreements	59,424,629	–	59,424,629	58,925,801	–	58,925,801
Derivative financial instruments	171,663	–	171,663	171,663	–	171,663
Due to customers	1,204,007,842	52,581,648	1,256,589,490	1,218,172,217	55,459,070	1,273,631,287
Other borrowings	112,485,505	82,984,348	195,469,853	121,497,667	82,987,634	204,485,301
Debt securities issued	3,427,058	–	3,427,058	4,797,781	3,562,552	8,360,333
Current tax liabilities	–	–	–	253,020	–	253,020
Deferred tax liabilities	–	1,439,285	1,439,285	–	4,078,734	4,078,734
Insurance provision – Life	–	–	–	–	514,675	514,675
Insurance provision – Non-life	–	–	–	–	775,375	775,375
Other liabilities	15,074,095	4,157,738	19,231,833	16,030,315	5,626,198	21,656,513
Subordinated term debts	6,645,546	32,000,000	38,645,546	6,645,546	31,649,772	38,295,318
Equity	–	92,849,595	92,849,595	–	103,354,736	103,354,736
Total liabilities and equity	1,403,278,660	266,012,614	1,669,291,274	1,428,547,955	288,008,746	1,716,556,701
Percentage (%)	84.1	15.9	100.0	83.2	16.8	100.0
Net gap	(552,685,990)	552,685,990	–	(551,812,213)	551,812,213	–

57 Related Party Disclosures

The Bank has entered into transactions with the parties who are defined as related parties in Sri Lanka Accounting Standard – LKAS 24 – “Related Party Disclosures”. i.e. significant investors, subsidiary and associate companies, post employment benefit plans for the Bank’s employees, Key Management Personnel (KMPs), Close Family Members (CFMs) of KMPs and other related entities. Those transactions include lending activities, acceptance and placements, off balance sheet transactions and provision of other banking and financial services that are carried out in the ordinary course of business on an arm’s length basis at commercial rates, except for the transactions that KMPs have availed under schemes uniformly applicable to all the staff at concessionary rates.

57.1 Parent and the Ultimate Controlling Party

Bank of Ceylon is a Government owned bank.

57.2 Key Management Personnel (KMPs) and their Close Family Members (CFMs)

57.2.1 Compensation to Key Management Personnel (KMPs) and their Close Family Members (CFMs)

As per the Sri Lanka Accounting Standard – LKAS 24 – “Related Party Disclosures”, the KMPs include those who are having authority and responsibility for planning, directing and controlling the activities of the Bank. Accordingly, the Board of Directors and selected key members of the Corporate Management are identified as KMPs who meet the above criteria.

CFMs are defined as family members who may be expected to influence or be influenced by, that KMP in their dealings with the entity, i.e. spouse, children under 18 years of age and dependants of KMPs. Dependant is defined as anyone who depends on the respective KMP for more than 50% of his or her financial needs.

Compensation to KMPs of the Bank

For the year ended 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Short-term employment benefits	20,220	19,473	21,302	21,752
Post employment benefits	4,832	4,326	4,832	4,326
Total	25,052	23,799	26,134	26,078

In addition to the above, the Bank/Group has also provided non-cash benefits to the KMPs in line with the approved benefit plans of the Bank/Group.

57.2.2 Transactions, Arrangements and Agreements Involving Key Management Personnel (KMPs) and their Close Family Members (CFMs)

(a) Items in Statement of Profit or Loss

For the year ended 31 December	KMPs and CFMs	
	2017 LKR '000	2016 LKR '000
Interest income	888	714
Interest expenses	5,587	2,238

(b) Items in Statement of Financial Position

As at 31 December	KMPs & CFMs	
	2017 LKR '000	2016 LKR '000
Assets		
Loans	16,010	11,716
Credit cards	221	58
	16,231	11,774
Liabilities		
Due to customers	55,369	37,926
	55,369	37,926

(c) Off Balance Sheet Items

As at 31 December	KMPs & CFMs	
	2017 LKR '000	2016 LKR '000
Undrawn facilities	2,429	2,192
	2,429	2,192

(d) Average Accommodations/Due to Customer Balances

For the year ended 31 December	KMPs & CFMs	
	2017 LKR '000	2016 LKR '000
Loans	13,863	10,637
Overdrafts	209	81
Due to customers	48,696	31,223

57.3 Transactions with Group Related Parties

The Group related parties include the subsidiaries and associates of the Bank.

57.3.1 Transactions with Subsidiaries and Associate Companies of the Bank

The aggregate amount of income and expenses arising from the transactions during the year and amount due to and due from the relevant related parties and total contract sum of off balance sheet transactions at the year end are summarised below:

(a) Items in Statement of Profit or Loss

For the year ended 31 December	Subsidiary Companies		Associate Companies	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Interest income	120,402	116,196	28,413	15,503
Interest expenses	333,993	322,755	25,525	12,250
Other income	137,440	1,233,908	19,300	55,440
Other expenses	887,733	740,746	32,074	26,144

(b) Items in Statement of Financial Position

As at 31 December	Subsidiary Companies		Associate Companies	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Assets				
Loans	316,175	1,334,779	224,365	186,536
Overdrafts	3,411	31,732	–	–
Investments in debts	221,576	221,594	–	–
Placements	12,771,476	14,865,126	–	–
Other receivables	1,382,733	825,436	–	–
	14,695,371	17,278,667	224,365	186,536
Liabilities				
Due to customers	3,264,273	2,480,935	256,333	126,900
Securities sold under repurchase agreements	296,448	900,650	86,241	25,708
Debentures	344,390	340,668	–	–
Other liabilities	8,043	1,326	–	–
	3,913,154	3,723,579	342,574	152,608

(c) Off Balance Sheet Items

As at 31 December	Subsidiary Companies		Associate Companies	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Letters of credit	–	104	–	–
Guarantees	10,380	66,382	–	–
Undrawn facilities	1,560,226	444,330	30,000	30,000
	1,570,606	510,816	30,000	30,000

(d) Average Accommodations/Due to Customer Balances

As at 31 December	Subsidiary Companies		Associate Companies	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Loans	811,294	1,066,196	213,016	123,221
Overdrafts	45,606	75,178	97	7,801
Due to customers	2,472,637	2,204,717	209,099	158,987

57.3.2 Transactions with Subsidiaries and Associate Companies of the Group

In addition to the transactions between the Bank and its subsidiaries and associate companies, transactions which were taken place between the subsidiaries and associate companies are also included in the section below:

(a) Items in Statement of Profit or Loss

For the year ended 31 December	Subsidiary Companies		Associate Companies	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Interest income	147,319	116,639	29,858	15,503
Interest expenses	367,059	322,755	25,525	12,693
Other income	307,312	1,417,231	24,004	55,440
Other expenses	1,057,145	923,690	32,534	26,478

(b) Items in Statement of Financial Position

As at 31 December	Subsidiary Companies		Associate Companies	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Assets				
Loans	393,626	1,334,779	224,365	186,536
Overdrafts	3,411	31,732	–	–
Investments in debts	221,576	221,594	–	–
Placements	12,771,476	14,865,126	–	–
Other receivables	1,462,663	1,062,616	26,885	–
	14,852,752	17,515,847	251,250	186,536
Liabilities				
Due to customers	3,343,388	2,480,935	282,879	140,936
Securities sold under repurchase agreements	296,448	900,650	86,241	25,708
Debentures	344,390	340,668	–	–
Other liabilities	86,486	252,542	162	–
	4,070,712	3,974,795	369,282	166,644

(c) Off Balance Sheet Items

As at 31 December	Subsidiary Companies		Associate Companies	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Letters of credit	–	104	–	–
Guarantees	10,380	66,382	–	–
Undrawn facilities	1,560,226	444,330	30,000	30,000
	1,570,606	510,816	30,000	30,000

(d) Average Accommodations/Due to Customer Balances

As at 31 December	Subsidiary Companies		Associate Companies	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Loans	811,294	1,066,196	213,016	123,221
Overdrafts	45,606	75,178	97	7,801
Due to customers	2,472,637	2,204,717	209,099	158,987

57.4 Transactions with the Significant Investors having Significant Influence Over the Bank and the Post Employment Benefit Plans for Bank's Employees

Significant investor of the Bank is the Government as it is a state owned entity. The Government refers to the Government of Sri Lanka, Government Corporations, Provincial Councils, Local Government bodies, other Government entities and their subsidiaries.

Post employment benefit plans are arrangements made by the Bank to provide post employment benefits for its employees.

Transactions and arrangements entered into by the Bank with the Government and Government controlled entities (significant investor) and post employment benefit plans which are individually significant and for other transactions that are collectively but not individually significant are as follows:

57.4.1 Transactions which are Collectively Significant

(a) Items in Statement of Profit or Loss

For the year ended 31 December	Significant Investor		Post Employment Benefit Plans	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Interest income	74,417,323	62,320,382	–	–
Other income	766,497	620,014	–	–
Interest expenses	23,323,315	10,467,922	5,707,049	8,823,935
Dividends paid	12,346,410	17,346,410	–	–
Contribution made	–	–	286,018	973,518

(b) Items in Statement of Financial Position

As at 31 December	Significant Investor		Post Employment Benefit Plans	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Assets				
Loans and advances	393,893,128	324,329,198	–	–
Investment in securities and bonds	535,202,370	425,264,492	–	–
Investment in equity instruments	1,250,715	1,155,370	–	–
	930,346,213	750,749,060	–	–
Liabilities				
Due to customers	215,416,321	138,029,997	56,728,098	41,559,908
Securities sold under repurchase agreements	39,329,807	51,712,660	596,000	4,134,000
Debentures	9,276,330	9,200,006	14,673,825	18,300,543
	264,022,458	198,942,663	71,997,923	63,994,451

(c) Off Balance Sheet Items

As at 31 December	Significant Investor	
	2017 LKR '000	2016 LKR '000
Letters of credit	77,113,154	68,964,283
Bills and acceptances	34,102,659	28,764,217
Guarantees	3,596,209	9,064,702
Forward exchange contracts	45,856,440	82,390,000
	160,668,462	189,183,202

(d) Other Transactions

For the year ended 31 December	Significant Investor	
	2017 LKR '000	2016 LKR '000
Gross foreign exchange transactions		
– Sales	159,658,969	376,943,911
– Purchases	291,870,422	373,415,579

(e) Average Accommodations/Due to Customer Balances

As at 31 December	Significant Investor		Post Employment Benefit Plans	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Loans and advances	338,872,282	262,164,808	–	–
Due to customers	161,598,781	106,241,117	37,306,762	32,039,996
Off balance sheet facilities	176,208,846	191,749,231	–	–

57.4.2 Transactions which are Individually Significant

The Bank uses internal assessment methodology in order to identify significance of the transactions with the Government and Government related entities. Accordingly, the transactions which have been considered in normal day-to-day business operations which are carried on normal market conditions are considered as individually significant transactions.

The Government has issued Treasury Guarantees of LKR 228,028 million and Comfort Letters of LKR 31,363 million as of 31 December 2017 against the Loan facilities granted to State Owned Enterprises (SOEs).

During the year, the Bank received LKR 5,000 million from the Government of Sri Lanka, the first phase of the total amount of LKR 10,000 million capital allocated to the Bank under the National Budget 2018.

57.4.3 Transactions with the Significant Investor – Group

Other than the transactions carried out by the Bank and balances held by the Bank with the Government, subsidiaries of the Group have carried out following transactions with the Government and balances held with the Government as follows:

As at 31 December	Significant Investor	
	2017 LKR '000	2016 LKR '000
Investment in securities and bonds	1,002,447	3,122,690
Nostro balance with Central Bank of Sri Lanka	184,439	168,917
Income from investments in securities and bonds	211,097	195,339

Apart from the transactions listed above, the Group carried out transactions with the Government of Sri Lanka and other Government related entities in the form of providing services, investments in shares for trading purpose and other financial service transactions, including inter bank placements during the year ended 31 December 2017 on comparable terms, which are applicable to transactions between the Group and its unrelated customers.

58 Financial Reporting by Segment

Segmental information is presented in respect of Group business distinguishing the component of the Group that is engaged in different business segments or operations within a particular economic environment, which is subject to risk and returns that are different from those of other segments.

58.1 Primary Segment Information – Operating Segments – Group

“An operating segment is a component of the Group that engages in business activities, from which it may earn revenues and incur expenses, including revenues and expenses that relating to transactions with any of the Group’s other components, whose operating results are reviewed by the management to make decisions about resource allocation to each segment and assess its performances”.

The Group comprises the following major business segments:

Retail banking, Corporate banking, International, Treasury and Investments, and Group functions.

The management monitors the operating results of its business segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performances are evaluated based on their operating profits or losses. VAT, NBT and Income Tax are managed on a Group basis and are not allocated to operating segments.

For the year ended 31 December	Retail Banking		Corporate Banking	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Revenue from External Customers:				
Net interest income	30,039,025	26,013,710	17,234,314	11,289,375
Net fee and commission income	3,492,224	3,114,917	2,440,840	2,693,911
Other income	3,897,834	2,130,174	604,786	443,911
Total operating income	37,429,083	31,258,801	20,279,940	14,427,197
Impairment (charge)/reversal for loans and other losses	(1,830,794)	(179,231)	(7,780,736)	(4,172,581)
Other operating expenses	(18,829,578)	(18,801,358)	(4,109,781)	(5,614,716)
Total expenses	(20,660,372)	(18,980,589)	(11,890,517)	(9,787,297)
Operating profit before VAT and NBT	16,768,711	12,278,212	8,389,423	4,639,900
VAT and NBT on financial services	–	–	–	–
Operating profit after VAT and NBT	–	–	–	–
Share of profits/(losses) of associate companies, net of tax	–	–	–	–
Profit/ (loss) before income tax	16,768,711	12,278,212	8,389,423	4,639,900
Income tax expense	–	–	–	–
Profit for the year	–	–	–	–
Total assets	632,145,758	562,800,269	601,742,151	505,590,833
Total liabilities	596,145,109	531,496,099	567,472,984	477,468,776
Cash flows from/(used in) operating activities	67,567,090	(9,134,526)	38,765,320	(3,964,182)
Cash flows from/(used in) investing activities	(27,660,790)	(830,770)	(15,869,847)	(746,321)
Cash flows used in financing activities	(24,521,481)	(23,602,765)	(23,342,099)	(21,203,511)
Capital expenditure to non-current assets	–	–	–	–
Depreciation and amortisation expenses	623,465	489,944	593,479	440,140

Being the major customer of the Bank, “Government and State-Owned Enterprises (SOEs)” represents 16% of revenue of the Bank’s, (2016 – 16%) and included under Retail and Corporate segments. More details are given in Note 57 – “Related Party Disclosures”.

	International, Treasury and Investment		Group Function		Unallocated		Total	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
	14,344,185	18,314,913	3,132,158	2,646,753	(3,259,580)	(1,658,259)	61,490,102	56,606,492
	767,608	855,069	169,053	156,377	594,681	555,538	7,464,406	7,375,812
	3,963,541	7,835,717	2,344,850	2,869,873	(981,187)	(2,263,102)	9,829,824	11,016,573
	19,075,334	27,005,699	5,646,061	5,673,003	(3,646,086)	(3,365,823)	78,784,332	74,998,877
	300,000	–	(294,420)	(24,239)	(278,939)	(44,949)	(9,884,889)	(4,421,000)
	(4,215,509)	(5,572,657)	(4,046,207)	(4,494,198)	496,673	335,811	(30,704,402)	(34,147,118)
	(3,915,509)	(5,572,657)	(4,340,627)	(4,518,437)	217,734	290,862	(40,589,291)	(38,568,118)
	15,159,825	21,433,042	1,305,434	1,154,566	(3,428,352)	(3,074,961)	38,195,041	36,430,759
	–	–	–	–	–	–	(7,431,502)	(6,376,679)
	–	–	–	–	–	–	30,763,539	30,054,080
	–	–	52,024	62,952	–	–	52,024	62,952
	15,159,825	21,433,042	1,357,458	1,217,518	(3,428,352)	(3,074,961)	30,815,563	30,117,032
	–	–	–	–	–	–	(9,328,918)	(6,731,105)
	–	–	–	–	–	–	21,486,645	23,385,927
	621,865,981	520,547,053	64,420,266	66,709,365	79,236,027	60,909,181	1,999,410,183	1,716,556,701
	586,450,764	491,593,098	52,417,323	55,603,568	74,597,503	57,040,424	1,877,083,683	1,613,201,965
	32,264,524	(6,431,149)	7,045,195	(929,388)	(7,331,808)	582,285	138,310,321	(19,876,960)
	(13,208,534)	83,373,761	(2,884,180)	(98,472)	3,001,513	(89,911)	(56,621,838)	81,608,287
	(24,122,720)	(21,830,746)	(2,156,103)	(2,469,252)	(3,068,452)	(2,533,060)	(77,210,855)	(71,639,334)
	–	–	–	–	–	–	3,963,792	2,597,824
	613,327	453,161	275,335	247,202	436,874	369,456	2,542,480	1,999,903

58.2 Secondary Segment Information – Geographical Segments

Geographical segments provide products or services within a particular economic environment where risk and returns are different from those of other economic environments.

These segment comprise domestic operations, offshore banking division and overseas banking units.

	Bank				Group			
	2017 LKR '000	%	2016 LKR '000	%	2017 LKR '000	%	2016 LKR '000	%
Assets								
Domestic banking unit	1,664,741,312	85.3	1,376,413,525	82.5	1,691,932,690	84.6	1,398,005,373	81.5
Offshore banking division	247,929,200	12.7	254,548,971	15.2	247,929,200	12.4	254,548,971	14.8
Overseas banking units	39,133,441	2.0	38,328,778	2.3	59,548,293	3.0	64,002,357	3.7
Total assets	1,951,803,953	100.0	1,669,291,274	100.0	1,999,410,183	100.0	1,716,556,701	100.0
Total Income								
Domestic banking unit	167,072,299	88.3	134,095,057	87.0	174,410,229	88.6	139,240,153	87.2
Offshore banking division	17,029,578	9.0	14,837,559	9.6	17,029,578	8.6	14,837,559	9.3
Overseas banking units	5,109,518	2.7	5,188,756	3.4	5,573,154	2.8	5,623,513	3.5
Total income	189,211,395	100.0	154,121,372	100.0	197,012,961	100.0	159,701,225	100.0
Profit Before Tax								
Domestic banking unit	23,545,936	77.6	27,598,676	88.5	24,014,865	78.0	26,551,440	88.1
Offshore banking division	4,328,111	14.3	(223,917)	(0.7)	4,328,111	14.0	(223,917)	(0.7)
Overseas banking units	2,468,933	8.1	3,813,926	12.2	2,472,587	8.0	3,789,509	12.6
Total profit before tax	30,342,980	100.0	31,188,685	100.0	30,815,563	100.0	30,117,032	100.0
Profit After Tax								
Domestic banking unit	16,562,681	77.7	22,048,818	88.9	16,733,388	77.9	20,668,166	88.4
Offshore banking division	3,116,240	14.6	(223,917)	(0.9)	3,116,240	14.5	(223,917)	(1.0)
Overseas banking units	1,633,363	7.7	2,966,095	12.0	1,637,017	7.6	2,941,678	12.6
Total profit after tax	21,312,284	100.0	24,790,996	100.0	21,486,645	100.0	23,385,927	100.0

59 Fair Values of Assets and Liabilities

Accounting Policy

“Fair value” is the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

All assets and liabilities for which fair value is measured or disclosed in the Financial Statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – Valuation technique using quoted market price:

Financial instruments with quoted prices for identical instruments in active markets.

Level 2 – Valuation technique using observable inputs:

Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

Level 3 – Valuation technique with significant unobservable inputs:

Financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

For all financial instruments where fair values are determined by referring to externally quoted prices or observable pricing inputs to models, independent price determination or validation is obtained. In an inactive market, direct observation of a traded price may not be possible. In these circumstances, the Bank uses alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable.

59.1 Assets and Liabilities Measured at Fair Value

Derivative Financial Instruments

All Derivative financial instruments are classified as held for trading are valued using a valuation technique with market observable and market unobservable inputs. The most frequently applied valuation technique include forward foreign exchange spot and forward premiums.

Financial Instruments – Held for Trading

Financial instruments are classified as held for trading consists Government securities, Quoted debt securities and Quoted equities. Government securities are valued using yield curve published by the Central Bank of Sri Lanka and the Bank uses quoted market prices in the active market for the valuation of quoted equities and quoted debt securities as at the reporting date.

Financial Investments – Available for Sale

Financial investments are classified as available for sale consists Government securities, Quoted equities Unquoted equities, and Units in unit trusts.

- Government securities are valued using yield curve published by the Central Bank of Sri Lanka as at the reporting date.
- The Bank uses quoted market prices in the active market for the valuation of quoted equities and quote debt securities as at the reporting date.
- Unquoted equities are carried at cost except Regional Development Bank investment in shares since it is the most reasonable value available to represent the price of such securities. Fair value of Regional Development Bank derived using an internal management valuation technique which details are given in Note 59.1.3.
- Units in unit trusts are valued using management buying price of such asset management company since it is the most relevant exit price of such assets.

Property, Plant and Equipment

Free hold lands and buildings and buildings on leasehold lands are carried at revalued amount less any subsequent accumulated depreciation and impairment losses.

59.1.1 Assets Measured at Fair Value – Fair Value Hierarchy

As at 31 December 2017	Bank				Group			
	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Total LKR '000	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Total LKR '000
Financial Assets								
Derivative Financial Instruments								
Forward exchange contracts	–	4,288	–	4,288	–	4,288	–	4,288
Currency SWAPs	–	–	1,614,535	1,614,535	–	–	1,614,535	1,614,535
	–	4,288	1,614,535	1,618,823	–	4,288	1,614,535	1,618,823
Financial Instruments – Held for Trading								
Treasury Bills	4,749,058	–	–	4,749,058	4,749,058	–	–	4,749,058
Treasury Bonds	680,380	1,789	–	682,169	680,380	1,789	–	682,169
Sri Lanka sovereign bonds	166,863	–	–	166,863	166,863	–	–	166,863
Quoted equities	2,761,184	–	–	2,761,184	2,993,845	–	–	2,993,845
Other debt securities	–	–	–	–	4,613	–	–	4,613
	8,357,485	1,789	–	8,359,274	8,594,759	1,789	–	8,596,548
Financial Investments – Available for Sale								
Quoted Investments								
Government Securities								
Treasury Bills	4,044,815	–	–	4,044,815	4,236,635	–	–	4,236,635
Treasury Bonds	4,153,858	–	–	4,153,858	4,945,270	–	–	4,945,270
In other countries	1,478,870	–	–	1,478,870	3,718,590	–	–	3,718,590
Quoted equities	3,687,567	–	–	3,687,567	5,009,964	–	–	5,009,964
Unquoted Investments								
Units in unit trusts	–	3,626,484	–	3,626,484	–	3,660,702	–	3,660,702
Unquoted equities	–	701,859	227,717	929,576	–	701,859	279,272	981,131
	13,365,110	4,328,343	227,717	17,921,170	17,910,459	4,362,561	279,272	22,552,292
Total financial assets	21,722,595	4,334,420	1,842,252	27,899,267	26,505,218	4,368,638	1,893,807	32,767,663
Non-Financial Assets								
Property, Plant and Equipment	–	–	18,030,186	18,030,186	–	–	30,852,915	30,852,915
	–	–	18,030,186	18,030,186	–	–	30,852,915	30,852,915
Total	21,722,595	4,334,420	19,872,438	45,929,453	26,505,218	4,368,638	32,746,722	63,620,578
Financial Liabilities								
Derivative Financial Instruments								
Forward exchange contracts	–	2,584	–	2,584	–	2,584	–	2,584
Currency SWAPs	–	–	68,131	68,131	–	–	68,131	68,131
Total	–	2,584	68,131	70,715	–	2,584	68,131	70,715

As at 31 December 2016	Bank				Group			
	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Total LKR '000	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Total LKR '000
Financial Assets								
Derivative Financial Instruments								
Forward exchange contracts	–	9,063	–	9,063	–	9,063	–	9,063
Currency SWAPs	–	–	5,291,781	5,291,781	–	–	5,291,781	5,291,781
	–	9,063	5,291,781	5,300,844	–	9,063	5,291,781	5,300,844
Financial Instruments – Held for Trading								
Treasury Bills	4,538,007	–	–	4,538,007	4,538,007	–	–	4,538,007
Treasury Bonds	679,650	1,789	–	681,439	679,650	1,789	–	681,439
Sri Lanka sovereign bonds	156,142	–	–	156,142	156,142	–	–	156,142
Quoted equities	3,098,453	–	–	3,098,453	3,426,824	–	–	3,426,824
Other debt securities	–	–	–	–	2,235	–	–	2,235
	8,472,252	1,789	–	8,474,041	8,802,858	1,789	–	8,804,647
Financial Investments – Available for Sale								
Quoted Investments								
Government securities								
Treasury Bills	–	–	–	–	2,320,821	–	–	2,320,821
Treasury Bonds	431,247	3,228	–	434,475	1,161,743	3,228	–	1,164,971
In other countries	1,627,319	–	–	1,627,319	2,915,692	–	–	2,915,692
Quoted equities	3,938,737	–	–	3,938,737	5,325,122	–	–	5,325,122
Unquoted Investments								
Units in unit trusts	–	3,764,963	–	3,764,963	–	3,798,173	–	3,798,173
Unquoted equities	–	469,835	227,717	697,552	–	469,835	269,027	738,862
	5,997,303	4,238,026	227,717	10,463,046	11,723,378	4,271,236	269,027	16,263,641
Total Financial Assets	14,469,555	4,248,878	5,519,498	24,237,931	20,526,236	4,282,088	5,560,808	30,369,132
Non-Financial Assets								
Property, Plant and Equipment	–	–	11,219,722	11,219,722	–	–	24,164,115	24,164,115
	–	–	11,219,722	11,219,722	–	–	24,164,115	24,164,115
Total	14,469,555	4,248,878	16,739,220	35,457,653	20,526,236	4,282,088	29,724,923	54,533,247
Financial Liabilities								
Derivative Financial Instruments								
Forward exchange contracts	–	8,210	–	8,210	–	8,210	–	8,210
Currency SWAPs	–	–	163,453	163,453	–	–	163,453	163,453
Total	–	8,210	163,453	171,663	–	8,210	163,453	171,663

59.1.2 Movements in Level 3 Assets Measured at Fair Value

The following table shows a reconciliation of the opening and closing amounts of Level 3 assets and liabilities which are recorded at fair value:

	Bank					Group				
	As at 1 January 2017	Total Gains/ (Losses) Recorded in Profit or Loss	Total Gains/ (Losses) Recorded in OCI	Purchases/ (Sales) and Other Adjustments	As at 31 December 2017	As at 1 January 2017	Total Gains/ (Losses) Recorded in Profit or Loss	Total Gains/ (Losses) Recorded in OCI	Purchases/ (Sales) and Other Adjustments	As at 31 December 2017
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets										
Derivative Financial Instruments										
Currency SWAPs	5,291,781	–	–	(3,677,246)	1,614,535	5,291,781	–	–	(3,677,246)	1,614,535
Financial Investments – Available for Sale										
Unquoted Investments										
Unquoted equities	227,717	–	–	–	227,717	269,027	10,245	–	–	279,272
Total Level 3 financial assets	5,519,498	–	–	(3,677,246)	1,842,252	5,560,808	10,245	–	(3,677,246)	1,893,807
Non-Financial Assets										
Property, Plant and Equipment	11,219,722	(168,343)	6,059,715	919,092	18,030,186	24,164,115	(701,807)	6,406,248	984,359	30,852,915
Total Level 3 assets	16,739,220	(168,343)	6,059,715	(2,758,154)	19,872,438	29,724,923	(691,562)	6,406,248	(2,692,887)	32,746,722
Financial Liabilities										
Currency SWAPs	163,453	–	–	(95,322)	68,131	163,453	–	–	(95,322)	68,131
Total Level 3 financial liabilities	163,453	–	–	(95,322)	68,131	163,453	–	–	(95,322)	68,131
Net Level 3 financial assets	5,356,045	–	–	(3,581,924)	1,774,121	5,397,355	10,245	–	(3,581,924)	1,825,676

The following table shows a reconciliation of the opening and closing amounts of Level 3 assets and liabilities which are recorded at fair value:

	Bank					Group				
	As at 1 January 2016	Total Gains/ (Losses) Recorded in Profit or Loss	Total Gains/ (Losses) Recorded in OCI	Purchases/ (Sales) and Other Adjustments	As at 31 December 2016	As at 1 January 2016	Total Gains/ (Losses) Recorded in Profit or Loss	Total Gains/ (Losses) Recorded in OCI	Purchases/ (Sales) and Other Adjustments	As at 31 December 2016
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets										
Derivative Financial Instruments										
Currency SWAPs	7,385,970	–	–	(2,094,189)	5,291,781	7,385,970	–	–	(2,094,189)	5,291,781
Financial Investments – Available for Sale										
Unquoted Investments										
Unquoted equities	227,717	–	–	–	227,717	269,027	–	–	–	269,027
Total Level 3 financial assets	7,613,687	–	–	(2,094,189)	5,519,498	7,654,997	–	–	(2,094,189)	5,560,808
Non-Financial Assets										
Property, Plant and Equipment	12,625,762	(234,243)	1,394,640	(2,566,437)	11,219,722	22,023,125	(603,183)	2,307,452	436,721	24,164,115
Total Level 3 assets	20,239,449	(234,243)	1,394,640	(4,660,626)	16,739,220	29,678,122	(603,183)	2,307,452	(1,657,468)	29,724,923
Financial Liabilities										
Currency SWAPs	144,896	–	–	18,557	163,453	144,896	–	–	18,557	163,453
Total Level 3 financial liabilities	144,896	–	–	18,557	163,453	144,896	–	–	18,557	163,453
Net Level 3 financial assets	7,468,791	–	–	(2,112,746)	5,356,045	7,510,101	–	–	(2,112,746)	5,397,355

59.1.3 Unobservable Inputs Used in Measuring Fair Value of Level 3

The table below sets out information about significant unobservable inputs used as at 31 December 2017 in measuring financial instruments categorised as Level 3 in the fair value hierarchy:

Type of Financial Instrument	Fair Value As at 31 December 2017 LKR '000	Valuation Technique	Significant Unobservable Inputs	Range of Estimates (Weighted Average) for Unobservable Inputs	Fair Value Measurement Sensitivity to Unobservable Inputs
Derivative Financial Instruments					
Currency SWAPs	1,614,535	Forward pricing model	Foreign exchange forward rate. Discount for counterparty credit risk.	Negative 10 to positive 10 basis point.	Unfavourable or favourable impact on derivative assets value of LKR 1.6 million respectively.
Financial Investments – Available for Sale Unquoted Equity Shares					
Regional Development Bank	162,300	Discounted Cash Flow method	Constant Dividend model	Decreased by 5% and increased by 5% for existing cost of capital.	Impact to the fair value will be within negative and positive LKR 8.1 million no significant impact to the investment.
Credit Information Bureau of Sri Lanka	41,596	Value at cost*			*Fair value cannot be reliably measured. These are investments in entities that provide transaction processing and transaction services to members on a pricing basis intended to recover the entities operating cost.
Fitch Ratings Lanka Limited	625	Value at cost*			
LankaClear (Private) Limited	21,000	Value at cost*			
Lanka Financial Services Bureau Limited	2,250	Value at cost*			

59.2 Fair Value of Assets and Liabilities not Carried at Fair Value

The following table summarised the fair value for assets and liabilities which are not already recorded at fair value in the Financial Statement:

As at 31 December 2017	Bank					Group				
	Fair Value				Carrying Value LKR '000	Fair Value				Carrying Value LKR '000
	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Total LKR '000		Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Total LKR '000	
Assets										
Financial investments – Loans and receivables	–	212,399,368	–	212,399,368	213,167,048	–	213,581,944	–	213,581,944	214,349,624
Financial investments – Held to maturity	310,076,948	–	–	310,076,948	308,256,082	310,571,183	–	–	310,571,183	308,750,317
Investment properties	–	–	3,000,000	3,000,000	2,882,928	–	–	574,309	574,309	123,773
Total	310,076,948	212,399,368	3,000,000	525,476,316	524,306,058	310,571,183	213,581,944	574,309	524,727,436	523,223,714
Liabilities										
Other borrowings	77,571,805	–	100,937,256	178,509,061	178,191,089	77,571,805	–	107,076,348	184,648,153	184,330,181
Debt securities issued	–	–	–	–	–	–	–	5,667,514	5,667,514	5,667,514
Subordinate term debts	–	32,403,624	10,006,517	42,410,141	42,570,457	–	32,219,550	10,006,517	42,226,067	42,226,067
Total	77,571,805	32,403,624	110,943,773	220,919,202	220,761,546	77,571,805	32,219,550	122,750,379	232,541,734	232,223,762

As at 31 December 2016	Bank					Group				
	Fair Value				Carrying Value	Fair Value				Carrying Value
	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Total LKR '000		Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Total LKR '000	
Assets										
Financial investments – Loans and receivables	–	191,780,103	–	191,780,103	191,874,638	–	191,889,547	–	191,889,547	191,984,082
Financial investments – Held to maturity	235,401,153	–	–	235,401,153	243,178,400	235,476,720	–	–	235,476,720	243,253,967
Investment properties	–	–	3,000,000	3,000,000	3,000,000	–	–	573,929	573,929	127,670
Total	235,401,153	191,780,103	3,000,000	430,181,256	438,053,038	235,476,720	191,889,547	573,929	427,940,196	435,365,719
Liabilities										
Other borrowings	152,311,563	–	44,138,627	196,450,190	195,469,853	152,311,563	–	51,193,401	203,504,964	204,485,301
Debt securities issued	–	3,422,247	–	3,422,247	3,427,058	–	8,355,522	–	8,355,522	8,360,333
Subordinate term debts	38,717,099	–	–	38,717,099	38,645,546	38,366,871	–	–	38,366,871	38,295,318
Total	191,028,662	3,422,247	44,138,627	238,589,536	237,542,457	190,678,434	8,355,522	51,193,401	250,227,357	251,140,952

The following describes the methodologies and assumptions used to determine fair values for those assets and liabilities which are not already recorded at fair value in the Financial Statements.

Financial Investments – Loans and Receivables

Financial investments – Loans and receivables comprise Sri Lanka Development Bonds, Non-marketable Government Securities and Corporate debt securities.

Sri Lanka Development Bonds are variable rate instruments which are repricing semi-annually. Hence it is assumed that the carrying amounts approximate their fair value. Listed corporate debt securities are valued using quoted market price as of the reporting date and fair value of unquoted corporate debt securities and Government securities are estimated as the present value of future cash flows expected to be received from such investments calculated based on interest rates at the reporting date for similar instruments.

Financial Investments – Held to Maturity

Financial investments – Held to maturity comprise Government debt securities and they are valued using yield curve published by the Central Bank of Sri Lanka.

Investment Properties

Investment properties are valued by the independent professional valuers and more details are given in Note 32.

Other Borrowings

Other borrowings represent Senior notes, term borrowings from banks and other financial institutions in Sri Lanka and abroad and refinance borrowings.

Senior notes are listed in the Singapore Stock Exchange and valued using quoted market price as of the reporting date. Fair value of term borrowings and refinance borrowings are estimated by discounting the future cash flows using effective interest rates of similar instruments.

Debt Securities Issued

Fair value of debt securities issued are estimated as the present value of future cash flows expected to be paid from such investments calculated based on interest rates at the reporting date for similar instruments.

Subordinated Term Debts

Subordinated term debts are listed in the Colombo Stock Exchange and valued using quoted market price as of the reporting date.

59.3 Assets and Liabilities for which Fair Value Approximates Carrying Value

For financial assets and liabilities that have a short-term maturity, it is assumed that the carrying amounts approximate their fair value. For certain instruments which have contractual maturity of more than one year, the fair value is determined using reasonable basis. Given below is the bases adopted by the Bank in order to establish the fair values of such financial instruments:

Loans and Advances to Customers

More than 40% of the total portfolio of loans and advances to customers have a remaining contractual maturity of less than one year and 95% of balance loans are granted at floating rate. Therefore, fair value of loans and advances to customers approximates to their carrying value as at the reporting date.

Due to Other Customers

More than 95% of the customer deposits are either repayable on demand or have a remaining contractual maturity of less than one year. Customer deposits with a contractual maturity of more than one year are subject to premature upliftment. Amounts paid to customers in the event of premature upliftment would not be materially different to its carrying value as at date. Therefore fair value of customer deposits approximates to their carrying value as at the reporting date.

As at 31 December	2017		2016	
	Carrying Amount LKR '000	Fair Value LKR '000	Carrying Amount LKR '000	Fair Value LKR '000
Bank				
Financial Assets				
Cash and cash equivalents	72,843,108	72,843,108	67,705,791	67,705,791
Balances with central banks	68,689,012	68,689,012	56,387,741	56,387,741
Placements with banks	8,067,490	8,067,490	11,674,664	11,674,664
Securities purchased under resale agreements	18,455,555	18,455,555	1,901,618	1,901,618
Loans and advances to customers	1,163,160,914	1,163,160,914	1,000,082,574	1,000,082,574
Total financial assets	1,331,216,079	1,331,216,079	1,137,752,388	1,137,752,388
Financial Liabilities				
Due to banks	2,203,199	2,203,199	2,042,322	2,042,322
Securities sold under repurchase agreements	44,487,462	44,487,462	59,424,629	59,424,629
Due to customers	1,546,832,036	1,546,832,036	1,256,589,490	1,256,589,490
Total financial liabilities	1,593,522,697	1,593,522,697	1,318,056,441	1,318,056,441
Group				
Financial Assets				
Cash and cash equivalents	78,005,362	78,005,362	73,244,043	73,244,043
Balances with central banks	68,689,012	68,689,012	56,387,741	56,387,741
Placements with banks	5,319,602	5,319,602	12,931,605	12,931,605
Securities purchased under resale agreements	19,872,247	19,872,247	2,350,704	2,350,704
Loans and advances to customers	1,194,294,394	1,194,294,394	1,027,768,110	1,027,768,110
Total financial assets	1,366,180,617	1,366,180,617	1,172,682,203	1,172,682,203
Financial Liabilities				
Due to banks	2,194,266	2,194,266	2,053,945	2,053,945
Securities sold under repurchase agreements	44,628,686	44,628,686	58,925,801	58,925,801
Due to customers	1,566,376,418	1,566,376,418	1,273,631,287	1,273,631,287
Total financial liabilities	1,613,199,370	1,613,199,370	1,334,611,033	1,334,611,033

59.4 Reclassification of Financial Assets and Financial Liabilities

There have been no reclassifications during 2017.

60 Risk Management

60.1 Introduction

60.1.1 Overview

The Bank considers credit risk, market risk, liquidity risk and operational risk as key risks faced by the Bank. Information presented in this Note focuses on the Bank's exposure to above risks.

60.1.2 Group Risk Management

Bank of Ceylon Group consist of ten subsidiaries and four associate companies. Their principal activities spread over diverse range. Their income and expenses, are less than 5% of the Group's income and expenses and their total assets and liabilities are less than 3% of the Group's total assets and liabilities. Therefore, the affairs of subsidiaries and associates do not have significant impact to the risk management.

However, the Bank is managing the strategic risk through comprehensive review of Group activities on a quarterly basis. Senior officers of the Bank are representing on such Boards and these officers are involved in risk and audit committees, so that the Bank closely involves in risk and audit affairs of subsidiaries. On special circumstances Internal Auditor of the Bank carries out audits in subsidiaries. In addition, the Bank has developed and implemented a reporting mechanism for subsidiaries through risk dashboards. The dashboard includes all the headline risk indicators of the respective Subsidiary Companies.

60.1.3 Risk Management Framework

Risk management governance structure of the Bank begins with oversight by the Board of Directors, which assures the performance of overall risk management framework. The Board establishes the risk appetite and sets strategic direction through risk management policies. The Bank's Independent Integrated Risk Management Division (IIRMD) is headed by the Chief Risk Officer (CRO), who directly reports to the Integrated Risk Management Committee (IRMC), which is a subcommittee of the Board. CRO is also a member of management level committees such as Credit Committee, Asset and Liability Management Committee (ALCO), Operational Risk Management Executive Committee (ORMEC), IT Steering Committee, Fraud Risk Management Committee and Non-Performing Advances Monitoring Committee, which assist in managing various risks that the Bank is exposed to.

60.1.4 Risk Measurement and Reporting Systems

The Bank's risks are measured using a method that reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst-case scenarios that would arise in the event that extreme events which are unlikely to occur, in fact, do occur.

Monitoring and controlling risks are primarily performed based on limits established by the Bank. The risk appetite and limits for the Bank are approved by the Board based on recommendations of IRMC and inputs from the IIRMD by considering the operating business environment and the types of risk taking activities that are assumed in pursuit of the Bank's strategic and financial objectives. In the limits setting process through risk appetite statement, the Bank is controlling the risk-taking activities within the tolerance limits for credit, market, and operational risk.

In addition to that, the Bank has an internal process for assessing its overall capital adequacy in relation to the Bank's risk profile and a strategy for maintaining its capital levels. The Internal Capital Adequacy Assessment Process (ICAAP) sets out the framework for the Bank's internal governance, and the operation of the risk and capital planning. The process provides an assurance that the Bank has adequate capital to support all risks in its business and an appropriate capital buffer based on its business profile.

The IRMC receives a comprehensive risk report once a month which is designed to provide all the necessary information to assess and manage risks of the Bank.

60.1.5 Risk Mitigation

As part of its overall risk management, the Bank uses mitigation techniques and strategies to reduce the risk. In managing credit risk the Bank actively uses counterparty evaluation to reduce its credit risks. Collaterals are used to further mitigate losses. Market risk is mitigated using derivative instruments in limited context. Strong internal control mechanism is in place to manage operational risks and insurance is used as a operational risk transfer strategy where necessary.

60.2 Credit Risk

Credit risk management process is based on credit risk management policy and lending guidelines approved by the Board of Directors. These documents lay down the conditions and guidelines for granting, maintenance, monitoring and management of credit, at both transaction and portfolio levels.

60.2.1 Maximum Exposure to Credit Risk

60.2.1.1 Collateral and Other Credit Enhancements

The Bank obtains collateral from borrowers/counterparties in order to mitigate credit risk. The amount/types of collateral required depend on the credit risk assessment of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral. The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities
- For commercial lending, charges over immovable properties, inventory and trade receivables
- For personal lending, mortgages over properties, cash and cash equivalents and gold articles
- For Government and State-Owned Enterprises, Sovereign guarantee

The Bank monitors the market value of collateral, and will request additional collateral in accordance with the underlying agreement. It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

The following table shows the maximum exposure to credit risk, total fair value of collateral, any surplus collateral and the net exposure to credit risk.

60.2.1.2 Type of Collateral or Credit Enhancements

31 December 2017	Maximum Exposure to Credit Risk LKR '000	Cash LKR '000	Gold LKR '000	GoSL Securities/ Guarantees LKR '000
Financial Assets				
Cash and cash equivalents	72,843,108	41,774,986	–	–
Balances with central banks	68,689,012	68,689,012	–	–
Placements with banks	8,067,490	–	–	–
Securities purchased under resale agreements	18,455,555	–	–	18,455,555
Derivative financial instruments	1,618,823	–	–	–
Financial instruments – Held for trading	8,359,274	–	–	5,598,090
Financial investments – Loans and receivables	213,167,048	–	–	206,756,877
Loans and advances to customers	1,219,914,481	66,872,015	49,660,188	310,703,980
Less: Impairment	(56,753,567)	–	–	–
Financial investments – Available for sale	17,921,170	–	–	9,677,543
Financial investments – Held to maturity	308,256,082	–	–	256,069,541
Total	1,880,538,476	177,336,013	49,660,188	807,261,586

31 December 2016	Maximum Exposure to Credit Risk LKR '000	Cash LKR '000	Gold LKR '000	GoSL Securities/ Guarantees LKR '000
Financial Assets				
Cash and cash equivalents	67,705,791	28,901,214	–	–
Balances with central banks	56,387,741	56,387,741	–	–
Placements with banks	11,674,664	–	–	–
Securities purchased under resale agreements	1,901,618	–	–	1,901,618
Derivative financial instruments	5,300,844	–	–	–
Financial instruments – Held for trading	8,474,041	–	–	5,375,588
Financial investments – Loans and receivables	191,874,638	–	–	185,683,966
Loans and advances to customers	1,047,189,690	60,535,565	44,954,643	281,263,263
Less: Impairment	(47,107,116)	–	–	–
Financial investments – Available for sale	10,463,046	–	–	2,061,794
Financial investments – Held to maturity	243,178,400	–	–	159,061,022
Total	1,597,043,357	145,824,520	44,954,643	635,347,251

60.2.2 Credit Quality by Class of Financial Assets

The Bank has established borrower risk rating models for corporate exposures covering different industries through the Integrated Risk Management System (IRMS), which would be used for decision making process and estimation of probability of default. In addition, facility rating models have been established for the transaction specific factors; these would be subsequently used in Internal Rating Based Approach under Basel II. The borrower risk rating system categorises all performing corporate credits into eight grades on the basis of underlying credit quality. For consumer lending, the Bank has established credit-scorecards covering retail segment through the IRMS for evaluating credit facilities and monitoring credit quality.

The Bank's non-performing advances are categorised as per the CBSL guidelines. At each reporting date the Bank assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that there is an incurred loss.

Fair Value of Collateral and Credit Enhancements Held				Net Collateral LKR '000	Net Exposure LKR '000
Movables LKR '000	Properties LKR '000	Others LKR '000	Surplus Collateral LKR '000		
-	-	-	-	41,774,986	31,068,122
-	-	-	-	68,689,012	-
-	-	-	-	-	8,067,490
-	-	-	-	18,455,555	-
-	-	-	-	-	1,618,823
-	-	-	-	5,598,090	2,761,184
-	-	-	-	206,756,877	6,410,171
108,434,274	213,153,077	66,655,828	(97,502,880)	717,976,482	501,937,999
-	-	-	-	-	(56,753,567)
-	-	-	-	9,677,543	8,243,627
-	-	-	-	256,069,541	52,186,541
108,434,274	213,153,077	66,655,828	(97,502,880)	1,324,998,086	555,540,390

Fair Value of Collateral and Credit Enhancements Held				Net Collateral LKR '000	Net Exposure LKR '000
Movables LKR '000	Properties LKR '000	Others LKR '000	Surplus Collateral LKR '000		
-	-	-	-	28,901,214	38,804,577
-	-	-	-	56,387,741	-
-	-	-	-	-	11,674,664
-	-	-	-	1,901,618	-
-	-	-	-	-	5,300,844
-	-	-	-	5,375,588	3,098,453
-	-	-	-	185,683,966	6,190,672
98,159,598	192,955,783	60,339,865	(88,264,007)	649,944,710	397,244,980
-	-	-	-	-	(47,107,116)
-	-	-	-	2,061,794	8,401,252
-	-	-	-	159,061,022	84,117,378
98,159,598	192,955,783	60,339,865	(88,264,007)	1,089,317,653	507,725,705

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in profit or loss and reflected in an impairment charges against loans and advances. A detailed note on impairment of loans and advances is in Note 27 to the Financial Statements.

The Bank writes off certain loans and advances and investment securities when they are determined to be uncollectible.

The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based subcommittee of the Board. CRO is also a member of management level committees such as Credit Committee. Asset and advances granted to GOSL and loans and advances granted to corporate borrowers whose internal credit ratings are AAA, AA or A. Standard grade consists of corporate borrowers whose internal credit rating is BBB, BB or B. Substandard grade includes corporate borrowers whose credit rating is C or D.

Credit Quality by Class of Financial Assets	As at 31 December 2017						
	Neither Past Due/Nor Impaired						Total
	High Grade LKR '000	Standard Grade LKR '000	Sub-Standard Grade LKR '000	Grades Not Allocated/ Unrated LKR '000	Past Due But Not Individually Impaired LKR '000	Individually Impaired LKR '000	
Financial Assets							
Cash and cash equivalents	54,204,723	–	–	18,638,385	–	–	72,843,108
Balances with Central Banks	68,689,012	–	–	–	–	–	68,689,012
Placements with banks	8,067,490	–	–	–	–	–	8,067,490
Securities purchased under resale agreements	18,455,555	–	–	–	–	–	18,455,555
Derivative financial instruments	1,618,823	–	–	–	–	–	1,618,823
Financial instruments – Held for trading	5,598,090	–	–	2,761,184	–	–	8,359,274
Financial investments – Loans and receivables	206,756,877	–	–	6,410,171	–	–	213,167,048
Loans and advances to customers	314,509,110	104,311,326	34,810,132	463,277,623	239,218,214	63,788,076	1,219,914,481
Less: Impairment	–	–	–	–	–	–	(56,753,567)
Financial investments – Available for sale	9,677,543	–	–	8,243,627	–	–	17,921,170
Financial investments – Held to maturity	256,069,541	–	–	52,186,541	–	–	308,256,082
Total	943,646,764	104,311,326	34,810,132	551,517,531	239,218,214	63,788,076	1,880,538,476

Age analysis of Past Due (i.e. facilities in arrears of one day and above) But Not Impaired loans by class of financial assets.

Age Analysis of Past Due But Not Individually Impaired Loans	Past Due But Not Individually Impaired					Total
	Less than 30 Days LKR '000	30 to 60 Days LKR '000	60 to 90 Days LKR '000	90 to 180 Days LKR '000	180 Days and Over LKR '000	
Loans and advances to customers	124,756,928	74,175,997	6,216,779	2,644,976	31,423,534	239,218,214

Credit Quality by Class of Financial Assets	As at 31 December 2016						
	Neither Past Due/Nor Impaired						Total
	High Grade LKR '000	Standard Grade LKR '000	Sub-Standard Grade LKR '000	Grades Not Allocated/ Unrated LKR '000	Past Due But Not Individually Impaired LKR '000	Individually Impaired LKR '000	
Cash and cash equivalents	43,393,783	–	–	24,312,008	–	–	67,705,791
Balances with central banks	56,387,741	–	–	–	–	–	56,387,741
Placements with banks	11,674,664	–	–	–	–	–	11,674,664
Securities purchased under resale agreements	1,901,618	–	–	–	–	–	1,901,618
Derivative financial instruments	5,300,844	–	–	–	–	–	5,300,844
Financial instruments – Held for trading	5,375,587	–	–	3,098,454	–	–	8,474,041
Financial investments – Loans and receivables	185,683,966	–	–	6,190,672	–	–	191,874,638
Loans and advances to customers	279,845,017	108,409,398	16,554,840	422,192,716	187,105,186	33,082,533	1,047,189,690
Less: Impairment	–	–	–	–	–	–	(47,107,116)
Financial investments – Available for sale	2,061,794	–	–	8,401,252	–	–	10,463,046
Financial investments – Held to maturity	159,061,022	–	–	84,117,378	–	–	243,178,400
Total	750,686,036	108,409,398	16,554,840	548,312,480	187,105,186	33,082,533	1,597,043,357

Age analysis of Past Due (i.e. facilities in arrears of one day and above) But Not Impaired loans by class of financial assets.

Age Analysis of Past Due But Not Impaired Loans	Past Due But Not Individually Impaired					Total
	Less than 30 Days LKR '000	30 to 60 Days LKR '000	60 to 90 Days LKR '000	90 to 180 Days LKR '000	180 Days and Over LKR '000	
Loans and advances to customers	93,525,723	51,317,462	5,680,504	5,122,053	31,459,444	187,105,186

60.2.3 Analysis of Risk Concentration

At portfolio level, risk arise from concentration of exposures to individual/group of borrowers, industry/sectors and geographical regions.

Country-Wise Exposure

The Bank maintains exposures outside Sri Lanka mainly due to its three branches in India, Maldives and Seychelles and the fully-owned Subsidiary operating in United Kingdom (UK). All overseas branches are operating with pre-set limits (credit limits as well as country limits) and are approved by the Board of Directors while the credits are managed through delegated authority where the higher levels of authority is retained within Head Office in Colombo.

UK subsidiary is operating under regulatory purview of UK Prudential Regulation Authority and by having the control over the decentralised credit decision through the Board of Directors appointed by the Bank. The key staff including Chief Executive Officer and Deputy Chief Executive Officer are the employees seconded from Bank of Ceylon. UK operations have established risk exposure levels as part of its risk management framework.

Exposures in other countries include placements with Bank's Nostro account balances with correspondent banks whose risks are managed through Board-approved bank limits and country limits.

31 December 2017	Sri Lanka	UK	Maldives	India	USA	Seychelles	Other Countries	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets								
Cash and cash equivalents	40,187,549	13,988,645	8,448,677	85,582	6,870,236	77,092	3,185,327	72,843,108
Balances with central banks	64,800,808	–	3,239,492	165,035	–	483,677	–	68,689,012
Placements with banks	4,399,061	3,037,776	–	630,653	–	–	–	8,067,490
Securities purchased under resale agreements	18,455,555	–	–	–	–	–	–	18,455,555
Derivative financial instruments	1,618,823	–	–	–	–	–	–	1,618,823
Financial instruments – Held for trading	8,359,274	–	–	–	–	–	–	8,359,274
Financial investments – Loans and receivables	206,448,353	–	6,718,695	–	–	–	–	213,167,048
Loans and advances to customers	1,133,450,152	–	21,525,646	6,967,240	–	1,217,876	–	1,163,160,914
Financial investments – Available for sale	16,442,300	–	–	1,478,870	–	–	–	17,921,170
Financial investments – Held to maturity	308,256,082	–	–	–	–	–	–	308,256,082
Total	1,802,417,957	17,026,421	39,932,510	9,327,380	6,870,236	1,778,645	3,185,327	1,880,538,476
Financial Liabilities								
Due to banks	1,583,334	–	–	619,865	–	–	–	2,203,199
Securities sold under repurchase agreements	44,487,462	–	–	–	–	–	–	44,487,462
Derivative financial instruments	70,715	–	–	–	–	–	–	70,715
Due to customers	1,510,562,066	–	30,301,978	4,368,004	–	1,599,988	–	1,546,832,036
Other borrowings	36,176,514	–	–	13,171	–	–	142,001,404	178,191,089
Debt Securities Issued	–	–	–	–	–	–	–	–
Subordinated term debts	42,570,457	–	–	–	–	–	–	42,570,457
Total	1,635,450,548	–	30,301,978	5,001,040	–	1,599,988	142,001,404	1,814,354,958

31 December 2016	Sri Lanka	UK	Maldives	India	USA	Seychelles	Other Countries	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets								
Cash and cash equivalents	38,436,122	13,156,378	3,912,193	89,880	10,908,334	94,560	1,108,324	67,705,791
Balances with central banks	50,700,556	–	4,900,518	516,838	–	269,829	–	56,387,741
Placements with banks	156,619	10,200,705	–	1,317,340	–	–	–	11,674,664
Securities purchased under resale agreements	1,901,618	–	–	–	–	–	–	1,901,618
Derivative financial instruments	5,300,844	–	–	–	–	–	–	5,300,844
Financial instruments – Held for trading	8,474,041	–	–	–	–	–	–	8,474,041
Financial investments – Loans and receivables	176,705,115	–	15,169,523	–	–	–	–	191,874,638
Loans and advances to customers	953,431,521	–	39,544,046	6,145,043	–	961,964	–	1,000,082,574
Financial investments – Available for sale	9,321,157	–	–	1,141,889	–	–	–	10,463,046
Financial investments – Held to maturity	243,178,400	–	–	–	–	–	–	243,178,400
Total	1,487,605,993	23,357,083	63,526,280	9,210,990	10,908,334	1,326,353	1,108,324	1,597,043,357
Financial Liabilities								
Due to banks	1,309,844	–	–	732,478	–	–	–	2,042,322
Securities sold under resale agreements	59,424,629	–	–	–	–	–	–	59,424,629
Derivative financial instruments	171,663	–	–	–	–	–	–	171,663
Due to customers	1,222,384,532	–	29,039,013	3,664,581	–	1,501,364	–	1,256,589,490
Other borrowings	2,615,588	–	–	276,903	–	–	192,577,362	195,469,853
Debt securities issued	3,427,058	–	–	–	–	–	–	3,427,058
Subordinated term debts	38,645,546	–	–	–	–	–	–	38,645,546
Total	1,327,978,860	–	29,039,013	4,673,962	–	1,501,364	192,577,362	1,555,770,561

Sector-Wise Exposure

31 December 2017	Agriculture and Fisheries LKR '000	Banking Finance and Insurance LKR '000	Hotels Travels and Services LKR '000	Housing, Construction and Infrastructure LKR '000	Manufacturing LKR '000
Financial Assets					
Cash and cash equivalents	–	12,429,737	–	–	–
Balances with central banks	–	–	–	–	–
Placements with banks	–	8,067,490	–	–	–
Securities purchased under resale agreements	–	–	–	–	–
Derivative financial instruments	–	1,618,823	–	–	–
Financial instruments – Held for trading	86,206	78,045	333,067	100,104	1,099,754
Financial investments – Loans and receivables	–	5,641,373	–	–	–
Loans and advances to customers*	91,074,381	31,480,730	53,637,678	262,592,679	70,781,133
Less: Impairment	–	–	–	–	–
Financial investments – Available for sale	–	8,243,627	–	–	–
Financial investments – Held to maturity	–	–	–	–	–
	91,160,587	67,559,825	53,970,745	262,692,783	71,880,887
31 December 2016	Agriculture and Fisheries LKR '000	Banking Finance and Insurance LKR '000	Hotels Travels and Services LKR '000	Housing, Construction and Infrastructure LKR '000	Manufacturing LKR '000
Financial Assets					
Cash and cash equivalents	–	14,492,569	–	–	–
Balances with central banks	–	–	–	–	–
Placements with banks	–	11,674,664	–	–	–
Securities purchased under resale agreements	–	–	–	–	–
Derivative financial instruments	–	5,300,844	–	–	–
Financial instruments – Held for trading	531,124	82,702	386,666	93,999	827,151
Financial investments – Loans and receivables	–	5,225,215	–	–	–
Loans and advances to customers*	93,122,279	35,577,036	38,962,287	220,818,815	64,745,001
Less: Impairment	–	–	–	–	–
Financial investments – Available for sale	–	8,401,252	–	–	–
Financial investments – Held to maturity	–	–	–	–	–
	93,653,403	80,754,282	39,348,953	220,912,814	65,572,152

* This excludes exposure to state-owned enterprises.

60.2.4 Commitments and Guarantees

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the Statement of Financial Position as on balance sheet asset, they do contain credit/default risk and are therefore part of the overall risk of the Bank.

The table below shows the Bank's maximum credit risk exposure for commitments and guarantees:

As at 31 December	Bank	
	2017 LKR '000	2016 LKR '000
Acceptances and documentary credit	147,887,385	133,108,741
Forward exchange contracts	39,125,183	78,538,947
Guarantees	83,593,855	88,636,554
	270,606,423	300,284,242

Commercial Trade LKR '000	Sovereign and Direct Government LKR '000	Transportation and Logistics LKR '000	Other Commercial Services LKR '000	Consumption and Others LKR '000	Total LKR '000
-	-	-	-	60,413,371	72,843,108
-	68,689,012	-	-	-	68,689,012
-	-	-	-	-	8,067,490
-	18,455,555	-	-	-	18,455,555
-	-	-	-	-	1,618,823
889,668	5,598,090	84,911	89,429	-	8,359,274
768,799	206,756,876	-	-	-	213,167,048
209,406,599	108,058,736*	89,891,385	31,716,190	271,274,970	1,219,914,481
-	-	-	-	-	(56,753,567)
-	8,198,673	-	-	1,478,870	17,921,170
-	308,256,082	-	-	-	308,256,082
211,065,066	724,013,024	89,976,296	31,805,619	333,167,211	1,880,538,476

Commercial Trade LKR '000	Sovereign and Direct Government LKR '000	Transportation and Logistics LKR '000	Other Commercial Services LKR '000	Consumption and Others LKR '000	Total LKR '000
-	-	-	-	53,213,222	67,705,791
-	56,387,741	-	-	-	56,387,741
-	-	-	-	-	11,674,664
-	1,901,618	-	-	-	1,901,618
-	-	-	-	-	5,300,844
972,381	5,375,587	11,274	193,157	-	8,474,041
965,457	185,683,966	-	-	-	191,874,638
180,657,875	101,138,871*	49,524,934	22,027,488	240,615,104	1,047,189,690
-	-	-	-	-	(47,107,116)
-	434,475	-	-	1,627,319	10,463,046
-	243,178,400	-	-	-	243,178,400
182,595,713	594,100,658	49,536,208	22,220,645	295,455,645	1,597,043,357

60.3 Liquidity Risk and Funding Management

ALCO being the main management committee for taking important decisions on managing liquidity and market risk, Bank's funding plan is reviewed regularly and remedial measures are proposed to rectify any material mismatches between assets and liabilities which might lead to a stressed liquidity situation.

Maturity Gap Analysis prepared by Treasury Division on a monthly basis is submitted to ALCO for decision-making purpose. Assets and liabilities of the Bank are positioned into pre defined time bands according to their residual term to maturity in Maturity Gap Analysis. Accordingly, assets and liability mismatches are monitored against the pre determined limits to mitigate liquidity risk of the Bank.

The table below presents the contractual undiscounted maturity of the Bank's financial liabilities as at 31 December 2017:

31 December 2017	On Demand LKR '000	Less than 3 Months LKR '000	3 to 12 Months LKR '000	1 to 5 Years LKR '000	Over 5 Years LKR '000	Total LKR '000
Due to banks	–	2,203,199	–	–	–	2,203,199
Securities sold under resale agreements	–	33,391,992	11,095,470	–	–	44,487,462
Derivative financial instruments	–	70,715	–	–	–	70,715
Due to customers	576,214,705	392,398,282	528,814,674	48,652,021	752,354	1,546,832,036
Other borrowings	–	91,247,400	77,835,383	8,262,972	845,334	178,191,089
Debt securities issued	–	–	–	–	–	–
Subordinated debentures	–	–	4,090,196	9,941,700	28,538,561	42,570,457
Total	576,214,705	519,311,588	621,835,723	66,856,693	30,136,249	1,814,354,958

31 December 2016	On Demand LKR '000	Less than 3 Months LKR '000	3 to 12 Months LKR '000	1 to 5 Years LKR '000	Over 5 Years LKR '000	Total LKR '000
Due to banks	–	2,042,322	–	–	–	2,042,322
Securities sold under resale agreements	–	43,420,086	61,985,387	17,307	–	105,422,780
Derivative financial instruments	–	171,663	–	–	–	171,663
Due to customers	544,978,039	286,365,143	390,777,612	61,946,504	3,178	1,284,070,476
Other borrowings	–	34,719,659	81,273,566	79,892,126	824,918	196,710,269
Debt securities issued	–	–	3,823,000	–	–	3,823,000
Subordinated debentures	–	–	9,584,647	8,595,013	9,455,669	27,635,329
Total	544,978,039	366,718,873	547,444,212	150,450,950	10,283,765	1,619,875,839

60.4 Market Risk

Market risk is the risk that the fair value of the future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, equity prices and commodity prices. The Bank classifies exposures into either trading or non-trading portfolios and manages each of these portfolios separately. The market risk for the foreign exchange and equity trading portfolios are managed and monitored based on a Value at Risk (VaR) methodology that reflects the interdependency between risk variables. Interest rate risk of the trading portfolio is managed through Price Value per Basis Point (PVBP) and duration analysis.

Non-trading portfolios are managed and monitored using sensitivity analysis and stress testing.

60.4.1 Currency Risk

Currency risk is the risk that the value of financial instruments will fluctuate due to the changes in foreign exchange rates. The Bank carries moderate level of open positions and therefore does not have significant sensitivity to profit and loss over foreign currency transactions. A detailed limit structure along with VaR limits prescribed by the IIRMD govern the foreign exchange risk derived from trading transactions. Currently, Bank uses Historical VaR methodology to monitor foreign exchange risk. Foreign Exchange VaR as at 31 December 2017 – LKR 21,066,977 and our risk appetite limit is LKR 160,000,000.

Foreign Exchange Position as at 31 December	2017		2016	
	Net Overall Long LKR '000	Net Overall Short LKR '000	Net Overall Long LKR '000	Net Overall Short LKR '000
Currency				
United States Dollar	877,195	–	82,924	–
Great Britain Pound		(3,974)	14	–
Euro	1,331	–	112	–
Japanese Yen	–	(5,263)	2	–
Australian Dollar	–	(582)	–	(1,123)
Canadian Dollar	–	(410)	–	(326)
Swiss Franc		(386)	489	–
Singapore Dollar	–	(930)	–	(1,052)
Hong Kong Dollar	–	(1,562)	(1,838)	–
Sub Total	878,526	(13,107)	11,745	(2,501)
Other Currencies	12,090	(3,489)	4,783	(647)
Grand total	890,616	(16,596)	2,376	(3,148)
Higher of long or short		(16,596)		(3,148)

Impact on Income Statement due to Exchange Rate Shocks

Exchange Rate Shocks (%)	2017		2016	
	Net Open Position (After Rate Shocks) LKR '000	Impact on Income Statement as at 31 December 2017 LKR '000	Net Open Position (After Rate Shocks) LKR '000	Impact on Income Statement as at 31 December 2016 LKR '000
5	(15,766)	830	(2,991)	157
10	(14,936)	1,660	(2,833)	315
-5	(17,426)	(830)	(3,305)	(157)
-10	(18,256)	(1,660)	(3,463)	(315)

60.4.2 Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rate will affect future cash flows or the fair value of the financial instruments.

PVBP and Duration analysis are monitored daily basis to assess the impact of interest rate changes on Bank's trading portfolios of Treasury Bonds and Bills.

Interest Rate Shocks	2017 LKR '000	2016 LKR '000
PVBP		
Investment in Treasury Bills	32,201	8,864
Investment in Treasury Bonds	58,835	25,308
Duration		
Investment in Treasury Bills	0.5 years	0.5 years
Investment in Treasury Bonds	1.0 years	2.5 Years

Sensitivity analysis of interest sensitive assets and liabilities is carried out to monitor interest rate risk in the banking book by placing those assets and liabilities in predetermined maturity buckets considering its residual time to maturity and setting and monitoring gap limits and the repricing profile.

2017	Up to 1 Month %	1-3 Months %	3-6 Months %	6-12 Months %	1-2 Years %	2-3 Years %	3-4 Years %	4-5 Years %	Over 5 Years %
Rate sensitive assets	9.1	17.1	6.3	22.2	9.3	9.3	5.0	5.0	16.7
Rate sensitive liabilities	8.8	15.1	16.8	18.2	4.5	4.5	4.0	4.0	24.2
GAP	0.3	2.0	-10.5	4.0	4.8	4.8	1.0	1.0	-7.5

2016	Up to 1 Month %	1-3 Months %	3-6 Months %	6-12 Months %	1-2 Years %	2-3 Years %	3-4 Years %	4-5 Years %	Over 5 Years %
Rate sensitive assets	8.6	13.8	9.5	13.8	15.1	15.1	3.6	3.6	16.9
Rate sensitive liabilities	8.1	11.7	8.4	25.1	7.4	7.4	4.5	4.5	23.0
GAP	-0.5	-2.1	-1.0	11.3	-7.7	-7.7	0.8	0.8	6.1

60.4.3 Equity Risk

Equity risk is the risk that the fair value of equity portfolio decreases due to a change in the level of equity indices and individual stocks. Equity risk is monitored by stipulating overall portfolio limits and use of VaR methodology. Risk appetite for equity VaR is LKR 315,000,000 for year 2017.

Equity VaR	2017 LKR '000	2016 LKR '000
Highest	263,051	151,146
Lowest	87,841	117,168
Average	144,906	134,170
31 December	89,852	131,409

60.5 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes legal risk, but excludes strategic risk and reputation risk.

The Bank recognises the significance of operational risk, which is inherent in all areas of business. The Bank seeks to minimise exposure to operational risk, through implementing improved management and control mechanisms.

Bank uses Basic Indicator Approach (BIA) to allocate capital for operational risk. Even though the capital allocated for operational risk was significant, the actual operational loss was far below the allocated capital.

60.6 Capital Management

The primary objective of Capital Management is to ensure maintenance of minimum regulatory capital requirement. The Bank ensures that adequate capital has been allocated to achieve strategic objectives and within the Risk Appetite of the Bank.

60.6.1 Capital Adequacy

Capital Adequacy Ratio (CAR) is a measure of the Bank's capital expressed as a percentage of risk-weighted assets of credit, market and operational aspects of the banking business. It is a measure of financial strength of the Bank which indicates its ability to maintain adequate capital to face with unforeseen scenarios.

Central Bank of Sri Lanka (CBSL) defines and monitors CAR to ensure that banks are not participating or holding investments that increase the risk of default and they have enough capital to sustain operating losses and thereby maintaining confidence in the banking system.

The Bank calculates CAR based on International Convergence of Capital Measurement and Capital Standards, Revised framework. IIRMD actively and continuously monitor the CAR, while stressing rigorously for worst possible scenarios. ICAAP factors out all possible risks such as reputation risk, strategic risk, compliance risk, concentration risk, and interest rate risk on banking book.