

## 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 under the Companies Ordinance No. 51 of 1938, (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 on January 23, 2008, under the Company Registration No. PQ 116. 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.

The staff strength of the Bank as at December 31, 2014 was 4,852 (4,730 as at December 31, 2013).

For further information please refer the inner back cover of this Annual Report.

### 1.2 Consolidated Financial Statements

The Consolidated Financial Statements as at and for the year ended December 31, 2014, 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. The Bank is the ultimate parent of the Group.

### 1.3 Principal Business Activities, Nature of Operations and Ownership by the Bank in its Subsidiaries and Associates

Entity	Principal Business Activities	Ownership at December 31, 2014	Ownership at December 31, 2013
<b>Bank</b>	Providing 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, hire purchase financing, rural credit, issuing of local and international debit and credit cards, tele-banking facilities, internet banking, mobile 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.	N/A	N/A
<b>Subsidiaries</b>			
Commercial Development Company PLC	Property development & related ancillary services and outsourcing of staff for non-critical functions of the Bank.	94.55%	94.55%
ONEzero Company Ltd.	Providing IT-related services.	100.00%	100.00%
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.	100.00%	100.00%
Indra Finance Ltd.	Providing financial services including leasing, hire purchase, loans, etc.	100.00% (*)	N/A
<b>Associates</b>			
Equity Investments Lanka Ltd.	Fund management	22.92%	22.92%
Commercial Insurance Brokers (Pvt) Ltd.	Insurance brokering	18.91% (**)	18.91% (**)

(\*) As per the Financial Sector Consolidation Road Map of the Central Bank of Sri Lanka, the Bank acquired 100% stake in Indra Finance Ltd. on September 01, 2014.

(\*\*) 20% stake of Commercial Insurance Brokers (Pvt) Ltd. is held by Commercial Development Company PLC, a 94.55% owned subsidiary of the Bank, which is listed on the Colombo Stock Exchange. The Bank has a significant influence over financial and operating activities of Commercial Insurance Brokers (Pvt) Ltd. though it effectively holds only 18.91%.

## Notes to the Financial Statements

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 (SLFRSs) laid down by The Institute of Chartered Accountants 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 and provide appropriate disclosures as required by the Listing Rules of the Colombo Stock Exchange. These Financial Statements, except for information on cash flows have been prepared following the accrual basis of accounting.

These SLFRSs are available at [www.casrilanka.com](http://www.casrilanka.com).

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

Details of the Group's Significant Accounting Policies followed during the year are given in Notes 5 to 8 on pages 285 to 303.

The formats used in the preparation of the Financial Statements and the disclosures made therein also comply with the specified formats prescribed by the Central Bank of Sri Lanka for the preparation, presentation and publication of Annual Audited Financial Statements of Licensed Commercial Banks.

### 2.2 Responsibility for Financial Statements

The Board of Directors of the Bank 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 SLFRSs.

The Board of Directors acknowledges their responsibility for Financial Statements as set out in the 'Annual Report of the Board of Directors', 'Statement of Directors' Responsibility' and the certification on the Statement of Financial Position on pages 194, 206 and 271 respectively.

These Financial Statements include the following components:

- an Income Statement and a Statement of Profit or Loss and Other Comprehensive Income providing the information on the financial performance of the Group and the Bank for the year under review. Refer pages 269 and 270;
- 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 271;
- 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 272 to 275.
- 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 page 276 and
- Notes to the Financial Statements comprising Accounting Policies and other explanatory information. Refer pages 277 to 405.

### 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, 2014 (including comparatives for 2013) were approved and authorised for issue by the Board of Directors in accordance with Resolution of the Directors on February 23, 2015.

### 2.4 Basis of Measurement

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

Items	Basis of Measurement	Note No./s	Page/s
Held for trading financial instruments including financial derivatives	Fair Value	29 & 30	319
Financial investments -available-for-sale	Fair Value	33	329
Land & buildings	Measured at cost at the time of acquisition and subsequently at revalued amounts which are the fair values at the date of revaluation	36	336
Defined benefit obligation	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	47.1, 47.2 & 47.4	355, 356 & 358

## 2.5 Functional and Presentation Currency

Items included in the Financial Statements of the Group are measured using the currency of the primary economic environment in which the Bank operates (the Functional 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.

These Financial Statements are presented in Sri Lankan Rupees, the Group's Functional and Presentation Currency.

The information presented in US Dollars in the Section on 'Supplementary Information' on pages 409 and 410 does not form part of the Financial Statements and is made available solely for the information of stakeholders.

## 2.6 Presentation of Financial Statements

The assets and liabilities of the Group presented in the 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 from the Reporting date and after more than 12 months from the Reporting date is presented in Note 58 on pages 369 to 371.

Financial assets and financial liabilities are offset and the net amount reported in the 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 liabilities simultaneously. Income and expenses are not offset in the Income Statement 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 Comparative Information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period for all amounts reported in the Financial Statements in order to enhance the understanding of the current period's Financial

Statements and to enhance the inter-period comparability. The presentation and classification of the Financial Statements of the previous year is amended, where relevant for better presentation and to be comparable with those of the current year.

## 2.10 Use of Judgements and Estimates

In preparing the Financial Statements of the Group in conformity with SLFRSs, the Management has made judgements, estimates and assumptions that affect the application of Accounting Policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

The most significant areas of estimation uncertainty and critical judgements in applying Accounting Policies that have most significant effect on the amounts recognised in the Financial Statements of the Group are as follows:

### 2.10.1 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, the Management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the Financial Statements of the Group continue to be prepared on a going concern basis.

### 2.10.2 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 Group measures fair value using the fair value hierarchy that reflects the significance of input used in making measurements. Methodologies used for valuation of financial instruments and fair value hierarchy are stated in Note 4 on page 283.

### 2.10.3 Financial Assets and Liabilities Classification

The Significant Accounting Policies of the Group provide scope for assets and liabilities to be classified at inception into different accounting categories in certain circumstances.

- In classifying financial assets or liabilities at 'Fair value through profit or loss', the Group has determined that it has met the criteria for this designation set out in Notes 5.3.3.1 and 5.3.4.1 on pages 207 and 290.
- In classifying financial assets as 'Held to maturity', the Group has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by Note 5.3.3.5 on page 289.

### 2.10.4 Impairment Losses on Loans and Receivables

The Group reviews its individually significant loans and advances at each Reporting date to assess whether an impairment loss should be provided for in the Income Statement. In particular, Management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss.

## Notes to the Financial Statements

These estimates are based on assumptions about a number of factors and hence actual results may differ, resulting in future changes to the provisions made.

The individual component of the total provision for impairment applies to financial assets evaluated individually for impairment and is based on Management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, Management makes judgements about a borrower's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable.

A collective component of the total provision is established for:

- groups of homogeneous loans and advances that are not considered individually significant; and
- groups of assets that are individually significant but that were not found to be individually impaired

The collective provision for groups of homogeneous loans is established using statistical methods (such as, net flow rate methodology, risk migration analysis) or, a formula approach based on historical loss rate experience, using the statistical analysis of historical data on delinquency to estimate the amount of loss. Management applies judgement to ensure that the estimate of loss arrived at on the basis of historical information is appropriately adjusted to reflect the economic conditions and product mix at the Reporting date. The loss rates are regularly benchmarked against actual loss experience.

In assessing the need for collective loss allowance, Management considers factors such as credit quality (for example, loan to collateral ratio, level of restructured performing loans) portfolio size, concentrations and economic factors. To estimate the required allowance, assumptions are made to define how inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions (including policy rates, inflation, growth in Gross Domestic Product, sovereign rating, etc).

The accuracy of the provision depends on the model assumptions and parameters used in determining the collective provision.

Refer Note 5.3.10.1 on page 292 for details.

#### 2.10.5 Impairment of Financial Investments – Available-for-Sale

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

The Group 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 along with the historical share price movements, duration and extent up to which the fair value of an investment is less than its cost.

Refer Note 5.3.10.2 on page 293 for details.

#### 2.10.6 Impairment Losses on Non-Financial Assets

The Group assesses whether there are any indicators of impairment for an asset or a Cash-Generating Unit (CGU) 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 CGUs. Estimating 'Value in use' requires the Management to make an estimate of the expected future cash flows from the asset or the CGU 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.

Refer Note 5.8 on page 297 for details.

#### 2.10.7 Revaluation of Property, Plant & Equipment

The Group measures land and buildings at revalued amounts with changes in fair value being recognised in Equity through Other Comprehensive Income (OCI). The Group engaged independent professional valuers to assess fair value of land and buildings as at December 31, 2014. The key assumptions used to determine the fair value of the land and building and sensitivity analyses are provided in Note 36.5 (b) on page 341.

#### 2.10.8 Useful Life-time of the Property, Plant & Equipment

The Group reviews the residual values, useful lives and methods of depreciation of Property, Plant & Equipment at each Reporting date. Judgement of the Management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

#### 2.10.9 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 such tax losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies.

Refer Note 7.2 on page 302 for details.

#### 2.10.10 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, etc. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

Refer Note 47 on page 354 for the assumptions used.

#### 2.10.11 Provisions for Liabilities, Commitments and Contingencies

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

Information about significant areas of estimation uncertainty and critical judgements 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 5.11 to 5.17 on page 290.

### 2.11 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 66 on page 405 where necessary.

## 3. Financial Risk Management

Risk is inherent in the Bank's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to;

### Credit Risk

The risk that the Bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations.

The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations and by monitoring exposures in relation to such limits.

### Market Risk

The risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. The Bank classifies exposures to market risk into either trading or non-trading portfolios and manages each of those portfolios separately.

The market risk for the trading portfolio is monitored and managed closely.

### Liquidity Risk

The risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due under both normal and stress circumstances.

To limit this risk, Management has arranged for diversified funding sources in addition to its core deposit base and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis. The Bank has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

### Operational Risk

The risk of loss arising from systems failure, human error, fraud or external events. When controls fail to operate effectively, operational risks can cause damage to reputation, have legal or regulatory implications or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but it endeavours to manage these risks through a control framework and by monitoring and responding to potential risks.

Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, such as the use of internal audit.

### Bank's Risk Management Framework

The Board of Directors of the Bank has the overall responsibility for the establishment and oversight of the Bank's Risk Management Framework.

The Risk Management Policy of the Bank translates overall risk appetite on business activities in a holistic approach to provide the guidance required for convergence of strategic and risk perspectives of the Bank.

The Risk Management Policy Framework constitutes the Credit Policy, Lending Guidelines, ALM Policy including Liquidity Risk Policy, Foreign Exchange Policy, Operational Risk Policy, IT Risk Management Policy, Market Risk Management Policy, Stress Testing Policy, etc. which have been firmly established to provide control and guidance for decision-making throughout the Bank in an uniform manner.

The Committee structure embedded to the system acts as a fact finding and decision making authority through meaningful discussions of multiple points of view. The Risk Management committees effectively deliberate on matters at hand to provide guidance to the business lines with a view to managing risk in accordance with the strategic goals and risk appetite of the Bank.

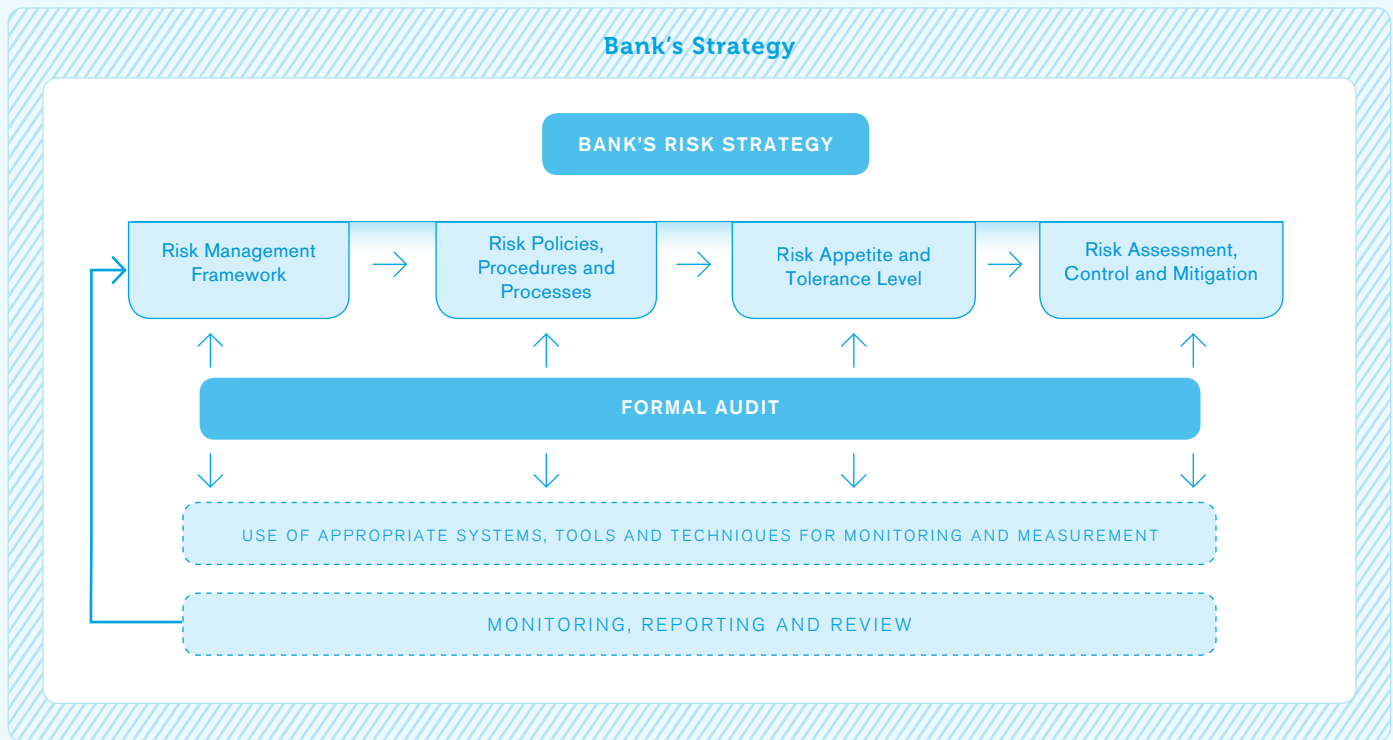
The Board of Directors of the Bank has formed a mandatory Sub-Committee namely, the Board Integrated Risk Management Committee (BIRMC) as per Banking Act Direction No. 11 of 2007 on Corporate Governance. The performance of the Committee and the duties and roles of members are reviewed by the Board annually.

The meetings of the Executive Integrated Risk Management Committee (EIRMC) are conducted on a monthly basis to discuss Credit and Operational risk matters of the Bank while priority is given for liquidity and market risks at the ALCO meetings that convene at least once in fortnight.

In addition, the Risk Management Department carries out semi-annual Bank-wide risk assessment function focusing on adherence to laws, regulations and regulatory guidelines as well as internal controls and approved policies. A dedicated Compliance Department is entrusted with the responsibility of monitoring these requirements on an ongoing basis.

Further, the Management Audit function of the Bank independently monitors and evaluates the risk management function of the Bank and provides their views on adequacy of the Risk Management Framework to the Board Audit Committee.

**Bank’s Financial Risk Management Framework**



**Management of Credit Risk**

Lending Guidelines of the Bank formulated in consultation with Lending Units provides expected granularity of credit assessment, risk grading, their acceptability of collateral, etc. as well as limits on exposures and concentration levels to various sectors, counter parties, geographies and segments.

A robust risk grading system incorporating Basel requirement of facility rating and counterparty ratings is adopted by the Bank for evaluation of credit proposals. This risk grading framework consists of 10 grades of varying degrees of risk as an indicator for the Lending Officers to evaluate and arrive at suitable risk-reward trade-offs in their propositions. These risk grades are reviewed by the Integrated Risk Management Department regularly.

Portfolio level credit risk analyses are taken up at monthly EIRMC as well as quarterly BIRMC meetings. Individual credit proposals evaluated by the Lending Officers are approved by the Authorising Officers within the hierarchy in Delegated Authority Levels whilst ensuring a minimum of four eyes principle when approving any lending proposals. Escalation of approving levels occurs based on exposure levels as well as final risk ratings of borrowers.

The Executive Credit Committee (ECC) and the Board Credit Committee (BCC) are entrusted with high value approval of facilities while the Board will be the ultimate authority for approving facilities beyond predetermined threshold levels.

Deliberations take place at BCC level on facilities taken up for approval within the specified threshold and recommendation for approval of the Board based on quantum of exposures proposed is exercised.

The Risk Management Department provides risk approval for individual proposals above predetermined threshold levels, consequent to a rigorous independent risk evaluation guided by Credit Policy, Lending Guidelines and circular instructions within a limit framework stemming from risk appetite of the Bank.

**Management of Liquidity Risk**

Market Risk Management Policy and the ALCO Policy of the Bank approved by the Board of Directors sets the tone for managing liquidity risk of the Bank. Liquidity risk of the Bank is given utmost priority when managing a wide range of other risks due to the fact that it is considered as the most critical risk for any financial institution.

The Bank’s Treasury Department is entrusted with managing liquidity of the Bank on real-time basis to ensure smooth functioning of business activities at all other business units of the Bank.

Having access to a substantial stable Current Account and Savings Account (CASA) base due to its wide branch network and the top of the mind perception created in the depositors in general, for stability provides immense strength to the Bank in managing liquidity.

Having high quality liquid assets at the disposal of the Bank is another plus factor for the Bank. The strength of such was amply reflected in the new Basel III parallel computation the Bank carries out for arriving at Liquidity Coverage Ratio as per the CBSL guidelines that recorded very healthy results as compared to regulatory minimum threshold levels.

Contingency funding plans available, constant monitoring of salient liquidity ratios and scenario based stress testing being carried out regularly, provide the sense of Bank with required indicators enabling the Bank to take proactive measures that could provide time to overcome any adverse liquidity position on a future date.

## Management of Market Risk

Market Risk Policy, ALCO Policy and Foreign Exchange Risk Policy are the three main policies that constitute the framework governing the Market Risk Management function of the Bank.

Due to the business model adopted by the Bank exposure to equity and commodity risk was kept at bay throughout the year.

However, Interest Rate Risk arising from the Banking Book as well as Trading Book and Foreign Exchange Risk arising from dealing in currencies other than local currency, continued to expose the Bank to associated risk elements.

Low interest scenarios experienced by the country during the period, impacted the financial market in Sri Lanka mainly through shrinking Net Interest Margin. Interest Rates of the Banking Book was subjected to varying degrees of rate shocks to identify impact on earnings perspective in such rate scenarios. The results reflected predictions which assisted the Bank in formulating strategies to manage the financial position in an effective manner with the limited choices available.

Trading book too was subjected to Value at Risk (VaR) framework as described in the section on 'Managing Risk at Commercial Bank' on pages 218 to 245. The Bank also carried out sensitivity analysis on a regular basis to ascertain the impact on portfolios maintained, mainly in Government Securities and marking-to-market such portfolios to reflect fair value for decision making process.

Foreign exchange positions were maintained within the regulatory framework in a market where much stability was observed in the major currency that the Bank deals in, i.e. USD. The positions were subjected to sensitivity analysis to provide insight to possible losses/gains arising from currency appreciation/depreciations, respectively as the reporting currency of the Bank being LKR. Despite political turmoil experienced in Russia/Ukraine and Middle Eastern countries during this year, the Bank's FX risk position remains relatively unscathed due to not having position in currencies of such origins.

## Operational Risk Management

Sound Operational Risk Management practices are embedded in to the work process through Bank's culture, internal policy framework and as per regulatory requirements.

Circular instructions and Operational Risk Management Policy play a major part in bringing together business practices with accepted benchmarks to ensure minimum disruption to processes, personnel, technology and infrastructure.

Internal control framework and Audit function with firmly established 'three lines of defense' serve the Bank to manage Operational Risk at current acceptable levels.

Risk and Control Self Assessment (RCSA) framework is adopted to identify risks involved in business activities of the Bank and to implement appropriate mitigatory measures after assessing criticality of such risks.

IT Risk of the Bank is managed through strict monitoring of Key IT Risk Indicators while Vulnerability Assessment and Penetration Tests are being carried out by both internal and external parties at regular intervals to identify the relevant risks.

Refer Note 65 on pages 380 to 405 for 'Financial Risk Review'.

A detailed write up on how the Risk Management is carried out within the Bank's Financial Risk Management Framework with due consideration given to factors such as governance, identification, assessment, monitoring, reporting and mitigation, are discussed in detail in the Section on 'Managing Risk at Commercial Bank' on pages 218 to 245. The write up referred to above does not form part of the Financial Statement.

## 4. Fair Value Measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. External professional valuers are involved for valuation of significant assets such as land and building.

### Fair Value Hierarchy

The Group measures the fair value using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurement.

#### Level 1

##### **Inputs that are unadjusted quoted market prices in an active market for identical instruments**

When available, the Group measures the fair value of an instrument using active quoted prices or dealer price quotations (assets and long positions are measured at a bid price; liabilities and short positions are measured at an ask price), without any deduction for transaction costs. A market is regarded as active if transactions for asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

## Notes to the Financial Statements

## Level 2

**Inputs other than quoted prices included within Level that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices)**

This category includes instruments valued using;

- (a) quoted market in active markets for similar instruments,
- (b) quoted prices for identical or similar instruments in markets that are considered to be less active, or
- (c) other valuation techniques in which almost all significant inputs are directly or indirectly observable from market data.

## Level 3

**Inputs that are unobservable**

This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's value.

Valuation techniques include net present value and discounted cash flow models comparison with similar instruments for which observable market prices exist, option pricing models and other valuation models.

Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, risk premiums in estimating discount rates, bond and equity prices, foreign exchange rates, expected price volatilities and corrections.

Observable prices or model inputs such as market interest rates are usually available in the market for listed equity securities and government securities such as treasury bills and bonds. Availability of observable prices and model inputs reduces the need for management judgement and estimation while reducing uncertainty associated in determining the fair values.

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.

An analysis of fair value measurement of financial and non-financial assets and liabilities is provided in Note 25 on page 315.

**Significant Accounting Policies**

The Accounting Policies set out below have been applied consistently to all periods presented in the Financial Statements of the Group, unless otherwise indicated.

These Accounting Policies have been applied consistently by Group entities.

Set out below is an index of Significant Accounting Policies, the details of which are available on the pages that follow:

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## 5. Significant Accounting Policies - Recognition of Assets and Liabilities

### 5.1 Basis of Consolidation

The Group's Financial Statements comprise consolidation of the Financial Statements of the Bank, its Subsidiaries in terms of the Sri Lanka Accounting Standard - SLFRS 10 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 and Joint Ventures'. 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.

#### 5.1.1 Business Combinations

Business combinations are accounted for using the acquisition method when control is transferred to the Group (Refer Note 5.1.3 below). The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (Refer Note 5.7.3.1.1 on page 296). Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

#### 5.1.2 Non-Controlling Interests (NCI)

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

#### 5.1.3 Subsidiaries

Subsidiaries are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee.

The cost of an acquisition is measured at fair value of the consideration, including contingent consideration. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Subsequent to the initial measurement the Bank continues to recognise the investments in Subsidiaries at cost.

The Financial Statements of subsidiaries are included in the Consolidated Financial Statements from the date on which control commences until the date when control ceases.

The Financial Statements of all subsidiaries in the Group have a common financial year which ends on December 31, except for the Indra Finance Ltd., a licensed finance company, whose financial year ends on March 31. The Financial Statements of the Bank's Subsidiaries are prepared using consistent accounting policies.

The reason for using a different Reporting date by the aforesaid subsidiary is due to the requirement imposed by the Central Bank of Sri Lanka for licensed finance companies to publish their key financial data and key performance indicators for 12-month period ended March 31 and 6 months period ended September 30, every year, in accordance with a format prescribed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.

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

There are no significant restrictions on the ability of Subsidiaries to transfer funds to the Parent (the 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 34 and 55.4 (a) on pages 333 and 368.

The summarised financial information of all its Subsidiaries including total assets, total liabilities, revenue, profit or loss and the dividend paid, business address, etc are given in the Section on 'Group Structure' on page 408.

#### 5.1.4 Transactions Eliminated on Consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the Consolidated Financial Statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

#### 5.1.5 Loss of Control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in Income Statement. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Subsequently, it is accounted for as an Associate or in accordance with the Group's Accounting Policy for financial instruments depending on the level of influence retained.

#### 5.1.6 Associates

Associates are those entities in which the Group has significant influence, but not control, over the variable returns through its power over the investee. Significant influence is presumed to exist when the Group holds 20% or more of the voting power of another entity.

Investments in associates are accounted for using the equity method and are recognised initially at cost, in terms of Sri Lanka Accounting Standards - LKAS 28 on 'Investments in Associates and Joint venture'. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses.

## Notes to the Financial Statements

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 Income Statement reflects the Group's share of the results of operations of the Associates. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in Equity through OCI. Unrealised gains and losses resulting from transactions between the Group and the Associate are eliminated to the extent of the interest in Associate.

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 Group 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'.

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

After application of the Equity Method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its Associate. At each Reporting date, the Group determines whether there is objective evidence that the investment in the Associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the Associate and its carrying value then recognises the loss as 'Share of profit of an Associate' in the Income Statement.

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 35 and 55.4 (b) on pages 335 and 368.

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 408.

### 5.1.7 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.

## 5.2 Foreign Currency

### 5.2.1 Foreign Currency Translations

The Group's Consolidated Financial Statements are presented in Sri Lankan Rupees, which is also the Bank's functional currency. The Financial Statements of the Off-Shore Banking centre of the Bank and the Financial Statements of the Foreign Operations of the Bank have been translated into the Group's Presentation Currency as explained under Notes 5.2.3 and 5.2.4 below:

### 5.2.2 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 Reporting date.

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 OCI. 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.

### 5.2.3 Transactions of the Off-Shore Banking Centre

These are recorded in accordance with Note 5.2.2 above, except the application of the annual weighted average exchange rate for translation of the Income Statement and Statement of Profit or Loss and Other Comprehensive Income. Net gains and losses are dealt through the Profit or Loss.

### 5.2.4 Foreign Operations

The results and financial position of overseas 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 rates ruling at the transaction date.
- All resulting exchange differences are recognised in the OCI and accumulated in the Foreign Currency Translation Reserve (Translation Reserve), which is a separate component of Equity, except to the extent that the translation difference is allocated to the NCI.

When a Foreign Operation is disposed of such that control is lost, the cumulative amount in the Translation Reserve related to that foreign operation is reclassified to profit or loss. If the Group disposes of only part of its interest in a subsidiary that includes a Foreign Operation while retaining control, then the relevant proportion of the cumulative amount of the Translation Reserve is reattributed to NCI.

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.

## 5.3 Financial Instruments - Initial Recognition, Classification and Subsequent Measurement

### 5.3.1 Date of Recognition

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

### 5.3.2 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 Notes 5.3.3 and 5.3.4 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 Income Statement.

#### 5.3.2.1 '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 Group 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 profit or Loss 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.

Refer Note 6.1 on page 301.

### 5.3.3 Classification and Subsequent Measurement of Financial Assets

Group classifies financial assets into one of the following categories:

- Financial Assets at fair value through profit or loss, and within this category as;
  - held for trading; or
  - designated at fair value through profit or loss.
- Loans and receivables;
- Held-to-maturity;
- Available-for-sale; and

The Subsequent measurement of financial assets depends on their classification.

Please refer Notes 5.3.3.1 to 5.3.3.7 on pages 287 to 289 for details on different types of financial assets recognised on the Statement of Financial Position.

#### 5.3.3.1 Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss which are discussed in Notes 5.3.3.1.1 and 5.3.3.1.2 below:

##### 5.3.3.1.1 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
- they hold as a part of a portfolio that is managed together for short-term profit or position taking; or
- they form part of derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as per 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 are recorded in 'Interest Income' and 'Net Gains/(Losses) from Trading' respectively in the Income Statement 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

## Notes to the Financial Statements

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 instruments 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 30 on page 319.

#### *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. Changes in the fair value of derivatives are included in 'Net Gains/(Losses) from Trading' (under customers) in the Income Statement.

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 profit or loss.

Details of derivative financial assets recorded at fair value through profit or loss are given in Note 29 on page 319.

#### 5.3.3.1.2 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; or
- 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 receive the payment has been established.

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

#### 5.3.3.2 Loans and Receivables to Banks and Other Customers

'Loans and receivables to banks and other customers' comprised of 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 Amounts due from banks, Loans & Advances, Lease Receivable and Securities purchased under resale agreements 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 provision for impairment except when the Group designates 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' while the losses arising from impairment are recognised in 'Impairment charges for loans and other losses' in the Income Statement.

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 31 and 32 on page 322.

#### 5.3.3.2.1 Securities Purchased Under Resale Agreements (Reverse Repos)

When the Group purchases a financial asset and simultaneously enters into an agreement to resale the asset (or a similar asset) at a fixed price on a future date (Reverse Repo), the arrangement is accounted for as a financial asset in the Statement of Financial Position reflecting the transaction's economic substance as a loan granted by the Group. Subsequent to initial recognition, these securities issued are measured at their amortised cost using the EIR method with the corresponding interest receivable being recognised as interest income in profit or loss.

Details of 'Securities purchased under resale agreements' are given in Note 32.1(a) on page 323.

### 5.3.3.3 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 provision 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' while the losses arising from impairment are recognised in 'Impairment charges for loans and other losses' in the Income Statement.

Details of 'Other financial investments classified as loans and receivables' are given in Note 32 on page 322.

### 5.3.3.4 Financial Investments – Available-for-Sale

Available-for-sale financial 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.

Derivatives are recorded at fair value and carried as liabilities when their fair value is negative.

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 in Equity through OCI in the 'Available-for-sale reserve'. When these financial investments are disposed of, the cumulative gain or loss previously recognised in Equity is recycled to profit or loss in 'Other operating income'. Interest earned whilst holding available-for-sale financial investments is reported as 'Interest Income' using the EIR. Dividend earned whilst holding available-for-sale financial investments are recognised in the Income Statement as 'Other operating income' when the right to receive the payment has been established. The losses arising from impairment of such investments too are recognised in the Income Statement in 'Impairment losses on financial investments' and removed from the 'Available-for-sale reserve'.

Details of Financial Investments – Available-for-Sale are given in Note 33 on page 329

### 5.3.3.5 Financial Investments – Held-to-Maturity

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' while the losses arising from impairment of such investments are recognised in 'Impairment charges for loans and other losses' in the Income Statement.

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.

### 5.3.3.6 Cash and Cash Equivalents

Cash and cash equivalents 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 26 to the Financial Statements on page 318.

### 5.3.3.7 Balances with Central Banks

The Monetary Law Act requires that all commercial banks operating in Sri Lanka to maintain a statutory reserve equal to 6% on all deposit liabilities denominated in Sri Lankan Rupees (6% in 2013). The Bank's Bangladesh operation is required to maintain the statutory liquidity requirement of 19.5% (19% in 2013) on time and demand liabilities (both local and foreign currencies), inclusive of 6.5% (6% in 2013) in the form of a Cash Reserve Requirement and the balance 13% (13% in 2013) by way of foreign currency and/or in the form of unencumbered securities held with the Bangladesh Bank.

Balances with Central Banks are carried at amortised cost in the Statement of Financial Position.

Details of the Balances with Central Banks are given in Note 27 to the Financial Statements on page 318.

## 5.3.4 Classification and Subsequent Measurement of Financial Liabilities

Group classifies financial liabilities into one of the following categories:

- Financial liabilities at fair value through profit or loss, and within this category as;
  - Held-for-trading; or
  - Designated at fair value through profit or loss.
- Financial liabilities at amortised cost

## Notes to the Financial Statements

The subsequent measurement of financial liabilities depends on their classification.

Please refer Notes 5.3.4.1 and 5.3.4.2 as detailed below.

#### 5.3.4.1 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. Refer Notes 5.3.4.1.1 and 5.3.4.1.2 below.

##### 5.3.4.1.1 Financial Liabilities Held-for-Trading

Financial liabilities are classified as held-for-trading, if they are incurred principally for the purpose of 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 per 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.

Derivatives are recorded at fair value and carried as liabilities when their fair value is negative.

Gains or losses on financial liabilities held-for-trading are recognised in the Income Statement.

Details of derivative financial liabilities are given in Note 41 on page 350.

##### 5.3.4.1.2 Financial Liabilities Designated at Fair Value through Profit or Loss

Financial liabilities 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 paid/payable is accrued in 'Interest Expense', using the EIR.

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

#### 5.3.4.2 Financial Liabilities at Amortised Cost

Financial instruments issued by the Group that are not designated at fair value through profit or loss, are classified as liabilities under 'Due to Banks', Securities sold under repurchase agreements, 'Debt Securities Issued' or 'Subordinated Liabilities' as appropriate, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

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 Income Statement. Gains and losses too are recognised in the Income Statement when the liabilities are derecognised as well as through the EIR amortisation process.

##### 5.3.4.2.1 Due to Banks

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

Details of the 'Due to banks' are given in Notes 40 on page 350.

##### 5.3.4.2.2 Due to Other Customers/Deposits from 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 EIR 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 'Due to other customers/Deposits from customers' are given in Note 42 on page 350.

##### 5.3.4.2.3 Debt Securities Issued

These represent the funds borrowed by the Group for long term funding requirements. Subsequent to initial recognition debt securities issued are measured at their amortised cost using the EIR 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.

The Group does not have any debt securities issued as at the Reporting date.

##### 5.3.4.2.4 Securities Sold 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 (Repos), the arrangement is accounted for as a financial liability in the Statement of Financial Position reflecting the transaction's economic substance as a deposit. Subsequent to initial recognition, these securities are measured at their amortised cost using the EIR method with the corresponding interest payable being recognised as interest expense in profit or loss.

The details of the Group's Financial liabilities at amortised cost is disclosed in Notes 40, 42, 43 and 49 on pages 350, 351 and 360.

#### 5.3.5 Reclassification of Financial Assets & Liabilities

The Group reclassifies non-derivative financial assets out of the 'held-for-trading' category and into the 'available-for-sale', 'loans and receivables', or 'held to maturity' categories as permitted by the Sri Lanka Accounting Standard - LKAS 39 on 'Financial Instruments: Recognition and Measurement'. Further, in certain circumstances, the Group is permitted to reclassify financial instruments out of the 'available-for-sale' category and into the 'loans and receivables'

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 asset 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 that 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 profit or loss.

The Group may reclassify a non-derivative trading asset out of the 'held-for-trading' category and into the 'loans and receivables' category if it meets the definition of loans and receivables and the Group 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 Group 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 the Management and is determined on an instrument-by-instrument basis.

The Group does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition. Further, the Group does not reclassify any financial instrument out of the fair value through profit or loss category if upon initial recognition it was designated as at fair value through profit or loss.

### 5.3.6 Derecognition of Financial Assets and Financial Liabilities

#### 5.3.6.1 Financial Assets

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its Statement of Financial Position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale and repurchase transactions.

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

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

In certain transactions, the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

#### 5.3.6.2 Financial Liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

### 5.3.7 Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the 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.

### 5.3.8 Amortised Cost Measurement

An 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the EIR method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

### 5.3.9 Fair Value of Financial Instruments

Fair value measurement of financial instruments including the fair value hierarchy is explained in the Note 4 on page 283.

### 5.3.10 Identification and Measurement of Impairment of Financial Assets

At each Reporting date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is 'impaired' when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

## Notes to the Financial Statements

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

- significant financial difficulty of the borrower or issuer,
- rescheduling 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 considered as an objective evidence of impairment.

#### 5.3.10.1 Impairment of Financial Assets Carried at Amortised Cost

##### Individual Assessment of Impairment

For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers as well as held to maturity investments), the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant or collectively for financial assets that are not individually significant. 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 a provision account and the amount of impairment loss is recognised in profit or loss. Interest income continues to be accrued and recorded in 'Interest Income' 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 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.

Loans together with the associated impairment provision 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 provision account. If a future write-off is later recovered, the recovery is credited to the 'other income'.

##### Collective Assessment of Impairment

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

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;

- Interest rates,
- Inflation rates,
- Growth in Gross Domestic Product (GDP),
- Global GDP growth rates,
- Countries' Sovereign ratings, Ease of Doing Business Indices,
- Exchange rates,
- Political Stability,
- Portfolio factors including percentage of restructured performing loans.

The methodology and assumptions used for estimating provision for impairment including assumptions for projecting future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Details of impairment losses and provisions (both individual and collective) on financial assets carried at amortised cost and an analysis of the impairment provision on loans and advances by class are given in Note 17 and Note 32 on pages 308 and 322.

##### 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 repayments 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, Government securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements, etc. 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 readily determinable market values are valued using statistical models. Non-financial collateral, such as real estate, is valued based on data obtained from 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'.

#### 5.3.10.2. Impairment of Financial Investments – Available-for-Sale

For available-for-sale financial investments, the Group 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 Group 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 profit or loss. 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'.

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. In general, the Group considers a decline of 20% to be 'significant' and a period of nine months to be 'prolonged'. However, in specific circumstances a smaller decline or a shorter period may be appropriate. Where there is evidence of impairment, the cumulative impairment loss on that investment previously recognised in Equity through the OCI is removed from Equity and charged to profit or loss.

If, in a subsequent period, the fair value of an impaired available-for-sale debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, then such impairment loss is reversed through profit or

loss; otherwise, any increase in fair value is recognised through OCI. Any subsequent recovery in the fair value of an available-for-sale equity instrument is always recognised in OCI.

The Group writes-off certain Financial Investments – Available-for-Sale, either partially or in full and any related provision for impairment losses, when the Group determines that there is no realistic prospect of recovery.

#### 5.4 Non-Current Assets Held for Sale and Disposal Groups

The Group intends to recover the value of Non-current Assets and disposal groups classified as held for sale as at the Reporting date 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 Group 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 Group 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 Group neither amortises nor depreciates the assets classified as held for sale.

In the Income Statement 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 Group retains a NCI in a subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the Income Statement.

#### 5.5 Leases

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.

##### 5.5.1 Operating Leases

###### 5.5.1.1 Operating Leases - Group as a Lessee

Leases that do not transfer to the Group substantially all the risks and benefits incidental to ownership of the leased assets are operating leases. Operating lease payments are recognised as an expense in the Income Statement 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.

## Notes to the Financial Statements

## 5.5.1.2 Operating Leases - Group as a Lessor

Leases where the Group does not transfer substantially all of the risks 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.

Details of Operating Leases are given in Note 64 on page 379.

## 5.5.2 Finance Leases

## 5.5.2.1 Finance Leases - Group as a Lessee

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

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

## 5.5.2.2 Finance Leases - Group as a Lessor

When the Group is the lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are included in 'loans and advances to banks' or 'loans and advances to other customers', as appropriate. The finance income receivable is recognised in 'interest income' over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

## 5.6 Property, Plant &amp; 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 Group 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.

## 5.6.1 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.

## 5.6.2 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 5.6.3 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.

## 5.6.2.1 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.

## 5.6.2.2 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 buildings of the Group are revalued by independent professional valuers every three years or more frequently if the fair values are substantially different from their carrying amounts to ensure that the carrying amounts do not differ from the fair values at the Reporting date.

On revaluation of an asset, any increase in the carrying amount is recognised in Revaluation Reserve in Equity through OCI or used to reverse a previous loss on revaluation of the same asset, which was charged to the Income Statement. 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 Income Statement or charged to Revaluation Reserve in equity through OCI, 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 revalued all its freehold land & freehold & leasehold buildings as at December 31, 2014. Methods and significant assumptions including unobservable market inputs employed in estimating the fair value together with the sensitivity of same are given in Note 36.5 (b) on page 341.

## 5.6.3 Subsequent Cost

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

## 5.6.4 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 derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset), is recognised in 'Other Income (Net)' 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 derecognised as required by Sri Lanka Accounting Standard - LKAS 16 on 'Property, Plant & Equipment'.

### 5.6.5 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 less any accumulated impairment losses. Capital work-in-progress is transferred to the relevant asset when it is in the location and condition necessary for it to be capable of operating in the manner intended by management (i.e. available for use).

### 5.6.6 Depreciation

Depreciation is calculated to write off the cost of items of property, plant & equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is recognised in profit or loss. 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 of the Property, Plant & Equipment of the Bank as at December 31, 2014 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
Office Interior Work	20	5 years
Furniture & Fittings	10	10 years
Machinery & Equipment	10	10 years

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

The above rates are also comparable with the rates applied in the previous year, except in the case of Office Interior Work which carried depreciation at the rate of 10% per annum until December 31, 2013.

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.

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 36 on page 336.

### 5.6.7 Change in Depreciation Rate

Depreciation methods, useful lives and residual values are reassessed at each Reporting date and adjusted, if appropriate. As a result, the depreciation rate applicable for Office Interior Work was changed to 20% per annum from 10% per annum with effect from January 1, 2014. These are considered as changes in accounting estimates and hence applied prospectively.

The reason for the said change and the impact is given in Note 19 on page 309.

### 5.6.8 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 recognised in the profit or loss in the period in which they occur.

## 5.7 Intangible Assets

The Bank's intangible assets include the value of acquired goodwill and computer software.

### 5.7.1 Basis of Recognition

An intangible asset is recognised if it is probable that future economic benefits associated with 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.

### 5.7.2 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.

### 5.7.3 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:

#### 5.7.3.1 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

## Notes to the Financial Statements

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, which require prospective application. The amortisation expense on intangible assets with finite lives is expensed as incurred.

## 5.7.3.1.1 Goodwill

Goodwill that arises on the acquisition of Subsidiaries is presented with intangible assets (Refer Note 5.1.1 on page 285). Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed.

Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

## 5.7.3.1.2 Computer Software

Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure on software 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.

## 5.7.3.1.3 Research and Development Costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- The asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development
- The ability to use the intangible asset generated

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses.

Amortisation of the asset begins when development is complete and the asset is available for use. The cost of the asset is amortised over the period of expected future benefit.

As at the Reporting date, the Group does not have development costs capitalised as an internally-generated intangible asset.

## 5.7.3.1.4 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 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.

Amortisation recognised during the year in respect of intangible assets is included under the item of 'Amortisation of Intangible Assets' under 'Depreciation and Amortisation' in profit or loss.

## 5.7.3.2 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 CGU 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.

The Group does not have intangible assets with indefinite useful lives.

## 5.7.4 Derecognition of Intangible Assets

Intangible assets are derecognised on disposal or when no future economic benefits are expected from their use. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceed 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 37 on page 347.

A summary of Accounting Policies applied for the Group's Intangible Assets is as follows:

Intangible Assets	Useful Life	Amortisation Method Used	Internally Generated/Acquired	Impairment Testing
Computer Software	5 years	Amortised on a straight line basis over the useful life	Acquired	When indicators of impairment arise. The amortisation method is reviewed at each Reporting date
Goodwill	N/A	N/A	Acquired in a Business Combination	Annually or more frequently if events or changes in circumstances indicate that the carrying value may have been impaired.

## 5.8 Impairment of Non-Financial Assets

At each Reporting date, the Group reviews the carrying amounts of its non-financial assets (other than investment properties and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The 'recoverable amount' of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 'Value in use' is based on the estimated future cash flows, 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 or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

The Group's corporate assets do not generate separate cash inflows and are used by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGUs to which the corporate assets are allocated.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

## 5.9 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 not provided for and 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' in Note 66.3 on page 405.

## 5.10 Employee Benefits

### 5.10.1 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 19 on 'Employee Benefits'.

#### 5.10.1.1 Defined Benefit Pension Plans

##### 5.10.1.1.1 Description of the Plans and Employee Groups Covered

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

- 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 1, 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.
- 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.
- 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 1, 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.

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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 19 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 47 on page 354.

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.

#### 5.10.1.1.2 Recognition of Actuarial Gains or Losses

Actuarial gains or losses are recognised in the OCI in the period in which they arise.

#### 5.10.1.1.3 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.

Amounts recognised in profit or loss as expenses on DBPs and provisions made on DBPs together with valuation methods are given in Notes 18 and 47 on pages 308 and 354 respectively.

### 5.10.2 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 5.10.2.1, 5.10.2.2 and 5.10.2.3.

Amounts recognised in profit or loss as expenses on DCPs are given in Note 18 on page 308.

#### 5.10.2.1 Defined Contribution Pension Plan

As explained in Note 5.11.1.1(a), 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 predetermined contribution rates to be applied 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.

#### 5.10.2.2 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.

#### 5.10.2.3 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.

### 5.10.3 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.

The Group does not have any other long term employee benefit plans.

#### 5.10.4 Terminal Benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be wholly settled within 12 months of the Reporting date, then they are discounted.

#### 5.10.5 Short Term Employee Benefits

Short term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid 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.

### 5.10.6 Equity Compensation Benefits

Share-based payment arrangements in which the Group receives 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. Senior Executives Employees 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 transactions, if any, that were granted after January 1, 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 personnel 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 did 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 Group in consideration for the shares issued (in connection with the Employee Share Option Schemes granted prior to January 01, 2012) were accounted for as Stated Capital within equity.

The details of Employee Share Option Plans are given in Note 50.2 on page 362.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share as disclosed in Note 22.2 on page 311.

### 5.11 Other Liabilities

Other liabilities include provisions made on account of interest, fees and expenses, gratuity/pensions, leave encashment 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 47 on page 354.

### 5.12 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that

reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised in 'Interest Expense' in profit or loss.

### 5.13 Restructuring

Provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

The Group does not have any provision for restructuring as at the Reporting date.

### 5.14 Onerous Contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

The Group does not have any onerous contracts as at the Reporting date.

### 5.15 Financial Guarantees and Loan Commitments

'Financial guarantees' are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Liabilities arising from financial guarantees or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable. Financial guarantees and commitments to provide a loan at a below-market interest rate are included within other liabilities.

### 5.16 Commitments

All discernible risks are accounted for in determining the amount of known liabilities as explained in Note 5.11 above.

Details of the commitments are given in Notes 55.2 and 55.3 to the Financial Statements on pages 367 and 368.

### 5.17 Contingent Liabilities and Commitments

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

Notes to the Financial Statements

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.

Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless its occurrence is remote.

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

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 as disclosed in Note 55.1 on page 367.

5.17.1 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 Group 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 Group is given in Note 57 on page 368.

5.17.2 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 of other Group entities are given in Note 55.4 on page 368.

5.18 Stated Capital and Reserves

5.18.1 Debt Vs Equity

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Distributions thereon are recognised as interest or dividend depending on the debt or equity classification.

5.18.2 Share Issue Costs

Incremental costs that are directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

5.18.3 Reserves

Several statutory and voluntary reserves are maintained by the Group in order to meet various legal and operational requirements. The details of these reserves including the nature and purpose of maintaining them are given in Notes 51, 52 and 53 on pages 363 to 364.

5.19 Earnings Per Share (EPS)

The Group computes basic and diluted EPS data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Group/Bank by the weighted-average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss that is attributable to ordinary shareholders of the Group/Bank 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 Basic and Diluted EPS are given in Note 22 on page 311.

5.20 Operating Segments

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 Corporate Management Team headed by the Managing Director/Chief Executive Officer (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.

The Group has five strategic divisions which are reportable segments, namely:

Operating Segment	Types of Products and Services Offered
Personal Banking	Refer page 27 for details on 'Product Portfolio by Business Lines'
Corporate Banking	
International Operations	
Investment Banking	
Dealing and Treasury	

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.

Segment results that are reported to the Chief Executive Officer (being the chief operating decision-maker) include items that are directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Bank's head office), head office expenses and tax assets and liabilities.

Interest income is reported on a net basis as management primarily relies on net interest income as a performance measure and 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 2014 or 2013.

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 59 on page 372.

### 5.21 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.

## 6. 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 Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

### 6.1 Interest Income and Expense

Interest income and expense are recognised in profit or loss using the EIR method. The 'effective interest rate' is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the EIR includes 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 financial liability.

Interest income and expense presented in the Income Statement include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an EIR method;
- interest income and expense on financial assets and liabilities held-for-trading calculated on an EIR method;
- interest on available-for-sale investment securities calculated on an EIR method;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense, if any; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk, if any.

### 6.2 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. If a loan commitment is not expected to result in the drawdown of a loan, then the related loan commitment fees are recognised on a straight-line basis over the commitment period.

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

### 6.3 Net Gains/(Losses) from Trading

'Net gains/(losses) from trading' comprise gains less losses related to trading assets and liabilities, and include all realised and unrealised fair value changes, dividends and foreign exchange differences.

### 6.4 Dividend Income

Dividend income is recognised when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities. Dividends are presented in Net gains/(losses) from trading, or Net gains/(losses) from other financial investments based on the underlying classification of the equity investment.

### 6.5 Lease Income

In terms of the provisions of the Sri Lanka Accounting Standard - LKAS 17 on 'Leases', the recognition of income on finance leases is accounted for 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 lease income at the commencement of a lease. The unearned lease 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 EIR.

### 6.6 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 expense 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.

## Notes to the Financial Statements

**6.7 Rental Income and Expenses**

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

**7. Significant Accounting Policies - Income Tax Expense**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the Income Statement except to the extent it relates to items recognised directly in Equity or in OCI, in which case it is recognised in equity or in OCI.

**7.1 Current Taxation**

Current tax' comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted, at the Reporting date.

Accordingly, provision for taxation is made on the basis of the accounting profit for the year as adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and amendments thereto, at the rates specified in Note 21.1 on page 310. 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 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 using the tax rates enacted or substantively enacted, at the Reporting date.

**7.2 Deferred Taxation**

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

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

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

Unrecognised deferred tax assets are reassessed at each Reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the Reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the Reporting date, to recover or settle the carrying amount of its assets and liabilities.

Additional taxes that arise from the distribution of dividends by the Group are recognised at the same time as the liability to pay the related dividend is recognised. These amounts are generally recognised in profit or loss because they generally relate to income arising from transactions that were originally recognised in profit or loss.

Details of Deferred Tax Assets and Liabilities are given in Note 45 on page 352.

**7.3 Tax Exposures**

In determining the amount of current and deferred tax, the Group considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities. Such changes to tax liabilities would impact tax expense in the period in which such a determination is made.

**7.4 Crop Insurance Levy (CIL)**

As per the provisions of the Section 14 of the Finance Act No. 12 of 2013, the CIL was introduced with effect from April 01, 2013 and is payable to the National Insurance Trust Fund. Currently, the CIL is payable at 1% of the profit after tax.

**7.5 Withholding Tax on Dividends Distributed by the Bank, Subsidiaries and Associates****7.5.1 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.

**7.5.2 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.

**7.6 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.

## 7.7 Value Added Tax on Financial Services

The value base for the computation of value added tax on financial services is calculated by adjusting the depreciation computed on rates prescribed by the Department of Inland Revenue to the accounting profit before Income Tax and emoluments payable. Emoluments payable include benefits in money and not in money including contribution or provision relating to terminal benefits.

## 7.8 Nation Building Tax on Financial Services (NBT)

With effect from January 01, 2014, NBT of 2% was introduced on supply of financial services via an amendment to the NBT Act No. 09, of 2009. NBT is chargeable on the same base used for calculation of VAT on financial services as explained in Note 7.7 above.

The amount of Value Added Tax and NBT charged in determining the profit or loss for the period is given in the Income Statement on page 269.

## 8. 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'. 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 26 on page 318.

The Statement of Cash Flows is given on pages 276.

## 9. New Accounting Standards Applied Effective from January 01, 2014

New Accounting Standard	Objective of the Accounting Standard
SLFRS 10 - 'Consolidated Financial Statements'	Establishing principles for the preparation and presentation of Consolidated Financial Statements when an entity controls one or more other entities.
SLFRS 12 - 'Disclosure of Interests in Other Entities'	Requiring the entity to disclose information that enables users of its Financial Statements to evaluate the nature and risks associated with its interests in other entities; and the effects of those interests on its financial performance, financial position, and cash flows.
SLFRS 13 - 'Fair Value Measurement'	Defining fair value in a single SLFRS, a framework for measuring fair value and disclosures about fair value measurements.

## 10. New Accounting Standards Issued But Not Yet Effective

A number of new standards and amendments to standards which have been issued but not yet effective as at the Reporting date have not been applied in preparing these Consolidated Financial Statements. Accordingly, the following Accounting Standards have not been applied in preparing these Financial Statements and the Group plans to apply these standards on the respective effective dates.

Accounting Standard	Summary of the Requirements	Possible Impact on Consolidated Financial Statements
SLFRS 9 - 'Financial Instruments'	SLFRS 9, issued in 2014, replaces the existing guidance in LKAS 39 - Financial Instruments: Recognition and Measurement. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from LKAS 39.  Effective date of SLFRS 9 has been deferred till January 01, 2018.	The Group/Bank is assessing the potential impact on its Consolidated Financial Statements resulting from the application of SLFRS 9.  Given the nature of the Group/Bank's operations, this standard is expected to have a pervasive impact on the Group's Financial Statements. In particular, calculation of impairment of financial instruments on an expected credit loss model is expected to result in an increase in the overall level of impairment allowances.
SLFRS 15 - 'Revenue from Contracts with Customers'	SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 on 'Revenue', and LKAS 11 on 'Construction Contracts'.  SLFRS 15 is effective for annual reporting periods beginning on or after January 01, 2017.	The Group/Bank is assessing the potential impact on its Consolidated Financial Statements resulting from the application of SLFRS 15.

The following new Accounting Standards are not expected to have an impact on the Financial Statements of the Group.

- Agriculture: Bearer Plants (Amendments to LKAS 16 on 'Property, Plant & Equipment' and LKAS 41 on 'Agriculture'). Effective date January 01, 2016
- Regulatory Deferral Assets (SLFRS 14) - Effective date January 01, 2016

## Notes to the Financial Statements

## 11. Gross Income

For the year ended December 31,	GROUP		BANK	
	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest income [Refer Note 12.1]	61,932,876	62,754,147	61,832,018	62,763,644
Fees and commission income [Refer Note 13.1]	5,613,684	4,880,093	5,592,744	4,876,517
Net gains/(losses) from trading [Refer Note 14]	(305,492)	(1,625,926)	(305,492)	(1,625,926)
Net gains/(losses) from financial investments [Refer Note 15]	2,272,575	1,349,517	2,272,575	1,349,517
Other income (net) [Refer Note 16]	5,024,171	6,346,685	5,049,995	6,372,515
<b>Total</b>	<b>74,537,814</b>	<b>73,704,516</b>	<b>74,441,840</b>	<b>73,736,267</b>

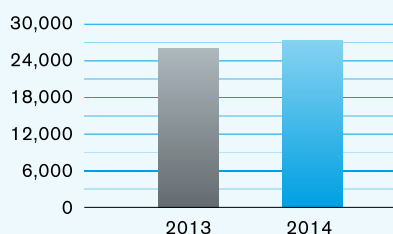
## 12. Net Interest Income

For the year ended December 31,	GROUP		BANK	
	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>12.1 Interest Income</b>				
Cash and cash equivalents	79,956	290,537	79,857	290,537
Placements with banks	136,051	65,013	136,051	65,013
Financial instruments – Held-for-trading	349,330	447,257	349,330	447,257
Derivative financial instruments	–	–	–	–
Other financial instruments	349,330	447,257	349,330	447,257
Loans and receivables to banks	–	6,412	–	6,412
Loans and receivables to other customers(*)	43,590,891	48,662,980	43,487,699	48,669,919
Securities purchased under resale agreements	2,046,020	473,563	2,046,020	473,563
Financial investments – Available-for-sale	15,449,780	12,501,861	15,449,334	12,501,861
Interest income from impaired loans and receivables to other customers	278,878	304,712	278,878	304,712
Other interest income	1,970	1,812	4,849	4,370
<b>Total interest income</b>	<b>61,932,876</b>	<b>62,754,147</b>	<b>61,832,018</b>	<b>62,763,644</b>

(\*) For better presentation and to be comparable with the current year's classification, the Group has reclassified interest concessions granted to customers under 'Impairment charges for loans and other losses'. Until December 31, 2013, this amount had been netted off against 'Interest income on loans and receivables to other customers'.

## Net Interest Income - Bank

(Rs. Mn.)



**5.16%** ↑  
Growth

2014: Rs. 27,222 Mn.

2013: Rs. 25,885 Mn.

	GROUP		BANK	
	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<i>For the year ended December 31,</i>				
<b>12.2 Interest Expenses</b>				
Due to banks	648,876	439,102	640,487	439,102
Securities sold under repurchase agreements	4,927,205	2,906,063	4,940,789	2,923,685
Due to other customers	27,652,070	32,097,921	27,657,322	32,103,850
Refinance borrowings	393,787	556,027	393,787	556,027
Foreign currency borrowings	225,013	236,965	225,013	236,965
Subordinated liabilities	766,101	619,126	752,781	619,126
<b>Total interest expenses</b>	<b>34,613,052</b>	<b>36,855,204</b>	<b>34,610,179</b>	<b>36,878,755</b>
<b>Net interest income [Total of Note 12.1 less total of Note 12.2]</b>	<b>27,319,824</b>	<b>25,898,943</b>	<b>27,221,839</b>	<b>25,884,889</b>

### 12.3 Net Interest Income from Government Securities

Interest Income and Interest Expenses on Government Securities given in the Notes 12.3 (a) and 12.3 (b) below have been extracted from Interest Income and Interest Expenses given in Notes 12.1 and 12.2, respectively and disclosed separately, as required by the Guidelines issued by the Central Bank of Sri Lanka.

	GROUP		BANK	
	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<i>For the year ended December 31,</i>				
<b>12.3 (a) Net Interest Income from Sri Lanka Government Securities</b>				
Interest income	18,119,028	14,159,223	18,118,582	14,159,223
Less: Interest expenses	5,204,286	3,187,878	5,217,870	3,205,500
<b>Sub total</b>	<b>12,914,742</b>	<b>10,971,345</b>	<b>12,900,712</b>	<b>10,953,723</b>

### Notional tax credit on secondary market transactions

As per the Section 137 of the Inland Revenue Act No. 10 of 2006 and amendments thereto, Net Interest Income of the Group/Bank derived from secondary market transactions in Government securities, Treasury Bills or Treasury Bonds (Interest income accrued or received on outright or reverse repurchase transactions on Government Securities, Treasury Bills or Bonds less interest expenses on repurchase transactions with such Government Securities, Treasury Bills or Bonds from which such interest income was earned) for the period January 1, 2014 to December 31, 2014 has been grossed up by Rs. 1,080.686 Mn. (2013 - Rs. 905.407 Mn.) and Rs. 1,079.038 Mn. (2013 - Rs. 903.649 Mn.) by the Group and the Bank respectively as the notional tax credit, consequent to the interest income on above instruments being subjected to withholding tax.

	GROUP		BANK	
	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<i>For the year ended December 31,</i>				
<b>12.3. (b) Net Interest Income from Bangladesh Government Securities</b>				
Interest income	1,545,740	1,121,953	1,545,740	1,121,953
Less: Interest expenses	12,694	7,875	12,694	7,875
<b>Sub total</b>	<b>1,533,046</b>	<b>1,114,078</b>	<b>1,533,046</b>	<b>1,114,078</b>

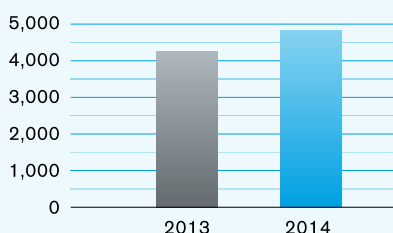
Notes to the Financial Statements

**13. Net Fees and Commission Income**

	GROUP		BANK	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
For the year ended December 31,				
Fees and commission income [Refer Note 13.1]	5,613,684	4,880,093	5,592,744	4,876,517
Less: Fees and commission expenses [Refer Note 13.2]	764,322	627,235	761,527	627,235
<b>Net fees and commission income</b>	<b>4,849,362</b>	<b>4,252,858</b>	<b>4,831,217</b>	<b>4,249,282</b>

**Net Fees and Commission Income - Bank**

(Rs. Mn.)



**13.69%** ↑  
Growth

2014: Rs. 4,831 Mn.

2013: Rs. 4,249 Mn.

	GROUP		BANK	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
For the year ended December 31,				
<b>13.1 Fees and Commission Income</b>				
Loans and advances related services	635,759	346,034	618,926	346,034
Credit and debit cards related services	1,603,161	1,455,167	1,603,161	1,455,167
Trade and remittances related services	1,948,321	1,794,432	1,948,321	1,794,432
Deposits related services	543,191	579,589	543,228	579,640
Guarantees related services	583,899	481,550	583,899	481,550
Other financial services	299,353	223,321	295,209	219,694
<b>Sub total</b>	<b>5,613,684</b>	<b>4,880,093</b>	<b>5,592,744</b>	<b>4,876,517</b>

	GROUP		BANK	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
For the year ended December 31,				
<b>13.2 Fees and Commission Expenses</b>				
Loans and advances related services	45,097	35,066	42,302	35,066
Credit and debit cards related services	622,140	491,364	622,140	491,364
Trade and remittances related services	34,332	38,287	34,332	38,287
Other financial services	62,753	62,518	62,753	62,518
<b>Sub total</b>	<b>764,322</b>	<b>627,235</b>	<b>761,527</b>	<b>627,235</b>

**14. Net Gains/(Losses) from Trading**

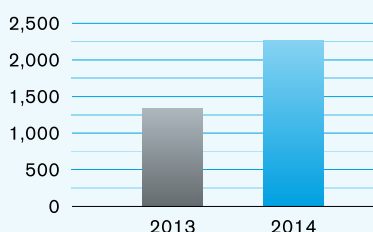
	GROUP		BANK	
	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<i>For the year ended December 31,</i>				
<b>Foreign exchange</b>				
From banks	-	-	-	-
From other customers	(709,249)	(1,866,386)	(709,249)	(1,866,386)
<b>Interest rates</b>				
Net mark-to-market gains/(losses)	28,374	83,268	28,374	83,268
Net capital gains/(losses)	256,611	131,488	256,611	131,488
<b>Equities</b>				
Net mark-to-market gains/(losses)	79,190	2,225	79,190	2,225
Net capital gains/(losses)	30,705	13,644	30,705	13,644
Dividend income from shares in the trading portfolio	8,877	9,835	8,877	9,835
<b>Total</b>	<b>(305,492)</b>	<b>(1,625,926)</b>	<b>(305,492)</b>	<b>(1,625,926)</b>

**15. Net Gains/(Losses) from Financial Investments**

	GROUP		BANK	
	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<i>For the year ended December 31,</i>				
<b>Financial investments – Available-for-sale</b>				
Government securities	2,197,337	544,903	2,197,337	544,903
Equities	31,782	804,614	31,782	804,614
Net capital gains/(losses)	-	787,362	-	787,362
Dividend income	31,782	17,252	31,782	17,252
<b>Loans and receivables</b>				
Government securities	41,523	-	41,523	-
Other securities	1,933	-	1,933	-
<b>Total</b>	<b>2,272,575</b>	<b>1,349,517</b>	<b>2,272,575</b>	<b>1,349,517</b>

**Net Gains/(Losses) from Financial Investments - Bank**

(Rs. Mn.)



**68.40%** ↑  
Growth

2014: Rs. 2,273 Mn.

2013: Rs. 1,350 Mn.

## Notes to the Financial Statements

**16. Other Income (Net)**

	GROUP		BANK	
	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<i>For the year ended December 31,</i>				
Gains/(losses) on sale of property, plant & equipment	(2,144)	11,115	(4,916)	233
Gains/(losses) on revaluation of foreign exchange	2,190,423	3,862,003	2,190,423	3,862,435
Recoveries of loans written off and provision reversals	2,719,334	2,228,281	2,719,334	2,228,281
Dividend income from subsidiaries	–	–	70,383	70,451
Dividend income from associates	851	2,691	–	2,079
Rental and other income	116,558	245,286	74,771	209,036
Less: Dividends received from associates transferred to investment account	(851)	(2,691)	–	–
<b>Total</b>	<b>5,024,171</b>	<b>6,346,685</b>	<b>5,049,995</b>	<b>6,372,515</b>

**17. Impairment Charges for Loans and Other Losses****Loans and receivables**

To banks [Refer Note 31]	–	–	–	–
To other customers	4,898,249	5,177,019	4,879,606	5,177,019
Charge/(write back) to the Income Statement - Individual Impairment(*) [Refer Note 32.2]	390,003	1,070,253	390,003	1,070,253
Charge/(write back) to the Income Statement - Collective Impairment(*) [Refer Note 32.2]	4,480,932	4,007,742	4,462,289	4,007,742
Direct write-offs	27,314	99,024	27,314	99,024
Investments in subsidiaries [Refer Note 34.1]	–	–	28,787	14,184
Due from subsidiaries	–	–	10,362	12,809
<b>Total</b>	<b>4,898,249</b>	<b>5,177,019</b>	<b>4,918,755</b>	<b>5,204,012</b>

(\*) For better presentation and to be comparable with the current year's classification, the Group has separately identified provision reversals o/a loans and advances which were subjected to both individual and collective impairment under respective line items namely, 'Charge/(write back) to the Income Statement from individual/Collective Impairment'. Until December 31, 2013, this amount had been netted off against 'Charge/(write back) to the Income Statement on Individual Impairment'. Further, the Group has reclassified interest concessions granted to customers under 'Impairment charges for loans and other losses'. Until December 31, 2013, this amount had been netted off against - 'Interest income on loans and receivables to other customers'.

**18. Personnel Expenses**

	GROUP		BANK	
	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<i>For the year ended December 31,</i>				
Salary and bonus [Refer Note 18.1]	6,866,200	6,125,863	6,828,987	6,108,648
Pension Costs [Refer Note 18.1]				
Contributions to defined contribution/benefit plans - Funded schemes	984,213	904,919	980,821	900,844
Contributions to defined benefit plans - Unfunded schemes [Refer Notes 47.1 (b) and 47.2 (b)]	164,438	165,791	157,687	160,113
Others [Refer Note 18.2]	941,472	1,024,692	935,553	1,016,600
<b>Total</b>	<b>8,956,323</b>	<b>8,221,265</b>	<b>8,903,048</b>	<b>8,186,205</b>

**18.1 Salary, Bonus and Pension Costs**

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

**18.2 Others**

This includes expenses such as overtime payments, medical and hospitalisation charges, expenses incurred on staff training/recruitment and staff welfare activities, etc.



## 19. Depreciation and Amortisation

	GROUP		BANK	
	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<i>For the year ended December 31,</i>				
Depreciation of property, plant & equipment [Refer Note 36]	1,087,175	717,583	1,026,730	786,024
Amortisation of intangible assets [Refer Note 37]	173,373	149,347	172,874	149,291
Amortisation of leasehold property [Refer Note 38]	1,452	1,452	942	942
<b>Total</b>	<b>1,262,000</b>	<b>868,382</b>	<b>1,200,546</b>	<b>936,257</b>

With effect from January 01, 2014, the Bank changed the depreciation rate used for Office Interior Work to 20% per annum from the 10% per annum earlier with the objective of better reflecting the expected periodic consumption pattern of the said asset category resulting from the assessment of the expected future benefits associated. As a result, the depreciation expense of the Bank and the Group for the year ended December 31, 2014 increased by Rs. 210.172 Mn.

## 20. Other Operating Expenses

	GROUP		BANK	
	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<i>For the year ended December 31,</i>				
Directors' emoluments [Refer Note 20.1]	30,077	24,453	27,463	23,058
Auditors' remuneration	24,589	22,856	21,525	19,890
Audit fees and expenses	11,502	10,823	9,032	8,596
Audit related fees and expenses	7,792	6,654	7,570	6,405
Non-audit fees and expenses	5,295	5,379	4,923	4,889
Professional and legal expenses	252,438	251,068	315,388	305,450
Deposit insurance premium to the Central Bank of Sri Lanka	433,296	443,179	433,296	443,179
Donations, including contribution made to the CSR Trust Fund	54,583	51,319	54,583	51,319
Establishment expenses	1,976,178	1,838,325	2,054,074	1,919,681
Maintenance of property, plant & equipment	755,013	790,373	865,063	864,533
Office administration expenses	1,975,789	1,879,251	1,851,186	1,797,220
<b>Total</b>	<b>5,501,963</b>	<b>5,300,824</b>	<b>5,622,578</b>	<b>5,424,330</b>

### 20.1 Directors' Emoluments

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

## Notes to the Financial Statements

## 21. Income Tax Expense

## 21.1 Entity-wise Breakup of the Income Tax Expense in the Income Statement is as follows:

For the year ended December 31,	GROUP		BANK	
	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Bank</b>				
<b>Current Year Tax Expense</b>				
Current year Income tax expense of Domestic Banking Unit	2,964,140	2,869,752	2,964,140	2,869,752
Current year Income tax expense of Off-shore Banking Centre	282,603	191,760	282,603	191,760
Current year Income tax expense of Bangladesh operation	1,169,581	960,937	1,169,581	960,937
Withholding tax on dividends paid	7,789	8,285	7,789	8,285
<b>Sub total</b>	<b>4,424,113</b>	<b>4,030,734</b>	<b>4,424,113</b>	<b>4,030,734</b>
<b>Prior years</b>				
Under/(over) provision of taxes in respect of prior years [Refer Note 44 - Bank]	11,041	(169,789)	11,041	(169,789)
	<b>4,435,154</b>	<b>3,860,945</b>	<b>4,435,154</b>	<b>3,860,945</b>
<b>Deferred Tax Expense</b>				
Effect of change in tax rates	-	-	-	-
Origination and reversal of temporary differences [Refer Note 45.1 - Bank]	120,881	204,063	120,881	204,063
	<b>4,556,035</b>	<b>4,065,008</b>	<b>4,556,035</b>	<b>4,065,008</b>
<b>Subsidiaries</b>				
Income tax expense of Commercial Development Company PLC	36,332	46,266	-	-
Income tax expense of ONEzero Co. Ltd.	11,774	6,187	-	-
Income tax expense of Indra Finance Ltd.	12,983	-	-	-
<b>Total</b>	<b>4,617,124</b>	<b>4,117,461</b>	<b>4,556,035</b>	<b>4,065,008</b>
Effective tax rate (including deferred tax)	-	-	28.95%	28.01%
Effective tax rate (excluding deferred tax)	-	-	28.18%	26.61%

The income tax for 2014 and 2013 of the Bank and its subsidiaries have been provided on the taxable income at the rates shown below:

	2014	2013
	%	%
Domestic operations of the Bank	28	28
Off-shore banking operation of the Bank	28	28
Bangladesh operation of the Bank	42.5	42.5
Commercial Development Company PLC	28	28
ONEzero Company Ltd.	28	28
Indra Finance Ltd.	28	N/A

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

As per Section 137 of the Inland Revenue Act No. 10 of 2006 and amendments thereto, a Company engaged in secondary market transactions involving Government Securities, Treasury Bills or Treasury Bonds on which Income tax had been deducted at 10% per annum at the time of issue of such securities, is entitled to a notional tax credit of one-ninth of Net Interest Income earned from such secondary market transactions.

Accordingly, the net interest income earned by the Group and the Bank from the secondary market transactions in Government Securities, has been grossed up in these Financial Statements and such notional tax credit amounted to Rs. 1,080.686 Mn. and Rs. 1,079.038 Mn. respectively (Rs. 905.407 Mn. and Rs. 903.649 Mn. respectively in 2013).

## 21.2 Reconciliation of the Accounting Profit to Income Tax Expense

A reconciliation between taxable income and the accounting profit multiplied by the statutory tax rate is given below:

For the year ended December 31,	Tax Rate		GROUP		BANK	
	2014	2013	2014	2013	2014	2013
	%	%	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Accounting profit before tax from operations</b>			<b>15,859,917</b>	14,690,918	<b>15,736,216</b>	14,510,519
Tax effect at the statutory income tax rate			<b>4,932,962</b>	4,430,380	<b>4,874,034</b>	4,389,700
Domestic operations of the Bank	<b>28</b>	28	<b>3,440,752</b>	3,256,166	<b>3,440,752</b>	3,256,166
Off-shore banking operation of the Bank	<b>28</b>	28	<b>268,589</b>	167,244	<b>268,589</b>	167,244
Bangladesh operation	<b>42.5</b>	42.5	<b>1,164,693</b>	966,290	<b>1,164,693</b>	966,290
Subsidiaries	<b>28</b>	28	<b>58,928</b>	40,680	<b>-</b>	-
Tax effect of exempt income			<b>(865,453)</b>	(887,400)	<b>(865,453)</b>	(887,400)
Tax effect of non-deductible expenses			<b>5,834,186</b>	4,359,378	<b>5,807,179</b>	4,344,749
Tax effect of deductible expenses			<b>(5,169,064)</b>	(3,832,519)	<b>(5,142,943)</b>	(3,824,600)
Qualifying payments			<b>(256,493)</b>	-	<b>(256,493)</b>	-
Under/(over) provision of taxes in respect of prior years [Refer Note 44]			<b>10,920</b>	(167,169)	<b>11,041</b>	(169,789)
Withholding tax on dividends paid			<b>7,879</b>	8,285	<b>7,789</b>	8,285
Deferred tax expense [Refer Notes 45.2 & 45.3]			<b>122,187</b>	206,506	<b>120,881</b>	204,063
<b>Income tax expense reported in the Income Statement at the effective income tax rate</b>			<b>4,617,124</b>	4,117,461	<b>4,556,035</b>	4,065,008

## 22. Earnings Per Share (EPS)

The earnings per share has been calculated by dividing the profit for the year attributable to equity holders of the Parent by the weighted average number of ordinary shares in issue during the year, as per the Sri Lanka Accounting Standard - LKAS 33 on Earnings per Share.

### 22.1 Basic Earnings per Ordinary Share

	GROUP		BANK	
	2014	2013	2014	2013
<b>Amounts used as the numerator:</b>				
Profit for the year attributable to equity holders of the Bank for basic earnings per ordinary share (Rs. '000)	<b>11,238,892</b>	10,563,378	<b>11,180,181</b>	10,445,511
<b>Number of ordinary shares used as the denominator:</b>				
Weighted average number of ordinary shares for basic earnings per share calculation [Refer Note 22.3]	<b>864,152,525</b>	862,938,805	<b>864,152,525</b>	862,938,805
<b>Basic earnings per ordinary share (Rs.)</b>	<b>13.01</b>	12.24	<b>12.94</b>	12.10

### 22.2 Diluted Earnings per Ordinary Share

	GROUP		BANK	
	2014	2013	2014	2013
<b>Amounts used as the numerator:</b>				
Profit for the year attributable to equity holders of the parent for diluted earnings per ordinary share (Rs. '000)	<b>11,238,892</b>	10,563,378	<b>11,180,181</b>	10,445,511
<b>Number of ordinary shares used as the denominator:</b>				
Weighted average number of ordinary shares for diluted earnings per ordinary share calculation [Refer Note 22.3]	<b>867,855,677</b>	864,273,527	<b>867,855,677</b>	864,273,527
<b>Diluted earnings per ordinary share (Rs.)</b>	<b>12.95</b>	12.22	<b>12.88</b>	12.09

## Notes to the Financial Statements

## 22.3 Weighted Average Number of Ordinary Shares for Basic and Diluted Earnings per Share

	Outstanding No. of Shares		Weighted average No. of Shares	
	2014	2013	2014	2013
Number of shares in issue as at January 01,	849,079,041	833,487,980	849,079,041	833,487,980
Add: Number of shares satisfied in the form of issue and allotment of new shares from final dividend for 2012	-	14,145,663	-	14,145,663
Add: Number of shares satisfied in the form of issue and allotment of new shares from final dividend for 2013	13,541,068	-	13,541,068	13,541,068
	862,620,109	847,633,643	862,620,109	861,174,711
Add: Number of shares issued under Employee Share Option Plan (ESOP) 2008	3,237,566	1,445,398	1,532,416	1,764,094
<b>Weighted average number of ordinary shares for basic earnings per ordinary share calculation</b>	<b>865,857,675</b>	<b>849,079,041</b>	<b>864,152,525</b>	<b>862,938,805</b>
Add: Bonus element on number of outstanding options under ESOP 2008 as at the year-end	-	-	3,703,152	1,334,722
<b>Weighted average number of ordinary shares for diluted earnings per ordinary share calculation(*)</b>	<b>865,857,675</b>	<b>849,079,041</b>	<b>867,855,677</b>	<b>864,273,527</b>

(\*) The market value of the Bank's shares for the purpose of calculating the dilutive effect of share options has been based on the excess of quoted market price as of December 31, 2014 over the offer price.

## 23. Dividends

	GROUP		BANK	
	2014 Second Interim Rs. 1.00 Per share for 2013 (Paid on January 27, 2014) Rs. '000	2013 Second Interim Rs. 1.00 Per share for 2012 (Paid on February 18, 2013) Rs. '000	2014 Second Interim Rs. 1.00 Per share for 2013 (Paid on January 27, 2014) Rs. '000	2013 Second Interim Rs. 1.00 Per share for 2012 (Paid on February 18, 2013) Rs. '000
<b>On Ordinary Shares</b>				
Net dividend paid to the Ordinary shareholders out of normal profits	768,553	755,339	768,553	755,339
Withholding tax deducted at source	80,595	78,270	80,595	78,270
<b>Gross ordinary dividend paid</b>	<b>849,148</b>	<b>833,609</b>	<b>849,148</b>	<b>833,609</b>
<b>On Ordinary Shares</b>				
Net dividend paid to the ordinary shareholders out of normal profits	1,174,561	1,152,615	1,174,561	1,152,615
Withholding tax deducted at source	123,593	120,876	123,593	120,876
<b>Gross ordinary dividend paid</b>	<b>1,298,154</b>	<b>1,273,491</b>	<b>1,298,154</b>	<b>1,273,491</b>
<b>Total gross ordinary dividend paid</b>	<b>2,147,302</b>	<b>2,107,100</b>	<b>2,147,302</b>	<b>2,107,100</b>

The Bank declared and paid a second interim dividend of Rs. 1.00 per share on February 5, 2015 to both voting and non-voting ordinary shareholders of the Bank. (The second interim dividend for the year 2013 of Rs. 1.00 per share was paid on January 27, 2014).

The Board of Directors of the Bank has recommended the payment of a final dividend of Rs. 4.00 per share which consist of a cash dividend of Rs. 2.00 per share and the balance entitlement of Rs. 2.00 per share will be satisfied in the form of issue and allotment of new shares for both the voting and non-voting ordinary shareholders of the Bank for the year ended December 31, 2014 (Bank declared a final dividend of Rs. 4.00 per share in 2013 and this was satisfied by way of Rs. 2.00 per share in the form of cash and Rs. 2.00 per share in the form of shares). The total dividend recommended by the Board is to be approved at the forthcoming Annual General Meeting to be held on March 31, 2015. In accordance with provisions of the Sri Lanka Accounting Standard No. 10 on 'Events after the Reporting Period', the second interim dividend declared and paid on February 5, 2015 and the proposed final dividend has not been recognised as a liability as at the year-end. Final dividend payable for the year 2014 has been estimated at Rs. 3,463.772 Mn. (Actual final dividend for 2013 amounted to Rs. 3,399.834 Mn. due to exercise of options under ESOPs).

Accordingly, the dividend per ordinary share (for both voting and non-voting) for the year 2014 would be Rs. 6.50 (2013 - Rs. 6.50).

## 24. Classification of Financial Assets and Financial Liabilities

The tables below provide a reconciliation between the line items in the Statement of Financial Position and categories of financial assets and financial liabilities of the Group and the Bank.

### 24.1 Classification of Financial Assets and Financial Liabilities - Group

#### 24.1 (a) Group

As at December 31, 2014	Held-for-Trading (HFT)		Held-to-Maturity (HTM)	Loans and Receivables	Available-for-Sale (AFS)	Other Amortised Cost	Total
	Note	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Financial Assets</b>							
Cash and cash equivalents	26	-	-	20,621,778	-	-	20,621,778
Balances with Central Banks	27	-	-	19,633,746	-	-	19,633,746
Placements with banks	28	-	-	14,507,861	-	-	14,507,861
Derivative financial assets	29	459,510	-	-	-	-	459,510
Other financial instruments – Held-for-trading	30	6,326,636	-	-	-	-	6,326,636
Loans and receivables to banks	31	-	-	551,066	-	-	551,066
Loans and receivables to other customers	32	-	-	498,165,419	-	-	498,165,419
Financial investments – Available-for-sale	33	-	-	-	214,225,017	-	214,225,017
<b>Total financial assets</b>		<b>6,786,146</b>	<b>-</b>	<b>553,479,870</b>	<b>214,225,017</b>	<b>-</b>	<b>774,491,033</b>
<b>Financial Liabilities</b>							
Due to banks	40	-	-	-	-	25,669,025	25,669,025
Derivative financial liabilities	41	1,193,139	-	-	-	-	1,193,139
Due to other customers/Deposits from customers	42	-	-	-	-	529,266,588	529,266,588
Other borrowings	43	-	-	-	-	136,027,625	136,027,625
Subordinated liabilities	49	-	-	-	-	11,262,573	11,262,573
<b>Total financial liabilities</b>		<b>1,193,139</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>702,225,811</b>	<b>703,418,950</b>

## Notes to the Financial Statements

## 24.1 (b) Group

<i>As at December 31, 2013</i>							
	Note	Held-for-Trading (HFT) Rs. '000	Held-to-Maturity (HTM) Rs. '000	Loans and Receivables Rs. '000	Available- for-Sale (AFS) Rs. '000	Other Amortised Cost Rs. '000	Total Rs. '000
<b>Financial Assets</b>							
Cash and cash equivalents	26	–	–	14,263,533	–	–	14,263,533
Balances with Central Banks	27	–	–	18,431,936	–	–	18,431,936
Placements with banks	28	–	–	4,131,814	–	–	4,131,814
Derivative financial assets	29	837,694	–	–	–	–	837,694
Other financial instruments – Held-for-trading	30	6,379,058	–	–	–	–	6,379,058
Loans and receivables to banks	31	–	–	546,270	–	–	546,270
Loans and receivables to other customers	32	–	–	410,935,979	–	–	410,935,979
Financial investments – Available-for-sale	33	–	–	–	131,756,525	–	131,756,525
<b>Total financial assets</b>		<b>7,216,752</b>	<b>–</b>	<b>448,309,532</b>	<b>131,756,525</b>	<b>–</b>	<b>587,282,809</b>
<b>Financial Liabilities</b>							
Due to banks	40	–	–	–	–	14,194,219	14,194,219
Derivative financial liabilities	41	1,411,916	–	–	–	–	1,411,916
Due to other customers/Deposits from customers	42	–	–	–	–	451,098,946	451,098,946
Other borrowings	43	–	–	–	–	53,997,503	53,997,503
Subordinated liabilities	49	–	–	–	–	10,944,412	10,944,412
<b>Total financial liabilities</b>		<b>1,411,916</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>530,235,080</b>	<b>531,646,996</b>

## 24.2 Classification of Financial Assets and Financial Liabilities - Bank

## 24.2 (a) Bank

<i>As at December 31, 2014</i>							
	Note	Held-for-Trading (HFT) Rs. '000	Held-to-Maturity (HTM) Rs. '000	Loans and Receivables Rs. '000	Available- for-Sale (AFS) Rs. '000	Other Amortised Cost Rs. '000	Total Rs. '000
<b>Financial Assets</b>							
Cash and cash equivalents	26	–	–	20,591,867	–	–	20,591,867
Balances with Central Banks	27	–	–	19,633,746	–	–	19,633,746
Placements with banks	28	–	–	14,507,861	–	–	14,507,861
Derivative financial assets	29	459,510	–	–	–	–	459,510
Other financial instruments – Held-for-trading	30	6,326,636	–	–	–	–	6,326,636
Loans and receivables to banks	31	–	–	551,066	–	–	551,066
Loans and receivables to other customers	32	–	–	497,065,787	–	–	497,065,787
Financial investments – Available-for-sale	33	–	–	–	214,208,370	–	214,208,370
<b>Total financial assets</b>		<b>6,786,146</b>	<b>–</b>	<b>552,350,327</b>	<b>214,208,370</b>	<b>–</b>	<b>773,344,843</b>
<b>Financial Liabilities</b>							
Due to banks	40	–	–	–	–	25,260,976	25,260,976
Derivative financial liabilities	41	1,193,139	–	–	–	–	1,193,139
Due to other customers/Deposits from customers	42	–	–	–	–	529,361,484	529,361,484
Other borrowings	43	–	–	–	–	136,201,082	136,201,082
Subordinated liabilities	49	–	–	–	–	11,044,775	11,044,775
<b>Total financial liabilities</b>		<b>1,193,139</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>701,868,317</b>	<b>703,061,456</b>

## 24.2 (b) Bank

As at December 31, 2013							
	Note	Held-for-Trading (HFT) Rs. '000	Held-to-Maturity (HTM) Rs. '000	Loans and Receivables Rs. '000	Available- for-Sale (AFS) Rs. '000	Other Amortised Cost Rs. '000	Total Rs. '000
<b>Financial Assets</b>							
Cash and cash equivalents	26	–	–	14,261,549	–	–	14,261,549
Balances with Central Banks	27	–	–	18,431,936	–	–	18,431,936
Placements with banks	28	–	–	4,131,814	–	–	4,131,814
Derivative financial assets	29	837,694	–	–	–	–	837,694
Other financial instruments – Held-for-trading	30	6,379,058	–	–	–	–	6,379,058
Loans and receivables to banks	31	–	–	546,270	–	–	546,270
Loans and receivables to other customers	32	–	–	410,951,440	–	–	410,951,440
Financial investments – Available-for-sale	33	–	–	–	131,756,525	–	131,756,525
<b>Total financial assets</b>		<b>7,216,752</b>	<b>–</b>	<b>448,323,009</b>	<b>131,756,525</b>	<b>–</b>	<b>587,296,286</b>
<b>Financial Liabilities</b>							
Due to banks	40	–	–	–	–	14,194,219	14,194,219
Derivative financial liabilities	41	1,411,916	–	–	–	–	1,411,916
Due to other customers/Deposits from customers	42	–	–	–	–	451,152,923	451,152,923
Other borrowings	43	–	–	–	–	54,173,175	54,173,175
Subordinated liabilities	49	–	–	–	–	10,944,412	10,944,412
<b>Total financial liabilities</b>		<b>1,411,916</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>530,464,729</b>	<b>531,876,645</b>

## 25. Assets and Liabilities Measured at Fair Value and Fair Value Hierarchy

## 25.1 Fair Value Hierarchy

The following table provides the analyses of assets and liabilities measured at fair value as at the Reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. These amounts were based on the values recognised in the Statement of Financial Position.

	Note	GROUP				BANK			
		Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
<b>As at December 31, 2014</b>									
<b>Non-Financial Assets</b>									
<b>Property, Plant &amp; Equipment</b>									
Land and buildings	36.5(b)	–	–	7,432,625	7,432,625	–	–	7,255,625	7,255,625
<b>Total non-financial assets at fair value</b>		<b>–</b>	<b>–</b>	<b>7,432,625</b>	<b>7,432,625</b>	<b>–</b>	<b>–</b>	<b>7,255,625</b>	<b>7,255,625</b>
<b>Financial Assets</b>									
<b>Derivative financial assets</b>									
Currency swaps	29	–	222,533	–	222,533	–	222,533	–	222,533
Forward contracts		–	233,300	–	233,300	–	233,300	–	233,300
Spot contracts		–	3,677	–	3,677	–	3,677	–	3,677
<b>Other financial instruments – Held-for-trading</b>									
Government securities	30	5,958,904	–	–	5,958,904	5,958,904	–	–	5,958,904
Equity shares		367,732	–	–	367,732	367,732	–	–	367,732

## Notes to the Financial Statements

	Note	GROUP				BANK			
		Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
<b>Financial investments – Available-for-sale</b>	33								
Government Securities		213,381,263	–	–	213,381,263	213,364,740	–	–	213,364,740
Equity securities(*)		185,132	613,441	–	798,573	185,132	613,441	–	798,573
<b>Total financial assets at fair value</b>		219,893,031	1,072,951	–	220,965,982	219,876,508	1,072,951	–	220,949,459
<b>Total assets at fair value</b>		219,893,031	1,072,951	7,432,625	228,398,607	219,876,508	1,072,951	7,255,625	228,205,084
<b>Financial Liabilities</b>									
<b>Derivative financial liabilities</b>	41								
Currency swaps		–	823,596	–	823,596	–	823,596	–	823,596
Forward contracts		–	368,886	–	368,886	–	368,886	–	368,886
Spot contracts		–	657	–	657	–	657	–	657
<b>Total liabilities at fair value</b>		–	1,193,139	–	1,193,139	–	1,193,139	–	1,193,139
<b>As at December 31, 2013</b>									
<b>Non Financial Assets</b>									
<b>Property, Plant &amp; Equipment</b>									
Land and buildings	36	–	–	5,647,563	5,647,563	–	–	5,647,563	5,647,563
<b>Total non financial assets at fair value</b>		–	–	5,647,563	5,647,563	–	–	5,647,563	5,647,563
<b>Financial Assets</b>									
<b>Derivative financial assets</b>	29								
Currency swaps		–	–	–	–	–	–	–	–
Forward contracts		–	832,346	–	832,346	–	832,346	–	832,346
Spot contracts		–	5,348	–	5,348	–	5,348	–	5,348
<b>Other financial instruments – Held-for-trading</b>	30								
Government Securities		6,044,651	–	–	6,044,651	6,044,651	–	–	6,044,651
Equity shares		334,407	–	–	334,407	334,407	–	–	334,407
<b>Financial investments – Available-for-sale</b>	33								
Government Securities		131,565,941	–	–	131,565,941	131,565,941	–	–	131,565,941
Equity securities(*)		145,492	–	–	145,492	145,492	–	–	145,492
<b>Total financial assets at fair value</b>		138,090,491	837,694	–	138,928,185	138,090,491	837,694	–	138,928,185
<b>Total assets at fair value</b>		138,090,491	837,694	5,647,563	144,575,748	138,090,491	837,694	5,647,563	144,575,748
<b>Financial Liabilities</b>									
<b>Derivative financial liabilities</b>	41								
Currency swaps		–	–	–	–	–	–	–	–
Forward contracts		–	1,406,553	–	1,406,553	–	1,406,553	–	1,406,553
Spot contracts		–	5,363	–	5,363	–	5,363	–	5,363
<b>Total liabilities at fair value</b>		–	1,411,916	–	1,411,916	–	1,411,916	–	1,411,916

(\*) Value of Unquoted shares of Rs. 45.181 Mn. in Group and Rs. 45.057 Mn. in Bank as at end of the year 2014 (Rs. 45.092 Mn. in Group and Bank as at end 2013) categorised under Financial Investments – Available-for-sale in the Statement of Financial Position has not been considered within the above amount due to non-availability of reliable market values.



## 25.2 Financial Instruments not Measured at Fair Value - Fair Value Hierarchy

The following table sets out the fair values of financial assets and liabilities not measured at fair value and related fair value hierarchy.

	Note	GROUP					BANK				
		Level 1	Level 2	Level 3	Total Fair Values	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Values	Total Carrying Amount
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>As at December 31, 2014</b>											
<b>Financial Assets</b>											
Cash and cash equivalents	26	-	20,621,778	-	20,621,778	20,621,778	-	20,591,867	-	20,591,867	20,591,867
Loans and receivables to banks	31	-	551,066	-	551,066	551,066	-	551,066	-	551,066	551,066
Loans and receivables to other customers	32	-	-	500,659,378	500,659,378	498,165,419	-	-	499,559,746	499,559,746	497,065,787
<b>Total financial assets not at fair value</b>		-	21,172,844	500,659,378	521,832,222	519,338,263	-	21,142,933	499,559,746	520,702,679	518,208,720
<b>Financial Liabilities</b>											
Due to banks	40	-	25,669,025	-	25,669,025	25,669,025	-	25,260,976	-	25,260,976	25,260,976
Due to other customers/ Deposits from customers	42	-	-	531,209,832	531,209,832	529,266,588	-	-	531,304,728	531,304,728	529,361,484
Subordinated liabilities	49	-	-	11,347,778	11,347,778	11,262,573	-	-	11,129,980	11,129,980	11,044,775
<b>Total financial liabilities not at fair value</b>		-	25,669,025	542,557,610	568,226,635	566,198,186	-	25,260,976	542,434,708	567,695,684	565,667,235
<b>As at December 31, 2013</b>											
<b>Financial Assets</b>											
Cash and cash equivalents	26	-	14,263,533	-	14,263,533	14,263,533	-	14,261,549	-	14,261,549	14,261,549
Loans and receivables to banks	31	-	546,270	-	546,270	546,270	-	546,270	-	546,270	546,270
Loans and receivables to other customers	32	-	-	411,737,311	411,737,311	410,935,979	-	-	411,752,772	411,752,772	410,951,440
<b>Total financial assets not at fair value</b>		-	14,809,803	411,737,311	426,547,114	425,745,782	-	14,807,819	411,752,772	426,560,591	425,759,259
<b>Financial Liabilities</b>											
Due to banks	40	-	14,194,219	-	14,194,219	14,194,219	-	14,194,219	-	14,194,219	14,194,219
Due to other customers/ Deposits from customers	42	-	-	452,436,796	452,436,796	451,098,946	-	-	452,490,773	452,490,773	451,152,923
Subordinated liabilities	49	-	-	11,013,207	11,013,207	10,944,412	-	-	11,013,207	11,013,207	10,944,412
<b>Total financial liabilities not at fair value</b>		-	14,194,219	463,449,603	477,643,822	476,237,577	-	14,194,219	463,503,980	447,698,199	476,291,554

### Fair Valuation Methodology and Significant Unobservable Valuation Inputs

The fair value of fixed rate financial assets and liabilities carried at amortised cost (eg. fixed rate loans and receivables due to other customers, subordinated liabilities) are estimated based on the Discounted Cash Flow approach. This approach employs the current market interest rates of similar financial instruments as a significant unobservable input in measuring the fair value and hence it is categorised under Level 3 in the fair value hierarchy.

### Sensitivity of Fair Value Measurement to Unobservable Inputs

A significant increase/(decrease) in the market interest rate would result in lower/(higher) fair value being disclosed.

### Assets for which Fair Value Approximates Carrying Value

For financial assets and liabilities with short term maturities or with short term re-pricing intervals, it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings deposits which do not have a specific maturity.

**25.3** Note 36.5 (b) on page 341 provides information on significant unobservable inputs used as at December 31, 2014 used in measuring fair value of Land and buildings categorised as Level 3 in the fair value hierarchy.

**25.4** Reconciliation of Revaluation Reserve pertaining to Land and Buildings categorised as Level 3 in fair value hierarchy is found in the Statement of Changes in Equity from pages 272 to 275.

## Notes to the Financial Statements

25.5 Table below provides information about the valuation techniques and inputs used in measuring the fair values of assets and liabilities in the Level 2 of the fair value hierarchy as given in Note 25.1 above.

Type of Financial Instruments	Fair Value as at December 31, 2014 (Rs. '000)	Valuation Technique	Significant Valuation inputs
Derivative Financial Assets	459,510	<b>Adjusted forward rate approach</b> This approach considers the present value of calculated forward exchange rate as of the reporting date using the spot exchange rate that prevailed and the forward premium/discount calculated using extrapolated interest rates of the currency pairs of the derivatives. In computing the present value, interest rate differentials between two currencies under consideration is used as the discount rate.	<ul style="list-style-type: none"> <li>• Spot exchange rate</li> <li>• Interest rate differentials between currencies under consideration</li> </ul>
Derivative Financial Liabilities	1,193,139		

## 26. Cash and Cash Equivalents

As at December 31,	GROUP		BANK	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
Cash in hand				
Coins and notes held in local currency	12,232,921	9,643,069	12,222,065	9,641,519
Coins and notes held in foreign currency	1,440,699	1,866,981	1,426,445	1,866,547
Balances with banks	5,948,158	2,635,082	5,943,357	2,635,082
Local banks	4,801	–	–	–
Foreign banks	5,943,357	2,635,082	5,943,357	2,635,082
Money at call and at short notice	1,000,000	118,401	1,000,000	118,401
<b>Total</b>	<b>20,621,778</b>	<b>14,263,533</b>	<b>20,591,867</b>	<b>14,261,549</b>

The maturity analysis of Cash and Cash Equivalents is given in Note 58.

## 27. Balances with Central Banks

As at December 31,	GROUP		BANK	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
Statutory balances with Central Banks				
Central Bank of Sri Lanka	17,433,858	15,449,704	17,433,858	15,449,704
Bangladesh Bank	2,199,888	2,982,232	2,199,888	2,982,232
Non-statutory balances with Central Banks				
Central Bank of Sri Lanka	–	–	–	–
Bangladesh Bank	–	–	–	–
<b>Total</b>	<b>19,633,746</b>	<b>18,431,936</b>	<b>19,633,746</b>	<b>18,431,936</b>

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, 2014, the minimum cash reserve requirement was 6.00% of the rupee deposit liabilities (6.00% in 2013). 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 (OBC) in Sri Lanka.

As per the Bangladesh Bank regulations, the Statutory Liquidity Requirement as at December 31, 2014 was 19.50% (19.00% in 2013) on time and demand liabilities (both local and foreign currencies), which includes a 6.50% (6.00% in 2013) cash reserve requirement and the balance 13.00% (13.00% in 2013) is permitted to be maintained in foreign currency and/or also in unencumbered securities held with the Bangladesh Bank.

The maturity analysis of Balances with Central Banks is given in Note 58.

## 28. Placements with Banks

As at December 31,	GROUP		BANK	
	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Placements - within Sri Lanka	6,783,931	–	6,783,931	–
Placements - outside Sri Lanka	7,723,930	4,131,814	7,723,930	4,131,814
<b>Total</b>	<b>14,507,861</b>	<b>4,131,814</b>	<b>14,507,861</b>	<b>4,131,814</b>

The maturity analysis of Placements with Banks is given in Note 58.

## 29. Derivative Financial Assets

### Foreign currency derivatives

Currency swaps	222,533	–	222,533	–
Forward contracts	233,300	832,346	233,300	832,346
Spot contracts	3,677	5,348	3,677	5,348
<b>Total</b>	<b>459,510</b>	<b>837,694</b>	<b>459,510</b>	<b>837,694</b>

The maturity analysis of Derivative Financial Assets is given in Note 58.

## 30. Other Financial Instruments Held-for-Trading

Government securities [Refer Note 30.1]	5,958,904	6,044,651	5,958,904	6,044,651
Equity securities [Refer Note 30.2]	367,732	334,407	367,732	334,407
<b>Total</b>	<b>6,326,636</b>	<b>6,379,058</b>	<b>6,326,636</b>	<b>6,379,058</b>

### 30.1 Government Securities

Treasury bills	4,224,163	4,788,578	4,224,163	4,788,578
Treasury bonds	1,734,741	1,256,073	1,734,741	1,256,073
<b>Total Government Securities</b>	<b>5,958,904</b>	<b>6,044,651</b>	<b>5,958,904</b>	<b>6,044,651</b>

The maturity analysis of Other Financial Instruments Held-for-trading is given in Note 58.

### 30.2 Equity Securities - Group and Bank

Sector/Name of the Company	As at December 31, 2014				As at December 31, 2013			
	No. of Shares	Market Price	Market Value	Cost of the Investment	No. of Shares	Market Price	Market Value	Cost of the Investment
		Rs.	Rs. '000	Rs. '000		Rs.	Rs. '000	Rs. '000
<b>Bank, Finance and Insurance</b>								
Central Finance Company PLC	94,930	250.00	23,733	18,937	–	–	–	–
Citizen Development Bank PLC	101,965	74.00	7,545	3,398	123,950	35.60	4,413	4,130
Hatton National Bank PLC	82	194.90	16	12	82	147.00	12	12
Lanka Venture PLC	100,000	46.90	4,690	3,033	100,000	41.00	4,100	3,033
Nations Trust Bank PLC	–	–	–	–	262,314	62.20	16,316	16,238
Sampath Bank PLC	25,000	236.30	5,908	4,298	25,000	171.90	4,298	4,298
<b>Sub total</b>			<b>41,892</b>	<b>29,678</b>			<b>29,139</b>	<b>27,711</b>
<b>Beverage, Foods and Tobacco</b>								
COCO Lanka PLC	402,000	26.70	10,733	7,062	402,000	16.50	6,633	7,062
COCO Lanka PLC (Non-voting)	1,000	23.90	24	15	1,000	13.10	13	15
Distilleries Company of Sri Lanka PLC	181,490	210.00	38,113	28,968	281,490	193.00	54,328	44,929
Lanka Milk Foods (CWE) PLC	250,000	120.40	30,100	27,866	250,000	105.30	26,325	27,866
<b>Sub total</b>			<b>78,970</b>	<b>63,911</b>			<b>87,299</b>	<b>79,872</b>

## Notes to the Financial Statements

Sector/Name of the Company	As at December 31, 2014				As at December 31, 2013			
	No. of Shares	Market Price	Market Value	Cost of the Investment	No. of Shares	Market Price	Market Value	Cost of the Investment
		Rs.	Rs. '000	Rs. '000		Rs.	Rs. '000	Rs. '000
<b>Chemical and Pharmaceutical</b>								
Chemical Industries Colombo PLC	161,400	66.40	10,717	11,692	161,400	34.50	5,568	11,692
Haycarb PLC	107,100	173.00	18,528	15,914	107,100	189.80	20,328	15,914
<b>Sub total</b>			<b>29,245</b>	<b>27,606</b>			<b>25,896</b>	<b>27,606</b>
<b>Construction and Engineering</b>								
Colombo Dockyard PLC	75,000	193.00	14,475	16,685	75,000	189.60	14,220	16,685
<b>Sub total</b>			<b>14,475</b>	<b>16,685</b>			<b>14,220</b>	<b>16,685</b>
<b>Diversified Holdings</b>								
Hemas Holdings PLC	60	74.30	4	2	635,750	34.00	21,616	23,242
<b>Sub total</b>			<b>4</b>	<b>2</b>			<b>21,616</b>	<b>23,242</b>
<b>Health Care</b>								
Ceylon Hospitals PLC	121,900	117.40	14,311	12,868	156,900	110.00	17,259	16,665
Ceylon Hospitals PLC (Non-voting)	61,100	80.00	4,888	4,423	61,100	75.00	4,583	4,423
<b>Sub total</b>			<b>19,199</b>	<b>17,291</b>			<b>21,842</b>	<b>21,088</b>
<b>Hotels and Travels</b>								
John Keells Hotels PLC	267,608	17.00	4,549	3,473	137,608	12.50	1,720	1,638
Taj Lanka Hotels PLC	212,390	34.40	7,306	6,625	-	-	-	-
<b>Sub total</b>			<b>11,855</b>	<b>10,098</b>			<b>1,720</b>	<b>1,638</b>
<b>Investment Trust</b>								
Renuka Holdings PLC	117,158	31.50	3,690	3,180	50,000	30.60	1,530	1,770
Renuka Holdings PLC (Non-voting)	265,368	23.50	6,236	4,958	100,000	20.70	2,070	2,477
<b>Sub total</b>			<b>9,926</b>	<b>8,138</b>			<b>3,600</b>	<b>4,247</b>
<b>Land and Property</b>								
Overseas Reality Ceylon PLC	174,000	26.30	4,576	2,512	174,000	18.30	3,184	2,512
Property Developments Ltd.	-	-	-	-	83,235	66.00	5,494	4,693
<b>Sub total</b>			<b>4,576</b>	<b>2,512</b>			<b>8,678</b>	<b>7,205</b>
<b>Manufacturing</b>								
ACL Cables PLC	171,516	76.40	13,104	14,096	171,516	64.90	11,131	14,096
Dipped Products PLC	200,000	143.00	28,600	24,239	200,000	90.00	18,000	24,239
Lanka Walltile PLC	60	97.30	6	5	60	53.90	3	5
Pelwatte Sugar Industries PLC	12,300	0.10	1	351	12,300	0.10	1	351
Royal Ceramics Lanka PLC	264,896	116.90	30,966	30,676	264,896	84.60	22,410	30,676
Tokyo Cement Company (Lanka) PLC (Non-voting)	140,055	46.90	6,569	3,407	588,555	23.40	13,772	15,502
<b>Sub total</b>			<b>79,246</b>	<b>72,774</b>			<b>65,317</b>	<b>84,869</b>
<b>Plantations</b>								
Kotagala Plantations PLC	201,750	31.60	6,375	9,172	201,750	37.00	7,465	9,172
<b>Sub total</b>			<b>6,375</b>	<b>9,172</b>			<b>7,465</b>	<b>9,172</b>

Sector/Name of the Company	As at December 31, 2014				As at December 31, 2013			
	No. of Shares	Market Price	Market Value	Cost of the Investment	No. of Shares	Market Price	Market Value	Cost of the Investment
		Rs.	Rs. '000	Rs. '000		Rs.	Rs. '000	Rs. '000
<b>Power and Energy</b>								
Hemas Power PLC	600,000	18.10	10,860	11,591	336,657	17.60	5,925	6,748
Lanka IOC PLC	685,984	60.00	41,159	15,013	685,984	33.10	22,706	15,013
<b>Sub total</b>			<b>52,019</b>	<b>26,604</b>			<b>28,631</b>	<b>21,761</b>
<b>Telecommunication</b>								
Dialog Axiata PLC	1,500,000	13.30	19,950	9,956	2,109,322	9.00	18,984	15,193
<b>Sub total</b>			<b>19,950</b>	<b>9,956</b>			<b>18,984</b>	<b>15,193</b>
<b>Total</b>			<b>367,732</b>	<b>294,427</b>			<b>334,407</b>	<b>340,289</b>
<b>Mark to market gains/(losses)</b>				<b>73,305</b>				<b>(5,882)</b>
<b>Market value of equity securities</b>				<b>367,732</b>				<b>334,407</b>

### 30.3 Industry/Sector Composition of the Equity Securities - Group and Bank

Sector/Industry	As at December 31, 2014			As at December 31, 2013		
	Market Value	Cost of Investment	%	Market Value	Cost of Investment	%
	Rs. '000	Rs. '000		Rs. '000	Rs. '000	
Bank, Finance and Insurance	41,892	29,678	11.39	29,139	27,711	8.71
Beverage, Foods and Tobacco	78,970	63,911	21.47	87,299	79,872	26.11
Chemical and Pharmaceutical	29,245	27,606	7.95	25,896	27,606	7.74
Construction and Engineering	14,475	16,685	3.94	14,220	16,685	4.25
Diversified Holdings	4	2	0.0	21,616	23,242	6.46
Health Care	19,199	17,291	5.22	21,842	21,088	6.53
Hotels and Travels	11,855	10,098	3.22	1,720	1,638	0.51
Investment Trust	9,926	8,138	2.71	3,600	4,247	1.08
Land and Property	4,576	2,512	1.24	8,678	7,205	2.61
Manufacturing	79,246	72,774	21.55	65,317	84,869	19.53
Plantations	6,375	9,172	1.73	7,465	9,172	2.23
Power and Energy	52,019	26,604	14.15	28,631	21,761	8.56
Telecommunication	19,950	9,956	5.43	18,984	15,193	5.68
<b>Sub total</b>	<b>367,732</b>	<b>294,427</b>	<b>100.00</b>	<b>334,407</b>	<b>340,289</b>	<b>100.00</b>
<b>Mark to market gains/(losses)</b>		<b>73,305</b>			<b>(5,882)</b>	
<b>Market value of equity securities</b>	<b>367,732</b>	<b>367,732</b>	<b>100.00</b>	<b>334,407</b>	<b>334,407</b>	<b>100.00</b>

## Notes to the Financial Statements

**31. Loans and Receivables to Banks**

As at December 31,	GROUP		BANK	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
Gross loans and receivables	551,066	546,270	551,066	546,270
Less: Provision for impairment	-	-	-	-
<b>Net loans and receivables</b>	<b>551,066</b>	<b>546,270</b>	<b>551,066</b>	<b>546,270</b>

The maturity analysis of Loans and Receivables to Banks is given in Note 58.

The Bank did not make any payments to counter party banks for the oil hedging transactions with effect from June 02, 2009 in response to a Directive received from the Exchange Controller of the Central Bank of Sri Lanka. Consequently, one of the counter party banks appropriated USD 4.170 Mn. (Rs. 551.066 Mn.) which has been 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 (made by the Bank) and the amount due to the said counter party bank, have been recorded in the Statement of Financial Position.

**31. 1 (a) By Currency**

As at December 31,	GROUP		BANK	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
United States Dollar	551,066	546,270	551,066	546,270
<b>Sub total</b>	<b>551,066</b>	<b>546,270</b>	<b>551,066</b>	<b>546,270</b>

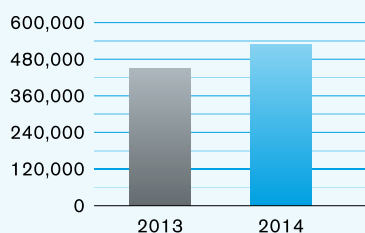
**32. Loans and Receivables to Other Customers**

Gross loans and receivables	515,335,442	426,723,148	514,022,361	426,738,608
Loans and advances [Refer Note 32.1 (a)]	464,899,378	379,237,437	463,586,297	379,252,897
Investments in Government Securities [Refer Note 32.1 (a)]	40,850,011	43,108,697	40,850,011	43,108,697
Other investments [Refer Note 32.1 (a)]	9,586,053	4,377,014	9,586,053	4,377,014
Less: Provision for individual impairment [Refer Note 32.2]	4,334,587	4,204,654	4,334,587	4,204,654
Provision for collective impairment [Refer Note 32.2]	12,835,436	11,582,515	12,621,987	11,582,514
<b>Net loans and receivables</b>	<b>498,165,419</b>	<b>410,935,979</b>	<b>497,065,787</b>	<b>410,951,440</b>

The maturity analysis of Loans and Receivables to Other Customers is given in Note 58.

**Gross Loans and Receivables to Other Customers - Bank**

(Rs. Mn.)



**20.45%** ↑  
Growth

2014: Rs. 514,022 Mn.

2013: Rs. 426,739 Mn.

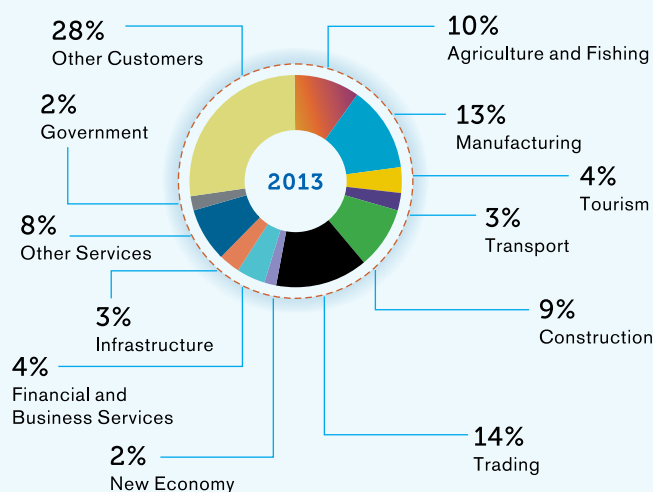
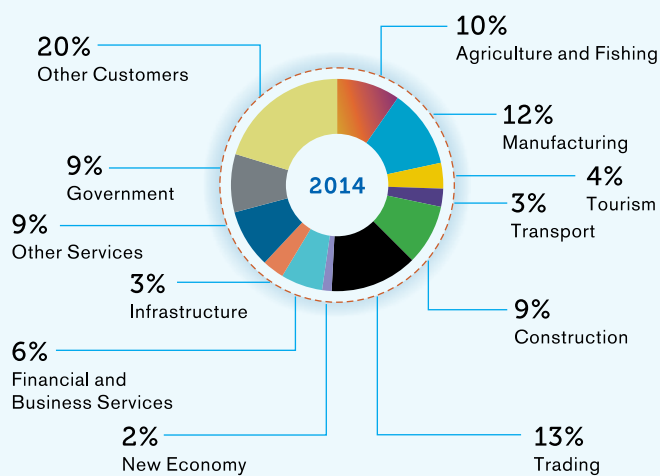
As at December 31,	GROUP		BANK	
	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>32.1 Analysis</b>				
<b>32.1 (a) By product</b>				
<b>Loans and receivables</b>				
Overdrafts	70,149,877	72,420,675	70,149,877	72,420,675
Trade finance	41,964,999	47,957,137	41,964,999	47,957,137
Lease/hire purchase receivable [Refer Note 32.3]	24,814,178	21,778,745	23,068,581	21,795,710
Credit cards	4,221,367	3,999,619	4,221,367	3,999,619
Pawning	2,315,884	6,995,603	2,315,884	6,995,603
Staff loans	5,023,379	3,885,911	5,022,923	3,885,911
Housing loans	31,402,858	27,729,953	31,402,858	27,729,953
Personal loans	21,943,589	16,517,343	21,943,016	16,517,343
Term loans				
Short-term	31,387,867	30,636,267	31,974,667	30,636,267
Long-term	178,538,532	129,805,616	178,385,277	129,804,111
Loans granted from Investment Fund Account (IFA) [Refer Note 32.4 (a)]	4,554,420	3,520,411	4,554,420	3,520,411
Bills of exchange	7,384,162	5,043,658	7,384,162	5,043,658
Securities purchased under resale agreements	41,198,266	8,946,499	41,198,266	8,946,499
<b>Sub total [Refer Note 32.1 (c)]</b>	<b>464,899,378</b>	<b>379,237,437</b>	<b>463,586,297</b>	<b>379,252,897</b>
<b>Investments in Government Securities</b>				
Treasury bonds	605,859	605,859	605,859	605,859
Sri Lanka Development bonds	40,244,152	42,502,838	40,244,152	42,502,838
<b>Sub total</b>	<b>40,850,011</b>	<b>43,108,697</b>	<b>40,850,011</b>	<b>43,108,697</b>
<b>Other investments</b>				
Debentures [Refer Note 32.5 (a)]	8,458,544	3,273,401	8,458,544	3,273,401
Trust certificates [Refer Note 32.5 (b)]	1,126,469	1,029,072	1,126,469	1,029,072
Corporate bonds in Bangladesh [Refer Note 32.5 (c)]	1,040	74,541	1,040	74,541
<b>Sub total</b>	<b>9,586,053</b>	<b>4,377,014</b>	<b>9,586,053</b>	<b>4,377,014</b>
<b>32.1 (b) By currency</b>				
Sri Lanka Rupee	391,550,260	314,608,021	390,237,179	314,623,481
United States Dollar	86,212,972	78,911,348	86,212,972	78,911,348
Great Britain Pound	651,205	871,965	651,205	871,965
Euro	106,299	1,466,964	106,299	1,466,964
Australian Dollar	980,361	46,234	980,361	46,234
Japanese Yen	-	613	-	613
Singapore Dollar	-	5,127	-	5,127
Bangladesh Taka	35,830,724	30,852,627	35,830,724	30,852,627
Others	3,621	-	3,621	-
<b>Total</b>	<b>515,335,442</b>	<b>426,762,899</b>	<b>514,022,361</b>	<b>426,778,359</b>

Notes to the Financial Statements

As at December 31,	GROUP		BANK	
	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>32.1 (c) By Industry (*)</b>				
Agriculture and fishing	45,451,951	38,013,743	45,306,783	38,013,743
Manufacturing	54,799,178	49,650,801	54,799,178	49,650,801
Tourism	18,306,599	14,242,671	18,273,643	14,242,671
Transport	13,294,127	10,157,863	13,241,354	10,174,829
Construction	42,546,071	35,601,502	42,525,815	35,601,502
Trading	62,280,308	52,367,237	62,017,576	52,367,237
New economy	6,533,193	6,440,151	6,533,193	6,440,151
Financial and business services	28,627,011	16,415,452	29,205,088	16,415,452
Infrastructure	15,729,998	12,814,953	15,729,998	12,814,953
Other services	40,676,423	30,420,543	40,424,390	30,420,543
Government	41,198,266	8,946,499	41,198,266	8,946,499
Other customers	95,456,253	104,166,022	94,331,013	104,164,516
<b>Sub total [Refer Note 32.1 (a)]</b>	<b>464,899,378</b>	<b>379,237,437</b>	<b>463,586,297</b>	<b>379,252,897</b>

(\*) Industry-wise breakdown is provided only for loans and receivables.

Sectoral Classification of Loans & Advances - Bank





**32.2 Movement in Provision for Individual and Collective Impairment during the Year**

As at December 31,	GROUP		BANK	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>Movement in Provision for Individual Impairment</b>				
Balance as at January 01,	4,204,654	3,402,168	4,204,654	3,402,168
Charge/(write back) to the Income Statement [Refer Note 17]	390,003	1,070,253	390,003	1,070,253
Net write-off/(recoveries) during the year	(403,411)	(369,740)	(403,411)	(369,740)
Exchange rate variance on foreign currency provisions	6,765	18,792	6,765	18,792
Interest accrued/(reversals) on impaired loans and advances	(278,878)	(304,712)	(278,878)	(304,712)
Other movements	415,454	387,893	415,454	387,893
<b>Balance as at December 31,</b>	<b>4,334,587</b>	<b>4,204,654</b>	<b>4,334,587</b>	<b>4,204,654</b>
<b>Movement in Provision for Collective Impairment</b>				
Balance as at January 01,	11,582,515	10,099,059	11,582,514	10,099,059
Balance assumed on business combination	194,805	–	–	–
Charge/(write back) to the Income Statement [Refer Note 17]	4,480,932	4,007,742	4,462,289	4,007,742
Net write-off/(recoveries) during the year	(3,422,651)	(2,527,827)	(3,422,651)	(2,527,828)
Exchange rate variance on foreign currency provisions	(165)	3,541	(165)	3,541
Other movements	–	–	–	–
<b>Balance as at December 31,</b>	<b>12,835,436</b>	<b>11,582,515</b>	<b>12,621,987</b>	<b>11,582,514</b>
<b>Total of individual and collective impairment</b>	<b>17,170,023</b>	<b>15,787,168</b>	<b>16,956,574</b>	<b>15,787,168</b>

As at December 31,	GROUP		BANK	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>32.3 Lease/Hire Purchase Receivable</b>				
<b>Gross Lease/Hire Purchase Receivable</b>	<b>24,814,178</b>	<b>21,778,745</b>	<b>23,068,581</b>	<b>21,795,710</b>
Within one year [Refer Note 32.3 (a)]	10,129,318	8,807,377	9,303,525	8,822,061
From one to five years [Refer Note 32.3 (b)]	14,676,651	12,966,406	13,756,847	12,968,687
Over five years [Refer Note 32.3 (c)]	8,209	4,962	8,209	4,962
Less: Provision for Individual impairment [Refer Note 32.3 (d)]	60,961	54,317	60,961	54,317
Provision for Collective impairment [Refer Note 32.3 (e)]	1,064,533	789,654	856,170	789,653
<b>Net lease/Hire purchase receivable</b>	<b>23,688,684</b>	<b>20,934,774</b>	<b>22,151,450</b>	<b>20,951,740</b>

**32.3 (a) Lease/Hire Purchase Receivable within One Year**

<b>Total Lease/Hire purchase receivable within one year</b>	<b>13,168,565</b>	<b>11,670,475</b>	<b>12,084,654</b>	<b>11,686,628</b>
Less: Unearned lease/Hire purchase income	3,039,247	2,863,098	2,781,129	2,864,567
<b>Gross Lease/Hire purchase receivable within one year</b>	<b>10,129,318</b>	<b>8,807,377</b>	<b>9,303,525</b>	<b>8,822,061</b>
Less: Provision for individual impairment	49,695	45,564	49,695	45,564
Provision for collective impairment	707,769	542,527	627,694	542,526
<b>Sub total</b>	<b>9,371,854</b>	<b>8,219,286</b>	<b>8,626,136</b>	<b>8,233,971</b>

## Notes to the Financial Statements

As at December 31,	GROUP		BANK	
	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>32.3 (b) Lease/Hire Purchase Receivable from One to Five Years</b>				
<b>Total Lease/Hire purchase receivable from one to five years</b>	<b>17,062,402</b>	<b>15,328,773</b>	<b>15,871,840</b>	<b>15,331,054</b>
Less: Unearned lease/Hire purchase income	<b>2,385,751</b>	2,362,367	<b>2,114,993</b>	2,362,367
<b>Gross Lease/Hire purchase receivable from one to five years</b>	<b>14,676,651</b>	<b>12,966,406</b>	<b>13,756,847</b>	<b>12,968,687</b>
Less: Provision for individual impairment	<b>11,266</b>	8,753	<b>11,266</b>	8,753
Provision for collective impairment	<b>356,596</b>	247,112	<b>228,308</b>	247,112
<b>Sub total</b>	<b>14,308,789</b>	<b>12,710,541</b>	<b>13,517,273</b>	<b>12,712,822</b>

## 32.3 (c) Lease/Hire Purchase Receivable after Five Years

<b>Total Lease/Hire purchase receivable after five years</b>	<b>8,666</b>	5,667	<b>8,666</b>	5,667
Less: Unearned lease/Hire purchase income	<b>457</b>	705	<b>457</b>	705
<b>Gross Lease/Hire purchase receivable after five years</b>	<b>8,209</b>	<b>4,962</b>	<b>8,209</b>	<b>4,962</b>
Less: Provision for individual impairment	-	-	-	-
Provision for collective impairment	<b>168</b>	15	<b>168</b>	15
<b>Sub total</b>	<b>8,041</b>	<b>4,947</b>	<b>8,041</b>	<b>4,947</b>

## 32.3 (d) Movement in Provision for Individual Impairment on Lease/Hire Purchase Receivable

Balance as at January 01,	<b>54,317</b>	50,100	<b>54,317</b>	50,100
Charge/(write back) to the income statement	<b>13,004</b>	15,773	<b>13,004</b>	15,773
Net write-off/(recoveries) during the year	<b>(6,211)</b>	(12,163)	<b>(6,211)</b>	(12,163)
Exchange rate variance on foreign currency provisions	-	-	-	-
Interest accrued on impaired loans and advances	<b>(3,268)</b>	(2,891)	<b>(3,268)</b>	(2,891)
Other movements	<b>3,119</b>	3,498	<b>3,119</b>	3,498
<b>Balance as at December 31,</b>	<b>60,961</b>	<b>54,317</b>	<b>60,961</b>	<b>54,317</b>

## 32.3 (e) Movement in Provision for Collective Impairment on Lease/Hire Purchase Receivable

Balance as at January 01,	<b>789,654</b>	589,113	<b>789,653</b>	589,113
Balance assumed on business combination	<b>191,037</b>	-	-	-
Charge/(write back) to the income statement	<b>783,494</b>	324,052	<b>766,169</b>	324,052
Net write-off/(recoveries) during the year	<b>(699,652)</b>	(123,511)	<b>(699,652)</b>	(123,512)
Exchange rate variance on foreign currency provisions	-	-	-	-
Other movements	-	-	-	-
<b>Balance as at December 31,</b>	<b>1,064,533</b>	<b>789,654</b>	<b>856,170</b>	<b>789,653</b>

### 32.4 Loans Granted from Investment Fund Account (IFA)

As per the guidelines issued by the Central Bank of Sri Lanka, Investment Fund Account was established effective from January 1, 2011 by transferring tax savings as explained below:

- (a) 5 % of the Profits Before Tax (PBT) calculated for Income Tax (IT) purposes, on the dates of making Self-Assessment payments on IT.  
 (b) 8% of the profits calculated for the payment of Value Added Tax (VAT) on financial services at the time of making payments on VAT.

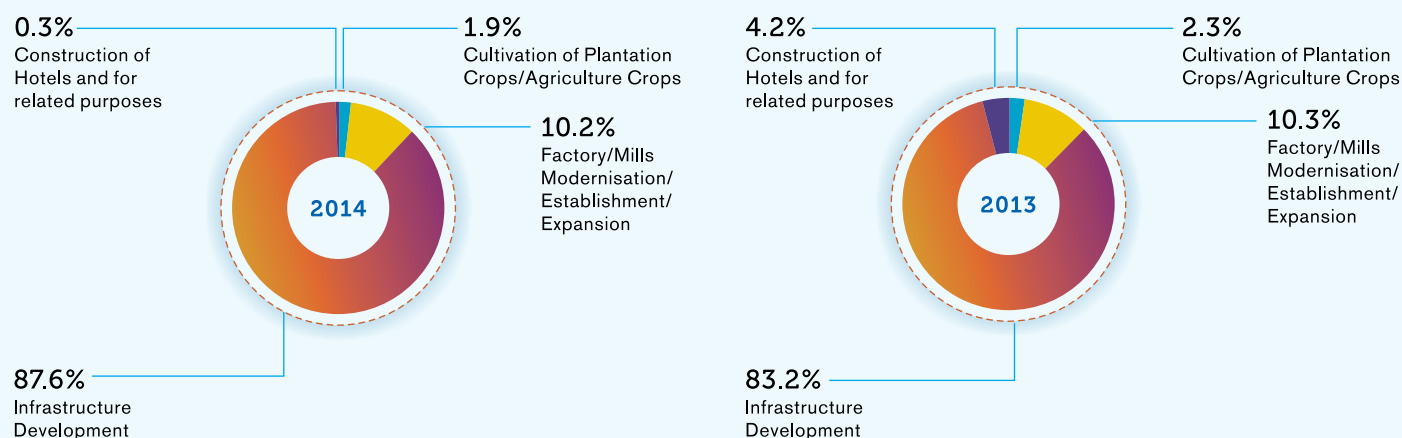
As at December 31,	2014 Rs. '000	2013 Rs. '000
Balance in IFA(*)	5,126,108	4,838,694
Capital outstanding of loans granted from IFA - [ Refer Note 32.4 (a)]	<b>(4,377,318)</b>	(3,396,973)
<b>Amount Invested in Government Securities</b>	<b>748,790</b>	1,441,721

(\*) The requirement to maintain the Investment Fund Account ceased with effect from October 1, 2014 as per the instructions issued by the Central Bank of Sri Lanka.

#### 32.4. (a) Capital Outstanding of Loans Granted from Investment Fund Account

Sector	Interest Rates	Tenure	2014			2013		
			Amount Outstanding (A)	Pending Disbursement (B)	Total (A) + (B)	Amount Outstanding (A)	Pending Disbursement (B)	Total (A) + (B)
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
(a) Cultivation of Plantation crops/ Agriculture crops	6.85 - 11.04	5	58,067	35,115	93,182	65,340	55,115	120,455
(b) Factory/Mills modernisation/ Establishment/Expansion	6.85 - 12.54	5	445,247	51,800	497,047	485,588	49,300	534,888
(c) Infrastructure Development	8.87 - 13.57	14.5	3,861,496	402,017	4,263,614	2,767,945	1,559,669	4,327,614
(d) Construction of Hotels and for related purposes	7.35 - 12.79	7	12,508	-	12,508	78,100	142,583	220,683
<b>Capital Outstanding of the Loans granted</b>			4,377,318	488,932	4,866,351	3,396,973	1,806,667	5,203,640
(e) Interest receivable			177,102	-	177,102	123,438	-	123,438
<b>Carrying amount of the Loans granted</b>			4,554,420	488,932	5,043,453	3,520,411	1,806,667	5,327,078

#### Sectoral Distribution of Loans Under IFA



## Notes to the Financial Statements

As at December 31,	GROUP				BANK			
	2014		2013		2014		2013	
	Amortised Cost	Market Value	Amortised Cost	Market Value	Amortised Cost	Market Value	Amortised Cost	Market Value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>32.5 (a) Debentures</b>								
Urban Development Authority (11% - 2015)	447,296	447,296	447,296	447,296	447,296	447,296	447,296	447,296
People's Leasing & Finance PLC	738,654	738,654	541,589	541,589	738,654	738,654	541,589	541,589
Senkadagala Finance PLC	41,869	41,869	41,869	41,869	41,869	41,869	41,869	41,869
Singer (Sri Lanka) PLC	181,005	181,005	181,005	181,005	181,005	181,005	181,005	181,005
Central Finance PLC	277,872	277,872	273,078	273,078	277,872	277,872	273,078	273,078
Lion Brewery (Ceylon) PLC	815,073	815,073	1,031,658	1,031,658	815,073	815,073	1,031,658	1,031,658
Hayleys PLC	91,575	91,575	91,575	91,575	91,575	91,575	91,575	91,575
Singer Finance (Lanka) PLC	355,756	355,756	355,756	355,756	355,756	355,756	355,756	355,756
Nawaloka Hospitals PLC	237,167	237,167	237,256	237,256	237,167	237,167	237,256	237,256
Hemas Holdings PLC	54,048	54,048	72,319	72,319	54,048	54,048	72,319	72,319
Abans PLC	77,156	77,156	-	-	77,156	77,156	-	-
DFCC Bank	1,857,008	1,857,008	-	-	1,857,008	1,857,008	-	-
Richard Pieris & Company PLC	695,136	695,136	-	-	695,136	695,136	-	-
Softlogic Finance PLC	330,465	330,465	-	-	330,465	330,465	-	-
Lanka ORIX Leasing Company PLC	2,018,740	2,018,740	-	-	2,018,740	2,018,740	-	-
Mercantile Investments & Finance PLC	42,551	42,551	-	-	42,551	42,551	-	-
Orient Finance PLC	197,173	197,173	-	-	197,173	197,173	-	-
<b>Sub total</b>	<b>8,458,544</b>	<b>8,458,544</b>	<b>3,273,401</b>	<b>3,273,401</b>	<b>8,458,544</b>	<b>8,458,544</b>	<b>3,273,401</b>	<b>3,273,401</b>

The above debentures are stated at amortised cost and classified under loans and receivables due to the absence of an active market.

As at December 31,	GROUP				BANK			
	2014		2013		2014		2013	
	Amortised Cost	Market Value	Amortised Cost	Market Value	Amortised Cost	Market Value	Amortised Cost	Market Value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>32.5 (b) Trust Certificates</b>								
People's Leasing Company PLC	644,356	644,356	629,717	629,717	644,356	644,356	629,717	629,717
LB Finance PLC	-	-	297,415	297,415	-	-	297,415	297,415
Softlogic Finance PLC	-	-	101,940	101,940	-	-	101,940	101,940
Assetline Leasing Company Ltd.	374,091	374,091	-	-	374,091	374,091	-	-
Richard Pieris Arpico Finance Ltd.	108,022	108,022	-	-	108,022	108,022	-	-
<b>Sub total</b>	<b>1,126,469</b>	<b>1,126,469</b>	<b>1,029,072</b>	<b>1,029,072</b>	<b>1,126,469</b>	<b>1,126,469</b>	<b>1,029,072</b>	<b>1,029,072</b>

## 32.5 (c) Corporate Bonds in Bangladesh

Prize Bonds	1,040	1,040	1,040	1,040	1,040	1,040	1,040	1,040
Corporate Bonds	-	-	73,501	73,501	-	-	73,501	73,501
<b>Sub total</b>	<b>1,040</b>	<b>1,040</b>	<b>74,541</b>	<b>74,541</b>	<b>1,040</b>	<b>1,040</b>	<b>74,541</b>	<b>74,541</b>

**32.6 Summary of Individually Impaired Loans and Receivables - Bank**

As at December 31,	2014		2013	
	Individually Impaired Loans and Receivables	Individual Impairment	Individually Impaired Loans and Receivables	Individual Impairment
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Loans and Advances</b>				
Overdrafts	1,005,810	836,674	1,011,562	755,677
Trade finance	531,495	393,998	495,877	355,102
Lease/hire purchase receivable	107,219	60,961	135,148	54,317
Credit cards	-	-	-	-
Pawning	6,360	133	-	-
Staff loans	-	-	-	-
Housing loans	24,041	5,632	23,456	4,182
Personal loans	2,368	1,697	2,148	1,476
Term loans	4,871,389	3,035,493	5,134,833	3,033,900
Bills of exchange	-	-	-	-
Securities purchased under resale agreements	-	-	-	-
<b>Total impaired loans and advances</b>	<b>6,548,682</b>	<b>4,334,588</b>	<b>6,803,024</b>	<b>4,204,654</b>
<b>Other Receivables</b>				
Government securities	-	-	-	-
Investments	-	-	-	-
<b>Total impaired other receivables</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total impaired loans and receivables</b>	<b>6,548,682</b>	<b>4,334,588</b>	<b>6,803,024</b>	<b>4,204,654</b>

**33. Financial Investments – Available-for-Sale**

As at December 31,	GROUP		BANK	
	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Government securities	213,381,263	131,565,941	213,364,740	131,565,941
Government securities - Sri Lanka [Refer Note 33.1 (a)]	205,176,556	123,597,457	205,160,033	123,597,457
Government securities - Bangladesh [Refer Note 33.1 (b)]	8,204,707	7,968,484	8,204,707	7,968,484
Equity securities [Refer Notes 33.2 and 33.3]	230,313	190,584	230,189	190,584
Quoted shares - (At mark to market value) [Refer Notes 33.2 (a) & 33.3 (a)]	185,132	145,492	185,132	145,492
Unquoted shares - (At cost) [Refer Notes 33.2 (b) & 33.3 (b)]	45,181	45,092	45,057	45,092
Investment in Unit Trust [Refer Note 33.4]	613,441	-	613,441	-
<b>Total</b>	<b>214,225,017</b>	<b>131,756,525</b>	<b>214,208,370</b>	<b>131,756,525</b>

There were no impairment losses on Financial investments – Available-for-Sale as at December 31, 2014 (2013 - Nil).

The maturity analysis of Financial investments – Available-for-Sale is given in Note 58.

## Notes to the Financial Statements

As at December 31,	GROUP		BANK	
	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>33.1 Government Securities</b>				
<b>33.1 (a) Government Securities – Sri Lanka</b>				
Treasury bills	48,112,556	81,782,640	48,096,033	81,782,640
Treasury bonds	150,113,050	39,902,375	150,113,050	39,902,375
Sri Lanka sovereign bonds	6,950,950	1,912,442	6,950,950	1,912,442
<b>Sub total</b>	<b>205,176,556</b>	<b>123,597,457</b>	<b>205,160,033</b>	<b>123,597,457</b>

<b>33.1 (b) Government Securities – Bangladesh</b>				
Treasury bills	736,146	–	736,146	–
Treasury bonds	7,468,561	7,968,484	7,468,561	7,968,484
<b>Sub total</b>	<b>8,204,707</b>	<b>7,968,484</b>	<b>8,204,707</b>	<b>7,968,484</b>

**33.2 (a) Equity Securities – As at December 31, 2014**

Sector/Type of Securities	GROUP				BANK			
	No. of Shares	Market Price	Market Value	Cost of Investment	No. of Shares	Market Price	Market Value	Cost of Investment
		Rs.	Rs. '000	Rs. '000		Rs.	Rs. '000	Rs. '000
Quoted Shares:								
<b>Bank, Finance and Insurance</b>								
DFCC Bank PLC	3,496	219.00	766	155	3,496	219.00	766	155
Hatton National Bank PLC	11,760	194.90	2,292	315	11,760	194.90	2,292	315
Nations Trust Bank PLC	1,333	97.00	129	22	1,333	97.00	129	22
National Development Bank PLC	5,424	250.00	1,356	215	5,424	250.00	1,356	215
Sampath Bank PLC	3,714	236.30	878	72	3,714	236.30	878	72
Seylan Bank PLC	1,015	95.00	96	24	1,015	95.00	96	24
VISA Inc.	4,856	US\$.262.20	168,259	–	4,856	US\$.262.20	168,259	–
<b>Sub total</b>			<b>173,776</b>	<b>803</b>			<b>173,776</b>	<b>803</b>
<b>Manufacturing</b>								
Alumex PLC	714,200	15.90	11,356	9,999	714,200	15.90	11,356	9,999
<b>Sub total</b>			<b>11,356</b>	<b>9,999</b>			<b>11,356</b>	<b>9,999</b>
<b>Total</b>			<b>185,132</b>	<b>10,802</b>			<b>185,132</b>	<b>10,802</b>

**33.2 (b) Equity Securities - As at December 31, 2014**

	GROUP				BANK			
	No. of Shares	Market Price	Market Value	Cost of Investment	No. of Shares	Market Price	Market Value	Cost of Investment
		Rs.	Rs. '000	Rs. '000		Rs.	Rs. '000	Rs. '000
<b>Sector/Type of Securities</b>								
Unquoted Shares:								
<b>Bank, Finance and Insurance</b>								
Central Depository of Bangladesh Ltd.	3,427,083	BDT 2.75	15,863	15,863	3,427,083	BDT 2.75	15,863	15,863
Credit Information Bureau of Sri Lanka	5,637	100.00	564	564	4,400	100.00	440	440
Fitch Ratings Lanka Ltd.	62,500	10.00	625	625	62,500	10.00	625	625
Lanka Clear (Pvt) Ltd.	1,000,000	10.00	10,000	10,000	1,000,000	10.00	10,000	10,000
Lanka Financial Service Bureau Ltd.	225,000	10.00	2,250	2,250	225,000	10.00	2,250	2,250
RAM Ratings ( Lanka ) Ltd.	689,590	12.50	8,620	8,620	689,590	12.50	8,620	8,620
Society for Worldwide Interbank Financial Telecommunication (SWIFT)	47	154,446.00	7,259	7,259	47	154,446.00	7,259	7,259
<b>Total</b>			<b>45,181</b>	<b>45,181</b>			<b>45,057</b>	<b>45,057</b>

**33.2 (c) Sector/Industry Composition of the Equity Securities – As at December 31, 2014**

	GROUP		BANK	
	Market Value	Cost of Investment	Market Value	Cost of Investment
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Sector/Industry</b>				
Bank, Finance and Insurance	218,957	45,984	218,833	45,860
Manufacturing	11,356	9,999	11,356	9,999
<b>Total</b>	<b>230,313</b>	<b>55,983</b>	<b>230,189</b>	<b>55,859</b>

**33.3 (a) Equity Securities – As at December 31, 2013**

	GROUP				BANK			
	No. of Shares	Market Price	Market Value	Cost of Investment	No. of Shares	Market Price	Market Value	Cost of Investment
		Rs.	Rs. '000	Rs. '000		Rs.	Rs. '000	Rs. '000
<b>Sector/Type of Securities</b>								
Quoted Shares								
<b>Bank, Finance and Insurance</b>								
DFCC Bank PLC	3,496	129.00	451	155	3,496	129.00	451	155
Hatton National Bank PLC	11,760	147.00	1,729	315	11,760	147.00	1,729	315
Nations Trust Bank PLC	1,333	62.20	83	22	1,333	62.20	83	22
National Development Bank PLC	5,424	160.50	871	215	5,424	160.50	871	215
Sampath Bank PLC	3,714	171.90	638	72	3,714	171.90	638	72
Seylan Bank PLC	1,015	64.20	65	24	1,015	64.20	65	24
VISA Inc.	4,856	US\$. 222.68	141,655	–	4,856	222.68	141,655	–
<b>Total</b>			<b>145,492</b>	<b>803</b>			<b>145,492</b>	<b>803</b>

## Notes to the Financial Statements

	GROUP				BANK			
	No. of Shares	Market Price	Market Value	Cost of Investment	No. of Shares	Market Price	Market Value	Cost of Investment
		Rs.	Rs. '000	Rs. '000		Rs.	Rs. '000	Rs. '000

**33.3 (b) Equity Securities – As at December 31, 2013**

## Sector/Type of Securities

Unquoted Shares:

**Bank, Finance and Insurance**

Central Depository of Bangladesh Ltd.	3,427,083	Taka 2.75	15,898	15,898	3,427,083	Taka 2.75	15,898	15,898
Credit Information Bureau of Sri Lanka	4,400	100.00	440	440	4,400	100.00	440	440
Fitch Ratings Lanka Ltd.	62,500	10.00	625	625	62,500	10.00	625	625
Lanka Clear (Pvt) Ltd.	1,000,000	10.00	10,000	10,000	1,000,000	10.00	10,000	10,000
Lanka Financial Service Bureau Ltd.	225,000	10.00	2,250	2,250	225,000	10.00	2,250	2,250
RAM Ratings (Lanka) Ltd.	689,590	12.50	8,620	8,620	689,590	12.50	8,620	8,620
Society for Worldwide Interbank Financial Telecommunication (SWIFT)	47	154,446.00	7,259	7,259	47	154,446.00	7,259	7,259
<b>Total</b>			45,092	45,092			45,092	45,092

**33.3 (c) Sector/Industry composition of the Equity Securities – As at December 31, 2013**

	GROUP		BANK	
	Market Value	Cost of Investment	Market Value	Cost of Investment
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Sector/Industry				
Bank Finance and Insurance	190,584	45,895	190,584	45,895
<b>Total</b>	190,584	45,895	190,584	45,895

**33.4 Investment in Unit Trust – As at December 31, 2014**

	GROUP		BANK	
	Market Value	Cost of Investment	Market Value	Cost of Investment
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Sector/Industry				
<b>Bank, Finance and Insurance</b>				
Capital Alliance Investment Ltd.	613,441	613,441	613,441	613,441
<b>Total</b>	613,441	613,441	613,441	613,441

(2013 - Nil)



### 34. Investments in Subsidiaries

As at December 31,	Holding	GROUP				BANK			
		2014		2013		2014		2013	
		Cost	Market Value/ Directors' Valuation	Cost	Market Value/ Directors' Valuation	Cost	Market Value/ Directors' Valuation	Cost	Market Value/ Directors' Valuation
%	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
<b>Local Subsidiaries:</b>									
<b>Quoted:</b>									
Commercial Development Company PLC	94.55	-	-	-	-	274,393	1,145,916	274,393	752,220
(11,345,705 Ordinary Shares)						(@ Rs. 101.00)		(@ Rs. 66.30)	
(11,345,705 Ordinary Shares as at December 31, 2013)									
<b>Unquoted:</b>									
ONEzero Company Ltd.	100	-	-	-	-	5,000	5,000	5,000	5,000
(500,001 Ordinary Shares)						(@ Rs. 10.00)		(@ Rs. 10.00)	
(500,001 Ordinary Shares as at December 31, 2013)									
Indra Finance Ltd.	100	-	-	-	-	916,046	916,046	-	-
(21,600,000 Ordinary Shares)									
(2013 - Nil)									
<b>Foreign Subsidiary:</b>									
<b>Unquoted:</b>									
Commex - Sri Lanka S.R.L. (Incorporated in Italy) (*)	100	-	-	-	-	129,928	15,561	95,133	9,553
<b>Gross Total</b>		-	-	-	-	<b>1,325,367</b>	<b>2,082,523</b>	374,526	766,773
Less: Provision for impairment [Refer Note 34.1]		-	-	-	-	(114,367)	-	(85,580)	-
<b>Net Total</b>		-	-	-	-	<b>1,211,000</b>	<b>2,082,523</b>	288,946	766,773

(\*) The Bank is yet to commence intended commercial operations in Italy and as such, made provisions for the expenses incurred on account of Italy operations before finalising the Bank's Financial Statements. All arrangements have been made to submit the new application to 'Bank of Italy' to obtain Money Transfer License and it is expected to commence commercial operations during 2015.

As set out above, the Bank does not have any subsidiaries with material non-controlling interest. Accordingly, no additional disclosures have been made as required by the SLFRS 12 on 'Disclosure of Interest in Other Entities'.

#### 34.1 Movement in Provision for Impairment o/a Subsidiaries during the Year

	GROUP		BANK	
	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 01,	-	-	85,580	71,396
Charge/(Write back) to the Income Statement [Refer Note 17]	-	-	28,787	14,184
Balance as at December 31,	-	-	114,367	85,580

#### 34.2 Acquisition of Subsidiary

As per the Financial Sector Consolidation Road Map of the Central Bank of Sri Lanka, on September 01, 2014, the Bank acquired 100% ownership of Indra Finance Ltd., a Licensed Finance Company registered with the Central Bank of Sri Lanka for a total purchase consideration of Rs. 916.046 Mn. The Bank obtained all relevant regulatory approvals prior to acquisition of this Company.

## Notes to the Financial Statements

## 34.2.1 Consideration Transferred

Total purchase consideration stated above was satisfied in the form of cash.

## 34.2.2 Identifiable Assets Acquired and Liabilities Assumed

The recognised amounts of assets acquired and liabilities assumed of Indra Finance Ltd. as at the date of acquisition were as follows:

	Fair Value Recognised on Acquisition Rs. '000
<b>Assets</b>	
Cash and cash equivalents	24,576
Government Securities	17,618
Financial investments – Available-for-sale	124
Property, plant & equipment and intangible assets (net) [Refer Notes 36.1 and 37.1]	207,504
Loans and receivables to other customers	1,652,134
Other assets	24,355
<b>Sub Total</b>	<b>1,926,311</b>
<b>Liabilities</b>	
Due to banks	(1,038,736)
Current tax liabilities [Refer Note 44]	(7,200)
Subordinated liabilities [Refer Note 49]	(215,000)
Provision for gratuity payable [Refer Note 47.1 (b)]	(1,977)
Deferred tax liabilities [Refer Note 45.1]	(47,292)
Other liabilities	(100,105)
<b>Sub Total</b>	<b>(1,410,310)</b>
<b>Fair value of identifiable net assets at the date of acquisition</b>	<b>516,001</b>

Fair value of the land and buildings acquired was obtained using the valuations carried out by an independent professional valuer.

## 34.2.3 Goodwill

Goodwill arising from the acquisition has been recognised as the excess of the consideration transferred over the net identifiable assets acquired and liabilities assumed.

	Rs. '000
Consideration transferred [Refer Note 34.2]	916,046
Fair value of identifiable net assets at the date of acquisition [Refer Note 34.2.2]	(516,001)
<b>Goodwill [Refer Note 37]</b>	<b>400,045</b>

## 34.2.4 Cost of acquisition of the subsidiary, net of cash acquired

	GROUP Rs. '000	BANK Rs. '000
Purchase consideration transferred [Refer Note 34.2]	916,046	916,046
Cash and cash equivalents acquired on business combination [Refer Note 34.2.2]	(24,576)	–
<b>Cost of acquisition of the subsidiary, net of cash acquired</b>	<b>891,470</b>	<b>916,046</b>

## 35. Investments in Associates

As at December 31,	Holding	GROUP				BANK			
		2014		2013		2014		2013	
		Cost	Market Value/ Directors' Valuation	Cost	Market Value/ Directors' Valuation	Cost	Market Value/ Directors' Valuation	Cost	Market Value/ Directors' Valuation
%	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
<b>Unquoted:</b>									
Equity Investments Lanka Ltd. (4,110,938 Ordinary Shares) (4,110,938 Ordinary Shares as at December 31, 2013)	22.92	44,331	72,134	44,331	60,411	44,331	72,134	44,331	60,411
Add: Share of profit applicable to the Bank:									
Balance as at January 01,		16,080		18,380					
Current year's share of profit/(loss) after tax		5,108		1,911					
Other comprehensive income, net of tax		6,615		(2,132)					
Less: Dividend received during the year		-		(2,079)					
Current year's retained profit		11,723		(2,300)					
Balance as at December 31,		27,803		16,080					
<b>Total</b>		<b>72,134</b>	<b>72,134</b>	<b>60,411</b>	<b>60,411</b>	<b>44,331</b>	<b>72,134</b>	<b>44,331</b>	<b>60,411</b>
Commercial Insurance Brokers (Pvt) Ltd. (120,000 Ordinary Shares) (120,000 Ordinary Shares as at December 31, 2013)	18.91	100	34,153	100	33,762	-	-	-	-
Add: Share of profit applicable to the Bank:									
Balance as at January 01,		33,662		30,901					
Current year's share of profit after tax		1,455		3,374					
Other comprehensive income, net of tax		(213)		-					
Less: Dividend received during the year		(851)		(613)					
Current year's retained profit		391		2,761					
Balance as at December 31,		34,053		33,662					
<b>Total</b>		<b>34,153</b>	<b>34,153</b>	<b>33,762</b>	<b>33,762</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Total value of Investments in unquoted associates at carrying value on equity basis		106,287		94,173		44,331		44,331	
Less: provision for impairment		-		-		-		-	
<b>Net Total</b>		<b>106,287</b>		<b>94,173</b>		<b>44,331</b>		<b>44,331</b>	
<b>Total Market Value/ Directors' Valuation of Investments in Associates</b>			<b>106,287</b>		<b>94,173</b>		<b>72,134</b>		<b>60,411</b>

The Group recognises the share of net assets of the associates under the Equity Method to arrive at the Directors' valuation.

The maturity analysis of Investments in Associates is given in Note 58.

## Notes to the Financial Statements

## 36. Property, Plant &amp; Equipment

## 36.1 Group – 2014

	Freehold Land	Freehold Buildings	Leasehold Buildings	Computer Equipment	Motor Vehicles	Office Equipment - Furniture & Fixtures	Capital Work-in-Progress	Total 2014	Total 2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Cost/Valuation</b>									
Balance as at January 01,	3,554,398	2,230,019	838,626	3,388,112	331,862	3,854,867	251,163	14,449,047	13,749,615
Property, Plant & Equipment acquired on business combination	86,000	91,000	-	9,473	12,341	17,354	-	216,168	-
Additions during the year	52,399	3,558	-	273,961	81,407	503,955	205,302	1,120,582	959,019
Transfer of accumulated depreciation on assets revalued	-	(206,238)	(37,634)	-	-	-	-	(243,872)	-
Surplus on revaluation of property	1,190,476	431,013	191,268	-	-	-	-	1,812,757	-
Disposals during the year	-	-	(134)	(147,082)	(97,746)	(246,935)	-	(491,897)	(281,871)
Exchange rate variance	-	-	-	(254)	(102)	(3,217)	-	(3,573)	24,210
Transfers/adjustments	-	-	-	(5,491)	-	5,491	(48,260)	(48,260)	(1,926)
<b>Balance as at December 31,</b>	<b>4,883,273</b>	<b>2,549,352</b>	<b>992,126</b>	<b>3,518,719</b>	<b>327,762</b>	<b>4,131,515</b>	<b>408,205</b>	<b>16,810,952</b>	<b>14,449,047</b>
<b>Accumulated Depreciation and Impairment Losses</b>									
Balance as at January 01,	-	136,854	49,119	2,558,152	236,022	2,293,675	-	5,273,822	4,802,734
Accumulated depreciation assumed on business combination	-	-	-	4,725	6,728	5,615	-	17,068	-
Charge for the year [Refer Note 19]	-	69,992	22,884	306,632	41,090	646,577	-	1,087,175	717,583
Impairment loss	-	-	-	-	-	-	-	-	-
Transfer of accumulated depreciation on assets revalued	-	(206,238)	(37,634)	-	-	-	-	(243,872)	-
Disposals during the year	-	-	-	(144,656)	(78,560)	(233,146)	-	(456,362)	(261,555)
Exchange rate variance	-	-	-	(207)	(87)	(1,446)	-	(1,740)	15,119
Transfers/adjustments	-	-	-	(5,359)	-	5,359	-	-	(59)
<b>Balance as at December 31,</b>	<b>-</b>	<b>608</b>	<b>34,369</b>	<b>2,719,287</b>	<b>205,193</b>	<b>2,716,634</b>	<b>-</b>	<b>5,676,091</b>	<b>5,273,822</b>
<b>Net book value as at December 31, 2014</b>	<b>4,883,273</b>	<b>2,548,744</b>	<b>957,757</b>	<b>799,432</b>	<b>122,569</b>	<b>1,414,881</b>	<b>408,205</b>	<b>11,134,861</b>	
Net book value as at December 31, 2013	3,554,398	2,093,165	789,507	829,960	95,840	1,561,192	251,163		9,175,225

## 36.2 Group – 2013

	Freehold Land	Freehold Buildings	Leasehold Buildings	Computer Equipment	Motor Vehicles	Office Equipment - Furniture & Fixtures	Capital Work-in-Progress	Total 2013	Total 2012
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Cost/Valuation</b>									
Balance as at January 01,	3,502,740	2,209,630	838,626	3,170,031	367,490	3,542,095	119,003	13,749,615	12,719,314
Additions during the year	51,658	20,389	-	348,577	20,858	384,674	132,863	959,019	1,260,079
Surplus on revaluation of property	-	-	-	-	-	-	-	-	192,237
Disposals during the year	-	-	-	(137,017)	(58,843)	(86,011)	-	(281,871)	(396,409)
Exchange rate variance	-	-	-	6,580	2,357	13,874	1,399	24,210	58,524
Transfers/adjustments	-	-	-	(59)	-	235	(2,102)	(1,926)	(84,130)
<b>Balance as at December 31,</b>	<b>3,554,398</b>	<b>2,230,019</b>	<b>838,626</b>	<b>3,388,112</b>	<b>331,862</b>	<b>3,854,867</b>	<b>251,163</b>	<b>14,449,047</b>	<b>13,749,615</b>
<b>Accumulated Depreciation and Impairment Losses</b>									
Balance as at January 01,	-	67,722	146,515	2,351,033	236,328	2,001,136	-	4,802,734	4,216,103
Charge for the year [Refer Note 19]	-	69,132	(97,396)	337,730	48,169	359,948	-	717,583	942,765
Impairment loss	-	-	-	-	-	-	-	-	-
Disposals during the year	-	-	-	(136,262)	(50,221)	(75,072)	-	(261,555)	(336,079)
Exchange rate variance	-	-	-	5,710	1,746	7,663	-	15,119	31,849
Transfers/adjustments	-	-	-	(59)	-	-	-	(59)	(51,904)
Balance as at December 31,	-	136,854	49,119	2,558,152	236,022	2,293,675	-	5,273,822	4,802,734
<b>Net book value as at December 31, 2013</b>	<b>3,554,398</b>	<b>2,093,165</b>	<b>789,507</b>	<b>829,960</b>	<b>95,840</b>	<b>1,561,192</b>	<b>251,163</b>	<b>9,175,225</b>	
Net book value as at December 31, 2012	3,502,740	2,141,908	692,111	818,998	131,162	1,540,959	119,003		8,946,881

There were no capitalised borrowing cost related to the acquisition of property, plant & equipment during the year 2014 (2013 - Nil).

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/amortisation is as follows:

As at December 31,	2014			2013		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Class of Asset</b>						
Freehold land	711,720	-	711,720	608,588	-	608,588
Freehold buildings	1,080,035	298,287	781,748	1,027,212	269,653	757,559
Leasehold buildings	259,625	144,490	115,135	259,759	136,567	123,192
<b>Total</b>	<b>2,051,380</b>	<b>442,777</b>	<b>1,608,603</b>	<b>1,895,559</b>	<b>406,220</b>	<b>1,489,339</b>

## Notes to the Financial Statements

## 36.3 Bank – 2014

	Freehold Land	Freehold Buildings	Leasehold Buildings	Computer Equipment	Motor Vehicles	Office Equipment - Furniture & Fixtures	Capital Work-in- Progress	Total 2014	Total 2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Cost/Valuation</b>									
Balance as at January 01,	3,554,398	2,230,019	104,625	3,383,183	146,484	3,851,453	229,365	13,499,527	12,747,986
Additions during the year	52,399	3,558	–	273,109	637	485,307	205,302	1,020,312	958,204
Transfer of accumulated depreciation on assets revalued	–	(206,238)	–	–	–	–	–	(206,238)	–
Surplus on revaluation of property	1,190,476	431,013	–	–	–	–	–	1,621,489	–
Disposals during the year	–	–	–	(146,255)	(17,972)	(246,316)	–	(410,543)	(227,463)
Exchange rate variance	–	–	–	(254)	(102)	(648)	–	(1,004)	22,726
Transfers/adjustments	–	–	–	(5,491)	–	5,491	(30,448)	(30,448)	(1,926)
Balance as at December 31,	4,797,273	2,458,352	104,625	3,504,292	129,047	4,095,287	404,219	15,493,095	13,499,527
<b>Accumulated Depreciation and Impairment Losses</b>									
Balance as at January 01,	–	136,854	30,769	2,555,449	97,087	2,292,024	–	5,112,183	4,526,868
Charge for the year [Refer Note 19]	–	69,384	3,599	305,358	17,945	630,444	–	1,026,730	786,024
Impairment loss	–	–	–	–	–	–	–	–	–
Transfer of accumulated depreciation on assets revalued	–	(206,238)	–	–	–	–	–	(206,238)	–
Disposals during the year	–	–	–	(143,926)	(15,484)	(232,568)	–	(391,978)	(215,769)
Exchange rate variance	–	–	–	(207)	(87)	(399)	–	(693)	15,119
Transfers/adjustments	–	–	–	(5,359)	–	5,359	–	–	(59)
Balance as at December 31,	–	–	34,368	2,711,315	99,461	2,694,860	–	5,540,004	5,112,183
<b>Net book value as at December 31, 2014</b>									
	4,797,273	2,458,352	70,257	792,977	29,586	1,400,427	404,219	9,953,091	
<b>Net book value as at December 31, 2013</b>									
	3,554,398	2,093,165	73,856	827,734	49,397	1,559,429	229,365		8,387,344

## 36.4 Bank – 2013

	Freehold Land	Freehold Buildings	Leasehold Buildings	Computer Equipment	Motor Vehicles	Office Equipment - Furniture & Fixtures	Capital Work-in-Progress	Total 31.12.2013	Total 31.12.2012
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Cost/Valuation</b>									
Balance as at January 01,	3,502,740	2,209,630	104,625	3,165,537	127,704	3,539,146	98,604	12,747,986	11,793,172
Additions during the year	51,658	20,389	–	348,142	20,858	384,294	132,863	958,204	1,197,639
Disposals during the year	–	–	–	(137,017)	(4,435)	(86,011)	–	(227,463)	(266,664)
Exchange rate variance	–	–	–	6,580	2,357	13,789	–	22,726	55,788
Transfers/adjustments	–	–	–	(59)	–	235	(2,102)	(1,926)	(31,949)
<b>Balance as at December 31,</b>	<b>3,554,398</b>	<b>2,230,019</b>	<b>104,625</b>	<b>3,383,183</b>	<b>146,484</b>	<b>3,851,453</b>	<b>229,365</b>	<b>13,499,527</b>	<b>12,747,986</b>
<b>Accumulated Depreciation and Impairment Losses</b>									
Balance as at January 01,	–	67,722	27,170	2,348,915	83,297	1,999,764	–	4,526,868	3,886,142
Charge for the year [Refer Note 19]	–	69,132	3,599	337,145	16,479	359,669	–	786,024	859,675
Impairment loss	–	–	–	–	–	–	–	–	–
Disposals during the year	–	–	–	(136,262)	(4,435)	(75,072)	–	(215,769)	(251,075)
Exchange rate variance	–	–	–	5,710	1,746	7,663	–	15,119	31,849
Transfers/adjustments	–	–	–	(59)	–	–	–	(59)	277
<b>Balance as at December 31,</b>	<b>–</b>	<b>136,854</b>	<b>30,769</b>	<b>2,555,449</b>	<b>97,087</b>	<b>2,292,024</b>	<b>–</b>	<b>5,112,183</b>	<b>4,526,868</b>
Net book value as at December 31, 2013	3,554,398	2,093,165	73,856	827,734	49,397	1,559,429	229,365	8,387,344	
Net book value as at December 31, 2012	3,502,740	2,141,908	77,455	816,622	44,407	1,539,382	98,604		8,221,118

There were no capitalised borrowing costs related to the acquisition of property, plant & equipment during the year 2014 (2013 - Nil).

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/amortisation is as follows:

As at December 31,	2014			2013		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Class of Asset</b>						
Freehold land	660,987	–	660,987	608,588	–	608,588
Freehold buildings	1,030,770	295,422	735,348	1,027,212	269,653	757,559
Leasehold buildings	102,726	41,005	61,721	102,726	38,437	64,289
<b>Total</b>	<b>1,794,483</b>	<b>336,427</b>	<b>1,458,056</b>	<b>1,738,526</b>	<b>308,090</b>	<b>1,430,436</b>

The maturity analysis of Property, Plant & Equipment is given in Note 58.

## Notes to the Financial Statements

**36.5 (a) Information on Freehold Land and Buildings of the Bank - Extents and Locations**

[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 Land Rs. '000	Revalued Amounts Buildings Rs. '000	Net Book Value/ Revalued Rs. '000	Net Book Value before Revaluation Rs. '000
<b>CEO's Bungalow</b> - No. 27, Queens Road, Colombo 3	64	5,616	544,850	15,150	560,000	421,459
<b>Holiday Bungalow</b> - Bandarawela Ambatenne Estate, Bandarawela	423	5,649	56,700	11,400	68,100	61,436
<b>Holiday Bungalow</b> - Haputale No. 23, Lily Avenue, Welimada Road, Haputale	258	5,662	30,900	15,300	46,200	38,713
<b>Branch Buildings</b>						
<b>Battaramulla</b> - No. 213, Kaduwela Road, Battaramulla	14	11,216	52,500	87,375	139,875	79,866
<b>Battaramulla</b> - No. 213, Kaduwela Road, Battaramulla	13	Bare Land	50,000	–	50,000	52,399
<b>Borella</b> - No. 92, D.S. Senanayake Mawatha, Borella, Colombo 8	16	16,880	156,300	198,700	355,000	126,331
<b>Chilaw</b> - No. 44, Colombo Road, Chilaw	35	9,420	63,522	38,000	101,522	126,541
<b>Galewela</b> - No. 49/57, Matale Road, Galewela	99	18,472	22,275	15,225	37,500	32,012
<b>Galle City</b> - No. 130, Main Street, Galle	7	3,675	40,500	8,269	48,769	40,277
<b>Galle Fort</b> - No. 22, Church Street, Fort, Galle	100	11,625	210,000	40,000	250,000	146,256
<b>Gampaha</b> - No. 51, Queen Mary's Road, Gampaha	33	4,685	57,575	10,541	68,116	61,463
<b>Hikkaduwa</b> - No. 217, Galle Road, Hikkaduwa	37	6,713	26,370	24,608	50,978	37,518
<b>Ja-Ela</b> - No. 140, Negombo Road, Ja-Ela	13	7,468	29,000	21,000	50,000	38,741
<b>Jaffna</b> - No. 474, Hospital Road, Jaffna	77	5,146	581,000	19,000	600,000	283,456
<b>Kandy</b> - No. 120, Kotugodella Veediya, Kandy	45	44,500	354,000	231,000	585,000	549,953
<b>Kegalle</b> - No. 186, Main Street, Kegalle	85	2,650	128,000	7,000	135,000	121,300
<b>Keyzer Street</b> - No. 32, Keyzer Street, Colombo 11	7	6,100	56,000	26,000	82,000	68,128
<b>Kollupitiya</b> - No. 285, Galle Road, Colombo 3	17	16,254	115,000	65,000	180,000	158,283
<b>Kotahena</b> - No. 198, George R. De Silva Mawatha, Kotahena, Colombo 13	28	26,722	140,000	207,400	347,400	314,958
<b>Kurunegala</b> - No. 4, Suratissa Mawatha, Kurunegala	50	9,821	199,325	34,675	234,000	218,636
<b>Maharagama</b> - No. 154, High Level Road, Maharagama	18	8,440	53,250	31,750	85,000	101,015
<b>Matale</b> - No. 70, King Street, Matale	51	8,596	75,000	60,000	135,000	117,358
<b>Matara</b> - No. 18, Station Road, Matara	37	8,137	50,695	25,291	75,986	50,470
<b>Minuwangoda</b> - No. 42, Siriwardena Mawatha, Minuwangoda	25	5,550	31,250	17,690	48,940	71,655
<b>Mutwal</b> - No. 160, St. James Street, Colombo 15	17	Bare Land	34,000	–	34,000	22,300
<b>Narahenpita</b> - No. 201, Kirula Road, Narahenpita, Colombo 5	22	11,193	132,300	87,700	220,000	162,939
<b>Narammala</b> - No. 55, Negombo Road, Narammala	42	5,353	53,391	16,609	70,000	58,843
<b>Negombo</b> - No. 24, 26, Fernando Avenue, Negombo	37	11,360	73,000	31,000	104,000	73,940
<b>Nugegoda</b> - No. 100, Stanley Thilakarathne Mawatha, Nugegoda	39	11,150	156,000	41,000	197,000	234,221
<b>Nuwara Eliya</b> - No. 36, Buddhajayanthi Mawatha, Nuwara-Eliya	42	10,184	82,000	71,000	153,000	135,834
<b>Panadura</b> - No. 375, Galle Road, Panadura	12	6,168	30,750	40,090	70,840	35,236
<b>Pettah</b> - People's Park Shopping Complex, Colombo 11	–	3,147	–	58,000	58,000	45,723
<b>Pettah - Stores</b> - People's Park Shopping Complex, Colombo 11	–	225	–	4,800	4,800	3,521
<b>Pettah - Main Street</b> - No. 280, Main Street, Pettah, Colombo 11	20	22,760	280,000	69,299	349,299	238,670
<b>Trincomalee</b> - No. 474, Power House Road, Trincomalee	100	Bare Land	90,300	–	90,300	75,000
<b>Union Place</b> - No. 1, Union Place, Colombo 2	30	63,385	450,000	750,000	1,200,000	936,148
<b>Wellawatte</b> - No. 343, Galle Road, Colombo 6	45	15,050	249,520	50,480	300,000	235,222
<b>Wennappuwa</b> - No. 262, 264, Colombo Road, Wennappuwa	36	9,226	42,000	28,000	70,000	58,315
<b>Total</b>			<b>4,797,273</b>	<b>2,458,352</b>	<b>7,255,625</b>	<b>5,634,136</b>



**36.5 (b) Information on Valuations of 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 and the SLFRS 13 on 'Fair Value Measurement']

Date of Valuation: December 31, 2014

Name of Professional Valuer/Location and Address	Method of Valuation and Significant Unobservable Inputs	Range of Estimates for Unobservable Inputs	Net Book Value before Revaluation of		Revalued Amount of		Revaluation Gain/(Loss) Recognised on	
			Land	Buildings	Land	Buildings	Land	Buildings
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Mr. H.M.N. Herath</b>								
<b>Chilaw</b> No. 44, Colombo Road, Chilaw	Market comparable method		61,750	64,791	63,522	38,000	1,772	(26,791)
	• Price per perch for land	Rs. 1,800,000 p.p.						
	• Price per square foot for building	Rs. 4,250 p.sq.ft.						
	• Depreciation rate	5%						
<b>Gampaha</b> No. 51, Queen Mary's Road Gampaha	Market comparable method		51,658	9,805	57,575	10,541	5,917	736
	• Price per perch for land	Rs. 1,750,000 p.p.						
	• Price per square foot for building	Rs. 3,750 p.sq.ft.						
	• Depreciation rate	40%						
<b>Minuwangoda</b> No. 42, Siriwardena Mw., Minuwangoda	Market comparable method		37,500	34,155	31,250	17,690	(6,250)	(16,465)
	• Price per perch for land	Rs. 1,250,000 p.p.						
	• Price per square foot for building	Rs. 4,250 p.sq.ft.						
	• Depreciation rate	25%						
<b>Mr. K.C.B. Condegama</b>								
<b>Maharagama</b> No. 154, Highlevel Road, Maharagama	Market comparable method		62,125	38,890	53,250	31,750	(8,875)	(7,140)
	• Price per perch for land	Rs. 3,000,000 p.p.						
	• Price per square foot for building	Rs. 3,750 p.sq.ft.						
<b>Nugegoda</b> No. 100, Stanley Thilakaratne Mw., Nugegoda	Market comparable method		195,000	39,221	156,000	41,000	(39,000)	1,779
	• Price per perch for land	Rs. 4,000,000 p.p.						
	• Price per square foot for building	Rs. 3,800 p.sq.ft.						
<b>Wellawatte</b> No. 343, Galle Road, Colombo 6	Market comparable method		204,100	31,122	249,520	50,480	45,420	19,358
	• Price per perch for land	Rs. 5,000,000 to Rs. 6,000,000 p.p.						
	• Price per square foot for building	Rs. 3,800 p.sq.ft.						
<b>Mr. P.B. Kalugalagedara</b>								
<b>Keyzer Street</b> No. 32, Keyzer Street, Colombo 11	Market comparable method		45,000	23,128	56,000	26,000	11,000	2,872
	• Price per perch for land	Rs. 7,500,000 p.p.						
	• Price per square foot for building	Rs. 500 to Rs. 6,000 p.sq.ft.						
<b>Kollupitiya</b> No. 285, Galle Road, Colombo 3	Market comparable method		100,000	58,283	115,000	65,000	15,000	6,717
	• Price per perch for land	Rs. 7,500,000 p.p.						
	• Price per square foot for building	Rs. 1,250 to Rs. 5,000 p.sq.ft.						

## Notes to the Financial Statements

Name of Professional Valuer/Location and Address	Method of Valuation and Significant Unobservable Inputs	Range of Estimates for Unobservable Inputs	Net Book Value before Revaluation of		Revalued Amount of		Revaluation Gain/(Loss) Recognised on	
			Land	Buildings	Land	Buildings	Land	Buildings
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Kotahena</b> No. 198, George R. De Silva Mw., Kotahena, Colombo 13	Market comparable method • Price per perch for land • Price per square foot for building	Rs. 5,000,000 p.p. Rs. 1,000 to Rs. 7,750 p.sq.ft.	110,000	204,958	140,000	207,400	30,000	2,442
<b>Mutwal</b> No. 160, St. James Street, Colombo 15	Market comparable method • Price per perch for land	Rs. 2,000,000 p.p.	22,300	–	34,000	–	11,700	–
<b>Mr. R.S. Wijesuriya</b>								
<b>Battaramulla</b> No. 213, Kaduwela Road, Battaramulla	Market comparable method • Price per perch for land • Price per square foot for building	Rs. 3,750,000 p.p. Rs. 7,500 p.sq.ft.	24,518	55,348	52,500	87,375	27,982	32,027
<b>Battaramulla</b> No. 213, Kaduwela Road, Battaramulla	Market comparable method • Price per perch for land	Rs. 3,750,000 p.p.	52,399	–	50,000	–	(2,399)	–
<b>Panadura</b> No. 375, Galle Road, Panadura	Market comparable method • Price per perch for land • Price per square foot for building	Rs. 2,500,000 p.p. Rs. 6,500 p.sq.ft.	18,450	16,787	30,750	40,090	12,300	23,303
<b>Mr. S.A.S. Fernando</b>								
<b>Galle City</b> No. 130, Main Street, Galle	Market comparable method • Price per perch for land • Price per square foot for building	Rs. 6,000,000 p.p. Rs. 2,250 p.sq.ft.	33,750	6,527	40,500	8,269	6,750	1,742
<b>Galle Fort</b> No. 22, Church Street, Fort, Galle	Market comparable method • Price per perch for land • Price per square foot for building	Rs. 2,100,000 p.p. Rs. 3,440 p.sq.ft.	100,000	46,256	210,000	40,000	110,000	(6,256)
<b>Hikkaduwa</b> No. 217, Galle Road, Hikkaduwa	Market comparable method • Price per perch for land • Price per square foot for building	Rs. 500,000 to Rs. 850,000 p.p. Rs. 2,750 to Rs. 3,500 p.sq.ft.	16,740	20,778	26,370	24,608	9,630	3,830
<b>Matara</b> No. 18, Station Road, Matara	Market comparable method • Price per perch for land • Price per square foot for building	Rs. 750,000 to Rs. 1,750,000 p.p. Rs. 2,750 to Rs. 3,500 p.sq.ft.	28,154	22,315	50,695	25,291	22,541	2,976
<b>Trincomalee</b> No. 474, Power House Road, Trincomalee	Market comparable method • Price per perch for land	Rs. 900,000 p.p.	75,000	–	90,300	–	15,300	–

Name of Professional Valuer/Location and Address	Method of Valuation and Significant Unobservable Inputs	Range of Estimates for Unobservable Inputs	Net Book Value before Revaluation of		Revalued Amount of		Revaluation Gain/(Loss) Recognised on	
			Land	Buildings	Land	Buildings	Land	Buildings
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Mr. S.T. Sanmuganathan</b>								
<b>Jaffna</b> No. 474, Hospital Road, Jaffna	Investment method		272,135	11,321	581,000	19,000	308,865	7,679
	• Gross Monthly Rental	Rs. 7,500,000 p.m.						
	• Years purchase (Present value of 1 unit per period)	10						
	• Void period	2 months p.a.						
<b>Mr. Sarath G. Fernando</b>								
<b>Holiday Bungalow - Bandarawela</b> Ambatenne Estate, Bandarawela	Market comparable method		51,400	10,036	56,700	11,400	5,300	1,364
	• Price per perch for land	Rs. 50,000 to Rs. 200,000 p.p.						
	• Price per square foot for building	Rs. 3,750 to Rs. 4,500 p.sq.ft.						
	• Depreciation rate	50%						
<b>Holiday Bungalow - Haputale</b> No. 23, Lily Avenue, Welimada Road, Haputale	Market comparable method		25,700	13,013	30,900	15,300	5,200	2,287
	• Price per perch for land	Rs. 150,000 p.p.						
	• Price per square foot for building	Rs. 3,250 to Rs. 6,500 p.sq.ft.						
	• Depreciation rate	20% to 55%						
<b>Kandy</b> No. 120, Kotugodella Veediya, Kandy	Market comparable method		342,000	207,953	354,000	231,000	12,000	23,047
	• Price per perch for land	Rs. 8,500,000 p.p.						
	• Price per square foot for building	Rs. 5,750 to Rs. 9,500 p.sq.ft.						
	• Depreciation rate	30% & 35%						
<b>Kegalle</b> No.186, Main Street, Kegalle	Market comparable method		115,000	6,300	128,000	7,000	13,000	700
	• Price per perch for land	Rs. 1,000,000 to Rs. 2,500,000 p.p.						
	• Price per square foot for building	Rs. 5,500 p.sq.ft.						
	• Depreciation rate	50%						
<b>Matale</b> No. 70, King Street, Matale	Market comparable method		60,000	57,358	75,000	60,000	15,000	2,642
	• Price per perch for land	Rs. 1,500,000 p.p.						
	• Price per square foot for building	Rs. 8,750 p.sq.ft.						
	• Depreciation rate	20%						
<b>Nuwara-Eliya</b> No. 36/3, Buddha Jayanthi Mawatha, Nuwara-Eliya	Market comparable method		72,000	63,834	82,000	71,000	10,000	7,166
	• Price per perch for land	Rs. 1,000,000 to Rs. 2,000,000 p.p.						
	• Price per square foot for building	Rs. 8,750 p.sq.ft.						
	• Depreciation rate	20%						

## Notes to the Financial Statements

Name of Professional Valuer/Location and Address	Method of Valuation and Significant Unobservable Inputs	Range of Estimates for Unobservable Inputs	Net Book Value before Revaluation of		Revalued Amount of		Revaluation Gain/(Loss) Recognised on	
			Land	Buildings	Land	Buildings	Land	Buildings
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Mr. Siri Nissanka</b>								
<b>Borella</b> No. 92, D.S. Senanayake Mw., Colombo 08.	Market comparable method		70,335	55,996	156,300	198,700	85,965	142,704
	• Price per perch for land	Rs. 10,000,000 p.p.						
	• Price per square foot for building	Rs. 11,000 p.sq.ft.						
<b>CEO's Bungalow</b> No. 27, Queens Road, Colombo 03	Market comparable method		416,650	4,809	544,850	15,150	128,200	10,341
	• Price per perch for land	Rs. 8,500,000 p.p.						
	• Price per square foot for building	Rs. 2,750 p.sq.ft.						
<b>Narahenpita</b> No. 201, Kirula Road, Narahenpita, Colombo 05	Market comparable method		99,225	63,714	132,300	87,700	33,075	23,986
	• Price per perch for land	Rs. 6,000,000 p.p.						
	• Price per square foot for building	Rs. 7,850 p.sq.ft.						
<b>Pettah-Main Street</b> No. 280, Main Street, Pettah, Colombo 11	Market comparable method		169,370	69,299	280,000	69,299	110,630	-
	• Price per perch for land	Rs. 14,000,000 p.p.						
<b>Union Place</b> No. 1, Union Place, Colombo 02	Market comparable method		360,000	576,148	450,000	750,000	90,000	173,852
	• Price per perch for land	Rs. 15,000,000 p.p.						
	• Price per square foot for building	Rs. 12,000 p.sq.ft.						
<b>Mr. W.D.P. Rupananda</b>								
<b>Ja-Ela</b> No. 140, Negombo Road, Ja-Ela	Market comparable method		23,188	15,554	29,000	21,000	5,812	5,446
	• Price per perch for land	Rs. 2,250,000 p.p.						
	• Price per square foot for building	Rs. 3,500 to Rs. 4,500 p.sq.ft.						
	• Depreciation rate	30%						
<b>Negombo</b> No. 24, 26, Fernando Avenue, Negombo	Market comparable method		49,500	24,440	73,000	31,000	23,500	6,560
	• Price per perch for land	Rs. 1,500,000 to Rs. 2,200,000 p.p.						
	• Price per square foot for building	Rs. 3,500 to Rs. 4,250 p.sq.ft.						
	• Depreciation rate	25%						
<b>Pettah</b> People's Park Shopping Complex, Colombo 11	Investment method		-	45,723	-	58,000	-	12,277
	• Gross monthly rental	Rs. 23,200 to Rs. 160,000 p.m.						
	• Years purchase (Present value of 1 unit per period)	18.18						
	• Void period	4 months p.a.						

Name of Professional Valuer/Location and Address	Method of Valuation and Significant Unobservable Inputs	Range of Estimates for Unobservable Inputs	Net Book Value before Revaluation of		Revalued Amount of		Revaluation Gain/(Loss) Recognised on	
			Land	Buildings	Land	Buildings	Land	Buildings
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Pettah</b> People's Park Shopping Complex, Colombo 11	Investment method		-	3,521	-	4,800	-	1,279
	• Gross monthly rental	Rs. 36,000 p.m.						
	• Years purchase (Present value of 1 unit per period)	18.18						
	• Void period	4 months p.a.						
<b>Wennappuwa</b> No. 262, 264, Colombo Road, Wennappuwa	Market comparable method		37,500	20,815	42,000	28,000	4,500	7,185
	• Price per perch for land	Rs. 1,400,000 p.p.						
	• Price per square foot for building	Rs. 3,250 to Rs. 4,500 p.sq.ft.						
	• Depreciation rate	25%						
<b>Mr. W.S. Pematatne</b>								
<b>Galewela</b> No. 49/57, Matale Road, Galewela	Market comparable method		19,800	12,212	22,275	15,225	2,475	3,013
	• Price per perch for land	Rs. 225,000 p.p.						
	• Price per square foot for building	Rs. 2,250 to Rs. 3,500 p.sq.ft.						
	• Depreciation rate	15%						
<b>Kurunegala</b> No. 4, Suratissa Mw., Kurunegala	Market comparable method							
	• Price per perch for land	Rs. 3,500,000 to 4,150,000 p.p.	140,000	78,636	199,325	34,675	59,325	(43,961)
	• Price per square foot for building	Rs. 3,000 to Rs. 4,250 p.sq.ft.						
	• Depreciation rate	10%						
<b>Narammala</b> No. 55, Negombo Road, Narammala	Market comparable method		44,550	14,293	53,391	16,609	8,841	2,316
	• Price per perch for land	Rs. 1,300,000 p.p.						
	• Price per square foot for building	Rs. 3,500 p.sq.ft.						
	• Depreciation rate	5%						
<b>Total</b>			<b>3,606,797</b>	<b>2,027,339</b>	<b>4,797,273</b>	<b>2,458,352</b>	<b>1,190,476</b>	<b>431,013</b>

p.p. - per perch    p.sq.ft. - per square foot    p.m. - per month

## Notes to the Financial Statements

Description of the above valuation techniques together with narrative descriptions on sensitivity of the fair value measurement to changes in significant unobservable inputs are tabulated below:

Valuation Technique	Significant unobservable valuation inputs (ranges of each property are given in the table above)	Sensitivity of the fair value measurement to inputs
<b>Market comparable method</b>		
This method considers the selling price of a similar property within a reasonably recent period of time in determining the fair value of the property being revalued. This involves evaluation of recent active market prices of similar assets, making appropriate adjustments for differences in size, nature, location, condition of specific property. In this process, outlier transactions, indicative of particularly motivated buyers or sellers are too compensated for since the price may not adequately reflect the fair market value.	Price per perch for land	Estimated fair value would increase (decrease) if; Price per perch increases (decreases)
	Price per square foot for building	Price per square feet increases (decreases)
	Depreciation rate for building	Depreciation rate for building (decreases)/increases
<b>Investment method</b>		
This method involves capitalisation of the expected rental income at an appropriate rate of years purchase currently characterised by the real estate market.	Gross Annual Rentals	Estimated fair value would increase (decrease) if; Gross Annual Rentals increases (decreases)
	Years purchase (Present value of 1 unit per period)	Years purchase increases (decreases)
	Void period	Void period (decreases)/increases

### 36.6 Title Restriction on Property, Plant & Equipment

There were no restrictions existed on the title of the Property, Plant & Equipment of the Group/Bank as at the reporting date.

### 36.7 Property, Plant & Equipment Pledged as Security for Liabilities

There were no items of Property, Plant & Equipment pledged as securities for liabilities of the Group/Bank as at the reporting date.

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

The compensation received/receivable from third parties for items of Property, Plant & Equipment that were impaired, lost or given up at the Reporting Date of the Bank are as follows.

As at December 31,	2014 Rs. '000	2013 Rs. '000
Total claims lodged	4,299	1,989
Total claims received	(2,276)	(1,008)
Total claims rejected	(985)	(981)
Total claims receivable	1,038	-

### 36.9 Fully Depreciated Property, Plant & Equipment

The cost of fully-depreciated Property, Plant & Equipment of the Bank which are still in use is as follows:

<i>As at December 31,</i>	2014 Rs. '000	2013 Rs. '000
Computer equipment	1,965,926	1,794,881
Office equipment, furniture and fixtures	1,550,010	1,127,494
Motor vehicles	26,477	38,486

### 36.10 Temporarily Idle Property, Plant & Equipment

Following Property, Plant & Equipment of the Bank were temporarily idle (until the assets issued to business units).

<i>As at December 31,</i>	2014 Rs. '000	2013 Rs. '000
Computer equipment	112,246	70,862
Office equipment, furniture and fixtures	69,729	80,490

### 36.11 Property, Plant & Equipment Retired from Active Use

Following Property, Plant & Equipment of the Bank were retired from active use.

<i>As at December 31,</i>	2014 Rs. '000	2013 Rs. '000
Computer equipment	89,833	32,726
Office equipment, furniture and fixtures	58,413	16,300
Motor vehicles	214	214

### 36.12 Borrowing Costs

There were no capitalised borrowing costs related to the acquisition of Property, Plant & Equipment during the year 2014 (2013 - Nil).

## 37. Intangible Assets

	GROUP		BANK	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
Computer Software [Refer Note 37.1]	397,644	423,233	389,096	422,668
Software under development [Refer Note 37.2]	58,541	54,495	50,032	44,925
Goodwill arising on business combination [Refer Note 34.2.3]	400,045	-	-	-
<b>Total</b>	<b>856,230</b>	<b>477,728</b>	<b>439,128</b>	<b>467,593</b>

## Notes to the Financial Statements

**37.1 Computer Software**

<i>As at December 31,</i>	GROUP		BANK	
	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Cost/Valuation</b>				
Balance as at January 01,	1,479,951	1,262,607	1,479,171	1,262,281
Computer software acquired on business combination	9,800	–	–	–
Additions during the year	139,387	216,162	139,310	215,708
Disposals during the year	–	–	–	–
Exchange rate variance	(52)	1,182	(52)	1,182
Transfers/adjustments	–	–	–	–
<b>Balance as at December 31,</b>	<b>1,629,086</b>	<b>1,479,951</b>	<b>1,618,429</b>	<b>1,479,171</b>
<b>Accumulated amortisation and impairment losses</b>				
Balance as at January 01,	1,056,718	906,586	1,056,503	906,427
Accumulated amortisation assumed on business combination	1,395	–	–	–
Amortisation for the year [Refer Note 19]	173,373	149,347	172,874	149,291
Impairment loss	–	–	–	–
Disposals during the year	–	–	–	–
Exchange rate variance	(44)	785	(44)	785
Transfers/adjustments	–	–	–	–
<b>Balance as at December 31,</b>	<b>1,231,442</b>	<b>1,056,718</b>	<b>1,229,333</b>	<b>1,056,503</b>
<b>Net book value as at December 31,</b>	<b>397,644</b>	<b>423,233</b>	<b>389,096</b>	<b>422,668</b>

**37.2 Software Under Development**

<b>Cost/Valuation</b>				
Balance as at January 01,	54,495	150,140	44,925	141,184
Additions during the year	43,676	77,850	43,676	77,850
Transfers/adjustments during the year	(38,569)	(174,109)	(38,569)	(174,109)
Exchange rate variance	(1,061)	614	–	–
Disposals during the year	–	–	–	–
<b>Balance as at December 31,</b>	<b>58,541</b>	<b>54,495</b>	<b>50,032</b>	<b>44,925</b>

There were no restrictions existed on the title of the intangible assets of the Group/Bank as at the reporting date. Further, there were no items pledged as securities for liabilities. There were no capitalised borrowing costs related to the acquisition of intangible assets during the year 2014 (2013 - Nil).

The maturity analysis of Intangible Assets is given in Note 58.



**38. Leasehold Property**

As at December 31,	GROUP		BANK	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>Cost/Valuation,</b>				
Balance as at January 01,	128,700	128,700	84,840	84,840
Additions during the year	-	-	-	-
<b>Balance as at December 31,</b>	<b>128,700</b>	<b>128,700</b>	<b>84,840</b>	<b>84,840</b>
<b>Accumulated Amortisation</b>				
Balance as at January 01,	18,376	16,924	8,478	7,536
Amortisation for the year [Refer Note 19]	1,452	1,452	942	942
<b>Balance as at December 31,</b>	<b>19,828</b>	<b>18,376</b>	<b>9,420</b>	<b>8,478</b>
<b>Net book value as at December 31,</b>	<b>108,872</b>	<b>110,324</b>	<b>75,420</b>	<b>76,362</b>

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

As at December 31, 2014	GROUP			BANK		
	Cost Rs. '000	Accumulated Amortisation Rs. '000	Net Book Value Rs. '000	Cost Rs. '000	Accumulated Amortisation Rs. '000	Net Book Value Rs. '000
<b>Class of Asset</b>						
Leasehold Land	23,715	6,348	17,367	14,846	3,483	11,363
<b>Total</b>	<b>23,715</b>	<b>6,348</b>	<b>17,367</b>	<b>14,846</b>	<b>3,483</b>	<b>11,363</b>
<b>Class of Asset</b>						
Leasehold Land	23,715	6,109	17,606	14,846	3,333	11,513
<b>Total</b>	<b>23,715</b>	<b>6,109</b>	<b>17,606</b>	<b>14,846</b>	<b>3,333</b>	<b>11,513</b>

The maturity analysis of Leasehold Property is given in Note 58.

**39. Other Assets**

As at December 31,	GROUP		BANK	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
Receivables	19,709	22,335	19,709	22,335
Deposits and prepayments	1,399,469	1,518,412	1,402,587	1,521,526
Clearing account balance	4,078,542	2,999,575	4,078,542	2,999,575
Unamortised cost on staff loans (Day 1 difference)	2,857,759	2,757,193	2,857,759	2,757,103
Other accounts	2,204,951	2,126,733	2,183,220	2,126,191
<b>Total</b>	<b>10,560,430</b>	<b>9,424,248</b>	<b>10,541,817</b>	<b>9,426,730</b>

The maturity analysis of Other Assets is given in Note 58.

Notes to the Financial Statements

40. Due to Banks

As at December 31,	GROUP		BANK	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
Borrowings	23,326,066	7,915,406	22,918,017	7,915,406
Local currency borrowings	407,187	—	—	—
Foreign currency borrowings	22,918,879	7,915,406	22,918,017	7,915,406
Securities sold under repurchase (repo) agreements	2,342,959	6,278,813	2,342,959	6,278,813
<b>Total</b>	<b>25,669,025</b>	<b>14,194,219</b>	<b>25,260,976</b>	<b>14,194,219</b>

The maturity analysis of Due to Banks is given in Note 58.

41. Derivative Financial Liabilities

Foreign currency derivatives

Currency swaps	823,596	—	823,596	—
Forward contracts	368,886	1,406,553	368,886	1,406,553
Spot contracts	657	5,363	657	5,363
<b>Total</b>	<b>1,193,139</b>	<b>1,411,916</b>	<b>1,193,139</b>	<b>1,411,916</b>

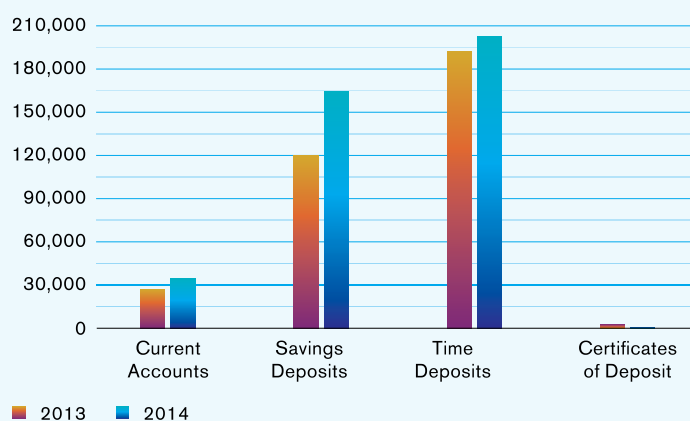
The maturity analysis of Derivative Financial Liabilities is given in Note 58.

42. Due to Other Customers/Deposits from Customers

<b>Local currency deposits</b>	<b>401,872,201</b>	<b>342,766,248</b>	<b>401,967,097</b>	<b>342,820,225</b>
Current account balances	34,311,477	27,775,664	34,317,565	27,775,704
Savings deposits	164,462,225	119,800,612	164,521,655	119,827,302
Time deposits	202,162,715	191,623,969	202,192,093	191,651,216
Certificates of deposit	935,784	3,566,003	935,784	3,566,003
<b>Foreign currency deposits</b>	<b>127,394,387</b>	<b>108,332,698</b>	<b>127,394,387</b>	<b>108,332,698</b>
Current account balances	10,809,389	9,111,749	10,809,389	9,111,749
Savings deposits	46,467,745	39,594,657	46,467,745	39,594,657
Time deposits	70,117,253	59,626,292	70,117,253	59,626,292
Certificates of deposit	—	—	—	—
<b>Total</b>	<b>529,266,588</b>	<b>451,098,946</b>	<b>529,361,484</b>	<b>451,152,923</b>

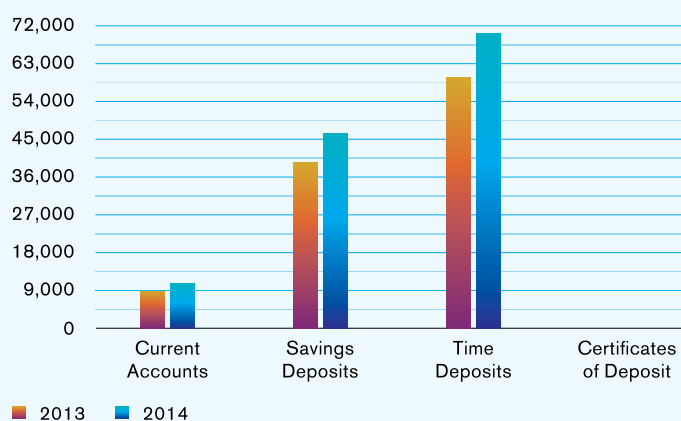
Deposits - Local Currency - Bank

(Rs. Mn.)



Deposits - Foreign Currency - Bank

(Rs. Mn.)



**42.1 Analysis of due to Customers/Deposits from Customers**

As at December 31,	GROUP		BANK	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>(a) By product</b>				
Current account balances	45,120,866	36,887,413	45,126,954	36,887,453
Savings deposits	210,929,970	159,395,269	210,989,400	159,421,959
Time deposits	272,279,968	251,250,261	272,309,346	251,277,508
Certificates of deposit	935,784	3,566,003	935,784	3,566,003
<b>Sub total</b>	<b>529,266,588</b>	<b>451,098,946</b>	<b>529,361,484</b>	<b>451,152,923</b>
<b>(b) By currency</b>				
Sri Lankan Rupee	401,872,201	342,766,248	401,967,097	342,820,225
United States Dollar	78,352,927	59,873,351	78,352,927	59,873,351
Great Britain Pound	7,567,161	7,437,142	7,567,161	7,437,142
Euro	25,425,565	27,698,162	25,425,565	27,698,162
Australian Dollar	7,935,496	5,474,369	7,935,496	5,474,369
Bangladesh Taka	6,800,927	6,556,111	6,800,927	6,556,111
Other currencies	1,312,311	1,293,563	1,312,311	1,293,563
<b>Sub total</b>	<b>529,266,588</b>	<b>451,098,946</b>	<b>529,361,484</b>	<b>451,152,923</b>
<b>(c) By institution/customers</b>				
Deposits from banks	766,916	1,704,408	766,916	1,704,408
Deposits from finance companies	5,406,461	3,736,661	5,406,461	3,736,661
Deposits from other customers	523,093,211	445,657,877	523,188,107	445,711,854
<b>Sub total</b>	<b>529,266,588</b>	<b>451,098,946</b>	<b>529,361,484</b>	<b>451,152,923</b>

The maturity analysis of Deposits from Customers is given in Note 58.

As at December 31,	GROUP		BANK	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>43. Other Borrowings</b>				
Refinance borrowings	4,857,361	6,427,536	4,857,361	6,427,536
Securities sold under repurchase (repo) agreements	124,391,042	39,054,967	124,564,499	39,230,639
Borrowings from International Finance Corporation (IFC)	6,779,222	8,515,000	6,779,222	8,515,000
<b>Total</b>	<b>136,027,625</b>	<b>53,997,503</b>	<b>136,201,082</b>	<b>54,173,175</b>

The maturity analysis of Other Borrowings is given in Note 58.

## Notes to the Financial Statements

## 44. Current Tax Liabilities

As at December 31,	GROUP		BANK	
	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 01,	1,780,867	2,821,975	1,758,574	2,801,541
Tax payable assumed on business combination	7,200	-	-	-
Provision for the year	4,484,017	4,068,507	4,424,113	4,030,734
Reversal of (over)/under provision	10,920	(167,169)	11,041	(169,789)
Self-assessment payments	(3,036,746)	(3,998,722)	(2,988,916)	(3,962,673)
Notional tax credits	(1,080,686)	(905,407)	(1,079,038)	(903,649)
Withholding tax/other credits	(126,348)	(81,089)	(125,948)	(80,362)
Exchange rate variance	(1,836)	42,772	(1,836)	42,772
Balance as at December 31,	2,037,388	1,780,867	1,997,990	1,758,574

The maturity analysis of Current Tax Liabilities is given in Note 58.

## 45. Deferred Tax Assets and Liabilities

## 45.1 Summary of Net Deferred Tax Liability

	GROUP				BANK			
	2014		2013		2014		2013	
	Temporary Difference	Tax Effect	Temporary Difference	Tax Effect	Temporary Difference	Tax Effect	Temporary Difference	Tax Effect
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 01,	6,407,851	1,763,414	5,191,693	1,431,725	5,692,341	1,563,070	4,541,132	1,249,567
Deferred tax liabilities assumed on business combination	168,900	47,293	-	-	-	-	-	-
Amount originating/(reversing) to Income Statement	490,269	122,187	755,857	206,506	485,610	120,881	747,134	204,063
Amount originating/(reversing) to Statement of Profit or Loss and Other Comprehensive Income	3,368,207	943,098	(27,425)	(7,679)	3,177,150	889,602	(28,704)	(8,037)
Tax effect on pre-acquisition reserves	-	-	54,947	15,385	-	-	-	-
Unwinding of the deferred tax effect on revaluation surplus on freehold buildings	-	-	432,779	121,178	-	-	432,779	121,178
Exchange rate variance	-	207	-	(3,701)	-	207	-	(3,701)
<b>Balance as at December 31,</b>	<b>10,435,227</b>	<b>2,876,199</b>	<b>6,407,851</b>	<b>1,763,414</b>	<b>9,355,101</b>	<b>2,573,760</b>	<b>5,692,341</b>	<b>1,563,070</b>

## 45.2 Reconciliation of Net Deferred Tax Liability

	GROUP					
	Statement of Financial Position		Income Statement		Statement of Profit or Loss and Other Comprehensive Income	
	2014	2013	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Deferred Tax Liabilities on:</b>						
Accelerated depreciation for tax purposes - Own assets	373,175	397,135	33,651	(55,097)	-	-
Accelerated depreciation for tax purposes - Leased assets	1,581,807	1,274,209	(253,603)	(224,950)	-	-
Revaluation surplus on freehold buildings	780,357	605,322	15,107	29,918	(174,239)	-
Tax effect on actuarial gains on defined benefit plans	3,584	2,062	-	-	(1,522)	(2,062)
Unrealised gain/(loss) on Available-for-Sale (AFS) portfolio	792,513	-	-	-	(792,513)	-
Effective interest rate on deposits	3,398	-	(3,398)	-	-	-
Effect of exchange rate variance	9	9	207	(3,701)	-	-
	3,534,843	2,278,737	(208,036)	(253,830)	(968,274)	(2,062)
<b>Deferred Tax Assets on:</b>						
Finance leases	203	2,004	(1,801)	(3,086)	-	-
Defined benefit plans	281,040	245,563	35,477	41,660	-	-
Tax effect on actuarial losses on defined benefit plans	15,801	9,741	-	-	6,060	9,741
Provision on credit card advances	-	-	-	(18,567)	-	-
Specific provision on lease receivable	56,254	56,254	-	(63,282)	-	-
Leave encashment	160,990	153,608	7,382	42,446	-	-
Tax effect on actuarial losses on leave encashment	19,116	-	-	-	19,116	-
Straight lining on lease rentals	19,222	8,739	10,483	8,739	-	-
De-recognition of commission income	70,662	39,414	31,248	39,414	-	-
Impairment provision	35,356	-	4,679	-	-	-
Carried forward tax loss on leasing business	-	-	(1,619)	-	-	-
	658,644	515,323	85,849	47,324	25,176	9,741
<b>Deferred tax effect on Income Statement and Statement of Profit or Loss and Other Comprehensive Income for the year</b>			(122,187)	(206,506)	(943,098)	7,679
<b>Net deferred tax liability as at December 31,</b>	<b>2,876,199</b>	<b>1,763,414</b>				

## Notes to the Financial Statements

## 45.3 Reconciliation of Net Deferred Tax Liability

	BANK					
	Statement of Financial Position		Income Statement		Statement of Profit or Loss and Other Comprehensive Income	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<i>For the year ended/as at December 31,</i>						
<b>Deferred Tax Liabilities on:</b>						
Accelerated depreciation for tax purposes - Own assets	330,867	366,494	35,627	(54,362)	-	-
Accelerated depreciation for tax purposes - Leased assets	1,525,515	1,274,208	(251,307)	(224,949)	-	-
Revaluation surplus on freehold buildings	533,651	427,927	14,960	29,918	(120,684)	-
Tax effect on actuarial gains on defined benefit plans	3,059	1,510	-	-	(1,549)	(1,510)
Unrealised gain/(loss) on Available-for-sale (AFS) portfolio	792,511	-	-	-	(792,511)	-
Effective interest rate on deposits	3,398	-	(3,398)	-	-	-
Effect of exchange rate variance	9	9	207	(3,701)	-	-
	<b>3,189,010</b>	<b>2,070,148</b>	<b>(203,911)</b>	<b>(253,094)</b>	<b>(914,744)</b>	<b>(1,510)</b>
<b>Deferred Tax Assets on:</b>						
Finance leases	-	-	-	-	-	-
Defined benefit plans	273,433	239,516	33,917	40,282	-	-
Tax effect on actuarial losses on defined benefit plans	15,573	9,547	-	-	6,026	9,547
Provision on credit card advances	-	-	-	(18,568)	-	-
Specific provision on lease receivable	56,254	56,254	-	(63,282)	-	-
Leave encashment	160,990	153,608	7,382	42,446	-	-
Tax effect on actuarial losses on leave encashment	19,116	-	-	-	19,116	-
Straight lining of lease rentals	19,222	8,739	10,483	8,739	-	-
De-recognition of commission income	70,662	39,414	31,248	39,414	-	-
	<b>615,250</b>	<b>507,078</b>	<b>83,030</b>	<b>49,031</b>	<b>25,142</b>	<b>9,547</b>
<b>Deferred tax effect on Income Statement and Statement of Profit or Loss and Other Comprehensive Income for the year</b>			<b>(120,881)</b>	<b>(204,063)</b>	<b>(889,602)</b>	<b>8,037</b>
<b>Net deferred tax liability as at December 31</b>	<b>2,573,760</b>	<b>1,563,070</b>				

The maturity analysis of Deferred Tax Liabilities is given in Note 58.

## 46. Other Provisions

	GROUP				BANK			
	2014		2013		2014		2013	
	Rs. '000		Rs. '000		Rs. '000		Rs. '000	
<i>As at December 31,</i>								
Provision for claims payable								
<b>Total</b>	<b>1,874</b>	<b>2,409</b>	<b>1,874</b>	<b>2,409</b>	<b>1,874</b>	<b>2,409</b>	<b>2,409</b>	

## 47. Other Liabilities

Accrued expenditure	1,883,392	1,672,283	1,869,538	1,666,095
Cheques sent on clearing	4,015,967	2,974,099	4,015,967	2,974,099
Provision for gratuity payable [Refer Note 47.1 (b)]	748,969	624,642	720,520	604,324
Provision for unfunded pension scheme [Refer Note 47.2 (b)]	203,458	191,541	203,458	191,541
Provision for Leave Encashment [Refer Note 47.3 (b)]	643,238	548,601	643,238	548,601
Payable on oil hedging transactions	819,854	812,719	819,854	812,719
Other payables	9,355,025	3,061,930	9,170,956	3,029,830
<b>Total</b>	<b>17,669,903</b>	<b>9,885,815</b>	<b>17,443,531</b>	<b>9,827,209</b>

The maturity analysis of Other Liabilities is given in Note 58.

#### 47.1 Provision for Gratuity Payable

An actuarial valuation of the retirement gratuity payable was carried out as at December 31, 2014 by Mr. M. Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional actuaries. The valuation method used by the actuaries to value the liability is the 'Projected Unit Credit Method (PUC)', the method recommended by the Sri Lanka Accounting Standard, LKAS 19 on 'Employee Benefits'.

##### 47.1 (a) Actuarial Assumptions

Type of Assumption	Criteria	Description
Demographic	Mortality - In service	A 67/70 Mortality table issued by the Institute of Actuaries, London
	Staff Turnover	The staff turnover rate at an age represents the probability of an 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 (as at December 31, 2013) to determine the liabilities of the active employees in the gratuity, were used in the actuarial valuation carried out as at December 31, 2014.
	Normal retirement age	The employees who are aged over the specified retirement age have been assumed to retire on their respective next birthdays.
Financial	Rate of discount	<b>Sri Lankan operation</b> In the absence of a deep market in long term bonds in Sri Lanka, a long term interest rate of 9.50% p.a. (2013 - 10% p.a.) has been used to discount future liabilities considering anticipated long term rate of inflation.
		<b>Bangladesh operation</b> In the absence of long term high quality corporate bonds or Government bonds with the term that matches liabilities a long term interest rate of 10% p.a. (2013 - 10% p.a.) has been used to discount considering anticipated long term rate of inflation.
	Salary increases	A salary increment of 9% p.a. (2013 - 9% p.a.) has been used in respect of the active employees.

##### 47.1 (b) Movement in the Provision for Gratuity Payable

	GROUP		BANK	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
Balance as at January 01,	624,642	494,507	604,324	478,506
Gratuity payable assumed on business combination	1,977	-	-	-
Expense recognised in the Income Statement [Refer Note 47.1 (c)]	145,284	147,378	138,533	141,700
Exchange rate variance	(381)	7,294	(381)	7,294
Amount paid during the year	(17,245)	(19,528)	(16,423)	(17,784)
Expense recognised in other comprehensive income	(5,308)	(5,009)	(5,533)	(5,392)
<b>Balance as at December 31,</b>	<b>748,969</b>	<b>624,642</b>	<b>720,520</b>	<b>604,324</b>

##### 47.1 (c) Expense Recognised in the Income Statement - Gratuity

For the year ended December 31,	GROUP		BANK	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
Interest cost	62,456	56,118	60,340	54,470
Current service cost	82,828	91,260	78,193	87,230
<b>Total</b>	<b>145,284</b>	<b>147,378</b>	<b>138,533</b>	<b>141,700</b>

## Notes to the Financial Statements

## 47.1 (d) Sensitivity Analysis of Actuarial Valuation

The following table illustrates the impact of the possible changes in the discount rate and salary escalation rates on the gratuity valuation of the Group and the Bank as at December 31, 2014:

Variable	GROUP	BANK
	Sensitivity Effect on Statement of Financial Position (Benefit Obligation) Rs. '000	Sensitivity Effect on Statement of Financial Position (Benefit Obligation) Rs. '000
1% increase in discount rate	(81,183)	(78,974)
1% decrease in discount rate	98,361	95,859
1% increase in salary escalation rate	100,896	98,408
1% decrease in salary escalation rate	(84,573)	(82,362)

## 47.2 Provision for Un-funded Pension Scheme

An actuarial valuation of the un-funded pension liability was carried out as at December 31, 2014 by Mr. M. Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional actuaries. The valuation method used by the actuary to value the liability is the 'Projected Unit Credit Method (PUC)', the method recommended by the Sri Lanka Accounting Standard, LKAS 19 on 'Employee Benefits'.

## 47.2 (a) Actuarial Assumptions

Type of Assumption	Criteria	Description
Demographic	Mortality - In service	A 67/70 Mortality table issued by the Institute of Actuaries, London.
	After retirement	A (90) Annuities table (Males and Females) issued by the Institute of Actuaries, London.
	Staff turnover	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 (as at December 31, 2013) to determine the liabilities of the active employees in the funded scheme, were used in the actuarial valuation carried out as at December 31, 2014.
	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.
	Financial	Rate of discount
Salary increases		A salary increment of 9% p.a. (2013 - 9% 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 granted solely at the discretion of the Bank. Therefore, no specific rate was assumed for this valuation.

## 47.2 (b) Movement in the Provision for Un-funded Pension Scheme

	GROUP		BANK	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
Balance as at January 01,	191,541	167,394	191,541	167,394
Expense recognised in the income statement [Refer Note 47.2 (c)]	19,154	18,413	19,154	18,413
Amount paid during the year	(28,756)	(28,363)	(28,756)	(28,363)
Expense recognised in other comprehensive income	21,519	34,097	21,519	34,097
<b>Balance as at December 31,</b>	<b>203,458</b>	<b>191,541</b>	<b>203,458</b>	<b>191,541</b>



## 47.2 (c) Expense Recognised in the Income Statement – Un-funded Pension

	GROUP		BANK	
	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<i>For the year ended December 31,</i>				
Interest cost	19,154	18,413	19,154	18,413
Current service cost	-	-	-	-
<b>Total</b>	<b>19,154</b>	<b>18,413</b>	<b>19,154</b>	<b>18,413</b>

## 47.2 (d) Sensitivity Analysis on Actuarial Valuation – Un-funded Pension Scheme

The following table illustrates the impact of the possible change in the discount rate and salary escalation rate in the un-funded pension scheme valuation of the Bank as at December 31, 2014.

Variable	GROUP		BANK	
	Sensitivity Effect on Statement of Financial Position (Benefit Obligation)		Sensitivity Effect on Statement of Financial Position (Benefit Obligation)	
	Rs. '000		Rs. '000	
1% increase in discount rate		(9,014)		(9,014)
1% decrease in discount rate		9,949		9,949
1% increase in salary escalation rate		-		-
1% decrease in salary escalation rate		-		-

## 47.3 Provision for Leave Encashment

An actuarial valuation of the leave encashment liability was carried out as at December 31, 2014 by Mr. M. Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional actuaries. The valuation method used by the actuaries to value the liability is the 'Projected Unit Credit Method (PUC)', the method recommended by the Sri Lanka Accounting Standard, LKAS 19 on 'Employee Benefits'.

## 47.3 (a) Actuarial Assumptions

Type of Assumption	Criteria	Description
Demographic	Mortality - In service	A 1967/70 Mortality table issued by the Institute of Actuaries, London
	Staff turnover	The probability of a member withdrawing from the scheme within a year of the ages between 20 to 55 years.
	Disability	The probability of a member becoming disabled within a year of the ages between 20 to 55 years.
Financial	Rate of discount	In the absence of a deep market in long term bonds in Sri Lanka, a long term interest rate of 9.5% p.a. (2013 - 10% p.a.) has been used to discount future liabilities considering anticipated long term rate of inflation.
	Salary increases	A salary increment of 9% p.a. (2013 - 9% p.a.) has been used in respect of the active employees.

## 47.3 (b) Movement in the Provision for Leave Encashment

	GROUP		BANK	
	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 01,	548,601	397,009	548,601	397,009
Expense recognised in the income statement [Refer Note 47.3 (c)]	54,860	151,592	54,860	151,592
Amount paid during the year	(28,496)	-	(28,496)	-
Expense recognised in other comprehensive income	68,273	-	68,273	-
<b>Balance as at December 31,</b>	<b>643,238</b>	<b>548,601</b>	<b>643,238</b>	<b>548,601</b>

## Notes to the Financial Statements

## 47.3 (c) Expense Recognised in the Income Statement – Leave Encashment

	GROUP		BANK	
	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
For the year ended December 31,				
Interest cost	54,860	151,592	54,860	151,592
Current service cost	-	-	-	-
<b>Total</b>	<b>54,860</b>	<b>151,592</b>	<b>54,860</b>	<b>151,592</b>

## 47.3 (d) Sensitivity Analysis on Actuarial Valuation – Leave Encashment

The following table illustrates the impact of the possible change in the discount rates and salary escalation rates on account of leave encashment liability of the Bank as at December 31, 2014:

Variable	GROUP		BANK	
	Sensitivity effect on Statement of Financial Position (Benefit Obligation)		Sensitivity effect on Statement of Financial Position (Benefit Obligation)	
	Rs. '000		Rs. '000	
1% increase in discount rate		(53,487)		(53,487)
1% decrease in discount rate		63,352		63,352
1% increase in salary escalation rate		66,111		66,111
1% decrease in salary escalation rate		(56,724)		(56,724)

## 47.4 Employee Retirement Benefit

## Pension Fund - Defined Benefit Plan

An actuarial valuation of the Retirement Pension Fund was carried out as at December 31, 2014 by Mr. M. Poopalanathan, AIA, of Messrs 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 provisions of the Trust Deed are held separately from those of the Bank.

## 47.4 (a) Actuarial Assumptions – Demographic

Type of Assumption	Criteria	Description
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
	Staff Turnover	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 (as at December 31, 2013) to determine the liability on account of the active employees in the funded scheme, were used in the actuarial valuation carried out as at December 31, 2014.
	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.
Financial	Rate of discount	In the absence of a deep market in long term bonds in Sri Lanka, a long term interest rate of 9.50% p.a. (2013 - 10% p.a.) has been used to discount future liabilities considering anticipated long term rate of inflation.
	Salary increases	A salary increment of 9% p.a. (2013 - 9% 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 granted solely at the discretion of the Bank. Therefore, no specific rate was assumed for this valuation.

## 47.4 (b) Movement in the Present Value of Defined Benefit Obligation – Bank

	2014 Rs.'000	2013 Rs.'000
Balance as at January 01,	124,678	112,014
Interest cost	12,468	12,321
Current service cost	2,575	2,102
Benefits paid during the year	(10,003)	(8,119)
Actuarial loss	10,593	6,360
<b>Balance as at December 31,</b>	<b>140,311</b>	<b>124,678</b>

## 47.4. (c) Movement in the Fair Value of Plan Assets

Fair value as at January 01,	117,900	94,899
Expected return on plan assets	11,790	10,439
Contribution paid into plan	1,296	1,411
Benefits paid by the plan	(10,003)	(8,119)
Actuarial gain on plan assets	4,725	19,270
<b>Fair value as at December 31,</b>	<b>125,708</b>	<b>117,900</b>

	2014 Rs.'000	2013 Rs.'000
47.4 (d) Liability Recognised in the Statement of Financial Position		
Present value of defined benefit obligations as at January 01,	140,311	124,678
Fair value of plan assets	(125,708)	(117,900)
Unrecognised actuarial gains/(losses)	-	-
<b>Net liability recognised under other liabilities</b>	<b>14,603</b>	<b>6,778</b>

## 47.4 (e) Plan Assets consist of the following

Government treasury bills	1,171	42,512
Deposits held with the Bank	124,537	75,388
<b>Total</b>	<b>125,708</b>	<b>117,900</b>

## 48. Due to Subsidiaries

As at December 31,	GROUP		BANK	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>Local subsidiaries</b>				
Commercial Development Company PLC	-	-	12,079	8,934
ONEzero Company Ltd.	-	-	7,210	6,752
Indra Finance Ltd.	-	-	-	-
<b>Sub total</b>	<b>-</b>	<b>-</b>	<b>19,289</b>	<b>15,686</b>
<b>Foreign subsidiaries</b>				
Commex Sri Lanka S.R.L. - Italy	-	-	-	-
<b>Sub total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>-</b>	<b>-</b>	<b>19,289</b>	<b>15,686</b>

The maturity analysis of Due to Subsidiaries is given in Note 58.

## Notes to the Financial Statements

## 49. Subordinated Liabilities

As at December 31,	GROUP		BANK	
	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 01,	10,797,660	973,210	10,797,660	973,210
Subordinated liabilities assumed on business combination	215,000	–	–	–
Amount borrowed during the year	–	9,468,750	–	9,468,750
Repayments/redemptions during the year	–	(550)	–	(550)
<b>Sub total</b>	<b>11,012,660</b>	<b>10,441,410</b>	<b>10,797,660</b>	<b>10,441,410</b>
Exchange rate variance	86,250	356,250	86,250	356,250
<b>Balance as at December 31, (before adjusting for amortised interest and transaction cost) [Refer Note 49.1]</b>	<b>11,098,910</b>	<b>10,797,660</b>	<b>10,883,910</b>	<b>10,797,660</b>
Unamortised transaction cost	(100,225)	(112,435)	(100,225)	(112,435)
Net effect of amortised interest payable	263,888	259,187	261,090	259,187
<b>Adjusted balance as at December 31,</b>	<b>11,262,573</b>	<b>10,944,412</b>	<b>11,044,775</b>	<b>10,944,412</b>

Outstanding subordinated liabilities of the Bank as at December 31, 2014 consisted of 972,660 (2013 - 972,660) unsecured subordinated redeemable debentures of Rs. 1,000/- each and a subordinated loan of US\$ 75.0 Mn. (2013 - US\$ 75.0 Mn.) from International Finance Corporation (IFC).

## 49.1 Categories of Subordinated Liabilities

Categories	Colombo Stock Exchange Listing	Interest Payable Frequency	Allotment Date	Maturity Date	Effective Annual Yield		GROUP		BANK	
					2014	2013	2014	2013	2014	2013
					Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Fixed Rate Debentures</b>										
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	505,000
2006/2016 - 14.00% p.a.	Listed	Annually	18.12.2006	18.12.2016	14.00%	14.00%	467,260	467,260	467,260	467,260
<b>Floating Rate Debentures</b>										
2006/2016 - 12 months TB rate (Gross) + 1% p.a. (*)	Listed	Annually	18.12.2006	18.12.2016	10.21%	13.99%	400	400	400	400
<b>Floating Rate Subordinated Loans</b>										
IFC Borrowings - LIBOR + 5.75%		Biannually	13.03.2013	14.03.2023	LIBOR + 6.16%	LIBOR + 6.21%	9,911,250	9,825,000	9,911,250	9,825,000
<b>Subsidiaries</b>										
<b>Fixed Rate Debentures</b>										
2011/2016 - 14.15% p.a.	Not listed	Monthly	25.08.2011	25.08.2016	15.10%	–	10,000	–	–	–
2011/2016 - 14.15% p.a.	Not listed	Monthly	25.08.2011	25.08.2016	15.10%	–	5,000	–	–	–
2012/2015 - 18.65% p.a.	Not listed	Quarterly	01.12.2012	01.12.2015	20.00%	–	200,000	–	–	–
<b>Total</b>							<b>11,098,910</b>	<b>10,797,660</b>	<b>10,883,910</b>	<b>10,797,660</b>

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

**49.2 Subordinated Liabilities by Maturity**

As at December 31,	GROUP		BANK	
	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Payable within one year	200,000	–	–	–
Payable after one year	10,898,910	10,797,660	10,883,910	10,797,660
<b>Total</b>	<b>11,098,910</b>	<b>10,797,660</b>	<b>10,883,910</b>	<b>10,797,660</b>

In the event of the winding-up of the issuer, the above liabilities would be subordinated to the claims of depositors and all other creditors of the issuer. The Bank has not had any defaults of principal, interest or other breaches with respect to its subordinated liabilities during the year ended December 31, 2014.

The maturity analysis of Subordinated Liabilities is given in Note 58.

**50. Stated Capital**

	GROUP		BANK	
	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 01,	19,586,813	18,008,796	19,586,813	18,008,796
Issue of ordinary voting shares under the Employee Share Option Plan	340,763	76,074	340,763	76,074
Issue of ordinary shares as part of the final dividend satisfied in the form of issue and allotment of new shares	1,529,925	1,501,943	1,529,925	1,501,943
Ordinary voting shares	1,431,747	1,405,690	1,431,747	1,405,690
Ordinary non-voting shares	98,178	96,253	98,178	96,253
Balance as at December 31,	21,457,501	19,586,813	21,457,501	19,586,813

**50.1 Movement in Number of Shares**

	No. of Ordinary Voting Shares		No. of Ordinary Non-Voting Shares	
	2014	2013	2014	2013
	Balance as at January 01,	794,535,819	780,014,232	54,543,222
Issue of ordinary voting shares under the Employee Share Option Plan	3,237,566	1,445,398	–	–
Issue of ordinary shares as part of the final dividend satisfied in the form of issue and allotment of new shares	12,504,344	13,076,189	1,036,724	1,069,474
Balance as at December 31,	810,277,729	794,535,819	55,579,946	54,543,222

The ordinary 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 holders of ordinary shares are entitled to receive dividends declared from time to time and are entitled to one vote per share at General Meetings of the Bank.

The Bank has offered an Employee Share Option Plan. Please see Note 50.2 below for details.

## Notes to the Financial Statements

**50.2 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.

Option price is 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.

Number of 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 rights 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 price are suitably adjusted as per the applicable rules of ESOP - 2008 which have been drafted in line with the accepted market practices.

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 detailed below:

Date granted	Tranche I			Total
	April 30, 2008	April 30, 2008	April 30, 2008	
Price (Rs.) - (*)	46.91	46.91	46.91	
Exercisable between	1/3 of Options	1/3 of Options	1/3 of Options	
	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 share splits and rights issues	692,095	789,320	1,056,943	2,538,358
Number of options cancelled before vesting	(52,943)	(52,943)	(52,943)	(158,829)
Number of options vested	1,416,460	1,513,685	1,781,308	4,711,453
Number of options exercised up to December 31, 2014	(1,416,460)	(1,513,685)	(1,560,352)	(4,490,497)
<b>Number of options to be exercised as at December 31, 2014</b>	<b>-</b>	<b>-</b>	<b>220,956</b>	<b>220,956</b>

(\*) Adjusted on account of the dividends declared in the form of issue and allotment of new shares, rights issue of shares and sub-division of shares.

Date granted	Tranche II			Total
	April 30, 2011	April 30, 2011	April 30, 2011	
Price (Rs.)	132.23	132.23	132.23	
Exercisable between	1/3 of Options	1/3 of Options	1/3 of Options	
	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 splits and rights issues	1,213,384	1,213,384	1,213,384	3,640,152
Number of options cancelled before vesting	(45,896)	(41,307)	(95,236)	(182,439)
Number of options vested	2,380,872	2,385,461	2,331,532	7,097,865
Number of options exercised up to December 31, 2014	(420,445)	(253,578)	(126,038)	(800,061)
<b>Number of options to be exercised as at December 31, 2014</b>	<b>1,960,427</b>	<b>2,131,883</b>	<b>2,205,494</b>	<b>6,297,804</b>

Date granted	Tranche III			Total
	April 30, 2012	April 30, 2012	April 30, 2012	
Price (Rs.)	104.63	104.63	104.63	
Exercisable between	1/3 of Options	1/3 of Options	1/3 of Options	
	April 30, 2013 to April 29, 2017	April 30, 2014 to April 29, 2018	April 30, 2015 to April 29, 2019	
Original number of options	2,596,622	2,596,622	2,596,600	7,789,844
Number of options cancelled before vesting	-	(49,704)	(79,961)	(129,665)
Number of options vested	2,596,622	2,546,918	2,516,639	7,660,179
Number of options exercised up to December 31, 2014	(1,225,627)	(718,575)	(266,905)	(2,211,107)
<b>Number of options to be exercised as at December 31, 2014</b>	<b>1,370,995</b>	<b>1,828,343</b>	<b>2,249,734</b>	<b>5,449,072</b>

## 51. Statutory Reserves

As at December 31,	GROUP		BANK	
	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Statutory reserve fund [Refer Note 51.1]	4,327,103	3,768,094	4,327,103	3,768,094
Primary dealer special risk reserve [Refer Note 51.2]	-	266,520	-	266,520
<b>Sub total</b>	<b>4,327,103</b>	<b>4,034,614</b>	<b>4,327,103</b>	<b>4,034,614</b>

### 51.1 Statutory Reserve Fund

	GROUP		BANK	
	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 01,	3,768,094	3,245,818	3,768,094	3,245,818
Transfers during the year	559,009	522,276	559,009	522,276
<b>Balance as at December 31,</b>	<b>4,327,103</b>	<b>3,768,094</b>	<b>4,327,103</b>	<b>3,768,094</b>

The statutory reserve fund is maintained as per the requirements under section 20 (1) of the Banking Act No. 30 of 1988. Accordingly, the fund is built up by allocating a sum equivalent to not less than 5% of the profit after tax, but before declaring any dividend or any profits that are transferred elsewhere until the balance in the reserve fund is equal to 50% of the Bank's stated capital and thereafter a further sum equivalent to 2% of such profit until the amount in the reserve fund is equal to the stated capital of the Bank.

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

### 51.2 Primary Dealer Special Risk Reserve

	GROUP		BANK	
	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 01,	266,520	187,577	266,520	187,577
Transfers during the year	-	78,943	-	78,943
Transferred to general reserve [Refer Note 53.2]	(266,520)	-	(266,520)	-
<b>Balance as at December 31,</b>	<b>-</b>	<b>266,520</b>	<b>-</b>	<b>266,520</b>

As per the Direction issued by the Public Debt - Department of the Central Bank of Sri Lanka on April 18, 2005, with effect from July 01, 2005 Primary Dealers who maintain a capital above Rs. 300 Mn. were required to transfer 25% of post-tax profits of the Primary Dealer Unit to a special risk reserve annually. The Bank duly complied with the above requirement up to December 31, 2013.

During 2014, the Bank received a confirmation from the Public Debt - Department of the Central Bank of Sri Lanka on the cessation of maintaining a Special Risk Reserve as the Bank is functioning as a primary dealer. Hence, the Bank transferred the balances that were built up in the above reserve to the General Reserve.

## Notes to the Financial Statements

## 52. Retained Earnings

	GROUP		BANK	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
Balance as at January 01,	4,359,632	4,172,814	4,233,364	4,178,080
Total Comprehensive Income	11,184,470	10,541,957	11,119,514	10,424,843
Profit for the year	11,238,892	10,563,378	11,180,181	10,445,511
Other comprehensive income, net of tax	(54,422)	(21,421)	(60,667)	(20,668)
Dividends paid	(5,547,136)	(5,444,752)	(5,547,136)	(5,444,752)
Deferred tax effect on pre-acquisition reserves	-	(14,547)	-	-
Re-classification of retained earnings to/from available for sale reserve	(31,099)	28,967	-	-
Transfers to other reserves	(5,547,455)	(4,924,807)	(5,547,455)	(4,924,807)
<b>Balance as at December 31,</b>	<b>4,418,412</b>	<b>4,359,632</b>	<b>4,258,287</b>	<b>4,233,364</b>

## 53. Other Reserves

	GROUP			BANK		
	Balance as at January 01, Rs. '000	Movement/ Transfers Rs. '000	Balance as at December 31, Rs. '000	Balance as at January 01, Rs. '000	Movement/ Transfers Rs. '000	Balance as at December 31, Rs. '000
<b>53 (a) Current Year – 2014</b>						
Revaluation reserve [Refer Note 53.1]	4,615,947	1,631,013	6,246,960	4,222,054	1,500,805	5,722,859
General reserve [Refer Note 53.2]	22,380,819	10,093,659	32,474,478	22,380,819	10,093,659	32,474,478
Available-for-sale reserve [Refer Note 53.3]	2,023,468	712,101	2,735,569	2,054,567	681,011	2,735,578
Foreign currency translation reserve [Refer Note 53.4]	(393,758)	(60,430)	(454,188)	(406,925)	(57,151)	(464,076)
Investment fund reserve [Refer Note 53.5]	4,838,693	(4,838,693)	-	4,838,693	(4,838,693)	-
<b>Total</b>	<b>33,465,169</b>	<b>7,537,650</b>	<b>41,002,819</b>	<b>33,089,208</b>	<b>7,379,631</b>	<b>40,468,839</b>

## 53 (b) Previous Year – 2013

	GROUP			BANK		
	Balance as at January 01, Rs. '000	Movement/ Transfers Rs. '000	Balance as at December 31, Rs. '000	Balance as at January 01, Rs. '000	Movement/ Transfers Rs. '000	Balance as at December 31, Rs. '000
Revaluation reserve [Refer Note 53.1]	4,737,125	(121,178)	4,615,947	4,343,232	(121,178)	4,222,054
General reserve [Refer Note 53.2]	20,048,989	2,331,830	22,380,819	20,048,989	2,331,830	22,380,819
Available-for-sale reserve [Refer Note 53.3]	475,467	1,548,001	2,023,468	475,467	1,579,100	2,054,567
Foreign currency translation reserve [Refer Note 53.4]	(755,101)	361,343	(393,758)	(757,894)	350,969	(406,925)
Investment fund reserve [Refer Note 53.5]	2,846,935	1,991,758	4,838,693	2,846,935	1,991,758	4,838,693
<b>Total</b>	<b>27,353,415</b>	<b>6,111,754</b>	<b>33,465,169</b>	<b>26,956,729</b>	<b>6,132,479</b>	<b>33,089,208</b>



**53.1 Revaluation Reserve**

	GROUP		BANK	
	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 01,	4,615,947	4,737,125	4,222,054	4,343,232
Surplus on revaluation of freehold land and buildings	1,802,333	–	1,621,489	–
Deferred tax effect on revaluation surplus on freehold buildings	(171,320)	(121,178)	(120,684)	(121,178)
Balance as at December 31,	6,246,960	4,615,947	5,722,859	4,222,054

The revaluation reserve relates to revaluation of freehold land and buildings and represents the fair value changes of the land and buildings as at the date of revaluation.

The Bank carried out a revaluation of all its freehold lands and buildings as at December 31, 2014 and recognised Rs. 1,621.489 Mn. as revaluation surplus.

**53.2 General Reserve**

	GROUP		BANK	
	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 01,	22,380,819	20,048,989	22,380,819	20,048,989
Transfer of primary dealer special risk reserve [Refer Note 51.2]	266,520	–	266,520	–
Transfer of investment fund account [Refer Note 53.5]	5,227,139	–	5,227,139	–
Transfers during the year	4,600,000	2,331,830	4,600,000	2,331,830
Balance as at December 31,	32,474,478	22,380,819	32,474,478	22,380,819

The Bank transfers the surplus profit, after payment of interim dividend and after retaining sufficient profits to pay final dividends proposed, from the retained earnings account to the General Reserve account. The purpose of setting up the General Reserve is to meet potential future unknown liabilities.

**53.3 Available-for-Sale Reserve**

	GROUP		BANK	
	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 01,	2,023,468	475,467	2,054,567	475,467
Net fair value gains/(losses) on re-measuring financial investments available-for-sale	681,002	1,576,968	681,011	1,579,100
Re-classification of retained earnings to/from available for sale reserve	31,099	(28,967)	–	–
Balance as at December 31,	2,735,569	2,023,468	2,735,578	2,054,567

The available-for-sale reserve comprises the cumulative net change in fair value of financial investment available-for-sale, until such investments are derecognised or impaired.

## Notes to the Financial Statements

**53.4 Foreign Currency Translation Reserve**

	GROUP		BANK	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
Balance as at January 01,	<b>(393,758)</b>	(755,101)	<b>(406,925)</b>	(757,894)
Net gains/(losses) arising from translating the Financial Statements of the foreign operation	<b>(60,430)</b>	361,343	<b>(57,151)</b>	350,969
Balance as at December 31,	<b>(454,188)</b>	(393,758)	<b>(464,076)</b>	(406,925)

The foreign currency translation reserve comprises of all foreign currency differences arising from the translation of the Financial Statements of foreign operations.

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 in to the presentation currency (Sri Lankan Rupee) at the exchange rate ruling at the date of the Statement of Financial Position and the Statement of Profit or Loss and Other Comprehensive Income was translated at the average exchange rate for the period. The exchange differences arising on the translation of these Financial Statements are taken directly to foreign currency translation reserve which is classified as a part of equity.

**53.5 Investment Fund Reserve**

	GROUP		BANK	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
Balance as at January 01,	<b>4,838,693</b>	2,846,935	<b>4,838,693</b>	2,846,935
Transfers during the year	<b>388,446</b>	1,991,758	<b>388,446</b>	1,991,758
Transfers to general reserve [Refer Note 53.2]	<b>(5,227,139)</b>	-	<b>(5,227,139)</b>	-
Balance as at December 31,	-	4,838,693	-	4,838,693

Banks were 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 payment of income tax to a fund identified as 'Investment Fund Account' (IFA) for a period of three years as per a proposal made in the Government Budget 2011. Since the above-mentioned three-year period has lapsed the Bank transferred the balance in the above reserve fund to the general reserve during 2014.

**54. Non-Controlling Interest**

	Commercial Development Company PLC	
	2014 Rs. '000	2013 Rs. '000
Balance as at January 01,	<b>38,778</b>	32,141
Profit for the year	<b>3,901</b>	10,079
Other comprehensive income, net of tax	<b>7,501</b>	12
Dividends paid for the year	<b>(2,616)</b>	(2,616)
Deferred tax effect on pre-acquisition reserves	-	(838)
<b>Balance as at December 31,</b>	<b>47,564</b>	38,778

## 55. 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 date of the Statement of Financial Position, they do contain credit risk and are therefore form part of the overall risk profile of the Bank.

As at December 31,	GROUP		BANK	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>Contingencies</b>	<b>244,635,833</b>	223,122,029	<b>244,635,833</b>	223,122,029
Guarantees	31,068,055	26,393,171	31,068,055	26,393,171
Performance Bonds	12,038,017	8,975,403	12,038,017	8,975,403
Documentary Credits	25,286,563	20,795,460	25,286,563	20,795,460
Other contingencies [Refer Note 55.1]	176,243,198	166,957,995	176,243,198	166,957,995
<b>Commitments</b>	<b>107,817,619</b>	72,329,926	<b>107,817,619</b>	72,329,926
Undrawn commitments [Refer Note 55.2]	106,560,178	71,240,051	106,560,178	71,240,051
Capital commitments [Refer Note 55.3]	1,257,441	1,089,875	1,257,441	1,089,875
<b>Total</b>	<b>352,453,452</b>	295,451,955	<b>352,453,452</b>	295,451,955

### 55.1 Other Contingencies

As at December 31,	GROUP		BANK	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>Forward exchange contracts:</b>	<b>32,246,624</b>	84,411,886	<b>32,246,624</b>	84,411,886
Forward exchange sales	12,240,936	32,057,314	12,240,936	32,057,314
Forward exchange purchases	20,005,688	52,354,572	20,005,688	52,354,572
<b>Interest Rate Swap agreements/Currency Options:</b>	<b>97,645,723</b>	50,592,865	<b>97,645,723</b>	50,592,865
Interest Rate Swaps	—	—	—	—
Currency Options	97,645,723	50,592,865	97,645,723	50,592,865
<b>Others:</b>	<b>46,350,851</b>	31,953,244	<b>46,350,851</b>	31,953,244
Acceptances	20,880,240	17,682,089	20,880,240	17,682,089
Bills Sent for Collection	24,899,607	14,012,211	24,899,607	14,012,211
Stock of Travelers' Cheques	476,369	258,944	476,369	258,944
Bullion on Consignment	94,635	—	94,635	—
<b>Sub total</b>	<b>176,243,198</b>	166,957,995	<b>176,243,198</b>	166,957,995

### 55.2 Undrawn Commitments

As at December 31,	GROUP		BANK	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
On direct advances	72,366,848	54,249,566	72,366,848	54,249,566
On indirect advances	34,193,330	16,990,485	34,193,330	16,990,485
<b>Sub total</b>	<b>106,560,178</b>	71,240,051	<b>106,560,178</b>	71,240,051

## Notes to the Financial Statements

**55.3 Capital Commitments**

The Group has commitments for acquisition of Property, Plant & Equipment and intangible assets incidental to the ordinary course of business which have been approved by the Board of Directors, the details of which are as follows:

As at December 31,	GROUP		BANK	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
<b>Commitments in relation to property, plant &amp; equipment</b>	<b>1,226,843</b>	<b>1,021,392</b>	<b>1,226,843</b>	<b>1,021,392</b>
Approved and contracted for	344,026	496,260	344,026	496,260
Approved but not contracted for	882,817	525,132	882,817	525,132
<b>Commitments in relation to intangible assets</b>	<b>30,598</b>	<b>68,483</b>	<b>30,598</b>	<b>68,483</b>
Approved and contracted for	30,598	68,483	30,598	68,483
Approved but not contracted for	-	-	-	-
<b>Sub total</b>	<b>1,257,441</b>	<b>1,089,875</b>	<b>1,257,441</b>	<b>1,089,875</b>

**55.4 Commitments of Subsidiaries and Associates****55.4 (a) Contingencies of Subsidiaries**

The Subsidiaries of the Group do not have any contingencies as at the Reporting date.

**55.4 (b) Contingencies of Associates**

The Associates of the Group do not have any contingencies as at the Reporting date.

**56. Net Assets Value Per Ordinary Share**

As at December 31,	GROUP		BANK	
	2014	2013	2014	2013
<b>Amounts used as the Numerator:</b>				
Total equity attributable to equity holders of the Bank (Rs. '000)	71,205,835	61,446,228	70,511,730	60,943,999
<b>Number of Ordinary Shares used as the Denominator:</b>				
Total number of shares	865,857,675	849,079,041	865,857,675	849,079,041
<b>Net Assets Value per share (Rs.)</b>	<b>82.24</b>	<b>72.37</b>	<b>81.44</b>	<b>71.78</b>

**57. 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. Pending legal claims where the Bank had already made provisions for possible losses in its Financial Statements or has a realisable security to cover the damages are not included below as the Bank does not expect cash outflows from such claims. However, further adjustments are made to Financial Statements if necessary on the adverse effects of legal claims based on the professional advice obtained on the certainty of the outcome and also based on a reasonable estimate.

Set out below are unresolved legal claims against the Bank as at December 31, 2014 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 third party in District Court, Colombo proceeding number 0122/2009/DLM to claim the title of a property which has been mortgaged to the Bank by the present owner who is our customer, for several facilities granted. The value of action is Rs. 85.000 Mn. Court granted permission to proceed and thereafter the plaint was amended by the plaintiff. The plaintiff gave evidence in two trial sessions in 2014. Submissions of other parties are due on March 4, 2015 and trial is fixed accordingly.
- (ii) Court action has been initiated by a customer in High Court Civil Case number 236/2011/MR challenging the Bank for transferring a vehicle in the name of a relation of the customer, upon settlement 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 now challenging the letter. The value of the action is Rs. 3.500 Mn. Next trial is fixed for June 18, 2015.

- (iii) Court action has been initiated by a customer in proceeding number 25831/MR to claim a sum of Rs. 2.880 Mn including the interest of an overdraft facility. The judgment was entered against the Bank in the District Court for Rs. 1.874 Mn. The Bank has appealed (Appeal No. 133/2010) to the Supreme Court. Argument fixed for May 06, 2015.
- (iv) Court action has been initiated by the plaintiff in the Commercial High Court of the Western Province case number 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. Commercial High Court issued the judgment in favour of the Bank and dismissed plaintiff's application for an interim injunction. Presently the case is at the Trial stage. Next trial date fixed for June 25, 2015.
- (v) Court action has been initiated by a third party in Colombo High Court proceedings number 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 to the Supreme Court (Appeal No. 09/2010) against the judgment delivered. The plaintiff has filed an application for the issue of Writ Pending Appeal. Bank had agreed to issue a guarantee for Rs. 5.000 Mn. in favour of the plaintiff, to be claimed only on the final determination of the appeal by the Supreme Court.
- (vi) Court action has been initiated by a customer in Colombo High Court Case number 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 the Supreme Court (Appeal No. 38/2006). The appeal is fixed for argument on March 18, 2015.
- (vii) Court action has been initiated by a customer for Rs. 14.000 Mn. in District Court, Colombo proceeding number DMR 3/2014 to recover a sum of Rs. 13.063 Mn. including interest on cheques paid with a fraudulent signature. Trial fixed for April 27, 2015.
- (viii) Court action has been initiated by a customer in proceedings number 52/10 to claim a sum of BDT 35.328 Mn. (approx. Rs. 59.514 Mn.) from the Bank for illegal withdrawal of money from their account by issuing cheques with forged signatures. The Bank refuses the claim of the customer as the Bank is of the view that it had acted in good faith, without negligence and also that the Bank is not responsible for any losses incurred due to inadequacy of the security of cheque books issued to the customer. Next date of the case is fixed for May 4, 2015.

## 58. Maturity Analysis

### (a) Group

(i) Remaining contractual period to maturity as at the date of Statement of Financial Position of the assets employed by the Group is detailed 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 31.12.2014 Rs. '000	Total as at 31.12.2013 Rs. '000
<b>Interest earning assets:</b>							
<b>Financial Assets</b>							
Cash and cash equivalents	3,601,722	-	-	-	-	<b>3,601,722</b>	135,564
Balances with Central Banks	142,927	24,569	-	-	-	<b>167,496</b>	807
Placements with banks	13,450,661	1,057,200	-	-	-	<b>14,507,861</b>	4,131,814
Other financial instruments held-for-trading	5,958,902	-	-	-	-	<b>5,958,902</b>	6,044,652
Loans and receivables to other customers	206,471,775	92,420,724	114,995,160	57,546,738	26,731,022	<b>498,165,419</b>	410,935,979
Financial investments - Available-for-sale	14,825,840	43,160,275	30,542,371	72,261,471	52,591,431	<b>213,381,388</b>	131,707,597
<b>Total interest earning assets as at 31.12.2014</b>	<b>244,451,827</b>	<b>136,662,768</b>	<b>145,537,531</b>	<b>129,808,209</b>	<b>79,322,453</b>	<b>735,782,788</b>	-
Total interest earning assets as at 31.12.2013	222,769,321	128,182,669	124,440,085	53,925,344	23,638,995		<b>552,956,413</b>

## Notes to the Financial Statements

	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 31.12.2014 Rs. '000	Total as at 31.12.2013 Rs. '000
<b>Non-interest earning assets:</b>							
<b>Financial Assets</b>							
Cash and cash equivalents	17,020,056	-	-	-	-	17,020,056	14,127,969
Balances with Central Banks	13,455,116	4,963,785	428,783	276,983	341,583	19,466,250	18,431,129
Derivative financial instruments	193,541	265,472	497	-	-	459,510	837,694
Other financial instruments held-for-trading	367,734	-	-	-	-	367,734	334,406
Loans and receivables to banks	-	-	551,066	-	-	551,066	546,270
Financial investments - Available-for-sale	613,440	-	-	15,864	214,325	843,629	48,928
<b>Non-Financial Assets</b>							
Investments in associates	-	-	-	-	106,287	106,287	94,173
Property, plant & equipment	-	-	-	-	11,134,861	11,134,861	9,175,225
Intangible assets	-	-	-	-	856,230	856,230	477,728
Leasehold property	-	-	-	-	108,872	108,872	110,324
Other assets	6,567,455	206,471	481,335	987,110	2,318,059	10,560,430	9,424,248
<b>Total non-interest earning assets as at 31.12.2014</b>	<b>38,217,342</b>	<b>5,435,728</b>	<b>1,461,681</b>	<b>1,279,957</b>	<b>15,080,217</b>	<b>61,474,925</b>	
Total non-interest earning assets as at 31.12.2013	32,736,057	5,886,851	1,337,899	730,707	12,916,580		53,608,094
<b>Total assets - as at 31.12.2014</b>	<b>282,669,167</b>	<b>142,098,496</b>	<b>146,999,212</b>	<b>131,088,166</b>	<b>94,402,670</b>	<b>797,257,713</b>	
Total assets - as at 31.12.2013	255,505,378	134,069,520	125,777,984	54,656,051	36,555,575		606,564,507
<b>Percentage - as at 31.12.2014(*)</b>	<b>35.46</b>	<b>17.82</b>	<b>18.44</b>	<b>16.44</b>	<b>11.84</b>	<b>100.00</b>	
Percentage - as at 31.12.2013(*)	42.12	22.10	20.74	9.01	6.03		100.00

(\*) Total percentage of each maturity bucket out of total assets employed by the Group.

(ii) Remaining contractual period to maturity as at the date of Statement of Financial Position of the liabilities and shareholders' funds employed by the Group is detailed 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 31.12.2014 Rs. '000	Total as at 31.12.2013 Rs. '000
<b>Interest-bearing liabilities:</b>							
<b>Financial Liabilities</b>							
Due to banks	2,595,675	4,893,632	20,097		–	7,509,404	12,195,006
Due to other customers/Deposits from customers	322,082,257	134,418,721	12,675,981	6,566,010	8,602,013	484,344,982	415,328,039
Other borrowings	84,265,796	41,433,870	6,907,267	2,244,110	1,176,582	136,027,625	53,997,503
Subordinated liabilities	132,371	331,323	987,855	–	9,811,024	11,262,573	10,944,412
<b>Total interest-bearing liabilities as at 31.12.2014</b>	<b>409,076,099</b>	<b>181,077,546</b>	<b>20,591,200</b>	<b>8,810,120</b>	<b>19,589,619</b>	<b>639,144,584</b>	–
Total interest-bearing liabilities as at 31.12.2013	304,889,324	141,552,936	14,342,812	11,467,136	20,222,752		492,464,960
<b>Non-interest-bearing liabilities:</b>							
<b>Financial Liabilities</b>							
Due to banks	18,159,621	–	–	–	–	18,159,621	1,999,213
Derivative financial instruments	733,669	459,470	–	–	–	1,193,139	1,411,916
Due to other customers/Deposits from customers	44,921,666	–	–	–	–	44,921,606	35,770,907
<b>Non-Financial Liabilities</b>							
Current tax liabilities	1,054,008	974,709	8,671	–	–	2,037,388	1,780,867
Deferred tax liabilities	241,710	229,570	722,301	1,209,746	472,872	2,876,199	1,763,414
Other provisions	1,874	–	–	–	–	1,874	2,409
Other liabilities	9,276,201	4,504,379	2,381,158	558,205	949,960	17,669,903	9,885,815
<b>Equity</b>							
Stated capital	–	–	–	–	21,457,501	21,457,501	19,586,813
Statutory reserves	–	–	–	–	4,327,103	4,327,103	4,034,614
Retained earnings	–	–	–	–	4,418,412	4,418,412	4,359,632
Other reserves	–	–	–	–	41,002,819	41,002,819	33,465,169
Non-controlling interest					47,564	47,564	38,778
<b>Total non-interest bearing liabilities as at 31.12.2014</b>	<b>74,388,689</b>	<b>6,168,127</b>	<b>3,112,130</b>	<b>1,767,951</b>	<b>72,676,231</b>	<b>158,113,129</b>	
Total non-interest-bearing liabilities as at 31.12.2013	46,840,608	2,180,945	1,639,486	765,427	62,673,081		114,099,547
<b>Total liabilities and equity - as at 31.12.2014</b>	<b>483,464,789</b>	<b>187,245,674</b>	<b>23,703,330</b>	<b>10,578,071</b>	<b>92,265,850</b>	<b>797,257,713</b>	
Total liabilities and equity - as at 31.12.2013	351,729,932	143,723,881	15,982,298	12,232,563	82,895,833		606,564,507
<b>Percentage - as at 31.12.2014(*)</b>	<b>60.64</b>	<b>23.49</b>	<b>2.97</b>	<b>1.33</b>	<b>11.57</b>	<b>100.00</b>	
Percentage - as at 31.12.2013(*)	57.99	23.69	2.63	2.02	13.67		100.00

(\*) Total percentage of each maturity bucket out of total liabilities and shareholders' funds employed by the Group.

## (b) Bank

Maturity analysis of the asset and liabilities of the Bank is given in Note 65 on 'Financial Risk Review' on page 394.

Notes to the Financial Statements

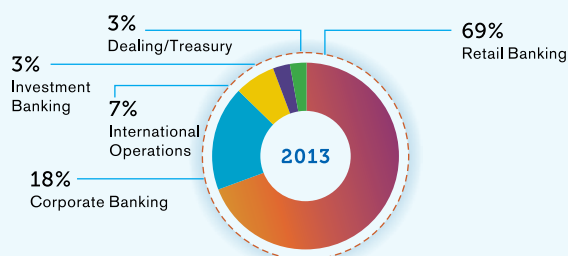
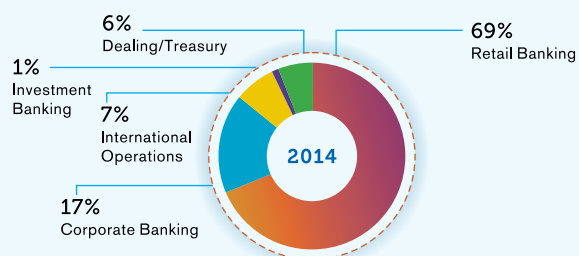
59. Operating Segments

The Group has the following strategic business divisions which are reportable segments. These divisions offer different products and services and are managed separately based on the Group's management and internal reporting structure.

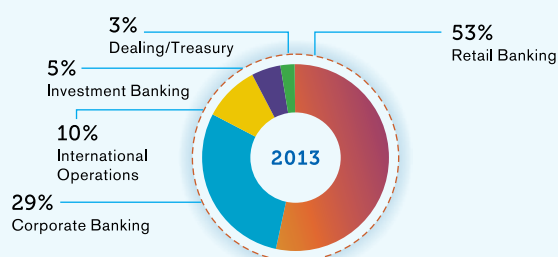
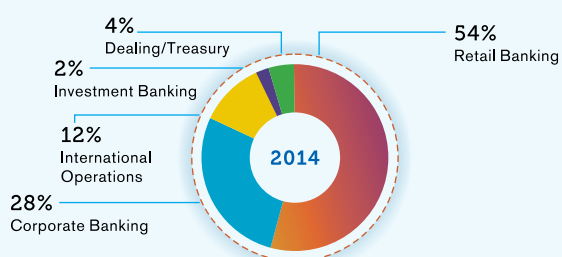
The following table presents the income, profit and asset and liability information on the group's strategic business divisions for the year ended December 31, 2014 and comparative figures for the year ended December 31, 2013.

For the year ended December 31,	Retail Banking		Corporate Banking		International Operations		Investment Banking		Dealing/Treasury		Total/Consolidated	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>External Operating income:</b>												
Net interest income	21,439,625	20,197,758	4,853,574	4,820,251	1,678,943	1,452,620	301,842	231,542	(954,160)	(803,228)	27,319,824	25,898,943
Foreign exchange profit	186,537	319,911	169,464	145,046	452,274	455,442	-	-	672,898	1,075,217	1,481,173	1,995,616
Net fees and commission income	2,897,758	2,490,385	1,423,382	1,281,801	522,241	471,843	-	-	5,981	8,829	4,849,362	4,252,858
Other income	2,180,092	1,835,798	217,483	233,536	88,717	72,619	152,487	830,318	2,523,845	759,659	5,162,624	3,731,930
<b>Eliminations/unallocated</b>											347,575	342,730
<b>Total operating income</b>	<b>26,704,012</b>	<b>24,843,852</b>	<b>6,663,903</b>	<b>6,480,634</b>	<b>2,742,175</b>	<b>2,452,524</b>	<b>454,329</b>	<b>1,061,860</b>	<b>2,248,564</b>	<b>1,040,477</b>	<b>39,160,558</b>	<b>36,222,077</b>
Credit loss expenses	(3,447,804)	(4,048,513)	(1,111,385)	(1,093,363)	(339,060)	(35,143)	-	-	-	-	(4,898,249)	(5,177,019)
Net operating income	23,256,208	20,795,339	5,552,518	5,387,271	2,403,115	2,417,381	454,329	1,061,860	2,248,564	1,040,477	34,262,309	31,045,058
<b>Segment result</b>	<b>11,372,329</b>	<b>10,073,230</b>	<b>5,829,292</b>	<b>5,606,741</b>	<b>2,457,544</b>	<b>1,911,800</b>	<b>398,534</b>	<b>948,090</b>	<b>920,663</b>	<b>495,852</b>	<b>20,978,362</b>	<b>19,035,713</b>
Unallocated operating expenses											(5,125,008)	(4,350,080)
Profit from operations											15,853,354	14,685,633
Share of profit of associates, net of tax											6,563	5,285
Income tax expense											(4,617,124)	(4,117,461)
Non-controlling interest											(3,901)	(10,079)
<b>Net profit for the year, attributable to Equity holders of the parent</b>											<b>11,238,892</b>	<b>10,563,378</b>

Total Operating Income



Segment Result





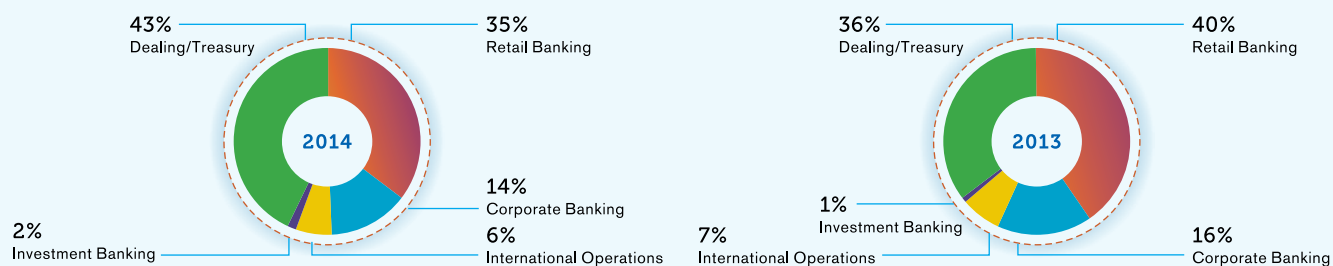
## Notes to the Financial Statements

As at December 31,	Retail Banking		Corporate Banking		International Operations		Investment Banking		Dealing/Treasury		Total/Consolidated	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Other information</b>												
Segment assets	211,546,670	181,619,318	182,635,036	152,747,967	51,555,583	46,175,311	10,184,101	4,902,005	311,035,860	192,541,792	766,957,250	577,986,393
Investment in associates	-	-	-	-	-	-	106,287	94,173	-	-	106,287	94,173
Unallocated Assets	-	-	-	-	-	-	-	-	-	-	30,194,176	28,483,941
<b>Total assets</b>	<b>211,546,670</b>	<b>181,619,318</b>	<b>182,635,036</b>	<b>152,747,967</b>	<b>51,555,583</b>	<b>46,175,311</b>	<b>10,290,388</b>	<b>4,996,178</b>	<b>311,035,860</b>	<b>192,541,792</b>	<b>797,257,713</b>	<b>606,564,507</b>
Segment liabilities	254,588,314	219,338,258	102,815,075	87,885,244	42,361,090	36,258,425	10,290,388	4,996,178	311,035,860	192,541,792	721,090,727	541,019,897
<b>Unallocated liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,913,587</b>	<b>4,059,604</b>
<b>Total liabilities</b>	<b>254,588,314</b>	<b>219,338,258</b>	<b>102,815,075</b>	<b>87,885,244</b>	<b>42,361,090</b>	<b>36,258,425</b>	<b>10,290,388</b>	<b>4,996,178</b>	<b>311,035,860</b>	<b>192,541,792</b>	<b>726,004,314</b>	<b>545,079,501</b>
<b>Information on cash flows</b>												
Cash flows from operating activities	111,174,633	66,345,141	(6,853,886)	(10,528,327)	2,459,720	1,421,827	887,815	(623,719)	(88,902,894)	(65,138,079)	18,765,388	(8,523,157)
Cash flows from investing activities	-	-	-	-	-	-	(6,795,464)	(1,025,995)	-	-	(6,795,464)	(1,025,995)
Cash flows from financing activities	(618,493)	9,108,100	-	-	-	-	-	-	(130,697)	(132,645)	(749,190)	8,975,455
Capital expenditure											-	-
Property, plant & equipment											(1,038,931)	(925,721)
Intangible assets											(144,494)	(119,903)
<b>Eliminations/unallocated</b>											<b>(3,679,064)</b>	<b>(3,869,351)</b>
<b>Net cash flow generated during the year</b>											<b>6,358,245</b>	<b>(5,488,672)</b>

## Total Assets



## Total Liabilities



## Notes to the Financial Statements

**60. 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 the Key Management Personnel (KMPs) have availed under schemes uniformly applicable to all staff at concessionary rates.

**60.1 Parent and Ultimate Controlling Party**

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

**60.2 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 entity directly or indirectly.

**KMPs of the Bank**

The Board of Directors (including executive and non-executive) of the Bank has been classified as KMPs of the Bank.

**KMPs of the Group**

As the Bank is the ultimate parent of the Subsidiaries listed out on page 408, the Board of Directors of the Bank has 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) is also KMPs of the Group. Therefore, officers who are only Directors of the subsidiaries and not of the Bank have been classified as KMPs of that respective subsidiary only.

<i>For the year ended December 31,</i>	<b>2014</b>	<b>2013</b>
	<b>Rs. '000</b>	<b>Rs. '000</b>
<b>60.2.1.1 Compensation of KMPs – Bank</b>		
Short term employment benefits	<b>110,065</b>	96,115
Post-employment benefits	<b>7,010</b>	5,463
<b>Total</b>	<b>117,075</b>	101,578
<b>60.2.1.2 Compensation of KMPs – Group</b>		
Short term employment benefits	<b>110,505</b>	96,437
Post-employment benefits	<b>7,010</b>	5,463
<b>Total</b>	<b>117,515</b>	101,900

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

**60.2.2 Transactions, Arrangements and Agreements Involving KMPs, and their 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.

## 60.2.2.1 Statement of Financial Position – Bank

As at December 31,	Year-end Balance		Average Balance	
	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Assets</b>				
Loans and advances	7,750	3,135	4,622	4,348
Credit cards	2	8	249	296
<b>Total</b>	<b>7,752</b>	<b>3,143</b>	<b>4,871</b>	<b>4,644</b>
<b>Liabilities</b>				
Deposits	52,134	70,653	63,999	64,168
Securities sold under re-purchase agreements	27,630	17,174	25,610	18,307
<b>Total</b>	<b>79,764</b>	<b>87,827</b>	<b>89,609</b>	<b>82,475</b>

## 60.2.2.2 Commitments and Contingencies – Bank

Undrawn facilities	10,089	4,564	6,086	5,643
<b>Total</b>	<b>10,089</b>	<b>4,564</b>	<b>6,086</b>	<b>5,643</b>

## 60.2.2.3 Direct and Indirect Accommodation – Bank

Direct and indirect accommodation as a percentage of the Bank's Regulatory Capital		0.02%	0.01%
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No impairment losses have been recorded against balances outstanding with KMPs and CFMs.

## 60.2.2.4 Income Statement

For the Year Ended December 31,	2014	2013
	Rs. '000	Rs. '000
Interest income	291	424
Interest expenses	6,553	8,490
Other income	80	69
Compensation to KMPs [Refer Notes 60.2.1.1 and 60.2.1.2]	117,075	101,578

## 60.2.2.5 Share-Based Benefits to KMPs

As at the Year End	2014	2013
Number of ordinary shares held	619,454	1,114,056
Dividends paid (in Rs. '000)	7,741	7,120
Number of cumulative exercisable options under the Employee Share Option Plan (ESOP) 2008 - Tranche I	50,231	101,087
Tranche II	148,016	55,076
Tranche III	103,736	60,512

## Notes to the Financial Statements

**60.3 Transactions with Group Entities**

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

**60.3.1 Transactions with Subsidiaries****60.3.1.1 Statement of Financial Position**

	Year-end balance		Average balance	
	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Assets</b>				
Loans and advances	586,800	–	213,738	1,478
Lease receivable	2,205	16,965	7,128	32,736
Other receivables	85,685	75,540	80,613	70,813
Impairment for other receivables	(51,398)	(41,036)	(46,217)	(34,632)
<b>Total</b>	<b>623,292</b>	<b>51,469</b>	<b>255,262</b>	<b>70,395</b>
<b>Liabilities</b>				
Deposits	94,896	53,937	80,391	60,395
Securities sold under re-purchase agreements	173,457	175,672	161,516	174,998
Other	19,289	15,686	17,487	18,975
<b>Total</b>	<b>287,642</b>	<b>245,295</b>	<b>259,394</b>	<b>254,368</b>

**60.3.1.2 Commitments and Contingencies**

Undrawn facilities	100,000	–	25,339	15,638
<b>Total</b>	<b>100,000</b>	<b>–</b>	<b>25,339</b>	<b>15,638</b>

**60.3.1.3 Direct and Indirect Accommodation**

Direct and indirect accommodation as a percentage of the Bank's Regulatory Capital	1.00%	0.03%
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**60.3.1.4 Income Statement**

	2014	2013
	Rs. '000	Rs. '000
Interest income	17,608	7,244
Interest expenses	35,080	23,550
Other income	70,482	70,465
Impairment charges	10,362	12,809
Expenses paid	379,463	345,007

**60.3.1.5 Other Transactions**

Payments made to ONEzero Company Ltd. in relation to purchase of computer hardware and software	30,312	29,327
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### 60.3.2 Transactions with Associates

#### 60.3.2.1 Statement of Financial Position

	Year-end Balance		Average Balance	
	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Assets</b>				
Loans and advances	–	11	227	22
Lease receivables	127	1,010	393	3,988
<b>Total</b>	<b>127</b>	<b>1,021</b>	<b>620</b>	<b>4,010</b>
<b>Liabilities</b>				
Deposits	22,331	78,600	25,900	43,087
Securities sold under repurchase agreements	5,771	6,840	490	14,300
<b>Total</b>	<b>28,102</b>	<b>85,440</b>	<b>26,390</b>	<b>57,387</b>

#### 60.3.2.2 Direct and Indirect Accommodation

Direct and Indirect Accommodation as a % of the Bank's Regulatory Capital	0.00%	0.00%
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#### 60.3.2.3 Income Statement

For the Year Ended December 31,

	2014	2013
	Rs. '000	Rs. '000
Interest income	104	615
Interest expenses	1,627	6,112
Other income	19,003	20,975

#### 60.3.2.4 Other Transactions

Number of ordinary shares of the Bank held by the associates as at the year end	4,485	4,408
Dividend paid (Rs. '000)	29	28

### 60.4 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.

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

##### 60.4.1.1 Statement of Financial Position

	Year-end Balance		Average Balance	
	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Assets</b>				
Loans and Advances	–	–	–	–
<b>Total</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Liabilities</b>				
Deposits	4,293,158	2,296,724	2,559,011	1,512,629
Securities sold under re-purchase agreements	1,171	60,042	769	11,906
<b>Total</b>	<b>4,294,329</b>	<b>2,356,766</b>	<b>2,559,780</b>	<b>1,524,535</b>

## Notes to the Financial Statements

## 60.4.1.2 Income Statement

For the Year Ended December 31,

	2014 Rs. '000	2013 Rs. '000
Interest income	-	-
Interest expenses	280,831	197,602
Contribution made/taxes paid by the Bank	901,433	795,675

## 61. Non-Cash Items Included in Profit Before Tax

As at December 31,

	GROUP		BANK	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
Depreciation of property, plant and equipment	1,087,175	717,583	1,026,730	786,024
Amortisation of leasehold property	1,452	1,452	942	942
Amortisation of intangible assets	173,373	149,347	172,874	149,291
Impairment losses on loans and advances	4,898,249	5,177,019	4,879,606	5,177,019
Other impairment	-	-	39,149	26,993
Contributions to defined benefit plans - Unfunded schemes	164,438	165,791	157,687	160,113
Provision made o/a of leave encashment	54,860	151,592	54,860	151,592
Effect of exchange rate variances on property, plant and equipment	1,833	(9,091)	311	(7,607)
Effect of exchange rate variances on intangible assets	1,069	(1,011)	8	(397)
Effect of exchange rate variances on defined benefit plans	(381)	7,294	(381)	7,294
Effect of exchange rate variances on subordinated liabilities	86,250	356,250	86,250	356,250
Net effect of exchange rate variances on net deferred tax liability	207	(3,701)	207	(3,701)
Net effect of exchange rate variances on income tax liability	(1,836)	42,772	(1,836)	42,772
Notional tax and withholding tax credits	(1,207,034)	(986,496)	(1,204,986)	(984,011)
<b>Total</b>	<b>5,259,655</b>	<b>5,768,801</b>	<b>5,211,421</b>	<b>5,862,574</b>

## 62. Change in Operating Assets

Net (increase)/decrease in derivative financial instruments	(378,184)	(513,401)	(378,184)	(513,401)
Net (increase)/decrease in balances with Central Banks	1,201,810	263,897	1,201,810	263,897
Net (increase)/decrease in placements with banks	10,376,047	(12,031,156)	10,376,047	(12,031,156)
Net (increase)/decrease in other financial assets-held-for-trading	(85,750)	326,419	(85,750)	326,419
Net (increase)/decrease in loans and receivables to banks	3,303	(82,490)	4,796	(82,490)
Net (increase)/decrease in loans and receivables to customers	85,148,527	50,191,461	85,666,925	42,180,694
Net (increase)/decrease in financial investments - available-for-sale	80,435,091	64,263,967	80,434,686	72,232,451
Net (increase)/decrease in other assets	1,111,827	357,539	1,125,449	363,768
<b>Total</b>	<b>177,812,671</b>	<b>102,776,236</b>	<b>178,345,779</b>	<b>102,740,182</b>

### 63. Change in Operating Liabilities

As at December 31,	GROUP		BANK	
	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Net increase/(decrease) in due to banks	10,436,070	9,300,274	11,066,757	9,300,274
Net increase/(decrease) in derivative financial instruments	(218,777)	1,327,625	(218,777)	1,327,625
Net increase/(decrease) in deposits from banks, customers and debt securities issued	78,167,642	60,530,264	78,208,561	60,541,375
Net increase/(decrease) in other borrowings	82,030,122	6,561,938	82,027,907	6,590,356
Net increase/(decrease) in other provisions	(535)	-	(535)	-
Net increase/(decrease) in other liabilities	7,453,105	(837,271)	7,393,572	(837,156)
Net increase/(decrease) in due to Subsidiaries	-	-	3,603	(6,578)
<b>Total</b>	<b>177,867,627</b>	<b>76,882,830</b>	<b>178,481,088</b>	<b>76,915,896</b>

### 64. Operating Leases

#### 64.1 Operating Lease Commitments (Payables)

The Group has leased a number of office premises under operating leases. These leases have an average life of between three to five years. Lease agreements include clauses to enable upward revision of the rental payments on a periodic basis to reflect market conditions. There are no restrictions placed upon the Group by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases are as follows:

As at December 31,	GROUP		BANK	
	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Less than one year	510,968	470,050	507,386	572,831
Between one and five years	1,400,091	1,380,118	1,395,852	1,380,118
More than five years	686,146	789,219	686,146	789,219
<b>Total</b>	<b>2,597,205</b>	<b>2,639,387</b>	<b>2,589,384</b>	<b>2,742,168</b>

#### 64.2 Operating lease commitments (Receivables)

The Group has entered into commercial property leases on its own properties, mainly consisting of areas not currently occupied by the branches. Lease agreements include clauses to enable upward revision of rental income on a periodic basis to reflect market conditions. These leases have an average life of between three to five years. There are no restrictions placed upon the Group by entering into these leases.

Future minimum rentals receivable under non-cancellable operating leases are as follows:

As at December 31,	GROUP		BANK	
	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Less than one year	7,579	11,250	6,679	8,680
Between one and five years	7,940	15,519	7,445	14,124
More than five years	-	-	-	-
<b>Total</b>	<b>15,519</b>	<b>26,769</b>	<b>14,124</b>	<b>22,804</b>

## Notes to the Financial Statements

**65. Financial Risk Review**

As required by the provisions of the SLFRS 07 on 'Financial Instrument: Disclosure', this Note presents information about the Bank's exposure to financial risks and the Bank's management of capital.

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**Introduction**

As a financial intermediary, the Bank is exposed to various types of risks including credit, market, liquidity and operational risks which are inherent in the Bank's activities. Managing these risks is critical for the sustainability of the Bank and plays a pivotal role in all activities of the Bank. Risk management function strives to identify potential risks in advance, analyse them and take precautionary steps to mitigate the impact of risk whilst optimising through risk adjusted returns within the risk appetite of the Bank.

**Risk Management Framework**

The overall responsibility and oversight of the risk management framework of the Bank is vested with the Board of Directors (BOD). The Board Integrated Risk Management Committee (BIRMC) a mandatory Sub-Committee set-up by the Board, in turn is entrusted with development of the Bank's risk management policies and monitoring of due compliance of same through the Executive Integrated Risk Management Committee (EIRMC).

The risk management policies spell out the risk appetite of the Bank and has incorporated risk exposure limits and controls to monitor adherence to the limits in force. These Policies and systems are reviewed regularly to reflect the changing market conditions and the products and services offered.

The Bank strives to inculcate a risk management culture through continuous training, work ethics and standards.

Refer Note 3 on page 281 for more information on the risk management framework of the Bank.



## Integrated Risk Management Department (IRMD)

Business units are the risk owners and have the primary responsibility for risk management. The IRMD acts as the second line of defense in managing the risk. The IRMD through Chief Manager - Risk reports to BIRMC thus ensuring its independence.

## Risk Measurement and Reporting

The Bank uses robust risk measurement techniques based on the type of risk and industry best practices. The Bank also carries out Stress Testing which is a key aspect of the Internal Capital Adequacy Assessment Process (ICAAP) and the risk management framework and provides insight on the impact of extreme but plausible scenarios on the Bank's risk profile. The results are reported to the EIRMC and to the BIRMC on a periodic basis.

The Bank establishes policies, limits and thresholds within the risk appetite. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept (risk appetite). The monitoring and control mechanism therefore is based on risk appetite of the Bank.

### 65.1 Credit Risk

The financial loss resulting from a borrower or counterparty to a financial instrument failing or delaying to meet its contractual obligations is referred to as credit risk. It arises principally from the Bank's loans and receivables to banks and other customers and investments in debt securities. In addition to the credit risk from direct funding exposure i.e., on Balance Sheet exposure, indirect liabilities such as Letters of Credit, Guarantees etc. also would expose the Bank to credit risk.

The Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector concentration risks) to ensure stringent credit risk management.

#### 65.1.1 Credit Quality Analysis

##### 65.1.1 (a) Maximum Exposure to Credit Risk

The table below set out information about the maximum exposure to credit risk (including off-balance sheet exposure) broken down by risk grades and the related provision for impairment made by the Bank against those assets.

As at December 31,	Note	Loans and Receivables to Other Customers		Loans and Receivables to Banks		Financial Investments		Lending Commitments and Financial Guarantees	
		2014	2013	2014	2013	2014	2013	2014	2013
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Maximum Exposure to Credit Risk</b>									
Carrying amount	30-33, 55	497,065,787	410,951,440	551,066	546,270	220,535,006	138,135,583	-	-
Amount Committed/ Guarantees		-	-	-	-	-	-	351,196,011	294,362,080
<b>At Amortised Cost</b>									
Government Securities (Risk Free Investments)		82,048,277	52,055,196	-	-	-	-	-	-
Rating 0-4: Investment Grade(*)		232,627,091	189,905,906	551,066	546,270	-	-	-	-
Rating 5-6: Moderate Risk		177,468,590	164,685,855	-	-	-	-	-	-
Rating S: High Risk		2,791,464	2,142,597	-	-	-	-	-	-
Rating 7-9: Extreme Risk		19,086,939	17,949,054	-	-	-	-	-	-
Gross carrying amount		514,022,361	426,738,608	551,066	546,270	-	-	-	-
Less: Provision for impairment (individual and collective)		16,956,574	15,787,168	-	-	-	-	-	-
Net carrying amount	31, 32	497,065,787	410,951,440	551,066	546,270	-	-	-	-

(\*) Investment grade also includes Cash, Gold.

## Notes to the Financial Statements

As at December 31,	Note	Loans and Receivables to Other Customers		Loans and Receivables to Banks		Financial Investments		Lending Commitments and Financial Guarantees	
		2014	2013	2014	2013	2014	2013	2014	2013
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Available-for-sale</b>									
Government Securities (Risk Free Investments)		-	-	-	-	205,160,033	123,597,457	-	-
Rating 0-4: Investment Grade		-	-	-	-	843,630	190,584	-	-
Rating 5-6: Moderate Risk		-	-	-	-	8,204,707	7,968,484	-	-
Rating S: High Risk		-	-	-	-	-	-	-	-
Rating 7-9: Extreme Risk		-	-	-	-	-	-	-	-
Gross/net carrying amount	33	-	-	-	-	214,208,370	131,756,525	-	-
<b>At Fair Value through Profit or Loss</b>									
Government Securities (Risk Free Investments)		-	-	-	-	2,423,272	4,058,644	-	-
Rating 0-4: Investment Grade		-	-	-	-	367,732	334,407	-	-
Rating 5-6: Moderate Risk		-	-	-	-	3,535,632	1,986,007	-	-
Rating S: High Risk		-	-	-	-	-	-	-	-
Rating 7-9: Extreme Risk		-	-	-	-	-	-	-	-
Gross/net carrying amount	30	-	-	-	-	6,326,636	6,379,058	-	-
Total net carrying amount		497,065,787	410,951,440	551,066	546,270	220,535,006	138,135,583	-	-
<b>Off-Balance Sheet(**)</b>									
<b>Maximum Exposure</b>									
<b>Lending Commitments</b>									
Rating 0-6: Investment Grade to Moderate Risk		-	-	-	-	-	-	106,560,178	71,240,051
<b>Financial Guarantees</b>									
Rating 0-6: Investment Grade to Moderate Risk		-	-	-	-	-	-	244,635,833	223,122,029
Total exposure	55	-	-	-	-	-	-	351,196,011	294,362,080

(\*\*) Amounts reported above do not include Capital Commitments Disclosed in the Note 55 on 'Contingent Liabilities and Commitments' on page 367.

## 65.1.1 (b) Age Analysis by Class of Financial Assets

The maximum exposure to credit risk for class of financial assets by risk rating and by age are given below:

As at December 31,	Loans and Receivables to Other Customers		Loans and Receivables to Banks		Financial Investment		Lending Commitments and Financial Guarantees	
	2014	2013	2014	2013	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Government Securities (Risk Free investments)</b>	<b>82,048,277</b>	52,055,196	-	-	<b>207,583,305</b>	127,656,101	-	-
Gross carrying amount	<b>82,048,277</b>	52,055,196	-	-	<b>207,583,305</b>	127,656,101	-	-
<b>Neither Past Due Nor Individually Impaired</b>								
Rating 0-4: Investment grade	<b>232,483,081</b>	189,803,544	<b>551,066</b>	546,270	<b>1,211,362</b>	524,991	<b>141,026,873</b>	122,187,912
Rating 5-6: Moderate risk	<b>176,917,981</b>	164,134,382	-	-	<b>11,740,339</b>	9,954,491	<b>210,169,138</b>	172,174,168
Gross carrying amount	<b>409,401,062</b>	353,937,926	<b>551,066</b>	546,270	<b>12,951,701</b>	10,479,482	<b>351,196,011</b>	294,362,080
<b>Past Due But Not Individually Impaired</b>								
Less than 3 months	<b>3,705,964</b>	3,573,745	-	-	-	-	-	-
3 to 6 months	<b>1,868,823</b>	1,047,562	-	-	-	-	-	-
6 to 12 months	<b>1,297,997</b>	1,699,939	-	-	-	-	-	-
12 to 18 months	<b>1,326,904</b>	1,177,750	-	-	-	-	-	-
More than 18 months	<b>7,824,652</b>	6,443,466	-	-	-	-	-	-
Gross carrying amount	<b>16,024,340</b>	13,942,462	-	-	-	-	-	-
<b>Individually Impaired</b>								
Less than 3 months	<b>266,435</b>	274,438	-	-	-	-	-	-
3 to 6 months	<b>1,007,795</b>	611,771	-	-	-	-	-	-
6 to 12 months	<b>148,659</b>	1,121,260	-	-	-	-	-	-
12 to 18 months	<b>734,831</b>	417,687	-	-	-	-	-	-
More than 18 months	<b>4,390,962</b>	4,377,868	-	-	-	-	-	-
Gross carrying amount	<b>6,548,682</b>	6,803,024	-	-	-	-	-	-
<b>Total gross carrying amount</b>	<b>514,022,361</b>	426,738,608	<b>551,066</b>	546,270	<b>220,535,006</b>	138,135,583	<b>351,196,011</b>	294,362,080
<b>Provisional for Impairment</b>								
Individual	<b>4,334,587</b>	4,204,654	-	-	-	-	-	-
Collective	<b>12,621,987</b>	11,582,514	-	-	-	-	-	-
Total Provision for impairment	<b>16,956,574</b>	15,787,168	-	-	-	-	-	-
<b>Total net carrying amount</b>	<b>497,065,787</b>	410,951,440	<b>551,066</b>	546,270	<b>220,535,006</b>	138,135,583	<b>351,196,011</b>	294,362,080

The methodology of the impairment assessment is explained in the Note 5.3.10 on page 291.

## Notes to the Financial Statements

## 65.1.1 (c) Credit Risk Exposure for Each Internal Credit Rating

Through adoption of a robust risk grading system that falls in line with Basel requirements, the Bank maintains accurate and consistent risk ratings across the credit portfolio in accordance with the established policy framework to ensure the quality of its credit portfolio. The risk rating framework consists of several ratings of varying degrees of risk as an indicator for Lending Officers to evaluate the overall risk profile of counterparties and to arrive at an acceptable risk return trade-off. It also provides a tool for the Management to assess the credit exposures across all lines of business, geographic regions and products. The risk ratings of the borrowers are reviewed at least annually or more frequently in a deteriorating risk profile of the counterparties.

The Bank's internal credit rating of the loans and receivables to banks and loans and receivables to other customers together with historical default rates and respective gross carrying amounts are given in the table below:

As at December 31, Bank's Internal Credit Rating	2014		2013	
	Historical Default Rates %	Gross Carrying Amount Rs. '000	Historical Default Rates %	Gross Carrying Amount Rs. '000
<b>Neither Past Due Nor Impaired</b>				
Government Guaranteed	–	82,048,277	–	52,055,196
Gold	15.77	2,348,767	28.74	7,069,762
<b>Investment Grade</b>				
Rating - 0	0.15	49,585,111	0.08	26,787,105
Rating - 1	0.40	5,432,532	0.70	7,201,587
Rating - 2	0.39	17,259,834	0.52	14,240,462
Rating - 3	0.59	50,123,205	0.70	42,328,959
Rating - 4	0.31	107,733,631	0.31	92,175,669
<b>Moderate Risk</b>				
Rating - 5	0.88	154,362,496	1.09	139,356,308
Rating - 6	1.68	22,555,485	1.79	24,778,073
<b>Past Due But Not Impaired</b>				
<b>High Risk</b>				
Rating - S	25.27	2,593,132	26.30	1,926,738
<b>Extreme Risk</b>				
Rating - 7	58.02	1,854,792	58.47	2,171,596
Rating - 8	69.04	1,774,810	74.49	1,623,325
Rating - 9	100.00	9,801,607	100.00	8,220,804
<b>Impaired</b>				
Individually Impaired(*)	–	6,548,682	–	6,803,024
<b>Total</b>	–	514,022,361	–	426,738,608

(\*) Default rates are not calculated for individually impaired loans and receivables.

## 65.1.1 (d) Credit Quality by Class of Financial Assets

The tables below show the credit quality by the class of asset for all financial assets exposed to credit risk, based on the Bank's internal credit rating.

As at December 31, 2014	Note	Neither Past Due Nor Individually Impaired			Past Due But Not Individually Impaired	Individually Impaired	Total
		Government Guarantee	Investment Grade	Moderate Risk			
		Rs. '000	Rs. '000	Rs. '000			
Cash and cash equivalents	26	-	20,591,867	-	-	-	20,591,867
Balances with Central Banks	27	19,633,746	-	-	-	-	19,633,746
Placements with banks	28	-	14,507,861	-	-	-	14,507,861
Derivative financial instruments	29	-	459,510	-	-	-	459,510
Other financial instruments - held-for-trading	30	2,423,272	367,732	3,535,632	-	-	6,326,636
Loans and receivables to banks	31	-	551,066	-	-	-	551,066
Loans and receivables to other customers	32	82,048,277	231,625,228	174,801,951	6,376,232	2,214,099	497,065,787
Corporate banking		82,048,277 <sup>(*)</sup>	138,816,911	62,137,988	453,448	759,582	284,216,206
Amortised cost		82,048,277	139,309,401	63,295,940	868,904	2,615,388	288,137,910
Less-provision for impairment		-	492,490	1,157,952	415,456	1,855,806	3,921,704
Personal banking		-	92,808,317	112,663,963	5,922,784	1,454,517	212,849,581
Amortised cost		-	93,173,680	113,622,041	15,155,436	3,933,294	225,884,451
Less-provision for impairment		-	365,363	958,078	9,232,652	2,478,777	13,034,870
Financial investments - Available-for-sale	33	205,160,033	843,630	8,204,707	-	-	214,208,370
Government Securities		205,160,033	-	8,204,707	-	-	213,364,740
Equity Securities - Quoted shares		-	185,132	-	-	-	185,132
Equity Securities - Unquoted shares		-	45,057	-	-	-	45,057
Investment in unit trust		-	613,441	-	-	-	613,441
<b>Total</b>		<b>309,265,328</b>	<b>268,946,894</b>	<b>186,542,290</b>	<b>6,376,232</b>	<b>2,214,099</b>	<b>773,344,843</b>

Definition of 'Past Due' - The Bank considers that any amount uncollected one day or more beyond their contractual due date as 'Past Due'.

(\*) Investment in Sri Lanka Development Bonds and Securities purchased under re-sale agreements included.

## Notes to the Financial Statements

As at December 31, 2013		Neither Past Due Nor Individually Impaired			Past Due But Not Individually Impaired	Individually Impaired	Total
	Note	Government Guarantee	Investment Grade	Moderate Risk			
		Rs. '000	Rs. '000	Rs. '000			
Cash and cash equivalents	26	–	14,261,549	–	–	–	14,261,549
Balances with Central Banks	27	18,431,936	–	–	–	–	18,431,936
Placements with banks	28	–	4,131,814	–	–	–	4,131,814
Derivative financial instruments	29	–	837,694	–	–	–	837,694
Other financial instruments - held-for-trading	30	4,058,644	334,407	1,986,007	–	–	6,379,058
Loans and receivables to banks	31	–	546,270	–	–	–	546,270
Loans and receivables to other customers	32	52,055,196	188,121,998	162,678,291	5,497,584	2,598,371	410,951,440
Corporate banking		52,055,196(*)	119,616,050	51,951,240	270,864	1,014,209	224,907,559
Amortised cost		52,055,196	120,812,047	52,332,386	828,160	3,092,875	229,120,664
Less - provision for impairment		–	1,195,997	381,146	557,296	2,078,666	4,213,105
Personal banking		–	68,505,948	110,727,051	5,226,720	1,584,162	186,043,881
Amortised cost		–	68,991,497	111,801,996	13,114,301	3,710,150	197,617,944
Less - provision for impairment		–	485,549	1,074,945	7,887,581	2,125,988	11,574,063
Financial investments - Available-for-sale	33	123,597,457	190,584	7,968,484	–	–	131,756,525
Government Securities		123,597,457	–	7,968,484	–	–	131,565,941
Quoted shares		–	145,492	–	–	–	145,492
Unquoted shares		–	45,092	–	–	–	45,092
Investment in unit trust		–	–	–	–	–	–
<b>Total</b>		<b>198,143,233</b>	<b>208,424,316</b>	<b>172,632,782</b>	<b>5,497,584</b>	<b>2,598,371</b>	<b>587,296,286</b>

Definition of 'Past Due' - The Bank considers that any amount uncollected one day or more beyond their contractual due date as 'Past Due'.

(\*) Investment made in Sri Lanka Development Bonds and Securities purchased under re-sale agreements included.

## 65.1.1 (e) Trading Assets

## Held-for-Trading Investments in Debt and Equity Securities

The table below sets out the credit quality of debt and equity securities classified as held-for-trading. Debt securities include investments made by the Bank in Government Securities of Sri Lanka and Bangladesh. The analysis of equity securities is based on Fitch Rating Nomenclature or Equivalent Ratings, where applicable.

<i>As at December 31,</i>	Note	2014 Rs. '000	2013 Rs. '000
<b>Government Securities</b>			
<b>Government Securities – Sri Lanka</b>			
Treasury bills		781,287	2,946,147
Treasury bonds		1,641,985	1,112,497
<b>Government Securities – Bangladesh</b>			
Treasury bills		3,442,876	1,842,431
Treasury bonds		92,756	143,576
<b>Total - Government securities</b>		<b>5,958,904</b>	6,044,651
<b>Equity Shares</b>			
Rated AAA		58,063	73,311
Rated AA- to AA+		5,923	4,310
Rated A to A+		41,018	16,316
Rated BBB+		7,545	4,413
Unrated		255,183	236,057
Total - Equity securities		367,732	334,407
<b>Total</b>	30	<b>6,326,636</b>	6,379,058

## Credit Exposure Arising from Derivative Transactions

Credit risk arising from derivative financial instruments at any time is limited to those with positive fair values, as reported in the Statement of Financial Position. With gross settled derivatives, the Bank is also exposed to a settlement risk, being the risk that counterparty fails to deliver the counter value.

The table below shows analysis of credit exposures arising from derivative financial assets and liabilities as at December 31, 2014.

	Derivative Type							
	Total		Forward		SWAPS		Spot	
	Notional Amount Rs. '000	Fair Value Rs. '000	Notional Amount Rs. '000	Fair Value Rs. '000	Notional Amount Rs. '000	Fair Value Rs. '000	Notional Amount Rs. '000	Fair Value Rs. '000
Derivative financial assets (Note 1)	60,511,385	459,510	20,358,635	233,300	37,306,791	222,533	2,845,959	3,677
Derivative financial liabilities (Note 2)	69,110,246	(1,193,139)	8,222,097	(368,886)	60,338,932	(823,596)	549,217	(657)
<b>Note 1</b>								
<b>Derivative financial assets by counterparty type</b>								
With Banks	45,727,744	279,671	6,328,908	54,701	37,306,791	222,533	2,092,045	2,437
Other customers	14,783,641	179,839	14,029,727	178,599	–	–	753,914	1,240
	60,511,385	459,510	20,358,635	233,300	37,306,791	222,533	2,845,959	3,677
<b>Note 2</b>								
<b>Derivative financial liabilities by counterparty type</b>								
With Banks	64,423,203	(848,596)	3,747,560	(24,499)	60,338,932	(823,596)	336,711	(501)
Other customers	4,687,043	(344,543)	4,474,537	(344,387)	–	–	212,506	(156)
	69,110,246	(1,193,139)	8,222,097	(368,886)	60,338,932	(823,596)	549,217	(657)

## Notes to the Financial Statements

## 65.1.2 Impaired Loans and Receivables and Investment Debt Securities

The table below sets out a reconciliation of changes in the carrying amount of individually impaired loans and receivables:

<i>As at December 31,</i>	2014 Rs. '000	2013 Rs. '000
Impaired loans and receivables to other customers as at January 01,	2,598,374	2,569,121
Newly classified as impaired loans and receivables during the year	628,790	1,226,078
Net change in already impaired loans and receivables during the year	(100,073)	(781,949)
Net payment, write-off and recoveries and other movement during the year	(912,992)	(414,876)
<b>Impaired loans and receivables to customers as at December 31,</b>	<b>2,214,099</b>	<b>2,598,374</b>

No impairment provision has been made for investment in debt securities as at December 31, 2014 (2013 - nil).

For methodology of the impairment assessment, refer Note 5.3.10 on impairment of financial assets carried at amortised cost on page 291.

For details of provision for impairment for loans and receivables to banks and loans and receivable to other customers, refer Notes 31 and 32 on page 322.

Set out below is an analysis of the gross and net carrying amounts of individually impaired loans and receivables to customers by risk rates:

<i>As at December 31,</i>	2014		2013	
	Loans and Receivable to Customers		Loans and Receivable to Customers	
	Gross Rs. '000	Net Rs. '000	Gross Rs. '000	Net Rs. '000
Rating 0-4: Investment Grade	144,010	103,374	102,363	47,120
Rating 5-6: Moderate Risk	550,610	335,272	551,473	250,186
Rating S: High Risk	198,333	184,071	215,859	125,665
Rating 7-9: Extreme Risk	5,655,729	1,591,382	5,933,329	2,175,403
	<b>6,548,682</b>	<b>2,214,099</b>	<b>6,803,024</b>	<b>2,598,374</b>

## 65.1.3 Collateral Held

## Loan to Value Ratio of Residential Mortgage Lending

The table below stratifies credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan to the value of the collateral which is also used for the computation of Capital Adequacy Ratios. The value of the collateral for residential mortgage loans are based on the forced sale value determined by professional valuers.

<i>As at December 31,</i>	2014		2013	
	Rs. '000	Composition (%)	Rs. '000	Composition (%)
LTV Ratio				
Less than 50%	4,351,805	24.04	3,270,031	24.72
51 - 70%	4,690,017	25.90	3,622,301	27.39
71 - 90%	5,244,165	28.96	3,614,301	27.33
91 - 100%	821,071	4.53	722,516	5.46
More than 100%*	3,001,235	16.57	1,996,500	15.10
	<b>18,108,293</b>	<b>100.00</b>	<b>13,225,649</b>	<b>100.00</b>

\* LTV ratio of more than 100% was due to the inflated numerator resulted from subsequent disbursements made to the borrower which was compared against the initial fair value of the property, (the denominator).

## Assets Obtained by taking the Possession of Collaterals

Repossession of collaterals, is resorted to in extreme situations where action is necessitated to recover the dues. The repossessed assets are disposed, in an orderly and transparent manner and the proceeds are used to reduce or recover the outstanding claim.



## 65.1.4 Concentrations of Credit Risk

By setting various concentration limits under different criteria within the established risk appetite framework (i.e., single borrower/group, industry sectors, product counterparty and country etc.), the Bank ensures that an acceptable level of risk diversification is maintained on an ongoing basis. These limits are continuously monitored and periodically reviewed by the Credit Policy Committee, the Executive Integrated Risk Management Committee and the Board Integrated Risk Management Committee, to capture the developments in market, political and economic environment both locally and internationally to strengthen the dynamic portfolio management practices and to provide an early warning on possible credit concentrations.

The maximum exposure to credit risk to the components of financial assets in the Statement of Financial Position as at December 31, broken down by industry sector and by geographical region of financial assets is given below:

## 65.1.4 (a) Industry-wise Distribution

As at December 31, 2014	Agriculture and Fishing	Manufacturing	Tourism	Transport	Construction	Traders	New Economy	Financial and Business Services	Government	Infrastructure	Other Services	Other Customers	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Financial Assets</b>													
Cash and cash equivalents	-	-	-	-	-	-	-	20,591,867	-	-	-	-	20,591,867
Balances with Central Banks	-	-	-	-	-	-	-	-	19,633,746	-	-	-	19,633,746
Placements with banks	-	-	-	-	-	-	-	14,507,861	-	-	-	-	14,507,861
Derivative financial assets	25,308	4,397	306	-	32,984	255	-	366,871	-	620	6,823	21,946	459,510
Other financial instruments – held-for-trading	-	177,415	11,856	-	20,850	33,821	19,954	51,817	5,958,904	52,019	-	-	6,326,636
Government securities	-	-	-	-	-	-	-	-	5,958,904	-	-	-	5,958,904
Equity securities - Quoted shares	-	177,415	11,856	-	20,850	33,821	19,954	51,817	-	52,019	-	-	367,732
Loans and receivables to banks	-	-	-	-	-	-	-	551,066	-	-	-	-	551,066
Loans and receivables to other customers	43,581,619	53,623,161	16,888,688	12,940,410	40,351,177	59,869,481	6,209,585	35,738,751	82,495,573	15,590,465	39,830,241	89,946,636	497,065,787
Government securities	-	-	-	-	-	-	-	-	40,850,011	-	-	-	40,850,011
Loans & advances*	43,581,619	52,662,465	16,888,688	12,940,410	40,351,177	58,916,183	6,209,585	28,751,154	41,198,266	15,590,465	39,593,074	89,946,636	446,629,722
Investment securities	-	960,696	-	-	-	953,298	-	6,987,597	447,296	-	237,167	-	9,586,054
Financial investments - Available-for-sale	-	11,356	-	-	-	-	-	789,467	213,380,603	-	26,944	-	214,208,370
Government securities	-	-	-	-	-	-	-	-	213,364,740	-	-	-	213,364,740
Equity securities - Quoted shares	-	11,356	-	-	-	-	-	173,777	-	-	-	-	185,133
Equity securities - Unquoted shares	-	-	-	-	-	-	-	2,250	15,863	-	26,944	-	45,057
Unit trusts	-	-	-	-	-	-	-	613,440	-	-	-	-	613,440
<b>Total</b>	<b>43,606,927</b>	<b>53,816,329</b>	<b>16,900,850</b>	<b>12,940,410</b>	<b>40,405,011</b>	<b>59,903,557</b>	<b>6,229,539</b>	<b>72,597,700</b>	<b>321,468,826</b>	<b>15,643,104</b>	<b>39,864,008</b>	<b>89,968,582</b>	<b>773,344,843</b>

## Notes to the Financial Statements

As at December 31, 2013	Agriculture and Fishing	Manufacturing	Tourism	Transport	Construction	Traders	New Economy	Financial and Business Services	Government	Infrastructure	Other Services	Other Customers	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Financial Assets</b>													
Cash and cash equivalents	-	-	-	-	-	-	-	14,261,549	-	-	-	-	14,261,549
Balances with Central Banks	-	-	-	-	-	-	-	-	18,431,936	-	-	-	18,431,936
Placements with banks	-	-	-	-	-	-	-	4,131,814	-	-	-	-	4,131,814
Derivative financial assets	90,357	6,657	122	17	-	3	-	699,656	-	-	19,259	21,623	837,694
Other financial instruments – held-for-trading	-	158,110	1,720	-	21,685	29,082	40,599	32,738	6,044,651	28,631	21,842	-	6,379,058
Government securities	-	-	-	-	-	-	-	-	6,044,651	-	-	-	6,044,651
Equity securities - Quoted shares	-	158,110	1,720	-	21,685	29,082	40,599	32,738	-	28,631	21,842	-	334,407
<b>Loans and receivables to banks</b>													
Loans and receivables to other customers	36,503,291	48,845,668	12,928,639	9,895,157	33,943,285	49,776,845	6,101,677	18,404,072	52,502,492	12,625,531	29,883,058	99,541,725	410,951,440
Government securities	-	-	-	-	-	-	-	-	43,108,697	-	-	-	43,108,697
Loans & advances*	36,503,291	47,722,435	12,928,639	9,895,157	33,943,285	49,522,937	6,101,677	16,088,750	8,946,499	12,625,531	29,645,802	99,541,725	363,465,728
Investment securities	-	1,123,233	-	-	-	253,908	-	2,315,322	447,296	-	237,256	-	4,377,015
<b>Financial investments - Available-for-sale</b>													
Government securities	-	-	-	-	-	-	-	147,743	131,565,940	42,842	-	-	131,756,525
Equity securities - Quoted shares	-	-	-	-	-	-	-	145,493	-	-	-	-	145,493
Equity securities - Unquoted shares	-	-	-	-	-	-	-	2,250	-	42,842	-	-	45,092
Unit trusts	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>36,593,648</b>	<b>49,010,435</b>	<b>12,930,481</b>	<b>9,895,174</b>	<b>33,964,970</b>	<b>49,805,930</b>	<b>6,142,276</b>	<b>38,223,842</b>	<b>208,545,019</b>	<b>12,697,004</b>	<b>29,924,159</b>	<b>99,563,348</b>	<b>587,296,286</b>

(\*) Industry wise loans and receivables appearing in the Note 32.1 (c) does not agree due to the impairment.

## 65.1.4 (b) Geographical Distribution of Loans and Receivables Portfolio

The Western Province has recorded a higher percentage of lending based on geographical distribution of the Bank's lending portfolio. It has accounted for 74% (approximately) of total advances portfolio of the Bank as at December 31, 2014. Although, Western Province is vested with highest credit concentration, we believe that a sizeable portion of these lending has been utilised to facilitate industries scattered around the country. For example, most of the large corporates which have island-wide operations are being accommodated by the branches and Corporate Banking Division situated in the Western Province thus reflecting a fairly diversified geographical concentration on such borrowers.

As at December 31, 2014

Location	Loans and receivables by product												
	Overdraft	Trade Finance	Lease Receivables	Credit card	Pawning	Staff Loans	Housing Loans	Personal Loans	Long Term Loans	Short Term Loans	Bills of Exchange	Securities Purchased Under Resale Agreements (Rev. Repo.)	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Sri Lanka</b>													
Central	3,597,148	101,125	1,394,106	253,347	144,102	-	1,814,563	1,165,655	8,968,284	377,338	46,093	-	17,861,761
Eastern	694,683	-	265,758	57,678	73,238	-	222,426	347,563	1,386,989	39,441	-	-	3,087,776
North Central	629,465	101,423	935,383	66,909	14,389	-	371,416	282,964	2,548,677	220,747	22,533	-	5,193,906
Northern	1,476,474	-	465,942	66,899	534,999	-	473,853	453,957	2,337,898	21,598	1,988	-	5,833,608
North Western	3,104,692	248,329	1,683,351	206,582	234,631	-	2,160,393	1,141,875	8,439,507	477,588	8,507	-	17,705,455
Sabaragamuwa	2,431,968	95,459	947,590	117,882	99,293	-	1,432,771	651,940	3,303,445	238,764	9,637	-	9,328,749
Southern	3,812,054	866,546	1,808,851	225,498	149,548	-	3,303,663	1,796,194	8,272,388	191,654	24,891	-	20,451,287
Uva	754,494	4,219	567,142	65,392	50,375	-	1,126,814	413,966	2,068,858	78,252	-	-	5,129,512
Western	46,910,668	37,926,034	13,894,422	2,404,228	1,007,100	4,873,068	19,440,762	14,375,984	128,245,662	18,126,426	3,595,743	41,198,266	331,998,363
<b>Bangladesh</b>	4,089,012	1,906,658	184,585	52,085	-	132,023	125,585	266,094	8,515,342	11,272,274	3,495,647	-	30,039,305
<b>Total</b>	67,500,658	41,249,793	22,147,130	3,516,500	2,307,675	5,005,091	30,472,246	20,896,192	174,087,050	31,044,082	7,205,039	41,198,266	446,629,722

As at December 31, 2013

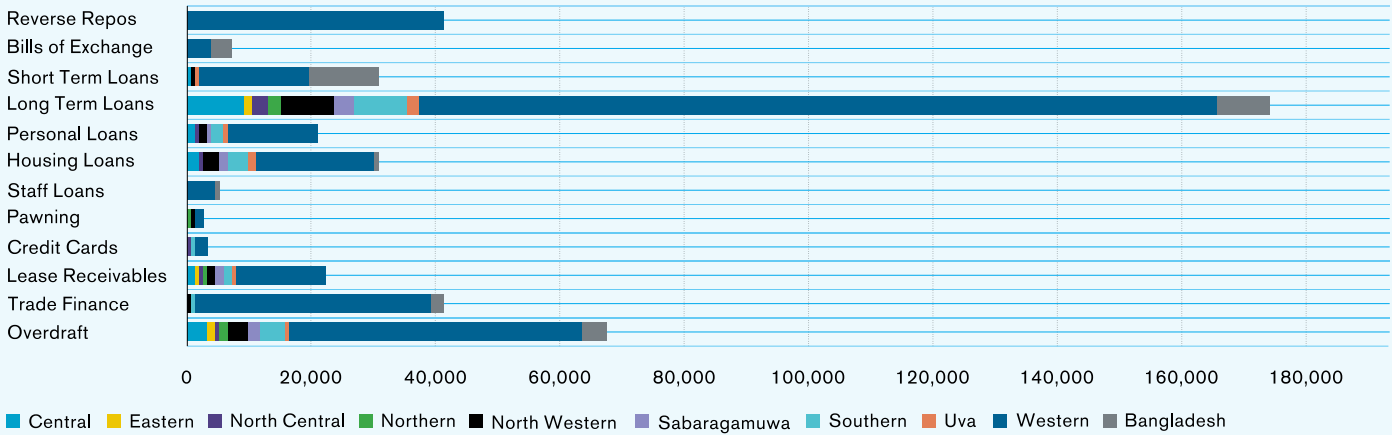
Location	Loans and receivables by product												
	Overdraft	Trade Finance	Lease Receivables	Credit card	Pawning	Staff Loans	Housing Loans	Personal Loans	Long Term Loans	Short Term Loans	Bills of Exchange	Securities Purchased Under Resale Agreements (Rev. Repo.)	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Sri Lanka</b>													
Central	2,610,622	80,531	1,412,923	240,321	430,567	-	1,562,966	984,494	6,521,992	625,131	33,958	-	14,503,505
Eastern	733,465	-	358,591	54,712	362,417	-	215,886	436,866	1,281,357	103,432	-	-	3,546,726
North Central	659,699	220,115	900,708	63,468	61,178	-	340,048	382,997	1,907,628	585,721	16,601	-	5,138,163
Northern	1,793,373	18,701	648,594	63,460	1,766,574	-	489,533	425,873	2,382,651	35,437	1,465	-	7,625,661
North Western	3,160,834	139,391	1,929,409	195,960	644,118	-	1,987,342	823,209	6,891,028	562,428	6,268	-	16,339,987
Sabaragamuwa	1,921,976	100,115	860,982	111,821	278,100	-	1,276,231	505,806	2,315,080	223,776	7,100	-	7,600,987
Southern	3,491,892	529,769	1,431,837	213,904	398,049	-	3,061,521	1,428,483	6,182,105	140,064	18,338	-	16,895,962
Uva	675,125	29,499	525,312	62,030	159,051	-	790,164	301,657	1,547,085	86,900	-	-	4,176,823
Western	49,969,917	40,679,508	12,670,399	2,280,609	2,669,409	3,715,533	17,073,061	9,988,578	94,060,736	14,977,600	2,649,081	8,946,499	259,680,930
<b>Bangladesh</b>	4,755,943	5,190,750	211,118	42,998	-	161,221	96,264	277,571	5,193,375	9,813,447	2,214,297	-	27,956,984
<b>Total</b>	69,772,846	46,988,379	20,949,873	3,329,283	6,769,463	3,876,754	26,893,016	15,555,534	128,283,037	27,153,936	4,947,108	8,946,499	363,465,728

Please refer the Note No. 32.1(a) for the Gross carrying amount of the Loans and Advances, Government securities and investments coming under loans and receivables not considered in the above distribution.

Notes to the Financial Statements

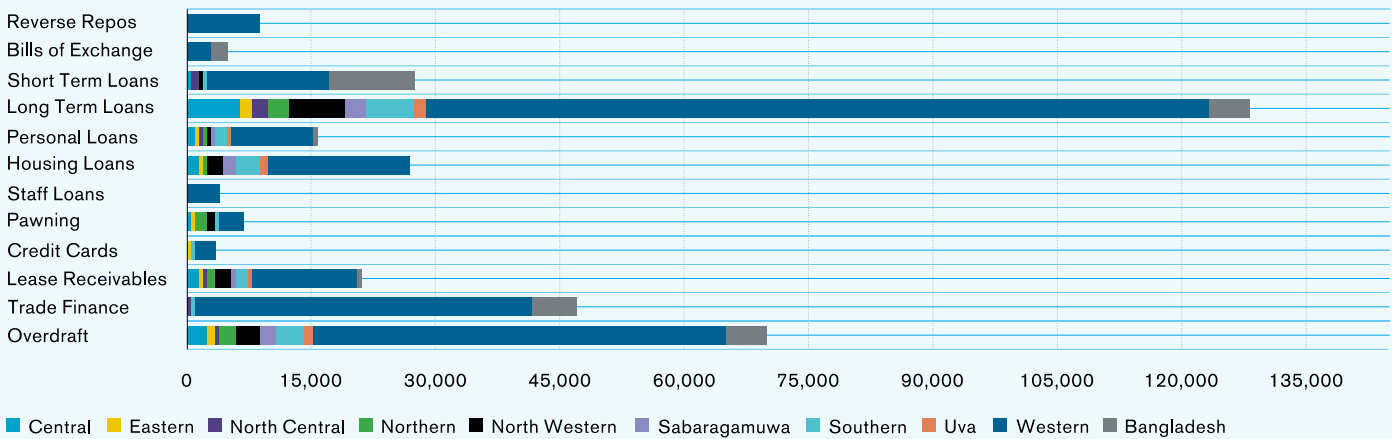
Geographical Distribution of Loans and Receivables as at December 31, 2014

(Rs. Mn)



Geographical Distribution of Loans and Receivables as at December 31, 2013

(Rs. Mn)



### 65.1.5 Exposures to Unrated Countries

This note summarises the Bank's on-balance sheet and off-balance sheet exposure to unrated countries.

<i>As at December 31,</i>	2014 Rs. '000	2013 Rs. '000
<b>On-Balance Sheet Exposures</b>		
Loans and receivables to customers		
Net carrying value	6,025,118	5,421,133
Gross carrying value	7,124,420	6,481,463
Less - Provision for impairment	1,099,302	1,060,330
Fair value net of provision for impairment(*)	6,025,118	5,421,133
Fair value before impairment	7,124,420	6,481,463
Less - Provision for impairment	1,099,302	1,060,330
<b>Off-Balance Sheet Exposures</b>		
Loan commitments and financial guarantees	360,557	211,063
Financial guarantees	135,082	105,215
Loan commitments	225,475	105,848
Total On-Balance sheet and off-balance sheet exposure	6,385,675	5,632,196

(\*) There is no difference between the net carrying amount and the fair value, as all facilities have been granted under floating interest rates.

## 65.2 Liquidity Risk

Liquidity risk is the Bank's inability to meet On or Off-Balance Sheet contractual and contingent financial obligations, as they fall due without incurring unacceptable losses. The principal objective in liquidity risk management is to assess the need for funds to meet such obligations and to ensure the availability of adequate funding to fulfil those needs at the appropriate time, under both normal and stressed conditions.

Therefore, the Bank continuously analyses and monitors its liquidity profile, maintains adequate levels of high quality liquid assets, ensures access to diverse funding sources and has contingency funding agreements with peer banks to meet any unforeseen liquidity requirements. Exposures and ratios against tolerance limits as well as stressed scenarios are regularly monitored in order to identify the Bank's liquidity position and potential funding requirements.

Asset and Liability Management Committee (ALCO)

ALCO chaired by the Managing Director, has representatives from Treasury, Corporate Banking, Personal Banking, Risk and Finance Departments. The Committee meets fortnightly or more frequently to monitor and manage the assets and liabilities of the Bank and also the overall liquidity position to keep the Bank's liquidity at healthy levels, whilst satisfying the regulatory requirements.

### 65.2.1 Exposure to Liquidity Risk

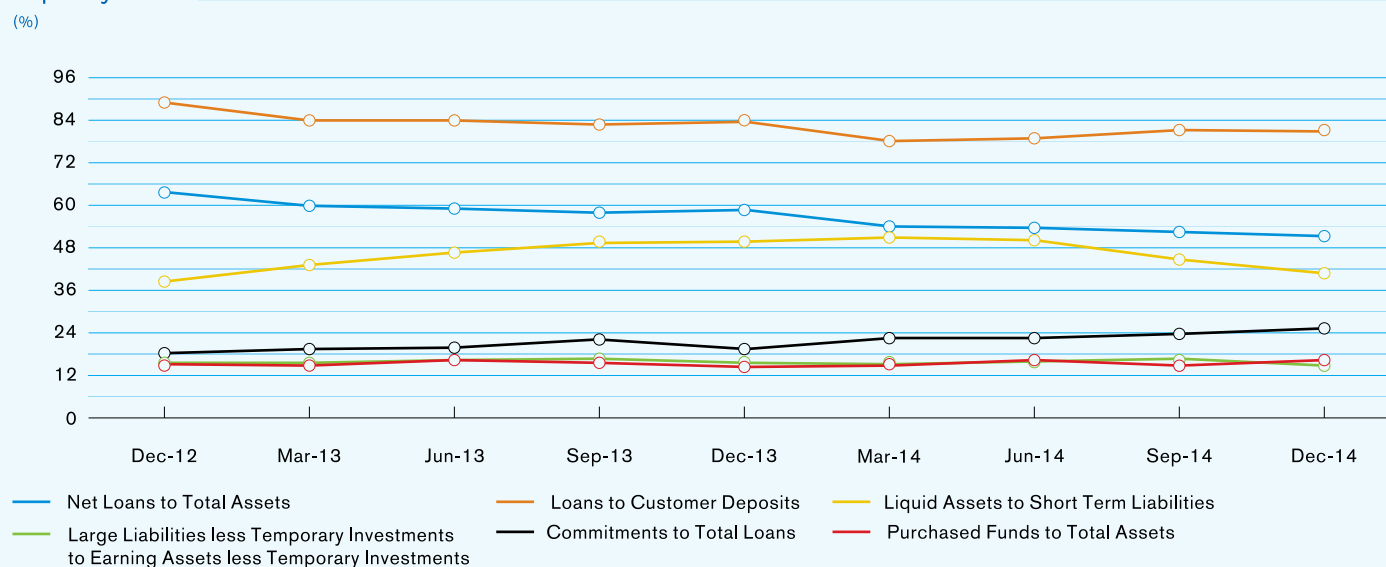
The key measure used by the Bank for managing liquidity risk is the ratio of liquid assets to total liabilities excluding shareholders' funds. For this purpose, 'liquid assets' include cash and cash equivalents, placements with banks and government securities (net). Details of the reported ratio of liquid assets to external liabilities of the Domestic Banking Unit (DBU) and the Off shore Banking Centre (OBC) as at the Reporting date are as follows:

	DBU		OBC	
	2014 %	2013 %	2014 %	2013 %
As at December 31,	33.15	33.66	31.43	29.38
Average for the period	35.26	31.67	32.13	31.42
Maximum for the period	37.10	34.34	38.54	36.69
Minimum for the period	33.15	26.63	27.35	29.36
<b>Statutory minimum requirement</b>	<b>20.00</b>	<b>20.00</b>	<b>20.00</b>	<b>20.00</b>

## Notes to the Financial Statements

The graph below depicts the trends in quarterly regulatory liquidity ratios of the Bank during the period from December 2012 to December 2014:

## Liquidity Ratios



The ratio between net loans to total On-Balance Sheet assets has gradually reduced during the period while the ratio between total gross loans and advances to customer deposits has remained below 90%. Ratios of both purchased funds (including inter-bank and money market borrowings and institutional deposits) to total assets and large liabilities less temporary investments to earning assets less temporary investments have been well below 20%. The ratio of commitments to total loans has remained low. The ratio of liquid assets to short term liabilities has remained above 40%. All above ratios indicate strong liquidity position maintained by the Bank.

## Liquidity Risk

## 62.2.2 Maturity Analysis of Financial Assets and Financial Liabilities

## 65.2.2 (a) Remaining Contractual Period to Maturity - Bank

(i) Remaining contractual period to maturity as at the date of Statement of Financial Position of the assets employed by the Bank is detailed below:

As at December 31,	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 31.12.2014 Rs. '000	Total as at 31.12.2013 Rs. '000
<b>Interest earning assets:</b>							
<b>Financial Assets</b>							
Cash and cash equivalents	3,596,658	-	-	-	-	3,596,658	135,148
Balances with Central Banks	142,927	24,569	-	-	-	167,496	807
Placements with banks	13,450,661	1,057,200	-	-	-	14,507,861	4,131,814
Derivative financial assets	-	-	-	-	-	-	-
Other financial instruments held-for-trading	5,958,902	-	-	-	-	5,958,902	6,044,652
Loans and receivables to banks	-	-	-	-	-	-	-
Loans and receivables to other customers	206,309,889	91,849,961	114,254,729	57,920,186	26,731,022	497,065,787	410,951,440
Financial investments - Available-for-sale	14,825,840	43,143,743	30,542,371	72,261,471	52,591,316	213,364,741	131,707,597
Financial investments - Held-to-maturity	-	-	-	-	-	-	-
<b>Total interest earning assets as at 31.12.2014</b>	<b>244,284,877</b>	<b>136,075,473</b>	<b>144,797,100</b>	<b>130,181,657</b>	<b>79,322,338</b>	<b>734,661,445</b>	
Total interest earning assets as at 31.12.2013	222,773,731	128,191,095	124,442,293	53,925,344	23,638,995		552,971,458

## Notes to the Financial Statements

As at December 31,	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 31.12.2014 Rs. '000	Total as at 31.12.2013 Rs. '000
<b>Non-Interest earning assets:</b>							
<b>Financial Assets</b>							
Cash and cash equivalents	16,995,209	–	–	–	–	16,995,209	14,126,401
Balances with Central Banks	13,455,116	4,963,785	428,783	276,983	341,583	19,466,250	18,431,129
Placements with banks	–	–	–	–	–	–	–
Derivative financial assets	193,541	265,472	497	–	–	459,510	837,694
Other financial instruments - held-for-trading	367,734	–	–	–	–	367,734	334,406
Loans and receivables to banks	–	–	551,066	–	–	551,066	546,270
Loans and receivables to other customers	–	–	–	–	–	–	–
Financial investments – Available-for-sale	613,440	–	–	15,864	214,325	843,629	48,928
Financial investments – Held-to-maturity	–	–	–	–	–	–	–
<b>Non-Financial Assets</b>							
Investments in subsidiaries	–	–	–	–	1,211,000	1,211,000	288,946
Investments in associates	–	–	–	–	44,331	44,331	44,331
Property, plant & equipment	–	–	–	–	9,953,091	9,953,091	8,387,344
Intangible assets	–	–	–	–	439,128	439,128	467,593
Leasehold property	–	–	–	–	75,420	75,420	76,362
Other assets	6,559,320	199,018	479,974	985,799	2,317,706	10,541,817	9,426,730
<b>Total non-interest earning assets as at 31.12.2014</b>	<b>38,184,360</b>	<b>5,428,275</b>	<b>1,460,320</b>	<b>1,278,646</b>	<b>14,596,584</b>	<b>60,948,185</b>	
Total non-interest earning assets as at 31.12.2013	32,736,975	5,886,851	1,337,899	730,707	12,323,702		53,016,134
<b>Total assets - as at 31.12.2014</b>	<b>282,469,237</b>	<b>141,503,748</b>	<b>146,257,420</b>	<b>131,460,303</b>	<b>93,918,922</b>	<b>795,609,630</b>	
Total assets - as at 31.12.2013	255,510,706	134,077,946	125,780,192	54,656,051	35,962,697		605,987,592
<b>Percentage - as at 31.12.2014(*)</b>	<b>35.51</b>	<b>17.79</b>	<b>18.38</b>	<b>16.52</b>	<b>11.80</b>	<b>100.00</b>	
Percentage - as at 31.12.2013(*)	42.16	22.13	20.76	9.02	5.93		100.00

(\*) Total percentage of each maturity bucket out of total assets employed by the Bank.

(ii) Remaining contractual period to maturity as at the date of Statement of Financial Position of the liabilities and shareholders' funds employed by the Bank is detailed below:

As at December 31,	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 31.12.2014 Rs. '000	Total as at 31.12.2013 Rs. '000
<b>Interest-bearing liabilities:</b>							
<b>Financial Liabilities</b>							
Due to banks	2,476,105	4,625,250	–	–	–	7,101,355	12,195,006
Derivative financial liabilities	–	–	–	–	–	–	–
Other financial liabilities held-for-trading	–	–	–	–	–	–	–
Due to other customers/ Deposits from customers	322,166,430	134,429,404	12,675,981	6,566,010	8,602,013	484,439,838	415,381,976
Other borrowings	84,342,793	41,530,330	6,907,267	2,244,110	1,176,582	136,201,082	54,173,175
Subordinated liabilities	132,370	128,721	972,660	–	9,811,024	11,044,775	10,944,412
<b>Total Interest-bearing liabilities as at 31.12.2014</b>	<b>409,117,698</b>	<b>180,713,705</b>	<b>20,555,908</b>	<b>8,810,120</b>	<b>19,589,619</b>	<b>638,787,050</b>	
Total interest-bearing liabilities as at 31.12.2013	305,094,129	141,567,740	14,342,812	11,467,136	20,222,752		492,694,569

## Notes to the Financial Statements

<i>As at December 31,</i>	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 31.12.2014 Rs. '000	Total as at 31.12.2013 Rs. '000
<b>Non-interest bearing liabilities:</b>							
<b>Financial Liabilities</b>							
Due to banks	18,159,621	-	-	-	-	18,159,621	1,999,213
Derivative financial liabilities	733,669	459,470	-	-	-	1,193,139	1,411,916
Other financial liabilities held-for-trading						-	-
Due to other customers/ Deposits from customers	44,921,646	-	-	-	-	44,921,646	35,770,947
Other borrowings	-	-	-	-	-	-	-
<b>Non-Financial Liabilities</b>							
Current tax liabilities	1,042,393	955,597	-	-	-	1,997,990	1,758,574
Deferred tax liabilities	241,710	229,566	674,822	954,790	472,872	2,573,760	1,563,070
Other provisions	1,874	-	-	-	-	1,874	2,409
Other liabilities	9,168,804	4,388,225	2,380,676	558,205	947,621	17,443,531	9,827,209
Due to subsidiaries	19,289	-	-	-	-	19,289	15,686
<b>Equity</b>							
Stated capital	-	-	-	-	21,457,501	21,457,501	19,586,813
Statutory reserves	-	-	-	-	4,327,103	4,327,103	4,034,614
Retained earnings	-	-	-	-	4,258,287	4,258,287	4,233,364
Other reserves	-	-	-	-	40,468,839	40,468,839	33,089,208
<b>Total non-interest bearing liabilities as at 31.12.2014</b>	<b>74,289,006</b>	<b>6,032,858</b>	<b>3,055,498</b>	<b>1,512,995</b>	<b>71,932,223</b>	<b>156,822,580</b>	
Total non-interest bearing liabilities as at 31.12.2013	46,795,753	2,180,945	1,638,059	735,003	61,943,263		113,293,023
<b>Total liabilities and equity - as at 31.12.2014</b>	<b>483,406,704</b>	<b>186,746,563</b>	<b>23,611,406</b>	<b>10,323,115</b>	<b>91,521,842</b>	<b>795,609,630</b>	
Total liabilities and equity - as at 31.12.2013	351,889,882	143,748,685	15,980,871	12,202,139	82,166,015		605,987,592
<b>Percentage - as at 31.12.2014(*)</b>	<b>60.76</b>	<b>23.47</b>	<b>2.97</b>	<b>1.30</b>	<b>11.50</b>	<b>100.00</b>	
Percentage - as at 31.12.2013(*)	58.07	23.72	2.64	2.01	13.56		100.00

(\*) Total percentage of each maturity bucket out of total liabilities and shareholders' funds employed by the Bank.



65.2.2 (b) Non-derivative financial assets and financial liabilities expected to be recovered or settled after 12 months from the Reporting date

The table below sets out the carrying amounts of non-derivative financial assets and financial liabilities expected to be recovered or settled after 12 months from the Reporting date.

<i>As at December 31,</i>	2014 Rs. '000	2013 Rs. '000
<b>Financial Assets</b>		
<b>Non-Derivative Financial Assets</b>		
Balances with Central Banks	1,047,349	944,248
Loans and receivables to banks	551,066	546,270
Loans and receivables to other customers	198,905,938	179,220,367
Financial investments – Available-for-sale	155,625,347	22,835,193
	<b>356,129,700</b>	<b>203,546,078</b>
<b>Financial Liabilities</b>		
<b>Non-Derivative Financial Liabilities</b>		
Due to other customers/deposits from customers	27,844,004	22,188,799
Other borrowings	10,327,959	13,146,467
Subordinated liabilities	10,783,684	10,797,660
	<b>48,955,647</b>	<b>46,132,926</b>

### 65.2.3 Liquidity Reserves

The table below sets out the components of the Bank's liquidity reserves:

<i>As at December 31,</i>	2014		2013	
	Carrying Amount Rs. '000	Fair Value Rs. '000	Carrying Amount Rs. '000	Fair Value Rs. '000
Balances with Central Banks	19,633,746	19,633,746	18,431,936	18,431,936
Cash and balances with other banks	6,943,357	6,943,357	2,753,483	2,753,483
Other cash and cash equivalents	13,648,510	13,648,510	11,508,066	11,508,066
Unencumbered debt securities issued by sovereigns	119,194,940	116,655,967	91,166,713	91,902,859
<b>Total liquidity reserves</b>	<b>159,420,553</b>	<b>156,881,580</b>	<b>123,860,198</b>	<b>124,596,344</b>

### 65.2.4 Financial Assets Available to Support Future Funding

The table below sets out the availability of the Bank's financial assets to support future funding:

<i>December 31, 2014</i>	Note	Encumbered		Unencumbered		Total Rs. '000
		Pledged as Collateral Rs. '000	Other* Rs. '000	Available as Collateral Rs. '000	Other Rs. '000	
Cash and cash equivalents	26			20,591,867		20,591,867
Balances with Central Banks	27			19,633,746		19,633,746
Placements with banks	28			14,507,861		14,507,861
Derivative financial assets	29			459,510		459,510
Other financial instruments – Held-for-trading	30			6,326,636		6,326,636
Loans and receivables to banks	31		551,066	–		551,066
Loans and receivables to other customers	32			497,065,787		497,065,787
Financial investments – Available-for-sale	33	124,564,499		89,643,871		214,208,370
<b>Total financial assets</b>		<b>124,564,499</b>	<b>551,066</b>	<b>648,229,278</b>	<b>–</b>	<b>773,344,843</b>

## Notes to the Financial Statements

December 31, 2013						
	Note	Encumbered		Unencumbered		Total Rs. '000
		Pledged as Collateral Rs. '000	Other* Rs. '000	Available as Collateral Rs. '000	Other Rs. '000	
Cash and cash equivalents	26			14,261,549		14,261,549
Balances with Central Banks	27			18,431,936		18,431,936
Placements with banks	28			4,131,814		4,131,814
Derivative financial assets	29			837,694		837,694
Other financial instruments – Held-for-trading	30			6,379,058		6,379,058
Loans and receivables to banks	31		546,270	–		546,270
Loans and receivables to other customers	32			410,951,440		410,951,440
Financial investments – Available-for-sale	33	39,230,639	–	92,525,886		131,756,525
<b>Total financial assets</b>		<b>39,230,639</b>	<b>546,270</b>	<b>547,519,377</b>	<b>–</b>	<b>587,296,286</b>

\*Represents an amount where the Bank is prevented from exercising the right of lien against the claim made by the Bank due to a court action.

### 65.3 Market Risk

Market risk is the risk of losses in On or Off-Balance Sheet positions arising out of movements in prices affecting foreign exchange exposures, interest rate instruments, equity/debt instruments and commodity exposures. The Bank monitors market risk in both trading and non-trading portfolios.

#### 65.3.1 Exposure to Market Risk - Trading and Non-Trading Portfolios

The table below sets out the allocation of assets and liabilities subject to market risk between trading and non-trading portfolios:

As at December 31, 2014				
	Note	Carrying Amount Rs. '000	Market Risk Measurement	
			Trading Portfolios Rs. '000	Non-Trading Portfolios Rs. '000
<b>Assets Subject to Market Risk</b>				
Cash and cash equivalents	26	20,591,867	–	20,591,867
Balances with Central Banks	27	19,633,746	–	19,633,746
Placements with banks	28	14,507,861	–	14,507,861
Derivative financial assets	29	459,510	459,510	–
Other financial instruments – Held-for-trading	30	6,326,636	6,326,636	–
Loans and receivables to banks	31	551,066	–	551,066
Loans and receivables to other customers	32	497,065,787	–	497,065,787
Financial investments – Available-for-sale	33	214,208,370	–	214,208,370
		<b>773,344,843</b>	<b>6,786,146</b>	<b>766,558,697</b>
<b>Liabilities Subject to Market Risk</b>				
Due to banks	40	25,260,976	–	25,260,976
Derivative financial liabilities	41	1,193,139	1,193,139	–
Due to other customers/deposits from customers	42	529,361,484	–	529,361,484
Other borrowings	43	136,201,082	–	136,201,082
Subordinated liabilities	49	11,044,775	–	11,044,775
		<b>703,061,456</b>	<b>1,193,139</b>	<b>701,868,317</b>

As at December 31, 2013	Note	Carrying Amount Rs. '000	Market Risk Measurement	
			Trading Portfolios	Non-Trading Portfolios
			Rs. '000	Rs. '000
<b>Assets Subject to Market Risk</b>				
Cash and cash equivalents	26	14,261,549	–	14,261,549
Balances with Central Banks	27	18,431,936	–	18,431,936
Placements with banks	28	4,131,814	–	4,131,814
Derivative financial assets	29	837,694	837,694	–
Other financial instruments – Held-for-trading	30	6,379,058	6,379,058	–
Loans and receivables to banks	31	546,270	–	546,270
Loans and receivables to other customers	32	410,951,440	–	410,951,440
Financial investments – Available-for-sale	33	131,756,525	–	131,756,525
		587,296,286	7,216,752	580,079,534
<b>Liabilities Subject to Market Risk</b>				
Due to banks	40	14,194,219	–	14,194,219
Derivative financial liabilities	41	1,411,916	1,411,916	–
Due to other customers/deposits from customers	42	451,152,923	–	451,152,923
Other borrowings	43	54,173,175	–	54,173,175
Subordinated liabilities	49	10,944,412	–	10,944,412
		531,876,645	1,411,916	530,464,729

### 6.5.3.2 Exposure to Interest Rate Risk – Sensitivity Analysis

#### 6.5.3.2 (a) Exposure to Interest Rate Risk – Non-Trading Portfolio

The possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments gives rise to interest rate risk. The Bank's policy is to continuously monitor portfolios and adopt hedging strategies to ensure that interest rate risk is maintained within prudent levels.

The tables below analyse the Bank's interest rate risk exposure on financial assets and financial liabilities. The Bank's assets and liabilities are included at carrying amount and categorised by the earlier of contractual re-pricing or maturity dates.

## Notes to the Financial Statements

Interest rate gap position of the non-trading portfolio of the Bank is given below:

<i>As at December 31, 2014</i>	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	Non- Sensitive Rs. '000	Total as at 31.12.2014 Rs. '000
<b>Financial Assets</b>							
Cash and cash equivalents	1,000,000	–	–	–	–	19,591,867	20,591,867
Balances with Central Banks	167,497	–	–	–	–	19,466,249	19,633,746
Placements with banks	13,450,661	1,057,200	–	–	–	–	14,507,861
Derivative financial assets	–	–	–	–	–	–	–
Other financial instruments – Held-for-trading	–	–	–	–	–	–	–
Loans and receivables to banks	–	–	–	–	–	551,066	551,066
Loans and receivables to other customers	338,846,156	78,654,516	34,632,986	22,508,164	16,191,616	6,232,349	497,065,787
Financial investments – Available-for-sale	14,533,119	43,167,687	30,614,319	72,339,271	52,710,345	843,629	214,208,370
<b>Total Financial Assets</b>	<b>367,997,433</b>	<b>122,879,403</b>	<b>65,247,305</b>	<b>94,847,435</b>	<b>68,901,961</b>	<b>46,685,160</b>	<b>766,558,697</b>
<b>Financial Liabilities</b>							
Due to banks	10,300,549	13,307,653	–	–	–	1,652,774	25,260,976
Derivative financial liabilities	–	–	–	–	–	–	–
Due to other customers/deposits from customers	141,378,207	134,432,410	12,187,265	5,977,239	190,344,790	45,041,573	529,361,484
Other borrowings	87,602,035	38,888,780	2,501,314	6,922,301	286,652	–	136,201,082
Subordinated liabilities	9,943,394	129,121	972,260	–	–	–	11,044,775
<b>Total Financial Liabilities</b>	<b>249,224,185</b>	<b>186,757,964</b>	<b>15,660,839</b>	<b>12,899,540</b>	<b>190,631,442</b>	<b>46,694,347</b>	<b>701,868,317</b>
Interest rate sensitivity gap	118,773,248	(63,878,561)	49,586,466	81,947,895	(121,729,481)	(9,187)	64,690,380
<i>As at December 31, 2013</i>	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	Non- Sensitive Rs. '000	Total as at 31.12.2013 Rs. '000
<b>Financial Assets</b>							
Cash and cash equivalents	135,147	–	–	–	–	14,126,402	14,261,549
Balances with Central Banks	734	73	–	–	–	18,431,129	18,431,936
Placements with banks	3,949,732	182,082	–	–	–	–	4,131,814
Derivative financial assets	–	–	–	–	–	–	–
Other financial instruments – Held-for-trading	–	–	–	–	–	–	–
Loans and receivables to banks	–	–	–	–	–	546,270	546,270
Loans and receivables to other customers	245,423,941	60,983,468	64,040,963	20,048,456	14,079,189	6,375,423	410,951,440
Financial investments – Available-for-sale	31,316,061	70,805,565	10,296,794	14,158,302	4,989,220	190,583	131,756,525
<b>Total Financial Assets</b>	<b>280,825,615</b>	<b>131,971,188</b>	<b>74,337,757</b>	<b>34,206,758</b>	<b>19,068,409</b>	<b>39,669,807</b>	<b>580,079,534</b>
<b>Financial Liabilities</b>							
Due to banks	10,283,009	2,623,285	–	–	–	1,287,925	14,194,219
Derivative financial liabilities	–	–	–	–	–	–	–
Due to other customers/deposits from customers	132,786,909	124,310,803	7,784,257	5,880,920	144,523,072	35,866,962	451,152,923
Other borrowings	37,998,991	14,220,119	1,425,974	228,470	299,621	–	54,173,175
Subordinated liabilities	9,844,950	127,202	972,260	–	–	–	10,944,412
<b>Total Financial Liabilities</b>	<b>190,913,859</b>	<b>141,281,409</b>	<b>10,182,491</b>	<b>6,109,390</b>	<b>144,822,693</b>	<b>37,154,887</b>	<b>530,464,729</b>
Interest rate sensitivity gap	89,911,756	(9,310,221)	64,155,266	28,097,368	(125,754,284)	2,514,920	49,614,805

## 65.3.2 (b) Exposure to Interest Rate Risk – Non-Trading Portfolio (Rate Shocks)

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and financial liabilities to various interest rate scenarios.

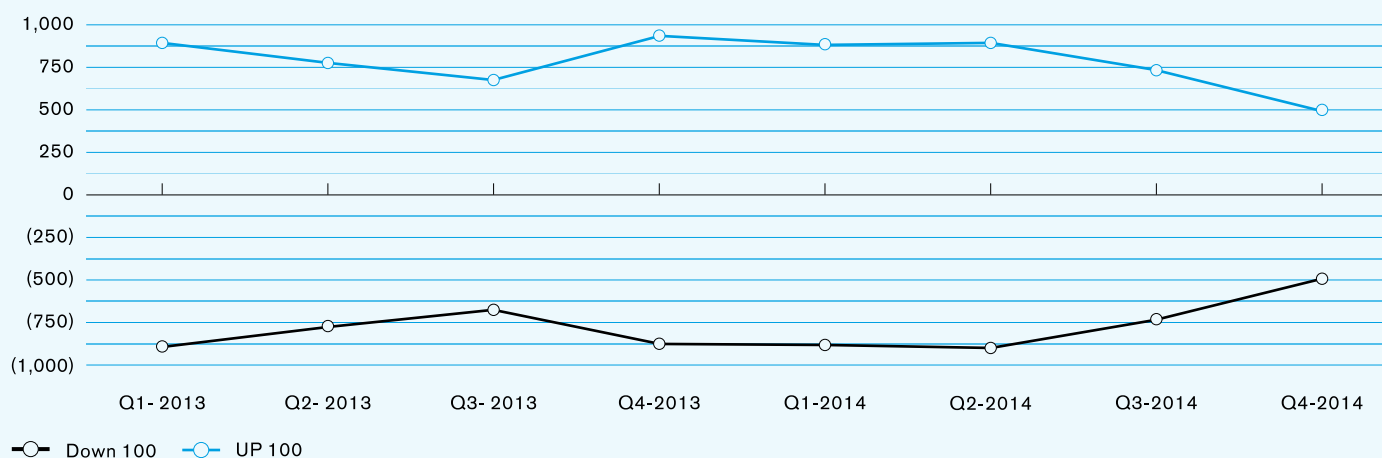
The following table demonstrates the sensitivity of the Bank's Income Statement as at Reporting date to a reasonable possible change in interest rates, with all other variables held constant.

Net Interest Income (NII)	2014		2013	
	100 bp Parallel Increase	100 bp Parallel Decrease	100 bp Parallel Increase	100 bp Parallel Decrease
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
As at December 31,	494,488	(495,461)	936,178	(875,597)
Average for the period	751,326	(753,968)	821,239	(805,472)
Maximum for the period	893,537	(901,327)	936,178	(894,456)
Minimum for the period	494,488	(495,461)	677,595	(676,712)

The Graph below depicts the impact on the Net Interest Income (NII) - Rate shock of 100 bp (on Rupee denominated) and 10 bp (on FCY denominated) Assets and Liabilities (Sri Lankan Operations):

## Impact on the Net Interest Income

(Rs. '000)



The impact of changes in interest rates on NII is measured using a static Balance Sheet which is subjected to 1% and 0.1% shocks on LKR and foreign currency asset and liability portfolios, respectively. Thereafter, the potential impact on the Bank's profitability due to changes in LKR and foreign currency interest rates is evaluated to ensure that the variations are prudently managed within the internal tolerance limits. Above graph depicts the sensitivity of NII to rate shocks during the years 2013 and 2014. Right throughout 2014, the impact of rate shocks on projected NII has been well below the Management Action Trigger (MAT) limit. Since August, 2014 the impact has gradually decreased due to the conscious decision of the Bank to rebalance the Fixed Income Securities (FIS) portfolio.

## Notes to the Financial Statements

## 65.3.3 Exposure to Currency Risk – Non-Trading Portfolio

Currency risk arises as a result of fluctuations in the value of a financial instrument due to changes in foreign exchange rates. There are set limits on position by currency and these positions are monitored on a daily basis.

The table below indicates the currencies to which the Bank had significant exposures as at December 31, 2014 and 2013 and the exposure as a percentage of the total capital funds:

## Foreign Exchange Position as at December 31, 2014

Currency	Spot			Forward			Net Open Position	Net Position in Other Exchange Contracts	Overall Exposure in Respective Foreign Currency	Overall Exposure in LKR
	Assets	Liabilities	Net	Assets	Liabilities	Net				
1	2	3	4=2-3	5	6	7=5-6	8	9	10	11
	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000
United States Dollar	22,916	22,921	(5)	6,974	2,804	4,170	(5,132)	-	(967)	(127,730)
Great Britain Pound	181	149	32	809	816	(7)	(48)	-	(23)	(4,570)
Euro	1,260	74	1,186	144	1,317	(1,173)	16	-	29	(6,974)
Japanese Yen	3,781	45,351	(41,570)	47,803	12,580	35,223	52	-	(6,294)	-
Indian Rupee	-	-	-	-	-	-	-	-	-	-
Australian Dollars	252	263	(11)	100	120	(20)	(19)	-	(50)	(5,458)
Canadian Dollars	124	216	(92)	-	-	-	55	-	(37)	(4,166)
Other currencies in USD	614	216	398	75	460	(385)	147	-	161	2,123
<b>Total exposure</b>							<b>USD (5,041)</b>		<b>USD (938)</b>	<b>(123,234)</b>
Total capital funds as per the latest Audited Financial Statements (capital base of the Bank as at December 31, 2014)										<b>72,177,447</b>
Total exposure as a percentage of total capital funds as per the latest Audited Financial Statements										<b>(0.17%)</b>

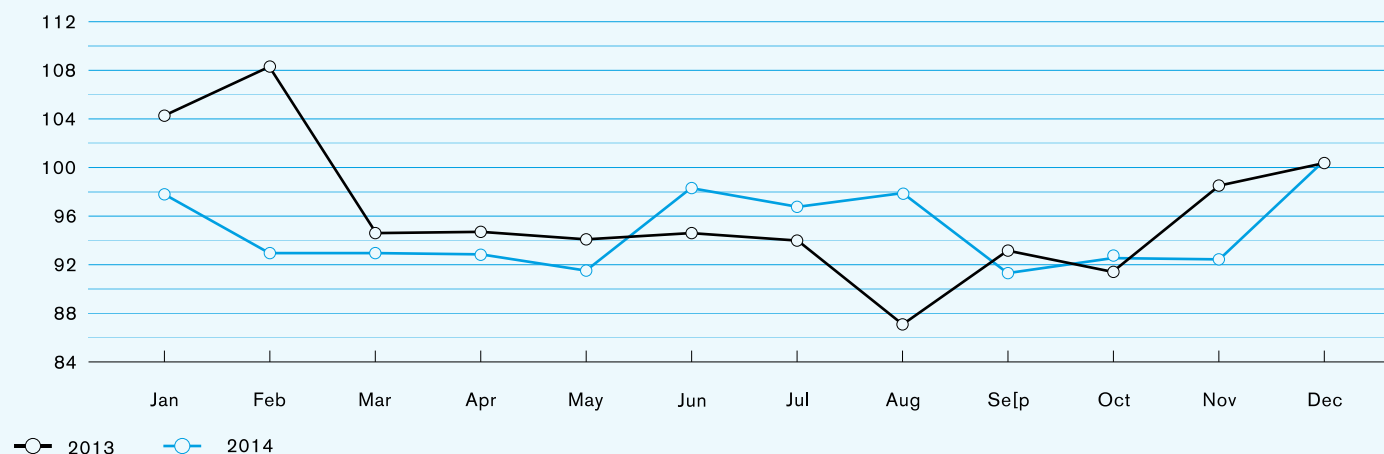
## Foreign Exchange Position as at December 31, 2013

Currency	Spot			Forward			Net Open Position	Net Position in Other Exchange Contracts	Overall Exposure in Respective Foreign Currency	Overall Exposure in LKR
	Assets	Liabilities	Net	Assets	Liabilities	Net				
1	2	3	4=2-3	5	6	7=5-6	8	9	10	11
	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000
United States Dollar	10,423	6,807	3,616	3,595	4,403	(808)	1,474	-	4,282	561,004
Great Britain Pound	812	54	758	100	906	(806)	(34)	-	(82)	(17,707)
Euro	920	186	734	100	832	(732)	(4)	-	(1)	(238)
Japanese Yen	13,172	12,356	816	10,537	16,922	(6,385)	(155)	-	(5,724)	(7,149)
Indian Rupee	-	-	-	-	-	-	-	-	-	-
Australian Dollars	640	177	463	-	475	(475)	(38)	-	(50)	(5,900)
Canadian Dollars	27	25	2	-	-	-	-	-	2	247
Other currencies in USD	273	-	273	36	295	(259)	125	-	138	18,131
<b>Total exposure</b>							<b>USD 1,502</b>		<b>USD 4,186</b>	<b>548,388</b>
Total capital funds as per the latest Audited Financial Statements (capital base of the Bank as at December 31, 2013)										<b>65,579,876</b>
Total exposure as a percentage of total capital funds as per the latest Audited Financial Statements										<b>0.84%</b>

The Bank regularly conducts sensitivity analysis on Net Open Position (NOP) due to possible movements in the USD/LKR exchange rate to assess the exposure to Foreign Exchange Risk. An appropriate shock based on historical USD/LKR exchange rate is applied on the NOP which is measured against the Board approved thresholds.

## Sensitivity of FX Position - Impact of 1% Change in Exchange Rate (Sri Lankan Operation)

+/- (Rs. Mn.)



## 65.3.4 Exposure to Equity Price Risk

Impact on profit or loss and equity as a result of a change in market price by 10%.

Equity price risks result due to exposure to any change in prices and volatilities of individual equities. The Bank conducts mark-to-market calculations on a daily, quarterly and on a need basis to identify the impact due to changes in equity prices.

The table below summarises impact (both to the profit or loss and to the equity) due to a shock of 10% on equity price.

Stress Level	2014			2013		
	Held-for-Trading	Available-for-Sale	Total	Held-for-Trading	Available-for-Sale	Total
	Impact on P&L Rs. '000	Impact on OCI Rs. '000	Impact on Equity Rs. '000	Impact on P&L Rs. '000	Impact on OCI Rs. '000	Impact on Equity Rs. '000
Shock of 10% on equity price (upward)	36,773	18,513	55,286	33,441	14,549	47,990
Shock of 10% on equity price (downward)	(36,773)	(18,513)	(55,286)	(33,441)	(14,549)	(47,990)

## 65.4 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk events which include legal and regulatory implications could lead to financial and reputation losses for the Bank.

The Operational Risk Management Framework of the Bank has been defined under the Board approved Operational Risk Management Policy. Operational risk is managed by establishing an appropriate internal control system that requires a mechanism for segregation of related responsibilities within the Bank, and a detailed testing and verification of the Bank's overall operational systems, and achieving a full harmony between internal and external systems and establishing a fully independent back-up facility for Business Continuity Planning. For more details on 'Operational Risk' refer page 238 of the section on 'Managing Risk at Commercial Bank'

## Notes to the Financial Statements

## 65.5 Capital Management

## Objective

The Bank is required to manage its capital taking into account the need to meet the regulatory requirements as well as the current and future business needs, stakeholder expectations and available options for raising capital.

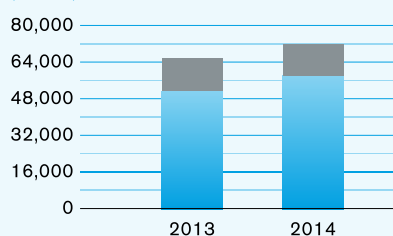
## 65.5.1 Regulatory Capital

Capital Adequacy Ratio (CAR) is calculated based on the CBSL Directions stemming from Basel II Accord. These guidelines require the Bank to maintain a CAR of not less than 5% with core capital (Tier I) in relation to total risk weighted assets and a minimum overall CAR of 10% inclusive of Tier I and Tier II (Supplementary Capital) in relation to total risk-weighted assets.

<i>As at December 31,</i>	2014 Rs. '000	2013 Rs. '000
<b>Tier I: Core Capital</b>		
Paid-up ordinary shares/Common stock/Assigned capital	21,457,501	19,586,813
Statutory reserve fund	4,327,103	3,768,094
Published Retained Profits/(Accumulated Losses)	1,568,605	1,516,092
General and other reserves	32,010,399	27,079,104
Minority interests (consistent with the above capital constituents)	-	-
<b>Less: Deductions/Adjustments</b>		
Goodwill	-	-
Other intangible assets	439,129	467,594
Advances granted to employees of the Bank for the purchase of shares of the Bank (ESOP)	786	1,122
50% of Investments in unconsolidated banking and financial subsidiary companies	458,023	-
50% Investments in the capital of other banks and financial institutions	402	402
<b>Total Eligible Core Capital (Tier I Capital)</b>	<b>58,465,269</b>	<b>51,480,986</b>
<b>Tier II: Supplementary Capital</b>		
Revaluation reserves (as approved by Central Bank of Sri Lanka)	2,034,231	2,034,231
General provisions	1,836,058	1,656,465
Approved subordinated term debt	10,300,314	10,408,596
<b>Less: Deductions/Adjustments</b>		
50% of investments in unconsolidated banking and financial subsidiary companies	458,023	-
50% investments in the capital of other banks and financial institutions	402	402
<b>Total eligible supplementary capital (Tier II Capital)</b>	<b>13,712,178</b>	<b>14,098,890</b>
<b>Total capital base</b>	<b>72,177,447</b>	<b>65,579,876</b>

## Total Capital Base

(Rs. Mn.)



**10.00%** ↑  
Growth

2014: Rs. 72,177 Mn.

2013: Rs. 65,580 Mn.



The Bank's regulator, the Central Bank of Sri Lanka sets and monitors capital requirements for the Bank as a whole.

Historically the Bank has been maintaining a relatively higher CAR which reflects stability.

The higher level of capital maintained by the Bank has facilitated unhindered growth of the Bank.

The Bank has a well-structured Corporate Planning and Budgeting procedure. Capital budgeting decisions are arrived at after evaluating the impact of such decisions on the expansion of the Bank.

### 65.5.2 Capital Allocation

Management uses regulatory capital ratios to monitor its capital base. The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily on regulatory capital requirements, but in some cases the regulatory requirements do not fully reflect the varying degree of risk associated with different activities. In such cases, the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum requirements for regulatory purposes.

## 66. Events After The Reporting Period

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

### 66.1 'Super Gains Tax' on profit

The Government of Sri Lanka, in its Interim Budget for 2015 presented to the Parliament on January 29, 2015, intimated that companies or individuals who have recorded a profit in excess of Rs. 2,000 Mn during the year of assessment 2013/14 would be liable to a one-off Super Gains Tax of 25%. The law enacting this proposal is currently being drafted and the basis of computing the liability is yet to be certified by the relevant authorities. In the absence of a measurement criteria for the computation of the Super Gains Tax which is not enacted or substantially enacted at the time of issue of these Financial Statements, the Bank is not in a position to estimate the potential impact of the said one-off tax on the Financial Statements for the year ended December 31, 2014 and therefore no provision has been made on account of the said tax in these Financial Statements.

The Bank will account for and meet the above tax liability as required by law once the required legislation is introduced and administered with the measurement criteria.

### 66.2 Interim Dividend - 2014

The Bank declared and paid a second interim dividend of Rs. 1.00 per share on February 05, 2015 to both the voting and non-voting ordinary shareholders of the Bank.

### 66.3 Final Dividend - 2014

The Board of Directors of the Bank has recommended the payment of a final dividend of Rs. 4.00 per share which consist of a cash dividend of Rs. 2.00 per share and the balance entitlement of Rs. 2.00 per share that will be satisfied in the form of issue and allotment of new shares for both the voting and non-voting ordinary shareholders of the Bank for the year ended December 31, 2014.

This dividend is yet to be approved at the Annual General Meeting to be held on March 31, 2015. 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 December 31, 2014. Under the Inland Revenue Act No. 10 of 2006, a withholding tax of 10% has been imposed on dividends declared.

### Compliance with Sections 56 and 57 of Companies Act No. 07 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 the Section 57, prior to recommending the final dividend. A statement of solvency completed and duly signed by the Directors on February 23, 2015 has been audited by KPMG.

### 66.4 New Employee Share Option Plan

The Board of Directors of the Bank at its meeting held on February 23, 2015 approved a proposal to introduce an ESOP for the benefit of all Executive Officers in Grade 1A and above by creating up to 2% of the ordinary voting shares at the rates specified in the proposed ESOP in 2016, 2017, 2018, upon the Bank achieving specified performance targets set for the years 2015, 2016 and 2017 respectively in the proposed ESOP. An Extraordinary General Meeting (EGM) is to be held on March 31, 2015, soon after the conclusion of the 46th Annual General Meeting of the Bank to seek approval of the shareholders for the proposed ESOP.