1. Reporting Entity

1.1 Corporate Information

Commercial Bank of Ceylon PLC (the 'Bank') is a public limited liability company listed on the Colombo Stock Exchange, incorporated on June 25, 1969, (and domiciled) in Sri Lanka. It is a licensed commercial bank regulated under the Banking Act No. 30 of 1988 and amendments thereto. The Bank was re-registered under the Companies Act No. 07 of 2007. The registered office of the Bank is situated at 'Commercial House', No. 21, Sir Razik Fareed Mawatha, Colombo 01, Sri Lanka. The ordinary shares of the Bank have a primary listing on the Colombo Stock Exchange. For further information please refer page 468.

The staff strength of the Bank as at December 31, 2012 was 4,602 (4,524 as at December 31, 2011).

1.2 Consolidated Financial Statements

The Consolidated Financial Statements of the Bank as at and for the year ended December 31, 2012, comprise the Bank (Parent Company) and its Subsidiaries (together referred to as the 'Group' and individually as 'Group entities'), and the Group's interest in its Associates.

The Bank does not have an identifiable Parent of its own.

1.3 Principal Activities and Nature of Operations of the Bank and its Subsidiaries and Associates

Entity	Principal Business Activities
Bank	The Bank provides a comprehensive range of financial services encompassing accepting deposits, personal banking, trade financing, off-shore banking, resident and non-resident foreign currency operations, travel-related services, corporate and retail credit, syndicated financing, project financing, development banking, lease financing, rural credit, issuing of local and international debit and credit cards, tele-banking facilities, internet banking, money remittance facilities, dealing in Government Securities and treasury-related products, salary remittance package, bullion trading, export and domestic factoring, pawning, margin trading, e-Banking services, Bancassurance and Islamic banking products and services, etc.
Subsidiaries	
Commercial Development Company PLC.	Property development & related ancillary services and outsourcing of staff for non-critical functions of the Bank.
ONEzero Company Ltd.	Providing IT-related services.
Commex Sri Lanka S.R.L.	Acting as an agent to the Bank and providing money transfer services, opening accounts, issuance and encashment of foreign currencies and travellers' cheques and collecting applications for credit facilities. The commercial operations of this company are yet to be commenced.
Associates	
Equity Investments Lanka Ltd.	Fund management.
Commercial Insurance Brokers (Pvt) Ltd.	Insurance brokering.

There were no significant changes in the nature of the principal business activities of the Bank and the Group during the financial year under review.

2. Basis of Preparation

2.1 Statement of Compliance

The Consolidated Financial Statements of the Group and the separate Financial Statements of the Bank, have been prepared and presented in accordance with the Sri Lanka Accounting Standards laid down by The Institute of Chartered Accountant of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007 and the Banking Act No. 30 of 1988 and amendments thereto, provide appropriate disclosures as required by the Listing Rules of the Colombo Stock Exchange. These Sri Lanka Accounting Standards are available at *www.casrilanka.com.*

For all periods up to and including the year ended December 31, 2011, the Group and the Bank prepared their Financial Statements in accordance with Sri Lanka Accounting Standards which were in effect up to that date. Following the convergence of Sri Lanka Accounting Standards with the International Financial Reporting Standards (IFRSs), all existing/new Sri Lanka Accounting Standards were prefixed as SLFRS and LKAS (referred to as 'SLFRS' in these Financial Statements) to represent Sri Lanka Accounting Standards corresponding to International Financial Reporting Standards and Sri Lanka Accounting Standards corresponding to International Accounting Standards (IASs), respectively. Accordingly, the Group and the Bank adopted these new Sri Lanka Accounting Standards (which are commonly known as SLFRSs) applicable for financial periods commencing from January 1, 2012.

These Financial Statements for the year ended December 31, 2012 are the first the Group and the Bank prepared in accordance with SLFRS and Sri Lanka Accounting Standard – SLFRS 1 on 'First-time Adoption of Sri Lanka Accounting Standards' has been applied.

An explanation of how the transition to SLFRSs has affected the reported financial position, financial performance and cash flows of the Group and the Bank is provided in Note 59 on pages 418 to 431.

The Group and the Bank did not adopt any inappropriate accounting treatments which are not complying with the requirements of the SLFRSs and other laws and regulations governing the preparation and presentation of Financial Statements.

The formats used in the preparation of the Financial Statements and disclosures made comply with the specified format prescribed by the Central Bank of Sri Lanka for the preparation of Annual Statement of Licensed Commercial Banks.

2.2 Responsibility for Financial Statements

The Board of Directors is responsible for the preparation and presentation of the Financial Statements of the Group and the Bank as per the provisions of the Companies Act No. 07 of 2007 and the new Sri Lanka Accounting Standards.

The Board of Directors acknowledges their responsibility as set out in the 'Annual Report of the Board of Directors', 'Statement of Directors' Responsibility' and in the statement following the Statement of Financial Position on pages 218, 297 and 309 respectively.

These Financial Statements include the following components:

- a Statement of Comprehensive Income providing the information on the financial performance of the Group and the Bank for the year under review (Refer page 306);
- a Statement of Financial Position providing the information on the financial position of the Group and the Bank as at the year-end (Refer page 308);
- a Statement of Changes in Equity depicting all changes in shareholders' funds during the year under review of the Group and the Bank (Refer pages 310 to 313);
- a Statement of Cash Flows providing the information to the users, on the ability of the Group and the Bank to generate cash and cash equivalents and the needs of entities to utilise those cash flows (Refer pages 314 and 315); and
- Notes to the Financial Statements comprising Accounting Policies and other explanatory information (Refer pages 316 to 437).

2.3 Approval of Financial Statements by the Board of Directors

The Financial Statements of the Group and the Bank for the year ended December 31, 2012 (including comparatives) were approved and authorised for issue by the Board of Directors on February 27, 2013.

2.4 Bases of Measurement

The Financial Statements of the Group and the Bank have been prepared on the historical cost basis except for the following material items in the Statement of Financial Position:

Item and basis of measurement	Note No./s	Page reference
Held for trading investments in quoted equity instruments are measured at fair value;	24	353
Liability for defined benefit obligations is recognised as the present value of the defined benefit obligation less the net total of the plan assets, plus unrecognised actuarial gains, less unrecognised past service cost and unrecognised actuarial losses	40	392
Available-for-sale financial assets are measured at fair value	27	371
Land & Buildings which are stated at valuation	30	380

2.5 Functional and Presentation Currency

Items included in the Financial Statements of the Group and the Bank are measured using the currency of the primary economic environment in which the Bank operates (the Functional Currency). These Financial Statements are presented in Sri Lankan Rupees, the Group's Functional and Presentation Currency. Each entity in the Group determines its own functional currency and items included in the Financial Statements of these entities are measured using that Functional Currency. There was no change in the Group's Presentation and Functional Currency during the year under review.

The information presented in US Dollars in the Section on 'Stewardship' on pages 286 and 287 does not form part of the Financial Statements and is solely for the information of stakeholders.

2.6 Presentation of Financial Statements

The assets and liabilities of the Bank presented in its Statement of Financial Position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. No adjustments have been made for inflationary factors affecting the Financial Statements. An analysis on recovery or settlement within 12 months after the Reporting date and more than 12 months after the Reporting date is presented in Note 50 on pages 403 to 407.

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the consolidated Statement of Comprehensive Income unless required or permitted by an Accounting Standard or interpretation, and as specifically disclosed in the Accounting Policies of the Bank.

2.7 Materiality and Aggregation

Each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standard-LKAS 1 on 'Presentation of Financial Statements'.

2.8 Rounding

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

2.9 Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Financial Statements of the Group and the Bank in conformity with SLFRSs requires management to make judgments, estimates and assumptions that affect the application of Accounting Policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The most significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have most significant effect on the amounts recognised in the Financial Statements of the Group and Bank are as follows:

2.9.1 Going Concern

The management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, 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 a going concern basis.

2.9.2 Fair Value of Financial Instruments

The determination of fair values of financial assets and financial liabilities recorded on the Statement of Financial Position for which there is no observable market price are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgment is required to establish their fair values. The valuation of financial instruments is described in more detail in Note 3.3.9 on page 328.

The Bank measures fair value using the fair value hierarchy that reflects the significance of input used in making measurements, as described in Note 3.3.9 on page 328.

2.9.3 Financial Assets and Liability Classification

The Bank's accounting policies provide scope for assets and liabilities to be designated at inception into different accounting categories in certain circumstances

- In classifying financial assets or liabilities as 'Trading', the Bank has determined that it meets the description of trading assets and liabilities set out in Note 3.3.9 on pages 328 and 329.
- In designating financial assets or liabilities at fair value through profit or loss, the Bank has determined that it has met the criteria for this designation set out in Note 3.3.3.1 on page 324. In classifying financial assets as held to maturity, the Bank has determined that it has both the positive intention and ability to hold the assets unit their maturity date as required by Note 3.3.3.4 on page 325.

2.9.4 Impairment Losses on Loans and Advances

The Bank reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be provided for in the Statement of Comprehensive Income. In particular, management's judgment 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 made.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, by categorising them into groups of assets with similar risk characteristics, to determine whether a provision should be made due to 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 to collateral ratio, level of restructured performing loans, etc.), and judgment on the effect of concentrations of risks and economic data (including policy rates, inflation, growth in GDP, sovereign rating, etc).

The impairment loss on loans and advances is disclosed in more detail in Note 26.2 on page 365.

2.9.5 Impairment Losses on Available for Sale Investments

The Bank reviews its debt securities classified as available for sale investments at each Reporting date to assess whether they are impaired. This requires similar judgments as applied to the individual assessment of loans and advances.

The Bank also records impairment charges on available for sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

The impairment loss on available for sale investments is disclosed in Note 27 on page 371.

2.9.6 Impairment Losses on Other Assets

The Group assesses whether there are any indicators of impairment for an asset or a cash-generating unit at each Reporting date or more frequently, if events or changes in circumstances necessitate to do so. This requires the estimation of the 'value in use' of such individual assets or the cash-generating units. Estimating value in use requires management to make an estimate of the expected future cash flows from the asset or the cash-generating unit and also to select a suitable discount rate in order to calculate the present value of the relevant cash flows. This valuation requires the Group to make estimates about expected future cash flows and discount rates, and hence, they are subject to uncertainty.

Specific Accounting Policies on impairment of assets are discussed in Note 3.3.10 on page 328.

2.9.7 Deferred Tax Assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies (Refer Note 5.2 on page 340).

2.9.8 Defined Benefit Obligation

The cost of the defined benefit plans is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. Refer Note 51 on page 407 for the assumptions used.

2.9.9 Provisions for Liabilities and Contingencies

The Group receives legal claims against it in the normal course of business. Management has made judgments as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depend on the due process in respective legal jurisdictions.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies other than those stated above that have significant effects on the amounts recognised in the Consolidated Financial Statements are described in Notes 3.14 and 3.15 on page 337.

2.10 Events after the Reporting Period

Events after the reporting period are those events, favourable and unfavourable, that occur between the Reporting date and the date when the Financial Statements are authorised for issue.

In this regard, all material and important events that occurred after the Reporting Period have been considered and appropriate disclosures are made in Note 54 on page 416 where necessary.

Significant Accounting Policies

The Accounting Policies set out below have been applied consistently to all periods presented in the Financial Statements of the Group and the Bank and in preparing the opening SLFRS Statement of Financial Position at January 1, 2011 for the purposes of the transition to SLFRSs, unless otherwise indicated.

These Accounting Policies have been applied consistently by Group entities.

3. Significant Accounting Policies - Statement of Financial Position

3.1 Basis of Consolidation

The Bank's Financial Statements comprise the amalgamation of the Financial Statements of the Domestic Banking Unit, the Off-Shore Banking Centre and the international operations of the Bank. The Group's Financial Statements comprise consolidation of the Financial Statements of the Bank, its Subsidiaries in terms of the Sri Lanka Accounting Standard - LKAS 27 on '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 on 'Investments in Associates'.

3.1.1 Business combinations and goodwill

Acquisitions on or after January 1, 2010

For acquisitions on or after January 1, 2010, the Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any Non-Controlling Interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date in terms of the Sri Lanka Accounting Standard - SLFRS 3 on 'Business Combinations'.

The Group elects on a transaction-by-transaction basis whether to measure non-controlling interest 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.

The Sri Lanka Accounting Standard - SLFRS 3 on 'Business Combinations' requires that following the initial recognition, goodwill is to be measured at cost, less any accumulated impairment losses and goodwill to be reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

However, acquired goodwill, if any, is written-off in full in the year of acquisition, since the Bank is not permitted to pay dividends otherwise, as per the Section 22 of the Banking Act No. 30 of 1988.

When the excess is negative, a gain from a bargain purchase (formerly known as discount on acquisition) is recognised immediately in profit or loss.

When Subsidiaries/Associates/Other Business Units are disposed off, the difference between the proceeds on disposal and the net assets plus cumulative translation differences which have been directly recognised in equity and unimpaired goodwill, if any, is recognised in the Statement of Comprehensive Income in the year of disposal.

Acquisitions prior to January 1, 2010

As part of its transition to SLFRSs, the Group elected to restate only those business combinations that occurred on or after January 1, 2010. In respect of acquisitions prior to January 1, 2010, goodwill represents the amount recognised under the Group's previous accounting framework (i.e.; Sri Lanka Accounting Standards (SLASs) that were in force up to December 31, 2010).

No goodwill/ gain from a bargain purchase arose from the treatment of Associates under the Equity Method since the Group had the respective percentages of ownership in Associates from the commencement of those Associates.

3.1.2 Subsidiaries

Subsidiaries are entities controlled by the Group. The Financial Statements of Subsidiaries are fully consolidated from the date on which control is transferred to the Bank and continue to be consolidated until the date when such control ceases. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Non-controlling Interests represent the portion of profit or loss and net assets of Subsidiaries not owned, directly or indirectly, by the Bank.

Non-controlling interests are presented separately in the Consolidated Statement of Comprehensive Income and within equity in the Consolidated Statement of Financial Position, but separate from Parent shareholders' equity. Any losses applicable to the Non-Controlling Interests are allocated against the interests of the Non-Controlling Interest even if this results in a deficit balance. Acquisitions of Non-Controlling Interests are accounted for using the Parent entity extension method, whereby the difference between the consideration and the fair value of the share of the net assets acquired is recognised as equity. Therefore, no goodwill recognised as a result of such transactions.

The Financial Statements of the Bank's Subsidiaries are prepared for the same reporting year, using consistent accounting policies.

The Financial Statements of all subsidiaries in the Group have a common financial year which ends on December 31.

All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transaction, income and expenses are eliminated in full.

There are no significant restrictions on the ability of Subsidiaries to transfer funds to the Parent (Bank) in the form of cash dividend or repayment of loans and advances.

All Subsidiaries of the Bank have been incorporated in Sri Lanka except Commex Sri Lanka S.R.L. which was incorporated in Italy.

A listing of the Bank's Subsidiaries together with contingencies of Subsidiaries is set out in Notes 28 and 48.3 (a) to the Financial Statements on pages 376 and 402.

The Bank's interests in all its Subsidiaries together with the summarised financial information including total assets, total liabilities, revenue, profit or loss and the dividend are given in the Section on 'Group Structure' on page 459.

3.1.3 Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

Investments in associates are accounted for using the equity method (equity accounted investees) and are recognised initially at cost, in terms of Sri Lanka Accounting Standards - LKAS 28 on 'Investments in Associates'. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The Consolidated Financial Statements include the Group's share of the income and expenses and equity movements of equity-accounted investees, 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. Accordingly, under the Equity Method, investments in Associates are carried at cost plus post-acquisition changes in the Group's share of net assets of the Associates and are reported as a separate line item in the Statement of Financial Position. The Statement of Comprehensive Income reflects the Group's share of current year's profit or loss of the Associates.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to 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 equal the share of losses not recognised previously.

The Group discontinues the use of the Equity Method from the date that it ceases to have significant influence over an Associate and accounts for such investments in accordance with the Sri Lanka Accounting Standard - LKAS 39 on 'Financial Instruments: Recognition and Measurement'.

Where there has been a change recognised directly in the equity of the Associate, the Bank recognises its share of any such changes and discloses this, when applicable, in the Consolidated Statement of Changes in Equity.

Profits and losses resulting from transactions between the Bank and the Associates are eliminated to the extent of the interest in such Associate.

The Financial Statements of all associates in the Group have a common financial year which ends on December 31.

There are no significant restrictions on the ability of the Associates to transfer funds to the Parent (the Bank) in the form of cash dividend or repayment of loans and advances.

A listing of the Group's Associates together with their fair values and the Group's share of contingent liabilities of such Associates are set out in Notes 29 and 48.3 (b) to the Financial Statements on pages 378 and 402.

Summarised financial information of all Associates of the Bank together with the Bank's interests is given in the Section on 'Group Structure' on page 459.

3.1.4 Loss of Control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any Non-Controlling Interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in 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 (see Accounting Policy 3.1.3 above) depending on the level of influence retained.

3.1.5 Transactions Eliminated on Consolidations

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the Consolidated Financial Statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.1.6 Material Gains or Losses, Provisional Values or Error Corrections

There were no material gains or losses, provisional values or error corrections recognised during the year in respect of the business combinations that took place in previous periods.

3.2 Foreign Currency

3.2.1 Foreign Currency Translations

The Group's Consolidated Financial Statements are presented in Sri Lankan Rupees, which is also the Bank's functional currency. Each entity in the Group determines its own functional currency and items included in the Financial Statements of each entity are measured using that functional currency. The Group has elected to recycle the gain or loss that arises from the direct method of consolidation, which is the method the Group uses to complete its consolidation. The Financial Statements of the Off-Shore Banking Unit of the Bank and the Financial Statements of the Foreign Operation of the Bank have been translated into the Group's Presentation Currency as explained under Notes 3.2.2 and 3.2.3 below:

3.2.2 Foreign Currency Transactions and Balances

Foreign currency transactions are translated into the Functional Currency, which is Sri Lankan Rupees, using the exchange rates prevailing at the dates of the transactions. In this regard, the Bank's practice is to use the middle rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the Reporting date are retranslated to the Functional Currency at the middle exchange rate of the Functional Currency Ruling at the Reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the Functional Currency at the beginning of the year adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the Functional Currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognised in Other Comprehensive Income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and are translated at the exchange rates ruling at the Reporting date.

3.2.3 Transactions of the Off-Shore Banking Centre

These have been recorded in accordance with Note 3.2.1 above, except the application of the annual weighted average exchange rate for translation of the Statement of Comprehensive Income. Net gains and losses are dealt through the Statement of Comprehensive Income.

3.2.4 Foreign Operations

The results and financial position of overseas branch operations that have a Functional Currency different from the Bank's Presentation Currency are translated into the Bank's Presentation Currency as follows:

- Assets and liabilities are translated at the rates of exchange ruling at the Reporting date.
- Income and expenses are translated at the average exchange rate for the period, unless this average rate is not a reasonable approximation of the rate prevailing at the transaction date, in which case income and expenses are translated at the exchange rate ruling at the transaction date.
- All resulting exchange differences are recognised in the Foreign Currency Translation Reserve, which is a separate component of Equity.

When a foreign operation is disposed off, the deferred cumulative translation gain or loss recognised in Equity relating to that particular foreign operation is recognised in the Statement of Comprehensive Income as part of the gain or loss on disposal.

Goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and are translated at the exchange rates ruling at the Reporting date.

3.3 Financial Instruments - Initial Recognition, Classification and Subsequent Measurement

3.3.1 Date of Recognition

All financial assets and liabilities except 'Regular way trades' are initially recognised on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. Regular way trades 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. Those trades are initially recognised on the settlement date.

3.3.2 Initial Measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. Please refer 3.3.3 and 3.3.4 below for further details on classification of Financial Instruments.

All financial instruments are measured initially at their fair value plus transaction costs that are directly attributable to acquisition or issue of such financial instrument, except in the case of financial assets and financial liabilities at fair value through profit or loss as per the Sri Lanka Accounting Standard - LKAS 39 on 'Financial Instruments: Recognition and Measurement'.

Transaction cost in relation to financial assets and financial liabilities at fair value through profit or loss are dealt with through the Statement of Comprehensive Income.

3.3.2.1 'Day 1' profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in 'Interest Income and Personnel Expenses'. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the Statement of Comprehensive Income when the inputs become observable, or when the instrument is derecognised. The 'Day 1 loss' arising in the case of loans granted to employees at concessionary rates under uniformly applicable schemes is deferred and amortised using Effective Interest Rates (EIR) over the remaining service period of the employees or tenure of the loan whichever is shorter.

3.3.3 Classification and Subsequent Measurement of Financial Assets

At inception a financial asset is classified into one of the following categories:

- At fair value through profit or loss:
  - Held for trading; or
  - Designated at fair value through profit or loss.
  - Available-for-sale.
- Loans and receivables;
- Held to maturity; or

The subsequent measurement of financial assets depends on their classification.

Please refer accounting policies 3.3.3.1.1, 3.3.3.1.2 and 3.3.3.1.3 on pages 324 and 325.

3.3.3.1 Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss which are discussed in 3.3.3.1.1 and 3.3.3.1.2 below.

3.3.3.1.1 Financial Assets Held for Trading

Financial assets are classified as held for trading if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short-term profit or position taking. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by the Sri Lanka Accounting Standard - LKAS 39 on 'Financial Instruments: Recognition and Measurement'.

Financial assets held for trading are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognised in profit or loss. Interest and dividend income is recorded in 'Net trading income' according to the terms of the contract, or when the right to receive the payment has been established.

The Group evaluates its financial assets held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances.

Financial assets held for trading include instruments such as Government and other debt securities and equity instrument that have been acquired principally for the purpose of selling or repurchasing in the near term and derivatives, including separated embedded derivatives explained below unless they are designated as effective hedging instruments.

Details of Financial assets held for trading are given in Note 24 on page 353 and on the face of the Statement of Financial Position.

Derivatives Recorded at Fair Value through Profit or Loss
The Bank uses derivatives such as interest rate swaps, foreign currency swaps and forward foreign exchange contracts, etc. 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. Changes in the fair value of derivatives are included in 'Net trading income'.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in the Statement of Comprehensive Income.

Details of derivatives recorded at fair value through profit or loss are given in Notes 23 and 36 on pages 353 and 391.

3.3.3.1.2 Financial Assets Designated at Fair Value through Profit or Loss

The Group designates financial assets at fair value through profit or loss in the following circumstances:

- the assets are managed, evaluated and reported internally at fair value;
- the designation eliminates or significantly reduces an accounting mismatch, which would otherwise have arisen; or
- the asset contains an embedded derivative that significantly modifies the cash flows that would otherwise have been required under the contract.

Financial assets designated at fair value through profit or loss are recorded in the Statement of Financial Position at fair value. Changes in fair value are recorded in 'Net gain or loss on financial assets and liabilities designated at fair value through profit or loss'. Interest earned is accrued in 'Interest Income', using the EIR, while dividend income is recorded in 'other operating income' when the right to the payment has been established.

The Group has not designated any financial assets upon initial recognition as at fair value through profit or loss.

3.3.3.2 Loans and Receivables to Banks and Other Customers

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

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

'Loans and receivable to banks and other customers' include Loans & Advances, Bills of Exchange and Lease Receivable of the Group.

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease. Amounts receivable under finance leases net of initial rentals received, unearned lease income and provision for impairment are classified as Lease receivable and are presented within 'loans and receivables to customers' in the Statement of Financial Position.

After initial measurement, 'loans and receivables to banks and other customers' are subsequently measured at amortised cost using the EIR, less allowance for impairment except when the Group recognises loans and receivables at fair value through profit or loss. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest Income' in the Statement of Comprehensive Income. The losses arising from impairment are recognised in the Statement of Comprehensive Income in 'Impairment charges for loans and other losses'.

The Bank may enter into certain lending commitments where the loan, on draw down, is expected to be classified as Held for Trading because the intent is to sell the loans in the short term. These commitments to lend, if any are recorded as derivatives and measured at fair value through profit or loss. Where the loan, on drawdown, is expected to be retained by the Bank, and not sold in the short term, the commitment is recorded only when it is an onerous contract that is likely to give rise to a loss.

Details of 'loans and receivables to banks and other customers' are given in Notes 25 and 26 on pages 362 and 363 respectively.

3.3.3.3 Other Financial Investments Classified as Loans and Receivables

'Other financial investments classified as loans and receivables' include unquoted debt instruments. After initial measurement, these are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest Income' in the Statement of Comprehensive Income . The losses arising from impairment are recognised in the Statement of Comprehensive Income in 'impairment charges for loans and other losses'.

Details of 'Other Financial Investments Classified as Loans and Receivables' are given in Note 26 on page 363.

3.3.3.4 Held to Maturity Financial Investments

Held to Maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Group has the intention and ability to hold to maturity. After initial measurement, held to maturity financial investments are subsequently measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'Interest Income' in the Statement of Comprehensive Income. The losses arising from impairment of such investments are recognised in the Statement of Comprehensive Income in 'impairment charges for loans and other losses'.

If the Group were to sell or reclassify more than an insignificant amount of Held to Maturity investments before maturity (other than in certain specific circumstances permitted in the Sri Lanka Accounting Standard - LKAS 39 on 'Financial Instruments: Recognition and Measurement'), the entire category would be tainted and would have to be reclassified as Available for Sale. Furthermore, the Group would be prohibited from classifying any financial asset as Held to Maturity during the following two years.

The Group has not designated any financial instrument as Held to Maturity financial investment.

3.3.3.5 Available for Sale Financial Investments

Available-for-sale investments include equity and debt securities. Equity investments classified as Available-for-Sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are 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 available-for-sale.

After initial measurement, available for sale financial investments are subsequently measured at fair value.

Unrealised gains and losses are recognised directly in Equity through Other Comprehensive Income in the 'available-for-sale reserve'. When the investment is disposed of, the cumulative gain or loss previously recognised in Equity is recognised in the Statement of Comprehensive Income in 'Other operating income'. Where the Group holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding Available-for-Sale financial investments is reported as 'Interest Income' using the EIR. Dividends earned whilst holding Available-for-Sale financial investments are recognised in the Statement of Comprehensive Income as 'Other operating income' when the right to receive the payment has been established. The losses arising from impairment of such investments are recognised in the Statement of Comprehensive Income in 'Impairment losses on financial investments' and removed from the 'Available for Sale reserve'.

Details of Available-for-Sale financial investments are given in Note 27 on page 371.

3.3.3.6 Cash and cash equivalents

Cash and Short-term funds include cash in hand, placements with banks and loans at call and at short notice that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. They are brought to Financial Statements at their face values or the gross values, where appropriate. There were no cash and cash equivalents held by the Group companies that were not available for use by the Group.

Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

Details of cash and cash equivalents are given in Note 20 to the Financial Statements on page 351.

3.3.3.7 Balances with Central Banks

The Monetary Law Act requires that all commercial banks operating in Sri Lanka to maintain a statutory reserve equal to 8% on all deposit liabilities denominated in Sri Lankan Rupees (8% in 2011). The Bank's Bangladesh operation is required to maintain the statutory liquidity requirement of 19% (19% in 2011) on time and demand liabilities (both local and foreign currencies), inclusive of 6% (6% in 2011) in the form of a Cash Reserve Requirement and the balance 13% (13% in 2011) by way of foreign currency and/or in the form of unencumbered securities held with the Bangladesh Bank.

Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

Details of the balances with Central Banks are given in Note 21 to the Financial Statements on page 352.

3.3.4 Classification and Subsequent Measurement of Financial Liabilities

At inception a financial liability is classified into one of the following categories:

- At fair value through profit or loss or
    - Held for trading; or
    - Designated at fair value through profit or loss.
- At amortised cost

The subsequent measurement of financial liabilities depends on their classification.

Please refer accounting policies 3.3.4.1 and 3.3.4.2 on page 326.

3.3.4.1 Financial Liabilities at Fair Value through Profit or Loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short-term profit or position taking. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by the Sri Lanka Accounting Standard - LKAS 39 on 'Financial Instruments: Recognition and Measurement'. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the Statement of Comprehensive Income.

The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

3.3.4.2 Financial Liabilities at Amortised Cost

Financial instruments issued by the Bank that are not designated at fair value through profit or loss, are classified as liabilities under 'Due to Banks', 'Debt Securities Issued' or 'Subordinated Term Debts' as appropriate, where the substance of the contractual arrangement results in the Bank 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.

After initial recognition, such financial liabilities are subsequently measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in 'Interest Expenses' in the Statement of Comprehensive Income. Gains and losses are recognised in the Statement of Comprehensive Income when the liabilities are derecognised as well as through the EIR amortisation process.

The details of the Bank's Financial liabilities at amortised cost is disclosed in Notes 35 and 42 on pages 390 and 393.

3.3.5 Reclassification of Financial Instruments

The Bank 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 Standards - LKAS 39 on 'Financial Instruments: Recognition and Measurement'. Further, in certain circumstances, the Bank is permitted to reclassify financial instruments out of the 'available-for-sale' category and into the 'loans and receivables' category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

For a financial asset with a fixed maturity reclassified out of the 'available-for-sale' category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. In the case of a financial asset does not have a fixed maturity, the gain or loss is recognised in the profit or loss when such financial asset is sold or disposed of. If the financial asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to the Statement of Comprehensive Income.

The Bank 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.

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

The Bank does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition. Further, the Bank 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.

3.3.6 Derecognition of Financial Assets and Financial Liabilities

3.3.6.1 Financial Assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
  - The Bank has transferred substantially all the risks and rewards of the asset; or
  - The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and 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 profit or loss.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

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

3.3.6.2 Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

3.3.7 Reverse Repurchase Agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the Statement of Financial Position as the Bank retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the Consolidated Statement of Financial Position as an asset with a corresponding obligation to return it, including accrued interest as a liability under 'securities sold under repurchase agreements', reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR. When the counterparty has the right to sell or repledge the securities, the Bank reclassifies those securities in its Statement of Financial Position to 'financial assets held for trading pledged as collateral' or to 'financial investments available for sale pledged as collateral', as appropriate.

3.3.8 Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the Consolidated Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Income and expenses are presented on a net basis only when permitted under SLFRSs, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

3.3.9 Determination of Fair Value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

Fair Value Measurement Hierarchy

Level 1

When available, the Group measures the fair value of an instrument using active quoted prices or dealer price quotations (assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price), without any deduction for transaction costs. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

Level 2

If a market for a financial instrument is not active, then the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses, credit models, option pricing models and other relevant valuation models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

Level 3

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined by using valuation models that have been tested against prices or inputs to actual market transactions and also using the Bank's best estimate of the most appropriate model assumptions. Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, credit and debit valuation adjustments, liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded ('Day 1' profit or loss) is deferred and recognised only when the inputs become observable or on derecognition of the instrument (See Note 3.3.2.1 on page 323).

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 3.3 on page 323.

3.3.10 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 not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Objective evidence that financial assets (including equity securities) are impaired can include:

- significant financial difficulty of the borrower or issuer,
- reschedulement of credit facilities,
- default or delinquency by a borrower,
- restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider,
- indications that a borrower or issuer will enter bankruptcy,
- the disappearance of an active market for a security, or
- other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

3.3.10.1 Impairment of Financial Assets carried at Amortised Cost

For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers as well as held to maturity investments, if any), the Bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of impairment loss is recognised in the Statement of Comprehensive Income. Interest income continues to be accrued on the reduced carrying amount/impaired balance 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'.

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 Bank. 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 allowance account. If a future write-off is later recovered, the recovery is credited to the 'credit loss expense'.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. If the Bank has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new EIR determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year-to-year (such as changes in policy rates, inflation, growth in GDP, sovereign rating, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Details of impairment losses on financial assets carried at amortised cost and an analysis of the impairment allowance on loans and advances by class are given in Note 12 on page 343.

Impairment of Rescheduled Loans and Advances

Where possible, the Bank seeks to reschedule loans and advances rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. In case of individually significant rescheduled credit facilities, once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan/advance is no longer considered past due. Management continually reviews renegotiated loans and advances to ensure that all criteria are met and that future payments are likely to occur.

Collateral Valuation

The Bank 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, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Bank's annual reporting schedule.

To the extent possible, the Bank uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as professional valuers, Audited Financial Statements, and other independent sources.

Collateral Repossessed

The Bank's policy is to carry collaterals repossessed at fair value at the repossession date and such assets will be disposed at the earliest possible opportunity. These assets are recorded under assets held for sale as per the Sri Lanka Accounting Standard - SLFRS 5 on 'Non-Current Assets Held for Sale and Discontinued Operations'.

3.3.10.2 Impairment of Financial Investments - Available for Sale

For available for sale financial investments, the Bank assesses at each Reporting date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available-for-sale, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the Statement of Comprehensive Income. Future interest income is based on the reduced carrying amount/impaired balance 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 on such assets too is recorded within 'Interest income'. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the Statement of Comprehensive Income, the impairment loss is reversed through the Statement of Comprehensive Income.

In the case of equity investments classified as available for sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the Statement of Comprehensive Income is removed from equity and recognised in the Statement of Comprehensive Income. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in Other Comprehensive Income.

The Group writes-off certain Financial Investment - Available-for-Sale when they are determined to be uncollectible.

3.4 Non-Current Assets Held-for-Sale and Disposal Groups

These are Non-current Assets and disposal groups classified as held-for-sale as at the Reporting date. The Bank intends to recover the value of these assets principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition, management has committed to the sale, and the sale is expected to have been completed within one year from the date of classification.

As per the Sri Lanka Accounting Standard - SLFRS 5 on 'Non-current Assets held for Sale and Discontinued Operations', these assets are measured at the lower of the carrying amount and fair value, less costs to sell. Thereafter, the Bank assesses at each Reporting date or more frequently if events or changes in circumstances indicate that the investment or a group of investment is impaired. The Bank recognises an impairment loss for any initial or subsequent write down of the assets to fair value less costs to sell and also recognises a gain for any subsequent increase in fair value less costs to sell of an asset, only to the extent of the cumulative impairment losses that have been recognised previously. As a result, once classified, the Bank neither amortise nor depreciate the assets classified as held for sale.

In the Consolidated Statement of Comprehensive Income of the Reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Bank retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the Statement of Comprehensive Income.

3.5 Leasing

The determination of whether an arrangement is a lease, or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

3.5.1 Operating Leases - Bank as a Lessee

Leases that do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the Statement of Comprehensive Income on a straight line basis over the lease term. Contingent rental payable is recognised as an expense in the period in which they are incurred.

Details of Operating Leases - Bank as a lessee are given in Note 32 on page 389.

3.5.2 Operating Leases - Bank as a Lessor

Leases where the Bank does not transfer substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Contingent rents are recognised as revenue in the period in which they are earned.

3.6 Property, Plant & Equipment

The Group applies the requirements of the Sri Lanka Accounting Standard - LKAS 16 on 'Property, Plant & Equipment' in accounting for its owned assets (including buildings under operating leases where the Bank is the lessor) which are held for and use in the provision of services, for rental to others or for administrative purposes and are expected to be used for more than one year.

3.6.1 Basis of Recognition

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

3.6.2 Basis of Measurement

An item of Property, Plant & Equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and subsequent costs (excluding the costs of day-to-day servicing) as explained in Note 3.6.3 below. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Purchased software which is integral to the functionality of the related equipment is capitalised as part of Computer Equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

3.6.2.1 Cost Model

The Group applies the Cost Model to all Property, Plant & Equipment except freehold land and freehold and leasehold buildings and records at cost of purchase together with any incidental expenses thereon, less accumulated depreciation and any accumulated impairment losses.

3.6.2.2 Revaluation Model

The Group applies the Revaluation Model for the entire class of freehold land and freehold and leasehold buildings for measurement after initial recognition. Such properties are carried at revalued amounts, being their fair value at the date of revaluation, less any subsequent accumulated depreciation on buildings and any accumulated impairment losses charged subsequent to the date of valuation. Freehold land and building of the Group are revalued every five to seven 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.

On revaluation of an asset, any increase in the carrying amount is recognised in Other Comprehensive Income and presented in Revaluation Reserve in equity or used to reverse a previous loss on revaluation of the same asset, which was charged to the Statement of Comprehensive Income. In this circumstance, the increase is recognised as income only to the extent of the previous write down in value. Any decrease in the carrying amount is recognised as an expense in the Statement of Comprehensive Income or charged in Other Comprehensive Income and presented in Revaluation Reserve in equity only to the extent of any credit balance existing in the Revaluation Reserve in respect of that asset. Any balance remaining in the Revaluation Reserve in respect of an asset, is transferred directly to Retained Earnings on retirement or disposal of the asset.

The Group last revalued all its freehold land & buildings as at December 31, 2011.

3.6.3 Subsequent Cost

These are costs that are recognised in the carrying amount of an item if it is probable that the future economic benefits embodied within that part of the cost will flow to the Group and it can be reliably measured. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

3.6.4 Derecognition

An item of Property, Plant & Equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognising of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset), is recognised in 'Other Operating Income/Other Expenses' in profit or loss in the year the asset is derecognised.

When replacement costs are recognised in the carrying amount of an item of Property, Plant & Equipment, the remaining carrying amount of the replaced part is derecogn ised as required by Sri Lanka Accounting Standard - LKAS 16 on 'Property, Plant & Equipment'.

3.6.5 Capital Work-in-Progress

These are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation. These are stated in the Statement of Financial Position at cost.

3.6.6 Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property 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. Freehold land is not depreciated.

The estimated useful lives for the current and comparative years are as follows:

Class of Asset	% Per Annum	Period
Freehold and Leasehold Buildings	2.5	40 years
Motor Vehicles	20	5 years
Computer Equipment	20	5 years
Office Equipment	20	5 years
Furniture & Fittings	10	10 years
Office Interior Work	10	10 years
Machinery & Equipment	10	10 years

The above rates are compatible with the rates used by all Group entities.

The depreciation rates are determined separately for each significant part of an item of Property, Plant & Equipment and commence to depreciate when it is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is derecognised.

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

All classes of Property, Plant & Equipment together with the reconciliation of carrying amounts and accumulated depreciation at the beginning and at the end of the year are given in Note 30 on page 380.

3.7 Intangible Assets

The Bank's intangible assets include the value of computer software and copy rights.

3.7.1 Basis of Recognition

An intangible asset is recognised if it is probable that future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably in accordance with the Sri Lanka Accounting Standard - LKAS 38 on 'Intangible Assets'.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, these assets are stated in the Statement of Financial Position at cost, less accumulated amortisation and accumulated impairment losses, if any.

3.7.2 Subsequent Expenditure

Subsequent expenditure 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.

3.7.3 Useful Economic Lives, Amortisation and Impairment

The useful economic lives of intangible assets are assessed to be either finite or indefinite. The Group does not possess intangible assets with indefinite useful economic lives. Useful economic lives, amortisation and impairment of finite and indefinite intangible assets are described below:

3.7.3.1 Intangible Assets with Finite Lives and Amortisation

Intangible assets with finite lives are amortised over the useful economic lives. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each Reporting Date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is expensed as incurred.

3.7.3.1.1 Computer Software

All computer software costs incurred, licensed for use by the Group, which are not integrally related to associated hardware, which can be clearly identified, reliably measured and it is probable that they will lead to future economic benefits, are included in the Statement of Financial Position under the category of intangible assets and carried at cost, less accumulated amortisation and accumulated impairment losses, if any.

3.7.3.1.2 Amortisation of Intangible Assets

Intangible assets are amortised using the straight line method to write down the cost over its estimated useful economic lives at the rates specified below:

Class of Asset	% Per Annum	Period
Computer Software	20	5 years

Above rate is in consistent with the rates used in the comparative years.

The unamortised balances of intangible assets with finite lives are reviewed for impairment whenever there is an indication for impairment and recognised in profit or loss to the extent that they are no longer probable of being recovered from the expected future benefits.

3.7.3.2 Intangible Assets with Indefinite Useful Lives

Intangible assets with indefinite useful lives are not amortised but are tested for impairment annually either individually or at the cash-generating unit level as appropriate, when circumstances indicate that the carrying value is impaired. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

3.7.4 Derecognition of Intangible Assets

Intangible assets are derecognised on disposal or when no future economic benefits are expected from its use. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss.

The Group has only acquired intangible assets, a list of which with the reconciliation of carrying amounts, accumulated amortisation at the beginning and at the end of the periods is given in Note 31 on page 388.

Amortisation recognised during the year in respect of intangible assets is included under the item of 'Amortisation and impairment of intangible assets' in the Statement of Comprehensive Income.

3.8 Impairment of Non-Financial Assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets are reviewed 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 Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or Cash Generating Unit's fair value less costs to sell and its value in use. Where the carrying amount of an asset or Cash Generating Unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing 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 available fair value indicators.

Impairment losses of continuing operations are recognised in profit or loss under those expense categories consistent with the function of the impaired asset, except for property previously revalued where the gain or loss on revaluation was taken to Equity. In this case, the impairment is also recognised in Equity up to the extent of any previously recognised revaluation gains.

For assets excluding goodwill, an assessment is made at each Reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or Cash-Generating Unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation/ amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.

3.9 Deposits, Borrowings, Debt Securities Issued and Subordinated Liabilities

Deposits, debt securities issued and subordinated liabilities are the Group's sources of debt funding.

3.9.1 Due to Banks and Other Financial Institutions

These represents refinance borrowings, call money borrowings, credit balances in Nostro Accounts and borrowings from financial institutions. Subsequent to initial recognition deposits are measured at their amortised cost using the effective interest method. Interest paid/payable on these borrowings is recognized in profit or loss.

Details of the 'Due to banks and other financial institutions' are given in Notes 35 and 37 on pages 390 and 391, respectively.

3.9.2 Due to Customers

These include non-interest-bearing deposits, savings deposits, term deposits, deposits payable at call and certificates of deposit. Subsequent to initial recognition deposits are measured at their amortised cost using the effective interest method, except where the Group designates liabilities at fair value through profit or loss. Interest paid/payable on these deposits is recognised in profit or loss.

Details of 'Deposits from customers' are given in Note 37 on page 391.

3.9.3 Debt Securities Issued

These represent the funds borrowed by the Bank for long-term funding requirements. Subsequent to initial recognition debt securities issued are measured at their amortised cost using the effective interest method, except where the Group designates debt securities issued at fair value through profit or loss. Interest paid/payable is recognized in profit or loss.

3.9.4 Securities Purchased Under Resale Agreements (Repos)

When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date (Repo), the arrangement is accounted for as a financial liability, and the underlying asset continues to be recognised in the Group's Financial Statements.

Securities purchased under agreements to resell at a specified future date are initially recognised in the Statement of Financial Position at the consideration paid, including accrued interest thereon. Subsequent to initial recognition debt securities issued are measured at their amortised cost using the effective interest method, except where the Group designates debt securities issued at fair value through profit or loss. Interest paid/payable is recognised in profit or loss.

Details of 'Securities purchased under resale agreements' are given in Note 38 on page 392.

3.10 Dividends Payable

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are recommended and declared by the Board of Directors and approved by the shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

Dividends for the year that are approved after the Reporting date are disclosed as an event after the Reporting Period in accordance with the Sri Lanka Accounting Standard - LKAS 10 on 'Events after the Reporting Period'.

3.11 Other Liabilities

Other Liabilities include interest, fees and expenses and amounts payable for gratuity/pensions and other provisions. These liabilities are recorded at amounts expected to be payable at the Reporting date.

Details of 'Other Liabilities' are given in Note 40 on page 392.

3.12 Provisions

A provision is recognised in the Statement of Financial Position when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount of the provision can be measured reliably in accordance with the Sri Lanka Accounting Standard - LKAS 37 on 'Provisions, Contingent Liabilities and Contingent Assets'. 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.

3.13 Employee Benefits

3.13.1 Defined Benefit Plans (DBPs)

A Defined Benefit Plan is a post-employment benefit plan other than a Defined Contribution Plan as defined in the Sri Lanka Accounting Standard - LKAS 16 on 'Employee Benefits'.

3.13.1.1 Defined Benefit Pension Plans

3.13.1.1.1 Description of the Plans and Employee Groups Covered

The Bank operates three types of Defined Benefit Pension Plans for its employees as described below:

(a) The Bank has an approved Pension Fund, which was established in 1992. As per the Deed of Trust, only those employees who were less than 45 years of age as at January 01, 1992 were covered by the Pension Fund in order to leave a minimum contribution for a period of 10 years before they are eligible to draw pension from the Pension Fund. Further, only the employees who joined the Bank on or before December 31, 2001, were in pensionable service of the Bank.

During 2006 the Bank offered a restructured pension scheme to convert the Defined Benefit Plan (DBP) to a Defined Contribution Plan (DCP) for the pensionable employees of the Bank and over 99% of them accepted it. As a result, the above Pension Fund now covers only those employees who did not opt for the restructured pension scheme and those employees who were covered by the Pension Fund previously but retired before the restructured pension scheme came into effect.

(b) Provision for pensions has been made for those employees who retired on or before December 31, 2001, and on whose behalf the Bank could not make contributions to the Retirement Pension Fund for more than 10 years. This liability although not funded has been provided for in full in the Financial Statements.

(c) Provision has been made in the Financial Statements for Retirement Gratuity from the first year of service for all employees who joined the Bank on or after January 01, 2002, as they are not in pensionable service of the Bank under either the DBP or DCP. However, if any of these employees resigns before retirement, the Bank is liable to pay gratuity to such employees. This liability although not funded has been provided for in full in the Financial Statements.

The Subsidiaries of the Bank do not operate Pension Funds.

The Bank's net obligation in respect of Defined Benefit Pension Plans is calculated separately for each plan by using the Projected Unit Credit Actuarial Valuation Method, as per the Sri Lanka Accounting Standard - LKAS 16 on 'Employee Benefits'. This method involves estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods that benefit is discounted to determine its present value as detailed in Note 51 on page 407.

3.13.1.1.4 Recognition of Actuarial Gains or Losses

Actuarial gains or losses are recognised in the profit or loss in the period in which they arise. The past service cost is recognised as an expense on a straight-line basis over the period until the benefits become vested. If the benefits are already vested following the introduction of, or changes to, a pension plan, past service cost is recognised immediately.

3.13.1.1.5 Recognition of Retirement Benefit Obligation

The defined benefit asset or liability comprises the present value of the defined benefit obligation, less past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the sum of any past service cost not yet recognised and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

3.13.2 Defined Contribution Plans (DCPs)

A Defined Contribution Plan is a post-employment plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligations to pay a further amount. Obligations to DCPs are recognised in the profit or loss as incurred. The Group has three such plans as explained in Notes 3.13.2.1, 3.13.2.2 and 3.13.2.3 below.

Amounts recognised in profit or loss as expenses on DCPs are given in Note 13 on page 343.

3.13.2.1 Defined Contribution Pension Plans

As explained in Note 3.13.1.1.1, during 2006, the Bank restructured its pension scheme which was a DBP to a DCP. This restructured plan was offered on a voluntary basis to the eligible employees of the Bank. The scheme provides for lump sum payments instead of commuted/monthly pensions to the eligible employees at the point of their separation, in return for surrendering their pension rights. The lump sum offered consisted of a past service package and a future service package. The shortfall on account of the past service package in excess of the funds available in the Pension Fund was borne by the Bank in 2006.

The future service package includes monthly contributions to be made by the Bank for the employees who accepted the offer, to be made during their remaining period of service, at pre determined contribution rates to be applied for on their salaries, which are estimated to increase for this purpose at 10% p.a. based on the salary levels that prevailed as at the date of implementation of this scheme. In addition, interest to be earned on the assets of the DCP is also allocated to the employees who opted for the restructured scheme.

The assets of this Fund are held separately from those of the Bank and are independently administered by the Trustees as per the provisions of the Trust Deed.

3.13.2.2 Employees' Provident Fund

The Bank and employees contribute to the approved Private Provident Fund at 12% and 8% respectively, on the salaries of each employee. Other entities of the Group and their employees contribute at the same percentages as above to the Employees' Provident Fund managed by the Central Bank of Sri Lanka.

3.13.2.3 Employees' Trust Fund

The Bank and other entities of the Group contribute at the rate of 3% of the salaries of each employee to the Employees' Trust Fund managed by the Central Bank of Sri Lanka.

3.13.3 Other Long-Term Employee Benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefits that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate used as the yield at the Reporting date was the current market rate that has been extrapolated to reflect long-term rate of discount based on market rates of interest on short-term corporate/government bonds and anticipated long-term rate of inflation. The calculation is performed using the Projected Unit Credit Method. Any actuarial gains and losses are recognised in profit or loss in the period in which they arise.

3.13.4 Terminal Benefits

Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the Reporting Period, then they are discounted to their present value.

3.13.5 Other Long-Term Employee Benefits

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 or profit-sharing plans 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.

3.13.6 Equity Compensation Benefits

Share-based payment arrangements in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group. Employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity-settled transactions). The Group does not operate any cash-settled share based payment transactions.

The Group applies the requirements of the Sri Lanka Accounting Standard - SLFRS 2 on 'Share-based Payment' in accounting for equity settled share-based payment transaction, if any, that were granted after January 01, 2012 and had not vested at the same date. As per the Sri Lanka Accounting Standard - SLFRS 2 on 'Share-based Payment', on the grant date fair value of equity-settled share-based payment awards (i.e. share options) granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of share awards for which the related service and non-market performance vesting conditions are expected to be met such that the amount ultimately recognised as an expense is based on the number of share awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

As the Group does not grant any share-based payment transaction after January 01, 2012, it did not apply the above accounting treatment during the year and the proceeds received by the Bank in consideration for the shares issued were accounted for as Stated Capital within equity.

The details of Employee Share Option Plans are given in Notes 43 on page 395.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (see Note 16 on page 346).

3.14 Commitments and Contingencies

All discernible risks are accounted for in determining the amount of other liabilities as explained in Note 3.15 below. The Bank's share of any Contingencies and capital commitments of a Subsidiary or an Associate for which the Bank is also liable severally or otherwise is included with appropriate disclosures.

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 - 36 on 'Provisions, Contingent Liabilities and Contingent Assets'. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless its occurrence is remote.

Details of the commitments and contingencies are given in Note 48 to the Financial Statements on page 400.

3.15 Contingent Liabilities, Commitments and Leasing Arrangements

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 on 'Provisions, Contingent Liabilities and Contingent Assets'.

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. Letters of credit and guarantees commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

Operating lease commitments of the Bank (as a lessor and as a lessee) and pending legal claims against the Bank too form part of commitments of the Bank.

Even though these obligations may not be recognised on the Statement of Financial Position, they do contain credit risk and are therefore part of the overall risk of the Bank (See Note 60 on page 432).

All discernible risks are accounted for in determining the amount of other liabilities as explained in Note 39 on page 392.

3.15.1 Legal Claims

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. At the Reporting Date the Bank had several unresolved legal claims. The significant unresolved legal claims against the Bank for which legal advisor of the Bank advised as the loss is possible, but not probable, that the action will succeed. Accordingly, no provision for any claims has been made in these Financial Statements.

A detailed list of significant pending litigations against the Bank is given in Note 49 on page 402.

3.15.2 Contingent Liabilities, Commitments of Other Group Entities

The Bank's share of any contingencies and capital commitments of a Subsidiary or an Associate for which the Bank is also liable severally or otherwise is included with appropriate disclosures.

Details of the Commitments and Contingencies are given in Note 48 on page 400.

3.16 Earnings Per Share (EPS)

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

Details of earnings per share are given in Note 16 on page 346.

3.17 Segment Reporting

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 relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group Management Committee (being the chief operating decision-maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

For each of the strategic divisions, the Group's management monitors the operating results separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses which, in certain respects, are measured differently from operating profits or losses in the Consolidated Financial Statements. Income taxes are managed on a group basis and are not allocated to operating segments.

Interest income is reported net as management primarily relies on net interest revenue as a performance measure, not the gross income and expense.

Inter-segment transactions are accounted for at fair market prices charged to inter-bank counterparts for similar services on an arm's length basis. Such transfers are eliminated on consolidation.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2012 or 2011.

Detailed information on the results of each reportable segment as required by the Sri Lanka Accounting Standard - SLFRS 8 on 'Operating Segments' is provided in Note 52 on page 409.

3.18 Fiduciary Assets

The Bank provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity are not reported in these Financial Statements as they do not belong to the Bank.

3.19 New Standards and Interpretations not yet Adopted

A number of new standards, amendments to standards and interpretations which have been issued but not yet effective as at the reporting date have not been applied in preparing these Consolidated Financial Statements. None of these is expected to have a significant effect on the Consolidated Financial Statements of the Group. The extent of the impact has not been determined.

4. Significant Accounting Policies - Recognition of Income and Expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

4.1 Interest Income and Expense

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available-for-sale and financial instruments designated at fair value through profit or loss, interest income and expense are recognised in profit or loss using the Effective Interest Rate (EIR) method. The EIR is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the EIR, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the EIR takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes all material transaction costs and fees and points 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 liability.

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded in 'Interest Income' for financial assets and in 'Interest and similar expense' for financial liabilities. However, for a reclassified financial asset for which the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

4.2 Fees and Commission Income and Expense

Fees and commission income and expense that are integral to the EIR on a financial asset or liability are included in the measurement of the EIR.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed. Fees earned for the provision of services over a period of time are accrued over that period. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight-line basis.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

4.3 Net Trading Income

Results arising from trading activities include all realised and unrealised gains and losses from changes in fair value and related interest income or expense, dividends and foreign exchange differences for financial assets and financial liabilities 'held for trading'.

4.4 Dividend Income

Dividend income is recognised when the Group's right to receive the payment is established. Usually this is the ex-dividend date for equity securities.

Dividends are presented in 'net trading income' for financial instruments at fair value through profit or loss held for trading. Dividends on available-for-sale equity securities are presented in 'other operating income' in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment, in which case it is presented in Other Comprehensive Income.

4.5 Lease Income

In terms of the provisions of the Sri Lanka Accounting Standard - LKAS 17 on 'Leases', the recognition of finance income on leasing is accounted, based on a pattern reflecting a constant periodic rate of return on capital outstanding.

The excess of aggregate lease rentals receivable over the cost of the leased assets constitutes the total unearned finance income at the commencement of a lease. The unearned finance income included in the lease rentals receivable is recognised in profit or loss over the term of the lease commencing from the month in which the lease is executed using Effective Interest Rate.

4.6 Lease Payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

4.7 Rental Income and Expense

Rental income and expense are recognised in the profit or loss on an accrual basis.

4.8 Borrowing Costs

As per the Sri Lanka Accounting Standard - LKAS 23 on 'Borrowing costs', the Group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of the asset. A qualifying asset is an asset which takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are recognized in the profit or loss in the period in which they occur.

5. Significant Accounting Policies - Tax Expense

As per the Sri Lanka Accounting Standards - LKAS 12 on 'Income taxes', tax expense (tax income) is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxes. Income tax expense is recognised in the Statement of Comprehensive Income except to the extent it relates to items recognised directly in Equity or in Other Comprehensive Income (OCI), in which case it is recognised in Equity or in OCI.

5.1 Current Taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the taxation authorities in respect of the current as well as prior years. The tax rates and tax laws used to compute the amounts are those that are enacted or substantially enacted by the Reporting date. 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 the amendments thereto, at the rates specified in Note 15 on page 344. This Note also includes the major components of tax expense, the effective tax rates and a reconciliation between the profit before tax and tax expense as required by the Sri Lanka Accounting Standard - LKAS 12 on 'Income Taxes'.

Provision for taxation on the overseas branch 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 statutes in those countries.

5.2 Deferred Taxation

Deferred tax is provided on temporary differences at the Reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes for all Group Entities. Deferred tax liabilities are recognised for all temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in Subsidiaries and Associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible differences, unused tax credits and unused tax losses carried forward, if any, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and the unused tax credits and unused tax losses carried forward can be utilised, except:

- Where the deferred tax assets relating to the deductible temporary difference arise from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in Subsidiaries and Associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profits will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each Reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised. Unrecognised deferred tax assets are reassessed at each Reporting date and are recognised to the extent that it is probable that future taxable profits will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the assets are realised or the liabilities are settled, based on tax rates and tax laws that have been enacted or substantially enacted at the Reporting date.

Current tax and deferred tax relating to items recognised directly in Equity are also recognised in Equity and not in the Statement of Comprehensive Income.

Deferred tax assets and Deferred tax liabilities are set-off, if a legally enforceable right exists to set-off current tax assets against current tax liabilities and they relate to 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.

Details of Deferred Tax Assets and Liabilities as at the Reporting date are given in Note 33 on page 389.

5.3 Withholding Tax on Dividends, Distributed by the Bank, Subsidiaries and Associates

- *Withholding tax on dividends distributed by the Bank*
  Withholding tax that arises from the distribution of dividends by the Bank is recognised at the time the liability to pay the related dividend is recognised.
- *Withholding tax on dividends distributed by the Subsidiaries and Associates*
  Dividends received by the Bank from its Subsidiaries and Associates, have attracted a 10% deduction at source.

5.4 Economic Service Charge (ESC)

As per the provisions of the Finance Act No. 11 of 2004, and amendments thereto, the ESC was introduced with effect from April 01, 2004. Currently, the ESC is payable at 0.25% on 'Exempt Turnover' and is deductible from the income tax payments. Unclaimed ESC, if any, can be carried forward and set-off against the income tax payable in the five subsequent years.

5.5 Value Added Tax on Financial Services

The base for the computation of Value Added Tax on Financial Services is the accounting profit before emoluments paid to employees and income tax, which is adjusted for the depreciation computed on prescribed rates. The amount of Value Added Tax charged in determining the profit or loss for the period is given in the Income Statement on page 306.

6. Statement of Cash Flows

The Statement of Cash Flows has been prepared by using the 'Indirect Method' of preparing cash flows in accordance with the Sri Lanka Accounting Standard - LKAS 7 on 'Statement of Cash Flows', whereby gross cash receipts and gross cash payments on operating activities, investing activities and financing activities are separately recognised. Cash and Cash Equivalents comprise of short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and Cash Equivalents as referred to in the Statement of Cash Flows are comprised of those items as explained in Note 20 on page 351.

The Statement of Cash Flows is given on pages 314 and 315.

7. Net Interest Income

	GROUP 2012 Rs. '000	GROUP 2011 Rs. '000	BANK 2012 Rs. '000	BANK 2011 Rs. '000
Interest Income				
Cash and cash equivalents	**470,764**	176,192	470,764	176,192
Placements with banks	**339,115**	88,254	339,115	88,254
Derivative financial instruments	**314**	4,320	314	4,320
Financial assets held-for-trading	**421,315**	280,459	421,315	280,459
Loans and receivables to banks	**19,557**	20,134	19,557	20,134
Loans and receivables to other customers	**45,037,407**	31,174,117	45,057,595	31,216,003
Financial investments - Available-for-sale	**6,374,471**	6,570,181	6,374,471	6,570,181
Financial investments - Held-to-maturity	**–**	–	–	–
Other interest income - Subsidiaries	**21**	91	2,296	–
Total interest income	**52,662,964**	38,313,748	52,685,427	38,355,543
Interest Expenses				
Due to banks	**3,877,367**	3,516,102	**3,877,367**	3,516,102
Derivative financial instruments	**314**	4,340	**314**	4,340
Financial liabilities at fair value through profit or loss	**–**	–	**–**	–
Due to other customers	**25,284,506**	15,419,270	**25,289,941**	15,423,509
Other borrowings	**516,312**	467,089	**529,969**	477,831
Debt securities issued	**–**	–	**–**	–
Subordinated term debts	**132,806**	228,547	**132,806**	228,547
Total Interest expenses	**29,811,305**	19,635,348	**29,830,397**	19,650,329
Net interest income	**22,851,659**	18,678,400	**22,855,030**	18,705,214

7.1 Net Interest Income from Sri Lanka Government Securities

	GROUP 2012 Rs. '000	GROUP 2011 Rs. '000	BANK 2012 Rs. '000	BANK 2011 Rs. '000
Interest income	**9,277,397**	8,673,110	**9,277,397**	8,673,110
Less: Interest expenses	**3,441,531**	3,305,293	**3,441,531**	3,305,293
Sub total	**5,835,866**	5,367,817	**5,835,866**	5,367,817

7.2 Interest Income from Financial Assets Fair Value through Profit and Loss

	GROUP 2012 Rs. '000	GROUP 2011 Rs. '000	BANK 2012 Rs. '000	BANK 2011 Rs. '000
Derivative financial instruments	**314**	4,320	**314**	4,320
Financial assets held-for-trading	**421,315**	280,459	**421,315**	280,459
Sub total	**421,629**	284,779	**421,629**	284,779

7.3 Interest Income on impaired financial assets

	GROUP 2012 Rs. '000	GROUP 2011 Rs. '000	BANK 2012 Rs. '000	BANK 2011 Rs. '000
Interest income from impaired loans and receivables to other customers	**359,350**	196,243	**359,350**	196,243
Add: Unwinding interest	**249,760**	285,139	**249,760**	285,139
Sub total	**609,110**	481,382	**609,110**	481,382

	GROUP		BANK	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000

8. Net Fees and Commission Income

Fees and commission income [Refer Note 8.1]	4,146,878	3,765,075	4,146,525	3,765,188
Less: Fees and commission expenses [Refer Note 8.2]	548,560	439,825	548,560	439,825
Net fees and commission income	3,598,318	3,325,250	3,597,965	3,325,363

8.1 Fees and Commission Income

Loans and advances	370,601	374,051	370,601	374,051
Cards	1,141,231	914,720	1,141,231	914,720
Trade and remittances	1,661,914	1,571,826	1,661,914	1,571,826
Investment banking	–	–	–	–
Deposits	330,976	242,194	331,028	242,307
Guarantees	439,225	456,880	439,225	456,880
Derivatives	–	–	–	–
Other financial services	202,931	205,404	202,526	205,404
Sub total	4,146,878	3,765,075	4,146,525	3,765,188

8.2 Fees and Commission Expenses

Loans and advances	30,396	39,070	30,396	39,070
Cards	425,589	321,152	425,589	321,152
Trade and remittances	30,295	31,073	30,295	31,073
Investment banking	–	–	–	–
Deposits	–	–	–	–
Guarantees	–	–	–	–
Derivatives	–	–	–	–
Other financial services	62,280	48,530	62,280	48,530
Sub total	548,560	439,825	548,560	439,825

9. Net Gain/(Loss) from Trading

Foreign exchange				
From banks	–	–	–	–
From others customers	2,334,295	(299,493)	2,334,295	(299,493)
Interest rates				
Net mark to market gain/(loss)	44,794	(166,080)	44,794	(166,080)
Net capital gain/(loss)	86,374	26,129	86,374	26,129
Equities				
Net mark to market gain/(loss)	15,945	(42,393)	15,945	(42,393)
Net capital gain/(loss)	3,864	15,155	3,864	15,155
Dividend income	9,026	5,044	9,026	5,044
Total	2,494,298	(461,638)	2,494,298	(461,638)

	GROUP 2012 Rs. '000	GROUP 2011 Rs. '000	BANK 2012 Rs. '000	BANK 2011 Rs. '000

10. Net Gain/(Loss) from Financial Investments

Assets Available-for-Sale				
Government securities	–	–	–	–
Equities	**2,584**	2,535	**2,584**	2,535
Loans and receivables				
Government securities	–	–	–	–
Debt securities	**28,949**	35,495	**28,949**	35,495
Total	**31,533**	38,030	**31,533**	38,030

11. Other Operating Income (Net)

Gain/(Loss) on sale of property, plant & equipment	**10,385**	30,950	**(3,866)**	26,114
Gain/(Loss) on revaluation of foreign exchange	**2,352,716**	2,621,117	**2,352,716**	2,621,117
Recovery of provision made/recovery of loans written-off	**1,475,232**	1,268,103	**1,475,232**	1,268,103
Dividend from subsidiaries	–	–	**70,428**	35,583
Dividend from associates	**8,615**	2,509	**8,002**	2,055
Rental and other income	**199,747**	263,559	**134,752**	209,122
Less: Dividends received from associates transferred to investment	**(8,615)**	(2,509)	–	–
Total	**4,038,080**	4,183,729	**4,037,264**	4,162,094

12. Impairment Charges for Loans and Other Losses

Loans and receivables				
To banks [Refer Note 25.2]	–	–	–	–
To other customers	**3,158,291**	1,746,745	**3,158,291**	1,746,745
Charge/(write back) to the Income Statement on Individual Impairment [Refer Note 26.2]	**1,296,697**	2,592,879	**1,296,697**	2,592,879
Charge/(write back) to the Income Statement on Collective Impairment [Refer Note 26.2]	**1,856,688**	(869,609)	**1,856,688**	(869,609)
Direct write-offs	**4,906**	23,475	**4,906**	23,475
Investment in subsidiaries [Refer Note 28.1]	–	–	**32,942**	38,454
Due from subsidiaries	–	–	**5,527**	22,700
Total	**3,158,291**	1,746,745	**3,196,760**	1,807,899

13. Personnel Expenses

Salary and bonus [Refer Note 13.1]	**5,881,820**	4,797,281	**5,837,733**	4,758,170
Pension costs				
Contributions to defined contribution plans	**444,673**	374,181	**439,525**	369,564
Contributions to defined benefit plans	**652,472**	518,107	**647,883**	515,165
Others	**858,179**	656,852	**844,647**	646,794
Total	**7,837,144**	6,346,421	**7,769,788**	6,289,693

13.1 Salary and Bonus

Salary and bonus and contributions to defined contribution/benefit plans reported above includes the amounts paid to and contributions made on behalf of Executive Directors.

14. Other Expenses

	GROUP 2012 Rs. '000	GROUP 2011 Rs. '000	BANK 2012 Rs. '000	BANK 2011 Rs. '000
Directors' emoluments [Refer Note 14.1]	**20,549**	20,699	**19,524**	19,937
Auditors' remunerations	**21,210**	19,470	**17,235**	15,408
Audit fee and expenses	**11,207**	15,819	**7,929**	12,246
Audit related fee and expenses	**5,631**	1,332	**5,230**	1,332
Non-audit fee and expenses	**4,372**	2,319	**4,076**	1,830
Professional and legal expenses	**280,154**	253,289	**275,987**	253,920
Depreciation of property, plant & equipment [Refer Note 30]	**942,765**	734,115	**859,675**	648,543
Amortisation of leasedhold property [Refer Note 32]	**1,452**	1,452	**942**	942
Amortisation of intangible assets [Refer Note 31]	**174,104**	98,172	**174,055**	98,118
Office administration and establishment expenses	**3,536,867**	3,377,787	**3,663,775**	3,538,029
Maintenance of fixed assets	**753,485**	673,308	**755,703**	676,372
Total	**5,730,586**	5,178,292	**5,766,896**	5,251,269

14.1 Directors' Emoluments

Directors emoluments represent the fees paid to both the Executive and Non-Executive Directors of the Bank/Group.

15. Income Tax Expense

15.1 Entity–wise Breakup of the Income Tax Expense is as follows:

	GROUP 2012 Rs. '000	GROUP 2011 Rs. '000	BANK 2012 Rs. '000	BANK 2011 Rs. '000
Bank				
Current Year Tax expense				
Current year Income tax expense of Domestic banking unit	**3,082,348**	2,392,800	**3,082,348**	2,392,800
Current year Income tax expense of Off-shore banking centre	**204,960**	37,544	**204,960**	37,544
Current year Income tax expense of Bangladesh operations	**827,480**	596,317	**827,480**	596,317
Profit remittance tax of Bangladesh operations	**81,406**	–	**81,406**	–
Prior years				
(Over)/Under provision of taxes in respect of prior years	**(140,315)**	(223,522)	**(140,315)**	(223,522)
Deferred Tax Expense				
Effect of change in tax rates	**–**	–	**–**	–
Temporary differences	**141,125**	211,222	**141,125**	211,222
	4,197,004	3,014,361	**4,197,004**	3,014,361
Subsidiaries				
Income tax expense of Commercial Development Company PLC	**25,216**	30,518	**–**	–
Income tax expense of ONEzero Company Ltd.	**8,456**	2,327	**–**	–
Associates				
Share of income tax expense of Equity Investments Lanka Ltd.	**18**	18	**–**	–
Share of income tax expense of Commercial Insurance Brokers (Pvt) Ltd.	**1,053**	694	**–**	–
Total Income tax expense	**4,231,747**	3,047,918	**4,197,004**	3,014,361
Effective tax rate (excluding deferred tax)			**28.37%**	25.72%

The Bank's and Subsidiary's, income tax for 2012 and 2011 have been provided on the taxable income at the rates shown below:

	2012 %	2011 %
Domestic operations of the Bank	**28.0**	28.0
Off-shore banking Centre of the Bank	**28.0**	28.0
Bangladesh operations of the Bank	**42.5**	42.5
Commercial Development Company PLC	**28.0**	10.0 - 35.0
ONEzero Company Ltd.	**28.0**	10.0 - 28.0

15.2 Notional Tax Credit for Withholding Tax on Government Securities on Secondary Market Transactions

The Inland Revenue Act No. 10 of 2006 and the amendments thereto, provide that a company which derives interest income from the secondary market transactions on Government Securities (on or after April 1, 2002) would be entitled to a notional tax credit (being one-ninth of the net interest income), provided such interest income forms part of statutory income of the Company for that year of assessment.

Accordingly, the net interest income earned by the Group and the Bank from the secondary market transactions in Government Securities for the year, has been grossed up in these Financial Statements and the resulting notional tax credit amounted to Rs. 331.288 Mn. and Rs. 329.922 Mn. respectively (Rs. 351.687 Mn. and Rs. 350.026 Mn. respectively in 2011).

15.3 A Reconciliation between Tax Expense and the Product of Accounting Profit Multiplied by the Statutory Tax Rate is as Follows:

	Tax Rate		GROUP		BANK	
	2012 %	2011 %	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Accounting profit before tax from operations			**14,312,914**	10,980,219	**14,295,333**	10,897,230
Tax effect at the statutory income tax rates-			**4,333,483**	3,339,001	**4,300,497**	3,320,911
Domestic operations of the bank	**28**	28	**3,287,958**	2,722,966	**3,287,958**	2,722,966
Operations of the off–shore banking centre of the bank (on-shore and off-shore)	**28**	28	**189,513**	(8,161)	**189,513**	(8,161)
Bangladesh operation	**42.5**	42.5	**823,026**	606,106	**823,026**	606,106
Subsidiaries	**28**	10 - 35	**32,986**	18,090	**–**	–
Tax effect of exempt income			**(574,543)**	(455,403)	**(574,543)**	(455,403)
Tax effect of non-deductible expenses			**4,301,816**	3,009,877	**4,279,897**	3,009,743
Tax effect of deductible expenses			**(3,919,113)**	(2,848,693)	**(3,891,063)**	(2,848,589)
Remittance tax of Bangladesh operation			**81,406**	–	**81,406**	–
Share of income tax expense of Associates			**1,070**	712	**–**	–
Social responsibility levy at 1.5% of income tax			**–**	145	**–**	–
(Over)/under provision of taxes in respect of prior years			**(140,243)**	(222,274)	**(140,315)**	(223,523)
Deferred tax expense [Refer Note 33]			**147,871**	224,553	**141,125**	211,222
Income tax expense reported in the income statement at the effective income tax rate			**4,231,747**	3,047,918	**4,197,004**	3,014,361

16. Earnings Per Share (EPS)

	GROUP		BANK	
	2012	2011	**2012**	2011
Amounts used as the numerator:				
Profit for the year attributable to equity holders of the Bank for basic and diluted earnings per share (Rs. '000)	**10,079,829**	7,932,062	**10,098,329**	7,882,869
Number of ordinary shares used as the denominator:				
Weighted average number of ordinary shares used for basic earnings per share calculation	**832,618,649**	832,618,649	**832,618,649**	832,618,649
Effect of dilution:				
Number of outstanding options under ESOP 2008, as at the year end [Refer Note 43.2]	**9,018,320**	9,018,320	**9,018,320**	9,018,320
Number of outstanding options under ESOP 2002, as at the year end [Refer Note 43.3]	**–**	–		
Weighted average number of ordinary shares adjusted for the effect of dilution	**841,636,969**	841,636,969	**841,636,969**	841,636,969
Basic earnings per ordinary share (Rs.)	**12.11**	9.53	**12.13**	9.47
Diluted earnings per ordinary share (Rs.)	**11.98**	9.42	**12.00**	9.37

17. Dividends

	GROUP		BANK	
	2012	2011	**2012**	2011
	Interim Rs. 1.50 (Paid during 2012) Rs. '000	Interim Rs. 2.50 (Paid during 2011) Rs. '000	**Interim Rs. 1.50 (Paid during 2012) Rs. '000**	Interim Rs. 2.50 (Paid during 2011) Rs. '000
On Ordinary Shares				
Net dividend paid to the ordinary shareholders	**1,132,618**	1,854,690	**1,132,618**	1,854,690
Withholding tax deducted at source	**117,543**	188,935	**117,543**	188,935
Gross ordinary dividend paid	**1,250,161**	2,043,625	**1,250,161**	2,043,625

18. Measurement of Financial Instruments - Group

18.1 Group - 2012

	Held for Trading (HFT) Rs.'000	Held to Maturity (HTM) Rs.'000	Loans and Receivables (L & R) Rs.'000	Available for Sale (AFS) Rs.'000	Others Rs.'000	Total Rs.'000
ASSETS						
Cash and cash equivalents	–	–	19,752,205	–	–	19,752,205
Balances with central banks	–	–	18,168,039	–	–	18,168,039
Placements with banks	–	–	16,162,970	–	–	16,162,970
Derivative financial instruments	1,351,095	–	–	–	–	1,351,095
Financial assets held for trading	6,041,110	–	–	–	–	6,041,110
Loans and receivables to banks	–	–	628,760	–	–	628,760
Loans and receivables to other customers	–	–	372,857,337	–	–	372,857,337
Financial investments	–	–	–	57,963,192	–	57,963,192
Other assets	–	–	–	–	–	–
Total financial assets	7,392,205	–	427,569,311	57,963,192	–	492,924,708
Investments in subsidiaries	–	–	–	–	–	–
Investments in associates	–	–	–	–	93,712	93,712
Intangible assets	–	–	–	–	506,161	506,161
Property, plant & equipment	–	–	–	–	8,946,881	8,946,881
Leasehold property	–	–	–	–	111,776	111,776
Deferred tax assets	–	–	–	–	458,414	458,414
Other assets	–	–	–	–	9,179,258	9,179,258
Total non-financial assets	–	–	–	–	19,295,932	19,295,932
Total assets	7,392,205	–	427,569,311	57,963,192	19,295,932	512,220,640

	Held for Trading (HFT) Rs.'000	Amortised cost Rs.'000	Others Rs.'000	Total Rs.'000
LIABILITIES				
Due to banks	–	4,763,565	–	4,763,565
Derivative financial instruments	84,291	–	–	84,291
Other financial liabilities held for trading	–	–	–	–
Due to other customers	–	390,568,682	–	390,568,682
Other borrowings	–	47,565,945	–	47,565,945
Debt securities issued	–	–	–	–
Other liabilities	–	–	–	–
Subordinated term debts	–	1,106,016	–	1,106,016
Total financial liabilities	84,291	444,004,208	–	444,088,499
Current tax liabilities	–	–	2,821,975	2,821,975
Deferred tax liabilities	–	–	1,889,983	1,889,983
Other provisions	–	–	2,409	2,409
Other liabilities	–	–	10,417,213	10,417,213
Due to subsidiaries	–	–	–	–
Total non-financial liabilities	–	–	15,131,580	15,131,580
Total liabilities	84,291	444,004,208	15,131,580	459,220,079

18.2 Group - 2011

	Held for Trading (HFT) Rs.'000	Held to Maturity (HTM) Rs.'000	Loans and Receivables (L & R) Rs.'000	Available for Sale (AFS) Rs.'000	Others Rs.'000	Total Rs.'000
ASSETS						
Cash and cash equivalents	–	–	12,934,995	–	–	12,934,995
Balances with central banks	–	–	17,342,959	–	–	17,342,959
Placements with banks	–	–	11,674,363	–	–	11,674,363
Derivative financial instruments	39,612	–	–	–	–	39,612
Financial assets held for trading	6,418,010	–	–	–	–	6,418,010
Loans and receivables to banks	–	–	580,158	–	–	580,158
Loans and receivables to other customers	–	–	314,326,998	–	–	314,326,998
Financial investments	–	–	–	61,415,395	–	61,415,395
Other assets	–	–	–			–
Total financial assets	6,457,622	–	356,859,473	61,415,395	–	424,732,490
Investments in subsidiaries	–	–	–	–	–	–
Investments in associates	–	–	–	–	119,981	119,981
Intangible assets	–	–	–	–	475,038	475,038
Property, plant & equipment	–	–	–	–	8,503,211	8,503,211
Leasehold property	–	–	–	–	113,228	113,228
Deferred tax assets	–	–	–	–	363,711	363,711
Other assets	–	–	–	–	7,290,298	7,290,298
Total non-financial assets	–	–	–	–	16,865,467	16,865,467
Total assets	6,457,622	–	356,859,473	61,415,395	16,865,467	441,597,957

	Held for Trading (HFT) Rs.'000	Amortised cost Rs.'000	Others Rs.'000	Total Rs.'000
LIABILITIES				
Due to banks	–	11,574,105	–	11,574,105
Derivative financial instruments	435,171	–	–	435,171
Other financial liabilities held for trading	–	–	–	–
Due to other customers	–	323,697,628	–	323,697,628
Other borrowings	–	49,455,005	–	49,455,005
Debt securities issued	–	–	–	–
Other liabilities	–	–	–	–
Subordinated term debts	–	1,105,639	–	1,105,639
Total financial liabilities	435,171	385,832,377	–	386,267,548
Current tax liabilities	–	–	1,307,079	1,307,079
Deferred tax liabilities	–	–	1,639,827	1,639,827
Other provisions	–	–	535	535
Other liabilities	–	–	8,213,999	8,213,999
Due to Subsidiaries	–	–	–	–
Total non-financial liabilities	–	–	11,161,440	11,161,440
Total liabilities	435,171	385,832,377	11,161,440	397,428,988

19. Measurement of Financial Instruments - Bank

19.1 Bank - 2012

	Held for Trading (HFT) Rs.'000	Held to Maturity (HTM) Rs.'000	Loans and Receivables (L & R) Rs.'000	Available for Sale (AFS) Rs.'000	Others Rs.'000	Total Rs.'000
ASSETS						
Cash and cash equivalents	–	–	19,732,834	–	–	19,732,834
Balances with central banks	–	–	18,168,039	–	–	18,168,039
Placements with banks	–	–	16,162,970	–	–	16,162,970
Derivative financial instruments	1,351,095	–	–	–	–	1,351,095
Financial assets held for trading	6,041,110	–	–	–	–	6,041,110
Loans and receivables to banks	–	–	628,760	–	–	628,760
Loans and receivables to other customers	–	–	372,915,081	–	–	372,915,081
Financial investments	–	–	–	57,963,192	–	57,963,192
Other assets	–	–	–	–	–	–
Total financial assets	7,392,205	–	427,607,684	57,963,192	–	492,963,081
Investments in subsidiaries	–	–	–	–	303,130	303,130
Investments in associates	–	–	–	–	44,331	44,331
Intangible assets	–	–	–	–	497,038	497,038
Property, plant & equipment	–	–	–	–	8,221,118	8,221,118
Leasehold property	–	–	–	–	77,304	77,304
Deferred tax assets	–	–	–	–	448,500	448,500
Other assets	–	–	–	–	9,188,206	9,188,206
Total non-financial assets	–	–	–	–	18,779,627	18,779,627
Total assets	7,392,205	–	427,607,684	57,963,192	18,779,627	511,742,708

	Held for Trading (HFT) Rs.'000	Amortised cost Rs.'000	Others Rs.'000	Total Rs.'000
LIABILITIES				
Due to banks	–	4,763,565	–	4,763,565
Derivative financial instruments	84,291	–	–	84,291
Other financial liabilities held for trading	–	–	–	–
Due to other customers	–	390,611,548	–	390,611,548
Other borrowings	–	47,713,199	–	47,713,199
Debt securities issued	–	–	–	–
Other liabilities	–	–	–	–
Subordinated term debts	–	1,106,016	–	1,106,016
Total financial liabilities	84,291	444,194,328	–	444,278,619
Current tax liabilities	–	–	2,801,541	2,801,541
Deferred tax liabilities	–	–	1,698,067	1,698,067
Other provisions	–	–	2,409	2,409
Other liabilities	–	–	10,362,808	10,362,808
Due to subsidiaries	–	–	22,264	22,264
Total non-financial liabilities	–	–	14,887,089	14,887,089
Total liabilities	84,291	444,194,328	14,887,089	459,165,708

19.2 Bank - 2011

	Held for Trading (HFT) Rs.'000	Held to Maturity (HTM) Rs.'000	Loans and Receivables (L & R) Rs.'000	Available for Sale (AFS) Rs.'000	Others Rs.'000	Total Rs.'000
ASSETS						
Cash and cash equivalents	–	–	12,910,989	–	–	12,910,989
Balances with central banks	–	–	17,342,959	–	–	17,342,959
Placements with banks	–	–	11,674,363	–	–	11,674,363
Derivative financial instruments	39,612	–	–	–	–	39,612
Financial assets held for trading	6,418,010	–	–	–	–	6,418,010
Loans and receivables to banks	–	–	580,158	–	–	580,158
Loans and receivables to other customers	–	–	314,485,967	–	–	314,485,967
Financial investments	–	–	–	61,415,395	–	61,415,395
Other assets						–
Total financial assets	6,457,622	–	356,994,436	61,415,395	–	424,867,453
Investments in subsidiaries	–	–	–	–	315,444	315,444
Investments in associates	–	–	–	–	44,331	44,331
Intangible assets	–	–	–	–	467,014	467,014
Property, plant & equipment	–	–	–	–	7,907,030	7,907,030
Leasehold property	–	–	–	–	78,246	78,246
Deferred tax assets	–	–	–	–	359,617	359,617
Other assets	–	–	–	–	7,290,514	7,290,514
Total non-financial assets	–	–	–	–	16,462,196	16,462,196
Total assets	6,457,622	–	356,994,436	61,415,395	16,462,196	441,329,649

	Held for Trading (HFT) Rs.'000	Amortised cost Rs.'000	Others Rs.'000	Total Rs.'000
LIABILITIES				
Due to banks	–	11,574,105	–	11,574,105
Derivative financial instruments	435,171	–	–	435,171
Other Financial liabilities held for trading	–	–	–	–
Due to other customers	–	323,754,748	–	323,754,748
Other borrowings	–	49,603,142	–	49,603,142
Debt securities issued	–	–	–	–
Other liabilities	–	–	–	–
Subordinated term debts		1,105,639		1,105,639
Total financial liabilities	435,171	386,037,634	–	386,472,805
Current tax liabilities	–	–	1,305,442	1,305,442
Deferred tax liabilities	–	–	1,594,086	1,594,086
Other provisions	–	–	535	535
Other liabilities	–	–	8,162,382	8,162,382
Due to Subsidiaries	–	–	29,734	29,734
Total non-financial liabilities	–	–	11,092,179	11,092,179
Total liabilities	435,171	386,037,634	11,092,179	397,564,984

20. Cash and Cash Equivalents

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	**2012 Rs. '000**	2011 Rs. '000	January 1, 2011 Rs. '000
Cash in hand						
Coins and notes held in local currency	**9,993,872**	7,926,727	5,610,040	**9,974,501**	7,902,721	5,562,824
Coins and notes held in foreign currency	**1,100,258**	612,124	573,927	**1,100,258**	612,124	573,927
Balances with banks	**4,140,608**	2,707,563	1,553,139	**4,140,608**	2,707,563	1,553,139
Money at call and short notice	**4,517,467**	1,688,581	579,942	**4,517,467**	1,688,581	579,942
Total	**19,752,205**	12,934,995	8,317,048	**19,732,834**	12,910,989	8,269,832

21. Balances with Central Banks

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	**2012 Rs. '000**	2011 Rs. '000	January 1, 2011 Rs. '000
Statutory balances with central banks						
Central Bank of Sri Lanka	**15,786,899**	15,354,543	10,110,850	**15,786,899**	15,354,543	10,110,850
Bangladesh Bank	**2,381,140**	1,988,416	2,077,984	**2,381,140**	1,988,416	2,077,984
Non-statutory balances with central banks	**–**	–	–	**–**	–	–
Central Bank of Sri Lanka	**–**	–	–	**–**	–	–
Bangladesh Bank	**–**	–	–	**–**	–	–
Total	**18,168,039**	17,342,959	12,188,834	**18,168,039**	17,342,959	12,188,834

As required by the provisions of Section 93 of the Monetary Law Act, a cash balance is maintained with the Central Bank of Sri Lanka. As at December 31, 2012, the minimum cash reserve requirement was 8.00% of the rupee deposit liabilities (8.00% in 2011). There is no reserve requirement for foreign currency deposit liabilities of the Domestic Banking Unit and the deposit liabilities of the Off-shore Banking Centre in Sri Lanka.

As per the Bangladesh Bank regulations, the Statutory Liquidity Requirement is 19.00% (19.00% in 2011) on time and demand liabilities (both local and foreign currencies), which includes a 6.00% (6.00% in 2011) cash reserve requirement and the balance 13.00% is permitted to be maintained in foreign currency and/or also in unencumbered securities held with the Bangladesh Bank.

22. Placements with Banks

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	**2012 Rs. '000**	2011 Rs. '000	January 1, 2011 Rs. '000
Placements - Sri Lanka	**3,584,000**	3,432,390	1,112,000	**3,584,000**	3,432,390	1,112,000
Placements - Outside Sri Lanka	**12,578,970**	8,241,973	723,260	**12,578,970**	8,241,973	723,260
Total	**16,162,970**	11,674,363	1,835,260	**16,162,970**	11,674,363	1,835,260

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	**2012 Rs. '000**	2011 Rs. '000	January 1, 2011 Rs. '000

23. Derivative Financial Instruments

	GROUP 2012	GROUP 2011	GROUP January 1, 2011	BANK 2012	BANK 2011	BANK January 1, 2011
Interest rate derivatives						
Interest rate swaps	**–**	109	1,006	**–**	109	1,006
Foreign currency derivatives						
Forward foreign exchange contracts	**1,351,095**	39,503	168,910	**1,351,095**	39,503	168,910
Total	**1,351,095**	39,612	169,916	**1,351,095**	39,612	169,916

24. Other Financial Assets Held for Trading

	GROUP 2012	GROUP 2011	GROUP January 1, 2011	BANK 2012	BANK 2011	BANK January 1, 2011
Sri Lanka Government Securities [Refer Note 24.1]	**5,718,231**	6,193,392	10,192,150	**5,718,231**	6,193,392	10,192,150
Equity shares [Refer Note 24.2]	**322,879**	224,618	184,791	**322,879**	224,618	184,791
Total	**6,041,110**	6,418,010	10,376,941	**6,041,110**	6,418,010	10,376,941

24.1 Investments in Government Securities

	GROUP 2012	GROUP 2011	GROUP January 1, 2011	BANK 2012	BANK 2011	BANK January 1, 2011
Treasury Bills	**4,175,815**	4,062,170	3,772,580	**4,175,815**	4,062,170	3,772,580
Treasury Bonds	**1,542,416**	2,013,449	5,812,444	**1,542,416**	2,013,449	5,812,444
Sri Lanka Sovereign Bonds	**–**	117,773	607,126	**–**	117,773	607,126
Sri Lanka development bond	**–**	–	–	**–**	–	–
Sub Total	**5,718,231**	6,193,392	10,192,150	**5,718,231**	6,193,392	10,192,150

24.2 Equity Shares

	GROUP					
	As at December 31, 2012		As at December 31, 2011		As at January 1, 2011	
	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000
Quoted Shares:						
Tokyo Cement Company (Lanka) PLC	**15,502**	**10,326**	11,490	11,104	14,865	18,934
(535,050 Non-Voting Ordinary Shares)		**(@ Rs. 19.30)**		(@ Rs. 30.50)		(@ Rs. 40.30)
(364,050 Non-Voting Ordinary Shares as at December 31, 2011)						
Dipped Products PLC	**24,239**	**22,000**	24,239	21,300	10,539	10,452
(200,000 Ordinary Shares)		**(@ Rs. 110.00)**		(@ Rs. 106.50)		(@ Rs. 120.00)
(200,000 Ordinary Shares as at December 31, 2011)						
Lanka IOC PLC	**6,740**	**7,020**	4,925	4,625	4,925	4,725
(360,009 Ordinary Shares)		**(@ Rs. 19.50)**		(@ Rs. 18.50)		(@ Rs. 18.90)
(250,000 Ordinary Shares as at December 31, 2011)						
Dialog Axiata PLC	**19,243**	**24,063**	6,757	4,778	20,930	20,796
(2,899,098 Ordinary Shares)		**(@ Rs. 8.30)**		(@ Rs. 7.80)		(@ Rs. 11.80)
(612,500 Ordinary Shares as at December 31, 2011)						
ACL Cables PLC	**10,288**	**8,176**	7,595	6,075	983	919
(121,300 Ordinary Shares)		**(@ Rs. 67.40)**		(@ Rs. 74.00)		(@ Rs. 85.10)
(82,100 Ordinary Shares as at December 31, 2011)						
Pelwatte Sugar Industries PLC	**351**	**289**	351	289	351	337
(12,300 Ordinary Shares)		**(@ Rs. 23.50)**		(@ Rs. 23.50)		(@ Rs. 27.40)
(12,300 Ordinary Shares as at December 31, 2011)						
Overseas Reality Ceylon PLC	**2,512**	**2,506**	2,512	2,436	8,056	7,650
(174,000 Ordinary Shares)		**(@ Rs. 14.40)**		(@ Rs. 14.00)		(@ Rs. 15.30)
(174,000 Ordinary Shares as at December 31, 2011)						
Distilleries Company of Sri Lanka PLC	**69,341**	**71,449**	49,488	44,866	21,909	27,020
(430,417 Ordinary Shares)		**(@ Rs. 166.00)**		(@ Rs. 147.10)		(@ Rs. 178.00)
(305,000 Ordinary Shares as at December 31, 2011)						
Lanka Milk Foods (CWE) PLC	**27,866**	**25,000**	27,866	26,775	27,866	28,250
(250,000 Ordinary Shares)		**(@ Rs. 100.00)**		(@ Rs. 107.10)		(@ Rs. 113.00)
(250,000 Ordinary Shares as at December 31, 2011)						
Chemical Industries Colombo PLC	**11,692**	**8,909**	14,590	15,508	14,590	19,556
(161,400 Non-Voting Ordinary Shares)		**(@ Rs. 55.20)**		(@ Rs. 77.00)		(@ Rs. 97.10)
(201,400 Non-Voting Ordinary Shares as at December 31, 2011)						

BANK					
As at December 31, 2012		As at December 31, 2011		As at January 1, 2011	
Cost Rs. '000	**Market Value Rs. '000**	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000
15,502	**10,326**	11,490	11,104	14,865	18,934
	(@ Rs. 19.30)		(@ Rs. 30.50)		(@ Rs. 40.30)
24,239	**22,000**	24,239	21,300	10,539	10,452
	(@ Rs. 110.00)		(@ Rs. 106.50)		(@ Rs. 120.00)
6,740	**7,020**	4,925	4,625	4,925	4,725
	(@ Rs. 19.50)		(@ Rs. 18.50)		(@ Rs. 18.90)
19,243	**24,063**	6,757	4,778	20,930	20,796
	(@ Rs. 8.30)		(@ Rs. 7.80)		(@ Rs. 11.80)
10,288	**8,176**	7,595	6,075	983	919
	(@ Rs. 67.40)		(@ Rs. 74.00)		(@ Rs. 85.10)
351	**289**	351	289	351	337
	(@ Rs. 23.50)		(@ Rs. 23.50)		(@ Rs. 27.40)
2,512	**2,506**	2,512	2,436	8,056	7,650
	(@ Rs. 14.40)		(@ Rs. 14.00)		(@ Rs. 15.30)
69,341	**71,449**	49,488	44,866	21,909	27,020
	(@ Rs. 166.00)		(@ Rs. 147.10)		(@ Rs. 178.00)
27,866	**25,000**	27,866	26,775	27,866	28,250
	(@ Rs. 100.00)		(@ Rs. 107.10)		(@ Rs. 113.00)
11,692	**8,909**	14,590	15,508	14,590	19,556
	(@ Rs. 55.20)		(@ Rs. 77.00)		(@ Rs. 97.10)

	GROUP					
	As at December 31, 2012		As at December 31, 2011		As at January 1, 2011	
	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000
Haycarb PLC	**31,748**	**35,070**	1,251	1,101	1,251	1,196
(204,968 Ordinary Shares)		**(@ Rs. 171.10)**		(@ Rs. 155.00)		(@ Rs. 168.50)
(7,100 Ordinary Shares as at December 31, 2011)						
Ceylon Hospitals PLC	**4,423**	**4,094**	4,423	3,849	411	456
(61,100 Non-Voting Ordinary Shares)		**(@ Rs. 67.00)**		(@ Rs. 63.00)		(@ Rs. 82.90)
(61,100 Non-Voting Ordinary Shares as at December 31, 2011)						
Lanka Walltile PLC	**5**	**4**	5	6	3,431	4,234
(60 Ordinary Shares)		**(@ Rs. 60.80)**		(@ Rs. 94.50)		(@ Rs. 131.90)
(60 Ordinary Shares as at December 31, 2011)						
NDB Bank PLC	**13,348**	**13,790**	18,884	13,810	–	–
(100,000 Ordinary Shares)		**(@ Rs. 137.90)**		(@ Rs. 138.10)		–
(100,000 Ordinary Shares as at December 31, 2011)						
Ceylon Hospitals PLC	**16,665**	**14,435**	16,665	13,337	–	–
(156,900 Ordinary Shares)		**(@ Rs. 92.00)**		(@ Rs. 85.00)		–
(156,900 Ordinary Shares as at December 31, 2011)						
Kotagala Plantations PLC	**156**	**104**	156	90	–	–
(1,400 Ordinary Shares)		**(@ Rs. 74.00)**		(@ Rs. 64.30)		–
(1,400 Ordinary Shares as at December 31, 2011)						
Hatton National Bank PLC	**5,013**	**6,031**	21,567	18,653	–	–
(53,608 Non-Voting Ordinary Shares)		**(@ Rs. 112.50)**		(@ Rs. 83.20)		–
(224,200 Ordinary Shares as at December 31, 2011)						
DFCC Bank PLC	**6,353**	**6,142**	11,141	10,771	–	–
(54,400 Ordinary Shares)		**(@ Rs. 112.90)**		(@ Rs. 112.90)		–
(95,400 Ordinary Shares as at December 31, 2011)						
Royal Ceramics Lanka PLC	**7,772**	**5,445**	7,772	7,783	–	–
(55,000 Ordinary Shares)		**(@ Rs. 99.00)**		(@ Rs. 141.50)		–
(55,000 Ordinary Shares as at December 31, 2011)						
COCO Lanka PLC	**7,062**	**7,316**	–	–	3,087	3,364
(201,000 Ordinary Shares)		**(@ Rs. 36.40)**		–		(@ Rs. 60.50)
(2011 - Nil)						
Citizen Development Bank PLC	**4,130**	**3,719**	–	–	–	–
(123,950 Non-Voting Ordinary Shares)		**(@ Rs. 30.00)**		–		–
(2011 - Nil)						

BANK					
As at December 31, 2012		As at December 31, 2011		As at January 1, 2011	
Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000
31,748	**35,070**	1,251	1,101	1,251	1,196
	(@ Rs. 171.10)		(@ Rs. 155.00)		(@ Rs. 168.50)
4,423	**4,094**	4,423	3,849	411	456
	(@ Rs. 67.00)		(@ Rs. 63.00)		(@ Rs. 82.90)
5	**4**	5	6	3,431	4,234
	(@ Rs. 60.80)		(@ Rs. 94.50)		(@ Rs. 131.90)
13,348	**13,790**	18,884	13,810	–	–
	(@ Rs. 137.90)		(@ Rs. 138.10)		–
16,665	**14,435**	16,665	13,337	–	–
	(@ Rs. 92.00)		(@ Rs. 85.00)		–
156	**104**	156	90	–	–
	(@ Rs. 74.00)		(@ Rs. 64.30)		–
5,013	**6,031**	21,567	18,653	–	–
	(@ Rs. 112.50)		(@ Rs. 83.20)		–
6,353	**6,142**	11,141	10,771	–	–
	(@ Rs. 112.90)		(@ Rs. 112.90)		–
7,772	**5,445**	7,772	7,783	–	–
	(@ Rs. 99.00)		(@ Rs. 141.50)		–
7,062	**7,316**	–	–	3,087	3,364
	(@ Rs. 36.40)		–		(@ Rs. 60.50)
4,130	**3,719**	–	–	–	–
	(@ Rs. 30.00)		–		–

	GROUP					
	As at December 31, 2012		As at December 31, 2011		As at January 1, 2011	
	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000
Lanka Venture PLC	3,033	3,200	–	–	–	–
(100,000 Ordinary Shares)		(@ Rs. 32.00)		–		–
(2011 - Nil)						
COCO Lanka PLC	15	15	–	–	–	–
(500 Non-Voting Ordinary Shares)		(@ Rs. 29.50)		–		–
(2011 - Nil)						
Renuka Holdings PLC	2,477	2,450	–	–	–	–
(100,000 Non-Voting Ordinary Shares)		(@ Rs. 24.50)		–		–
(2011 - Nil)						
Renuka Holdings PLC	1,770	1,805	–	–	–	–
(50,000 Ordinary Shares)		(@ Rs. 36.10)				
(2011 - Nil)						
Hemas Power PLC	4,622	4,864	–	–	–	–
(222,100 Ordinary Shares)		(@ Rs. 21.90)				
(2011 - Nil)						
Hatton National Bank PLC	29,925	30,728	–	–	–	–
(207,623 Ordinary Shares)		(@ Rs. 148.00)				
(2011 - Nil)						
Property Developments Ltd.	4,693	3,929	–	–	–	–
(83,235 Ordinary Shares)		(@ Rs. 47.20)				
(2011 - Nil)						
Tokyo Cement Company (Lanka) PLC	–	–	1,603	1,703	–	–
(2012 - Nil)		–		(@ Rs. 44.00)		–
(38,700 Ordinary Shares as at December 31, 2011)						
Chevron Lubricants Lanka PLC	–	–	15,391	15,759	–	–
(2012 - Nil)				(@ Rs. 170.00)		–
(92,700 Ordinary Shares as at December 31, 2011)						
Hemas Holdings PLC	–	–	–	–	3,642	4,072
(2012 - Nil)		–		–		(@ Rs. 44.50)
(2011 - Nil)						
Chemical Industries Colombo PLC	–	–	–	–	5,102	5,723
(2012 - Nil)		–		–		(@ Rs. 139.10)
(2011 - Nil)						

BANK					
As at December 31, 2012		As at December 31, 2011		As at January 1, 2011	
Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000
3,033	3,200	–	–	–	–
	(@ Rs. 32.00)		–		–
15	15	–	–	–	–
	(@ Rs. 29.50)		–		–
2,477	2,450	–	–	–	–
	(@ Rs. 24.50)		–		–
1,770	1,805	–	–	–	–
	(@ Rs. 36.10)				
4,622	4,864	–	–	–	–
	(@ Rs. 21.90)				
29,925	30,728	–	–	–	–
	(@ Rs. 148.00)				
4,693	3,929	–	–	–	–
	(@ Rs. 47.20)				
–	–	1,603	1,703	–	–
	–		(@ Rs. 44.00)		–
–	–	15,391	15,759	–	–
			(@ Rs. 170.00)		–
–	–	–	–	3,642	4,072
	–		–		(@ Rs. 44.50)
–	–	–	–	5,102	5,723
	–		–		(@ Rs. 139.10)

	GROUP					
	As at December 31, 2012		As at December 31, 2011		As at January 1, 2011	
	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000
Ceylinco Insurance PLC	–	–	–	–	9,169	11,367
(2012 - Nil)		–		–		(@ Rs. 270.00)
(2011 - Nil)						
Citizen Development Bank PLC	–	–	–	–	1,051	1,048
(2012 - Nil)		–		–		(@ Rs. 52.40)
(2011 - Nil)						
Sri Lanka Telecom PLC	–	–	–	–	13,543	13,757
(2012 - Nil)		–		–		(@ Rs. 48.00)
(2011 - Nil)						
Laugfs Gas PLC	–	–	–	–	750	935
(2012 - Nil)		–		–		(@ Rs. 18.70)
(2011 - Nil)						
Sub total	330,984	322,879	248,671	224,618	166,451	184,791
Mark to market gain/(loss)	(8,105)		(24,053)		18,340	
Total	322,879		224,618		184,791	

24.3 Equity Shares - Composition

Issued by

Banks	58,769	60,410	51,592	43,234	1,051	1,048
Corporate entities	272,215	262,469	197,079	181,384	165,400	183,743
Sub total	330,984	322,879	248,671	224,618	166,451	184,791

BANK					
As at December 31, 2012		As at December 31, 2011		As at January 1, 2011	
Cost Rs. '000	**Market Value Rs. '000**	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000
–	–	–	–	9,169	11,367
	–		–		(@ Rs. 270.00)
–	–	–	–	1,051	1,048
	–		–		(@ Rs. 52.40)
–	–	–	–	13,543	13,757
	–		–		(@ Rs. 48.00)
–	–	–	–	750	935
	–		–		(@ Rs. 18.70)
330,984	322,879	248,671	224,618	166,451	184,791
(8,105)		(24,053)		18,340	
322,879		224,618		184,791	
58,769	60,410	51,592	43,234	1,051	1,048
272,215	262,469	197,079	181,384	165,400	183,743
330,984	322,879	248,671	224,618	166,451	184,791

25. Loans and Receivables to Banks

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	**2012 Rs. '000**	2011 Rs. '000	January 1, 2011 Rs. '000
Loans and receivables to banks						
Gross loans and receivables	**628,760**	580,158	568,704	**628,760**	580,158	568,704
Less: Allowance for Individual impairment [Refer 25.2]	**–**	–	–	**–**	–	–
Net loans and receivables	**628,760**	580,158	568,704	**628,760**	580,158	568,704

25.1 Analysis

25.1 (a) By product

	GROUP 2012	2011	January 1, 2011	BANK 2012	2011	January 1, 2011
Loans and advances						
Overdrafts	**–**	–	–	**–**	–	–
Short-term loans	**–**	–	–	**–**	–	–
Long-term loans	**–**	–	–	**–**	–	–
Reverse repo agreements	**–**	–	–	**–**	–	–
Others						
Sri Lanka Government Securities	**–**	–	–	**–**	–	–
Investments [Refer Note 25.3]	**95,000**	104,778	105,000	**95,000**	104,778	105,000
Others (*)	**533,760**	475,380	463,704	**533,760**	475,380	463,704
Gross total	**628,760**	580,158	568,704	**628,760**	580,158	568,704

*(*) The Bank did not make payments to counter party banks for the oil hedging transactions with effect from June 2, 2009 in response to a Directive received from the Exchange Controller of the Central Bank of Sri Lanka. Consequently, one of the counter party bank appropriated USD 4.172 Mn. (Rs. 533.760 Mn.) which was kept as a deposit with them. This action has been contested by the Bank. In view of the stance taken by the Bank in this regard, both the deposit and the amount due to the said counter party bank were recorded in the Statement of Financial Position.*

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	**2012 Rs. '000**	2011 Rs. '000	January 1, 2011 Rs. '000
25.1 (b) By currency						
Sri Lankan Rupee	**95,000**	104,778	105,000	**95,000**	104,778	105,000
United States Dollar	**533,760**	475,380	463,704	**533,760**	475,380	463,704
Great Britain Pounds	**–**	–	–	**–**	–	–
Bangladesh Taka	**–**	–	–	**–**	–	–
Others	**–**	–	–	**–**	–	–
Gross total	**628,760**	580,158	568,704	**628,760**	580,158	568,704

25.2 Movement in Allowance for Individual Impairment

	GROUP 2012	2011	January 1, 2011	BANK 2012	2011	January 1, 2011
Opening balance	**–**	–	–	**–**	–	–
Charge/(Write back) to the Income Statement	**–**	–	–	**–**	–	–
Write-off during the year	**–**	–	–	**–**	–	–
Other movements	**–**	–	–	**–**	–	–
Closing balance	**–**	–	–	**–**	–	–

25.3 Investments

	GROUP						BANK					
	As at December 31, 2012		As at December 31, 2011		As at January 1, 2011		As at December 31, 2012		As at December 31, 2011		As at January 1, 2011	
	Cost Rs. '000	**Market Value Rs. '000**	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000	**Cost Rs. '000**	**Market Value Rs. '000**	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000
Nations Trust Bank PLC (20.53% - 2013)												
(95,000 Debentures of Rs. 1,000.00 each)	**95,000**	**95,000**	104,778	104,778	95,000	95,000	**95,000**	**95,000**	104,778	104,778	95,000	95,000
(95,000 Debentures of Rs. 1,000.00 each as at December 31, 2011)		**(@ Rs. 1,000.00)**		(@ Rs. 1,000.00)		(@ Rs. 1,000.00)		**(@ Rs. 1,000.00)**		(@ Rs. 1,000.00)		(@ Rs. 1,000.00)
DFCC Bank PLC (Floating rate - 2011)	**–**	**–**	–	–	10,000	10,000	**–**	**–**	–	–	10,000	10,000
(2012 - Nil)		**–**		–		(@ Rs. 1,000.00)		**–**		–		(@ Rs. 1,000.00)
(2011 - Nil)												
Total	**95,000**	**95,000**	104,778	104,778	105,000	105,000	**95,000**	**95,000**	104,778	104,778	105,000	105,000

26. Loans and Receivables to Other Customers

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	**2012 Rs. '000**	2011 Rs. '000	January 1, 2011 Rs. '000
Gross loans and receivables [Refer Note 26.1]	**386,358,564**	325,927,890	259,656,153	**386,416,308**	326,086,859	259,879,053
Less: Allowance for individual impairment [Refer 26.2]	**3,402,168**	3,363,859	2,231,520	**3,402,168**	3,363,859	2,231,520
Allowance for collective impairment [Refer 26.2]	**10,099,059**	8,237,033	9,114,586	**10,099,059**	8,237,033	9,114,586
Net loans and receivables	**372,857,337**	314,326,998	248,310,047	**372,915,081**	314,485,967	248,532,947

26.1 Analysis

26.1 (a) By product

Loans and advances						
Overdrafts	**69,476,949**	60,306,298	48,879,783	**69,477,242**	60,309,228	48,879,783
Trade finance	**39,006,056**	35,666,637	33,290,177	**39,006,056**	35,666,637	33,290,177
Lease receivable (*)	**25,188,248**	21,511,965	11,684,434	**25,245,649**	21,668,460	11,906,631
Credit cards	**2,779,375**	2,186,796	1,657,829	**2,779,375**	2,186,796	1,657,829
Pawning	**10,947,448**	11,700,829	2,152,821	**10,947,448**	11,700,829	2,152,821
Staff loans	**3,175,953**	2,845,463	2,740,105	**3,175,953**	2,844,982	2,739,440
Housing loans	**25,466,504**	22,549,457	18,098,050	**25,466,504**	22,549,457	18,098,050
Personal loans	**18,016,009**	20,558,927	17,432,072	**18,016,009**	20,558,927	17,432,072
Term loans						
Short-term	**29,144,209**	19,007,256	18,043,680	**29,144,259**	19,007,281	18,045,047
Long-term	**111,155,039**	84,113,158	68,708,463	**111,155,039**	84,113,158	68,708,463
Bills of Exchange	**5,685,865**	7,652,428	5,396,602	**5,685,865**	7,652,428	5,396,602
Securities purchased under resale agreements	**3,697,682**	1,544,693	12,954	**3,697,682**	1,544,693	12,954
Sub total of gross loans and advances	**343,739,337**	289,643,907	228,096,970	**343,797,081**	289,802,876	228,319,869
Others						
Government securities	**39,283,936**	32,546,230	29,188,343	**39,283,936**	32,546,230	29,188,344
Investments	**3,335,291**	3,737,753	2,370,840	**3,335,291**	3,737,753	2,370,840
Sub total	**42,619,227**	36,283,983	31,559,183	**42,619,227**	36,283,983	31,559,184
Total of gross loans and receivables	**386,358,564**	325,927,890	259,656,153	**386,416,308**	326,086,859	259,879,053

** The product wise analysis was based on the criteria used for the purpose of impairment computation. Therefore, the lease rentals receivable amount classified based on the impairment criterion.*

	GROUP			BANK		
	2012 **Rs. '000**	2011 Rs. '000	January 1, 2011 Rs. '000	**2012** **Rs. '000**	2011 Rs. '000	January 1, 2011 Rs. '000
26.1 (b) By currency						
Sri Lanka rupee	**285,107,232**	247,572,721	188,065,971	**285,164,976**	247,731,690	188,288,871
United States dollar	**69,930,980**	57,379,038	51,548,023	**69,930,980**	57,379,038	51,548,023
Great Britain pound	**525,914**	382,953	117,338	**525,914**	382,953	117,338
Euro currency	**867,484**	1,113,916	312,724	**867,484**	1,113,916	312,724
Australian dollar	**105,795**	72,611	57,674	**105,795**	72,611	57,674
Japanese yen	**12,111**	212,508	65,225	**12,111**	212,508	65,225
Singapore dollars	**715**	59,541	107,095	**715**	59,541	107,095
Bangladesh taka	**29,779,782**	19,128,919	19,369,292	**29,779,782**	19,128,919	19,369,292
Others	**28,551**	5,683	12,811	**28,551**	5,683	12,811
Gross total	**386,358,564**	325,927,890	259,656,153	**386,416,308**	326,086,859	259,879,053
26.1 (c) By Industry (*)						
Agriculture and fishing	**37,799,861**	33,103,202	26,174,187	**37,799,861**	33,103,202	26,174,187
Manufacturing	**43,557,515**	42,411,190	35,272,857	**43,557,515**	42,411,190	35,272,857
Tourism	**12,203,840**	10,919,354	7,727,796	**12,203,840**	10,919,354	7,727,796
Transport	**5,665,451**	4,754,633	2,678,048	**5,665,451**	4,754,633	2,678,048
Construction	**29,425,050**	26,598,500	19,448,857	**29,425,050**	26,598,500	19,448,857
Traders	**49,426,885**	31,053,542	20,175,744	**49,426,885**	31,053,542	20,175,744
New economy	**5,456,003**	4,475,863	2,947,975	**5,456,003**	4,475,863	2,947,975
Financial and Business Services	**15,112,163**	13,410,350	10,118,060	**15,112,163**	13,410,350	10,118,060
Infrastructure	**6,917,962**	2,557,929	1,716,001	**6,917,962**	2,557,929	1,716,001
Other Services	**27,135,490**	26,106,613	21,341,692	**27,135,490**	26,106,613	21,341,692
Other Customers	**111,039,177**	94,252,731	80,495,753	**111,096,861**	94,411,700	80,718,652
Gross total	**343,739,337**	289,643,907	228,096,970	**343,797,081**	289,802,876	228,319,869

** Industry-wise breakdown is provided only for loans and advances.*

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	**2012 Rs. '000**	2011 Rs. '000	January 1, 2011 Rs. '000
26.2 Movement in Allowance for Individual and Collective Impairment during the Year						
Movement in Allowance for Individual Impairment						
Opening balance	**3,363,859**	2,231,520	–	**3,363,859**	2,231,520	–
Charge/(write back) to the income statement	**1,296,697**	2,592,879	3,524,491	**1,296,697**	2,592,879	3,524,491
Net write-off/(recoveries) during the year	**(1,491,247)**	(1,351,607)	(1,278,953)	**(1,491,247)**	(1,351,607)	(1,278,953)
Exchange rate variance on foreign currency provisions	**14,807**	1,853	(14,018)	**14,807**	1,853	(14,018)
Interest accrued on impaired loans and advances	**(249,760)**	(285,139)	–	**(249,760)**	(285,139)	–
Other movements	**467,812**	174,353	–	**467,812**	174,353	–
Closing balance	**3,402,168**	3,363,859	2,231,520	**3,402,168**	3,363,859	2,231,520
Movement in Allowance for Collective Impairment						
Opening balance	**8,237,033**	9,114,586	–	**8,237,033**	9,114,586	–
Charge/(write back) to the income statement	**1,856,688**	(869,609)	9,122,689	**1,856,688**	(869,609)	9,122,689
Exchange rate variance on foreign currency provisions	**5,338**	(7,944)	(8,103)	**5,338**	(7,944)	(8,103)
Closing balance	**10,099,059**	8,237,033	9,114,586	**10,099,059**	8,237,033	9,114,586
Total of individual and collective impairment	**13,501,227**	11,600,892	11,346,106	**13,501,227**	11,600,892	11,346,106
26.3 Lease Rentals Receivable						
26.3 (a) Lease Rentals Receivable within One Year						
Total lease rentals receivable within one year	**11,658,721**	9,228,926	5,905,473	**11,692,130**	9,315,662	6,005,734
Less: Unearned lease income	**3,315,301**	2,761,696	1,714,562	**3,315,301**	2,787,726	1,754,275
Provision for individual impairment	**16,366**	10,194	6,346	**16,366**	10,194	6,346
Provision for collective impairment	**192,440**	106,201	70,004	**192,440**	106,201	70,004
Sub total	**8,134,614**	6,350,835	4,114,561	**8,168,023**	6,411,541	4,175,109
26.3 (b) Lease Rentals Receivable from One to Five Years						
Total lease rentals receivable from one to five years	**20,005,414**	17,427,346	8,781,282	**20,029,406**	17,539,828	8,987,022
Less: Unearned lease income	**3,305,888**	2,516,142	1,417,705	**3,305,888**	2,532,835	1,461,797
Provision for individual impairment	**33,735**	24,137	11,528	**33,735**	24,137	11,528
Provision for collective impairment	**396,667**	251,449	127,160	**396,667**	251,449	127,160
Sub total	**16,269,124**	14,635,618	7,224,889	**16,293,116**	14,731,407	7,386,537

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000

26.3 (c) Lease Rentals Receivable after Five Years

Total lease rentals receivable after five years	**209**	4,186	2,211	**209**	4,186	2,211
Less: Unearned lease income	**6**	130	114	**6**	130	114
Provision for individual impairment	**–**	7	3	**–**	7	3
Provision for collective impairment	**5**	68	35	**5**	68	35
Sub total	**198**	3,981	2,059	**198**	3,981	2,059
Total gross lease receivable	**25,043,149**	21,382,490	11,556,585	**25,100,550**	21,538,985	11,778,781
Total net lease receivable	**24,403,936**	20,990,434	11,341,509	**24,461,337**	21,146,929	11,563,705

26.3 (d) Movement in Allowance for Individual Impairment on Lease Rentals Receivable

Opening balance	**34,337**	17,877	–	**34,337**	17,877	–
Charge/(write back) to the income statement	**74,471**	214,385	310,276	**74,471**	214,385	310,276
Net write-off/(recoveries) during the year	**(58,114)**	(171,038)	(292,399)	**(58,114)**	(171,038)	(292,399)
Exchange rate variance on foreign currency provisions	**–**	–	–	**–**	–	–
Interest accrued on impaired loans and advances	**(1,270)**	(27,615)	–	**(1,270)**	(27,615)	–
Other movements	**676**	728	–	**676**	728	–
Closing balance	**50,100**	34,337	17,877	**50,100**	34,337	17,877

26.3 (e) Movement in the Allowance for Collective Impairment on Lease Rentals Receivable

Opening balance	**357,719**	197,201	–	**357,719**	197,201	–
Charge/(write back) to the Income Statement	**231,394**	160,518	197,201	**231,394**	160,518	197,201
Exchange rate variance on foreign currency provisions	**–**	–	–	**–**	–	–
Other movements	**–**	–	–	**–**	–	–
Closing balance	**589,113**	357,719	197,201	**589,113**	357,719	197,201
Total of Individual and Collective impairment on Lease Rental Receivable	**639,213**	392,056	215,078	**639,213**	392,056	215,078

26.4 Summary of Gross Loans and Receivables to Other Customers

26.4 (a) Gross Loans and Receivables to Other Customers

Bill of Exchange	**5,685,865**	7,652,428	5,396,602	**5,685,865**	7,652,428	5,396,602
Loans and advances	**309,167,542**	258,934,821	211,002,980	**309,167,885**	258,937,295	211,003,682
Lease receivable	**25,188,248**	21,511,965	11,684,434	**25,245,649**	21,668,460	11,906,631
Securities purchased under resale agreements	**3,697,682**	1,544,693	12,954	**3,697,682**	1,544,693	12,954
Total gross loans and advances	**343,739,337**	289,643,907	228,096,970	**343,797,081**	289,802,876	228,319,869

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
26.4 (b) Gross Other Receivables						
Government Securities [Refer Note 26.5]	**39,283,936**	32,546,230	29,188,343	**39,283,936**	32,546,230	29,188,343
Investments [Refer Note 26.6]	**3,335,291**	3,737,753	2,370,840	**3,335,291**	3,737,753	2,370,840
Total gross other receivables	**42,619,227**	36,283,983	31,559,183	**42,619,227**	36,283,983	31,559,183
Total gross loans and receivables to other customers	**386,358,564**	325,927,890	259,656,153	**386,416,308**	326,086,859	259,879,053

26.5 Investment in Government Securities

Investments in Government Securities - Sri Lanka

	GROUP 2012	GROUP 2011	GROUP January 1, 2011	BANK 2012	BANK 2011	BANK January 1, 2011
Treasury bills	**17,000**	82,960	55,499	**17,000**	82,960	55,499
Treasury bonds	**605,859**	605,827	605,859	**605,859**	605,827	605,859
Sri Lanka development bond	**33,694,269**	27,345,345	26,177,448	**33,694,269**	27,345,345	26,177,448
Sub Total	**34,317,128**	28,034,132	26,838,806	**34,317,128**	28,034,132	26,838,806

Investments in Government Securities - Bangladesh

	GROUP 2012	GROUP 2011	GROUP January 1, 2011	BANK 2012	BANK 2011	BANK January 1, 2011
Treasury bills and bonds	**4,966,808**	4,512,098	2,349,537	**4,966,808**	4,512,098	2,349,537
Sub Total	**4,966,808**	4,512,098	2,349,537	**4,966,808**	4,512,098	2,349,537
Total of Investment in Government Securities	**39,283,936**	32,546,230	29,188,343	**39,283,936**	32,546,230	29,188,343

26.6 Investments

	GROUP 2012	GROUP 2011	GROUP January 1, 2011	BANK 2012	BANK 2011	BANK January 1, 2011
Debentures [Refer Note 26.6 (a)]	**447,296**	447,296	447,847	**447,296**	447,296	447,847
Investments in preference shares [Refer Note 26.6 (b)]	**–**	298,998	597,514	**–**	298,998	597,514
Lease backed securities [Refer Note 26.6 (c)]	**106,477**	333,927	471,760	**106,477**	333,927	471,760
Trust certificates [Refer Note 26.6 (d)]	**2,137,534**	2,537,245	696,317	**2,137,534**	2,537,245	696,317
Corporate debts [Refer Note 26.6 (e)]	**539,831**	–	–	**539,831**	–	–
Corporate bonds in Bangladesh [Refer Note 26.6 (f)]	**104,153**	120,287	157,402	**104,153**	120,287	157,402
Total investment	**3,335,291**	3,737,753	2,370,840	**3,335,291**	3,737,753	2,370,840

	GROUP					
	As at December 31, 2012		As at December 31, 2011		As at January 1, 2011	
	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000
26.6 (a) Debentures						
Urban Development Authority	102,652	92,687	102,652	96,649	103,203	98,600
(1,000,000 Debentures)		(@ Rs. 92.68)		(@ Rs. 96.64)		(@ Rs. 98.60)
(1,000,000 Debentures as at December 31, 2011)						
Urban Development Authority (11% - 2015)	344,644	335,740	344,644	335,740	344,644	335,740
(3,357,400 Debentures of Rs. 100.00 each)		(@ Rs. 100.00)		(@ Rs. 100.00)		(@ Rs. 100.00)
(3,357,400 Debentures of Rs. 100.00 each as at December 31, 2011)						
Sub total	447,296	428,427	447,296	432,389	447,847	434,340
26.6 (b) Investments in Preference Shares						
Dialog Telekom PLC	–	–	298,998	292,500	597,514	585,000
(2012 - Nil)				(@ Rs. 1.00)		(@ Rs. 1.00)
(585,500,000 Preference Shares as at December 31, 2011)						
Sub total	–	–	298,998	292,500	597,514	585,000
26.6 (c) Lease backed securities						
People's Leasing Company PLC	106,477	106,477	333,927	280,700	471,760	448,100
Sub total	106,477	106,477	333,927	280,700	471,760	448,100
26.6 (d) Trust Certificates						
People's Leasing Company PLC	1,297,269	1,297,269	1,334,506	1,256,400	255,159	250,000
LB Finance PLC	573,835	573,835	678,510	615,300	441,158	428,700
Softlogic Finance PLC	184,879	184,879	213,937	199,400	–	–
Central Finance PLC	81,551	81,551	310,292	292,200	–	–
Sub total	2,137,534	2,137,534	2,537,245	2,363,300	696,317	678,700
26.6 (e) Corporate Debts						
Singer Sri Lanka PLC - 2012/2013	539,831	539,831	–	–	–	–
Sub total	539,831	539,831	–	–	–	–
26.6 (f) Bonds in Bangladesh						
Corporate Bonds in Bangladesh	104,153	104,153	120,287	112,589	157,402	157,402
Sub total	104,153	104,153	120,287	112,589	157,402	157,402

BANK					
As at December 31, 2012		As at December 31, 2011		As at January 1, 2011	
Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000
102,652	92,687	102,652	96,649	103,203	98,600
	(@ Rs. 92.68)		(@ Rs. 96.64)		(@ Rs. 98.60)
344,644	335,740	344,644	335,740	344,644	335,740
	(@ Rs. 100.00)		(@ Rs. 100.00)		(@ Rs. 100.00)
447,296	428,427	447,296	432,389	447,847	434,340
–	–	298,998	292,500	597,514	585,000
			(@ Rs. 1.00)		(@ Rs. 1.00)
–	–	298,998	292,500	597,514	585,000
106,477	106,477	333,927	280,700	471,760	448,100
106,477	106,477	333,927	280,700	471,760	448,100
1,297,269	1,297,269	1,334,506	1,256,400	255,159	250,000
573,835	573,835	678,510	615,300	441,158	428,700
184,879	184,879	213,937	199,400	–	–
81,551	81,551	310,292	292,200	–	–
2,137,534	2,137,534	2,537,245	2,363,300	696,317	678,700
539,831	539,831	–	–	–	–
539,831	539,831	–	–	–	–
104,153	104,153	120,287	112,589	157,402	157,402
104,153	104,153	120,287	112,589	157,402	157,402

26.7 Summary of Gross Impaired Loans and Receivables

	2012		2011		January 1, 2011	
	Impaired Loans and Advances Rs. '000	Individual Impairment Rs. '000	Impaired Loans and Advances Rs. '000	Individual Impairment Rs. '000	Impaired Loans and Advances Rs. '000	Individual Impairment Rs. '000
Loans and advances						
Overdrafts	**999,942**	**594,264**	1,036,023	508,293	302,093	114,849
Trade finance	**1,958,765**	**1,142,987**	1,927,963	1,206,391	2,659,271	878,654
Lease rental receivable	**105,247**	**50,099**	65,864	34,337	51,150	17,878
Credit cards						
Pawning						
Staff loans						
Housing loans			9,960	6,981	55,717	10,197
Personal loans	**1,927**	**1,927**	1,736	1,736	1,486	1,486
Term loans	**2,905,405**	**1,612,891**	2,717,997	1,584,073	3,124,730	1,208,456
Bills of exchange			22,345	22,048		
Securities purchased under resale agreements						
Total impaired loans and advances	**5,971,286**	**3,402,168**	5,781,888	3,363,859	6,194,447	2,231,520
Other receivables						
Government securities	**–**		–			
Investments	**–**		–			
Total Impaired other receivable	**–**	**–**	–	–	–	–
Total impaired loans and receivable	**5,971,286**	**3,402,168**	5,781,888	3,363,859	6,194,447	2,231,520

27. Financial Investments - Available-for-Sale

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	**2012 Rs. '000**	2011 Rs. '000	January 1, 2011 Rs. '000
Government securities [Refer Note 27.1]	**57,923,776**	61,385,225	76,293,937	**57,923,776**	61,385,225	76,293,937
Equity securities [Refer Note 27.2]	**39,416**	30,170	60,717	**39,416**	30,170	60,717
Quoted shares - (Marked to market value)	**3,737**	3,723	5,866	**3,737**	3,723	5,866
Unquoted shares	**35,679**	26,447	54,851	**35,679**	26,447	54,851
Total	**57,963,192**	61,415,395	76,354,654	**57,963,192**	61,415,395	76,354,654

27.1 Government Securities

	GROUP			BANK		
Treasury Bills	**29,872,941**	45,903,707	61,805,599	**29,872,941**	45,903,707	61,805,599
Treasury Bonds	**28,050,835**	14,303,785	13,274,086	**28,050,835**	14,303,785	13,274,086
Sri Lanka Sovereign Bonds	**–**	1,177,733	1,214,252	**–**	1,177,733	1,214,252
Total	**57,923,776**	61,385,225	76,293,937	**57,923,776**	61,385,225	76,293,937

27.2 Equity Securities

	GROUP					
	As at December 31, 2012		As at December 31, 2011		As at January 1, 2011	
	Cost Rs. '000	Market Value/ Manager's Buying Price Rs. '000	Cost Rs. '000	Market Value/ Manager's Buying Price Rs. '000	Cost Rs. '000	Market Value/ Manager's Buying Price Rs. '000
Quoted Shares:						
Hatton National Bank PLC	**315**	**1,740**	315	1,748	315	3,072
(11,760 Ordinary Shares)		**(@ Rs. 148.00)**		(@ Rs.151.30)		(@ Rs. 399.90)
(11,550 Ordinary Shares as at December 31, 2011)						
Sampath Bank PLC	**72**	**723**	72	687	72	937
(3,606 Ordinary Shares)		**(@ Rs. 200.50)**		(@ Rs. 195.00)		(@ Rs. 271.90)
(3,525 Ordinary Shares as at December 31, 2011)						
Seylan Bank PLC	**24**	**56**	24	68	24	98
(1,000 Ordinary Shares)		**(@ Rs. 56.00)**		(@ Rs. 67.60)		(@ Rs. 97.80)
(1,000 Ordinary Shares as at December 31, 2011)						
DFCC Bank PLC	**155**	**395**	155	395	155	700
(3,496 Ordinary Shares)		**(@ Rs. 112.90)**		(@ Rs. 112.90)		(@ Rs. 200.20)
(3,496 Ordinary Shares as at December 31, 2011)						
Nations Trust Bank PLC	**22**	**75**	22	76	22	111
(1,333 Ordinary Shares)		**(@ Rs. 56.00)**		(@ Rs. 57.00)		(@ Rs. 83.40)
(1,333 Ordinary Shares as at December 31, 2011)						
NDB Bank PLC	**215**	**748**	215	749	215	948
(5,424 Ordinary Shares)		**(@ Rs. 137.90)**		(@ Rs. 138.10)		(@ Rs. 349.50)
(5,424 Ordinary Shares as at December 31, 2011)						
Sub total	**803**	**3,737**	803	3,723	803	5,866

BANK					
As at December 31, 2012		As at December 31, 2011		As at January 1, 2011	
Cost Rs. '000	Market Value/ Manager's Buying Price Rs. '000	Cost Rs. '000	Market Value/ Manager's Buying Price Rs. '000	Cost Rs. '000	Market Value/ Manager's Buying Price Rs. '000
315	**1,740**	315	1,748	315	3,072
	(@ Rs. 148.00)		(@ Rs. 151.30)		(@ Rs. 399.90)
72	**723**	72	687	72	937
	(@ Rs. 200.50)		(@ Rs. 195.00)		(@ Rs. 271.90)
24	**56**	24	68	24	98
	(@ Rs. 56.00)		(@ Rs. 67.60)		(@ Rs. 97.80)
155	**395**	155	395	155	700
	(@ Rs. 112.90)		(@ Rs. 112.90)		(@ Rs. 200.20)
22	**75**	22	76	22	111
	(@ Rs. 56.00)		(@ Rs. 57.00)		(@ Rs. 83.40)
215	**748**	215	749	215	948
	(@ Rs. 137.90)		(@ Rs. 138.10)		(@ Rs. 349.50)
803	**3,737**	803	3,723	803	5,866

	GROUP					
	As at December 31, 2012		As at December 31, 2011		As at January 1, 2011	
	Cost Rs. '000	Market Value/ Manager's Buying Price Rs. '000	Cost Rs. '000	Market Value/ Manager's Buying Price Rs. '000	Cost Rs. '000	Market Value/ Manager's Buying Price Rs. '000
Unquoted Shares:						
Credit Information Bureau of Sri Lanka	**440**	**440**	440	440	440	440
(4,400 Ordinary Shares)		**(@ Rs. 100.00)**		(@ Rs. 100.00)		(@ Rs. 100.00)
(4,400 Ordinary Shares as at December 31, 2011)						
Fitch Ratings Lanka Ltd.	**625**	**625**	625	625	625	625
(62,500 Ordinary Shares)		**(@ Rs. 10.00)**		(@ Rs. 10.00)		(@ Rs. 10.00)
(62,500 Ordinary Shares as at December 31, 2011)						
Lanka Clear (Pvt) Ltd.	**10,000**	**10,000**	10,000	10,000	10,000	10,000
(1,000,000 Ordinary Shares)		**(@ Rs. 10.00)**		(@ Rs. 10.00)		(@ Rs. 10.00)
(1,000,000 Ordinary Shares as at December 31, 2011)						
Lanka Financial Service Bureau Ltd.	**2,250**	**2,250**	2,250	2,250	2,250	2,250
(225,000 Ordinary Shares)		**(@ Rs. 10.00)**		(@ Rs. 10.00)		(@ Rs. 10.00)
(225,000 Ordinary Shares as at December 31, 2011)						
SWIFT	**7,259**	**7,259**	–	–	–	–
(47 Ordinary Shares)		**–**		–		–
(Nil - Ordinary Shares as at December 31, 2011)						
Central Depository of Bangladesh Ltd.						
(342,782 Shares of Bangladesh Taka 27.47 each. Converted @ Rs.1.60411 per Taka)	**15,105**	**15,105**	13,132	13,132	41,536	41,536
(342,782 Shares of Bangladesh Taka 27.47 each. Converted @ Rs. 1.39458 per Taka as at December 31, 2011)						
Sub total	**35,679**	**35,679**	26,447	26,447	54,851	54,851
Total	**36,482**	**39,416**	27,250	30,170	55,654	60,717

BANK					
As at December 31, 2012		As at December 31, 2011		As at January 1, 2011	
Cost Rs. '000	Market Value/ Manager's Buying Price Rs. '000	Cost Rs. '000	Market Value/ Manager's Buying Price Rs. '000	Cost Rs. '000	Market Value/ Manager's Buying Price Rs. '000
440	**440**	440	440	440	440
	(@ Rs. 100.00)		(@ Rs. 100.00)		(@ Rs. 100.00)
625	**625**	625	625	625	625
	(@ Rs. 10.00)		(@ Rs. 10.00)		(@ Rs. 10.00)
10,000	**10,000**	10,000	10,000	10,000	10,000
	(@ Rs. 10.00)		(@ Rs. 10.00)		(@ Rs. 10.00)
2,250	**2,250**	2,250	2,250	2,250	2,250
	(@ Rs. 10.00)		(@ Rs. 10.00)		(@ Rs. 10.00)
7,259	**7,259**	–	–	–	–
	(@ Rs. 10.00)		–		–
15,105	**15,105**	13,132	13,132	41,536	41,536
35,679	**35,679**	26,447	26,447	54,851	54,851
36,482	**39,416**	27,250	30,170	55,654	60,717

28. Investments in Subsidiaries

		GROUP					
		As at December 31, 2012		As at December 31, 2011		As at January 1, 2011	
	Holding %	**Balance Rs. '000**	**Market Value/ Directors' Valuation Rs. '000**	Balance Rs. '000	Market Value/ Directors' Valuation Rs. '000	Balance Rs. '000	Market Value/ Directors' Valuation Rs. '000
Local Subsidiaries:							
Quoted:							
Commercial Development Company PLC	94.55	–	–	–	–	–	–
(11,345,705 Ordinary Shares)							
(11,345,705 Ordinary Shares as at December 31, 2011)							
Unquoted:							
ONEzero Company Ltd.	100.00	–	–	–	–	–	–
(500,002 Ordinary Shares)							
(500,002 Ordinary Shares as at December 31, 2011)							
Foreign Subsidiary:							
Unquoted:							
Commex - Sri Lanka S.R.L (Incorporated in Italy)	100.00	–	–	–	–	–	–
Gross Total							
Less: Allowance for impairment [Refer Note 28.1]							
Net Total		–	–	–	–	–	–

28.1 Movement in Allowance for Impairment during the year

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	**2012 Rs. '000**	2011 Rs. '000	January 1, 2011 Rs. '000
Opening balance	–	–	–	38,454	–	–
Charge/(write back) to the Income Statement	–	–	–	32,942	38,454	–
Net write-off during the year	–	–	–		–	–
Other movements	–	–	–		–	–
Closing balance	–	–	–	71,396	38,454	–

BANK					
As at December 31, 2012		As at December 31, 2011		As at January 1, 2011	
Balance Rs. '000	Market Value/ Directors' Valuation Rs. '000	Balance Rs. '000	Market Value/ Directors' Valuation Rs. '000	Balance Rs. '000	Market Value/ Directors' Valuation Rs. '000
274,393	692,088	274,393	1,249,162	274,393	612,668
	(@ Rs. 61.00)		(@ Rs. 110.10)		(@ Rs. 54.00)
5,000	5,000	5,000	5,000	5,000	5,000
	(@ Rs. 10.00)		(@ Rs. 10.00)		(@ Rs. 10.00)
95,133	95,133	74,505	74,505	74,505	74,505
374,526	792,221	353,898	1,328,667	353,898	692,173
(71,396)	(71,396)	(38,454)	(38,454)	–	–
303,130	720,825	315,444	1,290,213	353,898	692,173

29. Investments in Associates

	GROUP						
		As at December 31, 2012		As at December 31, 2011		As at January 1, 2011	
	Holding %	Balance Rs. '000	Market Value/ Directors' Valuation Rs. '000	Balance Rs. '000	Market Value/ Directors' Valuation Rs. '000	Balance Rs. '000	Market Value/ Directors' Valuation Rs. '000
Local Associates:							
Unquoted:							
Equity Investments Lanka Ltd.	22.92	**44,331**		44,331		44,331	
(4,110,938 Ordinary Shares)							
(4,110,938 Ordinary Shares as at December 31, 2011)							
Add: Share of profit applicable to the Bank:							
Balance at the beginning of the year		**47,580**		37,472		3,352	
Current year's share of profit after tax		**(21,198)**		12,163		37,278	
Less: Dividend received during the year		**(8,002)**		(2,055)		(3,158)	
Current year's retained profit		**(29,200)**		10,108		34,120	
Balance at the end of the year		**18,380**		47,580		37,472	
Total		**62,711**	**62,711**	91,911	91,911	81,803	81,803
Commercial Insurance Brokers (Pvt) Ltd.	18.91	**100**		100		100	
(120,000 Ordinary Shares)							
(120,000 Ordinary Shares as at December 31, 2011)							
Add: Share of profit applicable to the Bank:							
Balance at the beginning of the year		**27,970**		24,956		24,850	
Current year's share of profit after tax		**3,544**		3,468		538	
Less: Dividend received during the year		**(613)**		(454)		(432)	
Current year's retained profit		**2,931**		3,014		106	
Balance at the end of the year		**30,901**		27,970		24,956	
Total		**31,001**	**31,001**	28,070	28,070	25,056	25,056
Total value of Investments in Unquoted Associates at carrying value on equity basis		**93,712**		119,981		106,859	
Less: Allowance for Impairment		**–**		–		–	
Net Total		**93,712**		119,981		106,859	
Total Market Value/Directors' Valuation of Investments in Associates			**93,712**		119,981		106,859

BANK					
As at December 31, 2012		As at December 31, 2011		As at January 1, 2011	
Balance Rs. '000	**Market Value/ Directors' Valuation Rs. '000**	Balance Rs. '000	Market Value/ Directors' Valuation Rs. '000	Balance Rs. '000	Market Value/ Directors' Valuation Rs. '000
44,331		44,331		44,331	
44,331		44,331		44,331	
–	–	–	–	–	–
–	–	–	–	–	–
44,331		44,331		44,331	
–		–		–	
44,331		44,331		44,331	

30. Property, Plant & Equipment

30.1 Group - 2012

	Freehold Land Rs. '000	Freehold Buildings Rs. '000	Leasehold Buildings Rs. '000	Computer Equipment Rs. '000	Motor Vehicles Rs.'000	Office Equipment & Furniture Rs. '000	Capital Work-in-Progress Rs. '000	**Total 31.12.2012 Rs. '000**	Total 31.12.2011 Rs. '000
Cost/Valuation									
Opening balance	3,340,369	2,118,829	626,755	2,991,766	407,363	3,172,049	62,183	**12,719,314**	10,277,801
Additions during the year	169,371	83,801	3,547	362,217	85,743	468,513	86,887	**1,260,079**	1,391,393
Transfer of accumulated depreciation on assets revalued	–	–	–	–	–	–	–	**–**	(161,279)
Surplus on revaluation of property	–	–	192,237	–	–	–	–	**192,237**	1,669,182
Disposals during the year	–	–	–	(199,527)	(131,485)	(65,397)	–	**(396,409)**	(34,387)
Exchange rate variance	–	–	–	15,064	5,869	34,977	2,614	**58,524**	(42,102)
Transfers/adjustments	(7,000)	7,000	16,087	511	–	(68,047)	(32,681)	**(84,130)**	(381,294)
Closing balance	3,502,740	2,209,630	838,626	3,170,031	367,490	3,542,095	119,003	**13,749,615**	12,719,314
Accumulated Depreciation									
Opening balance	–	–	111,792	2,087,949	259,938	1,756,424	–	**4,216,103**	3,688,573
Charge for the year	–	67,722	34,723	448,211	59,589	332,520	–	**942,765**	734,115
Transfer of accumulated depreciation on assets revalued	–	–	–	–	–	–	–	**–**	(161,279)
Disposals during the year	–	–	–	(197,489)	(86,744)	(51,846)	–	**(336,079)**	(22,654)
Exchange rate variance	–	–	–	12,081	3,545	16,223	–	**31,849**	(22,594)
Transfers/adjustments	–	–	–	281	–	(52,185)	–	**(51,904)**	(58)
Closing balance	–	67,722	146,515	2,351,033	236,328	2,001,136	–	**4,802,734**	4,216,103
Net book value as at 31.12.2012	3,502,740	2,141,908	692,111	818,998	131,162	1,540,959	119,003	**8,946,881**	
Net book value as at 31.12.2011	3,340,369	2,118,829	514,963	903,817	147,425	1,415,625	62,183		8,503,211

The carrying amount of Group's revalued assets that would have been included in the Financial Statements had the assets been carried at cost less depreciation is as follows:

	2012			2011			January 1, 2011		
Class of Asset	**Cost Rs. '000**	**Accumulated Depreciation Rs. '000**	**Net Book Value Rs. '000**	Cost Rs. '000	Accumulated Depreciation Rs. '000	Net Book Value Rs. '000	Cost Rs. '000	Accumulated Depreciation Rs. '000	Net Book Value Rs. '000
Land	**556,930**	**–**	**556,930**	387,559	–	387,559	394,746	–	394,746
Freehold buildings	**1,006,822**	**243,973**	**762,849**	923,021	218,802	704,219	646,172	195,727	450,445
Leasehold buildings	**241,492**	**88,290**	**153,202**	237,945	82,252	155,693	237,945	76,304	161,641
Total	**1,805,244**	**332,263**	**1,472,981**	1,548,525	301,054	1,247,471	1,278,863	272,031	1,006,832

30.2 Group - 2011

	Freehold Land Rs. '000	Freehold Buildings Rs. '000	Leasehold Buildings Rs. '000	Computer Equipment Rs. '000	Motor Vehicles Rs.'000	Office Equipment & Furniture Rs. '000	Capital Work-in-Progress Rs. '000	Total 31.12.2011 Rs. '000	Total 01.01.2011 Rs. '000
Cost/Valuation									
Opening balance	2,151,957	1,544,529	621,745	2,656,294	422,826	2,562,847	317,603	10,277,801	7,897,416
Additions during the year	–	276,849	–	346,824	14,904	629,260	123,556	1,391,393	921,436
Transfer of accumulated depreciation on assets revalued	–	(161,279)	–	–	–	–	–	(161,279)	(159,575)
Surplus on revaluation of property	1,195,599	458,730	14,853	–	–	–	–	1,669,182	1,738,876
Disposals during the year	(7,187)	–	–	–	(26,705)	(495)	–	(34,387)	(61,367)
Exchange rate variance	–	–	–	(11,352)	(3,662)	(27,061)	(27)	(42,102)	(17,533)
Transfers/adjustments	–	–	(9,843)	–	–	7,498	(378,949)	(381,294)	(41,452)
Closing balance	3,340,369	2,118,829	626,755	2,991,766	407,363	3,172,049	62,183	12,719,314	10,277,801
Accumulated Depreciation									
Opening balance	–	61,703	84,222	1,829,120	214,480	1,499,048	–	3,688,573	3,287,959
Charge for the year	–	99,576	27,570	267,920	70,403	268,646	–	734,115	629,050
Transfer of accumulated depreciation on assets revalued	–	(161,279)	–	–	–	–	–	(161,279)	(159,575)
Disposals during the year	–	–	–	–	(22,616)	(38)	–	(22,654)	(57,745)
Exchange rate variance	–	–	–	(8,945)	(2,329)	(11,320)	–	(22,594)	(10,967)
Transfers/adjustments	–	–	–	(146)	–	88	–	(58)	(149)
Closing balance	–	–	111,792	2,087,949	259,938	1,756,424	–	4,216,103	3,688,573
Net book value as at 31.12.2011	3,340,369	2,118,829	514,963	903,817	147,425	1,415,625	62,183	8,503,211	
Net book value as at 01.01.2011	2,151,957	1,482,826	537,523	827,174	208,346	1,063,799	317,603		6,589,228

30.3 Bank - 2012

	Freehold Land Rs. '000	Freehold Buildings Rs. '000	Leasehold Buildings Rs. '000	Computer Equipment Rs. '000	Motor Vehicles Rs.'000	Office Equipment & Furniture Rs. '000	Capital Work-in-Progress Rs. '000	**Total 31.12.2012 Rs. '000**	Total 31.12.2011 Rs. '000
Cost/Valuation									
Opening balance	3,340,369	2,118,829	104,625	2,987,702	95,111	3,102,138	44,398	**11,793,172**	9,351,129
Additions during the year	169,371	83,801	–	361,787	28,464	467,329	86,887	**1,197,639**	1,379,607
Transfer of accumulated depreciation on assets revalued	–	–	–	–	–	–	–	**–**	(161,279)
Surplus on revaluation of property	–	–	–	–	–	–	–	**–**	1,654,329
Disposals during the year	–	–	–	(199,527)	(1,740)	(65,397)	–	**(266,664)**	(7,682)
Exchange rate variance	–	–	–	15,064	5,869	34,855	–	**55,788**	(42,075)
Transfers/adjustments	(7,000)	7,000	–	511	–	221	(32,681)	**(31,949)**	(380,857)
Closing balance	3,502,740	2,209,630	104,625	3,165,537	127,704	3,539,146	98,604	**12,747,986**	11,793,172
Accumulated Depreciation									
Opening balance	–	–	23,571	2,086,344	68,923	1,707,304	–	**3,886,142**	3,421,568
Charge for the year	–	67,722	3,599	447,698	12,569	328,087	–	**859,675**	648,543
Transfer of accumulated depreciation on assets revalued	–	–	–	–	–	–	–	**–**	(161,279)
Disposals during the year	–	–	–	(197,489)	(1,740)	(51,846)	–	**(251,075)**	(38)
Exchange rate variance	–	–	–	12,081	3,545	16,223	–	**31,849**	(22,594)
Transfers/adjustments	–	–	–	281	–	(4)	–	**277**	(58)
Closing balance	–	67,722	27,170	2,348,915	83,297	1,999,764	–	**4,526,868**	3,886,142
Net book value as at 31.12.2012	3,502,740	2,141,908	77,455	816,622	44,407	1,539,382	98,604	**8,221,118**	
Net book value as at 31.12.2011	3,340,369	2,118,829	81,054	901,358	26,188	1,394,834	44,398		7,907,030

The carrying amount of Bank's revalued assets that would have been included in the Financial Statements had the assets been carried at cost less depreciation is as follows:

	2012			2011			January 1, 2011		
	Cost Rs. '000	**Accumulated Depreciation Rs. '000**	**Net Book Value Rs. '000**	Cost Rs. '000	Accumulated Depreciation Rs. '000	Net Book Value Rs. '000	Cost Rs. '000	Accumulated Depreciation Rs. '000	Net Book Value Rs. '000
Class of Asset									
Land	**556,930**	**–**	**556,930**	387,559	–	387,559	394,746	–	394,746
Freehold buildings	**1,006,822**	**243,973**	**762,849**	923,021	218,802	704,219	646,172	195,727	450,445
Leasehold buildings	**102,726**	**35,869**	**66,857**	102,726	33,301	69,425	102,726	30,733	71,993
Total	**1,666,478**	**279,842**	**1,386,636**	1,413,306	252,103	1,161,203	1,143,644	226,460	917,184

30.4 Bank - 2011

	Freehold Land Rs. '000	Freehold Buildings Rs. '000	Leasehold Buildings Rs. '000	Computer Equipment Rs. '000	Motor Vehicles Rs.'000	Office Equipment & Furniture Rs. '000	Capital Work-in-Progress Rs. '000	Total 31.12.2011 Rs. '000	Total 01.01.2011 Rs. '000
Cost/Valuation									
Opening balance	2,151,957	1,544,529	104,625	2,653,279	88,771	2,505,072	302,896	9,351,129	7,008,176
Additions during the year	–	276,849	–	345,775	10,002	626,530	120,451	1,379,607	862,678
Accumulated depreciation	–	(161,279)	–	–	–	–	–	(161,279)	(159,575)
Surplus on revaluation of property	1,195,599	458,730	–	–	–	–	–	1,654,329	1,738,876
Disposals during the year	(7,187)	–	–	–	–	(495)	–	(7,682)	(40,041)
Exchange rate variance	–	–	–	(11,352)	(3,662)	(27,061)	–	(42,075)	(17,533)
Transfers/adjustments	–	–	–	–	–	(1,908)	(378,949)	(380,857)	(41,452)
Closing balance	3,340,369	2,118,829	104,625	2,987,702	95,111	3,102,138	44,398	11,793,172	9,351,129
Accumulated Depreciation									
Opening balance	–	61,703	19,922	1,827,905	58,722	1,453,316	–	3,421,568	3,093,426
Charge for the year	–	99,576	3,649	267,530	12,530	265,258	–	648,543	537,657
Transfer of accumulated depreciation on assets revalued	–	(161,279)	–	–	–	–	–	(161,279)	(159,575)
Disposals during the year	–	–	–	–	–	(38)	–	(38)	(38,857)
Exchange rate variance	–	–	–	(8,945)	(2,329)	(11,320)	–	(22,594)	(10,967)
Transfers/adjustments	–	–	–	(146)	–	88	–	(58)	(116)
Closing balance	–	–	23,571	2,086,344	68,923	1,707,304	–	3,886,142	3,421,568
Net book value as at 31.12.2011	3,340,369	2,118,829	81,054	901,358	26,188	1,394,834	44,398	7,907,030	
Net book value as at 01.01.2011	2,151,957	1,482,826	84,703	825,374	30,049	1,051,756	302,896		5,929,561

30.5 Information on the Freehold Land and Buildings of the Bank

[As required by Rule No. 7.6 (viii) of the Continuing Listing Requirements of the Colombo Stock Exchange]

Location	Extent (Perches)	Buildings (Square Feet)	Revalued Amounts Buildings Rs. '000	Revalued Amounts Land Rs. '000	Net Book Value Rs. '000	As a % of Total NBV
Holiday Bungalow - Haputale No. 23, Lily Avenue, Welimada Road, Haputale	207	4,533	15,300	25,700	40,237	0.71
Holiday Bungalow - Bandarawela Ambatenne Estate, Bandarawela	423	5,546	11,400	51,400	62,345	1.10
CEO's Bungalow - No. 27, Queens Road, Colombo 3	64	5,616	8,350	416,650	423,815	7.51
Union Place - No. 1, Union Place, Colombo 2	30	63,385	640,000	360,000	978,696	17.34
Kandy - No. 120, Kotugodella Veediya, Kandy	45	44,500	231,000	342,000	565,311	10.01
Galle Fort - No. 22, Church Street, Fort, Galle	100	11,625	50,000	100,000	148,751	2.64
Jaffna - No. 474, Hospital Road, Jaffna	77	5,146	12,865	272,135	284,485	5.04
Matara - No. 18, Station Road, Matara	37	8,137	24,145	28,155	51,690	0.92
Matale - No. 70, King Street, Matale	51	9,950	62,000	60,000	120,452	2.13
Galewela - No. 49/57, Matale Road, Galewela	99	6,380	13,200	19,800	32,670	0.58
Wellawatte - No. 343, Galle Road, Colombo 6	45	15,050	35,900	204,100	238,209	4.22
Kollupitiya - No. 285, Galle Road, Colombo 3	17	16,254	63,000	100,000	161,427	2.86
Kotahena - No. 198, George R. De Silva Mawatha, Kotahena, Colombo 13	28	33,017	218,846	110,000	323,389	5.73
Negombo - No. 24, 26, Fernando Avenue, Negombo	37	14,439	25,500	49,500	74,171	1.31
Hikkaduwa - No. 217, Galle Road, Hikkaduwa	37	6,713	21,260	16,740	37,469	0.66
Kurunegala - No. 4, Suratissa Mawatha, Kurunegala	15	8,916	85,000	140,000	222,877	3.95
Maharagama - No. 154, High Level Road, Maharagama	18	8,000	43,200	62,125	103,887	1.84
Borella - No. 92, D.S. Senanayake Mawatha, Borella, Colombo 8	16	12,566	62,202	70,335	130,466	2.31
Nugegoda - No. 100, Stanley Thilakaratne Mawatha, Nugegoda	39	11,138	44,552	195,000	237,773	4.21

Location	Extent (Perches)	Buildings (Square Feet)	Revalued Amounts Buildings Rs. '000	Revalued Amounts Land Rs. '000	Net Book Value Rs. '000	As a % of Total NBV
Kegalle - No. 186, Main Street, Kegalle	85	2,650	7,000	115,000	121,767	2.16
Narahenpita - No. 201, Kirula Road, Narahenpita, Colombo 5	22	11,193	70,775	99,225	167,644	2.97
Mutwal - No. 160, St. James Street, Colombo 15	17	–	–	22,300	22,300	0.40
Pettah - People's Park Shopping Complex, Colombo 11	–	3,183	50,000	–	48,573	0.86
Pettah - Stores - People's Park Shopping Complex, Colombo 11	–	218	4,000	–	3,840	0.07
Wennappuwa - No. 262, 264, Colombo Road, Wennappuwa	36	8,852	22,500	37,500	59,438	1.05
Galle City - No. 130, Main Street, Galle	7	3,675	7,250	33,750	40,759	0.72
Battaramulla - No. 213, Kaduwela Road, Battaramulla	14	11,216	61,483	24,517	83,953	1.49
Minuwangoda - No. 42, Siriwardena Mawatha, Minuwangoda	25	4,950	36,956	37,500	73,522	1.30
Nuwara Eliya - No. 36, Buddha Jayanthi Mawatha, Nuwara Eliya	42	10,184	69,000	72,000	139,277	2.47
Trincomalee - No. 474, Power House Road, Trincomalee	100	–	–	75,000	75,000	1.33
Keyzer Street - No. 32, Keyzer Street, Colombo 11	7	5,608	25,000	45,000	69,376	1.23
Panadura - No. 375, Galle Road, Panadura	12	6,168	19,735	18,450	37,200	0.66
Chilaw - No. 44, Colombo Road, Chilaw	35	10,000	68,200	61,750	128,227	2.27
Narammala - No. 55, Negombo Road, Narammala	43	5,760	15,450	44,550	59,614	1.06
Ja–Ela - No. 140, Negombo Road, Ja–Ela	13	7,755	16,813	23,187	39,580	0.70
Pettah - Main Street - No. 280, Main Street, Pettah, Colombo 11	30	22,760	67,748	169,371	236,458	4.19
Total			2,209,630	3,502,740	5,644,648	100.00

30.5 Information on the Feehold Land and Buildings of the Bank

As required by Rule No. 7.6 (viii) of the Continuing Listing Requirements of the Colombo Stock Exchange.

Year of Valuation 2011

Location	Address	Professional Valuer	Method of Valuation	Net Book Value before Revaluation		Revalued Amount of		Revaluation Gain/(Loss) Recognised on	
				Buildings	Land	Buildings	Land	Buildings	Land
				Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Wellawatte	No. 343, Galle Road, Colombo 6	K.C.B. Condegama	Investment Method	33,444	187,375	35,900	204,100	2,456	16,725
Kollupitiya	No. 285, Galle Road, Colombo 3	P.B. Kalugalagedara	Investment Method	56,842	82,000	63,000	100,000	6,158	18,000
Kotahena	No. 198, George R. De Silva Mawatha, Kotahena, Colombo 13	P.B. Kalugalagedara	Investment Method	374,928	85,000	208,984	110,000	(165,944)	25,000
Mutwal	No. 160, St. James Street, Colombo 15	P.B. Kalugalagedara	Direct Capital Comparison Method	–	20,592	–	22,300	–	1,708
Minuwangoda	No. 42, Siriwardena Mawatha, Minuwangoda	P.B. Kalugalagedara	Direct Capital Comparison Method	4,348	8,575	32,500	37,500	28,152	28,925
Keyzer Street	No. 32, Keyzer Street, Colombo 11	P.B. Kalugalagedara	Investment Method	6,401	14,940	25,000	45,000	18,599	30,060
Chilaw	No. 44, Colombo Road, Chilaw	P.B. Kalugalagedara	Direct Capital Comparison Method	65,673	25,850	67,000	61,750	1,327	35,900
Maharagama	No. 154, Highlevel Road, Maharagama	Ranjan J. Samarakone	Contractor's Method	13,518	5,238	43,200	62,125	29,682	56,887
Borella	No. 92, D.S. Senanayake Mawatha, Colombo 8	Ranjan J. Samarakone	Contractor's Method	30,000	23,000	62,202	70,335	32,202	47,335
Nugegoda	No. 100, Stanley Thilakaratne Mawatha, Nugegoda	Ranjan J. Samarakone	Contractor's Method	15,876	39,000	44,552	195,000	28,676	156,000
Panadura	No. 375, Galle Road, Panadura	Ranjan J. Samarakone	Contractor's Method	11,592	8,930	19,735	18,450	8,143	9,520
Galle Fort	No. 22, Church Street, Fort, Galle	S.A.S. Fernando	Comparison Method	17,500	90,000	50,000	100,000	32,500	10,000
Matara	No. 18, Station Road, Matara	S.A.S. Fernando	Comparison Method	7,116	16,893	23,595	28,155	16,479	11,262
Hikkaduwa	No. 217, Galle Road, Hikkaduwa	S.A.S. Fernando	Comparison Method	4,293	1,303	21,260	16,740	16,967	15,437
Galle City	No. 130, Main Street, Galle	S.A.S. Fernando	Comparison Method	4,445	5,064	7,250	33,750	2,805	28,687
Trincomalee	No. 474, Power House Road, Trincomalee	S.A.S. Fernando	Comparison Method	–	27,500	–	75,000	–	47,500
Jaffna	No. 474, Hospital Road, Jaffna	S.T. Sanmuganathan	Depreciated Replacement Cost Method/Investment Method	6,432	137,135	12,865	272,135	6,433	135,000
Kandy	No. 120, Kotugodella Veediya, Kandy	Sarath G. Fernando	Comparative Method/ Income Method	181,078	333,832	231,000	342,000	49,922	8,168
Matale	No. 70, King Street, Matale	Sarath G. Fernando	Comparative Method/ Income Method	36,203	8,000	62,000	60,000	25,797	52,000
Kegalle	No. 186, Main Street, Kegalle	Sarath G. Fernando	Comparative Method/ Income Method	–	100,000	–	122,000	–	22,000
Nuwara Eliya	No. 36/3, Buddha Jayanthi Mawatha, Nuwara Eliya	Sarath G. Fernando	Comparative Method/ Income Method	61,492	61,800	69,000	72,000	7,508	10,200
Holiday Bungalow - Haputale	No. 23, Lily Avenue, Welimada Road, Haputale	Sarath G. Fernando	Comparative Method	945	5,189	15,300	25,700	14,355	20,512

Location	Address	Professional Valuer	Method of Valuation	Net Book Value before Revaluation		Revalued Amount of		Revaluation Gain/(Loss) Recognised on	
				Buildings	Land	Buildings	Land	Buildings	Land
				Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Holiday Bungalow - Bandarawela	Ambatenne Estate, Bandarawela	Sarath G. Fernando	Comparative Method	2,347	8,468	11,400	51,400	9,053	42,932
Narahenpita	No. 201, Kirula Road, Narahenpita, Colombo 5	Siri Nissanka	Income Method/ Depreciated Replacement Cost Method	59,593	88,200	70,775	99,225	11,182	11,025
Battaramulla	No. 213, Kaduwela Road, Battaramulla	Siri Nissanka	Income Method/ Depreciated Replacement Cost Method	31,453	11,208	61,483	24,517	30,030	13,309
Union Place	No. 1, Union Place, Colombo 2	Siri Nissanka	Income Method/ Depreciated Replacement Cost Method	554,464	300,000	640,000	360,000	85,536	60,000
CEO's Bungalow	No. 27, Queens Road, Colombo 3	Siri Nissanka	Depreciated Replacement Cost Method	4,967	352,550	8,350	416,650	3,383	64,100
Negombo	No. 24, 26, Fernando Avenue, Negombo	W.D.P. Rupananda	Contractor's Test Method	16,929	16,000	25,516	49,500	8,587	33,500
Pettah	People's Park Shopping Complex, Colombo 11	W.D.P. Rupananda	Investment Method	11,288	–	54,000	–	42,712	–
Wennappuwa	No. 262, 264, Colombo Road, Wennappuwa	W.D.P. Rupananda	Contractor's Test Method	14,710	8,665	22,500	37,500	7,790	28,835
Ja–Ela	No. 140, Negombo Road, Ja–Ela	W.D.P. Rupananda	Contractor's Test Method	15,382	11,021	16,812	23,187	1,430	12,163
Galewela	No. 49/57, Matale Road, Galewela	W.S. Pemaratne	Contractor's Method/ Comparison Method	1,936	10,455	13,200	19,800	11,264	9,346
Kurunegala	No. 4, Suratissa Mawatha, Kurunegala	W.S. Pemaratne	Investment Method	10,542	39,481	85,000	140,000	74,458	100,519
Narammala	No. 55, Negombo Road, Narammala	W.S. Pemaratne	Investment Method	4,360	11,510	15,450	44,550	11,090	33,040
Total				1,660,097	2,144,774	2,118,829	3,340,369	458,732	1,195,595

30.6 Title Restriction on Property, Plant & Equipment

There were no restrictions existed on the title of the property, plant & equipment of the Group as at the Balance Sheet date.

30.7 Property, Plant & Equipment Pledged as Security for Liabilities

There were no items of property, plant & equipment pledged as securities for liabilities.

30.8 Compensation from Third Parties for Items of Property, Plant & Equipment

There were no compensation received/receivable from third parties for items of property, plant & equipment that were impaired, lost or given up.

30.9 Fully Depreciated Property, Plant & Equipment

The cost of fully-depreciated property, plant & equipment of the Bank which are still in use as at the Balance Sheet date is as follows:

	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
Computer equipment	**1,463,312**	1,317,053	1,436,314
Equipment, furniture and fixtures	**986,218**	880,674	746,719
Motor vehicles	**36,494**	34,255	22,176

30.10 Temporarily Idle Property, Plant & Equipment

Following property, plant & equipment of the Bank were temporarily idle as at the Balance Sheet date:

	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
Computer equipment	**46,637**	278,143	98,714
Equipment, furniture and fixtures	**66,594**	117,503	45,651

30.11 Property, Plant & Equipment Retired from Active Use

Following property, plant & equipment of the Bank were retired from active use as at the Balance Sheet date.

	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
Computer equipment	**67,773**	41,917	41,917
Equipment, furniture and fixtures	**9,309**	9,293	9,293

31. Intangible Assets

31.1 Computer Software

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
Cost/Valuation						
At the beginning of the year	**1,121,243**	956,478	796,289	**1,120,917**	956,152	796,243
Additions during the year	**139,161**	167,193	162,195	**139,161**	167,193	161,915
Disposals during the year	**–**	–	(1,973)	**–**	–	(1,973)
Exchange rate variance	**2,944**	(2,428)	(33)	**2,944**	(2,428)	(33)
Transfers/adjustments	**(741)**	–	–	**(741)**	–	–
At the end of the year	**1,262,607**	1,121,243	956,478	**1,262,281**	1,120,917	956,152
Accumulated Amortisation						
At the beginning of the year	**731,326**	633,880	551,042	**731,216**	633,824	551,041
Amortisation for the year	**174,104**	98,172	84,260	**174,055**	98,118	84,238
Disposals during the year	**–**	–	(1,290)	**–**	–	(1,290)
Exchange rate variance	**1,298**	(726)	(281)	**1,298**	(726)	(281)
Transfers/adjustments	**(142)**	–	149	**(142)**	–	116
At the end of the year	**906,586**	731,326	633,880	**906,427**	731,216	633,824
Net book value	**356,021**	389,917	322,598	**355,854**	389,701	322,328

31.2 Software Under Development

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
Cost/Valuation						
At the beginning of the year	**85,121**	102,657	142,313	**77,313**	96,983	142,313
Additions during the year	**116,486**	40,317	138,847	**116,486**	37,559	133,173
Transfers/adjustments during the year	**(52,615)**	(57,229)	(178,503)	**(52,615)**	(57,229)	(178,503)
Exchange rate variance	**1,148**	(624)	–	**–**	–	–
Disposals during the year	**–**	–	–	**–**	–	–
At the end of the year	**150,140**	85,121	102,657	**141,184**	77,313	96,983
Total net book value [Refer Notes 31.1 and 31.2]	**506,161**	475,038	425,255	**497,038**	467,014	419,311

There were no restrictions existed on the title of the intangible assets of the group as at the Balance Sheet date. Further, there were no items pledged as securities for liabilities.

32. Leasehold Property

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
Cost/Valuation						
At the beginning of the year	**128,700**	128,700	128,700	**84,840**	84,840	84,840
Additions during the year	**–**	–	–	**–**	–	–
At the end of the year	**128,700**	128,700	128,700	**84,840**	84,840	84,840
Accumulated Amortisation						
At the beginning of the year	**15,472**	14,020	12,568	**6,594**	5,652	4,710
Amortisation for the year	**1,452**	1,452	1,452	**942**	942	942
At the end of the year	**16,924**	15,472	14,020	**7,536**	6,594	5,652
Net book value	**111,776**	113,228	114,680	**77,304**	78,246	79,188

33. Deferred Tax Assets and Liabilities

33.1 Summary of Net Deferred Tax Liability

	GROUP						BANK					
	2012		2011		January 1, 2011		2012		2011		January 1, 2011	
	Temporary Difference Rs. '000	Tax Effect Rs. '000	Temporary Difference Rs. '000	Tax Effect Rs. '000	Temporary Difference Rs. '000	Tax Effect Rs. '000	Temporary Difference Rs. '000	Tax Effect Rs. '000	Temporary Difference Rs. '000	Tax Effect Rs. '000	Temporary Difference Rs. '000	Tax Effect Rs. '000
As at the beginning of the year	**5,169,073**	**1,276,116**	3,575,420	992,710	2,384,452	767,117	**4,744,455**	**1,234,469**	3,203,581	892,441	2,002,354	633,382
Amount originating/(reversing) during the year	**528,111**	**147,871**	1,120,070	224,534	(356,981)	(94,637)	**504,018**	**141,125**	1,082,144	211,222	24,796	(71,142)
Deferred tax effect on revaluation surplus on property	**477,732**	**133,765**	473,583	56,510	1,547,949	319,354	**–**	**–**	458,730	128,444	1,176,431	329,401
Unwinding of the deferred tax effect on revaluation surplus on freehold buildings	**(432,779)**	**(121,178)**	–	–	–	–	**(432,779)**	**(121,178)**	–	–	–	–
Exchange rate variance	**–**	**(4,849)**	–	2,362	–	876	**–**	**(4,849)**	–	2,362	–	800
As at the end of the year	**5,742,137**	**1,431,725**	5,169,073	1,276,116	3,575,420	992,710	**4,815,694**	**1,249,567**	4,744,455	1,234,469	3,203,581	892,441

33.2 Reconciliation of Net Deferred Tax Liability

	GROUP					BANK				
	Balance Sheet			Income Statement		Balance Sheet			Income Statement	
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Deferred Tax Liabilities on:										
Accelerated depreciation for tax purposes - Own assets	**342,038**	341,626	257,840	**(412)**	(83,805)	**312,132**	324,130	246,310	**11,998**	(77,820)
Accelerated depreciation for tax purposes - Leased assets	**1,049,259**	812,102	433,777	**(237,157)**	(378,325)	**1,049,259**	812,102	433,777	**(237,157)**	(378,325)
Revaluation surplus on freehold buildings	**619,855**	486,090	429,580	**–**	–	**457,845**	457,845	329,401	**–**	–
Unwinding of the deferred tax effect on revaluation surplus on freehold buildings	**(121,178)**	–	–	**–**	–	**(121,178)**	–	–	**–**	–
Effect of exchange rate variance	**9**	9	9	**(4,849)**	2,362	**9**	9	9	**(4,849)**	2,362
	1,889,983	1,639,827	1,121,206	**(242,418)**	(459,768)	**1,698,067**	1,594,086	1,009,497	**(230,008)**	(453,783)
Deferred Tax Assets on:										
Finance leases	**5,090**	2,208	9,152	**2,882**	(6,944)	**–**	–	–	**–**	–
Defined benefit plans	**203,903**	134,150	110,446	**69,753**	23,704	**199,234**	132,264	108,158	**66,970**	24,106
General provision on loans and advances	**18,567**	14,706	8,898	**3,861**	5,808	**18,568**	14,706	8,898	**3,862**	5,808
Specific provision on lease receivable	**119,536**	119,536	–	**–**	119,536	**119,536**	119,536	–	**–**	119,536
Leave encashment	**111,162**	93,111	–	**18,051**	93,111	**111,162**	93,111	–	**18,051**	93,111
	458,258	363,711	128,496	**94,547**	235,215	**448,500**	359,617	117,056	**88,883**	242,561
Deferred income tax on income/ (expenses)	**–**	–	–	**(147,871)**	(224,553)	**–**	–		**(141,125)**	(211,222)
Net deferred tax liability	**1,431,725**	1,276,116	992,710			**1,249,567**	1,234,469	892,441		

34. Other Assets

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
Receivable	**34,999**	20,091	13,291	**34,999**	20,091	13,291
Deposits and prepayments	**1,365,559**	586,296	507,343	**1,358,727**	547,037	510,925
Clearing account balance	**4,126,806**	3,581,426	2,599,857	**4,126,806**	3,581,426	2,599,857
Unamortised staff cost	**2,106,871**	1,792,580	1,591,862	**2,106,768**	1,792,551	1,591,817
Other accounts	**1,544,909**	1,309,905	1,045,017	**1,560,906**	1,349,409	1,053,736
Total	**9,179,144**	7,290,298	5,757,370	**9,188,206**	7,290,514	5,769,626

35. Due to Banks

Borrowings	**4,763,565**	11,574,105	6,118,915	**4,763,565**	11,574,105	6,118,915
Local Currency borrowings	**65,018**	2,754,484	3,390,933	**65,018**	2,754,484	3,390,933
Foreign Currency borrowings	**4,698,547**	8,819,621	2,727,982	**4,698,547**	8,819,621	2,727,982
Total	**4,763,565**	11,574,105	6,118,915	**4,763,565**	11,574,105	6,118,915

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000

36. Derivative Financial Instruments

Interest rate derivatives						
Interest rate swaps	–	–	806	–	–	806
Foreign currency derivatives						
Forward foreign exchange contracts	84,291	435,171	26,274	84,291	435,171	26,274
Total	84,291	435,171	27,080	84,291	435,171	27,080

37. Due to Other Customers

At amortised cost						
Local currency deposits	291,139,626	248,864,952	193,969,595	291,168,788	248,874,072	194,003,940
Foreign currency deposits	99,429,056	74,832,676	69,662,107	99,442,760	74,880,676	69,662,107
Sub total	390,568,682	323,697,628	263,631,702	390,611,548	323,754,748	263,666,047

37.1 An Analysis of Due to Customers

(a) By product

Current account deposits	32,076,534	30,919,255	28,529,532	32,076,534	30,919,280	28,560,442
Savings deposits	141,810,844	136,040,261	117,894,801	141,840,006	136,049,356	117,898,236
Time deposits	208,095,610	150,182,539	112,309,751	208,109,314	150,230,539	112,309,751
Certificates of deposits	8,585,694	6,555,573	4,897,618	8,585,694	6,555,573	4,897,618
Sub total	390,568,682	323,697,628	263,631,702	390,611,548	323,754,748	263,666,047

(b) By currency

Sri Lanka rupee	291,139,626	248,864,952	193,969,595	291,168,788	248,874,072	194,003,940
United State dollar	52,783,593	38,384,040	31,451,361	52,797,297	38,432,040	31,451,361
Bangladesh taka	24,964,651	16,777,348	19,457,975	24,964,651	16,777,348	19,457,975
Great Britain pound	6,476,478	6,024,260	6,279,427	6,476,478	6,024,260	6,279,427
Australian dollar	8,322,024	7,423,510	6,133,964	8,322,024	7,423,510	6,133,964
Euro currency	5,591,752	5,244,070	5,526,169	5,591,752	5,244,070	5,526,169
Other currencies	1,290,558	979,448	813,211	1,290,558	979,448	813,211
Sub total	390,568,682	323,697,628	263,631,702	390,611,548	323,754,748	263,666,047

(c) By institutes/customers

Deposits from Banks	2,957,256	1,280,547	59,659	2,957,256	1,280,547	59,659
Deposits from Finance Companies	3,004,452	2,302,574	2,538,869	3,004,452	2,302,574	2,538,869
Deposits from other Customers	384,606,974	320,114,507	261,033,174	384,649,840	320,171,627	261,067,519
Sub total	390,568,682	323,697,628	263,631,702	390,611,548	323,754,748	263,666,047

The maturity analysis of Deposits is given in Note 50.

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000

38. Other Borrowings

	Group 2012	Group 2011	Group January 1, 2011	Bank 2012	Bank 2011	Bank January 1, 2011
Refinance Borrowings	**7,633,595**	8,367,697	8,258,309	**7,633,595**	8,367,697	8,258,309
Securities sold under repurchase (repo) agreements	**31,612,350**	41,087,308	45,655,604	**31,759,604**	41,235,445	45,774,453
IFC Borrowings	**8,320,000**	–	–	**8,320,000**	–	–
Total	**47,565,945**	49,455,005	53,913,913	**47,713,199**	49,603,142	54,032,762

39. Other Provisions

	Group 2012	Group 2011	Group January 1, 2011	Bank 2012	Bank 2011	Bank January 1, 2011
Provision for contingencies	**2,409**	535	2,369	**2,409**	535	2,369
Total	**2,409**	535	2,369	**2,409**	535	2,369

40. Other Liabilities

	Group 2012	Group 2011	Group January 1, 2011	Bank 2012	Bank 2011	Bank January 1, 2011
Accrued expenditure	**1,856,614**	1,264,265	1,358,556	**1,850,635**	1,251,500	1,347,203
Cheques sent on clearing	**4,150,799**	3,528,970	2,490,740	**4,150,799**	3,528,970	2,490,740
Provision for gratuity payable [Refer Note 40.1]	**494,507**	317,114	242,841	**478,506**	303,773	232,441
Provision for Un-funded pension scheme [Refer Note 40.2]	**227,637**	141,072	129,309	**227,637**	141,072	129,309
Payable on oil hedging transactions	**794,108**	707,252	689,881	**794,108**	707,252	689,881
Impairment charges in respect of off-balance sheet credit exposure	**–**	–	–	**–**	–	–
Other payable	**2,893,548**	2,255,326	2,473,263	**2,861,123**	2,229,815	2,450,215
Total	**10,417,213**	8,213,999	7,384,590	**10,362,808**	8,162,382	7,339,789

40.1 Provision for Gratuity Payable

	Group 2012	Group 2011	Group January 1, 2011	Bank 2012	Bank 2011	Bank January 1, 2011
At the beginning of the year	**317,115**	242,841	176,201	**303,774**	232,441	167,463
Expense recognised in the income statement [Refer Note 40.1 (a)]	**179,083**	89,691	79,287	**174,680**	86,750	77,625
Exchange difference	**9,509**	(6,016)	(2,766)	**9,509**	(6,016)	(2,766)
Paid during the year	**(11,200)**	(9,401)	(9,881)	**(9,457)**	(9,401)	(9,881)
At the end of the year	**494,507**	317,115	242,841	**478,506**	303,774	232,441

40.1 (a) Gratuity Expense Recognised in the Income Statement

	Group 2012	Group 2011	Group January 1, 2011	Bank 2012	Bank 2011	Bank January 1, 2011
Interest cost	**26,090**	19,325	14,446	**25,062**	18,508	13,640
Current service cost	**63,547**	41,765	34,360	**62,142**	40,672	33,397
Provision made during the year	**56,594**	15,296	12,999	**55,758**	14,461	12,184
Actuarial loss	**32,852**	13,305	17,482	**31,718**	13,109	18,404
Total	**179,083**	89,691	79,287	**174,680**	86,750	77,625

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
40.2 Provision for Un-funded Pension Scheme						
At the beginning of the year	**141,072**	129,309	119,072	**141,072**	129,309	119,072
Expense recognised in the income statement	**49,710**	31,719	29,382	**49,710**	31,719	29,382
Paid during the year	**(23,388)**	(19,956)	(19,145)	**(23,388)**	(19,956)	(19,145)
At the end of the year	**167,394**	141,072	129,309	**167,394**	141,072	129,309
40.2 (a) Pension Expense for Un-funded scheme Recognised in the Income Statement						
Interest cost	**14,107**	12,931	13,098	**14,107**	12,931	13,098
Current service cost	**–**	–	12,394	**–**	–	12,394
Provision made during the year	**–**	–	–	**–**	–	–
Actuarial loss	**35,603**	18,788	3,890	**35,603**	18,788	3,890
Total	**49,710**	31,719	29,382	**49,710**	31,719	29,382

41. Due to Subsidiaries

	GROUP 2012	GROUP 2011	GROUP January 1, 2011	BANK 2012	BANK 2011	BANK January 1, 2011
Local Subsidiaries						
Commercial Development Company PLC	**–**	–	–	**7,823**	14,735	26,146
ONEzero Company Ltd.	**–**	–	–	**14,441**	14,999	15,302
Sub Total	**–**	–	–	**22,264**	29,734	41,448
Foreign Subsidiaries						
Commex Sri Lanka S.R.L. - Italy	**–**	–	–	**–**	–	–
Sub Total	**–**	–	–	**–**	–	–
Total	**–**	–	–	**22,264**	29,734	41,448

42. Subordinated Term Debts

	GROUP 2012	GROUP 2011	GROUP January 1, 2011	BANK 2012	BANK 2011	BANK January 1, 2011
As at beginning of the year	**973,210**	2,127,030	3,436,030	**973,210**	2,127,030	3,436,030
Redemptions during the year	**–**	(1,153,820)	(1,309,000)	**–**	(1,153,820)	(1,309,000)
Balance before adjusting for amortised interest [Refer Note 42.1]	**973,210**	973,210	2,127,030	**973,210**	973,210	2,127,030
Net effect on amortised interest payable	**132,806**	132,429	232,215	**132,806**	132,429	232,215
As at end of the year	**1,106,016**	1,105,639	2,359,245	**1,106,016**	1,105,639	2,359,245

Outstanding debentures as at December 31, 2011, consisted of 973,210 Unsecured Subordinated Redeemable debentures of Rs. 1,000/- each issued by the Bank in 2006, details of which is given below:

42.1 Debenture Categories

Debenture Categories	BANK Colombo Stock Exchange Listing	Interest Payable Frequency	Allotment Date	Maturity Date	Effective Annual Yield 2012 %	Effective Annual Yield 01.01.2011 %	Value as at 31.12.2012 Rs. '000	Value as at 31.12.2011 Rs. '000	Value as at 01.01.2011 Rs. '000
Fixed Rate Debentures									
2006/2016 - 13.25% p.a.	Not listed	Annually	16.05.2006	16.05.2016	**13.25**	13.25	**505,000**	505,000	505,000
2006/2013 - 13.75% p.a.	Listed	Annually	18.12.2006	18.12.2013	**13.75**	13.75	**250**	250	250
2006/2016 - 14.00% p.a.	Listed	Annually	18.12.2006	18.12.2016	**14.00**	14.00	**467,260**	467,260	467,260
Debenture Redeemed During the Year									
2006/2011 - 12.00% p.a.	Not listed	Annually	16.05.2006	16.05.2011	**–**	12.00	**–**	–	15,000
2006/2011 - 13.50% p.a.	Listed	Annually	18.12.2006	18.12.2011	**–**	13.50	**–**	–	527,800
							972,510	972,510	1,515,310
Floating Rate Debentures									
2006/2013 - 12 months TB rate (Gross) + 1% p.a.	Listed	Annually	18.12.2006	18.12.2013	**9.15**	9.40	**300**	300	300
2006/2016 - 12 months TB rate (Gross) + 1% p.a.	Listed	Annually	18.12.2006	18.12.2016	**9.15**	9.40	**400**	400	400
Debenture Redeemed During the Year									
2006/2011 - 3 months TB rate (Net) + 2% p.a.	Not listed	Quarterly	16.05.2006	16.05.2011	**–**	9.25	**–**	–	15,000
2006/2011 - 3 months TB rate (Gross) + 1% p.a.	Not listed	Quarterly	16.05.2006	16.05.2011	**–**	9.05	**–**	–	465,000
2006/2011 - 12 months TB rate (Gross) + 1% p.a.	Listed	Annually	18.12.2006	18.12.2011	**–**	9.40	**–**	–	131,020
							700	700	611,720
Total debentures							**973,210**	973,210	2,127,030

12 Months Treasury Bill Rate (Gross) - Twelve months Treasury Bill rate before deducting 10% Withholding Tax as published by the Central Bank of Sri Lanka immediately prior to the commencement of each interest period.

42.2 Debentures by Maturity

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
Due within 1 year	**550**	–	1,153,820	**550**	–	1,153,820
Due after 1 year	**972,660**	973,210	973,210	**972,660**	973,210	973,210
Total	**973,210**	973,210	2,127,030	**973,210**	973,210	2,127,030

43. Stated Capital

	GROUP			BANK		
As at December 31,	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
Opening balance	**16,473,861**	10,811,193	10,607,792	**16,473,861**	10,811,193	10,607,792
Issue of Ordinary Voting Shares under Employee Share Option Plans	**62,942**	121,869	203,401	**62,942**	121,869	203,401
Issue of Ordinary Shares as part of the final dividend satisfied in the form of issue and allotment of new shares	**1,471,993**	681,141	–	**1,471,993**	681,141	–
Rights Issue of ordinary voting shares	**–**	4,632,517	–	**–**	4,632,517	–
Rights Issue of ordinary non-voting shares	**–**	227,141	–	**–**	227,141	–
Closing balance	**18,008,796**	16,473,861	10,811,193	**18,008,796**	16,473,861	10,811,193

43.1 Movement in Number of Ordinary Shares

	No. of Ordinary Voting Shares			No. of Ordinary Non-Voting Shares		
	2012	2011	January 1, 2011	2012	2011	January 1, 2011
Opening balance	**765,085,320**	353,305,387	233,821,271	**52,364,846**	24,181,195	16,120,797
Issue of ordinary shares under Employee Share Option Plans	**1,341,768**	1,457,645	2,081,508	**–**	–	–
Issue of ordinary shares as part of the final dividend satisfied in the form of issue and allotment of new shares	**13,587,144**	2,277,195	–	**1,108,902**	255,734	–
Rights Issue of ordinary shares	**–**	25,502,433	–	**–**	1,745,494	–
Shares created due to the share split	**–**	382,542,660	117,402,608	**–**	26,182,423	8,060,398
Closing balance	**780,014,232**	765,085,320	353,305,387	**53,473,748**	52,364,846	24,181,195

The shares of Commercial Bank of Ceylon PLC are quoted in the Colombo Stock Exchange. The Non-Voting ordinary shares of the Bank, rank *pari passu* in respect of all rights with the ordinary voting shares of the Bank except voting rights on resolutions passed at general meetings.

The Bank made a Rights Issue of ordinary shares (both voting & non-voting) on the basis of one new ordinary share for every fourteen shares held in August 2011. The Bank also made a subdivision of shares on the basis of 1:1 immediately after conclusion of the aforesaid Rights Issue of shares. The objective of the rights issue of shares was to increase the Tier-I capital of the Bank in order to facilitate future business growth.

43.2 Employee Share Option Plan - 2008

The Bank obtained the approval of the shareholders at an Extraordinary General Meeting held on April 16, 2008, to introduce an Employee Share Option Plan for the benefit of all the Executive Officers in Grade III and above by creating up to 3% of the ordinary voting shares at the rate of 1% shares each year over a period of three to five years, upon the Bank achieving specified performance targets.

1/3 of the options offered under each tranche is vested to eligible employees after one year from the date of offer, second 1/3 of the options after two years from the date of offer and final 1/3 after three years from the date of offer as detail below:

	Tranche I			Total
Date granted	April 30, 2008	April 30, 2008	April 30, 2008	
Price (Rs.) - (*) & (**)	46.91	46.91	46.91	
	1/3 of Options	1/3 of Options	1/3 of Options	
Exercisable between	April 30, 2009 to April 29, 2013	April 30, 2010 to April 29, 2014	April 30, 2011 to April 29, 2015	
Original number of options - (***)	777,308	777,308	777,308	**2,331,924**
Additions consequent to scrip issues	660,824	768,924	1,049,861	**2,479,609**
Options cancelled due to resignations, retirements and deaths	(63,613)	(63,613)	(63,613)	**(190,839)**
Options vested/to be vested	1,374,519	1,482,619	1,763,556	**4,620,694**
Options cancelled due to non-acceptance and resignations	(4,514)	(4,514)	(40,011)	**(49,039)**
Number of options exercised up to December 31, 2012	(950,040)	(941,060)	(942,539)	**(2,833,639)**
Number of options outstanding as at December 31, 2012	419,965	537,045	781,006	**1,738,016**

(*) Determined on the basis of the weighted average market price of Bank's voting shares, during the period of ten market days immediately prior to each option offer date.

(**) Adjusted for dividend, paid in the form of shares right issue of shares and sub-division of shares.

(***) Options offered under each Tranche is based on the overall performance of the Bank and the individual performance of the eligible employees in the preceding year. In the event of a right issue of shares, capitalisation of reserves, stock splits or stock dividends by the Bank during the vesting period, the number of options offered and the prices are suitably adjusted as per the applicable rules of ESOP - 2008 which have been drafted in line with the accepted market practices.

	Tranche II			Total
Date granted	April 30, 2011	April 30, 2011	April 30, 2011	
Price (Rs.) – (*)	132.33	132.33	132.33	
	1/3 of Options	1/3 of Options	1/3 of Options	
Exercisable between	April 30, 2012 to April 29, 2016	April 30, 2013 to April 29, 2017	April 30, 2014 to April 29, 2018	
Original number of options - (**)	1,213,384	1,213,384	1,213,384	**3,640,152**
Additions consequent to share split	1,213,384	1,213,384	1,213,384	**3,640,152**
Options to be vested as at December 31, 2012	2,426,768	2,426,768	2,426,768	**7,280,304**

(*) Determined on the basis of the weighted average market price of Bank's voting shares, during the period of ten market days immediately prior to each option offer date.

(**) Options offered under each tranche is based on the overall performance of the Bank and the individual performance of the eligible employees in the preceding year. In the event of a right issue of shares, capitalisation of reserves, stock splits or stock dividends by the Bank during the vesting period, the number of options offered and the prices are suitably adjusted as per the applicable rules of ESOP - 2008 which are in line with the accepted market practices.

43.3 Employee Share Option Plan - 2002

The Bank obtained the approval of the shareholders at an Extraordinary General Meeting held in September 2002, to introduce an Employee Share Option Plan for the benefit of all the Executive Officers in Grade III and above by creating up to 5% of the ordinary voting shares at the rate of 1.25% of shares each year over a period of four years, upon the Bank achieving specified performance targets.

The details relating to the four Tranches of the Employee Share Option Plan - 2002 are given below:

	Tranche I	Tranche II	Tranche III	Tranche IV	Total
Date granted	March 31, 2003	March 31, 2004	March 31, 2005	March 31, 2006	
Price (Rs.) - (*)	36.00	57.85	56.13	74.25	
Exercisable between	April 01, 2004 to March 31, 2008	April 01, 2005 to March 31, 2009	April 01, 2006 to March 31, 2010	April 01, 2007 to March 31, 2011	
Original number of options - (**)	650,000	812,500	1,637,947	1,659,756	**4,760,203**
Additions consequent to scrip issues	–	17,922	241,051	1,193,196	**1,452,169**
Options cancelled due to non-acceptance and resignations	(25,057)	(28,293)	(42,327)	(161,882)	**(257,559)**
Number of options exercised up to December 31, 2011	(624,943)	(802,129)	(1,836,671)	(2,691,070)	**(5,954,813)**
Number of options outstanding as at December 31, 2012	–	–	–	–	–

(*) *Determined on the basis of the weighted average price of the voting shares of the Bank between October 1, and December 31, of each year.*

(**) *Options under each Tranche is based on the overall performance of the Bank and the individual performance of the eligible employees in the preceding year. In the event of a bonus, share split or/and rights issue of shares during the vesting period, the number of options offered and the prices are suitably amended in line with the accepted market practices.*

44. Statutory Reserves

44.1 Statutory Reserve Fund

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	**2012 Rs. '000**	2011 Rs. '000	January 1, 2011 Rs. '000
Opening balance	**2,740,901**	2,338,510	2,062,346	**2,740,901**	2,338,510	2,062,346
Transfers during the year	**504,917**	402,391	276,164	**504,917**	402,391	276,164
Closing balance	**3,245,818**	2,740,901	2,338,510	**3,245,818**	2,740,901	2,338,510

The balance in the Statutory Reserve Fund will be used only for the purposes specified in the Section 20 (2) of the Banking Act No. 30 of 1988.

44.2 Primary Dealer Special Risk Reserve

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	**2012 Rs. '000**	2011 Rs. '000	January 1, 2011 Rs. '000
Opening balance	**149,404**	133,320	101,791	**149,404**	133,320	101,791
Transfers during the year	**38,173**	16,084	31,529	**38,173**	16,084	31,529
Closing balance	**187,577**	149,404	133,320	**187,577**	149,404	133,320
Total Statutory Reserves	**3,433,395**	2,890,305	2,471,830	**3,433,395**	2,890,305	2,471,830

As per the Direction issued by the Public Debt Department of Central Bank of Sri Lanka on April 18, 2005, with effect from July 1, 2005 Primary Dealers who maintain a capital above Rs. 300 Mn. are required to allocate 25% of post–tax profits of the Primary Dealer Unit to a special risk reserve annually.

45. Retained Earnings

	GROUP		BANK	
	2012 Rs. '000	2011 Rs. '000	**2012 Rs. '000**	2011 Rs. '000
Opening balance	**2,588,194**	1,348,994	**2,547,336**	1,515,928
Effect of transitional provision	**–**	–	**–**	(153,134)
Adjusted opening balance	**2,588,194**	1,348,994	**2,547,336**	1,362,794
Total comprehensive Income	**10,050,862**	7,937,527	**10,098,329**	7,882,869
Profit for the year	**10,079,829**	7,932,062	**10,098,329**	7,882,869
Other comprehensive Income	**(28,967)**	5,465	**–**	–
Transfer to other reserves	**(4,355,215)**	(3,141,056)	**(4,355,215)**	(3,141,056)
Dividends	**(4,112,370)**	(3,557,271)	**(4,112,370)**	(3,557,271)
Write-back of dividend payable	**1,343**	–	**–**	–
Closing Balance	**4,172,814**	2,588,194	**4,178,080**	2,547,336

46. Other Reserves

a. Current Year - 2012

	GROUP			BANK		
	Opening Balance Rs. '000	Movement/ Transfers Rs. '000	Closing Balance Rs. '000	Opening Balance Rs. '000	Movement/ Transfers Rs. '000	Closing Balance Rs. '000
Revaluation Reserve (Refer Note 46.1)	4,550,836	186,289	4,737,125	4,222,054	121,178	4,343,232
General Reserve (Refer Note 46.2)	17,889,471	2,159,518	20,048,989	17,889,471	2,159,518	20,048,989
Available-for-sale reserve (Refer Note 46.3)	(143,969)	619,436	475,467	(143,969)	619,436	475,467
Foreign Currency Translation Reserve (Refer Note 46.4)	(1,303,646)	548,545	(755,101)	(1,308,721)	550,827	(757,894)
Investment Fund Reserve (Refer Note 46.5)	1,194,328	1,652,607	2,846,935	1,194,328	1,652,607	2,846,935
Total	22,187,020	5,166,395	27,353,415	21,853,163	5,103,566	26,956,729

b. Previous Year - 2011

	GROUP			BANK		
	Opening Balance Rs. '000	Movement/ Transfers Rs. '000	Closing Balance Rs. '000	Opening Balance Rs. '000	Movement/ Transfers Rs. '000	Closing Balance Rs. '000
Revaluation Reserve (Refer Note 46.1)	2,943,222	1,607,614	4,550,836	2,696,171	1,525,883	4,222,054
General Reserve (Refer Note 46.2)	16,361,218	1,528,253	17,889,471	16,361,218	1,528,253	17,889,471
Available-for-sale reserve (Refer Note 46.3)	815,950	(959,919)	(143,969)	815,950	(959,919)	(143,969)
Foreign Currency Translation Reserve (Refer Note 46.4)	(549,738)	(753,908)	(1,303,646)	(554,288)	(754,433)	(1,308,721)
Investment Fund Reserve (Refer Note 46.5)	–	1,194,328	1,194,328	–	1,194,328	1,194,328
Total	19,570,652	2,616,368	22,187,020	19,319,051	2,534,112	21,853,163

46.1 Revaluation Reserve

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
Opening balance	**4,550,836**	2,943,222	1,533,746	**4,222,054**	2,696,171	1,286,695
Realised revaluation surplus on disposal of property						
Surplus on revaluation of freehold land and buildings	**181,760**	1,668,370	1,738,877	**–**	1,654,327	1,738,877
Deferred tax effect on revaluation surplus on freehold buildings	**4,529**	(60,756)	(329,401)	**121,178**	(128,444)	(329,401)
Closing balance	**4,737,125**	4,550,836	2,943,222	**4,343,232**	4,222,054	2,696,171

The Revaluation Reserve relates to revaluation of freehold land & buildings and represents the fair value of the land & buildings as at the date of revaluation.

The Bank carried out a revaluation of all its freehold lands & buildings and accounted Rs. 1,654 Mn. as revaluation surplus as at December 31, 2011. (The Bank accounted Rs. 1,739 Mn. as Revaluation Surplus on a revaluation carried out on selected freehold lands & buildings as at December 31, 2010.)

46.2 General Reserve

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
Opening balance	**17,889,471**	16,361,218	13,807,767	**17,889,471**	16,361,218	13,807,767
Transfer of translation gains/(losses)	**–**	–	(16,135)	**–**	–	(16,135)
Transfer during the year	**2,159,518**	1,528,253	2,569,586	**2,159,518**	1,528,253	2,569,586
Closing balance	**20,048,989**	17,889,471	16,361,218	**20,048,989**	17,889,471	16,361,218

46.3 Available-for-sale Reserve

Opening balance	**(143,969)**	815,950	–	**(143,969)**	815,950	–
Net gains and losses on remeasuring available-for-sale financial assets	**619,436**	(959,919)	815,950	**619,436**	(959,919)	815,950
Closing balance	**475,467**	(143,969)	815,950	**475,467**	(143,969)	815,950

46.4 Foreign Currency Translation Reserve

Opening balance	**(1,303,646)**	(549,738)	(371,527)	**(1,308,721)**	(554,288)	(371,527)
Transfer of translation gains/(losses)	**–**	–	16,135	**–**	–	16,135
Net unrealised gains/(losses) from the translation of Financial Statements of foreign operations	**548,545**	(753,908)	(194,346)	**550,827**	(754,433)	(198,896)
Closing balance	**(755,101)**	(1,303,646)	(549,738)	**(757,894)**	(1,308,721)	(554,288)

As at the reporting date, the assets and liabilities of the Bank's Bangladesh Operation and Commex - Sri Lanka S.R.L. Italy, a Subsidiary of the Bank were translated into the presentation currency (Sri Lankan Rupees) at the rate of exchange ruling at the Balance Sheet date and the Income Statement is translated at the average exchange rate for the period. The exchange differences arising on the translation are taken directly to Foreign Currency Translation Reserve, which is classified as a part of Equity.

46.5 Investment Fund Reserve

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
Opening balance	**1,194,328**	–	–	**1,194,328**	–	–
Transfer during the year	**1,652,607**	1,194,328	–	**1,652,607**	1,194,328	–
Closing balance	**2,846,935**	1,194,328	–	**2,846,935**	1,194,328	–

Banks are required to transfer 8% of the profits calculated for the payment of Value Added Tax (VAT) on financial services and 5% of the profits before tax calculated for the payments of income tax to a fund identified as a 'Investment Fund Account' (IFA) as per a proposal made in the Government Budget 2011. The guidelines has also been issued by the Central Bank of Sri Lanka on utilisation of funds in this account.

The Bank provided funds for several projects utilising funds available in the IFA. The details of loans granted under IFA are as follows:

Sector	Amount Granted (Rs. Mn.)	Rate of Interest (%)	Tenure of Loan
Infrastructure development	1,475.540	9.00 - 14.03	14 - 14 1/2 Years
Factory/mills modernisation	167.309	15.62 - 16.05	5 - 5 1/2 Years
Construction of hotels and for related purposes	122.417	16.05 - 16.30	7 - 8 Years
Agriculture	43.495	14.65	5 1/2 Years
	1,808.761		

47. Non-Controlling Interest

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
Commercial Development Company PLC	**32,141**	29,589	26,601	**–**	–	–
Total	**32,141**	29,589	26,601	**–**	–	–

48. Contingent Liabilities and Commitments

In the normal course of business the Bank makes various irrevocable commitments and incurs certain contingent liabilities with legal recourse to its customers. Even though these obligations may not be recognised on the Balance Sheet, they do contain credit risk and are therefore form part of the overall risk profile of the Bank.

48.1 Contingencies

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
Contingent Liabilities:						
Guarantees	**23,997,143**	22,749,683	28,282,590	**23,997,143**	22,749,683	28,282,590
Performance bonds	**7,698,090**	7,698,090	6,127,722	**7,698,090**	7,698,090	6,127,722
Documentary credits	**19,566,782**	22,100,971	20,427,159	**19,566,782**	22,100,971	20,427,159
Other contingent liabilities [Refer Note 48.1(a)]	**29,273,645**	29,817,113	23,015,415	**29,273,645**	29,817,113	23,015,415
Total contingent liabilities	**80,535,660**	82,365,857	77,852,886	**80,535,660**	82,365,857	77,852,886

48.1 (a) Other Contingent Liabilities

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
Other contingent liabilities:						
Acceptances	**16,255,563**	15,978,277	11,171,282	**16,255,563**	15,978,277	11,171,282
Bills for collection	**12,251,283**	13,287,393	11,321,227	**12,251,283**	13,287,393	11,321,227
Stock travellers' cheques	**766,799**	551,443	522,906	**766,799**	551,443	522,906
Total other contingent liabilities	**29,273,645**	29,817,113	23,015,415	**29,273,645**	29,817,113	23,015,415
Forward exchange contracts:						
Forward exchange sales	**68,318,546**	52,785,302	41,774,845	**68,318,546**	52,785,302	41,774,845
Forward exchange purchases	**68,467,903**	51,613,610	38,335,745	**68,467,903**	51,613,610	38,335,745
Total	**136,786,449**	104,398,912	80,110,590	**136,786,449**	104,398,912	80,110,590
Interest rate swap agreements/currency options:						
Interest rate swaps	**–**	131	2,211	**–**	131	2,211
Currency options	**–**	–	–	**–**	–	–
Total	**–**	131	2,211	**–**	131	2,211
Total contingencies	**217,322,109**	186,764,900	157,965,687	**217,322,109**	186,764,900	157,965,687

48.2 Commitments

48.2.1 Direct and Indirect Advances:

	GROUP			BANK		
Undrawn loan commitments	**51,021,034**	31,640,547	37,679,817	**51,021,034**	31,640,547	37,679,817
Other commitments	**10,853,593**	14,758,172	–	**10,853,593**	14,758,172	–
Total	**61,874,627**	46,398,719	37,679,817	**61,874,627**	46,398,719	37,679,817

48.2.2 Capital Commitments

The Group has commitments for acquisition of Property, Plant & Equipment and intangible assets incidental to the ordinary course of business as at December 31, as follows:

48.2.1 (a) Capital Expenditure Commitments in relation to Property, Plant & Equipment

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
Approved and contracted for	**43,986**	1,169,775	787,992	**43,986**	1,169,775	787,992
Approved but not contracted for	**312,779**	76,150	41,100	**312,779**	76,150	41,100
Total	**356,765**	1,245,925	829,092	**356,765**	1,245,925	829,092

48.2.1 (b) Capital Expenditure Commitments in relation to Intangible Assets

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
Approved and contracted for	**39,611**	141,625	142,570	**39,611**	141,625	142,570
Approved but not contracted for	**–**	–	–	**–**	–	–
Total	**39,611**	141,625	142,570	**39,611**	141,625	142,570
Total of capital commitments	**396,376**	1,387,550	971,662	**396,376**	1,387,550	971,662
Total commitments	**62,271,003**	47,786,269	38,651,479	**62,271,003**	47,786,269	38,651,479
Total contingent liabilities and commitments	**279,593,112**	234,551,169	196,617,166	**279,593,112**	234,551,169	196,617,166

48.3 Commitments of Subsidiaries and Associates

(a) Contingencies of Subsidiaries

The Subsidiaries of the Group do not have any contingencies as at the year end.

(b) Contingencies of Associates

The Associates of the Group do not have any contingencies as at the year end.

49. Litigation Against the Bank

Litigation is a common occurrence in the banking industry due to the nature of the business. The Bank has an established protocol for dealing with such legal claims. Once professional advice has been obtained on the certainty of the outcome and the amount of damages reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. Set out below are unresolved legal claims against the Bank as at the year end for which adjustments to the Financial Statements have not been made due to the uncertainty of its outcome.

(i) Court action has been initiated by a customer in proceedings No. 25085/MR to recover a sum of US $ 27,500 alleged to have been paid by the Bank in pursuance of a guarantee issued, by debiting the customer's account without the authority of the customer. Judgment was delivered dismissing the Plaintiff's action. plaintiff has lodged an appeal against the judgment. Argument is fixed for March 04, 2013.

(ii) Court action has been initiated by two customers in proceedings No. 174/2008/MR to claim Rs. 33.000 Mn. and a further sum of 0.688 Mn. as damages for alleged un-authorised transactions which had not been sanctioned by the Plaintiffs. One of the Plaintiffs has taken up the position that he did not receive the proceeds of the housing loan which had been obtained from the Bank. Further trial is fixed for May 28, 2013.

(iii) Court action has been initiated by a third party in proceedings No. 0122/2009/DLM to claim the title of a property which has been mortgaged to the Bank by the present owner for several facilities granted. The value of action is Rs. 85.000 Mn. Written submissions of all parties are due on March 21, 2013.

(iv) Court action has been initiated by a third party in proceedings No. DMR 02827-11 to claim a sum of Rs. 5.660 Mn. together with interest as damages from the Bank and another party with regard to encashing of a cheque. Trial is fixed for May 09, 2013.

(v) Court action has been initiated by a customer in proceedings No. 236/2011/MR challenging the Bank for transferring a vehicle in the name of a relation of the plaintiff upon settlement of full amount due in respect of a lease facility obtained from the Bank. The Bank has executed the transfer on the strength of a letter issued by the plaintiff who is challenging the letter. The value of the action is Rs. 3.500 Mn. Settlement of admissions and issues are due on March 27, 2013.

(vi) Court action has been initiated by a third party in proceedings No. 112/2005(1) to claim Rs. 5.584 Mn. plus Rs. 10.000 Mn. as damages for disposing of the shares owned by her which were held under lien to the Bank. Plaintiff alleges that the transaction has taken place without obtaining her consent. Judgment was delivered in favour of the Plaintiff. Bank has appealed against the judgment delivered. The plaintiff has filed an application for the issue of Writ Pending Appeal. Next hearing of the case is fixed for April 04, 2013.

(vii) Court action has been initiated by a customer in proceedings No. 36/96 (1) to claim a sum of Rs. 183.050 Mn. on account of a forward exchange contract. Judgment was delivered in favour of the Bank dismissing the plaintiff's action but the plaintiff has appealed against the judgment in Supreme Court. The appeal case is fixed to be mentioned on March 22, 2013.

(viii) Court action has been initiated by a third party in proceedings No. 571/2008/MR to prevent the Bank from exercising the right of lien and set off a deposit of the plaintiff amounting to US $ 15.000 Mn. against a claim made by the Bank in terms of a hedging Agreement. Court dismissed plaintiff's application for an interim injunction. The parties have filed their initial pleadings and the 1st witness was called to give evidence. The case was postponed to June 26, 2013 and July 03, 2013 for the cross examination.

(ix) Court action has been initiated for BDT 9.153 Mn. (approx. Rs. 14.682 Mn.) in proceedings No. 149/05 against the Credit Agricole Indusuez and the Bank for the breach of contract due to improper termination of a contract between Credit Agricole Indusuez and the plaintiff on network facility provided for Electronic Fund Transfer (EFT). As the Bank was not a party to the contract, the Bank has filed a Statement to the court requesting for a dismissal. Next date of the case has been fixed for March 12, 2013.

(x) Court action has been initiated by a third party in proceedings No. 52/10 to claim a sum of BDT 35.328 Mn. (approx. Rs.56.669 Mn.) from the Bank for illegal withdrawal of money from their account with forged signatures. The Bank is of the view that the Bank is not responsible for any losses occurring due to inadequacy of the security of cheque books. Hence, the Bank decided to submit a written Statement to the court in this regard. Next date of the case is fixed for March 18, 2013 for Service Return.

(xi) Court action has been initiated by an ex customer in proceedings No. DMR 00695/12 to claim Rs. 50.000 Mn. as damages for returning a cheque issued by him to the 2nd defendant of Rs. 1.000 Mn., with the remark 'A/C Closed' instead of 'Stale Cheque'. However, when the cheque was presented to the Bank, the customer had already closed his account and at the same time the cheque was stale. Call to be fixed for trial on March 08, 2013.

50. Maturity Analysis

(a) Group

(i) Maturity analysis of assets of the Group as at December 31, 2012 based on the remaining period at the reporting date to the respective contractual maturity dates is given below:

	Up to 3 Months Rs. '000	3 to 12 Months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More than 5 Years Rs. '000	**Total as at 31.12.2012 Rs. '000**	Total as at 31.12.2011 Rs. '000
Interest-Earning Assets:							
Cash and cash equivalents	5,188,750	126,486	–	–	–	**5,315,236**	2,290,527
Balances with Central Banks	3,425	373	–	–	–	**3,798**	589,419
Placements with banks	16,162,970	–	–	–	–	**16,162,970**	11,674,363
Derivative financial instruments	–	–	–	–	–	**–**	–
Other financial assets held for trading	5,718,232	–	–	–	–	**5,718,232**	6,193,392
Loans and receivables to banks	–	95,000	–	–	–	**95,000**	104,778
Loans and receivables to other customers	156,613,317	67,572,018	98,572,720	33,821,496	16,277,786	**372,857,337**	314,326,998
Financial investments - Available-for-sale	23,233,313	20,980,372	9,965,095	2,417,398	1,327,596	**57,923,774**	61,385,224
As at 31.12.2012	206,920,007	88,774,249	108,537,815	36,238,894	17,605,382	**458,076,347**	
As at 31.12.2011	165,306,542	89,884,906	85,477,858	41,129,150	14,766,244		396,564,701

	Up to 3 Months Rs. '000	3 to 12 Months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More than 5 Years Rs. '000	Total as at 31.12.2012 Rs. '000	Total as at 31.12.2011 Rs. '000
Non-Interest Earning Assets:							
Cash and cash equivalents	14,436,969	–	–	–	–	**14,436,969**	10,644,468
Balances with Central Banks	12,545,598	4,674,968	289,955	317,678	336,042	**18,164,241**	16,753,540
Derivative financial instruments	739,406	611,689	–	–	–	**1,351,095**	39,612
Other financial assets held for trading	322,878	–	–	–	–	**322,878**	224,618
Loans and receivables to banks	533,760	–	–	–	–	**533,760**	475,380
Financial investments - Available-for-sale	–	–	–	15,106	24,312	**39,418**	30,171
Investments in associates	–	–	–	–	93,712	**93,712**	119,981
Property, plant & equipment	–	–	–	–	8,946,881	**8,946,881**	8,503,211
Intangible assets	–	–	–	–	506,161	**506,161**	475,038
Leasehold property	–	–	–	–	111,776	**111,776**	113,228
Deferred tax assets	–	–	–	458,258	–	**458,258**	363,711
Other assets	6,038,365	71,001	161,000	148,492	2,760,286	**9,179,144**	7,290,298
As at 31.12.2012	34,616,976	5,357,658	450,955	939,534	12,779,170	**54,144,293**	
As at 31.12.2011	27,807,311	4,138,598	526,399	797,986	11,762,962		45,033,256
Total Assets - As at 31.12.2012	241,536,983	94,131,907	108,988,770	37,178,428	30,384,552	**512,220,640**	
Total Assets - As at 31.12.2011	193,113,853	94,023,504	86,004,257	41,927,137	26,529,206		441,597,957
Percentage - As at 31.12.2012	47.15	18.38	21.28	7.26	5.93	**100.00**	
Percentage - As at 31.12.2011	43.73	21.29	19.48	9.49	6.01		**100.00**

(ii) An analysis of the total liabilities and share holders' funds of the Group as at December 31, 2012 based on the remaining period at the reporting date to the respective contractual maturity dates is given below:

	Up to 3 Months Rs. '000	3 to 12 Months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More than 5 Years Rs. '000	Total as at 31.12.2012 Rs. '000	Total as at 31.12.2011 Rs. '000
Interest-Bearing Liabilities:							
Due to banks	1,354,651	–	–	–	–	**1,354,651**	10,363,416
Due to other customers	240,370,577	99,307,742	5,906,406	5,837,521	7,083,119	**358,505,365**	292,840,945
Other borrowings	24,066,467	9,206,335	4,393,556	4,585,341	5,314,246	**47,565,945**	49,455,005
Subordinated term debts	132,806	550	–	972,660	–	**1,106,016**	1,105,639
As at 31.12.2012	265,924,501	108,514,627	10,299,962	11,395,522	12,397,365	**408,531,977**	
As at 31.12.2011	239,490,979	88,112,294	10,080,422	7,476,211	8,605,099		353,765,005

	Up to 3 Months Rs. '000	3 to 12 Months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More than 5 Years Rs. '000	**Total as at 31.12.2012 Rs. '000**	Total as at 31.12.2011 Rs. '000
Non-Interest Bearing Liabilities:							
Due to Banks	3,405,679	3,235	–	–	–	**3,408,914**	1,210,689
Derivative financial instruments	83,123	1,168	–	–	–	**84,291**	435,171
Due to other customers	32,063,317	–	–	–	–	**32,063,317**	30,856,683
Current tax liabilities	1,147,300	1,674,675	–	–	–	**2,821,975**	1,307,079
Deferred tax liabilities	–	–	–	1,889,983	–	**1,889,983**	1,639,827
Other provisions	2,409	–	–	–	–	**2,409**	535
Other liabilities	8,675,092	1,190,503	187,803	313,035	50,780	**10,417,213**	8,213,999
Stated capital	–	–	–	–	18,008,796	**18,008,796**	16,473,861
Statutory reserves	–	–	–	–	3,433,395	**3,433,395**	2,890,305
Retained earnings	–	–	–	–	4,172,814	**4,172,814**	2,588,194
Other reserves	–	–	–	–	27,353,415	**27,353,415**	22,187,020
Non-controlling interest	–	–	–	–	32,141	**32,141**	29,589
As at 31.12.2012	45,376,920	2,869,581	187,803	2,203,018	53,051,341	**103,688,663**	
As at 31.12.2011	36,104,740	4,267,385	1,199,314	2,079,017	44,182,496		87,832,952
Total Liabilities and Equity - As at 31.12.2012	311,301,421	111,384,208	10,487,765	13,598,540	65,448,706	**512,220,640**	
Total Liabilities and Equity - As at 31.12.2011	275,595,719	92,379,679	11,279,736	9,555,228	52,787,595		441,597,957
Percentage - As at 31.12.2012	60.77	21.75	2.05	2.65	12.78	**100.00**	
Percentage - As at 31.12.2011	62.42	20.92	2.55	2.16	11.95		100.00

(b) Bank

(i) An analysis of the total assets employed of the Bank as at December 31, 2012, based on the remaining period at the reporting date to the respective contractual maturity dates is given below:

	Up to 3 Months Rs. '000	3 to 12 Months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More than 5 Years Rs. '000	**Total as at 31.12.2012 Rs. '000**	Total as at 31.12.2011 Rs. '000
Interest-Earning Assets:							
Cash and cash equivalents	5,169,379	126,486	–	–	–	**5,295,865**	2,266,521
Balances with Central Banks	3,425	373	–	–	–	**3,798**	589,419
Placements with banks	16,162,970	–	–	–	–	**16,162,970**	11,674,363
Other financial assets held for trading	5,718,232	–	–	–	–	**5,718,232**	6,193,392
Loans and receivables to banks	–	95,000	–	–	–	**95,000**	104,778
Loans and receivables to other customers	156,622,403	67,596,689	98,596,707	33,821,496	16,277,786	**372,915,081**	314,485,967
Financial investments - Available-for-sale	23,233,313	20,980,372	9,965,095	2,417,398	1,327,596	**57,923,774**	61,385,224
As at 31.12.2012	206,909,722	88,798,920	108,561,802	36,238,894	17,605,382	**458,114,720**	
As at 31.12.2011	165,300,411	89,930,315	85,569,711	41,132,983	14,766,244		396,699,664

	Up to 3 Months Rs. '000	3 to 12 Months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More than 5 Years Rs. '000	Total as at 31.12.2012 Rs. '000	Total as at 31.12.2011 Rs. '000
Non–Interest Earning Assets:							
Cash and Cash Equivalents	14,436,969	–	–	–	–	**14,436,969**	10,644,468
Balances with Central Banks	12,545,598	4,674,968	289,955	317,678	336,042	**18,164,241**	16,753,540
Derivative financial instruments	739,406	611,689	–	–	–	**1,351,095**	39,612
Other financial assets held for trading	322,878	–	–	–	–	**322,878**	224,618
Loans and receivables to banks	533,760	–	–	–	–	**533,760**	475,380
Financial investments - Available-for-sale	–	–	–	15,106	24,312	**39,418**	30,171
Investments in subsidiaries	–	–	–	–	303,130	**303,130**	315,444
Investments in associates	–	–	–	–	44,331	**44,331**	44,331
Property, plant & equipment	–	–	–	–	8,221,118	**8,221,118**	7,907,030
Intangible assets	–	–	–	–	497,038	**497,038**	467,014
Leasehold property	–	–	–	–	77,304	**77,304**	78,246
Deferred tax assets	–	–	–	448,500	–	**448,500**	359,617
Other assets	6,038,365	71,001	161,000	148,492	2,769,348	**9,188,206**	7,290,514
As at 31.12.2012	34,616,976	5,357,658	450,955	929,776	12,272,623	**53,627,988**	
As at 31.12.2011	27,807,527	4,138,598	522,305	797,986	11,363,569		44,629,985
Total Assets - As at 31.12.2012	241,526,698	94,156,578	109,012,757	37,168,670	29,878,005	**511,742,708**	
Total Assets - As at 31.12.2011	193,107,938	94,068,913	86,092,016	41,930,969	26,129,813		441,329,649
Percentage - As at 31.12.2012	47.20	18.40	21.30	7.26	5.84	**100.00**	
Percentage - As at 31.12.2011	43.76	21.31	19.51	9.50	5.92		100.00

(ii) An analysis of the total liabilities and shareholders' funds of the Bank as at December 31, 2012 based on the remaining period at the reporting date to the respective contractual maturity dates is given below:

	Up to 3 Months Rs. '000	3 to 12 Months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More than 5 Years Rs. '000	Total as at 31.12.2012 Rs. '000	Total as at 31.12.2011 Rs. '000
Interest-Bearing Liabilities:							
Due to banks	1,354,651	–	–	–	–	**1,354,651**	10,363,416
Due to other customers	240,404,347	99,316,446	5,906,406	5,837,521	7,083,119	**358,547,839**	292,897,852
Other borrowings	24,213,721	9,206,335	4,393,556	4,585,341	5,314,246	**47,713,199**	49,603,142
Subordinated term debts	132,806	550	–	972,660	–	**1,106,016**	1,105,639
As at 31.12.2012	266,105,525	108,523,331	10,299,962	11,395,522	12,397,365	**408,721,705**	
As at 31.12.2011	239,648,023	88,160,294	10,080,422	7,476,211	8,605,099		353,970,049

	Up to 3 Months Rs. '000	3 to 12 Months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More than 5 Years Rs. '000	**Total as at 31.12.2012 Rs. '000**	Total as at 31.12.2011 Rs. '000
Non-Interest Bearing Liabilities:							
Due to Banks	3,405,679	3,235	–	–	–	**3,408,914**	1,210,689
Derivative financial instruments	83,123	1,168	–	–	–	**84,291**	435,171
Due to other customers	32,063,709	–	–	–	–	**32,063,709**	30,856,896
Current tax liabilities	1,126,866	1,674,675	–	–	–	**2,801,541**	1,305,442
Deferred tax liabilities	–	–	–	1,698,067	–	**1,698,067**	1,594,086
Other provisions	2,409	–	–	–	–	**2,409**	535
Other liabilities	8,620,687	1,190,503	187,803	313,035	50,780	**10,362,808**	8,162,382
Due to subsidiaries	22,264	–	–	–	–	**22,264**	29,734
Stated capital	–	–	–	–	18,008,796	**18,008,796**	16,473,861
Statutory reserves	–	–	–	–	3,433,395	**3,433,395**	2,890,305
Retained earnings	–	–	–	–	4,178,080	**4,178,080**	2,547,336
Other reserves	–	–	–	–	26,956,729	**26,956,729**	21,853,163
As at 31.12.2012	45,324,737	2,869,581	187,803	2,011,102	52,627,780	**103,021,003**	
As at 31.12.2011	36,081,433	4,267,385	1,199,314	2,033,276	43,778,192		87,359,600
Total Liabilities and Equity - As at 31.12.2012	311,430,262	111,392,912	10,487,765	13,406,624	65,025,145	**511,742,708**	
Total Liabilities and Equity - As at 31.12.2011	275,729,456	92,427,679	11,279,736	9,509,487	52,383,291		441,329,649
Percentage - As at 31.12.2012	60.85	21.77	2.05	2.62	12.71	**100.00**	
Percentage - As at 31.12.2011	62.48	20.94	2.56	2.15	11.87		100.00

51. Employee Retirement Benefits

51.1 Pension Fund - Defined Benefit Plan

An actuarial valuation of the retirement Pension Fund was carried out as at December 31, 2012, by Mr. M Poopalanathan, AIA, Messers Actuarial & Management Consultants (Pvt) Ltd., a firm of professional actuaries. The valuation method used by the actuaries to value the fund is the 'Projected Unit Credit Method (PUC)', the method recommended by the Sri Lanka Accounting Standard LKAS 19 on 'Employee Benefits'.

The assets of the fund, which are independently administered by the Trustees as per the provision of the Trust Deed are held separately from those of the Bank.

51.1 (a) Actuarial Assumptions - Demographic

Mortality

In service	A 67/70 Mortality Table issued by the Institute of Actuaries, London
After retirement	A (90) Annuities Table (Males & Females) issued by the Institute of Actuaries, London

Withdrawal

The withdrawal rate at an age represents the probability of an active employee leaving within one year of that age due to reasons other than death, ill health and normal retirement. The same withdrawal rates which were used in the last valuation (December 31, 2011) to determine the liabilities of the active employees in the funded scheme, were used in the actuarial valuation as at December 31, 2012.

Disability

Assumptions similar to those used in other comparable schemes for disability were used as the data required to do a 'scheme specific' study was not available.

Normal Retirement Age

55 or 60 years as indicated in the data file of active employees.

51.1 (b) Actuarial Assumptions - Financial

Rate of Discount

In the absence of a deep market in long term Bonds in Sri Lanka, a long term rate of 11% p.a. has been used to discount future liabilities considering anticipated long term rate of inflation.

Salary Increases

A salary increment of 10% p.a. has been used in respect of the active employees.

Post Retirement Pension Increase Rate

There is no agreed rate of increase even though the pension payments are subject to periodic increases, and increases are given solely at the discretion of the Bank. Therefore, no specific rate was assumed for this valuation.

	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
51.1 (c) Movement in the Present Value of Defined Benefit Obligations			
Opening balance	**91,937**	84,394	72,209
Interest cost	**9,194**	8,439	7,943
Current service cost	**2,325**	1,928	1,805
Benefits paid during the year	**(7,000)**	(5,853)	(5,303)
Actuarial loss	**15,558**	3,029	7,740
Closing balance	**112,014**	91,937	84,394
51.1 (d) Movement in the Fair Value of Plan Assets			
Fair value as at the beginning of the year	**85,845**	72,290	61,800
Expected return on plan assets	**8,584**	7,229	4,697
Contribution paid into plan	**1,704**	1,446	1,298
Benefits paid by the plan	**(7,000)**	(5,853)	(5,303)
Actuarial gain on plan assets	**5,766**	10,733	9,798
Fair value as at the end of the year	**94,899**	85,845	72,290
51.1 (e) Liability Recognised in the Statement of Financial Position			
Present value of defined benefit obligations as at the end of the year	**112,014**	91,937	84,394
Fair value of plan assets as at the end of the year	**(94,899)**	(85,845)	(72,290)
Unrecognised actuarial gains/(losses)	**–**	–	–
Net liability recognised in the Statement of Financial Position	**17,115**	6,092	12,104

51.1 (f) Plan Assets Consist of the Following:

	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
Government Treasury Bills	**38,632**	29,804	16,258
Deposits held with the Bank	**56,267**	56,041	56,032
Total	**94,899**	85,845	72,290

52. Financial Reporting by Segment as per the Provisions of Sri Lanka Financial Reporting Standard (SLFRS) No. 08

The primary segment reporting format is determined to be business segments as the Group's risks and return are affected predominantly by differences in the products and services produced. Secondary information is reported geographically.

The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

52.1 Primary Segment Information - Business Segments (Group)

The following table presents the income, profit and certain asset and liability information on the Group's business segments for the year ended December 31, 2012 and comparative figures for the year ended December 31, 2011.

For the year ended December 31,	Banking		Leasing		Dealing/Treasury		Investments		Total/ Consolidated	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
External Operating Income:										
Net interest income	**21,385,560**	15,844,749	**911,261**	643,550	**111,621**	1,881,951	**443,217**	308,150	**22,851,659**	18,678,400
Foreign exchange profit	**2,091,074**	1,749,266	**–**	–	**2,595,937**	572,357	**–**	–	**4,687,011**	2,321,623
Fees and commission income	**3,590,315**	3,319,440	**–**	–	**8,003**	5,810	**–**	–	**3,598,318**	3,325,250
Other income	**110,871**	501,420	**1,308,323**	778,372	**131,168**	(139,950)	**60,369**	15,835	**1,610,731**	1,155,677
Eliminations/unallocated	**–**	–	**–**	–	**–**	–	**–**	–	**266,169**	282,821
Total operating income	**27,177,820**	21,414,875	**2,219,584**	1,421,922	**2,846,729**	2,320,168	**503,586**	323,985	**33,013,888**	25,763,771
Credit loss expenses	**(3,083,820)**	(1,398,292)	**(74,471)**	(348,453)	**–**	–	**–**	–	**(3,158,291)**	(1,746,745)
Net operating income	**24,094,000**	20,016,583	**2,145,113**	1,073,469	**2,846,729**	2,320,168	**503,586**	323,985	**29,855,597**	24,017,026
Segment result	**14,453,263**	11,168,069	**2,145,113**	1,073,469	**1,617,091**	2,062,778	**449,652**	289,287	**18,665,119**	14,593,603
Unallocated operating expenses									**(4,364,565)**	(3,624,262)
Profit from operations									**14,300,554**	10,969,341
Share of profit of Associates – (before tax)									**12,360**	10,878
Income tax expense									**(4,231,747)**	(3,047,918)
Non-controlling interest									**(1,338)**	(239)
Net profit for the year, attributable to equity holders of the Parent									**10,079,829**	7,932,062

As at December 31,	Banking		Leasing		Dealing/Treasury		Investments		Total/ Consolidated	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Other Information										
Segment assets	**291,972,329**	251,280,611	**25,043,149**	21,382,490	**132,898,416**	118,356,825	**3,836,916**	3,798,318	**453,750,810**	394,818,244
Investments in associates	**–**	–	**–**	–	**–**	–	**93,712**	119,981	**93,712**	119,981
Unallocated assets	**–**	–	**–**	–	**–**	–	**–**	–	**58,376,118**	46,659,732
Total assets	**–**	–	**–**	–	**–**	–	**–**	–	**512,220,640**	441,597,957
Segment liabilities	**292,636,055**	250,824,124	**25,043,149**	21,382,490	**132,898,416**	118,356,825	**3,930,628**	3,918,299	**454,508,248**	394,481,738
Unallocated liabilities	**–**	–	**–**	–	**–**	–	**–**	–	**4,711,831**	2,947,250
Total liabilities	**–**	–	**–**	–	**–**	–	**–**	–	**459,220,079**	397,428,988

For the year ended December 31,	Banking		Leasing		Dealing/Treasury		Investments		Total/ Consolidated	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Information on cash flows										
Cash flows from operating activities	**9,863,648**	492,975	**(3,660,659)**	(9,825,905)	**(301,398)**	(2,781,499)	**4,448,539**	17,938,271	**10,350,130**	5,823,842
Cash flows from investing activities	**619,260**	(711,225)	**–**	–	**–**	–	**–**	–	**619,260**	(711,225)
Cash flows from financing activities	**–**	–	**–**	–	**(132,929)**	(1,482,153)	**–**	–	**(132,429)**	(1,482,153)
Capital expenditure										
Property, Plant & Equipment	**–**	–	**–**	–	**–**	–	**–**	–	**(1,234,473)**	(967,997)
Intangible assets	**–**	–	**–**	–	**–**	–	**–**	–	**(205,227)**	(147,955)
Eliminations/unallocated									**(2,580,051)**	2,103,435
Net cash flow generated during the year									**6,817,210**	4,617,947

52.2 Secondary Segment Information – Geographical Segments

The following table presents the distribution of total assets, income, profit before tax and profit after tax of the Group/Bank by geographical segment, allocated based on the location in which the transaction assets and liabilities are recorded for the year ended December 31, 2012 together with comparative figures for the year ended December 31, 2011.

	GROUP				BANK			
	2012 Rs. '000	%	2011 Rs. '000	%	2012 Rs. '000	%	2011 Rs. '000	%
Assets								
Sri Lanka operations	**471,153,270**	91.98	412,640,009	93.44	**470,726,049**	91.98	412,371,701	93.44
International operations	**41,067,370**	8.02	28,957,948	6.56	**41,016,659**	8.02	28,957,948	6.56
Total	**512,220,640**	100.00	441,597,957	100.00	**511,742,708**	100.00	441,329,649	100.00
Income								
Sri Lanka operations	**58,574,030**	92.43	42,344,382	92.38	**58,595,750**	92.43	42,364,694	92.38
International operations	**4,799,723**	7.57	3,494,562	7.62	**4,799,297**	7.57	3,494,523	7.62
Total	**63,373,753**	100.00	45,838,944	100.00	**63,395,047**	100.00	45,859,217	100.00
Profit before tax								
Sri Lanka operations	**12,416,243**	86.75	9,584,433	87.29	**12,358,802**	86.45	9,467,053	86.88
International operations	**1,896,671**	13.25	1,395,786	12.71	**1,936,531**	13.55	1,430,177	13.12
Total	**14,312,914**	100.00	10,980,219	100.00	**14,295,333**	100.00	10,897,230	100.00
Profit after tax								
Sri Lanka operations	**9,061,030**	89.88	7,116,706	89.72	**9,038,332**	89.50	7,032,883	89.22
International operations	**1,020,137**	10.12	815,595	10.28	**1,059,997**	10.50	849,986	10.78
Total	**10,081,167**	100.00	7,932,301	100.00	**10,098,329**	100.00	7,882,869	100.00

53. Related Party Disclosures

The Bank carried out transactions in the ordinary course of business on an arm's length basis at commercial rates with parties who are defined as Related Parties as per the Sri Lanka Accounting Standard - LKAS 24 'Related Party Disclosures', except for the transactions that Key Management Personnel (KMPs) have availed under schemes uniformly applicable to all staff at concessionary rates.

53.1 Parent and Ultimate Controlling Party

The Bank does not have an identifiable parent of its own.

53.2 Transactions with Key Management Personnel (KMPs)

Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank directly or indirectly.

Accordingly the Bank's KMPs include the Board of Directors (including Executive and Non-Executive Directors) and selected key employees who meet the criteria above.

Close Family Members (CFM) of a KMP are those family members who may be expected to influence, or be influenced by, that KMP in their dealings with the Bank. They may include KMPs domestic partner and children, children of the KMPs domestic partner and dependants of the KMP or the KMPs domestic partner.

As the Bank is the ultimate parent of the Subsidiaries that are listed out on page 316, the Board of Directors of the Bank have the authority and responsibility for planning, directing and controlling the activities of the Group directly or indirectly. Accordingly the Board of Directors of the Bank (Including Executive and Non-Executive) are KMPs of the Group.

53.2.1.1 Compensation of Directors - Bank

	2012 Rs. '000	2011 Rs. '000
Short term employment benefits	**92,869**	96,101
Post employment benefits	**6,459**	6,798
Total	**99,328**	102,899

53.2.1.2 Compensation of other KMPs - Bank

	2012 Rs. '000	2011 Rs. '000
Short term employment benefits	**161,328**	162,002
Post employment benefits	**16,960**	15,046
Total	**178,288**	177,048

53.2.1.3 Compensation of KMPs - Group

	2012 Rs. '000	2011 Rs. '000
Short term employment benefits	**93,169**	96,263
Post employment benefits	**6,459**	6,798
Total	**99,628**	103,061

In addition to the above the Bank/Group provide non-cash benefit to the KMPs.

53.2.2 Transactions, Arrangements and Agreements Involving KMPs, and their Close Family Members (CFMs)

CFMs of a KMP are those family members who may be expected to influence, or be influenced by, that KMP in their dealings with the entity. They may include KMPs domestic partner and children, children of the KMPs domestic partner and dependents of the KMP or the KMPs domestic partner.

53.2.2.1 Statement of Financial Position - Bank

	Year-end Balance		Average Balance	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Assets				
Loans and advances	**87,789**	93,134	**86,625**	72,616
Credit cards	**1,774**	1,651	**194**	154
Total	**89,563**	94,785	**86,819**	72,770
Liabilities				
Deposits	**154,173**	229,848	**175,844**	204,864
Securities sold under re-purchase agreements	**34,014**	264,063	**118,872**	330,217
Debentures	**200**	200	**200**	300
Total	**188,387**	494,111	**294,916**	535,381

53.2.2.2 Commitments and Contingencies - Bank

	Year-end Balance 2012 Rs. '000	Year-end Balance 2011 Rs. '000	Average Balance 2012 Rs. '000	Average Balance 2011 Rs. '000
Letters of credit	–	–	359	550
Undrawn facilities	26,488	32,538	28,757	31,616
Total	26,488	32,538	29,116	32,166

53.2.2.3 Direct and Indirect Accommodation - Bank

Direct and indirect accommodation as a % of the Bank's Regulatory Capital	0.24%	0.30%

53.2.2.4 Income Statement

	During the Year 2012 Rs. '000	During the Year 2011 Rs. '000
Interest income	8,186	6,615
Interest expenses	26,175	40,286
Other income	111	43
Compensation to KMPs (Refer Note 53.2.1 and 53.2.2)	277,616	279,947

53.2.2.5 Share-Based Benefits to KMPs

	As at the Year End 2012	As at the Year End 2011
Number of ordinary shares held	4,030,871	9,902,168
Dividends paid (In Rs. '000)	34,158	42,834
Number of cumulative exercisable options under the Employee Share Option Plan (ESOP) 2008 - Tranche I	817,581	817,581
Tranche II	387,828	–

53.3 Transactions with Group Entities

The Group entities include the Subsidiaries and Associates of the Bank.

53.3.1 Transactions with Subsidiaries

53.3.1.1 Balance Sheet

	Year–end Balance 2012 Rs. '000	Year–end Balance 2011 Rs. '000	Average Balance 2012 Rs. '000	Average Balance 2011 Rs. '000
Assets				
Loans and advances	343	2,955	1,503	2,161
Lease receivables	57,401	156,494	89,051	183,884
Other	37,859	66,380	52,120	59,977
Total	95,603	225,829	142,674	246,022
Liabilities				
Deposits	42,866	57,120	61,786	62,171
Securities sold under re–purchase agreements	142,721	143,944	113,053	125,733
Other	22,264	14,999	18,632	15,150
Total	207,851	216,063	193,471	203,054

53.3.1.2 Commitments and Contingencies

	Year–end Balance		Average Balance	
	2012 Rs. '000	2011 Rs. '000	**2012 Rs. '000**	2011 Rs. '000
Letters of credit	**–**	419	**–**	457
Guarantees	**–**	110	**–**	78
Undrawn facilities	**25,000**	50,000	**20,833**	20,897
Total	**25,000**	50,529	**20,833**	21,432

53.3.1.3 Direct and Indirect Accommodation

Direct and indirect accommodation as a % of the Bank's Regulatory Capital	**0.17%**	0.50%

53.3.1.4 Income Statement

	During the Year	
	2012 Rs. '000	2011 Rs. '000
Interest income	**20,189**	39,591
Interest expenses	**19,092**	14,996
Other income	**70,437**	35,609
Expenses paid	**246,574**	287,187

53.3.1.5 Other Transactions

Payments made to OneZero Company Ltd. in relation to purchase of computer hardware, software and maintenance agreements	**168,691**	114,290

53.3.2 Transactions with Associates

53.3.2.1 Statement of Financial Position

	Year–end Balance		Average Balance	
	2012 Rs. '000	2011 Rs. '000	**2012 Rs. '000**	2011 Rs. '000
Assets				
Loans and advances	**11,570**	19,645	**12,232**	23,177
Lease receivables	**2,600**	4,465	**4,962**	4,962
Total	**14,170**	24,110	**17,194**	28,139
Liabilities				
Deposits	**52,707**	25,521	**83,048**	22,659
Securities sold under re-purchase agreements	**4,096**	23,236	**17,393**	24,395
Total	**56,803**	48,757	**100,441**	47,054

53.3.2.2 Direct and Indirect Accommodation

Direct and indirect accommodation as a % of the Bank's Regulatory Capital	**0.03%**	0.06%

53.3.2.3 Income Statement

	During the Year 2012 Rs. '000	2011 Rs. '000
Interest income	**2,773**	4,239
Interest expenses	**11,507**	2,252
Other income	**55,971**	26,087

53.3.2.4 Other Transactions

	During the Year 2012	2011
Number of ordinary shares held as at the year end	**4,246**	4,246
Dividend paid (Rs. '000)	**21**	18

53.4 Transactions with Other Related Entities

Other related entities include significant investors (either entities or individuals) that have control, joint control or significant influence, post-employment benefit plans for the Bank's employees.

53.4.1 Transactions with the Post-Employment Benefit Plans for the Employees of the Bank

53.4.1.1 Statement of Financial Position

	Year-end Balance		Average Balance	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Assets				
Loans and Advances	**–**	–	**–**	–
Credit Cards	**–**	–	**–**	–
Other	**–**	–	**–**	–
Total	**–**	–	**–**	–
Liabilities				
Deposits	**1,592,507**	1,818,097	**1,198,568**	894,385
Securities sold under repurchase agreements	**141,160**	123,937	**75,644**	1,046,281
Total	**1,733,667**	1,942,034	**1,274,212**	1,940,666

53.4.1.2 Income Statement

	During the Year 2012 Rs. '000	2011 Rs. '000
Interest expenses	**136,174**	174,195
Contribution made/taxes paid by the Bank	**782,339**	683,904

54. Events After the Reporting Period

No circumstances have arisen since the reporting date which would require adjustments to or disclosure in the Financial Statements other than those disclosed below:

54.1 Borrowing from International Finance Corporation

In February 2013, Ineternational Finance Corporation (IFC), a member of the World Bank Group, invested US $75 Mn. (approximately Rs. 9.6 Bn.) in Commercial Bank of Ceylon PLC, through a fund managed by its Asset Management Company (AMC), to expand Commercial Bank's operations and increase access to finance for small and medium enterprises (SMEs). It is also IFC Asset Management Company's first funding in South Asia, and the largest subordinated debt issued for any bank in Sri Lanka which can be counted for Tier II Capital of the Bank.

54.2 Interim Dividend - 2012

The Bank declared and paid a second interim dividend of Rs. 1.00/- per share on February 18, 2013 to both the voting and non-voting ordinary shareholders of the Bank.

54.3 Final Dividend - 2012

The Directors have recommend that a final dividend of Rs 4.00 per share which consists of Rs 2.00 per share in cash and Rs 2.00 in the form of a scrip dividend, (2011: Rs. 3.50/- per share) on both voting and non-voting shares of the Bank, be paid for the financial year ended December 31, 2012.

Further, this dividend is to be approved at the Annual General Meeting to be held on March 28, 2013. In accordance with the Sri Lanka Accounting Standard No.10, 'Events after the Reporting Period'. This proposed final dividend has not been recognised as a liability as at 31st December 2012. Under the Inland Revenue Act No 10 of 2006, a withholding tax of 10% has been imposed on dividends declared.

Compliance with Section 56 and 57 of Companies Act No 7 of 2007

As required by Section 56 of the Companies Act No 07 of 2007, the Board of Directors of the Bank satisfied the solvency test in accordance with Section 57, prior to recommending the final dividend. A statement of solvency completed and duly signed by the directors on February 27, 2013 has been audited by Messrs KPMG.

55. Net Assets Value Per Ordinary Share

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
Amounts used as the numerator:						
Shareholders' Funds	**52,968,420**	44,139,380	34,202,669	**52,577,000**	43,764,665	33,964,868
Number of ordinary shares used as the denominator:						
Total number of shares	**833,487,980**	817,450,166	377,486,582	**833,487,980**	817,450,166	377,486,582
Net assets value per share	**63.55**	54.00	90.61	**63.08**	53.54	89.98

56. Non-Cash Items Included In Profit Before Tax

	GROUP		BANK	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Depreciation of property, plant & equipment	**942,765**	734,115	**859,675**	648,543
Amortistion of leasehold property	**1,452**	1,452	**942**	942
Amortisation of intangible assets	**174,104**	98,172	**174,055**	98,118
Impairment losses on loans and advances	**3,158,291**	1,746,745	**3,158,291**	1,746,745
Other impairment	**–**	–	**38,469**	61,154
Share based payment expense	**–**	–	**–**	–
Others	**–**	–	**–**	–
Total	**4,276,612**	2,580,484	**4,231,432**	2,555,502

57. Change In Operating Assets

	GROUP		BANK	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Change in derivative financial instruments	**1,311,483**	(130,304)	**1,311,483**	(130,304)
Net increase in debt securities, treasury bills and bonds and equity shares held at fair value through profit or loss	**–**	–	**–**	–
Net increase in balances with Central Banks	**825,080**	5,154,125	**825,080**	5,154,125
Net increase in placements with banks	**4,488,607**	9,839,103	**4,488,607**	9,839,103
Net increase/(decrease) in other financial assets held for trading	**(376,900)**	(3,958,931)	**(376,900)**	(3,958,931)
Net increase in loans and receivables to banks	**48,602**	11,454	**48,602**	11,454
Net increase in loans and receivables to customers	**61,688,630**	67,763,696	**61,587,405**	67,699,765
Net increase/(decrease) in financial investments available for sale	**(4,071,639)**	(13,979,340)	**(4,071,639)**	(13,979,340)
Change in other assets	**1,908,901**	1,555,580	**1,871,093**	1,566,240
Total	**65,822,764**	66,255,383	**65,683,731**	66,202,112

58. Change In Operating Liabilities

	GROUP		BANK	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Change in due to banks	**(6,810,540)**	5,455,190	**(6,810,540)**	5,455,190
Change in derivative financial instruments	**(350,880)**	408,091	**(350,880)**	408,091
Change in deposits from banks, customers and debt securities issued	**66,871,054**	60,065,926	**66,856,800**	60,088,701
Change in other borrowings	**(1,889,060)**	(4,458,908)	**(1,889,943)**	(4,429,620)
Change in other provisions	**1,874**	(1,834)	**1,874**	(1,834)
Change in other liabilities	**2,205,681**	830,119	**2,200,427**	822,591
Change in due to subsidiaries	**–**	–	**(7,470)**	(11,714)
Total	**60,028,129**	62,298,584	**60,000,268**	62,331,405

59. Explanation of Transition to New Sri Lanka Accounting Standards (SLASs)

As stated in Note 2 (i), these are the Bank's first Financial Statements prepared in accordance with new Sri Lanka Accounting Standards prefixed both SLFRS (corresponding to IFRS) and LKAS (corresponding to IAS), promulgated by The Institute of Chartered Accountants of Sri Lanka (ICASL).

The Accounting Policies set out in Note 3 to 6 have been applied in preparing the Financial Statements for the year ended December 31, 2012, the comparative information presented in these Financial Statements for the year ended December 31, 2011 and in the preparation of an opening Statement of Financial Position as at January 1, 2011 (the Bank's date of transition).

In preparing its opening new SLAS Statement of Financial Position, the Bank has adjusted amounts reported previously in Financial Statements prepared in accordance with previous SLAS. An explanation of how the transition from previous SLASs has affected the Bank's financial position and financial performance is set out in the following tables and notes that accompany the tables.

59.1 Reconciliation of Equity - Group

		January 01, 2011			December 31, 2011		
	Note	Previous SLASs Rs.'000	Effect of Transition to SLASs Rs.'000	New SLASs Rs.'000	Previous SLASs Rs.'000	Effect of Transition to SLASs Rs.'000	New SLASs Rs.'000
ASSETS							
Cash and cash equivalents	a	8,316,822	226	8,317,048	12,906,524	28,471	12,934,995
Balances with central banks		12,188,834	–	12,188,834	17,342,959	–	17,342,959
Placements with banks	b	2,287,384	(452,124)	1,835,260	12,128,793	(454,430)	11,674,363
Derivative financial instruments	c	–	169,916	169,916	–	39,612	39,612
Other financial assets held for trading	d	15,037,113	(4,660,172)	10,376,941	11,983,361	(5,565,351)	6,418,010
Loans and receivables to banks	e	–	568,704	568,704	–	580,158	580,158
Loans and receivables to other customers	f	243,497,792	4,812,255	248,310,047	308,177,705	6,149,293	314,326,998
Financial investments - Available for sale	g	75,538,705	815,949	76,354,654	61,559,365	(143,970)	61,415,395
Financial investments - Held-to-maturity		–	–	–	–	–	–
Investments in subsidiaries		–	–	–	–	–	–
Investments in associates	h	79,581	27,278	106,859	85,107	34,874	119,981
Property, plant & equipment		6,589,228	–	6,589,228	8,503,211	–	8,503,211
Intangible assets		425,255	–	425,255	475,038	–	475,038
Leasehold property		114,680	–	114,680	113,228	–	113,228
Deferred tax assets	i	–	128,496	128,496	–	363,711	363,711
Other assets	j	6,182,546	(425,176)	5,757,370	8,058,614	(768,316)	7,290,298
Total Assets		**370,257,940**	**985,352**	**371,243,292**	**441,333,907**	**264,052**	**441,597,959**
LIABILITIES							
Due to banks	k	6,116,521	2,394	6,118,915	11,539,755	34,350	11,574,105
Derivative financial instruments	l	–	27,080	27,080	–	435,171	435,171
Other financial liabilities held for trading		–	–	–	–	–	–
Due to other customers	m	259,744,568	3,887,134	263,631,702	318,404,310	5,293,318	323,697,628
Other borrowings	n	53,913,344	569	53,913,913	49,448,835	6,170	49,455,005
Debt securities issued		–	–	–	–	–	–
Current tax liabilities	o	2,455,002	–	2,455,002	1,139,174	167,905	1,307,079
Deferred tax liabilities	p	992,710	128,496	1,121,206	1,369,570	270,257	1,639,827
Other provisions		2,369	–	2,369	535	–	535
Other liabilities	q	11,367,219	(3,892,629)	7,384,590	13,861,245	(5,647,246)	8,213,999
Due to subsidiaries		–	–	–	–	–	–
Subordinated term debts	r	2,127,030	232,215	2,359,245	973,210	132,429	1,105,639
Total liabilities		336,718,763	295,259	337,014,022	396,736,634	692,356	397,428,988

		January 01, 2011			December 31, 2011		
		Previous SLASs	Effect of Transition to SLASs	New SLASs	Previous SLASs	Effect of Transition to SLASs	New SLASs
	Note	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
EQUITY							
Stated capital		10,811,193	–	10,811,193	16,473,861	–	16,473,861
Statutory reserves		2,471,830	–	2,471,830	2,890,305	–	2,890,305
Retained earnings	s	1,474,851	(125,857)	1,348,994	2,871,412	(283,218)	2,588,194
Other reserves	t	18,754,702	815,950	19,570,652	22,332,080	(145,060)	22,187,020
Total equity to equity owners of the bank		33,512,576	690,093	34,202,669	44,567,658	(428,278)	44,139,380
Non-controlling Interest	x	26,601	–	26,601	29,615	(26)	29,589
Total equity		33,539,177	690,093	34,229,270	44,597,273	(428,304)	44,168,969
Total liabilities and equity		**370,257,940**	**985,352**	**371,243,292**	**441,333,907**	**264,052**	**441,597,959**
Contingent liabilities and commitments		196,617,166	–	196,617,166	234,551,169	–	234,551,169

59.2 Reconciliation of Equity - Bank

		January 01, 2011			December 31, 2011		
		Previous SLASs	Effect of transition to SLASs	New SLASs	Previous SLASs	Effect of transition to SLASs	New SLASs
	Note	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
ASSETS							
Cash and cash equivalents	a	8,269,606	226	8,269,832	12,882,518	28,471	12,910,989
Balances with central banks		12,188,834	–	12,188,834	17,342,959	–	17,342,959
Placements with banks	b	2,287,384	(452,124)	1,835,260	12,128,793	(454,430)	11,674,363
Derivative financial instruments	c	–	169,916	169,916	–	39,612	39,612
Other financial assets held for trading	d	15,037,113	(4,660,172)	10,376,941	11,983,361	(5,565,351)	6,418,010
Loans and receivables to banks	e	–	568,704	568,704	–	580,158	580,158
Loans and receivables to other customers	f	243,720,692	4,812,255	248,532,947	308,336,674	6,149,293	314,485,967
Financial investments - Available for sale	g	75,538,705	815,949	76,354,654	61,559,365	(143,970)	61,415,395
Financial investments - Held-to-maturity		–	–	–	–	–	–
Investments in subsidiaries	h	353,898	–	353,898	315,444	–	315,444
Investments in associates		44,331	–	44,331	44,331	–	44,331
Property, plant & equipment		5,929,561	–	5,929,561	7,907,030	–	7,907,030
Intangible assets		419,311	–	419,311	467,014	–	467,014
Leasehold property		79,188	–	79,188	78,246	–	78,246
Deferred tax assets	i	–	117,056	117,056	–	359,617	359,617
Other assets	j	6,191,519	(421,893)	5,769,626	8,053,551	(763,037)	7,290,514
Total Assets		**370,060,142**	**949,917**	**371,010,059**	**441,099,286**	**230,363**	**441,329,649**

	Note	January 01, 2011 Previous SLASs Rs.'000	Effect of transition to SLASs Rs.'000	New SLASs Rs.'000	December 31, 2011 Previous SLASs Rs.'000	Effect of transition to SLASs Rs.'000	New SLASs Rs.'000
LIABILITIES							
Due to Banks	k	6,116,521	2,394	6,118,915	11,539,755	34,350	11,574,105
Derivative financial instruments	l	–	27,080	27,080	–	435,171	435,171
Other financial liabilities held for trading		–	–	–	–	–	–
Due to other customers	m	259,778,911	3,887,136	263,666,047	318,461,431	5,293,317	323,754,748
Other borrowings	n	54,028,907	3,855	54,032,762	49,592,779	10,363	49,603,142
Debt securities issued		–	–	–	–	–	–
Current tax liabilities	o	2,448,039	–	2,448,039	1,137,537	167,905	1,305,442
Deferred tax liabilities	p	892,441	117,056	1,009,497	1,327,580	266,506	1,594,086
Other provisions		2,369	–	2,369	535	–	535
Other liabilities	q	11,322,424	(3,982,635)	7,339,789	13,829,997	(5,647,615)	8,162,382
Due to subsidiaries		41,448	–	41,448	29,734	–	29,734
Subordinated term debts	r	2,127,030	232,215	2,359,245	973,210	132,429	1,105,639
Total liabilities		**336,758,090**	**287,101**	**337,045,191**	**396,872,558**	**692,426**	**397,564,984**
EQUITY							
Stated capital		10,811,193	–	10,811,193	16,473,861	–	16,473,861
Statutory reserves		2,471,830	–	2,471,830	2,890,305	–	2,890,305
Retained earnings	s	1,515,928	(153,134)	1,362,794	2,865,430	(318,094)	2,547,336
Other reserves	t	18,503,101	(815,950)	19,319,051	21,997,132	(143,969)	21,853,163
Total equity to equity owners of the bank		33,302,052	662,816	33,964,868	44,226,728	(462,063)	43,764,665
Non-controlling interest		–	–	–	–	–	–
Total equity		33,302,052	662,816	33,964,868	44,226,728	(462,063)	43,764,665
Total liabilities and equity		370,060,142	949,917	371,010,059	441,099,286	230,363	441,329,649
Contingent liabilities and commitments		196,617,166	–	196,617,166	234,551,169	–	234,551,169

59.3 Reconciliation of Comprehensive Income for the year ended December 31, 2011

For the year ended December 31,	Note	2011 - Group			2011 - Bank		
		Previous SLASs Rs.'000	Effect of transition to SLASs Rs.'000	New SLASs Rs.'000	Previous SLASs Rs.'000	Effect of transition to SLASs Rs.'000	New SLASs Rs.'000
Gross income		45,465,380	373,564	45,838,944	45,483,391	375,826	45,859,217
Interest income	f,a,u	37,907,740	406,008	38,313,748	37,947,239	408,304	38,355,543
Less: Interest expenses	m,c	19,627,957	7,391	19,635,348	19,642,938	7,391	19,650,329
Net interest income		18,279,783	398,617	18,678,400	18,304,301	400,913	18,705,214
Fees and commission income	q	3,799,503	(34,428)	3,765,075	3,799,616	(34,428)	3,765,188
Less: Fees and commission expenses		439,825	–	439,825	439,825	–	439,825
Net fees and commission income		3,359,678	(34,428)	3,325,250	3,359,791	(34,428)	3,325,363
Net gain/(loss) from trading	f	(463,588)	1,950	(461,638)	(463,588)	1,950	(461,638)
Net gain/(loss) from financial instruments designated at fair value through profit or loss		–			–	–	–
Net gain/(loss) from financial investments		38,030	–	38,030	38,030	–	38,030
Other operating income (net)	u	4,183,695	34	4,183,729	4,162,094	–	4,162,094
Total operating income		25,397,598	366,173	25,763,771	25,400,628	368,435	25,769,063
Impairment charges for loans and other losses	f	1,503,227	243,518	1,746,745	1,564,381	243,518	1,807,899
Net operating income		23,894,371	122,655	24,017,026	23,836,247	124,917	23,961,164
Less: Expenses							
Personnel expenses	q,v	6,133,599	212,822	6,346,421	6,076,906	212,787	6,289,693
Other expenses	w	5,178,292	–	5,178,292	5,248,973	2,296	5,251,269
Operating profit before value added tax (VAT)		12,582,480	(90,167)	12,492,313	12,510,368	(90,166)	12,420,202
Less: Value added tax (VAT) on financial services		1,522,972	–	1,522,972	1,522,972	–	1,522,972
Operating profit after value added tax (VAT)		11,059,508	(90,167)	10,969,341	10,987,396	(90,166)	10,897,230
Share of profits/(losses) of associates	h	9,113	1,765	10,878	–	–	–
Profit before income tax		11,068,621	(88,402)	10,980,219	10,987,396	(90,166)	10,897,230
Less: Income tax expense	o	2,973,468	74,450	3,047,918	2,939,567	74,794	3,014,361
Profit for the year		8,095,153	(162,852)	7,932,301	8,047,829	(164,960)	7,882,869
Profit attributable to:							
Equity owners of the bank		8,094,888	(162,826)	7,932,062	8,047,829	(164,960)	7,882,869
Non-controlling interest	x	265	(26)	239	–	–	–
Profit for the year		8,095,153	(162,852)	7,932,301	8,047,829	(164,960)	7,882,869

Explanation of Transition to SLFRS

Notes to the Reconciliations

(a) Cash and Cash Equivalents

The difference in Cash and Cash Equivalents is mainly due to interest receivable on Nostro accounts being recognised as part of the Cash and Cash Equivalents at the end every year as part of the amortised balance according to new SLASs requirement. The respective interest receivable balance was previously classified under other assets.

The impact arising from the change is summarised as follows:

	Group		Bank	
	January 1, 2011 Rs.'000	December 31, 2011 Rs.'000	January 1, 2011 Rs.'000	December 31, 2011 Rs.'000
Consolidated Statement of Financial Position				
Reclassification				
Interest receivable on call placement	226	28,471	226	28,471
	226	28,471	226	28,471

(b) Placements with Banks

The interest receivable on time placements was recognised as part of the Placements with Banks at the year end as part of the amortised cost according to new SLASs requirement. The respective interest receivable balance was previously classified under other assets.

A non-interest earning placement which is subject to litigation with another bank hither to recorded under 'Placements with Banks' has now been categorised under 'Loans Receivable to Banks'.

The impact arising from the change is summarised as follows:

	Group		Bank	
	January 1, 2011 Rs.'000	December 31, 2011 Rs.'000	January 1, 2011 Rs.'000	December 31, 2011 Rs.'000
Consolidated Statement of Financial Position				
Reclassification				
Placement transferred to loans and receivable to Bank	(463,704)	(475,380)	(463,704)	(475,380)
Interest receivable on other placement	11,580	20,950	11,580	20,950
	(452,124)	(454,430)	(452,124)	(454,430)

(c) Derivative Financial Instruments

Forward transactions with the customers were recorded in the Forward Equalisation account and the net balances of those transactions were reported under Other Assets or Other Liabilities. Profits on forward transactions on the assets side of the equalisation account is now reported as a separate line item in the Statement of Financial Position under the above caption.

The impact arising from the change is summarised as follows:

	Group		Bank	
	January 1, 2011	December 31, 2011	January 1, 2011	December 31, 2011
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Consolidated Statement of Comprehensive Income				
Reversal of interest on SWAPs	–	(59)	–	(59)
	–	(59)	–	(59)
Consolidated Statement of Financial Position				
Reclassification				
Recognition of profits on forward transactions	169,916	39,612	169,916	39,612
	169,916	39,612	169,916	39,612

(d) Other Financial Assets Held for Trading

The Bank in its ordinary course of business is engaged in speculative activities and investments made on this basis were recorded under various asset categories as per previous SLAS. Eg. Dealing Securities, Government Treasury Bills and Bonds etc. All such items that the Bank purchased with the intention of selling in the short term is now classified as 'Held for Trading' as per new SLAS. Further certain investments previously classified under trading portfolio now have been reclassified to Loans and Receivables on the assumption that they do not have an active market to determine the fair-value of the instrument.

The impact arising from the change is summarised as follows:

	Group		Bank	
	January 1, 2011	December 31, 2011	January 1, 2011	December 31, 2011
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Consolidated Statement of Financial Position				
Reclassification				
Government US$ Bonds transferred to loans and receivable	(4,604,673)	(5,482,391)	(4,604,673)	(5,482,391)
Treasury Bills portfolio transferred to loans and receivable	(55,499)	(82,960)	(55,499)	(82,960)
	(4,660,172)	(5,565,351)	(4,660,172)	(5,565,351)

(e) Loans and Receivables to Banks

A non-interest earning placement which is subject to litigation with another bank hither to recorded under 'Placements with Banks' now classified under 'Loans receivable to Banks'.

Further investments made on debentures of the banks has now have been reclassified under this category.

The impact arising from the change is summarised as follows:

	Group		Bank	
	January 1, 2011	December 31, 2011	January 1, 2011	December 31, 2011
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Consolidated Statement of Financial Position				
Reclassification				
Placement transferred from placements with banks	463,704	475,380	463,704	475,380
Debentures transferred from loans and receivable from other customers	105,000	95,000	105,000	95,000
Interest receivable on debentures	–	9,778	–	9,778
	568,704	580,158	568,704	580,158

(f) Loans and Receivables to Other Customers

Interest receivable on 'Loans and Receivable' hither to recorded under Other Assets is now categorised under 'Loans and Receivable to Other customers'.

Regulatory time based provisioning replaced with the impairment provisioning methodology based on the incurred loss model as per new SLAS requirement.

According to Sri Lanka Accounting Standard - LKAS 39 on 'Financial Instrument Recognition and Measurement', the amortised cost of the financial Asset includes the cumulative amortisation using the Effective Interest Rate (EIR) method. Accordingly, the interest receivable has been added to the unwinding value of the Financial Assets.

The un-amortised staff costs arising from the Staff Loans being deducted from loans and receivables and classified under other assets.

The impact arising from the change is summarised as follows:

	Group		Bank	
	January 1, 2011	December 31, 2011	January 1, 2011	December 31, 2011
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Consolidated Statement of Comprehensive Income				
Reversal of interest in suspense	–	113,426	–	113,426
Unwinding interest - Reversal of IIS already accrued	–	(174,353)	–	(174,353)
Unwinding interest - Reversal of cash collected (in good funds)	–	(1,028)	–	(1,028)
Accrual of interest on impaired loans	–	285,139	–	285,139
Reversal of MTM loss on UDA Debenture due to reclassification as L&R	–	1,951	–	1,951
Impairment charge for loans and other losses	–	243,517	–	243,517
	–	468,653	–	468,653

	Group		Bank	
	January 1, 2011	December 31, 2011	January 1, 2011	December 31, 2011
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Consolidated Statement of Financial Position				
Reclassification				
Government US$ Bonds transferred from financial assets held for trading	4,604,673	5,482,393	4,604,673	5,482,393
Treasury Bills portfolio transferred from financial assets held for trading	55,499	82,960	55,499	82,960
Interest receivable on loans and advances	1,525,801	2,087,148	1,525,801	2,087,148
Interest receivable on investments	334,729	416,305	334,729	416,305
Debentures transferred to loans and receivable to Bank	(105,000)	(95,000)	(105,000)	(95,000)
New SLAS Adjustments				
Reversal of provision for credit losses as per CBSL	4,899,632	5,020,659	4,899,632	5,020,659
Reversal of interest in suspense	6,434,845	6,548,272	6,434,845	6,548,272
Allowance for impairment	(11,346,106)	(11,600,892)	(11,346,106)	(11,600,892)
Unamortised staff cost	(1,591,817)	(1,792,552)	(1,591,817)	(1,792,552)
	4,812,255	6,149,293	4,812,255	6,149,293

(g) Financial Investments - Available-for-Sale

The Bank invests on certain assets with the intention of holding them to maturity. These assets are now categorised under 'Financial Investments Available-for-Sale' and recorded in the Statement of Financial Position at market value. These assets previously carried at cost. The difference between the cost and the fair value is accounted in the Statement of Change in Equity through 'Other Comprehensive Income'.

The impact arising from the change is summarised as follows:

	Group		Bank	
	January 1, 2011	December 31, 2011	January 1, 2011	December 31, 2011
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Consolidated Statement of Comprehensive Income				
Mark to market valuation on Government Securities		(957,776)		(957,776)
Mark to market valuation on quoted shares	–	(2,143)	–	(2,143)
	–	(959,919)	–	(959,919)
Consolidated Statement of Financial Position				
New SLAS Adjustments				
Mark to market valuation on Government Securities	810,887	(146,889)	810,887	(146,889)
Mark to market valuation on quoted shares	5,062	2,919	5,062	2,919
	815,949	(143,970)	815,949	(143,970)

(h) Investments in Associates

This represents the mark to market gain on the investments made in an Associate Company due to reclassification of the investment as 'Financial Assets Available-for-Sale'.

The impact arising from the change is summarised as follows:

	Group		Bank	
	January 1, 2011	December 31, 2011	January 1, 2011	December 31, 2011
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Consolidated Statement of Comprehensive Income				
Share of profits - Income Statement		1,765		
Share of other comprehensive income		5,465		
	–	7,230	–	–
Consolidated Statement of Financial Position				
New SLAS Adjustments				
Mark to market valuation of shares by associate company	27,278	34,874		
	27,278	34,874	–	–

(i) Deferred Tax Assets

The 'Deferred Tax Assets' were netted off against the 'Deferred Tax Liabilities' which has been brought as a separate line item under Deferred Tax Assets per the New SLAS.

The impact arising from the change is summarised as follows:

	Group		Bank	
	January 1, 2011	December 31, 2011	January 1, 2011	December 31, 2011
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Consolidated Statement of Financial Position				
Reclassification				
Reclassified from deferred tax liability	128,496	363,711	117,056	359,617
	128,496	363,711	117,056	359,617

(j) Other Assets

Resulting changes due to the classification as per new SLAS.

The impact arising from the change is summarised as follows:

	Group		Bank	
	January 1, 2011	December 31, 2011	January 1, 2011	December 31, 2011
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Consolidated Statement of Financial Position				
Reclassification				
Interest and fees receivable on loans and other investments	(1,874,357)	(2,560,868)	(1,871,074)	(2,559,417)
Reversal of net forward transaction profit	(142,636)	–	(142,636)	–
New SLAS Adjustments				
Unamortised staff cost (Refer Note f)	1,591,817	1,792,552	1,591,817	1,792,552
Prepayments				3,826
	(425,176)	(768,316)	(421,893)	(763,039)

(k) Due to Banks

Interest payable to banks hitherto classified under 'Other Liabilities' has now been added back to 'Due to Banks Balance' as part of amortised cost.

The impact arising from the change is summarised as follows:

	Group		Bank	
	January 1, 2011	December 31, 2011	January 1, 2011	December 31, 2011
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Consolidated Statement of Financial Position				
Reclassification				
Interest payable on borrowings	2,394	34,350	2,394	34,350
	2,394	34,350	2,394	34,350

(l) Derivative Financial Instruments

Forward transactions with the customers were recorded in the Forward Equalisation account and the net balances arrising from of those transactions were reported under Other Assets. Loss on forward transactions which was on the assets side of the equalisation account is now reported as a separate line item in the Statement of Financial Position.

The impact arising from the change is summarised as follows:

	Group		Bank	
	January 1, 2011	December 31, 2011	January 1, 2011	December 31, 2011
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Consolidated Statement of Financial Position				
Reclassification				
Recognition of forward transaction loss	27,080	435,171	27,080	435,171
	27,080	435,171	27,080	435,171

(m) Due to Other Customers

Interest payable to customers hitherto classified under 'Other Liabilities' has now been added back to 'Due to Other Customers' as part of amortised cost. Further, interest on deposits being recorded using EIR.

The impact arising from the change is summarised as follows:

	Group		Bank	
	January 1, 2011	December 31, 2011	January 1, 2011	December 31, 2011
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Consolidated Statement of Comprehensive Income				
EIR adjustment on Deposits	–	7,332	–	7,332
	–	7,332	–	7,332
Consolidated Statement of Financial Position				
Reclassification				
Interest payable on deposits	4,173,991	5,572,839	4,173,991	5,572,839
New SLAS Adjustments				
EIR adjustment	(286,855)	(279,522)	(286,855)	(279,522)
	3,887,136	5,293,317	3,887,136	5,293,317

(n) Other Borrowings

Interest of refinance borrowings hitherto categorised under 'Other Liabilities' has now been added back to 'Other Borrowings'.

The impact arising from the change is summarised as follows:

	Group		Bank	
	January 1, 2011	December 31, 2011	January 1, 2011	December 31, 2011
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Consolidated Statement of Financial Position				
Reclassification				
Interest payable on borrowings	569	6,170	3,855	10,363
	569	6,170	3,855	10,363

(o) Current Tax Liabilities

The impact arising due to SLFRS adjustments is summarised as follows:

	Group		Bank	
	January 1, 2011	December 31, 2011	January 1, 2011	December 31, 2011
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Consolidated Statement of Comprehensive Income				
Income tax expense	–	74,450	–	74,450
	–	74,450	–	74,450
Consolidated Statement of Financial Position				
New SLAS Adjustment				
Current tax liability	–	167,905	–	167,905
	–	167,905	–	167,905

(p) Deferred Tax Liabilities

The 'Deferred Tax Assets' which was previously netted off against 'Deferred Tax Liabilities' now being disclosed separately. Further, deferred tax impact due to New SLAS adjustments has been recorded under Deferred Tax liabilities.

The impact arising from the change is summarised as follows:

	Group		Bank	
	January 1, 2011	December 31, 2011	January 1, 2011	December 31, 2011
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Consolidated Statement of Financial Position				
Reclassification				
Deferred tax asset reclassified	128,496	363,711	117,056	359,617
New SLAS Adjustment				
Deferred Tax Impact	–	(93,454)	–	(93,111)
	128,496	270,257	117,056	266,506

(q) Other Liabilities

Interest payable on Deposits and Other borrowings hitherto recognised under 'Other Liabilities' has now been reclassified under the relevant borrowings. Forward Equalisation balances previously recorded under other liabilities, disclosed separately as 'Derivative Financial Instruments'.

Commission income which hither recognised on the cash basis being adjusted to recognise the income over the period of the underlying instrument.

Further, provision has been made for amounts payable o/a leave encashment and recorded under other liabilities.

The impact arising from the change is summarised as follows:

	Group		Bank	
	January 1, 2011 Rs.'000	December 31, 2011 Rs.'000	January 1, 2011 Rs.'000	December 31, 2011 Rs.'000
Consolidated Statement of Comprehensive Income				
Derecognition of commission income	–	(34,428)	–	(34,428)
Provision for leave encashment	–	29,965	–	29,965
	–	(4,463)	–	(4,463)
Consolidated Statement of Financial Position				
Reclassification				
Interest payable on Deposits and other borrowings	(4,412,447)	(5,745,789)	(4,412,453)	(5,749,984)
Forward equalisation	–	(395,668)	–	(395,668)
New SLAS Adjustments				
Provision for leave encashment	302,574	332,539	302,574	332,539
Related party payable	–	–	–	3,826
Deferment of commission income	127,244	161,672	127,244	161,672
	(3,982,629)	(5,647,246)	(3,982,635)	(5,647,615)

(r) Subordinated Term Debts

Under new SLAS interest receivable on borrowings being added back to respective line item in order reflect amortised cost in the statement of financial position.

The impact arising from the change is summarised as follows:

	Group		Bank	
	January 1, 2011 Rs.'000	December 31, 2011 Rs.'000	January 1, 2011 Rs.'000	December 31, 2011 Rs.'000
Consolidated Statement of Financial Position				
Reclassification				
Interest payable on Debentures	232,215	132,429	232,215	132,429
	232,215	132,429	232,215	132,429

(s) Retained Earnings

The impact arising due to new SLAS adjustments is summarised as follows:

	Group		Bank	
	January 1, 2011	December 31, 2011	January 1, 2011	December 31, 2011
	Rs.	Rs.	Rs.	Rs.
Consolidated Statement of Financial Position				
New SLAS Adjustments				
Reversal of interest in suspense	6,434,845	113,426	6,434,845	113,426
Reversal of provisions	4,899,631	1,479,754	4,899,631	1,479,753
Allowance for impairment	(11,346,106)	(1,613,512)	(11,346,106)	(1,613,512)
EIR adjustment on deposits	286,855	(7,332)	286,855	(7,332)
UDA MTM Provision Reversal due to reclassified as L&R	1,400	1,951	1,400	1,951
Leave encashment	(302,574)	(29,965)	(302,574)	(29,965)
Derecognision of commission income	(127,244)	(34,428)	(127,244)	(34,428)
Interest rate SWAPs	59	(59)	59	(59)
Change in the income tax	–	(167,562)	–	(167,905)
Change in the deferred tax	–	93,110	–	93,111
Share of profit/(loss) from associates	27,277	7,230	–	–
Change in non-controlling interest	–	26	–	–
	(125,857)	(157,361)	(153,134)	(164,960)

(t) Other Reserves

The Bank invests on certain assets with the intention of holding it to maturity. However, these assets are categorised under 'Financial investments available-for-sale' and are recorded in the Statement of Financial Position at fair value. The difference between the cost and the fair value is accounted in the Statement of Change in Equity through 'Other Comprehensive Income'.

The impact arising from the change is summarised as follows:

	Group		Bank	
	January 1, 2011	December 31, 2011	January 1, 2011	December 31, 2011
	Rs.	Rs.	Rs.	Rs.
Consolidated Statement of Financial Position				
New SLAS Adjustments				
Mark to market valuation on Government Securities	810,887	(146,889)	810,887	(146,889)
Mark to market valuation on Quoted shares	5,062	2,919	5,062	2,919
Other movements	–	(1,090)		
	815,950	(145,060)	815,949	(143,970)

(u) Interest Income

Arising due to amortisation of day one difference on Staff loans granted at concessionary rates and due to recording of interest income on prepaid deposits as follows:

	Group		Bank	
	January 1, 2011	December 31, 2011	January 1, 2011	December 31, 2011
	Rs.	Rs.	Rs.	Rs.
Consolidated Statement of Comprehensive Income				
Amortised staff cost - Interest income	–	182,857	–	182,823
Interest on pre-paid Deposits	–	–	–	2,296
	–	182,857	–	185,119

(v) Personnel Expenses

There was a difference as a result of amortisation of day one difference on Staff loans granted at concessionary rates and was duly accounted.

The impact arising from the change is summarised as follows:

	Group		Bank	
	January 1, 2011	December 31, 2011	January 1, 2011	December 31, 2011
	Rs.	Rs.	Rs.	Rs.
Consolidated Statement of Comprehensive Income				
Amortised staff cost - Personnel expenses	–	182,857	–	182,823
	–	182,857	–	182,823

(w) Other Expenses

Arising due to adjustment on prepaid interest free deposit for rent.

The impact arising from the change is summarised as follows:

	Group		Bank	
	January 1, 2011	December 31, 2011	January 1, 2011	December 31, 2011
	Rs.	Rs.	Rs.	Rs.
Consolidated Statement of Comprehensive Income				
Rent expense	–	–	–	2,296
	–	–	–	2,296

(x) Non-Controlling Interest (NCI)

Change in the net assets of the subsidiaries due to the SLFRS related adjustmnets.

	Group		Bank	
	January 1, 2011	December 31, 2011	January 1, 2011	December 31, 2011
	Rs.	Rs.	Rs.	Rs.
Consolidated Statement of Comprehensive Income				
Change in non-controlling income	–	(26)	–	-
		(26)		
Consolidated Statement of Financial Position				
New SLAS Adjustments				
Change in net asset in the Group subsidiary		(26)		
		(26)		

60. Financial Risk Management

The Bank's Risk Strategy focuses on managing principal risks assumed by the Bank while striking a fair balance between the risk return trade-off and the efficient capital allocation across the risk exposures. The Bank's Risk strategy reinforces and supports the organisation in achieving its overall strategic objective within a pre-defined risk environment in alignment with the Bank's overall risk profile.

Integrity and the effectiveness of the Risk Management Organisational Structure is well supported by the Bank's robust Risk Governance Framework which consist of Board and Senior Management oversight, independent risk management function, supporting policy framework, risk related committees etc. The Bank actively encourages the business managers as "risk owners" to assume calculated risk within the stipulated risk appetite and tolerance levels.

The Bank is a major participant in the banking and financial services industry. The financial risks associated with these activities are a significant component of the Bank's overall risk exposure. The key financial risks faced by the Bank are:

- Credit risk
- Market risk
- Liquidity risk
- Operational risk

Financial risks are managed and overseen as part of the Bank's broader risk management framework and governance processes.

Based on the exemption granted by The Institute of Chartered Accountants of Sri Lanka on first time adoption of the new Sri Lanka Accounting Standards, the comparative details of quantitative disclosures relating to the key risks faced by the Bank, have not been disclosed in this Note.

Credit Risk

Credit risk is the risk of loss resulting from the failure of borrowers or counterparties to meet their debt or contractual obligations as a result of deterioration in the credit quality of the borrower or counterparty. Exposure to credit risk arises basically from lending and trading activities.

The Bank always considers that credit risk management should be a value enhancing activity that goes beyond regulatory compliance, encompassing:

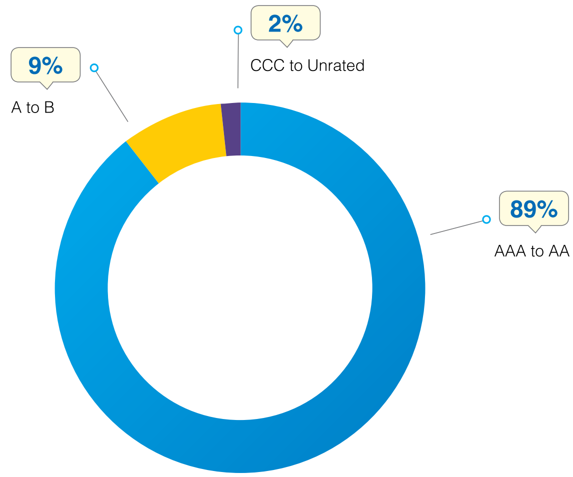
I. An appropriate credit risk environment which seeks risk optimisation.
II. Operating under a sound credit approval and granting process.
III. Maintaining of an appropriate credit administration, measurement and monitoring process and
IV. Ensuring of adequate controls over credit risk on a continuous basis.

Following the convergence of Sri Lanka Accounting Standards with the International Financial Reporting Standards (IFRSs), the classification criteria of loans and advances as NPA (impaired) has been changed and a comprehensive explanation of the Bank's policy is given under Note 3.3.10 - Impairment of Financial Assets in the Notes to the Financial Statements].

With the automation of the credit evaluation process during the year 2012, the Bank is working towards its risk grading system with the potential capability of predicting the Probability of Default (PD), Loss Given Default (LGD) and the Exposure at Default (EAD) of a borrower. These indicators would help the Lending Officers to measure the risk profile of the credit portfolios in an objective manner.

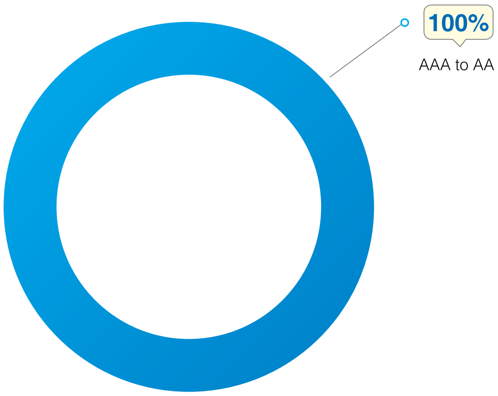
Concentration of Counterparty Exposures in Sri Lanka Fitch Ratings-wise as at December 31, 2012

%



Concentration of Counterparty Exposures in Bangladesh CRAB* Ratings-wise as at December 31, 2012

%



**Equal CRISL ratings are given where CRAB ratings are unavailable.*

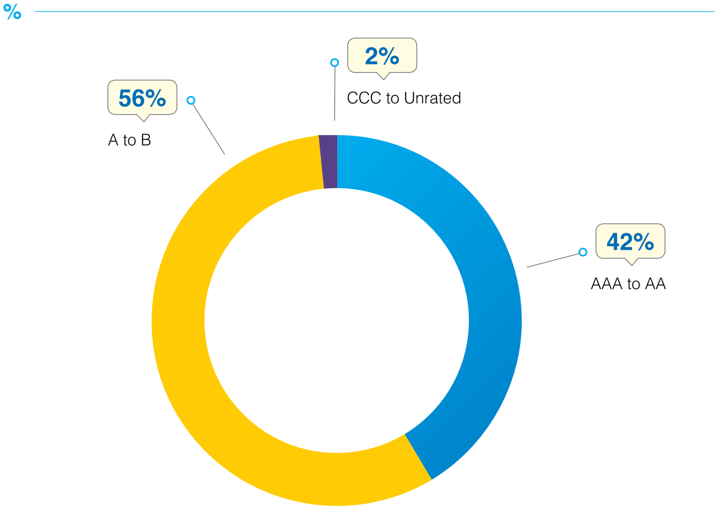
Segmentation of NPA Portfolio as at December 31, 2012 by Geographic Area

Rs. '000

Province/Geographic Area	Total NPA	Specific Provisions for Bad Debts	General Provision
Central	611,314	186,755	68,186
Eastern	163,835	69,763	13,605
North Central	216,714	129,363	20,674
Northern	673,105	205,841	26,724
North Western	737,208	238,537	68,390
Sabaragamuwa	326,928	160,600	25,914
Southern	1,377,643	694,726	62,728
Uva	127,520	56,520	15,514
Western	8,412,005	3,245,594	1,067,816
Bangladesh	205,778	90,048	66,342
Maldives	–	–	–
Other Foreign Geographies	–	–	–
Total	12,852,050	5,077,747	1,435,893

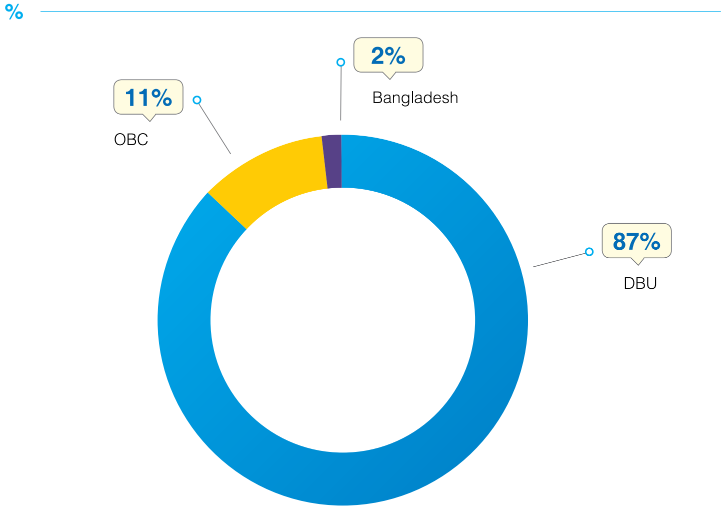
Note: The above figures have been prepared as per SLAS and may differ from SLFRS figures.

Concentration of Foreign Counterparty Exposure (Sri Lanka & Bangladesh Operations) Credit Ratings-wise as at December 31, 2012**

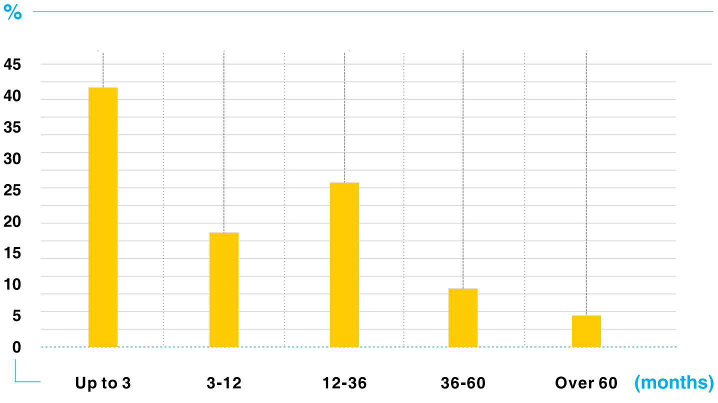


*** S&P ratings or other equivalent international credit ratings are given where S&P ratings are unavailable.*

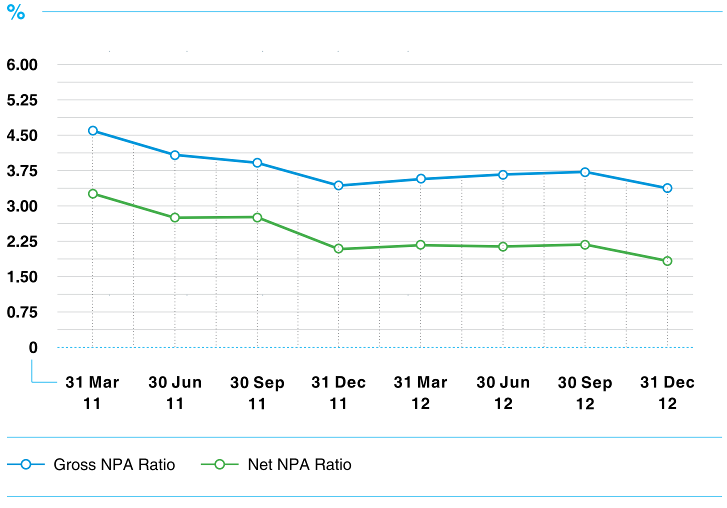
Distribution of Specific Provisions as at December 31, 2012



Tenor-wise Breakdown of Loans and Receivables from Other Customers as at December 31, 2012



Movement of Gross & Net Non-Performing Advances Ratios during the years 2011 & 2012



Liquidity Risk

Liquidity risk is the potential vulnerability of a financial institution for not being able to fund increases in assets and meet contractual and contingent financial obligations, on-or off-Balance Sheet, as they come due without incurring unacceptable losses.

Banks in the business of financial intermediation are by nature vulnerable to liquidity and solvency problems resulting from asset and liability mismatches. Thus, the Bank's primary objective in liquidity risk management is to ensure adequate funding for its businesses throughout market cycles, including periods of financial stress. To achieve this objective, the Bank continuously analyse and monitor liquidity risk, maintain an adequate margin of safety in liquid resources and access diverse funding sources to meet liquidity requirements.

The Bank's liquidity risk governance process is designed to ensure that its liquidity position remains strong while efficiency of resources is not compromised. Accordingly, the management of funding and liquidity risk is centralised at the Treasury Asset and Liability Management (ALM) desk which approach maximises liquidity access, minimises funding costs and enhances identification and coordination of liquidity risk and involves frequent communication with the business segments, comprehensive market-based pricing of all financial assets and liabilities, continuous Balance Sheet monitoring, frequent stress testing of liquidity sources, and frequent reporting and communication provided to senior management and the Board of Directors regarding the Bank's liquidity position.

Treasury is entrusted with the task of monitoring daily liquidity requirement of the Bank. This process ensures maintenance of sufficient liquidity to meet daily liquidity obligations and ability to withstand a period of Bank specific/market specific liquidity stress and reports through Head of Treasury to Asset and Liability Management Committee (ALCO). ALCO meets at least fortnightly and is responsible for managing and controlling the overall liquidity of the Bank and reviews the impact of strategic decisions on Bank liquidity.

Note 50 (b) to the Financial Statements discloses the maturity analysis of the Bank's assets and liabilities

Market Risk

Market risk is the likelihood of the Bank incurring losses as a result of values of assets and liabilities or revenues being adversely affected by changes in financial market conditions such as movements in interest rates, exchange rates, equity prices, or commodity prices. The Banks' exposure to market risk arises as a result of dealing in financial products including loans, deposits, securities, short term borrowings, long term debt etc., to facilitate both customer-driven and proprietary transactions.

Market Risk Management Unit (MRMU) of the Integrated Risk Management Department (IRMD) works in close relationship with various business units and control/monitoring units of the Bank in order to identify, measure, monitor, and report market risk related exposures thereby providing transparency into Banks' market risk profile. Treasury Middle Office, an integral part of MRMU, independently evaluates and monitors transactions carried out by the Banks' Treasury from a risk perspective.

Based on the exemptions granted on First-time Adoption in SLFRS 7 - Financial Instruments Disclosures, quantitative disclosures of market risk have not been provided in this Note.

Operational Risk

Operational risk is the risk of losses resulting from inadequate or failed internal processes, people, and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk. The legal risk includes, but is not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements.

The Bank recognises that operational risk is inherent in all business activities and can bring unprecedented losses or damages to its business through direct or indirect financial loss, brand or reputational damage, customer dissatisfaction, or legal or regulatory penalties if such risks are not objectively managed.

The management of operational risk is therefore, an important priority of the Bank. The Bank has a comprehensive operational risk programme that enables the identification, measurement, monitoring, controlling and reporting of inherent and emerging operational risks.

The Bank's operational risk governance structure includes the Board Integrated Risk Management Committee (BIRMC) which is overseeing the operational risk management programme maintains by the Executive Integrated Risk Management Committee (EIRMC). The business units of the Bank are responsible for implementing the framework as well as the day-to-day management of operational risk, creating a partnership that ensures close monitoring and increasing awareness for operational risk.

Capital Management

The Regulatory Capital requirements are set by the Central Bank of Sri Lanka are based on Basel II framework.

The details of the computation of capital and the ratios of the Group as at December 31, 2012 are given below:

	2012 Rs. '000	2011 Rs. '000
Computation of Capital		
Tier I: Core Capital		
Paid-up ordinary shares	**18,008,797**	17,945,271
Statutory reserve fund	**3,245,819**	2,740,902
Published retained profits/(accumulated losses)(+/-)	**1,557**	43,865
General and other reserves	**24,307,575**	17,856,434
Minority interests (consistent with the above capital constituents)	**32,141**	29,615
Less:		
Other intangible assets	**(506,160)**	(475,038)
Advances granted to employees of the Bank for the purchase of shares of the Bank (ESOP)	**(1,548)**	(2,105)
50% Investments in the capital of other banks and financial institutions	**(402)**	(402)
Total eligible core capital (Tier I capital)	**45,087,778**	38,138,542
Tier II : Supplementary Capital		
Revaluation reserves (as approved by Central Bank of Sri Lanka)	**2,034,231**	651,037
General provisions	**1,500,098**	1,201,991
Approved subordinated term debt	**778,238**	972,880
Less:		
50% Investments in the capital of other banks and financial institutions	**(402)**	(402)
Total Eligible Supplementary Capital (Tier II capital)	**4,312,165**	2,825,506
Total capital base	**49,399,944**	40,964,048
Computation of Ratios		
Total risk-weighted assets (RWA)		
Total risk-weighted assets for credit risk	**319,302,207**	280,074,154
Total risk-weighted assets market risk	**3,082,784**	3,635,371
Total risk-weighted assets operational risk	**34,562,622**	31,262,271
Sub total	**356,947,613**	314,971,795

	2012 Rs. '000	2011 Rs. '000
Minimum Capital Charge		
Minimum capital charge for credit risk	**31,930,221**	28,007,415
Minimum capital charge for market risk	**308,278**	363,537
Minimum capital charge for operational risk	**3,456,262**	3,126,227
Sub total	**35,694,761**	31,497,180
Total Capital available to meet the Capital Charge for credit risk		
Total eligible core capital (Tier I capital)	**45,087,778**	38,138,542
Total eligible supplementary capital (Tier II capital)	**4,312,165**	2,825,506
Total capital base	**49,399,944**	40,964,048
Core Capital Ratio (minimum requirement 5%)		
Total eligible core capital (Tier I capital)	**45,087,778**	38,138,542
Total risk-weighted assets	**356,947,613**	314,971,795
	12.63%	12.11%
Total Capital Ratio (minimum requirement 10%)		
Total capital base	**49,399,944**	40,964,048
Total risk-weighted assets	**356,947,613**	314,971,795
	13.84%	13.01%

Other Disclosure Requirements Under the Prescribed Format Issued by the Central Bank of Sri Lanka for Preparation of Annual Financial Statements of Licensed Commercial Banks

Disclosure Requirements		Description	Page No.
1. Information about the Significance of Financial Instruments for Financial Position and Performance			
1.1	**Statement of Financial Position**		
1.1.1	Disclosures on categories of financial assets and financial liabilities.	Note 19 to the Financial Statements - Measurement of Financial Instruments.	Page 349
1.1.2	Other Disclosures		
	(i) Special disclosures about financial assets and financial liabilities designated to be measured at fair value through profit or loss, including disclosures about credit risk and market risk, changes in fair values attributable to these risks and the methods of measurement.	Significant Accounting Policies: Note 3.3.3.1.2 - Financial assets designated at fair value through profit or loss Note 3.3.4.1 - Financial liabilities at fair value through profit or loss	Page 324 Page 326
	(ii) Reclassifications of financial instruments from one category to another.	Significant Accounting Policies: Note 3.3.5 - Reclassification of Financial Instruments	Page 327
	(iii) Information about financial assets pledged as collateral and about financial or non-financial assets held as collateral.	Not disclosed.	
	(iv) Reconciliation of the allowance account for credit losses by class of financial assets.	Notes to the Financial Statements: Note 26 (2) - Movement in Allowance for Individual and Collective Impairment	Page 365
	(v) Information about compound financial instruments with multiple embedded derivatives.	The Bank does not have compound financial instruments with multiple embedded derivatives.	–
	(vi) Breaches of terms of loan agreements.	None	–
1.2	**Statement of Comprehensive Income**		
1.2.1	Disclosures on items of income, expense, gains and losses.	Notes 07 - 14 to the Financial Statements:	Pages 341 to 344
1.2.2	Other Disclosures		
	(i) Total interest income and total interest expense for those financial instruments that are not measured at fair value through profit and loss.	Notes to the Financial Statements: • Note 7 - Interest income	Page 341
	(ii) Fee income and expense.	Note 08 to the Financial Statements: Net fees and commission income	Page 342
	(iii) Amount of impairment losses by class of financial assets.	Note 12 to the Financial Statements: Impairment for loans and others losses	Page 343
	(iv) Interest income on impaired financial assets.	Notes to the Financial Statements: Note 7.3 - Interest income on impaired financial assets	Page 341

Disclosure Requirements		Description	Page No.
1.3	**Other Disclosures**		
1.3.1	Accounting policies for financial instruments.	Significant Accounting Policies: Note 3.3 - Financial instruments - initial recognition, classification and subsequent measurement.	Page 323
1.3.2	Information on hedge accounting	The Bank does not have hedging instruments.	–
1.3.3	Information about the fair values of each class of financial asset and financial liability, along with:		
	(i) Comparable carrying amounts.	Notes to the Financial Statements: Note 23 - Derivative financial Instruments Note 24 - Other financial assets held for trading Note 27 - Financial investments - for sale Note 36 - Derivative financial instruments	 Page 352 Page 353 Page 371 Page 391
	(ii) Description of how fair value was determined.	Significant Accounting Policies: Note 3.3.9 - Determination of fair value	Page 328
	(iii) The level of inputs used in determining fair value.	Significant Accounting Policies: Note 3.3.9 - Determination of fair value	Page 328
	(iv) (a) Reconciliations of movements between levels of fair value measurement hierarchy. (b) Additional disclosures for financial instruments that fair value is determined using level 3 inputs.	There were No movements between levels of fair value hierarchy during the period under review. Significant Accounting Policies: Note 3.3.2.1 - 'Day 1' profit or loss	Page 323
	(v) Information if fair value cannot be reliably measured.	Note 27 to the Financial Statements: Financial Investments - Available-for-Sale	Page 371

2. Information about the Nature and Extent of Risks Arising from Financial Instruments

2.1	**Qualitative Disclosures**		
2.1.1	Risk exposures for each type of financial instrument.	Loans and advances portfolio of the Bank generates the highest risk exposure whilst FX and equity assets bring comparatively low risk. The Bank does not have a commodity risk exposure at present.	–
2.1.2	Management's objectives, policies, and processes for managing those risks.	Please refer the section relating to 'Managing Risk at Commercial Bank' for comprehensive disclosure of Management's objectives, policies and processes.	Pages 229 to 268
2.1.3	Changes from the prior period.	There was no major policy change during the period under review.	

Disclosure Requirements		Description	Page No.
2.2	**Quantitative Disclosures**		
2.2.1	Summary of quantitative data about exposure to each risk at the reporting date.	Please refer the computation on 'Capital Adequacy' given in the section on 'Managing Risk at Commercial Bank'.	Pages 229 to 268
2.2.2	Disclosures about credit risk, liquidity risk, market risk, operational risk, interest rate risk and how these risks are managed.	Please refer the section relating to 'Managing Risk at Commercial Bank'.	Pages 229 to 268
	(i) Credit Risk		
	(a) Maximum amount of exposure (before deducting the value of collateral), description of collateral, information about credit quality of financial assets that are neither past due nor impaired and information about credit quality of financial assets.	The gross credit risk exposure on performing advances as at December 31, 2012, broken down by the credit quality is as follows:	

Risk Grade	Description	Value (Rs. Mn.)
A0	Cash & Gold	27,820.16
A1-A2	Very Good	10,077.55
A3-A5	Good	245,554.06
A6	Average	30,915.02

		The above exposures are adequately collateralised by way of cash, gold, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets as comprehensively discussed in the section relating to 'Managing Risk at Commercial Bank'.	Pages 229 to 268
	(b) For financial assets that are **past due** or impaired, disclosures on age, factors considered in determining as impaired and the description of collateral on each class of financial asset.	The gross credit risk exposure on non-performing advances as at December 31, 2012, broken down by the credit quality is as follows:	

Risk Grade	Description	Value (Rs. Mn.)
B6-B9	Non-performing	13,342.78

		Factors considered in determining as impaired are discussed under Note 3.3.10 - Impairment of Financial Assets.	Page 328
	(c) Information about collateral or other credit enhancements obtained or called.	Not disclosed.	–
	(d) For other disclosures, please refer Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).	Please refer the section relating to 'Managing Risk at Commercial Bank'.	Pages 229 to 268
	(ii) Liquidity Risk		
	(a) A maturity analysis of financial liabilities.	Note 50 to the Financial Statements - Maturity Analysis	Page 403
	(b) Description of approach to risk management.	Please refer the section relating to 'Managing Risk at Commercial Bank'.	Pages 229 to 268
	(c) For other disclosures, please refer Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).	Please refer the section relating to 'Managing Risk at Commercial Bank'.	Pages 229 to 268

Disclosure Requirements		Description	Page No.
	(iii) Market Risk		
	(a) A sensitivity analysis of each type of market risk to which the entity is exposed.	Please refer the section relating to 'Managing Risk at Commercial Bank'.	Pages 229 to 268
	(b) Additional information, if the sensitivity analysis is not representative of the entity's risk exposure.	None	–
	(c) For other disclosures, please refer Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).	Please refer the section relating to 'Managing Risk at Commercial Bank'.	Pages 229 to 268
	(iv) Operational Risk Please refer Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).	Please refer the section relating to 'Managing Risk at Commercial Bank'.	Pages 229 to 268
	(v) Equity Risk in the Banking Book		
	(a) Qualitative Disclosures • Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons. • Discussion of important policies covering the valuation and accounting of equity holdings in the banking book.	Significant Accounting Policies: Note 3.3.3.4 - Held to maturity financial investments Note 3.3.3.5 - Available for sale financial investments	 Page 325 Page 325
	(b) Quantitative Disclosures • Value disclosed in the statement of financial position of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value. • The types and nature of investments. • The cumulative realised gains/(losses) arising from sales and liquidations in the reporting period.	Notes to the Financial Statements: Note 27 - Financial investments - Available-for-sale Note 28 - Investments in Subsidiaries Note 29 - Investments in Associates Note 10 - Net gain/loss from Financial Investments	 Page 371 Page 376 Page 378 Page 343
	(vi) Interest Rate Risk in the Banking Book		
	(a) Qualitative Disclosures • Nature of interest rate risk in the banking book (IRRBB) and key assumptions.	Please refer the section relating to 'Managing Risk at Commercial Bank'.	Pages 229 to 268
	(b) Quantitative Disclosures • The increase/(decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB, broken down by currency (as relevant).	Please refer the section relating to 'Managing Risk at Commercial Bank'.	Pages 229 to 268
2.2.3	Information on concentrations of risk.	Please refer the section relating to 'Managing Risk at Commercial Bank'.	Pages 229 to 268

Disclosure Requirements		Description	Page No.
3. Other Disclosures			
3.1	Capital		
3.1.1	Capital Structure		
	(i) Qualitative Disclosures		
	Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of innovative, complex or hybrid capital instruments.	'Managing Risk at Commercial Bank' section in the Annual Report.	Pages 229 to 268
	(ii) Quantitative Disclosure		
	(a) The amount of Tier 1 capital, with separate disclosure of: • Paid-up share capital/common stock • Reserves • Non-controlling interests in the equity of subsidiaries • Innovative instruments • Other capital instruments • Deductions from Tier 1 capital (b) The total amount of Tier 2 and Tier 3 capital (c) Other deductions from capital (d) Total eligible capital	Notes to the Financial Statements: Note 60 - Financial Risk Managemnent	Page 432
3.1.2	Capital adequacy		
	(i) Qualitative Disclosures		
	A summary discussion of the Bank's approach to assessing the adequacy of its capital to support current and future activities.	'Managing Risk at Commercial Bank' section in the Annual Report.	Pages 229 to 268
	(ii) Quantitative Disclosures		
	(a) Capital requirements for credit risk, market risk and operational risk (b) Total and Tier 1 capital ratio	Notes to the Financial Statements: Note 60 - Financial Risk Managemnent	Page 432