

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, 2015 was 4,951 (4,852 as at December 31, 2014).

Corporate information is given in 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, 2015, 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 as at December 31, 2015	Ownership as at December 31, 2014
Bank	Providing a comprehensive range of financial services encompassing accepting deposits, personal banking, trade financing, offshore 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, 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
Subsidiaries			
Commercial Development Company PLC	Property development and related ancillary services and outsourcing of staff for non-critical functions of the Bank.	94.28% (*)	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 for opening of accounts, providing money transfer services, issuance and encashment of foreign currencies and travellers cheques, collecting applications for credit facilities and handling of ATM cards, etc. The commercial operations of this company are yet to be commenced.	100.00%	100.00%
Serendib Finance Ltd. (formerly known as Indra Finance Ltd.)	Providing financial services including leasing, hire purchase, loans, etc.	100.00%	100.00% (**)
Associates			
Equity Investments Lanka Ltd.	Fund management	22.92%	22.92%
Commercial Insurance Brokers (Pvt) Ltd.	Insurance brokering	18.86% (***)	18.91% (***)

(*) The Board of Directors of the Bank resolved to reduce the shareholding of Commercial Development Company PLC, (in which the Bank had a stake of 94.55%) to comply with the requirements of the Listing Rule No. 7.13 of the Colombo Stock Exchange on Minimum Public Holding. Accordingly, the Bank disposed a part of shares through the Colombo Stock Exchange and reduced the shareholding in the above company to 94.28% by December 31, 2015 and is in the process of taking steps to dispose the required number of shares to adhere to the requirements of the Listing Rules.

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

(***) 20% stake of Commercial Insurance Brokers (Pvt) Ltd. is held by Commercial Development Company PLC, a 94.28% 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 18.86%.

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 Accounting

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 and LKASs), 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 and LKASs are available at www.casrilanka.com.

The Group did not adopt any inappropriate accounting treatments, which are not in compliance with the requirements of the SLFRSs and LKASs 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 9 on pages 257 to 268.

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 and LKASs.

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 76, 86 and 243, 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 241 and 242;

- 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 243;
- 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 244 to 247;
- 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 utilisation of those cash flows. Refer page 248.
- Notes to the Financial Statements comprising Accounting Policies and other explanatory information. Refer pages 249 to 404.

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, 2015 (including comparatives for 2014), were approved and authorised for issue by the Board of Directors in accordance with Resolution of the Directors on February 24, 2016.

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	296-299
Financial investments – Available-for-sale	Fair Value	33	307-312
Land and buildings	Measured at cost at the time of acquisition and subsequently at revalued amounts which are the fair values at the date of revaluation	37	320-332
Defined benefit obligation	Liability for defined benefit obligations is recognised as the present value of the defined benefit obligation, less net total of the plan assets, plus unrecognised actuarial gains, less unrecognised past service cost and unrecognised actuarial losses	48	342-348

2.5 Going Concern Basis of Accounting

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.

2.6 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 408 and 409 does not form part of the Financial Statements and is made available solely for the information of stakeholders.

2.7 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 and after more than 12 months from the Reporting date is presented in Note 60 on pages 362 to 363.

2.8 Offsetting

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 (issued by the International Financial Reporting Interpretations Committee and Standard Interpretation Committee) and as specifically disclosed in the Accounting Policies of the Bank.

2.9 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'.

2.10 Rounding

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

2.11 Comparative Information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period in the Financial Statements in order to enhance the understanding of the current period's Financial Statements and to enhance the inter period comparability. The presentation and classification of the Financial Statements of the previous year are amended, where relevant for better presentation and to be comparable with those of the current year.

2.12 Use of Judgements and Estimates

In preparing the Financial Statements of the Group in conformity with SLFRSs and LKASs, the Management has made judgements, estimates and assumptions which 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:

A. Judgement

2.12.1 Determination of Control Over Investees

Management applies its judgement to determine whether the control indicators set out in Note 5.1.3 indicate that the Group controls the investees.

B. Assumptions and Estimation uncertainties

2.12.2 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 25 on pages 289 to 293.

2.12.3 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 under 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 6.1.3.1 and 6.1.4.1 on pages 259 and 260.
- 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 6.1.3.5 on page 260.

2.12.4 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 in the Income Statement. In particular, the Management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss.

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

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

A collective impairment provision is established for:

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

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 portfolio factors at the Reporting date. The loss rates are regularly reviewed against actual loss experience.

In assessing the need for collective impairment, 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 6.1.10.1 on page 262 for details.

2.12.5 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 6.1.10.2 on page 262 for details.

2.12.6 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 6.6 on page 264 for details.

2.12.7 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 37.5 (b) on pages 326 to 330.

2.12.8 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.

2.12.9 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 and can be utilised against such tax losses. 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 8.2 on page 268 for details.

2.12.10 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 48 on pages 342 to 348 for the assumptions used.

2.12.11 Provisions for Liabilities, Commitments and Contingencies

The Group receives legal claims 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 depends on the due processes 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 6.9 to 6.15 on page 267.

2.13 Events After the Reporting Date

Events after the Reporting date are those events, favourable and unfavourable, that occur between the Reporting date and the date 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 68 on page 404 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 a 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 set 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 112 to 144. 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. US Dollars. The positions were subjected to sensitivity analysis to provide insight to possible losses/gains arising from currency appreciation/depreciation, respectively as the reporting currency of the Bank being Sri Lankan Rupees.

Operational Risk Management

Sound Operational Risk Management practices are embedded into 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 defences' 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 67 on pages 374 to 404 for 'Financial risk review'.

A detailed write up on how the risk management is carried out within the Bank's 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 112 to 144. The said write-up on 'Managing Risk at Commercial Bank' 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.

An analysis of fair value measurement of financial and non-financial assets and liabilities is provided in Note 25 on pages 289 to 293.

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 – General

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 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'. 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 and identifiable net assets acquired are measured at fair value. Any goodwill that arises is tested annually for impairment (Refer Note 6.6 on page 264). 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)

Details of NCI are given in Note 56 on page 358.

5.1.3 Subsidiaries

Details of the Bank's Subsidiaries and their contingencies are set out in Notes 35 and 57.4 (a) on pages 314 to 317 and 360.

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 406.

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 the 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

Details of Associates together with their fair values and the Group's share of contingent liabilities of such Associates are set out in Notes 36 and 57.4 (b) on pages 317 and 360.

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.

Summarised financial information of all Associates of the Bank together with the Bank's interests are given in the section on 'Group Structure' on page 406.

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 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 the 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 or the 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.

6. Significant Accounting Policies - Recognition of Assets and Liabilities

6.1 Financial Instruments – Initial Recognition, Classification and Subsequent Measurement

6.1.1 Date of Recognition

The Group initially recognises loans and advances, deposits and subordinated liabilities, etc. on the date on which they are originated. 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.

6.1.2 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 6.1.3 and 6.1.4 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.

6.1.2.1 'Day 1' Profit or Loss on Employee Below Market Loans

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 7.1 on page 267.

6.1.3 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

The subsequent measurement of financial assets depends on their classification.

Please refer Note 24 on pages 285 to 288 for details on different types of financial assets recognised on the Statement of Financial Position.

6.1.3.1 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 6.1.3.1.1 and 6.1.3.1.2 below:

6.1.3.1.1 Financial Assets – Held-for-Trading
Details of 'Financial assets - Held-for-trading' are given in Note 30 on pages 296 to 299.

Derivatives Recorded at Fair Value through Profit or Loss

Details of 'Derivative financial assets' recorded at fair value through profit or loss are given in Note 29 on page 296.

6.1.3.1.2 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 which 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.

6.1.3.2 Loans and Receivables to Banks and Other Customers

Loans and receivable to banks and other customers include amounts due from banks, loans & advances and lease receivable of the Group.

Details of 'Loans and receivables to banks and other customers' are given in Notes 31 and 32 on pages 299 to 307.

6.1.3.2.1 Securities Purchased Under Resale Agreements (Reverse Repos)

Details of 'Securities purchased under resale agreements' are given in the Statement of Financial Position on page 243.

6.1.3.3 Other Financial Investments Classified as Loans and Receivables

Details of 'Financial investments - Loans and receivables' are given in Note 34 on pages 312 to 314.

6.1.3.4 Financial Investments – Available-for-Sale

Details of 'Financial investments – Available-for-sale' are given in Note 33 on pages 307 to 312.

6.1.3.5 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 as at the Reporting date.

6.1.3.6 Cash and Cash Equivalents

Details of 'Cash and cash equivalents' are given in Note 26 to the Financial Statements on page 294.

6.1.3.7 Balances with Central Banks

Details of 'Balances with Central Banks' are given in Note 27 to the Financial Statements on pages 294 and 295.

6.1.4 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.

The subsequent measurement of financial liabilities depends on their classification.

Please refer Notes 6.1.4.1 and 6.1.4.2 as detailed below:

6.1.4.1 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 6.1.4.1.1 and 6.1.4.1.2 below:

6.1.4.1.1 Financial Liabilities Held-for-Trading

Details of 'Derivative financial liabilities' are given in Note 42 on page 336.

6.1.4.1.2 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.

6.1.4.2 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', 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.

6.1.4.2.1 Due to Banks

Details of the 'Due to banks' are given in Note 41 on page 335.

6.1.4.2.2 Due to Other Customers/Deposits from Customers

Details of 'Due to other customers/ deposits from customers' are given in Note 43 on pages 336 and 337.

6.1.4.2.3 Subordinated Liabilities

Details of 'Subordinated liabilities' are given in Note 50 on pages 349 and 350.

6.1.4.2.4 Securities Sold Under Repurchase Agreements (Repos)

Details of 'Securities sold under repurchase agreements (Repos)' are given in the Statements of the Financial Position on page 243.

6.1.5 Reclassification of Financial Assets and 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 off. 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.

6.1.6 Derecognition of Financial Assets and Financial Liabilities

6.1.6.1 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 risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of the consideration received (including any new asset obtained less 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 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 risks and rewards of ownership of such assets.

In transactions in which the Group neither retains nor transfers substantially all 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.

6.1.6.2 Financial Liabilities

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

6.1.7 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.

6.1.8 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.

6.1.9 Fair Value of Financial Instruments

Fair value measurement of financial instruments including the fair value hierarchy is explained in the Note 25 on pages 289 to 293.

6.1.10 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.

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.

6.1.10.1 Impairment of Financial Assets Carried at Amortised Cost

Details of the individual and collective assessment of impairments are given in Note 17 on pages 276 and 277.

6.1.10.2 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.

6.2 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.

6.3 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.

6.3.1 Operating Leases

6.3.1.1 Operating Leases – Group as a Lessee

Leases that do not transfer to the Group substantially all 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.

6.3.1.2 Operating Leases – Group as a Lessor

Leases where the Group does not transfer substantially all 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 66 on page 373.

6.3.2 Finance Leases

6.3.2.1 Finance Leases – Group as a Lessee

Finance leases that transfer substantially all 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.

6.3.2.2 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.

6.4 Property, Plant & Equipment

Details of ‘Property, plant & equipment’ are given in Note 37 on pages 320 to 332.

6.4.1 Depreciation

Details of ‘Depreciation’ are given in Note 19 on pages 278 and 279

6.4.2 Borrowing Costs

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

6.5 Intangible Assets

Details of ‘Intangible assets’ are given in Note 38 on pages 332 to 334.

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.

Refer Note 19 on pages 278 and 279.

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.

6.5.1 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 38 on pages 332 to 334.

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

6.6 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.

6.7 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 68.1 on page 404.

6.8 Employee Benefits

6.8.1 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'.

6.8.1.1 Defined Benefit Pension Plans

6.8.1.1.1 Description of the Plans and Employee Groups Covered

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

- (a) The Bank has an approved Pension Fund, which was established in 1992. As per the Deed of Trust, only those employees who were less than 45 years of age as at January 01, 1992 were covered by the Pension Fund in order to leave a minimum contribution for a period of 10 years before they are eligible to draw pension from the Pension Fund. Further, only the employees who joined the Bank on or before December 31, 2001, were in pensionable service of the Bank. During 2006, the Bank offered a restructured pension scheme to convert the Defined Benefit Plan (DBP) to a Defined Contribution Plan (DCP) for the pensionable employees of the Bank and over 99% of them accepted it. As a result, the above Pension Fund now covers only those employees who did not opt for the restructured pension scheme and those employees who were covered by the Pension Fund previously but retired before the restructured pension scheme came into effect.

- (b) Provision for pensions has been made for those employees who retired on or before December 31, 2001, and on whose behalf the Bank could not make contributions to the Retirement Pension Fund for more than 10 years. This liability although not funded has been provided for in full in the Financial Statements.
- (c) Provision has been made in the Financial Statements for Retirement Gratuity from the first year of service for all employees who joined the Bank on or after January 01, 2002, as they are not in pensionable service of the Bank under either the DBP or DCP. However, if any of these employees resigns before retirement, the Bank is liable to pay gratuity to such employees. This liability although not funded has been provided for in full in the Financial Statements.

The Subsidiaries of the Bank do not operate Pension Funds.

The Bank's net obligation in respect of Defined Benefit Pension Plans is calculated separately for each plan by using the Projected Unit Credit Actuarial Valuation Method, as per the Sri Lanka Accounting Standard – LKAS 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 48 on page 342 to 348.

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.

6.8.1.1.2 Recognition of Actuarial Gains or Losses

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

6.8.1.1.3 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 48 on pages 277 & 278 and 342 to 348 respectively.

6.8.2 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 6.8.2.1, 6.8.2.2 and 6.8.2.3.

Amounts recognised in profit or loss as expenses on DCPs are given in Note 18 on pages 277 and 278.

6.8.2.1 Defined Contribution Pension Plan

As explained in Note 6.8.1.1.1(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.

6.8.2.2 Employees' Provident Fund

The Bank and employees contribute to an 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.

6.8.2.3 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.

6.8.3 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 is 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.

6.8.4 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.

6.8.5 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.

6.8.6 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 Executive 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 01, 2012 and had not vested at the same date. As per the Sri Lanka Accounting Standard – SLFRS 2 on 'Share-based Payment', on the grant date fair value of equity-settled share-based payment awards (i.e., share options) granted to employees is recognised as 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, so 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.

The Employee Share Option Plan – 2015, which was granted during the year is subjected to the above accounting treatment.

However, the Employee Share Option Plan – 2008 which was granted prior to January 1, 2012, the effective date of the SLFRS 2 was not subjected to the above accounting treatment and the proceeds received during the year by the Group in consideration for shares issued were accounted for as Stated Capital within equity.

The details of Employee Share Option Plans are given in Note 51.2 and 52 on pages 351 and 353.

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 283.

6.9 Other Liabilities

Details of 'Other liabilities' are given in Note 48 on page 342.

6.10 Provisions

Details of 'Other provisions' are given in Note 47 on page 341.

6.11 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 arising on such restructuring are not provided for.

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

6.12 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.

6.13 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.

6.14 Commitments

All discernible risks are accounted for in determining the amount of known liabilities as explained in Note 6.9 above.

Details of the commitments are given in Notes 57.2 and 57.3 to the Financial Statements on pages 359 and 360.

6.15 Contingent Liabilities and Commitments

A detailed list of 'Contingent liabilities and commitments' and 'Litigation against the Bank and the Group' are given in Notes 57 and 59 on pages 358 to 361.

6.16 Stated Capital and Reserves

Details of the 'Stated capital and reserves' are given in Notes 51, 53, 54 and 55 to the Financial Statements on pages 350 to 357.

6.17 Earnings Per Share (EPS)

Details of 'Basic and Diluted EPS' are given in Note 22 on pages 282 and 283.

6.18 Operating Segments

Details of 'Operating segments' are given in Note 61 on pages 364 to 366.

6.19 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.

7. Significant Accounting Policies – Recognition of Income and Expenses

Details of 'income and expenses' are given in Notes 11 to 20 on pages 270 to 280.

7.1 Interest Income and Expense

Details of 'Interest income and expenses' are given in Note 12 on pages 270 to 272.

7.2 Fees and Commission Income and Expense

Details of 'Commission income and expenses' are given in Note 13 on pages 272 to 273.

7.3 Net Gains/(Losses) from Trading

Details of 'Net gains/(losses) from trading' are given in Note 14 on page 274.

7.4 Dividend Income

Dividend income is recognised when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities. Details of 'Dividend income' is given in Notes 14, 15 and 16 on pages 274 and 275.

7.5 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.

7.6 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.

7.7 Rental Income and Expenses

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

8. Significant Accounting Policies – Income Tax Expense

8.1 Current Taxation

Details of 'Income tax expense' are given in Note 21 on pages 280 to 282.

8.2 Deferred Taxation

Details of 'Deferred tax assets and liabilities' are given in Note 46 on pages 338 to 341.

8.3 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 judgements about future events. New information may become available that causes the Group to change its judgement 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.

8.4 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.

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

8.5.1 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.

8.5.2 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.

8.6 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.

8.7 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.

8.8 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 8.7 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 241.

9. Significant Accounting Policies – Statement of Cash Flows

9.1 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 294.

The Statement of Cash Flows is given on pages 248.

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'	<p>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.</p> <p>Effective date of SLFRS 9 has been deferred till January 01, 2018.</p>	<p>The Group/Bank, is assessing the potential impact on its Consolidated Financial Statements resulting from the application of SLFRS 9.</p> <p>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.</p>
SLFRS 15 – 'Revenue from Contracts with Customers'	<p>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'.</p> <p>SLFRS 15 is effective for annual reporting periods beginning on or after January 01, 2017.</p>	<p>The Group/Bank is assessing the potential impact on its Consolidated Financial Statements resulting from the application of SLFRS 15.</p>
Equity Method in Separate Financial Statements (Amendment to LKAS 27)	<p>The amendments to LKAS 27 will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate Financial Statements.</p> <p>The amendment is effective for annual reporting periods beginning on or after January 01, 2016.</p>	<p>The Group/Bank is assessing the potential impact on its Consolidated Financial Statements resulting from the application of amended LKAS 27.</p>

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

Regulatory Deferral Assets (SLFRS 14) – Effective date January 01, 2016.

Investment Entities: Applying the Consolidation Exception (Amendments to SLFRS 10, SLFRS 12 and LKAS 28) – Effective date January 01, 2016.

Accounting for Acquisitions of Interests in Joint Operations (Amendments to SLFRS 11) – Effective date January 01, 2016.

Disclosure Initiative (Amendment to LKAS 1 – 'Presentation of Financial Statements') – Effective date January 01, 2016.

11. Gross Income

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

For the year ended December 31,	GROUP		BANK	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Interest income [Refer Note 12.1]	66,339,317	61,932,876	66,030,456	61,832,018
Fees and commission income [Refer Note 13.1]	6,329,900	5,613,684	6,275,276	5,592,744
Net gains/(losses) from trading [Refer Note 14]	813,376	(305,492)	813,376	(305,492)
Net gains/(losses) from financial investments [Refer Note 15]	693,987	2,272,575	693,933	2,272,575
Other income (net) [Refer Note 16]	4,048,817	3,334,560	4,054,911	3,360,384
Total	78,225,397	72,848,203	77,867,952	72,752,229

12. Net Interest Income

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 throughout 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.

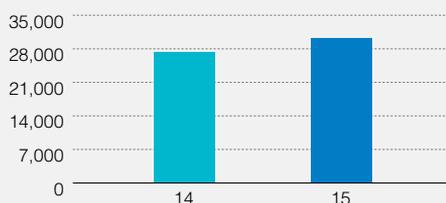
Interest income and expense presented in the Income Statement include:

- Interest on financial assets and financial liabilities measured at amortised cost calculated using EIR method;
- Held-for-trading calculated using EIR method;
- Interest on available-for-sale investment securities calculated using 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.

For the year ended December 31,	GROUP		BANK	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Interest income [Refer Note 12.1]	66,339,317	61,932,876	66,030,456	61,832,018
Less: Interest expenses [Refer Note 12.2]	35,771,967	34,613,052	35,685,172	34,610,179
Net interest income	30,567,350	27,319,824	30,345,284	27,221,839

Net Interest Income – Bank

Rs. Mn.



11.47% ↑

2015: Rs. 30,345 Mn.

2014: Rs. 27,222 Mn.

12.1 Interest Income

<i>For the year ended December 31,</i>	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cash and cash equivalents	88,573	49,874	88,270	49,775
Balances with Central Banks	336,040	30,082	336,040	30,082
Placements with banks	158,645	136,051	158,645	136,051
Securities purchased under resale agreements	665,897	2,046,020	665,897	2,046,020
Financial instruments – Held-for-trading	681,464	349,330	681,464	349,330
Derivative financial instruments	–	–	–	–
Other financial instruments	681,464	349,330	681,464	349,330
Loans and receivables to other customers	43,540,368	41,123,317	43,231,336	41,020,125
Financial investments – Available-for-sale	17,549,260	15,449,780	17,548,160	15,449,334
Financial investments – Loans and receivables	3,052,231	2,467,574	3,052,231	2,467,574
Interest income from impaired loans and receivables to other customers	265,347	278,878	265,347	278,878
Other interest income	1,492	1,970	3,066	4,849
Total interest income	66,339,317	61,932,876	66,030,456	61,832,018

12.2 Interest Expenses

<i>For the year ended December 31,</i>	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Due to banks	593,651	648,876	527,983	640,487
Securities sold under repurchase agreements	7,876,715	4,927,205	7,886,186	4,940,789
Due to other customers/Deposits from customers	26,034,412	27,652,070	26,040,128	27,657,322
Refinance borrowings	253,502	393,787	253,502	393,787
Foreign currency borrowings	190,420	225,013	190,420	225,013
Subordinated liabilities	823,267	766,101	786,953	752,781
Total interest expenses	35,771,967	34,613,052	35,685,172	34,610,179

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.

12.3 (a) Net Interest Income from Sri Lanka Government Securities

<i>For the year ended December 31,</i>	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest income	19,303,078	18,119,028	19,301,977	18,118,582
Less: Interest expenses	7,883,079	5,204,286	7,892,551	5,217,870
Sub total	11,419,999	12,914,742	11,409,426	12,900,712

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 01, 2015 to December 31, 2015 has been grossed up by Rs. 900.495 Mn. (2014 – Rs. 1,080.686 Mn.) and Rs. 899.563 Mn. (2014 – Rs. 1,079.038 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.

12.3 (b) Net Interest Income from Bangladesh Government Securities

<i>For the year ended December 31,</i>	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest income	1,415,253	1,545,740	1,415,253	1,545,740
Less: Interest expenses	14,786	12,694	14,786	12,694
Sub total	1,400,467	1,533,046	1,400,467	1,533,046

13. Net Fees and Commission Income

Fees and commission income and expenses that are integral to the EIR of a financial asset or liability are capitalised and included in the measurement of the EIR and recognised in the Income Statement over the expected life of the instruments.

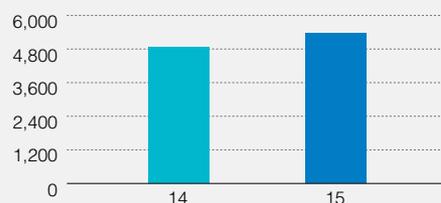
Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed. If a loan commitment is not expected to result in the drawdown of a loan, then the related loan commitment fees are recognised on a straight-line basis over the commitment period.

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

<i>For the year ended December 31,</i>	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Fees and commission income [Refer Note 13.1]	6,329,900	5,613,684	6,275,276	5,592,744
Less: Fees and commission expenses [Refer Note 13.2]	919,590	764,322	901,190	761,527
Net fees and commission income	5,410,310	4,849,362	5,374,086	4,831,217

Net Fees & Commission Income – Bank

Rs. Mn.



11.24% ↑

2015: Rs. 5,374 Mn.

2014: Rs. 4,831 Mn.

13.1 Fees and Commission Income

For the year ended December 31,	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loans and advances related services	715,502	635,759	664,269	618,926
Credit and debit cards related services	1,849,571	1,603,161	1,849,571	1,603,161
Trade and remittances related services	2,212,916	1,948,321	2,212,916	1,948,321
Deposits related services	562,797	543,191	562,860	543,228
Guarantees related services	505,109	583,899	505,109	583,899
Other financial services	484,005	299,353	480,551	295,209
Sub total	6,329,900	5,613,684	6,275,276	5,592,744

13.2 Fees and Commission Expenses

For the year ended December 31,	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loans and advances related services	52,149	45,097	33,749	42,302
Credit and debit cards related services	768,406	622,140	768,406	622,140
Trade and remittances related services	31,826	34,332	31,826	34,332
Other financial services	67,209	62,753	67,209	62,753
Sub total	919,590	764,322	901,190	761,527

14. 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.

<i>For the year ended December 31,</i>	GROUP		BANK	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Foreign exchange				
From banks	-	-	-	-
From other customers	891,825	(709,249)	891,825	(709,249)
Interest rates				
Net mark-to-market gains/(losses)	(92,831)	28,374	(92,831)	28,374
Net capital gains/(losses)	20,512	256,611	20,512	256,611
Equities				
Net mark-to-market gains/(losses)	(26,452)	79,190	(26,452)	79,190
Net capital gains/(losses)	11,294	30,705	11,294	30,705
Dividend income	9,028	8,877	9,028	8,877
Total	813,376	(305,492)	813,376	(305,492)

15. Net Gains/(Losses) from Financial Investments

'Net gains/(losses) from financial investments' comprise gains less losses related to available for sale investments and loans and receivables, and include all realised and unrealised fair value changes and dividends.

<i>For the year ended December 31,</i>	GROUP		BANK	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Financial investments – available-for-sale [Refer Note 15.1]	560,715	2,229,119	560,661	2,229,119
Financial investments – loans and receivables [Refer Note 15.2]	133,272	43,456	133,272	43,456
Total	693,987	2,272,575	693,933	2,272,575

15.1 Financial Investments – Available-for-sale

<i>For the year ended December 31,</i>	GROUP		BANK	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Interest rates				
Net capital gains/(losses)	514,289	2,197,337	514,289	2,197,337
Equities				
Net capital gains/(losses)	-	-	-	-
Dividend income	46,426	31,782	46,372	31,782
Total	560,715	2,229,119	560,661	2,229,119

15.2 Financial Investments – Loans and Receivables

<i>For the year ended December 31,</i>	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest rates				
Net capital gains/(losses)	133,272	43,456	133,272	43,456
Total	133,272	43,456	133,272	43,456

16. Other Income (Net)

16.1 Gains/(losses) on sale of assets

The gains or losses on the disposal of assets is determined on the difference between the carrying amount of the assets at the time of disposal and the proceeds of disposal, net of incremental disposal costs. This is recognised as an item of Other Income in the year in which significant risks and rewards of ownership are transferred to the buyer.

16.2 Rental Income

Rental income is recognised in the profit or loss on an accrual basis.

<i>For the year ended December 31,</i>	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gains/(losses) on sale of property, plant & equipment [Refer Note 16.1]	(1,334)	(2,144)	(6,505)	(4,916)
Gains/(losses) on revaluation of foreign exchange	1,985,444	2,190,423	1,985,444	2,190,423
Recoveries of loans written off and provision reversals	1,874,575	1,029,723	1,874,575	1,029,723
Dividend income from subsidiaries	–	–	81,664	70,383
Dividend income from associates	6,733	851	6,166	–
Profit due to change in ownership	–	–	2,344	–
Rental and other income [Refer Note 16.2]	190,132	116,558	111,223	74,771
Less: Dividends received from associates transferred to investment account	(6,733)	(851)	–	–
Total	4,048,817	3,334,560	4,054,911	3,360,384

17. Impairment Charges for Loans and Other Losses

Individual Assessment of Impairment

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 '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 32 on pages 300 to 307.

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. The 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.

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'.

	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<i>For the year ended December 31,</i>				
Loans and receivables to banks [Refer Note 31]	–	–	–	–
Loans and receivables to other customers	4,099,738	3,208,638	3,904,948	3,189,995
Charge/(write back) to the Income Statement – Individual Impairment [Refer Note 32.2]	1,386,477	269,703	1,386,477	269,703
Charge/(write back) to the Income Statement – Collective Impairment [Refer Note 32.2]	2,710,834	2,911,621	2,516,044	2,892,978
Direct write-offs	2,427	27,314	2,427	27,314
Investments in subsidiaries [Refer Note 35.1]	–	–	36,223	28,787
Due from subsidiaries	–	–	2,025	10,362
Total	4,099,738	3,208,638	3,943,196	3,229,144

18. Personnel Expenses

	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<i>For the year ended December 31,</i>				
Salary and bonus [Refer Note 18.1]	7,740,991	6,866,200	7,675,955	6,828,987
Pension Costs [Refer Note 18.1]				
Contributions to defined contribution/benefit plans – Funded schemes	1,083,341	984,213	1,078,109	980,821
Contributions to defined benefit plans – Unfunded schemes [Refer Notes 48.1 (c) and 48.2 (c)]	197,676	164,438	190,780	157,687
Equity-settled share-based payments [Refer Note 55.6]	223,330	–	223,330	–
Others [Refer Note 18.3]	1,015,412	941,472	1,012,363	935,553
Total	10,260,750	8,956,323	10,180,537	8,903,048

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 Share Based Payment

The Bank has an equity-settled share based compensation plan, the details of which are given in Note 52.

18.3 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

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, 2015 are as follows:

Class of Asset	Depreciation % 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 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 37 on pages 320 to 332.

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

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	Amortisation % Per Annum	Period
Computer Software	20	5 years

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

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.

	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<i>For the year ended December 31,</i>				
Depreciation of property, plant & equipment [Refer Note 37]	1,024,162	1,087,175	961,492	1,026,730
Amortisation of intangible assets [Refer Note 38]	180,558	173,373	179,370	172,874
Amortisation of leasehold property [Refer Note 39]	1,452	1,452	942	942
Total	1,206,172	1,262,000	1,141,804	1,200,546

20. Other Operating Expenses

	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<i>For the year ended December 31,</i>				
Directors' emoluments [Refer Note 20.1]	31,947	30,077	26,886	27,463
Auditors' remuneration	26,787	24,589	21,399	21,525
Audit fees and expenses	14,195	11,502	9,736	9,032
Audit related fees and expenses	6,461	7,792	5,871	7,570
Non-audit fees and expenses	6,131	5,295	5,792	4,923
Professional and legal expenses	290,184	252,438	353,256	315,388
Deposit insurance premium paid to the Central Bank of Sri Lanka	497,850	433,296	497,850	433,296
Donations, including contribution made to the CSR Trust Fund	62,533	54,583	62,533	54,583
Establishment expenses	2,036,083	1,976,178	2,112,577	2,054,074
Maintenance of property, plant & equipment	731,213	755,013	870,500	865,063
Office administration expenses	2,277,886	1,975,789	2,038,087	1,851,186
Total	5,954,483	5,501,963	5,983,088	5,622,578

20.1 Directors' Emoluments

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

21. 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.

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 281. 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 operation 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.

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 as they generally relate to income arising from transactions that were originally recognised in profit or loss.

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

<i>For the year ended December 31,</i>	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Current Year Tax Expense	5,185,218	4,484,017	5,094,780	4,424,113
Current year income tax expense of Domestic Banking Unit	3,536,032	2,964,140	3,536,032	2,964,140
Current year income tax expense of Off-shore Banking Centre	277,207	282,603	277,207	282,603
Current year income tax expense of Bangladesh Operation	1,185,736	1,169,581	1,185,736	1,169,581
Current year Income tax expense of Commercial Development Company PLC	37,882	34,884	–	–
Current year Income tax expense of ONEzero Company Ltd.	10,914	12,134	–	–
Current year Income tax expense of Serendib Finance Ltd.	41,582	12,796	–	–
Profit remittance tax of Bangladesh Operation	86,551	–	86,551	–
Withholding tax on dividends received	9,314	7,879	9,254	7,789
Prior years				
Under/(Over) Provision of taxes in respect of prior years [Refer Note 45]	1,700	10,920	1,701	11,041
Deferred Tax Expense	89,933	122,187	143,905	120,881
Effect of change in tax rates	–	–	–	–
Origination and reversal of temporary differences [Refer Note 46.1]	89,933	122,187	143,905	120,881
Total	5,276,851	4,617,124	5,240,386	4,556,035
Effective tax rate (including deferred tax)			30.57%	28.95%
Effective tax rate (excluding deferred tax)			29.73%	28.18%

The income tax for 2015 and 2014 of the Bank and its subsidiaries have been provided on the taxable income at the rates shown below:

	2015	2014
	%	%
Domestic operations of the Bank	28.0	28.0
Off-shore banking operation of the Bank	28.0	28.0
Bangladesh operation of the Bank	42.5	42.5
Commercial Development Company PLC	28.0	28.0
ONEzero Company Ltd.	28.0	28.0
Serendib Finance Ltd.	28.0	28.0

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	
	2015	2014	2015	2014	2015	2014
	%	%	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Accounting profit before tax from operations			17,136,111	15,859,917	17,143,610	15,736,216
Tax effect at the statutory income tax rate			5,186,846	4,932,962	5,160,768	4,874,034
Domestic operations of the Bank	28.0	28.0	3,888,621	3,440,752	3,888,621	3,440,752
Off-shore banking operation of the Bank	28.0	28.0	118,712	268,589	118,712	268,589
Bangladesh operation of the Bank	42.5	42.5	1,153,435	1,164,693	1,153,435	1,164,693
Subsidiaries	28.0	28.0	26,078	58,928	–	–
Tax effect of exempt income			(1,099,101)	(865,453)	(1,099,080)	(865,453)
Tax effect of non-deductible expenses			6,864,719	5,834,186	6,626,069	5,807,179
Tax effect of deductible expenses			(5,859,214)	(5,169,064)	(5,684,885)	(5,142,943)
Qualifying payments			(3,897)	(256,493)	(3,897)	(256,493)
Profit remittance tax of Bangladesh operation			86,551	–	86,551	–
Under/(over) provision of taxes in respect of prior years [Refer Note 45]			1,700	10,920	1,701	11,041
Withholding tax on dividends received			9,314	7,879	9,254	7,789
Deferred tax expense [Refer Note 46.1]			89,933	122,187	143,905	120,881
Income tax expense reported in the Income Statement at the effective income tax rate			5,276,851	4,617,124	5,240,386	4,556,035

22. 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 adjusted for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

Details of Basic and Diluted EPS are given below:

22.1 Basic Earnings per Ordinary Share

	GROUP		BANK	
	2015	2014	2015	2014
Amounts used as the numerator:				
Profit for the year attributable to equity holders of the Bank for basic earnings per ordinary share (Rs. '000)	11,855,172	11,238,892	11,903,224	11,180,181
Number of ordinary shares used as the denominator:				
Weighted average number of ordinary shares for basic earnings per share calculation [Refer Note 22.3]	875,962,769	872,991,038	875,962,769	872,991,038
Basic earnings per ordinary share (Rs.)	13.53	12.87	13.59	12.81

22.2 Diluted Earnings per Ordinary Share

	GROUP		BANK	
	2015	2014	2015	2014
Amounts used as the numerator:				
Profit for the year attributable to equity holders of the parent for diluted earnings per ordinary share (Rs. '000)	11,855,172	11,238,892	11,903,224	11,180,181
Number of ordinary shares used as the denominator:				
Weighted average number of ordinary shares for diluted earnings per ordinary share calculation [Refer Note 22.3]	877,372,358	876,694,190	877,372,358	876,694,190
Diluted earnings per ordinary share (Rs.)	13.51	12.82	13.57	12.75

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

	Outstanding No. of Shares		Weighted average No. of Shares	
	2015	2014	2015	2014
Number of shares in issue as at January 01,	865,857,675	849,079,041	865,857,675	849,079,041
Add: Number of shares satisfied in the form of issue and allotment of new shares from final dividend for 2013 [Refer Note 51.1]	–	13,541,068	–	13,541,068
Add: Number of shares satisfied in the form of issue and allotment of new shares from final dividend for 2014 [Refer Note 51.1]	8,838,513	–	8,838,513	8,838,513
	874,696,188	862,620,109	874,696,188	871,458,622
Add: Number of shares issued under Employee Share Option Plan (ESOP) 2008	2,170,613	3,237,566	1,266,581	1,532,416
Weighted average number of ordinary shares for basic earnings per ordinary share calculation	876,866,801	865,857,675	875,962,769	872,991,038
Add: Bonus element on number of outstanding options under ESOP 2008 as at the year-end	–	–	1,409,589	3,703,152
Weighted average number of ordinary shares for diluted earnings per ordinary share calculation(*)	876,866,801	865,857,675	877,372,358	876,694,190

(*) 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, 2015 and December 31, 2014 over the offer price.

23. Dividends

	GROUP		BANK	
	2015 Second Interim Rs. 1.00 Per share for 2014 (Paid on February 05, 2015) Rs. '000	2014 Second Interim Rs. 1.00 Per share for 2013 (Paid on January 27, 2014) Rs. '000	2015 Second Interim Rs. 1.00 Per share for 2014 (Paid on February 05, 2015) Rs. '000	2014 Second Interim Rs. 1.00 Per share for 2013 (Paid on January 27, 2014) Rs. '000
On Ordinary Shares				
Net dividend paid to the ordinary shareholders out of normal profits	783,258	768,553	783,258	768,553
Withholding tax deducted at source	82,685	80,595	82,685	80,595
Gross ordinary dividend paid	865,943	849,148	865,943	849,148

	GROUP		BANK	
	First Interim Rs. 1.50 Per share for 2015 (Paid on December 18, 2015) Rs. '000	First Interim Rs. 1.50 Per share for 2014 (Paid on November 21, 2014) Rs. '000	First Interim Rs. 1.50 Per share for 2015 (Paid on December 18, 2015) Rs. '000	First Interim Rs. 1.50 Per share for 2014 (Paid on November 21, 2014) Rs. '000
On Ordinary Shares				
Net dividend paid to the ordinary shareholders out of normal profits	1,189,367	1,174,561	1,189,367	1,174,561
Withholding tax deducted at source	125,884	123,593	125,884	123,593
Gross ordinary dividend paid	1,315,251	1,298,154	1,315,251	1,298,154
Total gross ordinary dividend paid	2,181,194	2,147,302	2,181,194	2,147,302

The Board of Directors of the Bank has recommended the payment of a final dividend of Rs.5.00 per share which consist of a cash dividend of Rs. 3.00 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 voting and non-voting ordinary shareholders of the Bank for the year ended December 31, 2015 (Bank declared a final dividend of Rs. 4.00 per share in 2014 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, 2016. In accordance with provisions of the Sri Lanka Accounting Standard No.10 on 'Events after the Reporting Period'. The proposed final dividend has not been recognised as a liability as at the year end. Final dividend payable for the year 2015 has been estimated at Rs. 4,384.334 Mn. (Actual final dividend for 2014 amounted to Rs. 3,466.221 Mn. due to exercise of options under ESOPs).

Accordingly, the dividend per ordinary share (for both voting and non-voting) for the year 2015 would be Rs. 6.50 (2014 – 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

<i>As at December 31, 2015</i>		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
Financial Assets							
Cash and cash equivalents	26	-	-	20,107,076	-	-	20,107,076
Balances with Central Banks	27	-	-	28,221,017	-	-	28,221,017
Placements with banks	28	-	-	17,193,539	-	-	17,193,539
Securities purchased under resale agreements		-	-	8,002,100	-	-	8,002,100
Derivative financial assets	29	4,118,169	-	-	-	-	4,118,169
Other financial instruments – Held-for-trading	30	7,656,349	-	-	-	-	7,656,349
Loans and receivables to banks	31	-	-	601,106	-	-	601,106
Loans and receivables to other customers	32	-	-	509,923,128	-	-	509,923,128
Financial investments – Available-for-sale	33	-	-	-	204,261,934	-	204,261,934
Financial investments – Loans and receivables	34	-	-	57,724,369	-	-	57,724,369
Total financial assets		11,774,518	-	641,772,335	204,261,934	-	857,808,787
Financial Liabilities							
Due to banks	41	-	-	-	-	31,789,396	31,789,396
Derivative financial liabilities	42	1,890,770	-	-	-	-	1,890,770
Securities sold under repurchase agreements		-	-	-	-	112,249,703	112,249,703
Due to other customers/ Deposits from customers	43	-	-	-	-	624,021,217	624,021,217
Other borrowings	44	-	-	-	-	9,985,637	9,985,637
Subordinated liabilities	50	-	-	-	-	11,988,272	11,988,272
Total financial liabilities		1,890,770	-	-	-	790,034,225	791,924,995

24.1 (b) Group

<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
Financial Assets							
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
Securities purchased under resale agreements		-	-	41,198,266	-	-	41,198,266
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	-	-	406,531,089	-	-	406,531,089
Financial investments – Available-for-sale	33	-	-	-	214,225,017	-	214,225,017
Financial investments – Loans and receivables	34	-	-	50,436,064	-	-	50,436,064
Total financial assets		6,786,146	-	553,479,870	214,225,017	-	774,491,033
Financial Liabilities							
Due to banks	41	-	-	-	-	25,669,025	25,669,025
Derivative financial liabilities	42	1,193,139	-	-	-	-	1,193,139
Securities sold under repurchase agreements		-	-	-	-	124,391,042	124,391,042
Due to other customers/ Deposits from customers	43	-	-	-	-	529,266,588	529,266,588
Other borrowings	44	-	-	-	-	11,636,583	11,636,583
Subordinated liabilities	50	-	-	-	-	11,262,573	11,262,573
Total financial liabilities		1,193,139	-	-	-	702,225,811	703,418,950

24.2 Classification of Financial Assets and Financial Liabilities – Bank

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

24.2 (a) Bank

<i>As at December 31, 2015</i>		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
Financial Assets							
Cash and cash equivalents	26	–	–	20,043,512	–	–	20,043,512
Balances with Central Banks	27	–	–	28,221,017	–	–	28,221,017
Placements with banks	28	–	–	17,193,539	–	–	17,193,539
Securities purchased under resale agreements		–	–	8,002,100	–	–	8,002,100
Derivative financial assets	29	4,118,169	–	–	–	–	4,118,169
Other financial instruments – Held-for-trading	30	7,656,349	–	–	–	–	7,656,349
Loans and receivables to banks	31	–	–	601,106	–	–	601,106
Loans and receivables to other customers	32	–	–	508,115,127	–	–	508,115,127
Financial investments – Available-for-sale	33	–	–	–	204,244,289	–	204,244,289
Financial investments – Loans and receivables	34	–	–	57,724,369	–	–	57,724,369
Total financial assets		11,774,518	–	639,900,770	204,244,289	–	855,919,577
Financial Liabilities							
Due to banks	41	–	–	–	–	30,319,119	30,319,119
Derivative financial liabilities	42	1,890,770	–	–	–	–	1,890,770
Securities sold under repurchase agreements		–	–	–	–	112,384,812	112,384,812
Due to other customers/Deposits from customers	43	–	–	–	–	624,101,810	624,101,810
Other borrowings	44	–	–	–	–	9,985,637	9,985,637
Subordinated liabilities	50	–	–	–	–	11,973,272	11,973,272
Total financial liabilities		1,890,770	–	–	–	788,764,650	790,655,420

24.2 (b) 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
Financial Assets							
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
Securities purchased under resale agreements		–	–	41,198,266	–	–	41,198,266
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	–	–	405,431,457	–	–	405,431,457
Financial investments – Available-for-sale	33	–	–	–	214,208,370	–	214,208,370
Financial investments – Loans and Receivables	34	–	–	50,436,064	–	–	50,436,064
Total financial assets		6,786,146	–	552,350,327	214,208,370	–	773,344,843
Financial Liabilities							
Due to banks	41	–	–	–	–	25,260,976	25,260,976
Derivative financial liabilities	42	1,193,139	–	–	–	–	1,193,139
Securities sold under repurchase agreements		–	–	–	–	124,564,499	124,564,499
Due to other customers/ Deposits from customers	43	–	–	–	–	529,361,484	529,361,484
Other borrowings	44	–	–	–	–	11,636,583	11,636,583
Subordinated liabilities	50	–	–	–	–	11,044,775	11,044,775
Total financial liabilities		1,193,139	–	–	–	701,868,317	703,061,456

25. Fair Value Measurement

The Group measures the fair value using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurement. An analysis of fair value measurement of financial and non-financial assets and liabilities is provided below.

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.

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.

25.1 Assets and Liabilities Measured at Fair Value and Fair Value Hierarchy

The following table provides an analysis 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
As at December 31, 2015									
Non-Financial Assets									
Property, plant & equipment									
Land and buildings	37.1 & 37.3	-	-	7,560,640	7,560,640	-	-	7,331,511	7,331,511
Total non-financial assets at fair value		-	-	7,560,640	7,560,640	-	-	7,331,511	7,331,511
Financial Assets									
Derivative financial assets									
Currency swaps	29	-	3,328,679	-	3,328,679	-	3,328,679	-	3,328,679
Forward contracts		-	786,794	-	786,794	-	786,794	-	786,794
Spot contracts		-	2,696	-	2,696	-	2,696	-	2,696
Other financial instruments – Held-for-trading									
Government securities	30	7,330,086	-	-	7,330,086	7,330,086	-	-	7,330,086
Equity shares		326,263	-	-	326,263	326,263	-	-	326,263
Financial investments – Available-for-sale									
Government securities	33	203,774,930	-	-	203,774,930	203,757,409	-	-	203,757,409
Equity securities(*)		234,839	-	46,611	281,450	234,839	-	46,487	281,326
Investment in unit trust		-	205,554	-	205,554	-	205,554	-	205,554
Total financial assets at fair value		211,666,118	4,323,723	46,611	216,036,452	211,648,597	4,323,723	46,487	216,018,807
Total assets at fair value		211,666,118	4,323,723	7,607,251	223,597,092	211,648,597	4,323,723	7,377,998	223,350,318
Financial Liabilities									
Derivative financial liabilities									
Currency swaps	41	-	791,199	-	791,199	-	791,199	-	791,199
Forward contracts		-	1,098,002	-	1,098,002	-	1,098,002	-	1,098,002
Spot contracts		-	1,569	-	1,569	-	1,569	-	1,569
Total liabilities at fair value		-	1,890,770	-	1,890,770	-	1,890,770	-	1,890,770

	Note	GROUP				BANK			
		Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
As at December 31, 2014									
Non-Financial Assets									
Property, plant & equipment									
Land and buildings	37.1 & 37.3	-	-	7,432,625	7,432,625	-	-	7,255,625	7,255,625
Total non financial assets at fair value		-	-	7,432,625	7,432,625	-	-	7,255,625	7,255,625
Financial Assets									
Derivative financial assets									
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
Other financial instruments – Held-for-trading									
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
Financial investments – Available-for-sale									
Government securities	33	213,381,263	-	-	213,381,263	213,364,740	-	-	213,364,740
Equity securities(*)		185,132	-	45,181	230,313	185,132	-	45,057	230,189
Investment in unit trust		-	613,441	-	613,441	-	613,441	-	613,441
Total financial assets at fair value		219,893,031	1,072,951	45,181	221,011,163	219,876,508	1,072,951	45,057	220,994,516
Total assets at fair value		219,893,031	1,072,951	7,477,806	228,443,788	219,876,508	1,072,951	7,300,682	228,250,141
Financial Liabilities									
Derivative financial liabilities									
Currency swaps	42	-	823,596	-	823,596	-	823,596	-	823,596
Forward contracts		-	368,886	-	368,886	-	368,886	-	368,886
Spot contracts		-	657	-	657	-	657	-	657
Total liabilities at fair value		-	1,193,139	-	1,193,139	-	1,193,139	-	1,193,139

(*) Value of unquoted shares of Rs. 46.611 Mn. in Group and Rs. 46.487 Mn. in Bank as at end of the year 2015 (Rs. 45.181 Mn. in Group and Rs. 45.057 Mn. in Bank as at end 2014.) categorised under Financial investments – Available-for-sale whose fair value cannot be reliably measured is stated at cost in the Statement of Financial Position as permitted by the Sri Lanka Accounting Standard – LKAS 39 on 'Financial Instruments: Recognition and Measurement'.

25.2 Note 37.5 (b) on pages 326 to 330 provides information on significant unobservable inputs used as at December 31, 2015 in measuring fair value of land and buildings categorised as Level 3 in the fair value hierarchy.

Reconciliation of Revaluation Reserve pertaining to land and buildings categorised as Level 3 in the fair value hierarchy is found in the Statement of Changes in Equity on pages 244 to 247.

25.3 Financial Instruments Not Measured at Fair Value and Fair Value Hierarchy

Methodologies and assumptions used to determine fair value of financial instruments which are not already recorded at fair value in the Statement of Financial Position are as follows.

Fixed Rate Financial Instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost (eg. fixed rate loans and receivables, due to other customers, subordinate 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 Significant Unobservable Inputs used to Measure Fair Value of Fixed Rate Financial Instruments.

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.

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
As at December 31, 2015											
Financial Assets											
Cash and cash equivalents	26	–	20,107,076	–	20,107,076	20,107,076	–	20,043,512	–	20,043,512	20,043,512
Securities purchased under resale agreements		–	8,002,100	–	8,002,100	8,002,100	–	8,002,100	–	8,002,100	8,002,100
Loans and receivables to banks	31	–	601,106	–	601,106	601,106	–	601,106	–	601,106	601,106
Loans and receivables to other customers	32	–	–	511,056,767	511,056,767	509,923,128	–	–	509,248,766	509,248,766	508,115,127
Total financial assets not at fair value		–	28,710,282	511,056,767	539,767,049	538,633,410	–	28,646,718	509,248,766	537,895,484	536,761,845
Financial Liabilities											
Due to banks	41	–	31,789,396	–	31,789,396	31,789,396	–	30,319,119	–	30,319,119	30,319,119
Securities sold under repurchase agreements		–	112,249,703	–	112,249,703	112,249,703	–	112,384,812	–	112,384,812	112,384,812
Due to other customers/ Deposits from customers	43	–	–	624,570,898	624,570,898	624,021,217	–	–	624,651,491	624,651,491	624,101,810
Subordinated liabilities	50	–	–	12,019,342	12,019,342	11,988,272	–	–	12,004,342	12,004,342	11,973,272
Total financial liabilities not at fair value		–	144,039,099	636,590,240	780,629,339	780,048,588	–	142,703,931	636,655,833	779,359,764	778,779,013

	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
As at December 31, 2014											
Financial Assets											
Cash and cash equivalents	26	-	20,621,778	-	20,621,778	20,621,778	-	20,591,867	-	20,591,867	20,591,867
Securities purchased under resale agreements		-	41,198,266	-	41,198,266	41,198,266	-	41,198,266	-	41,198,266	41,198,266
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	-	-	409,025,048	409,025,048	406,531,089	-	-	407,925,416	407,925,416	405,431,457
Total financial assets not at fair value		-	62,371,110	409,025,048	471,396,158	468,902,199	-	62,341,199	407,925,416	470,266,615	467,772,656
Financial Liabilities											
Due to banks	41	-	25,669,025	-	25,669,025	25,669,025	-	25,260,976	-	25,260,976	25,260,976
Securities sold under repurchase agreements		-	124,391,042	-	124,391,042	124,391,042	-	124,564,499	-	124,564,499	124,564,499
Due to other customers/ Deposits from customers	43	-	-	531,209,832	531,209,832	529,266,588	-	-	531,304,728	531,304,728	529,361,484
Subordinated liabilities	50	-	-	11,347,778	11,347,778	11,262,573	-	-	11,129,980	11,129,980	11,044,775
Total financial liabilities not at fair value		-	150,060,067	542,557,610	692,617,677	690,589,228	-	149,825,475	542,434,708	692,260,183	690,231,734

25.4 Valuation Techniques and Inputs in Measuring Fair Values

Table below provides information on the valuation techniques and inputs used in measuring the fair values of Derivative financial 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, 2015 (Rs. '000)	Valuation Technique	Significant Valuation inputs
Derivative Financial Assets	4,118,169	Adjusted Forward Rate Approach This approach considers the present value of projected forward exchange rate as at the Reporting date as the fair value. The said forward rate is projected based on the spot exchange rate and the forward premium/discount calculated using extrapolated interest rates of the currency pairs under consideration. In computing the present value, interest rate differential between two currencies under consideration is used as the discount rate.	• Spot exchange rate
Derivative Financial Liabilities	1,890,770		• Interest rate differentials between currencies under consideration

26. 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.

<i>As at December 31,</i>	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cash in hand	15,931,941	13,673,620	15,873,479	13,648,510
Coins and notes held in local currency	14,035,800	12,232,921	14,031,376	12,222,065
Coins and notes held in foreign currency	1,896,141	1,440,699	1,842,103	1,426,445
Balances with banks	2,705,999	5,948,158	2,700,897	5,943,357
Local banks	5,102	4,801	–	–
Foreign banks	2,700,897	5,943,357	2,700,897	5,943,357
Money at call and at short notice	1,469,136	1,000,000	1,469,136	1,000,000
Total	20,107,076	20,621,778	20,043,512	20,591,867

The maturity analysis of Cash and Cash Equivalents is given in Note 60 on pages 362 and 363.

27. Balances with Central Banks

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

<i>As at December 31,</i>	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Statutory balances with Central Banks [Refer Note 27.1]	22,820,127	19,633,746	22,820,127	19,633,746
Non-statutory balances with Central Banks [Refer Note 27.2]	5,400,890	–	5,400,890	–
Total	28,221,017	19,633,746	28,221,017	19,633,746

27.1 Statutory Balances with Central Banks

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

<i>As at December 31,</i>	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Central Bank of Sri Lanka	20,075,130	17,433,858	20,075,130	17,433,858
Bangladesh Bank	2,744,997	2,199,888	2,744,997	2,199,888
Total	22,820,127	19,633,746	22,820,127	19,633,746

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, 2015, the minimum cash reserve requirement was 7.50% of the rupee deposit liabilities (6.00% in 2014). There is no reserve requirement for foreign currency deposits 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, 2015 was 19.50% (19.50% in 2014) on time and demand liabilities (both local and foreign currencies), which includes a 6.50% (6.50% in 2014) cash reserve requirement and the balance 13.00% (13.00% in 2014) is permitted to be maintained in foreign currency and/or also in unencumbered securities held with the Bangladesh Bank.

27.2 Non-Statutory Balances with Central Banks

As per the circulars 35/01/005/006/33 and 34/01/005/006/07 issued by the Domestic Operations Department of Central Bank of Sri Lanka, the 'Standing Repurchase (Repo)' facility was replaced by the 'Standing Deposit Facility (SDF)' for open market operations. This facility is available on an overnight basis and interest component on the deposit has been computed at the Standing Deposit Facility Rate (SDFR) of the Central Bank of Sri Lanka for the duration of the respective deposit held.

As at December 31,	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Central Bank of Sri Lanka (*)	5,400,890	–	5,400,890	–
Bangladesh Bank	–	–	–	–
Total	5,400,890	–	5,400,890	–

(*) The Group had the above balance on a Standing Deposit Facility as at the Reporting date.

The maturity analysis of Balances with Central Banks is given in Note 60 on pages 362 and 363.

28. Placements with Banks

As at December 31,	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Placements – within Sri Lanka	5,516,273	6,783,931	5,516,273	6,783,931
Placements – outside Sri Lanka	11,677,266	7,723,930	11,677,266	7,723,930
Total	17,193,539	14,507,861	17,193,539	14,507,861

The maturity analysis of Placements with Banks is given in Note 60 on pages 362 and 363.

29. Derivative Financial Assets

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.

<i>As at December 31,</i>	GROUP		BANK	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Foreign currency derivatives				
Currency swaps	3,328,679	222,533	3,328,679	222,533
Forward contracts	786,794	233,300	786,794	233,300
Spot contracts	2,696	3,677	2,696	3,677
Total	4,118,169	459,510	4,118,169	459,510

The maturity analysis of Derivative Financial Assets is given in Note 60 on pages 362 and 363.

30. Other Financial Instruments - 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 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.

<i>As at December 31,</i>	GROUP		BANK	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Government securities [Refer Note 30.1]	7,330,086	5,958,904	7,330,086	5,958,904
Equity securities [Refer Note 30.2]	326,263	367,732	326,263	367,732
Total	7,656,349	6,326,636	7,656,349	6,326,636

30.1 Government Securities

<i>As at December 31,</i>	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Treasury Bills	1,552,531	4,224,163	1,552,531	4,224,163
Treasury Bonds	5,777,555	1,734,741	5,777,555	1,734,741
Total Government Securities	7,330,086	5,958,904	7,330,086	5,958,904

The maturity analysis of Other Financial Instruments held-for-trading is given in Note 60 on pages 362 and 363.

30.2 Equity Securities – Group and Bank

<i>Sector/Name of the Company</i>	As at December 31, 2015				As at December 31, 2014			
	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
Bank, Finance and Insurance								
Central Finance Company PLC	94,930	253.00	24,017	18,937	94,930	250.00	23,733	18,937
Citizen Development Bank PLC (Non-voting)	101,965	80.00	8,157	3,398	101,965	74.00	7,545	3,398
Hatton National Bank PLC	82	210.60	17	12	82	194.90	16	12
Lanka Ventures PLC	100,000	43.50	4,350	3,033	100,000	46.90	4,690	3,033
Sampath Bank PLC	25,655	248.00	6,362	4,298	25,000	236.30	5,908	4,298
Sub total			42,903	29,678			41,892	29,678
Beverage, Food and Tobacco								
COCO Lanka PLC (Non-voting)	1,000	23.90	24	15	1,000	23.90	24	15
Distilleries Company of Sri Lanka PLC	181,490	246.00	44,647	28,968	181,490	210.00	38,113	28,968
Lanka Milk Foods (CWE) PLC	250,000	135.00	33,750	27,866	250,000	120.40	30,100	27,866
COCO Lanka PLC	–	–	–	–	402,000	26.70	10,733	7,062
Sub total			78,421	56,849			78,970	63,911
Chemicals and Pharmaceuticals								
Chemical Industries Colombo Holding PLC (Non-voting)	161,400	81.20	13,106	11,692	161,400	66.40	10,717	11,692
Haycarb PLC	107,100	164.90	17,661	15,914	107,100	173.00	18,528	15,914
Sub total			30,767	27,606			29,245	27,606
Construction and Engineering								
Colombo Dockyard PLC	75,000	150.10	11,258	16,685	75,000	193.00	14,475	16,685
Sub total			11,258	16,685			14,475	16,685
Diversified Holdings								
Hemas Holdings PLC	60	92.90	6	2	60	74.30	4	2
John Keells Holdings PLC	114,285	178.10	20,354	20,527	–	–	–	–
Sub total			20,360	20,529			4	2
Health Care								
Ceylon Hospitals PLC	121,900	101.20	12,336	12,868	121,900	117.40	14,311	12,868
Ceylon Hospitals PLC (Non-voting)	61,100	75.00	4,583	4,423	61,100	80.00	4,888	4,423
Sub total			16,919	17,291			19,199	17,291
Hotels and Travels								
John Keells Hotels PLC	267,608	15.40	4,121	3,473	267,608	17.00	4,549	3,473
Taj Lanka Hotels PLC	212,390	25.30	5,373	6,625	212,390	34.40	7,306	6,625
Sub total			9,494	10,098			11,855	10,098

Sector/Name of the Company	As at December 31, 2015				As at December 31, 2014			
	No. of Shares	Market Price Rs.	Market Value Rs. '000	Cost of the Investment Rs. '000	No. of Shares	Market Price Rs.	Market Value Rs. '000	Cost of the Investment Rs. '000
Investment Trusts								
Renuka Holdings PLC	117,158	26.90	3,152	3,180	117,158	31.50	3,690	3,180
Renuka Holdings PLC (Non-voting)	265,368	22.80	6,050	4,958	265,368	23.50	6,236	4,958
Sub total			9,202	8,138			9,926	8,138
Land and Property								
Overseas Reality Ceylon PLC	183,320	23.20	4,253	2,716	174,000	26.30	4,576	2,512
CT Land Development PLC	15,000	50.00	750	531	–	–	–	–
Sub total			5,003	3,247			4,576	2,512
Manufacturing								
ACL Cables PLC	171,516	120.90	20,736	14,096	171,516	76.40	13,104	14,096
Dipped Products PLC	200,000	110.00	22,000	24,239	200,000	143.00	28,600	24,239
Lanka Walltile PLC	60	109.80	7	5	60	97.30	6	5
Pelwatte Sugar Industries PLC	12,300	0.10	1	351	12,300	0.10	1	351
Royal Ceramics Lanka PLC	155,927	111.20	17,339	18,057	264,896	116.90	30,966	30,676
Tokyo Cement Company (Lanka) PLC (Non-voting)	–	–	–	–	140,055	46.90	6,569	3,407
Sub total			60,083	56,748			79,246	72,774
Plantations								
Kotagala Plantations PLC	201,750	17.80	3,591	9,172	201,750	31.60	6,375	9,172
Sub total			3,591	9,172			6,375	9,172
Power and Energy								
Hemas Power PLC	106,249	25.00	2,656	2,053	600,000	18.10	10,860	11,591
Lanka IOC PLC	685,984	37.10	25,450	15,013	685,984	60.00	41,159	15,013
Sub total			28,106	17,066			52,019	26,604
Telecommunications								
Dialog Axiata PLC	949,172	10.70	10,156	6,300	1,500,000	13.30	19,950	9,956
Sub total			10,156	6,300			19,950	9,956
Total			326,263	279,407			367,732	294,427
Mark to market gains/(losses) for the year				46,856				73,305
Market value of equity securities				326,263				367,732

30.3 Industry/Sector Composition of Equity Securities – Group and Bank

Industry/Sector	As at December 31, 2015			As at December 31, 2014		
	Market Value	Cost of the Investment	%	Market Value	Cost of the Investment	%
	Rs. '000	Rs. '000		Rs. '000	Rs. '000	
Bank, Finance and Insurance	42,903	29,678	13.15	41,892	29,678	11.39
Beverage, Food and Tobacco	78,421	56,849	24.04	78,970	63,911	21.47
Chemicals and Pharmaceuticals	30,767	27,606	9.43	29,245	27,606	7.95
Construction and Engineering	11,258	16,685	3.45	14,475	16,685	3.94
Diversified Holdings	20,360	20,529	6.24	4	2	–
Health Care	16,919	17,291	5.19	19,199	17,291	5.22
Hotels and Travels	9,494	10,098	2.91	11,855	10,098	3.22
Investment Trusts	9,202	8,138	2.82	9,926	8,138	2.70
Land and Property	5,003	3,247	1.53	4,576	2,512	1.25
Manufacturing	60,083	56,748	18.42	79,246	72,774	21.55
Plantations	3,591	9,172	1.10	6,375	9,172	1.73
Power and Energy	28,106	17,066	8.61	52,019	26,604	14.15
Telecommunications	10,156	6,300	3.11	19,950	9,956	5.43
Sub total	326,263	279,407	100.00	367,732	294,427	100.00
Mark to market gains/(losses) for the year		46,856			73,305	
Market Value of equity securities	326,263	326,263	100.00	367,732	367,732	100.00

31. Loans and Receivables to Banks

'Loans and receivables to banks' 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 receivables to banks' include Amounts due from banks. 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.

As at December 31,	GROUP		BANK	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Gross loans and receivables	601,106	551,066	601,106	551,066
Less: Provision for impairment	–	–	–	–
Net loans and receivables	601,106	551,066	601,106	551,066

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 US\$ 4.170 Mn. (Rs. 601.106 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 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	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
United States Dollar	601,106	551,066	601,106	551,066
Sub total	601,106	551,066	601,106	551,066

The maturity analysis of Loans and Receivable to Banks is given in Note 60 on pages 362 and 363.

32. Loans and Receivables to Other Customers

'Loans and receivables to 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 receivables to other customers' include, Loans & Advances and Lease Receivables of the Group.

When the Group is the lessor in a lease agreement that transfers substantially all 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 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 drawdown, 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.

<i>As at December 31,</i>	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross loans and receivables	528,382,921	423,701,112	526,166,681	422,388,031
Less: Provision for individual impairment [Refer Note 32.2]	5,369,960	4,334,587	5,369,960	4,334,587
Provision for collective impairment [Refer Note 32.2]	13,089,833	12,835,436	12,681,594	12,621,987
Net loans and receivables	509,923,128	406,531,089	508,115,127	405,431,457

The maturity analysis of Loans and Receivables to Other Customers is given in Note 60 on pages 362 and 363.

32.1 Analysis

32.1 (a) By product

<i>As at December 31,</i>	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loans and receivables				
Overdrafts	81,493,071	70,149,877	81,966,028	70,149,877
Trade finance	45,805,983	41,964,999	45,805,983	41,964,999
Lease/hire purchase receivable [Refer Note 32.3]	37,292,636	24,814,178	34,472,653	23,068,581
Credit cards	4,830,429	4,221,367	4,830,429	4,221,367
Pawning	1,870,881	2,315,884	1,870,881	2,315,884
Staff loans	6,117,701	5,023,379	6,115,662	5,022,923
Housing loans	40,327,887	31,402,858	40,327,887	31,402,858
Personal loans	26,290,382	21,943,589	26,270,744	21,943,016
Term loans				
Short term	44,044,255	31,387,867	44,044,255	31,974,667
Long term	224,519,934	178,538,532	224,672,397	178,385,277
Loans granted from Investment Fund Account (IFA) [Refer Note 32.4]	4,435,479	4,554,420	4,435,479	4,554,420
Bills of exchange	11,354,283	7,384,162	11,354,283	7,384,162
Sub total	528,382,921	423,701,112	526,166,681	422,388,031

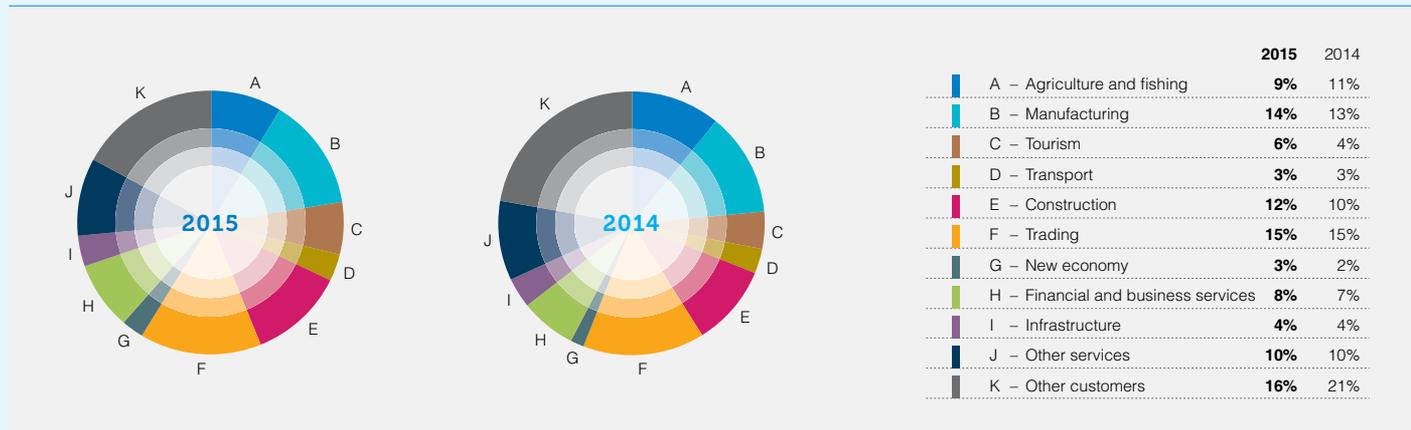
32.1 (b) By currency

As at December 31,	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Sri Lanka Rupee	425,498,965	337,141,743	423,282,725	335,828,662
United States Dollar	68,414,361	48,651,875	68,414,361	48,651,875
Great Britain Pound	731,487	680,447	731,487	680,447
Euro	1,017,634	1,084,399	1,017,634	1,084,399
Australia Dollar	149,680	148,430	149,680	148,430
Japanese Yen	112,514	159,781	112,514	159,781
Singapore Dollar	–	350	–	350
Bangladesh Taka	32,449,851	35,829,684	32,449,851	35,829,684
Others	8,429	4,403	8,429	4,403
Sub total	528,382,921	423,701,112	526,166,681	422,388,031

32.1 (c) By Industry

As at December 31,	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Agriculture and fishing	45,842,559	45,451,951	45,667,263	45,306,783
Manufacturing	73,304,224	54,799,178	73,282,037	54,799,178
Tourism	33,696,456	18,306,599	33,644,481	18,273,643
Transport	16,684,942	13,294,127	16,592,979	13,241,354
Construction	61,665,875	42,546,071	61,602,932	42,525,815
Trading	78,254,327	62,280,308	77,628,493	62,017,576
New economy (e-Commerce, IT, etc.)	14,226,759	6,533,193	14,226,759	6,533,193
Financial and business services	43,466,286	28,627,011	44,264,897	29,205,088
Infrastructure	19,128,131	15,729,998	19,128,131	15,729,998
Other services (Education, Health, Media, etc.)	51,057,181	40,676,423	50,305,657	40,424,390
Other customers	91,056,181	95,456,253	89,823,052	94,331,013
Sub total	528,382,921	423,701,112	526,166,681	422,388,031

Sectoral Classification of Loans & Advances - Bank



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

	GROUP		BANK	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Movement in Provision for Individual Impairment				
Balance as at January 01,	4,334,587	4,204,654	4,334,587	4,204,654
Charge/(write back) to the Income Statement [Refer Note 17]	1,386,477	269,703	1,386,477	269,703
Net write-off/(recoveries) during the year	(490,046)	(283,111)	(490,046)	(283,111)
Exchange rate variance on foreign currency provisions	90,680	6,765	90,680	6,765
Interest accrued/(reversals) on impaired loans and advances	(265,344)	(278,878)	(265,344)	(278,878)
Other movements	313,606	415,454	313,606	415,454
Balance as at December 31,	5,369,960	4,334,587	5,369,960	4,334,587
Movement in Provision for Collective Impairment				
Balance as at January 01,	12,835,436	11,582,515	12,621,987	11,582,514
Balance assumed on business combination	–	194,805	–	–
Charge/(write back) to the Income Statement [Refer Note 17]	2,710,834	2,911,621	2,516,044	2,892,978
Net write-off/(recoveries) during the year	(2,465,797)	(1,853,340)	(2,465,797)	(1,853,340)
Exchange rate variance on foreign currency provisions	9,360	(165)	9,360	(165)
Other movements	–	–	–	–
Balance as at December 31,	13,089,833	12,835,436	12,681,594	12,621,987
Total of Individual and Collective Impairment	18,459,793	17,170,023	18,051,554	16,956,574

32.3 Lease/Hire Purchase Receivable

<i>As at December 31,</i>	GROUP		BANK	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Gross Lease/Hire Purchase Receivable	37,292,636	24,814,178	34,472,653	23,068,581
Within one year [Refer Note 32.3 (a)]	12,781,980	10,129,318	11,619,035	9,303,525
From one to five years [Refer Note 32.3 (b)]	24,424,152	14,676,651	22,851,419	13,756,847
After five years [Refer Note 32.3 (c)]	86,504	8,209	2,199	8,209
Less: Provision for individual impairment [Refer Note 32.3 (d)]	93,710	60,961	93,710	60,961
Provision for collective impairment [Refer Note 32.3 (e)]	953,696	1,064,533	556,776	856,170
Net lease receivable	36,245,230	23,688,684	33,822,167	22,151,450

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

<i>As at December 31,</i>	GROUP		BANK	
	2015	2014	2014	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Total Lease/Hire purchase receivable within one year	16,412,304	13,168,565	14,926,248	12,084,654
Less: Unearned lease/hire purchase income	3,630,324	3,039,247	3,307,213	2,781,129
Gross Lease/Hire purchase receivable within one year	12,781,980	10,129,318	11,619,035	9,303,525
Less: Provision for individual impairment	72,660	49,695	72,660	49,695
Provision for collective impairment	642,514	707,769	488,019	627,694
Sub total	12,066,806	9,371,854	11,058,356	8,626,136

32.3 (b) Lease/Hire Purchase Receivable from One to Five Years

<i>As at December 31,</i>	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Total Lease/Hire purchase receivable from one to five years	28,211,137	17,062,402	26,138,901	15,871,840
Less: Unearned lease/hire purchase income	3,786,985	2,385,751	3,287,482	2,114,993
Gross Lease/Hire purchase receivable from one to five years	24,424,152	14,676,651	22,851,419	13,756,847
Less: Provision for individual impairment	21,050	11,266	21,050	11,266
Provision for collective impairment	307,592	356,596	68,755	228,308
Sub total	24,095,510	14,308,789	22,761,614	13,517,273

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

<i>As at December 31,</i>	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Total Lease/Hire purchase receivable after five years	94,062	8,666	2,254	8,666
Less: Unearned lease/hire purchase income	7,558	457	55	457
Gross Lease/Hire purchase receivable after five years	86,504	8,209	2,199	8,209
Less: Provision for individual impairment	—	—	—	—
Provision for collective impairment	3,590	168	2	168
Sub total	82,914	8,041	2,197	8,041

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

	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 01,	60,961	54,317	60,961	54,317
Charge/(write back) to the Income Statement	55,159	13,004	55,159	13,004
Net write-off/(recoveries) during the year	(21,673)	(6,211)	(21,673)	(6,211)
Interest accrued on impaired lease/hire purchase receivable	(4,516)	(3,268)	(4,516)	(3,268)
Other movements	3,779	3,119	3,779	3,119
Balance as at December 31,	93,710	60,961	93,710	60,961

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

	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 01,	1,064,533	789,654	856,170	789,653
Balance assumed on business combination	–	191,037	–	–
Charge/(write back) to the Income Statement	620,604	783,494	432,047	766,169
Net write-off/(recoveries) during the year	(731,441)	(699,652)	(731,441)	(699,652)
Other movements	–	–	–	–
Balance as at December 31,	953,696	1,064,533	556,776	856,170

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 01, 2011 by transferring tax savings as explained below:

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

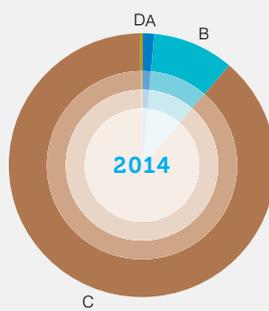
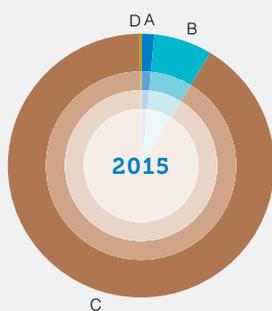
The Sectoral Distribution of Loans under IFA is Given Below:

As at December 31, Sector	Rouge of Interest Rates	Tenure	2015			2014		
			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 – 7.91	5.5	65,909	–	65,909	58,067	35,115	93,182
(b) Factory/Mills modernisation/ Establishment/Expansion	6.85 – 9.00	5	295,591	51,800	347,391	445,247	51,800	497,047
(c) Infrastructure Development	6.80 – 11.00	14.5	3,886,732	132,414	4,019,146	3,861,496	402,017	4,263,513
(d) Construction of Hotels and for related purposes	7.35 – 8.41	7	10,372	–	10,372	12,508	–	12,508
Capital Outstanding of the Loans granted			4,258,604	184,214	4,442,818	4,377,318	488,932	4,866,250
(e) Interest receivable			176,875	–	176,875	177,102	–	177,102
Carrying amount of the Loans granted			4,435,479	184,214	4,619,693	4,554,420	488,932	5,043,352

The requirement to maintain the Investment Fund Account was ceased with effective from October 1, 2014 as per the instructions issued by the Central Bank of Sri Lanka.

Sectoral Distribution of Loans Under IFA

%



	2015	2014
A – Cultivation of Plantation Crops/Agriculture Crops	1.6%	1.3%
B – Factory/Mills Modernisation/Establishment/Expansion	6.9%	10.2%
C – Infrastructure Development	91.3%	88.2%
D – Construction of Hotels and for Related Purposes	0.2%	0.3%

32.5 Summary of Individually Impaired Loans and Receivables – Bank

As at December 31,	2015		2014	
	Individually Impaired Loans and Receivables	Individual Impairment	Individually Impaired Loans and Receivables	Individual Impairment
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loans and Advances				
Overdrafts	1,336,117	1,007,622	1,005,810	836,674
Trade finance	548,552	303,921	531,495	393,998
Lease/hire purchase receivable	533,359	93,710	107,219	60,961
Credit cards	–	–	–	–
Pawning	4,566	67	6,360	133
Staff loans	–	–	–	–
Housing loans	12,445	6,194	24,041	5,632
Personal loans	2,588	1,753	2,368	1,697
Term loans	9,309,002	3,956,693	4,871,389	3,035,492
Bills of exchange	–	–	–	–
Total	11,746,629	5,369,960	6,548,682	4,334,587

The net exposure of Rs. 6,376.669 Mn. (Rs. 2,214.095 Mn. As at December 31, 2014) is covered through adequate collateral valued over Rs.6,376.669 Mn. (Over Rs. 2,214.095 Mn. as at December 31, 2014) excluding machinery and stocks.

33. 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'.

<i>As at December 31,</i>	GROUP		BANK	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Government securities	203,774,930	213,381,263	203,757,409	213,364,740
Government securities – Sri Lanka [Refer Note 33.1 (a)]	193,956,070	205,176,556	193,938,549	205,160,033
Government securities – Bangladesh [Refer Note 33.1 (b)]	9,818,860	8,204,707	9,818,860	8,204,707
Equity securities [Refer Note 33.2 and 33.3]	281,450	230,313	281,326	230,189
Quoted shares – (At mark to market value) [Refer Notes 33.2.(a) and 33.3.(a)]	234,839	185,132	234,839	185,132
Unquoted shares – (At cost) [Refer Notes 33.2 (b) and 33.3 (b)]	46,611	45,181	46,487	45,057
Investment in Unit Trust [Refer Note 33.4 and 33.5]	205,554	613,441	205,554	613,441
Total	204,261,934	214,225,017	204,244,289	214,208,370

There were no impairment losses on Financial Investments – Available-for-Sale as at December 31, 2015 (2014 – Nil).

The maturity analysis of Financial Investments – Available-for-Sale is given in Note 60 on pages 362 and 363.

33.1 Government Securities

33.1 (a) Government Securities – Sri Lanka

<i>As at December 31,</i>	GROUP		BANK	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Treasury bills	8,961,530	48,112,556	8,944,009	48,096,033
Treasury bonds	172,727,815	150,113,050	172,727,815	150,113,050
Sri Lanka sovereign bonds	12,266,725	6,950,950	12,266,725	6,950,950
Sub total	193,956,070	205,176,556	193,938,549	205,160,033

33.1 (b) Government Securities – Bangladesh

<i>As at December 31,</i>	GROUP		BANK	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Treasury bills	817,545	736,146	817,545	736,146
Treasury bonds	9,001,315	7,468,561	9,001,315	7,468,561
Sub total	9,818,860	8,204,707	9,818,860	8,204,707

33.2 (a) Equity Securities – As at December 31, 2015

	GROUP				BANK			
	No. of Shares	Market Price Rs.	Market Value Rs. '000	Cost of Investment Rs. '000	No. of Shares	Market Price Rs.	Market Value Rs. '000	Cost of Investment Rs. '000
Sector/Type of Securities								
Quoted Shares:								
Bank, Finance and Insurance								
DFCC Bank PLC	3,496	168.10	588	155	3,496	168.10	588	155
Hatton National Bank PLC	11,760	210.60	2,477	315	11,760	210.60	2,477	315
Nations Trust Bank PLC	1,333	86.30	115	22	1,333	86.30	115	22
National Development Bank PLC	5,424	194.10	1,053	215	5,424	194.10	1,053	215
Sampath Bank PLC	3,811	248.00	945	72	3,811	248.00	945	72
Seylan Bank PLC	1,015	95.00	96	24	1,015	95.00	96	24
VISA Inc.	19,424	US\$. 77.55	217,138	–	19,424	US\$. 77.55	217,138	–
Sub total			222,412	803			222,412	803
Manufacturing								
Alumex PLC	714,200	17.40	12,427	9,999	714,200	17.40	12,427	9,999
Sub total			12,427	9,999			12,427	9,999
Total			234,839	10,802			234,839	10,802

33.2 (b) Equity Securities – As at December 31, 2015

	GROUP				BANK			
	No. of Shares	Market Price Rs.	Market Value Rs. '000	Cost of Investment Rs. '000	No. of Shares	Market Price Rs.	Market Value Rs. '000	Cost of Investment Rs. '000
Sector/Type of Securities								
Unquoted Shares:								
Bank, Finance and Insurance								
Central Depository of Bangladesh Ltd.	3,427,083	BDT 2.75	17,293	17,293	3,427,083	BDT 2.75	17,293	17,293
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
LankaClear (Pvt) Ltd.	1,000,000	10.00	10,000	10,000	1,000,000	10.00	10,000	10,000
Lanka Financial Services 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	EUR 912.77	7,259	7,259	47	EUR 912.77	7,259	7,259
Total			46,611	46,611			46,487	46,487

33.2 (c) Sector/Industry Composition of the Equity Securities – As at December 31, 2015

	GROUP		BANK	
	Market Value Rs. '000	Cost of Investment Rs. '000	Market Value Rs. '000	Cost of Investment Rs. '000
Sector/Industry				
Bank, Finance and Insurance	269,023	47,414	268,899	47,290
Manufacturing	12,427	9,999	12,427	9,999
Total	281,450	57,413	281,326	57,289

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

	GROUP				BANK			
	No. of Shares	Market Price Rs.	Market Value Rs. '000	Cost of Investment Rs. '000	No. of Shares	Market Price Rs.	Market Value Rs. '000	Cost of Investment Rs. '000
Sector/Type of Securities								
Quoted Shares:								
Bank, Finance and Insurance								
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	–
Sub total			173,776	803			173,776	803
Manufacturing								
Alumex PLC	714,200	15.90	11,356	9,999	714,200	15.90	11,356	9,999
Sub total			11,356	9,999			11,356	9,999
Total			185,132	10,802			185,132	10,802

33.3 (b) Equity Securities – As at December 31, 2014

	GROUP				BANK			
	No. of Shares	Market Price Rs.	Market Value Rs. '000	Cost of Investment Rs. '000	No. of Shares	Market Price Rs.	Market Value Rs. '000	Cost of Investment Rs. '000
Sector/Type of Securities								
Unquoted Shares:								
Bank, Finance and Insurance								
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
LankaClear (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	EUR 912.77	7,259	7,259	47	EUR 912.77	7,259	7,259
Total			45,181	45,181			45,057	45,057

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

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

33.4 Investment in Unit Trust – As at December 31, 2015

	GROUP		BANK	
	Market Value Rs. '000	Cost of Investment Rs. '000	Market Value Rs. '000	Cost of Investment Rs. '000
Sector/Industry				
Bank, Finance and Insurance				
Capital Alliance Investment Ltd.	205,554	201,402	205,554	201,402
Total	205,554	201,402	205,554	201,402

33.5 Investment in Unit Trust – As at December 31, 2014

	GROUP		BANK	
	Market Value Rs. '000	Cost of Investment Rs. '000	Market Value Rs. '000	Cost of Investment Rs. '000
Sector/Industry				
Bank, Finance and Insurance				
Capital Alliance Investment Ltd.	613,441	602,517	613,441	602,517
Total	613,441	602,517	613,441	602,517

34. Financial Investments – Loans and Receivables

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.

<i>As at December 31,</i>	GROUP		BANK	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Investments in Government Securities [Refer Note 34.1]	44,925,168	40,850,011	44,925,168	40,850,011
Other Investments [Refer Note 34.2]	12,799,201	9,586,053	12,799,201	9,586,053
Total	57,724,369	50,436,064	57,724,369	50,436,064

34.1 Investments in Government Securities

<i>As at December 31,</i>	GROUP		BANK	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Treasury bills	–	–	–	–
Treasury bonds	605,737	605,859	605,737	605,859
Sri Lanka Development Bonds	44,319,431	40,244,152	44,319,431	40,244,152
Total	44,925,168	40,850,011	44,925,168	40,850,011

34.2 Other Investments

<i>As at December 31,</i>	GROUP		BANK	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Debentures [Refer Note 34.2.1]	11,272,757	8,458,544	11,272,757	8,458,544
Trust certificates [Refer Note 34.2.2]	1,140,613	1,126,469	1,140,613	1,126,469
Corporate investments in Bangladesh [Refer Note 34.2.3]	385,831	1,040	385,831	1,040
Total	12,799,201	9,586,053	12,799,201	9,586,053

The maturity analysis of Financial Investments – Loans and Receivables is given in Note 60 on pages 362 and 363.

34.2.1 Debentures

As at December 31,	GROUP				BANK			
	2015		2014		2015		2014	
	Amortised Cost Rs. '000	Market Value Rs. '000						
People's Leasing & Finance PLC	751,133	751,133	738,654	738,654	751,133	751,133	738,654	738,654
Senkadagala Finance PLC	41,869	41,869	41,869	41,869	41,869	41,869	41,869	41,869
Singer (Sri Lanka) PLC	622,475	622,475	181,005	181,005	622,475	622,475	181,005	181,005
Central Finance Company PLC	439,344	439,344	277,872	277,872	439,344	439,344	277,872	277,872
Lion Brewery (Ceylon) PLC	611,968	611,968	815,073	815,073	611,968	611,968	815,073	815,073
Hayleys PLC	1,206,558	1,206,558	91,575	91,575	1,206,558	1,206,558	91,575	91,575
Singer Finance (Lanka) PLC	661,672	661,672	355,756	355,756	661,672	661,672	355,756	355,756
Nawaloka Hospitals PLC	237,167	237,167	237,167	237,167	237,167	237,167	237,167	237,167
Hemas Holdings PLC	54,048	54,048	54,048	54,048	54,048	54,048	54,048	54,048
Abans PLC	77,156	77,156	77,156	77,156	77,156	77,156	77,156	77,156
DFCC Bank PLC	1,857,008	1,857,008	1,857,008	1,857,008	1,857,008	1,857,008	1,857,008	1,857,008
Richard Pieris & Company PLC	695,136	695,136	695,136	695,136	695,136	695,136	695,136	695,136
Softlogic Finance PLC	330,465	330,465	330,465	330,465	330,465	330,465	330,465	330,465
Lanka Orix Leasing Company PLC	2,045,370	2,045,370	2,018,740	2,018,740	2,045,370	2,045,370	2,018,740	2,018,740
Mercantile Investments & Finance PLC	42,551	42,551	42,551	42,551	42,551	42,551	42,551	42,551
Orient Finance PLC	197,173	197,173	197,173	197,173	197,173	197,173	197,173	197,173
Commercial Leasing & Finance PLC	1,043,808	1,043,808	-	-	1,043,808	1,043,808	-	-
MTD Walkers PLC	307,453	307,453	-	-	307,453	307,453	-	-
Dunamis Capital PLC	50,403	50,403	-	-	50,403	50,403	-	-
Urban Development Authority (11% - 2015)	-	-	447,296	447,296	-	-	447,296	447,296
Sub total	11,272,757	11,272,757	8,458,544	8,458,544	11,272,757	11,272,757	8,458,544	8,458,544

The above debentures are stated at amortised cost and classified under Financial Investments-Loans and Receivables due to the absence of an active market.

34.2.2 Trust Certificates

As at December 31,	GROUP				BANK			
	2015		2014		2015		2014	
	Amortised Cost Rs. '000	Market Value Rs. '000						
People's Leasing Company PLC	338,364	338,364	644,356	644,356	338,364	338,364	644,356	644,356
Assetline Leasing Company Ltd.	319,009	319,009	374,091	374,091	319,009	319,009	374,091	374,091
Richard Pieris Arpico Finance Ltd.	121,862	121,862	108,022	108,022	121,862	121,862	108,022	108,022
Mercantile Investments & Finance PLC	361,378	361,378	-	-	361,378	361,378	-	-
Sub total	1,140,613	1,140,613	1,126,469	1,126,469	1,140,613	1,140,613	1,126,469	1,126,469

34.2.3 Corporate Investments in Bangladesh

As at December 31,	GROUP				BANK			
	2015		2014		2015		2014	
	Amortised Cost	Market Value	Amortised Cost	Market Value	Amortised Cost	Market Value	Amortised Cost	Market Value
	Rs. '000	Rs. '000						
Price Bonds	1,501	1,501	1,040	1,040	1,501	1,501	1,040	1,040
Commercial Papers	384,330	384,330	–	–	384,330	384,330	–	–
Sub total	385,831	385,831	1,040	1,040	385,831	385,831	1,040	1,040

35. Investments in 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 Serendib 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-month 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.

As at December 31,	Holding	GROUP				BANK				
		2015		2014		2015		2014		
		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	Rs. '000	
Local Subsidiaries:										
Quoted:										
Commercial Development Company PLC	94.28(*)	–	–	–	–	273,610	1,047,611	274,393	1,145,916	
(11,313,290 Ordinary Shares)							(@ Rs. 92.60)		(@ Rs. 101.00)	
(11,345,705 Ordinary Shares as at December 31, 2014)	(94.55 in 2014)									
Unquoted:										
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, 2014)										
Unquoted:										
Serendib Finance Ltd.	100	–	–	–	–	916,046	916,046	916,046	916,046	
(21,600,000 Ordinary Shares)										
(21,600,000 Ordinary Shares as at Dec 31, 2014)										
Foreign Subsidiary:										
Unquoted:										
Commex – Sri Lanka S.R.L. (Incorporated in Italy) (**)	100	–	–	–	–	193,080	42,490	129,928	15,561	
Gross Total		–	–	–	–	1,387,736	2,011,147	1,325,367	2,082,523	
Provision for impairment [Refer Note 35.1]						(150,590)	–	(114,367)	–	
Net Total		–	–	–	–	1,237,146	2,011,147	1,211,000	2,082,523	

(*) The Board of Directors of the Bank resolved to reduce the shareholding of Commercial Development Company PLC, (in which the Bank had a stake of 94.55%) to comply with the requirements of the Listing Rule No. 7.13 of the Colombo Stock Exchange on Minimum Public Holding. Accordingly, the Bank disposed 32,415 shares during the year through the Colombo Stock Exchange and reduced the shareholding in the above Company to 94.28% by December 31, 2015 and is in the process of taking steps to dispose the required number of shares to adhere to the requirements of the Listing Rules.

Consequent to the above disposal, ownership interests of the Bank has changed while retaining control. As per SLFRS 10 on 'Consolidated Financial Statements', changes in a parent's ownership interest in a Subsidiary that do not result in the parent losing control are equity transactions and hence, the resulting gain/loss is recognised in equity. As majority of the share trades had occurred in December 2015, it was assumed that disposals took place on December 31, 2015 for the purpose of reporting.

(**) During the year, the Bank was able to obtain the Money Transfer License from the Bank of Italy. However, 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 when finalising the Banks' Financial Statements.

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 Interests in Other Entities'.

The maturity analysis of Investments in Subsidiaries is given in Note 60 on pages 362 and 363.

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

<i>As at December 31,</i>	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 01,	–	–	114,367	85,580
Charge/(Write back) to the Income Statement [Refer Note 17]	–	–	36,223	28,787
Balance as at December 31,	–	–	150,590	114,367

The Bank made a provision against its investment in Commex – Sri Lanka S.R.L. which incorporated in Italy to bring the investment value in line with the net assets value of the said subsidiary based on an assessment of impairment. Accordingly, the total amount provided for impairment as at December 31, 2015 is Rs.150.590 Mn. (2014 – Rs. 114.367 Mn.)

35.2 Acquisition of a 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. (now known as Serendib 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 the acquisition of this Company.

35.2.1 Consideration Transferred

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

35.2.2 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
Assets	
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 37.2 and 38.2]	207,504
Loans and receivables to other customers	1,652,134
Other assets	24,355
Sub total	1,926,311
Liabilities	
Due to banks	(1,038,736)
Current tax liabilities [Refer Note 45]	(7,200)
Subordinated liabilities [Refer Note 50]	(215,000)
Provision for gratuity payable [Refer Note 48.1 (c)]	(1,977)
Deferred tax liabilities [Refer Note 46.1]	(47,292)
Other liabilities	(100,105)
Sub total	(1,410,310)
Fair value of identifiable net assets at the date of acquisition	516,001

35.2.3 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 35.2.1]	916,046
Fair value of identifiable net assets at the date of acquisition [Refer Note 35.2.2]	(516,001)
Goodwill [Refer Note 38]	400,045

35.2.4 Cost of Acquisition of the Subsidiary, net of Cash Acquired

	GROUP Rs. '000	BANK Rs. '000
Purchase consideration transferred [Refer Note 35.2.1]	916,046	916,046
Cash and cash equivalents acquired on business combination [Refer Note 35.2.2]	(24,576)	-
Cost of acquisition of the subsidiary, net of cash acquired	891,470	916,046

36. Investments in 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. 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.

As at December 31,	Incorporation and operation	Ownership Interest %	No. of Shares	2015		2014	
				Cost	Directors Valuation/ Market Value	Cost	Directors Valuation/ Market Value
				Rs. '000	Rs. '000	Rs. '000	Rs. '000
Equity Investments Lanka Ltd.	Sri Lanka	22.92	4,110,938	44,331	67,373	44,331	72,134
Commercial Insurance Brokers (Pvt) Ltd.	Sri Lanka	18.86*	120,000	100	37,130	100	34,153
				44,431	104,503	44,431	106,287

*20% stake of Commercial Insurance Brokers (Pvt) Ltd. is held by Commercial Development Company PLC, a 94.28% 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 18.86%.

36.1 Reconciliation of Summarised Financial Information

Reconciliation of the summarised financial information to the carrying amount of the interest in associate recognised in the Consolidated Financial Statements is as follows:

As at December 31,	2015			2014		
	Equity Investments Lanka Ltd.	Commercial Insurance Brokers (Pvt) Ltd.	Total	Equity Investments Lanka Ltd.	Commercial Insurance Brokers (Pvt) Ltd.	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cost of investments	44,331	100	44,431	44,331	100	44,431
Add: Share of Profit Applicable to the Group						
Investment in associate as at January 01,	27,803	34,053	61,856	16,080	33,662	49,742
	1,405	3,544	4,949	11,723	1,242	12,965
Profit/(loss) for the period recognised in Income Statement, net of tax	9,916	3,722	13,638	5,108	1,455	6,563
Profit or Loss and Other Comprehensive Income, net of tax	(8,511)	(178)	(8,689)	6,615	(213)	6,402
Transactions which are recorded directly in equity	—	—	—	—	—	—
Dividend received	(6,166)	(567)	(6,733)	—	(851)	(851)
Balance as at December 31,	67,373	37,130	104,503	72,134	34,153	106,287

36.2 Summarised Financial Information in Respect of Associates is set out below:**36.2 (a) Summarised Income Statement**

For the year ended December 31,	2015			2014		
	Equity Investments Lanka Ltd.	Commercial Insurance Brokers (Pvt) Ltd.	Total	Equity Investments Lanka Ltd.	Commercial Insurance Brokers (Pvt) Ltd.	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Percentage Ownership Interest						
Revenue	59,436	224,373	283,809	41,202	205,425	246,627
Expenses	(16,926)	(192,222)	(209,148)	(21,160)	(190,064)	(211,224)
Income Tax	754	(12,468)	(11,714)	2,246	(7,668)	(5,422)
Profit from continuing operations, net of tax	43,264	19,683	62,947	22,288	7,693	29,981
Group's share of profit from continuing operations, net of tax	9,916	3,722	13,638	5,108	1,455	6,563
Other Comprehensive Income, net of tax	(37,134)	(939)	(38,073)	28,861	(1,129)	27,732
Group's share of Other Comprehensive Income from continuing operations, net of tax	(8,511)	(178)	(8,689)	6,615	(213)	6,402
Share of results of equity accounted investee recognised in Income Statement and Statement of Profit or Loss and Other Comprehensive Income	1,405	3,544	4,949	11,723	1,242	12,965

36.2 (b) Summarised Statement of Financial Position

As at December 31,	2015		2014	
	Equity Investments Lanka Ltd.	Commercial Insurance Brokers (Pvt) Ltd.	Equity Investments Lanka Ltd.	Commercial Insurance Brokers (Pvt) Ltd.
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Percentage ownership interest				
Non-current assets	207,786	141,015	278,071	141,509
Current assets	94,757	128,868	44,772	101,000
Non-current liabilities	(5,618)	(21,199)	(5,260)	(17,818)
Current liabilities	(2,975)	(52,334)	(2,862)	(44,083)
Net assets	293,950	196,350	314,721	180,608
Group's share of net assets	67,373	37,130	72,134	34,153
Less: Unrealised profits	—	—	—	—
Carrying amount of interest in associates	67,373	37,130	72,134	34,153

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 of Associates is given in Note 60 on pages 362 and 363.

37. Property, Plant & Equipment

The Group applies the requirements of the Sri Lanka Accounting Standard – LKAS 16 on 'Property, Plant & Equipment' in accounting for its owned assets (including buildings under operating leases where the 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.

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.

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 the Note on 'Subsequent Cost'. 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.

- 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.

- 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 and freehold and 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 37.5 (b) on pages 326 to 330.

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.

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'.

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).

37.1 Group – 2015

	Freehold Land	Freehold Buildings	Leasehold Buildings	Computer Equipment	Motor Vehicles	Office Equipment, Furniture & Fixtures	Capital Work-in- Progress	Total 2015	Total 2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cost/Valuation									
Balance as at January 01,	4,883,273	2,549,352	992,126	3,518,719	327,762	4,131,515	408,205	16,810,952	14,449,047
Property, Plant & Equipment acquired on business combination	-	-	-	-	-	-	-	-	216,168
Additions during the year	41,429	153,299	22,022	441,459	41,428	436,534	152,152	1,288,323	1,120,582
Transfer of accumulated depreciation on assets revalued	-	-	-	-	-	-	-	-	(243,872)
Surplus on revaluation of property	-	-	-	-	-	-	-	-	1,812,757
Disposals during the year	-	-	-	(89,418)	(38,262)	(81,624)	-	(209,304)	(491,897)
Exchange rate variance	-	-	-	10,024	4,252	28,466	-	42,742	(3,573)
Transfers/adjustments	-	(66,713)	66,713	-	-	-	(201,918)	(201,918)	(48,260)
Balance as at December 31,	4,924,702	2,635,938	1,080,861	3,880,784	335,180	4,514,891	358,439	17,730,795	16,810,952
Accumulated Depreciation and Impairment Losses									
Balance as at January 01,	-	608	34,369	2,719,287	205,193	2,716,634	-	5,676,091	5,273,822
Accumulated depreciation assumed on business combination	-	-	-	-	-	-	-	-	17,068
Charge for the year [Refer Note 19]	-	90,677	27,927	334,108	41,274	530,176	-	1,024,162	1,087,175
Impairment loss	-	-	-	-	-	-	-	-	-
Transfer of accumulated depreciation on assets revalued	-	-	-	-	-	-	-	-	(243,872)
Disposals during the year	-	-	-	(88,532)	(33,269)	(65,772)	-	(187,573)	(456,362)
Exchange rate variance	-	-	-	8,838	4,152	23,692	-	36,682	(1,740)
Transfers/adjustments	-	-	-	-	-	-	-	-	-
Balance as at December 31,	-	91,285	62,296	2,973,701	217,350	3,204,730	-	6,549,362	5,676,091
Net book value as at December 31, 2015	4,924,702	2,544,653	1,018,565	907,083	117,830	1,310,161	358,439	11,181,433	
Net book value as at December 31, 2014	4,883,273	2,548,744	957,757	799,432	122,569	1,414,881	408,205		11,134,861

37.2 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
Cost/Valuation									
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)
Balance as at December 31,	4,883,273	2,549,352	992,126	3,518,719	327,762	4,131,515	408,205	16,810,952	14,449,047
Accumulated Depreciation and Impairment Losses									
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	–	–	–	–	–	–	–	–	–
Reversal of over provided depreciation	–	(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)
Balance as at December 31,	–	608	34,369	2,719,287	205,193	2,716,634	–	5,676,091	5,273,822
Net book value as at December 31, 2014	4,883,273	2,548,744	957,757	799,432	122,569	1,414,881	408,205	11,134,861	
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

There were no capitalised borrowing cost related to the acquisition of Property, Plant & Equipment during the year 2015 (2014 - 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,	2015			2014		
	Cost Rs. '000	Accumulated Depreciation Rs. '000	Net Book Value Rs. '000	Cost Rs. '000	Accumulated Depreciation Rs. '000	Net Book Value Rs. '000
Class of Asset						
Freehold land	753,149	–	753,149	711,720	–	711,720
Freehold buildings	1,166,621	328,170	838,451	1,080,035	298,287	781,748
Leasehold buildings	348,360	154,886	193,474	259,625	144,490	115,135
Total	2,268,130	483,056	1,785,074	2,051,380	442,777	1,608,603

37.3 Bank – 2015

	Freehold Land	Freehold Buildings	Leasehold Buildings	Computer Equipment	Motor Vehicles	Office Equipment, Furniture & Fixtures	Capital Work-in-Progress	Total 2015	Total 2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cost/Valuation									
Balance as at January 01,	4,797,273	2,458,352	104,625	3,504,292	129,047	4,095,287	404,219	15,493,095	13,499,527
Additions during the year	-	142,599	18,628	439,313	3,958	432,003	152,152	1,188,653	1,020,312
Transfer of accumulated depreciation on assets revalued	-	-	-	-	-	-	-	-	(206,238)
Surplus on revaluation of property	-	-	-	-	-	-	-	-	1,621,489
Disposals during the year	-	-	-	(88,770)	(9,459)	(79,606)	-	(177,835)	(410,543)
Exchange rate variance	-	-	-	10,024	4,252	27,593	-	41,869	(1,004)
Transfers/adjustments	-	(66,713)	66,713	-	-	-	(201,918)	(201,918)	(30,448)
Balance as at December 31,	4,797,273	2,534,238	189,966	3,864,859	127,798	4,475,277	354,453	16,343,864	15,493,095
Accumulated Depreciation and Impairment Losses									
Balance as at January 01,	-	-	34,368	2,711,315	99,461	2,694,860	-	5,540,004	5,112,183
Charge for the year [Refer Note 19]	-	88,587	4,482	331,996	12,578	523,849	-	961,492	1,026,730
Impairment loss	-	-	-	-	-	-	-	-	-
Transfer of accumulated depreciation on assets revalued	-	-	-	-	-	-	-	-	(206,238)
Disposals during the year	-	-	-	(87,948)	(9,459)	(64,717)	-	(162,124)	(391,978)
Exchange rate variance	-	-	-	8,838	4,152	22,517	-	35,507	(693)
Transfers/adjustments	-	-	-	-	-	-	-	-	-
Balance as at December 31,	-	88,587	38,850	2,964,201	106,732	3,176,509	-	6,374,879	5,540,004
Net book value as at December 31, 2015	4,797,273	2,445,651	151,116	900,658	21,066	1,298,768	354,453	9,968,985	
Net book value as at December 31, 2014	4,797,273	2,458,352	70,257	792,977	29,586	1,400,427	404,219		9,953,091

37.4 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
Cost/Valuation									
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
Accumulated Depreciation and Impairment Losses									
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
Net book value as at December 31, 2014	4,797,273	2,458,352	70,257	792,977	29,586	1,400,427	404,219	9,953,091	
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

There were no capitalised borrowing costs related to the acquisition of Property, Plant & Equipment during the year 2015 (2014 – 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,	2015			2014		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Class of Asset						
Freehold land	660,987	–	660,987	660,987	–	660,987
Freehold buildings	1,106,656	323,089	783,567	1,030,770	295,422	735,348
Leasehold buildings	188,067	45,707	142,360	102,726	41,005	61,721
Total	1,955,710	368,796	1,586,914	1,794,483	336,427	1,458,056

The maturity analysis of Property, Plant & Equipment is given in Note 60 on pages 362 and 363.

37.5 (a) Information on Freehold Land and Buildings of the Bank – Extents and Locations

[As required by the 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
CEO's Bungalow – No. 27, Queens Road, Colombo 3	64	5,616	544,850	15,150	556,970	421,459
Holiday Bungalow – Bandarawela, Ambatenne Estate, Bandarawela	423	5,649	56,700	11,400	67,604	61,436
Holiday Bungalow – Haputale No. 23, Lilly Avenue, Welimada Road, Haputale	258	5,662	30,900	15,300	45,350	38,713
Branch Buildings						
Battaramulla – No. 213, Kaduwela Road, Battaramulla	14	11,216	52,500	87,375	135,506	79,866
Battaramulla – No. 213, Kaduwela Road, Battaramulla	13	Bare Land	50,000	–	50,000	52,399
Borella – No. 92, D.S. Senanayake Mawatha, Borella, Colombo 8	16	16,880	156,300	198,700	347,902	126,331
Chilaw – No. 44, Colombo Road, Chilaw	35	9,420	63,522	38,000	100,572	126,541
Galewela – No. 49/57, Matale Road, Galewela	99	18,472	22,275	15,225	37,120	32,012
Galle City – No. 130, Main Street, Galle	7	3,675	40,500	8,269	48,463	40,277
Galle Fort – No. 22, Church Street, Fort, Galle	100	11,625	210,000	40,000	249,000	146,256
Gampaha – No. 51, Queen Mary's Road, Gampaha	33	4,685	57,575	10,541	67,814	61,463
Hikkaduwa – No. 217, Galle Road, Hikkaduwa	37	6,713	26,370	24,608	50,312	37,518
Ja-Ela – No. 140, Negombo Road, Ja-Ela	13	7,468	29,000	21,000	49,364	38,741
Jaffna – No. 474, Hospital Road, Jaffna	77	5,146	581,000	19,000	599,050	283,456
Kandy – No. 120, Kotugodella Veediya, Kandy	45	44,500	354,000	231,000	576,750	549,953
Kegalle – No. 186, Main Street, Kegalle	85	2,650	128,000	7,000	134,750	121,300
Keyzer Street – No. 32, Keyzer Street, Colombo 11	7	6,100	56,000	26,000	81,350	68,128
Kollupitiya – No. 285, Galle Road, Colombo 3	17	16,254	115,000	65,000	177,679	158,283
Kotahena – No. 198, George R. De Silva Mawatha, Kotahena, Colombo 13	28	26,722	140,000	207,400	342,215	314,958
Kurunegala – No. 4, Suratissa Mawatha, Kurunegala	50	9,821	199,325	34,675	233,134	218,636
Maharagama – No. 154, High Level Road, Maharagama	18	8,440	53,250	31,750	84,206	101,015
Matale – No. 70, King Street, Matale	51	8,596	75,000	60,000	133,334	117,358
Matara – No. 18, Station Road, Matara	37	8,137	50,695	25,291	75,321	50,470
Minuwangoda – No. 42, Siriwardena Mawatha, Minuwangoda	25	5,550	31,250	17,690	48,475	71,655
Modara – No. 160, St. James Street, Colombo 15	17	Bare Land	34,000	–	34,000	22,300
Narahenpita – No. 201, Kirula Road, Narahenpita, Colombo 5	22	11,193	132,300	87,700	216,868	162,939
Narammala – No. 55, Negombo Road, Narammala	42	5,353	53,391	16,609	69,585	58,843
Negombo – No. 24, 26, Fernando Avenue, Negombo	37	11,360	73,000	31,000	102,760	73,940
Nugegoda – No. 100, Stanley Thilakaratne Mawatha, Nugegoda	39	11,150	156,000	41,000	195,975	234,221
Nuwara Eliya – No. 36/3, Buddha Jayanthi Mawatha, Nuwara Eliya	42	10,184	82,000	71,000	151,080	135,834
Panadura – No. 375, Galle Road, Panadura	12	6,168	30,750	40,090	68,837	35,236
Pettah – People's Park Shopping Complex, Colombo 11	–	3,147	–	58,000	55,364	45,723
Pettah – Stores – People's Park Shopping Complex, Colombo 11	–	225	–	4,800	4,582	3,521
Pettah – Main Street – No. 280, Main Street, Pettah, Colombo 11	20	22,760	280,000	145,185	421,381	238,670
Trincomalee – No. 474, Power House Road, Trincomalee	100	Bare Land	90,300	–	90,300	75,000
Union Place – No. 1, Union Place, Colombo 2	30	63,385	450,000	750,000	1,173,212	936,148
Wellawatte – No. 343, Galle Road, Colombo 6	45	15,050	249,520	50,480	297,705	235,222
Wennappuwa – No. 262, 264, Colombo Road, Wennappuwa	36	9,226	42,000	28,000	69,034	58,315
Total			4,797,273	2,534,238	7,242,924	5,634,136

37.5 (b) Information on Valuation of Freehold Land and Buildings of the Bank

[As required by the Rule No. 7.6 (viii) of the 'Continuing Listing Requirements' of the Colombo Stock Exchange and the SLFRS 13 '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
Mr. H.M.N. Herath								
Chilaw 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%						
Gampaha 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%						
Minuwangoda No. 42, Siriwardena Mawatha, 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%						
Mr. K.C.B. Condegama								
Maharagama No. 154, High Level 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.						
Nugegoda No. 100, Stanley Thilakarathne Mawatha, 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.						
Wellawatte 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.						
Mr. P.B. Kalugalagedara								
Keyzer Street 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.						
Kollupitiya 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.						
Kotahena No. 198, George R. De Silva Mawatha, Kotahena, Colombo 13	Market comparable method		110,000	204,958	140,000	207,400	30,000	2,442
	• Price per perch for land	Rs. 5,000,000 p.p.						
	• Price per square foot for building	Rs. 1,000 to Rs. 7,750 p.sq.ft.						

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
Modara 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	–
Mr. R.S. Wijesuriya								
Battaramulla 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	27,983	32,026
Battaramulla 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)	–
Panadura 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	23,305
Mr. S.A.S. Fernando								
Galle City 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
Galle Fort 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)
Hikkaduwa 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
Matara 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	22,540	2,976
Trincomalee 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	–
Mr. S.T. Sanmuganathan								
Jaffna No. 474, Hospital Road, Jaffna	Investment method • Gross Monthly Rental • Years purchase (Present value of 1 unit per period) • Void period	Rs. 7,500,000 p.m. 10 2 months p.a.	272,135	11,321	581,000	19,000	308,865	7,679

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
Mr. Sarath G. Fernando								
Holiday Bungalow – Bandarawela 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%						
Holiday Bungalow – Haputale No. 23, Lilly 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%						
Kandy 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%						
Kegalle 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%						
Matale 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%						
Nuwara-Eliya 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%						
Mr. Siri Nissanka								
Borella No. 92, D.S. Senanayake Mawatha, 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.						
CEO's Bungalow 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.						
Narahenpita 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.						

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
Pettah – Main Street No. 280, Main Street, Pettah, Colombo 11	Market comparable method • Price per perch for land	Rs. 14,000,000 p.p.	169,370	69,299	280,000	69,299	110,629	-
Union Place No. 1, Union Place, Colombo 02	Market comparable method • Price per perch for land • Price per square foot for building	Rs. 15,000,000 p.p. Rs. 12,000 p.sq.ft.	360,000	576,148	450,000	750,000	90,000	173,852
Mr. W.D.P. Rupananda								
Ja-Ela No. 140, Negombo Road, Ja-Ela	Market comparable method • Price per perch for land • Price per square foot for building • Depreciation rate	Rs. 2,250,000 p.p. Rs. 3,500 to Rs. 4,500 p.sq.ft. 30%	23,188	15,554	29,000	21,000	5,812	5,446
Negombo No. 24, 26, Fernando Avenue, Negombo	Market comparable method • Price per perch for land • Price per square foot for building • Depreciation rate	Rs. 1,500,000 to Rs. 2,200,000 p.p. Rs. 3,500 to Rs. 4,250 p.sq.ft. 25%	49,500	24,440	73,000	31,000	23,500	6,560
Pettah People's Park Shopping Complex, Colombo 11	Investment method • Gross monthly rental • Years purchase (Present value of 1 unit per period) • Void period	Rs. 23,200 to Rs. 160,000 p.m. 18.18 4 months p.a.	-	45,723	-	58,000	-	12,277
Pettah People's Park Shopping Complex, Colombo 11	Investment method • Gross monthly rental • Years purchase (Present value of 1 unit per period) • Void period	Rs. 36,000 p.m. 18.18 4 months p.a.	-	3,521	-	4,800	-	1,279
Wennappuwa No. 262, 264, Colombo Road, Wennappuwa	Market comparable method • Price per perch for land • Price per square foot for building • Depreciation rate	Rs. 1,400,000 p.p. Rs. 3,250 to Rs. 4,500 p.sq.ft. 25%	37,500	20,815	42,000	28,000	4,500	7,185

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
Mr. W.S. Pematne								
Galewela 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%						
Kurunegala No. 4, Suratissa Mawatha, Kurunegala	Market comparable method		140,000	78,636	199,325	34,675	59,325	(43,961)
	• Price per perch for land	Rs. 3,500,000 to 4,150,000 p.p.						
	• Price per square foot for building	Rs. 3,000 to Rs. 4,250 p.sq.ft.						
	• Depreciation rate	10%						
Narammala No. 55, Negombo Road, Narammala	Market comparable method		44,550	14,293	53,391	16,609	8,842	2,315
	• 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%						
Total			3,606,797	2,027,339	4,797,273	2,458,352	1,190,476	431,013

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

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
<p>Market comparable method</p> <p>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.</p>	<p>Price per perch for land</p> <p>Price per square foot for building</p> <p>Depreciation rate for building</p>	<p>Estimated fair value would increase (decrease) if;</p> <p>Price per perch would higher (lower)</p> <p>Price per square feet would higher (lower)</p> <p>Depreciation rate for building would lower (higher)</p>
<p>Investment method</p> <p>This method involves the capitalisation of the expected rental income at an appropriate rate of years purchased currently characterised by the real estate market.</p>	<p>Gross Annual Rentals</p> <p>Years purchase (Present value of 1 unit per period)</p> <p>Void period</p>	<p>Estimated fair value would increase (decrease) if;</p> <p>Gross Annual Rentals would higher (lower)</p> <p>Years purchase would higher (lower)</p> <p>Void period would lower (higher)</p>

37.6 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.

37.7 Property, Plant & Equipment Pledged as Security for Liabilities

There were no items of Property, Plant & Equipment pledged as securities for liabilities as at the Reporting date.

37.8 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.

<i>As at December 31,</i>	2015 Rs. '000	2014 Rs. '000
Total claims lodged	1,702	4,299
Total claims received	(402)	(2,276)
Total claims rejected	(643)	(985)
Total claims receivable	657	1,038

37.9 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>	2015 Rs. '000	2014 Rs. '000
Computer equipment	1,823,142	1,965,926
Office equipment, furniture and fixtures	1,542,990	1,550,010
Motor vehicles	27,369	26,477

37.10 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>	2015 Rs. '000	2014 Rs. '000
Computer equipment	349,244	112,246
Office equipment, furniture and fixtures	122,796	69,729

37.11 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>	2015 Rs. '000	2014 Rs. '000
Computer equipment	304,820	89,833
Office equipment, furniture and fixtures	207,949	58,413
Motor vehicles	417	214

37.12 Borrowing Costs

There were no capitalised borrowing costs related to the acquisition of Property, Plant & Equipment during the year 2015 (2014 – Nil).

38. Intangible Assets

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

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.

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.

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:

- Intangible Assets with Finite Lives and Amortisation

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

- Goodwill

Goodwill that arises on the acquisition of Subsidiaries is presented with intangible assets (Refer Note 5.1.1 on page 257). Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed.

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

- Computer Software

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

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

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.

- 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.

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

As at December 31,	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Computer Software [Refer Note 38.1]	316,864	397,644	308,531	389,096
Software under development [Refer Note 38.2]	167,125	58,541	157,429	50,032
Goodwill arising on business combination [Refer Note 35.2.3]	400,045	400,045	–	–
Total	884,034	856,230	465,960	439,128

38.1 Computer Software

	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cost/Valuation				
Balance as at January 01,	1,629,086	1,479,951	1,618,429	1,479,171
Computer software acquired on business combination	–	9,800	–	–
Additions during the year	99,407	139,387	98,414	139,310
Disposals during the year	(70)	–	–	–
Exchange rate variance	2,754	(52)	2,754	(52)
Transfers/adjustments	(8)	–	(8)	–
Balance as at December 31,	1,731,169	1,629,086	1,719,589	1,618,429
Accumulated Amortisation and Impairment Losses				
Balance as at January 01,	1,231,442	1,056,718	1,229,333	1,056,503
Accumulated amortisation assumed on business combination	–	1,395	–	–
Amortisation for the year [Refer Note 19]	180,558	173,373	179,370	172,874
Impairment loss	–	–	–	–
Disposals during the year	(50)	–	–	–
Exchange rate variance	2,363	(44)	2,363	(44)
Transfers/adjustments	(8)	–	(8)	–
Balance as at December 31,	1,414,305	1,231,442	1,411,058	1,229,333
Net book value as at December 31,	316,864	397,644	308,531	389,096

38.2 Software Under Development

	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cost/Valuation				
Balance as at January 01,	58,541	54,495	50,032	44,925
Additions during the year	124,901	43,676	123,537	43,676
Disposals during the year	–	–	–	–
Exchange rate variance	(177)	(1,061)	–	–
Transfers/adjustments	(16,140)	(38,569)	(16,140)	(38,569)
Balance as at December 31,	167,125	58,541	157,429	50,032

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 2015 (2014 – Nil).

The maturity analysis of Intangible Assets is given in Note 60 on pages 362 and 363.

39. Leasehold Property

	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cost/Valuation,				
Balance as at January 01,	128,700	128,700	84,840	84,840
Additions during the year	–	–	–	–
Balance as at December 31,	128,700	128,700	84,840	84,840
Accumulated Amortisation				
Balance as at January 01,	19,828	18,376	9,420	8,478
Amortisation for the year [Refer Note 19]	1,452	1,452	942	942
Balance as at December 31,	21,280	19,828	10,362	9,420
Net book value as at December 31,	107,420	108,872	74,478	75,420

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, 2015	GROUP			BANK		
	Cost	Accumulated Amortisation	Net Book Value	Cost	Accumulated Amortisation	Net Book Value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Class of Asset						
Leasehold Land	23,715	6,588	17,127	14,846	3,633	11,213
Total	23,715	6,588	17,127	14,846	3,633	11,213

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

The maturity analysis of Leasehold Property is given in Note 60 on pages 362 and 363.

40. Other Assets

As at December 31,	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Receivables	11,290	19,709	11,290	19,709
Deposits and prepayments	1,426,519	1,399,469	1,434,714	1,402,587
Clearing account balance	4,811,743	4,078,542	4,811,743	4,078,542
Unamortised cost on staff loans (Day 1 difference)	2,696,643	2,857,759	2,696,643	2,857,759
Other accounts	3,150,822	2,204,951	3,140,201	2,183,220
Total	12,097,017	10,560,430	12,094,591	10,541,817

The maturity analysis of Other Assets is given in Note 60 on pages 362 and 363.

41. Due to Banks

These represent call money borrowings, credit balances in Nostro Accounts and borrowings from banks. 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.

As at December 31,	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Borrowings	30,975,857	23,326,066	29,505,580	22,918,017
Local currency borrowings	1,459,600	407,187	—	—
Foreign currency borrowings	29,516,257	22,918,879	29,505,580	22,918,017
Securities sold under repurchase (Repo) agreements (*)	813,539	2,342,959	813,539	2,342,959
Total	31,789,396	25,669,025	30,319,119	25,260,976

(*) Securities sold under repurchase (Repo) agreements are shown on the face of the Statement of Financial Position except for the Repos with banks.

The maturity analysis of Due to Banks is given in Note 60 on pages 362 and 363.

42. Derivative Financial Liabilities

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.

<i>As at December 31,</i>	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Foreign currency derivatives				
Currency swaps	791,199	823,596	791,199	823,596
Forward contracts	1,098,002	368,886	1,098,002	368,886
Spot contracts	1,569	657	1,569	657
Total	1,890,770	1,193,139	1,890,770	1,193,139

The maturity analysis of Derivative Financial Liabilities is given in Note 60 on pages 362 and 363.

43. Due to Other Customers/Deposits from Customers

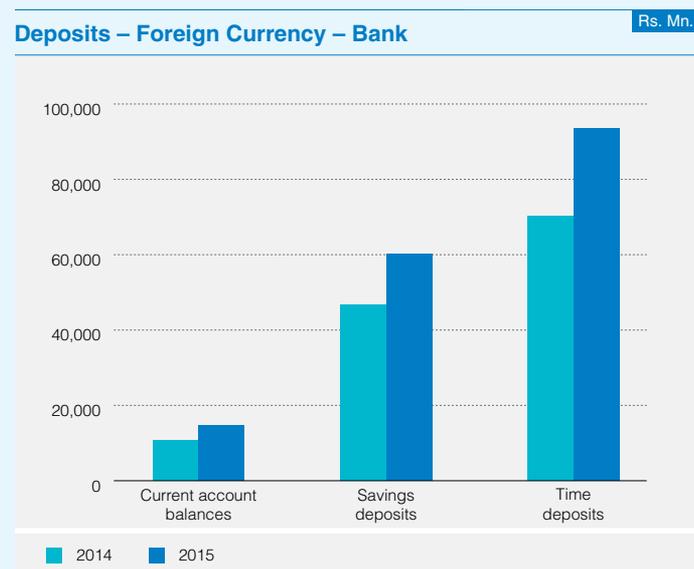
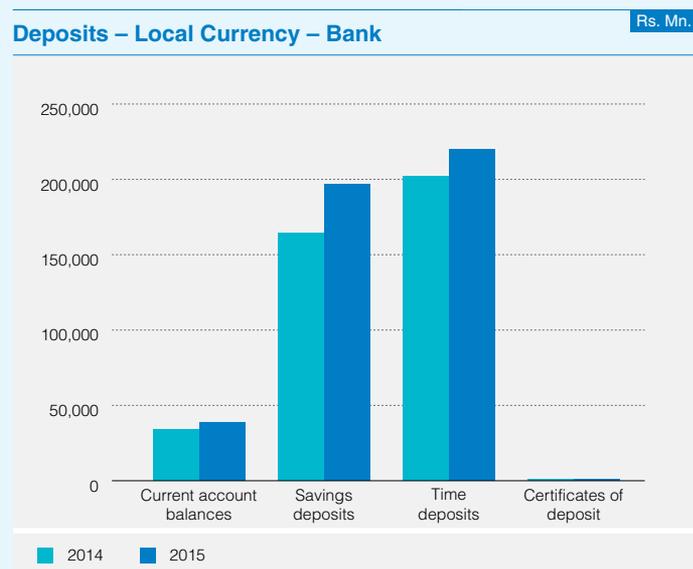
These include non-interest-bearing deposits, savings deposits, term deposits, deposits payable at call and certificates of deposit. Subsequent to initial recognition deposits are measured at their amortised cost using the EIR method, except where the Group designates liabilities at fair value through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

<i>As at December 31,</i>	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Local currency deposits	455,729,976	401,872,201	455,810,569	401,967,097
Current account balances	38,689,812	34,311,477	38,692,706	34,317,565
Savings deposits	196,605,341	164,462,225	196,631,547	164,521,655
Time deposits	219,882,652	202,162,715	219,934,145	202,192,093
Certificates of deposit	552,171	935,784	552,171	935,784
Foreign currency deposits	168,291,241	127,394,387	168,291,241	127,394,387
Current account balances	14,699,065	10,809,389	14,699,065	10,809,389
Savings deposits	60,128,349	46,467,745	60,128,349	46,467,745
Time deposits	93,463,827	70,117,253	93,463,827	70,117,253
Total	624,021,217	529,266,588	624,101,810	529,361,484

43.1 Analysis of due to Customers/Deposits from Customers

As at December 31,	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
(a) By product				
Current account balances	53,388,877	45,120,866	53,391,771	45,126,954
Savings deposits	256,733,690	210,929,970	256,759,896	210,989,400
Time deposits	313,346,479	272,279,968	313,397,972	272,309,346
Certificates of deposit	552,171	935,784	552,171	935,784
Sub total	624,021,217	529,266,588	624,101,810	529,361,484
(b) By currency				
Sri Lankan Rupee	455,729,976	401,872,201	455,810,569	401,967,097
United States Dollar	112,704,677	78,352,927	112,704,677	78,352,927
Great Britain Pound	8,194,138	7,567,161	8,194,138	7,567,161
Euro	32,679,287	25,425,565	32,679,287	25,425,565
Australian Dollar	5,653,284	7,935,496	5,653,284	7,935,496
Bangladesh Taka	7,605,532	6,800,927	7,605,532	6,800,927
Other currencies	1,454,323	1,312,311	1,454,323	1,312,311
Sub total	624,021,217	529,266,588	624,101,810	529,361,484
(c) By institution/customers				
Deposits from banks	9,177,616	766,916	9,177,616	766,916
Deposits from finance companies	8,551,835	5,406,461	8,551,835	5,406,461
Deposits from other customers	606,291,766	523,093,211	606,372,359	523,188,107
Sub total	624,021,217	529,266,588	624,101,810	529,361,484

The maturity analysis of Deposits from Customers is given in Note 60 on pages 362 and 363.



44. Other Borrowings

As at December 31,	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Refinance borrowings	4,434,582	4,857,361	4,434,582	4,857,361
Borrowings from International Finance Corporation (IFC)	5,551,055	6,779,222	5,551,055	6,779,222
Total	9,985,637	11,636,583	9,985,637	11,636,583

The maturity analysis of Other Borrowings is given in Note 60 on pages 362 and 363.

45. Current Tax Liabilities

	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 01,	2,037,388	1,780,867	1,997,990	1,758,574
Tax payable assumed on business combination	–	7,200	–	–
Provision for the year	5,185,218	4,484,017	5,094,781	4,424,113
(Over)/under provision	1,700	10,920	1,701	11,041
Self-assessment payments	(3,376,261)	(3,036,746)	(3,271,753)	(2,988,916)
Notional tax credits (*)	(900,495)	(1,080,686)	(899,563)	(1,079,038)
Withholding tax/other credits	(43,681)	(126,348)	(42,965)	(125,948)
Exchange rate variance	121,793	(1,836)	121,793	(1,836)
Balance as at December 31,	3,025,662	2,037,388	3,001,984	1,997,990

(*) *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.

The maturity analysis of Current Tax Liabilities is given in Note 60 on pages 362 and 363.

46. Deferred Tax Assets and Liabilities

46.1 Summary of Net Deferred Tax Liability

	GROUP				BANK			
	2015		2014		2015		2014	
	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,	10,435,227	2,876,199	6,407,851	1,763,414	9,355,101	2,573,760	5,692,341	1,563,070
Deferred tax liabilities assumed on business combination	–	–	168,900	47,293	–	–	–	–
Amount originating/(reversing) to Income Statement	268,938	89,933	490,269	122,187	461,836	143,905	485,610	120,881
Amount originating/(reversing) to Statement of Profit or Loss and Other Comprehensive Income	(8,838,782)	(2,474,859)	3,368,207	943,098	(8,847,675)	(2,477,349)	3,177,150	889,602
Tax effect on pre-acquisition reserves	–	–	–	–	–	–	–	–
Deferred tax on re-classification of revaluation surplus to revaluation reserve	(49,786)	(13,940)	–	–	–	–	–	–
Statement of change equity restatement								
Exchange rate variance	–	(9,701)	–	207	–	(9,701)	–	207
Balance as at December 31,	1,815,597	467,632	10,435,227	2,876,199	969,262	230,615	9,355,101	2,573,760

46.2 Reconciliation of Net Deferred Tax Liability – Group

<i>For the year ended/as at December 31,</i>	Statement of Financial Position		Income Statement		Statement of Profit or Loss and Other Comprehensive Income	
	2015	2014	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Deferred Tax Liabilities on:						
Accelerated depreciation for tax purposes – Own assets	371,955	373,175	1,220	33,651	–	–
Accelerated depreciation for tax purposes – Leased assets	1,873,011	1,581,816	(291,195)	(253,603)	–	–
Revaluation surplus on freehold buildings	746,234	780,357	20,183	15,107	–	(174,239)
Tax effect on actuarial gains on defined benefit plans	26,458	3,584	–	–	(22,874)	(1,522)
Unrealised gain/(loss) on Available-for-Sale (AFS) portfolio	(1,679,467)	792,513	–	–	2,471,980	(792,513)
Effective interest rate on deposits	2,585	3,398	813	(3,398)	–	–
Effect of exchange rate variance	–	–	(11,447)	207	1,746	–
	1,340,776	3,534,843	(280,426)	(208,036)	2,450,852	(968,274)
Deferred Tax Assets on:						
Finance leases	–	203	(203)	(1,801)	–	–
Defined benefit plans	332,194	281,040	51,154	35,477	–	–
Tax effect on actuarial losses on defined benefit plans	23,975	15,801	–	–	8,174	6,060
Provision on credit card advances	–	–	–	–	–	–
Specific provision on lease receivable	56,254	56,254	–	–	–	–
Leave encashment	168,232	160,990	7,242	7,382	–	–
Tax effect on actuarial losses on leave encashment	34,949	19,116	–	–	15,833	19,116
Straight lining on lease rentals	28,463	19,222	9,241	10,483	–	–
De-recognition of commission income	81,016	70,662	10,354	31,248	–	–
Equity-settled share-based payments	62,532	–	62,532	–	–	–
Impairment provision	85,529	35,356	50,173	4,679	–	–
Carried forward tax loss on leasing business	–	–	–	(1,619)	–	–
	873,144	658,644	190,493	85,849	24,007	25,176
Deferred tax effect on Income Statement and Statement of Profit or Loss and Other Comprehensive Income for the year			(89,933)	(122,187)	2,474,859	(943,098)
Net deferred tax liability as at December 31,	467,632	2,876,199				

46.3 Reconciliation of Net Deferred Tax Liability – Bank

<i>For the year ended/as at December 31,</i>	Statement of Financial Position		Income Statement		Statement of Profit or Loss and Other Comprehensive Income	
	2015	2014	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Deferred Tax Liabilities on:						
Accelerated depreciation for tax purposes – Own assets	332,042	330,867	(1,175)	35,627	–	–
Accelerated depreciation for tax purposes – Leased assets	1,816,321	1,525,524	(290,797)	(251,307)	–	–
Revaluation surplus on freehold buildings	513,721	533,651	19,930	14,960	–	(120,684)
Tax effect on actuarial gains on defined benefit plans	23,301	3,059	–	–	(20,242)	(1,549)
Unrealised gain/(loss) on Available-for-Sale (AFS) portfolio	(1,679,454)	792,511	–	–	2,471,965	(792,511)
Effective interest rate on deposits	2,585	3,398	813	(3,398)	–	–
Effect of exchange rate variance	–	–	(11,447)	207	1,746	–
	1,008,516	3,189,010	(282,676)	(203,911)	2,453,469	(914,744)
Deferred Tax Assets on:						
Finance leases	–	–	–	–	–	–
Defined benefit plans	322,835	273,433	49,402	33,917	–	–
Tax effect on actuarial losses on defined benefit plans	23,620	15,573	–	–	8,047	6,026
Specific provision on lease receivable	56,254	56,254	–	–	–	–
Leave encashment	168,232	160,990	7,242	7,382	–	–
Tax effect on actuarial losses on leave encashment	34,949	19,116	–	–	15,833	19,116
Straight lining of lease rentals	28,463	19,222	9,241	10,483	–	–
De-recognition of commission income	81,016	70,662	10,354	31,248	–	–
Equity-settled share-based payments	62,532	–	62,532	–	–	–
	777,901	615,250	138,771	83,030	23,880	25,142
Deferred tax effect on Income Statement and Statement of Profit or Loss and Other Comprehensive Income for the year			(143,905)	(120,881)	2,477,349	(889,602)
Net deferred tax liability as at December 31,	230,615	2,573,760				

The maturity analysis of Deferred Tax Liabilities is given in Note 60 on pages 362 and 363.

46.4 Potential Impact of Income Tax Rate Change

A change in the Income Tax Rate has been recommended by the Government Budget for 2016 which was approved by the Parliament on December 19, 2015 as follows:

Company	Current Rate %	Revised Rate %
Commercial Bank of Ceylon PLC	28	30
Commercial Development Company PLC	28	15
Onezero Company Ltd.	28	15
Serendib Finance Ltd.	28	30

Since the New Tax Rates had not been published through a gazette by the Parliament as at the Reporting date, being December 31, 2015, the new rate was not considered to be substantially enacted as at that date. Accordingly, the Group/Bank has provided for Deferred Taxation at the existing rate of 28% in the Financial Statements for the year ended December 31, 2015.

The potential impact on the deferred tax had the Group/Bank applied the proposed rate as above is shown below:

	GROUP 2015 Rs. '000	BANK 2015 Rs. '000
Deferred Tax Liabilities		
Balance as at January 01,	3,534,843	3,189,010
Deferred tax liabilities reversed during the year recognised in Income Statement	362,102	476,149
Deferred tax liabilities reversed during the year recognised in Statement of Other Comprehensive Income	(2,573,533)	(2,574,690)
Balance as at December 31,	1,323,412	1,090,469
Deferred Tax Assets		
Balance as at January 01,	658,644	615,250
Deferred tax assets reversed during the year recognised in Income Statement	235,656	181,634
Deferred tax assets reversed during the year recognised in Statement of Other Comprehensive Income	28,025	28,063
Balance as at December 31,	922,325	824,947
Net Deferred Tax Liability	401,087	265,522

47. Other 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.

<i>As at December 31,</i>	GROUP		BANK	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Provision for claims payable	1,874	1,874	1,874	1,874
Total	1,874	1,874	1,874	1,874

The maturity analysis of Other Provisions is given in Note 60 on pages 362 and 363.

48. 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.

As at December 31,	GROUP		BANK	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Accrued expenditure	2,029,007	1,883,392	2,015,485	1,869,538
Cheques sent on clearing	4,811,743	4,015,967	4,811,743	4,015,967
Provision for gratuity payable [Refer Note 48.1 (b)]	886,648	748,969	863,230	720,520
Provision for unfunded pension scheme [Refer Note 48.2 (b)]	219,283	203,458	219,283	203,458
Provision for Leave Encashment [Refer Note 48.3 (b)]	725,647	643,238	725,647	643,238
Payable on oil hedging transactions	894,302	819,854	894,302	819,854
Other payables	6,182,554	9,355,025	6,018,469	9,170,956
Total	15,749,184	17,669,903	15,548,159	17,443,531

The maturity analysis of Other Liabilities is given in Note 60 on pages 362 and 363.

48.1 Provision for Gratuity Payable

An actuarial valuation of the retirement gratuity payable was carried out as at December 31, 2015 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'.

48.1 (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, 2014) to determine the liabilities of the active employees in the gratuity, were used in the actuarial valuation carried out as at December 31, 2015.
	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	<p>Sri Lankan operation In the absence of a deep market in long term bonds in Sri Lanka, a long term interest rate of 10.50% p.a. (2014 – 9.50% p.a.) has been used to discount future liabilities considering anticipated long term rate of inflation.</p> <p>Bangladesh operation 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 9% p.a. (2014 – 10% p.a.) has been used to discount future liabilities considering anticipated long term rate of inflation.</p>
	Salary increases	<p>Sri Lankan operation A salary increment of 10% p.a. (2014 – 9% p.a.) has been used in respect of the active employees.</p> <p>Bangladesh operation A salary increment of 10% p.a. (2014 – 9% p.a.) has been used in respect of the active employees.</p>

48.1 (b) Movement in the Provision for Gratuity Payable

	GROUP		BANK	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Balance as at January 01,	748,969	624,642	720,520	604,324
Gratuity payable assumed on business combination	–	1,977	–	–
Expense recognised in the income statement [Refer Note 48.1 (c)]	178,347	145,284	171,451	138,533
Exchange rate variance	14,579	(381)	14,579	(381)
Amount paid during the year	(28,194)	(17,245)	(25,017)	(16,423)
Gain/(loss) recognised in other comprehensive income	(27,053)	(5,308)	(18,303)	(5,533)
Balance as at December 31,	886,648	748,969	863,230	720,520

48.1 (c) Expense Recognised in the Income Statement – Gratuity

	GROUP		BANK	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
<i>For the year ended/as at December 31,</i>				
Interest cost	73,745	62,456	70,160	60,340
Current service cost	104,602	82,828	101,291	78,193
Total	178,347	145,284	171,451	138,533

48.1 (d) Sensitivity Analysis on 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, 2015:

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	(134,524)	(132,973)
1% decrease in discount rate	168,935	167,209
1% increase in salary escalation rate	172,151	170,403
1% decrease in salary escalation rate	(139,066)	(137,470)

48.2 Provision for Unfunded Pension Scheme

An actuarial valuation of the unfunded pension liability was carried out as at December 31, 2015 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'.

48.2 (a) Actuarial Assumptions

Type of Assumption	Criteria	Description
Demographic	Mortality – In service	A 1967/70 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, 2014) to determine the liabilities of the active employees in the funded scheme, were used in the actuarial valuation carried out as at December 31, 2015.
	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 10.50% p.a. (2014 – 9.50% p.a.) has been used to discount future liabilities considering anticipated long term rate of inflation.
	Salary increases	A salary increment of 10% p.a. (2014 – 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.

48.2 (b) Movement in the Provision for Unfunded Pension Scheme

	GROUP		BANK	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Balance as at January 01,	203,458	191,541	203,458	191,541
Expense recognised in the income statement [Refer Note 48.2 (c)]	19,329	19,154	19,329	19,154
Amount paid during the year	(32,245)	(28,756)	(32,245)	(28,756)
Gain/(loss) recognised in other comprehensive income	28,741	21,519	28,741	21,519
Balance as at December 31,	219,283	203,458	219,283	203,458

48.2 (c) Expense Recognised in the Income Statement – Unfunded Pension Scheme

	GROUP		BANK	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
<i>For the year ended/as at December 31,</i>				
Interest cost	19,329	19,154	19,329	19,154
Current service cost	–	–	–	–
Total	19,329	19,154	19,329	19,154

48.2 (d) Sensitivity Analysis on Actuarial Valuation – Unfunded Pension Scheme

The following table illustrates the impact of the possible change in the discount rate and salary escalation rate in the unfunded pension scheme valuation of the Bank as at December 31, 2015.

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	(8,714)	(8,714)
1% decrease in discount rate	9,540	9,540
1% increase in salary escalation rate	–	–
1% decrease in salary escalation rate	–	–

48.3 Provision for Leave Encashment

An actuarial valuation of the leave encashment liability was carried out as at December 31, 2015 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'.

48.3 (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 probability of a member withdrawing from the scheme within a year of ages between 20 to 55 years.
	Disability	The probability of a member becoming disabled within a year of ages between 20 and 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 10.5% p.a. (2014 – 9.5% p.a.) has been used to discount future liabilities considering anticipated long term rate of inflation.
	Salary increases	A salary increment of 10% p.a. (2014 – 9% p.a.) has been used in respect of the active employees.

48.3 (b) Movement in the Provision for Leave Encashment

	GROUP		BANK	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Balance as at January 01,	643,238	548,601	643,238	548,601
Expense recognised in the income statement [Refer Note 48.3 (c)]	61,108	54,860	61,108	54,860
Amount paid during the year	(35,243)	(28,496)	(35,243)	(28,496)
Gain/(loss) recognised in other comprehensive income	56,544	68,273	56,544	68,273
Balance as at December 31,	725,647	643,238	725,647	643,238

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

<i>For the year ended</i>	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest cost	61,108	54,860	61,108	54,860
Current service cost	-	-	-	-
Total	61,108	54,860	61,108	54,860

48.3 (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, 2015.

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		(86,623)		(86,623)
1% decrease in discount rate		106,143		106,143
1% increase in salary escalation rate		109,041		109,041
1% decrease in salary escalation rate		(90,347)		(90,347)

48.4 Employee Retirement Benefit

Pension Fund – Defined Benefit Plan

An actuarial valuation of the Retirement Pension Fund was carried out as at December 31, 2015 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.

48.4 (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 & 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, 2014) 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, 2015.
	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 10.50% p.a. (2014 – 9.50% p.a.) has been used to discount future liabilities considering anticipated long term rate of inflation.
	Salary increases	A salary increment of 10% p.a. (2014 – 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.

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

	2015 Rs. '000	2014 Rs. '000
Balance as at January 01,	140,311	124,678
Interest cost	13,329	12,468
Current service cost	3,022	2,575
Benefits paid during the year	(12,169)	(10,003)
Actuarial loss	19,328	10,593
Balance as at December 31,	163,821	140,311

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

	2015 Rs. '000	2014 Rs. '000
Fair value as at January 01,	125,708	117,900
Expected return on plan assets	11,943	11,790
Contribution paid into plan	1,588	1,296
Benefits paid by the plan	(12,169)	(10,003)
Actuarial gain on plan assets	10,238	4,725
Fair value as at December 31,	137,308	125,708

48.4 (d) Liability Recognised in the Statement of Financial Position

	2015 Rs. '000	2014 Rs. '000
Present value of defined benefit obligations as at January 01,	163,821	140,311
Fair value of plan assets	(137,308)	(125,708)
Unrecognised actuarial gains/(losses)	-	-
Net liability recognised	26,513	14,603

48.4 (e) Plan Assets Consist of the following

	2015 Rs. '000	2014 Rs. '000
Government Treasury Bills	-	1,171
Deposits held with the Bank	137,308	124,537
Total	137,308	125,708

49. Due to Subsidiaries

<i>As at December 31,</i>	GROUP		BANK	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Local subsidiaries				
Commercial Development Company PLC	-	-	8,500	12,079
ONEzero Company Ltd.	-	-	17,712	7,210
Serendib Finance Ltd.	-	-	-	-
Sub total	-	-	26,212	19,289
Foreign subsidiaries				
Commex Sri Lanka S.R.L. – Italy	-	-	-	-
Sub total	-	-	-	-
Total	-	-	26,212	19,289

The maturity analysis of Due to Subsidiaries is given in Note 60 on pages 362 and 363.

50. Subordinated Liabilities

These represent the funds borrowed by the Group for long term funding requirements. Subsequent to initial recognition these are measured at their amortised cost using the EIR method, except where the Group designates them at fair value through profit or loss. Interest paid/payable is recognised in profit or loss.

As at December 31,	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 01,	11,098,910	10,797,660	10,883,910	10,797,660
Subordinated liabilities assumed on business combination	-	215,000	-	-
Amount borrowed during the year	-	-	-	-
Repayments/redemptions during the year	(200,000)	-	-	-
Sub total	10,898,910	11,012,660	10,883,910	10,797,660
Exchange rate variance	900,000	86,250	900,000	86,250
Balance as at December 31, (before adjusting for amortised interest and transaction cost) [Refer Note 50.1]	11,798,910	11,098,910	11,783,910	10,883,910
Unamortised transaction cost	(88,015)	(100,225)	(88,015)	(100,225)
Net effect of amortised interest payable	277,377	263,888	277,377	261,090
Adjusted balance as at December 31,	11,988,272	11,262,573	11,973,272	11,044,775

Outstanding subordinated liabilities of the Bank as at December 31, 2015 consisted of Rs. 972,660 (2014 – 972,660) unsecured subordinated redeemable debentures of Rs. 1,000/- each and a subordinated loan of US\$ 75.0 Mn. (2014 – US\$ 75.0 Mn.) from International Finance Corporation (IFC).

50.1 Categories of Subordinated Liabilities

Categories	Colombo Stock Exchange Listing	Interest Payable Frequency	Allotment Date	Maturity Date	Effective Annual Yield		GROUP		BANK	
					2015	2014	2015	2014	2015	2014
					%	%	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Fixed Rate Debentures										
2006/2016 – 13.25% p.a.	Not listed	Annually	16.05.2006	16.05.2016	13.25	13.25	505,000	505,000	505,000	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
Floating Rate Debentures										
2006/2016 – 12 months TB rate (Gross) + 1% p.a.(*)	Listed	Annually	18.12.2006	18.12.2016	7.68	10.21	400	400	400	400
Floating Rate Subordinated Loans										
IFC Borrowings – LIBOR + 5.75%		Bi-annually	13.03.2013	14.03.2023	6.275	6.072	10,811,250	9,911,250	10,811,250	9,911,250
Subsidiaries										
Fixed Rate Debentures										
2011/2016 – 14.15% p.a.	Not listed	Monthly	25.08.2011	25.08.2016	14.15	15.10	10,000	10,000	-	-
2011/2016 – 14.15% p.a.	Not listed	Monthly	25.08.2011	25.08.2016	14.15	15.10	5,000	5,000	-	-
2012/2015 – 18.65% p.a.	Not listed	Quarterly	01.12.2012	30.11.2015	-	20.00	-	200,000	-	-
Total							11,798,910	11,098,910	11,783,910	10,883,910

(*) 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.

50.2 Subordinated Liabilities by Maturity

As at December 31,	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Payable within one year	987,660	200,000	972,660	–
Payable after one year	10,811,250	10,898,910	10,811,250	10,883,910
Total	11,798,910	11,098,910	11,783,910	10,883,910

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, 2015.

The maturity analysis of Subordinated Liabilities is given in Note 60 on pages 362 and 363.

51. Stated Capital

Ordinary shares in the Bank are recognised at the amount paid per ordinary share net of directly attributable issue cost.

As at December 31,	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 01,	21,457,501	19,586,813	21,457,501	19,586,813
Issue of ordinary voting shares under the Employee Share Option Plan	237,304	340,763	237,304	340,763
Issue of ordinary shares as part of the final dividend satisfied in the form of issue and allotment of new shares	1,559,800	1,529,925	1,559,800	1,529,925
Ordinary voting shares	1,459,666	1,431,747	1,459,666	1,431,747
Ordinary non-voting shares	100,134	98,178	100,134	98,178
Balance as at December 31,	23,254,605	21,457,501	23,254,605	21,457,501

51.1 Movement in Number of Shares

	No. of Ordinary Voting Shares		No. of Ordinary Non-Voting Shares	
	2015	2014	2015	2014
	Balance as at January 01,	810,277,729	794,535,819	55,579,946
Issue of ordinary voting shares under the Employee Share Option Plan	2,170,613	3,237,566	–	–
Issue of ordinary shares as part of the final dividend satisfied in the form of issue and allotment of new shares	8,118,773	12,504,344	719,740	1,036,724
Balance as at December 31,	820,567,115	810,277,729	56,299,686	55,579,946

The shares of Commercial Bank of Ceylon PLC are quoted in the Colombo Stock Exchange. The non-voting ordinary shares of the Bank, rank *pari passu* in respect of all rights with the ordinary voting shares of the Bank except voting rights on Resolutions passed at General Meetings.

The 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 51.2 below for details.

51.2 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:

	Tranche I			Total
	April 30, 2008	April 30, 2008	April 30, 2008	
Date granted				
Price (Rs.) – (*)	46.91	46.91	46.91	
	1/3 of Options	1/3 of Options	1/3 of Options	
Exercisable between	April 30, 2009 to April 29, 2013	April 30, 2010 to April 29, 2014	April 30, 2011 to April 29, 2015	
Original number of options	777,308	777,308	777,308	2,331,924
Additions consequent to share splits and rights issues	692,095	789,320	1,057,059	2,538,474
Number of options cancelled before vesting	(52,943)	(52,943)	(52,943)	(158,829)
Number of options vested	1,416,460	1,513,685	1,781,424	4,711,569
Options cancelled due to non-acceptance	–	–	–	–
Number of options exercised up to December 31, 2015	(1,416,460)	(1,513,685)	(1,781,424)	(4,711,569)
Number of options to be exercised as at December 31, 2015	–	–	–	–

(*) 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.

	Tranche II			Total
	April 30, 2011	April 30, 2011	April 30, 2011	
Date granted				
Price (Rs.)	132.23	132.23	132.23	
	1/3 of Options	1/3 of Options	1/3 of Options	
Exercisable between	April 30, 2012 to April 29, 2016	April 30, 2013 to April 29, 2017	April 30, 2014 to April 29, 2018	
Original number of options	1,213,384	1,213,384	1,213,384	3,640,152
Additions consequent to share splits and rights issues	1,213,384	1,213,384	1,213,384	3,640,152
Number of options cancelled before vesting	(30,980)	(41,307)	(95,236)	(167,523)
Number of options vested	2,395,788	2,385,461	2,331,532	7,112,781
Number of options exercised up to December 31, 2015	(859,242)	(484,207)	(303,150)	(1,646,599)
Number of options to be exercised as at December 31, 2015	1,536,546	1,901,254	2,028,382	5,466,182

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, 2015	(1,526,234)	(1,113,235)	(689,561)	(3,329,030)
Number of options to be exercised as at December 31, 2015	1,070,388	1,433,683	1,827,078	4,331,149

The Employee Share Option Plan – 2008 was exempted from the requirements of the SLFRS 2 on 'Share-based Payment' as it was granted prior to January 01, 2012, the effective date of the aforesaid accounting standard.

The details of Employee Share Option Plans within the scope of the SLFRS 2 on 'Share-based Payment' are reported in Note 52 to the Financial Statements below:

52. Share-based Payment

52.1 Description of the Share-based Payment Arrangement

As at the Reporting date, the Group had the following equity settled share-based payment arrangement which was granted after January 01, 2012, the effective date of the Accounting Standard SLFRS 2 on 'Share-based Payment'.

Employee Share Option Plan – 2015

The Bank obtained the approval of the shareholders at an Extraordinary General Meeting held on March 31, 2015, to introduce an Employee Share Option Plan for the benefit of all executive officers in Grade 1A and above by creating up to 2% of the ordinary voting shares at the rate of 0.5% shares in the first two years and 1% shares in the last year over a period of three to five years, upon the Bank achieving specified performance targets. The performance conditions include minimum performance targets over the budget and over the industry peers and the service conditions include the fulfilment of the minimum service period as at the dates of vesting of each tranche.

Key terms and conditions related to the offer are detailed below:

	Tranches		
	Tranche 1	Tranche 2	Tranche 3
% of Voting Shares Issued (Maximum)	0.5	0.5	1.0
Option Grant Date (Assumed)	April 1, 2015	April 1, 2015	April 1, 2015
Exercisable between	October 01, 2016 to September 30, 2019	October 01, 2017 to September 30, 2020	October 01, 2018 to September 30, 2021
Date of Vesting	September 30, 2016	September 30, 2017	September 30, 2018
Vesting Conditions	1 ½ years of service from the grant date and the fulfilment of performance conditions stated above for the Financial Year 2015	2 ½ years of service from the grant date and the fulfilment of performance conditions stated above for the Financial Year 2016	3 ½ years of service from the grant date and the fulfilment of performance conditions stated above for the Financial Year 2017

All options are to be settled by physical delivery of ordinary voting shares of the Bank. There are neither cash settlement alternatives nor the Bank has a past practice of cash settlement for these type of options.

The exercise price of each tranche is computed based on a volume-weighted average market price of the Bank's ordinary (voting) shares, during the period of thirty (30) market days, on six months prior to the date of vesting.

52.2 Measurement of Fair Value

As required by SLFRS 2 on 'Share-based Payment', the fair value of the ESOP 2015 was estimated at the grant date using the Binomial Valuation Model taking into consideration various terms and conditions upon which the share options are granted.

The inputs used in measurement of fair value at the grant date of ESOP 2015 were as follows:

Description of the Valuation Input	Tranches		
	Tranche 1	Tranche 2	Tranche 3
Expected dividend rate (%)	3.50	3.50	3.50
Risk free rate (%)	8.00	8.00	8.00
Probability of share price increase (%)	80.00	80.00	80.00
Probability of share price decrease (%)	20.00	20.00	20.00
Size of annual increase of share price (%)	20.00	20.00	20.00
Size of annual reduction in share price (%)	10.00	10.00	10.00
Exercise price (Rs.)	206.90	227.54	250.24

Share price increases stated above have been based on evaluation of the historical volatility of the Bank's share price over past 10 years, adjusted for post war growth in All Share Price Index published by the Colombo Stock Exchange.

52.3 Reconciliation of Outstanding Share Options

There were no outstanding options of ESOP 2015 as at December 31, 2015 since the vesting date has not yet reached. [Refer Note 52.1 above].

52.4 Expense Recognised in Income Statement

The cumulative expense recognised for equity-settled transactions at each Reporting date until the vesting date, reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. Accordingly, the expense in the Income Statement represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense [Refer Note 18].

53. Statutory 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 53, 54 and 55 on pages 353 to 357.

As at December 31,	GROUP		BANK	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Statutory reserve fund [Refer Note 53.1]	4,922,367	4,327,103	4,922,264	4,327,103
Primary dealer special risk reserve [Refer Note 53.2]	-	-	-	-
Sub total	4,922,367	4,327,103	4,922,264	4,327,103

53.1 Statutory Reserve Fund

	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 01,	4,327,103	3,768,094	4,327,103	3,768,094
Transfers during the year	595,264	559,009	595,161	559,009
Balance as at December 31,	4,922,367	4,327,103	4,922,264	4,327,103

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 reserve is equal to 50% of the Bank's stated capital and thereafter a further sum equivalent to 2% of such profit until the amount of said 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.

53.2 Primary Dealer Special Risk Reserve

	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 01,	–	266,520	–	266,520
Transfers during the year	–	–	–	–
Transferred to general reserve [Refer Note 55.2]	–	(266,520)	–	(266,520)
Balance as at December 31,	–	–	–	–

As per the Direction issued by the Public Debt Department of 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.

54. Retained Earnings

	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 01,	4,418,412	4,359,632	4,258,287	4,233,364
Super Gain Tax for the year of assessment 2013/14(*)	(2,608,469)	–	(2,576,355)	–
Balance as at January 01, (Adjusted)	1,809,943	4,359,632	1,681,932	4,233,364
Total comprehensive income	11,783,842	11,184,470	11,834,510	11,119,514
Profit for the year	11,855,172	11,238,892	11,903,224	11,180,181
Other comprehensive income, net of tax	(71,330)	(54,422)	(68,714)	(60,667)
Dividends paid	(5,647,414)	(5,547,136)	(5,647,414)	(5,547,136)
Re-classification of retained earnings to/from available-for-sale reserve	–	(31,099)	–	–
Transfers to other reserves	(3,480,264)	(5,547,455)	(3,480,161)	(5,547,455)
Profit due to change in ownership	2,344	–	–	–
Movement due to change in equity	(644)	–	–	–
Balance as at December 31,	4,467,807	4,418,412	4,388,867	4,258,287

(*) As per the amendments to provisions of the Finance Act from the Finance Bill passed on October 20, 2015, the Group and the Bank was liable for Super Gain Tax (SGT) amounting to Rs. 2,609 Mn. and Rs.2,576 Mn. respectively. According to the Act, the SGT shall be deemed to be an expenditure in the Financial Statements relating to the year of assessment commenced on April 1, 2013. Since the Act supersedes the requirements of the Sri Lanka Accounting Standards, The Institute of Chartered Accountants of Sri Lanka recommended the accounting treatment on SGT by issuing the Statement of Alternative Treatment (SoAT) dated November 24, 2015 and SGT has been recorded in the Financial Statements accordingly.

55. Other Reserves

55. (a) Current Year – 2015

	GROUP			BANK		
	Balance as at January 01,	Movement/ Transfers	Balance as at December 31,	Balance as at January 01,	Movement/ Transfers	Balance as at December 31,
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Revaluation reserve [Refer Note 55.1]	6,246,960	11,979	6,258,939	5,722,859	–	5,722,859
General reserve [Refer Note 55.2]	32,474,478	2,885,000	35,359,478	32,474,478	2,885,000	35,359,478
Available-for-sale reserve [Refer Note 55.3]	2,735,569	(6,690,945)	(3,955,376)	2,735,578	(6,690,945)	(3,955,367)
Foreign currency translation reserve [Refer Note 55.4]	(454,188)	886,677	432,489	(464,076)	888,844	424,768
Employee share option reserve [Refer Note 55.6]	–	223,330	223,330	–	223,330	223,330
Total	41,002,819	(2,683,959)	38,318,860	40,468,839	(2,693,771)	37,775,068

55. (b) Previous Year – 2014

	GROUP			BANK		
	Balance as at January 01,	Movement/ Transfers	Balance as at December 31,	Balance as at January 01,	Movement/ Transfers	Balance as at December 31,
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Revaluation reserve [Refer Note 55.1]	4,615,947	1,631,013	6,246,960	4,222,054	1,500,805	5,722,859
General reserve [Refer Note 55.2]	22,380,819	10,093,659	32,474,478	22,380,819	10,093,659	32,474,478
Available-for-sale reserve [Refer Note 55.3]	2,023,468	712,101	2,735,569	2,054,567	681,011	2,735,578
Foreign currency translation reserve [Refer Note 55.4]	(393,758)	(60,430)	(454,188)	(406,925)	(57,151)	(464,076)
Investment fund account [Refer Note 55.5]	4,838,693	(4,838,693)	–	4,838,693	(4,838,693)	–
Total	33,465,169	7,537,650	41,002,819	33,089,208	7,379,631	40,468,839

55.1 Revaluation Reserve

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.

	GROUP		BANK	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Balance as at January 01,	6,246,960	4,615,947	5,722,859	4,222,054
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)	–	(120,684)
Re-instatement of deferred tax on revaluation gains	13,710	–	–	–
Movement due to change in equity	(1,731)	–	–	–
Balance as at December 31,	6,258,939	6,246,960	5,722,859	5,722,859

55.2 General Reserve

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.

	GROUP		BANK	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Balance as at January 01,	32,474,478	22,380,819	32,474,478	22,380,819
Transfers of primary dealer special risk reserve [Refer Note 53.2]	–	266,520	–	266,520
Transfers of investment fund account [Refer Note 55.5]	–	5,227,139	–	5,227,139
Transfers during the year	2,885,000	4,600,000	2,885,000	4,600,000
Balance as at December 31,	35,359,478	32,474,478	35,359,478	32,474,478

55.3 Available-for-Sale Reserve

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

	GROUP		BANK	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Balance as at January 01,	2,735,569	2,023,468	2,735,578	2,054,567
Net fair value gains/(losses) on remeasuring financial investments available-for-sale	(6,690,945)	681,002	(6,690,945)	681,011
Reclassification of retained earnings to/from available-for-sale reserve	–	31,099	–	–
Balance as at December 31,	(3,955,376)	2,735,569	(3,955,367)	2,735,578

55.4 Foreign Currency Translation Reserve

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 Reporting date 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 to foreign currency translation reserve through other comprehensive income.

	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 01,	(454,188)	(393,758)	(464,076)	(406,925)
Net gains/(losses) arising from translating the Financial Statements of the foreign operations	886,677	(60,430)	888,844	(57,151)
Balance as at December 31,	432,489	(454,188)	424,768	(464,076)

55.5 Investment Fund Account

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.

	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 01,	–	4,838,693	–	4,838,693
Transfers during the year	–	388,446	–	388,446
Transfers to general reserve [Refer Note 55.2]	–	(5,227,139)	–	(5,227,139)
Balance as at December 31,	–	–	–	–

55.6 Employee Share Option Reserve

The Employee Share Option reserve is used to recognise the value of equity-settled share-based payments to be provided to employees, including Key Management Personnel, as part of their remuneration.

	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 01,	–	–	–	–
Transfers during the year [Refer Note 18]	223,330	–	223,330	–
Balance as at December 31,	223,330	–	223,330	–

56. Non-Controlling Interest

Non-Controlling Interest (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.

	Commercial Development Company PLC	
	2015 Rs. '000	2014 Rs. '000
Balance as at January 01,	47,564	38,778
Super Gain Tax for the year of assessment 2013/14	(1,503)	–
Profit for the year	4,088	3,901
Other comprehensive income, net of tax	369	7,501
Dividends paid for the year	(3,270)	(2,616)
Re-instatement of deferred tax on revaluation gains	585	–
Re-instatement of non-controlling interest due to partial disposal of subsidiary	2,375	–
Balance as at December 31,	50,208	47,564

57. 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'.

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 57.1 on page 359.

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.

<i>As at December 31,</i>	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Contingencies	365,874,611	244,635,833	365,874,611	244,635,833
Guarantees	31,504,779	31,068,055	31,504,779	31,068,055
Performance Bonds	14,095,269	12,038,017	14,095,269	12,038,017
Documentary Credits	30,161,623	25,286,563	30,161,623	25,286,563
Other contingencies [Refer Note 57.1]	290,112,940	176,243,198	290,112,940	176,243,198
Commitments	155,357,709	107,817,619	155,357,709	107,817,619
Undrawn commitments [Refer Note 57.2]	153,979,986	106,560,178	153,979,986	106,560,178
Capital commitments [Refer Note 57.3]	1,377,723	1,257,441	1,377,723	1,257,441
Total	521,232,320	352,453,452	521,232,320	352,453,452

57.1 Other Contingencies

<i>As at December 31,</i>	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Forward exchange contracts:	77,647,330	32,246,624	77,647,330	32,246,624
Forward exchange sales	44,293,601	12,240,936	44,293,601	12,240,936
Forward exchange purchases	33,353,729	20,005,688	33,353,729	20,005,688
Interest Rate Swap agreements/Currency Swaps:	168,466,179	97,645,723	168,466,179	97,645,723
Interest rate Swaps	—	—	—	—
Currency Swaps	168,466,179	97,645,723	168,466,179	97,645,723
Others:	43,999,431	46,350,851	43,999,431	46,350,851
Acceptances	25,708,732	20,880,240	25,708,732	20,880,240
Bills for collection	17,533,095	24,899,607	17,533,095	24,899,607
Stock of travellers' cheques	586,893	476,369	586,893	476,369
Bullion on consignment	170,711	94,635	170,711	94,635
Sub total	290,112,940	176,243,198	290,112,940	176,243,198

57.2 Undrawn Commitments

<i>As at December 31,</i>	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
On direct advances	109,755,816	72,366,848	109,755,816	72,366,848
On indirect advances	44,224,170	34,193,330	44,224,170	34,193,330
Sub total	153,979,986	106,560,178	153,979,986	106,560,178

57.3 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	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Commitments in relation to property, plant & equipment	964,469	1,226,843	964,469	1,226,843
Approved and contracted for	725,069	344,026	725,069	344,026
Approved but not contracted for	239,400	882,817	239,400	882,817
Commitments in relation to intangible assets	413,254	30,598	413,254	30,598
Approved and contracted for	413,254	30,598	413,254	30,598
Approved but not contracted for	–	–	–	–
Sub total	1,377,723	1,257,441	1,377,723	1,257,441

57.4 Commitments of Subsidiaries and Associates

57.4 (a) Contingencies of Subsidiaries

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

57.4 (b) Contingencies of Associates

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

58. Net Assets Value Per Ordinary Share

As at December 31,	GROUP		BANK	
	2015	2014	2015	2014
	Amounts used as the Numerator:			
Total equity attributable to equity holders of the Bank (Rs. '000)	70,963,639	71,205,835	70,340,804	70,511,730
Number of ordinary shares used as the denominator:				
Total number of shares	876,866,801	865,857,675	876,866,801	865,857,675
Net assets value per share (Rs.)	80.93	82.24	80.22	81.44

59. Litigation Against the Bank

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 is of the opinion that there is possible loss, however there is a probability that the action will not succeed. Accordingly, no provision for any claims has been made in these Financial Statements.

Set out below are unresolved legal claims against the Bank as at December 31, 2015 for which, adjustments to the Financial Statements have not been made due to the uncertainty of its outcome:

- (i) Court action has been initiated by a customer in 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 May 25, 2016.
- (ii) Court action has been initiated by a customer in proceeding number 25831/MR to claim a sum of Rs.2.880 Mn including the refund of interest of an overdraft facility. The judgement was entered against the Bank in the District Court for Rs.1.874 Mn. This amount has been provided for as set out in Note 47. The Bank has appealed (Appeal No. 133/2010) to the Supreme Court. Bank is granted leave by the Supreme Court. Argument re-fixed for May 31, 2016.
- (iii) 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 judgement 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 May 04, 2016.
- (iv) 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 the plaintiff which were held under lien to the Bank. Plaintiff alleges that the transaction has taken place without obtaining her consent. Judgement was delivered in favour of the Plaintiff. Bank has appealed to the Supreme Court (Appeal No. 09/2010) against the judgement 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. Appeal is listed for argument on July 07, 2016.
- (v) 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. regarding a forward exchange contract. Judgement was delivered in favour of the Bank dismissing the plaintiff's action, but the plaintiff has appealed against the judgement in the Supreme Court (Appeal No. 38/2006). The appeal is fixed for argument on March 30, 2016.
- (vi) Court action has been initiated by a customer for Rs. 14.000 Mn. in District Court, Colombo proceeding number 315/2015/MR (DMR 3/2014) to recover a sum of Rs. 13.063 Mn. including interest on cheques paid with a fraudulent signature. The case which was filed at the District Court which was not the correct court for cases of high value was latter referred to the Commercial High Court. Trial fixed for March 04, 2016.
- (vii) Court action has been initiated by a customer in proceedings number 52/10 to claim a sum of Bangladesh Taka 35.328 Mn. (approx. Rs. 64.876 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 April 06, 2016.
- (viii) Court action has been initiated in proceedings number 03034/14/MR to claim a sum of Rs. 27.870 Mn. being the total amount withdrawn from the company account by an employee by forging authorised customer's signatures in a number of transactions during a period of two years. Trial is fixed for May 20, 2016.

60. 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:

<i>As at December 31,</i>	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total as at 31.12.2015	Total as at 31.12.2014
	Rs. '000	Rs. '000	Rs. '000				
Interest earning assets:							
Financial Assets							
Cash and cash equivalents	1,662,487	-	-	-	-	1,662,487	3,601,722
Balances with central banks	5,675,993	30,814	-	-	-	5,706,807	167,496
Placements with banks	17,193,539	-	-	-	-	17,193,539	14,507,861
Securities purchased under resale agreements	8,002,100	-	-	-	-	8,002,100	41,198,266
Other financial instruments held-for-trading	7,330,086	-	-	-	-	7,330,086	5,958,902
Loans and receivables to other customers	181,750,723	94,164,172	128,460,051	67,916,622	37,631,560	509,923,128	406,531,089
Financial investments – Available-for-sale	10,378,165	12,915,465	89,654,360	38,515,358	52,524,158	203,987,506	213,381,388
Financial investments – Held-to-maturity	-	-	-	-	-	-	-
Financial investments – Loans and receivables	3,824,319	20,049,834	21,431,676	12,418,540	-	57,724,369	50,436,064
Total interest earning assets as at 31.12.2015	235,817,412	127,160,285	239,546,087	118,850,520	90,155,718	811,530,022	
Total interest earning assets as at 31.12.2014	244,451,827	136,662,768	145,537,531	129,808,209	79,322,453		735,782,788
Non-interest earning assets:							
Financial Assets							
Cash and cash equivalents	18,444,589	-	-	-	-	18,444,589	17,020,056
Balances with central banks	15,444,763	5,785,437	468,849	397,102	418,059	22,514,210	19,466,250
Derivative financial assets	2,368,201	1,628,577	121,391	-	-	4,118,169	459,510
Other financial instruments held-for-trading	326,263	-	-	-	-	326,263	367,734
Loans and receivables to banks	-	-	601,106	-	-	601,106	551,066
Financial investments – Available-for-sale	-	-	-	17,294	257,134	274,428	843,629
Non-Financial Assets							
Investments in subsidiaries	-	-	-	-	-	-	-
Investments in associates	-	-	-	-	104,503	104,503	106,287
Property, plant & equipment	-	-	-	-	11,181,433	11,181,433	11,134,861
Intangible assets	-	-	-	-	884,034	884,034	856,230
Leasehold property	-	-	-	-	107,420	107,420	108,872
Other assets	8,347,234	169,805	985,405	374,696	2,219,877	12,097,017	10,560,430
Total non-interest earning assets as at 31.12.2015	44,931,050	7,583,819	2,176,751	789,092	15,172,460	70,653,172	
Total non-interest earning assets as at 31.12.2014	38,217,342	5,435,728	1,461,681	1,279,957	15,080,217		61,474,925
Total assets – as at 31.12.2015	280,748,462	134,744,104	241,722,838	119,639,612	105,328,178	882,183,194	
Total assets – as at 31.12.2014	282,669,169	142,098,496	146,999,212	131,088,166	94,402,670		797,257,713
Percentage – as at 31.12.2015(*)	31.83	15.27	27.40	13.56	11.94	100.00	
Percentage – as at 31.12.2014(*)	35.46	17.82	18.44	16.44	11.84		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 31.12.2015 Rs. '000	Total as at 31.12.2014 Rs. '000
Interest-bearing liabilities:							
Financial liabilities							
Due to banks	14,516,916	12,938,974	402,969	100,775	–	27,959,634	7,509,404
Securities sold under repurchase agreements	89,269,761	22,648,445	331,497	–	–	112,249,703	124,391,042
Due to other customers/Deposits from customers	372,775,471	164,706,138	14,096,129	9,075,203	10,433,689	571,086,630	484,344,982
Other borrowings	492,184	1,506,179	4,089,640	139,873	3,757,761	9,985,637	11,636,583
Subordinated liabilities	132,361	1,132,677	–	–	10,723,234	11,988,272	11,262,573
Total interest-bearing liabilities as at 31.12.2015	477,186,693	202,932,413	18,920,235	9,315,851	24,914,684	733,269,876	
Total interest-bearing liabilities as at 31.12.2014	409,076,099	181,077,546	20,591,200	8,810,120	19,589,619		639,144,584
Non-interest-bearing liabilities:							
Financial liabilities							
Due to banks	3,829,762	–	–	–	–	3,829,762	18,159,621
Derivative financial liabilities	1,026,823	783,512	80,435	–	–	1,890,770	1,193,139
Due to other customers/Deposits from customers	52,934,587	–	–	–	–	52,934,587	44,921,606
Non-financial liabilities							
Current tax liabilities	1,527,180	1,498,482	–	–	–	3,025,662	2,037,388
Deferred tax liabilities	497,073	199,449	111,823	471,153	(811,866)	467,632	2,876,199
Other provisions	1,874	–	–	–	–	1,874	1,874
Other liabilities	11,586,659	1,509,154	1,239,799	299,833	1,113,738	15,749,184	17,669,903
Equity							
Stated capital	–	–	–	–	23,254,605	23,254,605	21,457,501
Statutory reserves	–	–	–	–	4,922,367	4,922,367	4,327,103
Retained earnings	–	–	–	–	4,467,807	4,467,807	4,418,412
Other reserves	–	–	–	–	38,318,860	38,318,860	41,002,819
Non-controlling interest	–	–	–	–	50,208	50,208	47,564
Total non-interest-bearing liabilities as at 31.12.2015	71,403,958	3,990,597	1,432,057	770,986	71,315,719	148,913,318	
Total non-interest-bearing liabilities as at 31.12.2014	74,388,689	6,168,127	3,112,130	1,767,951	72,676,231		158,113,129
Total liabilities and equity - as at 31.12.2015	548,590,651	206,923,010	20,352,292	10,086,837	96,230,403	882,183,194	
Total liabilities and equity - as at 31.12.2014	483,464,788	187,245,673	23,703,330	10,578,071	92,265,850		797,257,713
Percentage – as at 31.12.2015(*)	62.18	23.46	2.31	1.14	10.91	100.00	
Percentage – as at 31.12.2014(*)	60.64	23.49	2.97	1.33	11.57		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 assets and liabilities of the Bank is given in Note 67.2.2 on 'Financial Risk Review' on pages 391 to 394.

61. Operating Segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses, including revenue 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 160 to 179 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.

The following table presents the income, profit, asset and liability information on the Group's strategic business divisions for the year ended December 31, 2015 and comparative figures for the year ended December 31, 2014.

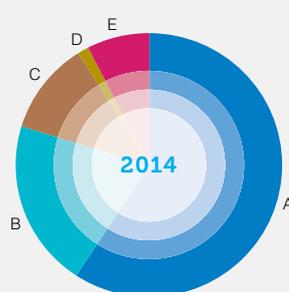
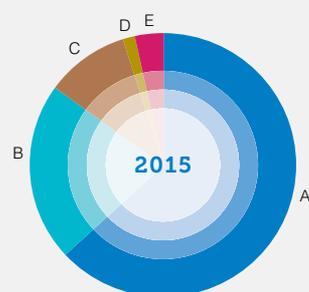
For the year ended December 31,	Retail Banking		Corporate Banking		International Operations		Investment Banking		Dealing/Treasury		Total/Consolidated	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
External operating income:												
Net interest income	21,090,898	18,570,933	6,038,268	5,636,808	3,035,880	3,172,536	591,019	342,573	(188,715)	(403,026)	30,567,350	27,319,824
Foreign exchange profit	84,085	73,755	1,270,664	282,246	518,116	452,274	–	–	1,004,405	672,898	2,877,270	1,481,174
Net fees and commission income	3,317,748	2,882,956	1,543,735	1,423,382	524,103	522,241	20,600	14,802	4,124	5,981	5,410,310	4,849,362
Other income	1,381,067	490,481	161,456	217,483	62,360	88,717	40,296	152,487	575,242	2,523,845	2,220,421	3,473,013
Eliminations/unallocated											458,489	347,456
Total operating income	25,873,798	22,018,125	9,014,123	7,559,919	4,140,459	4,235,768	651,915	509,862	1,395,056	2,799,698	41,533,840	37,470,829
Credit loss expenses	(3,266,263)	(3,173,514)	(478,732)	303,936	(354,743)	(339,060)	–	–	–	–	(4,099,738)	(3,208,638)
Net operating income	22,607,535	18,844,611	8,535,391	7,863,855	3,785,716	3,896,708	651,915	509,862	1,395,056	2,799,698	37,434,102	34,262,191
Segment result	8,591,633	8,543,957	5,166,707	4,030,094	2,544,328	2,457,544	345,419	274,864	474,386	546,895	17,122,473	15,853,354
Profit from operations											17,122,473	15,853,354
Share of profit of associates – (before tax)											13,638	6,563
Income tax expense											(5,276,851)	(4,617,124)
Non-controlling interest											(4,088)	(3,901)
Net profit for the year, attributable to Equity holders of the parent											11,855,172	11,238,892

As at December 31,	Retail Banking		Corporate Banking		International Operations		Investment Banking		Dealing/Treasury		Total/Consolidated	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000				
Other information												
Segment assets	279,706,505	234,942,876	193,881,080	131,218,372	93,138,952	97,538,500	13,406,914	10,184,101	261,627,206	293,073,401	841,760,657	766,957,250
Investment in associates	-	-	-	-	-	-	104,503	106,287	-	-	104,503	106,287
Unallocated Assets	-	-	-	-	-	-	-	-	-	-	40,318,034	30,194,176
Total assets	279,706,505	234,942,876	193,881,080	131,218,372	93,138,952	97,538,500	13,511,417	10,290,388	261,627,206	293,073,401	882,183,194	797,257,713
Segment liabilities	496,764,815	429,433,726	131,484,574	102,815,075	48,979,303	42,361,090	13,511,417	10,290,388	116,935,944	136,190,448	807,676,053	721,090,727
Unallocated liabilities	-	-	-	-	-	-	-	-	-	-	3,493,294	4,913,587
Total liabilities	496,764,815	429,433,726	131,484,574	102,815,075	48,979,303	42,361,090	13,511,417	10,290,388	116,935,944	136,190,448	811,169,347	726,004,314

For the year ended December 31,	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Information on cash flows												
Cash flows from operating activities	5,518,618	111,174,633	(4,636,226)	(6,853,886)	(2,818,494)	2,459,720	(216,091)	887,815	10,396,929	(88,902,894)	8,244,736	18,765,388
Cash flows from investing activities	-	-	-	-	-	-	(2,621,884)	(6,795,464)	-	-	(2,621,884)	(6,795,464)
Cash flows from financing activities	(641,079)	(618,493)	-	-	-	-	-	-	(368,699)	(130,697)	(1,009,778)	(749,190)
Capital expenditure												
Property, plant & equipment											(1,066,028)	(1,038,931)
Intangible assets											(208,168)	(144,494)
Eliminations/unallocated											(3,853,580)	(3,679,064)
Net cash flow generated during the year											(514,702)	6,358,245

Total Operating income

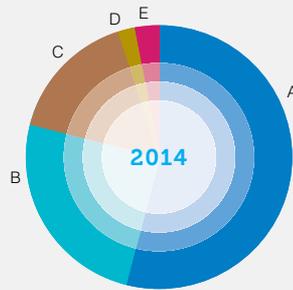
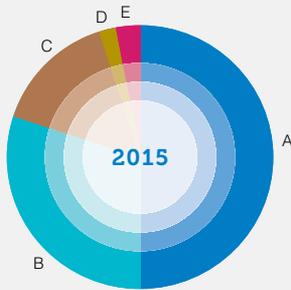
%



	2015	2014
A – Retail Banking	63%	59%
B – Corporate Banking	22%	20%
C – International Operations	10%	11%
D – Investment Banking	2%	2%
E – Dealing/Treasury	3%	8%

Segment Result

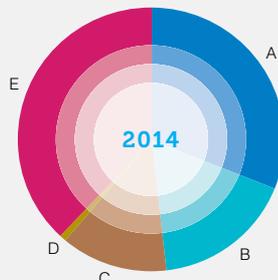
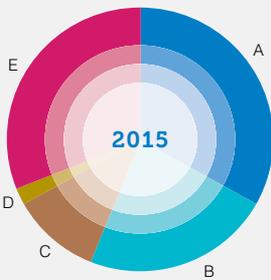
%



	2015	2014
A – Retail Banking	50%	54%
B – Corporate Banking	30%	25%
C – International Operations	15%	16%
D – Investment Banking	2%	2%
E – Dealing/Treasury	3%	3%

Total Assets

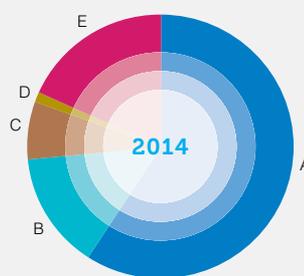
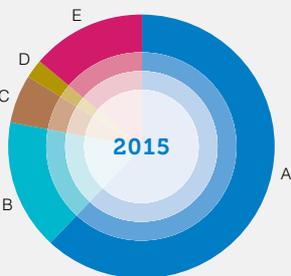
%



	2015	2014
A – Retail Banking	33%	31%
B – Corporate Banking	23%	17%
C – International Operations	11%	13%
D – Investment Banking	2%	1%
E – Dealing/Treasury	31%	38%

Total Liabilities

%



	2015	2014
A – Retail Banking	62%	60%
B – Corporate Banking	16%	14%
C – International Operations	6%	6%
D – Investment Banking	2%	1%
E – Dealing/Treasury	14%	19%

62. 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 (KMP) have availed under schemes uniformly applicable to all staff at concessionary rates.

62.1 Parent and Ultimate Controlling Party

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

62.2 Key Management Personnel (KMP)

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

KMP of the Bank

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

KMP of the Group

As the Bank is the ultimate parent of the Subsidiaries listed out in page 249, the Board of Directors of the Bank have the authority and responsibility for planning, directing and controlling the activities of the Group directly or indirectly. Accordingly, the Board of Directors of the Bank (Including executive and non-executive) are also KMP of the Group. Therefore, officers who are only Directors of the subsidiaries and not of the Bank have been classified as KMP only for that respective subsidiary.

6.2.2.1 Transactions with KMP

62.2.1.1 Compensation of KMP – Bank

<i>For the year ended December 31,</i>	2015 Rs. '000	2014 Rs. '000
Short term employment benefits	119,089	110,065
Post-employment benefits	6,384	7,010
Total	125,473	117,075

62.2.1.2 Compensation of KMP – Group

<i>For the year ended December 31,</i>	2015 Rs. '000	2014 Rs. '000
Short term employment benefits	119,909	110,505
Post-employment benefits	6,384	7,010
Total	126,293	117,515

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

62.2.2 Transactions, Arrangements and Agreements Involving KMP and their Close Family Members (CFM)

CFM of a KMP are those family members who may be expected to influence, or be influenced by, that KMP in their dealings with the entity. They may include KMP's domestic partner and children, children of the KMP domestic partner and dependants of the KMP or the KMP domestic partner. CFM are related parties to the Group/Bank.

62.2.2.1 Statement of Financial Position – Bank

<i>As at December 31,</i>	Year-end Balance		Average Balance	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Assets				
Loans and advances	7,800	7,750	7,777	4,622
Credit cards	–	2	144	249
Total	7,800	7,752	7,921	4,871
Liabilities				
Deposits	28,686	52,134	49,565	63,999
Securities sold under repurchase agreements	26,790	27,630	23,732	25,610
Total	55,476	79,764	73,297	89,609

62.2.2.2 Commitments and Contingencies – Bank

<i>As at December 31,</i>	Year-end Balance		Average Balance	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Undrawn facilities	9,195	10,089	9,184	6,086
Total	9,195	10,089	9,184	6,086

62.2.2.3 Direct and Indirect Accommodation – Bank

<i>As at December 31,</i>	Year-end Balance	
	2015	2014
	%	%
Direct and indirect accommodation as a percentage of the Bank's Regulatory Capital	0.02	0.02

No impairment losses have been recorded against balances outstanding with KMP and CFM.

62.2.2.4 Income Statement

<i>For the Year Ended December 31,</i>	2015	2014
	Rs. '000	Rs. '000
Interest income	433	291
Interest expenses	3,228	6,553
Other income	226	80
Compensation to KMP [Refer Notes 62.2.1.1 and 62.2.1.2]	125,473	117,075

62.2.2.5 Share-Based Benefits to KMP and CFM

<i>As at the Year-End</i>	2015	2014
Number of ordinary shares held	694,883	619,454
Dividends paid (in Rs. '000)	3,674	7,741
Number of cumulative exercisable options under the Employee Share Option Plan (ESOP) 2008		
Tranche I	–	50,231
Tranche II	148,016	148,016
Tranche III	155,603	103,736

62.3 Transactions with Group Entities

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

62.3.1 Transactions with Subsidiaries

62.3.1.1 Statement of Financial Position

	Year-end Balance		Average Balance	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Assets				
Loans and advances	859,356	586,800	588,616	213,738
Lease receivable	–	2,205	465	7,128
Other receivables	90,596	85,685	88,141	80,613
Impairment for other receivables	(53,423)	(51,398)	(52,410)	(46,217)
Total	896,529	623,292	624,812	255,262
Liabilities				
Deposits	80,593	94,896	100,251	80,391
Securities sold under repurchase agreements	135,109	173,457	136,559	161,516
Other	26,212	19,289	22,750	17,487
Total	241,914	287,642	259,560	259,394

62.3.1.2 Commitments and Contingencies

	Year-end Balance		Average Balance	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Letter of credit	–	–	1,126	–
Undrawn facilities	126,349	100,000	81,333	25,339
Total	126,349	100,000	82,459	25,339

62.3.1.3 Direct and Indirect Accommodation

	Year-end Balance	
	2015	2014
	%	%
Direct and indirect accommodation as a % of the Bank's Regulatory Capital	1.28	1.00

62.3.1.4 Income Statement

	2015	2014
	Rs. '000	Rs. '000
<i>For the year ended December 31,</i>		
Interest income	45,842	17,608
Interest expenses	60,384	35,080
Other income	84,997	70,482
Impairment charges	2,025	10,362
Expenses	427,106	379,463

62.3.1.5 Other Transactions

	2015	2014
	Rs. '000	Rs. '000
<i>For the year ended December 31,</i>		
Payments made to ONEzero Company Ltd. in relation to purchase of computer hardware and software	70,618	30,312

62.3.2 Transactions with Associates

62.3.2.1 Statement of Financial Position

	Year-end Balance		Average Balance	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Assets				
Loans and advances	–	–	88	227
Lease receivables	–	127	20	393
Total	–	127	108	620
Liabilities				
Deposits	23,733	22,331	23,427	25,900
Securities sold under repurchase agreements	–	5,771	–	490
Total	23,733	28,102	23,427	26,390

62.3.2.2 Direct and Indirect Accommodation

	Average Balance	
	2015	2014
	%	%
Direct and indirect accommodation as a % of the Bank's Regulatory Capital	0.00	0.00

62.3.2.3 Income Statement

<i>For the Year Ended December 31,</i>	2015	2014
	Rs. '000	Rs. '000
Interest income	23	104
Interest expenses	616	1,627
Other income	22,577	19,003

62.3.2.4 Other Transactions

<i>For the Year Ended December 31,</i>	2015	2014
	Number of ordinary shares of the Bank held by the associates as at the year-end	4,536
Dividend paid (Rs. '000)	25	29

62.4 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.

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

62.4.1.1 Statement of Financial Position

	Year-end Balance		Average Balance	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Assets				
Loans and advances	—	—	—	—
Total	—	—	—	—
Liabilities				
Deposits	4,029,010	4,293,158	2,984,576	2,559,011
Securities sold under repurchase agreements	5,060,229	1,171	1,863,801	769
Total	9,089,239	4,294,329	4,848,377	2,559,780

62.4.1.2 Income Statement

<i>During the year</i>	2015	2014
	Rs. '000	Rs. '000
Interest income	–	–
Interest expenses	431,322	280,831
Contribution made/taxes paid by the Bank	947,416	901,433

63. Non-Cash Items Included in Profit Before Tax

<i>As at December 31,</i>	GROUP		BANK	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Depreciation of property, plant & equipment	1,024,162	1,087,175	961,492	1,026,730
Amortisation of leasehold property	1,452	1,452	942	942
Amortisation of intangible assets	180,558	173,373	179,370	172,874
Impairment losses on loans and advances	4,099,738	3,208,638	3,904,948	3,189,995
Other impairment	–	–	38,248	39,149
Contributions to defined benefit plans - Unfunded schemes	197,676	164,438	190,780	157,687
Provision made o/a of leave encashment	61,108	54,860	61,108	54,860
Equity-settled Share-based payments	223,330	–	223,330	–
Unamortised interest payable o/a subordinated liabilities	12,210	–	12,210	–
Effect of exchange rate variances on property, plant & equipment	(6,060)	1,833	(6,362)	311
Effect of exchange rate variances on intangible assets	(214)	1,069	(391)	8
Effect of exchange rate variances on defined benefit plans	14,579	(381)	14,579	(381)
Effect of exchange rate variances on subordinated liabilities	900,000	86,250	900,000	86,250
Net effect of exchange rate variances on net deferred tax liability	(9,701)	207	(9,701)	207
Net effect of exchange rate variances on income tax liability	121,793	(1,836)	121,793	(1,836)
Grossed up notional tax and withholding tax credits	(944,176)	(1,207,034)	(942,527)	(1,204,986)
Total	5,876,455	3,570,044	5,649,819	3,521,810

64. Change in Operating Assets

<i>As at December 31,</i>	GROUP		BANK	
	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Net (increase)/decrease in derivative financial instruments	(3,658,659)	378,184	(3,658,659)	378,184
Net (increase)/decrease in balances with Central Banks	(8,587,271)	(1,201,810)	(8,587,271)	(1,201,810)
Net (increase)/decrease in placements with banks	(2,685,678)	(10,376,047)	(2,685,678)	(10,376,047)
Net (increase)/decrease in securities purchased under resale agreements	33,196,166	(32,251,767)	33,196,166	(32,251,767)
Net (increase)/decrease in other financial assets held-for-trading	(1,371,183)	85,750	(1,371,183)	85,750
Net (increase)/decrease in loans and receivables to banks	(50,040)	(3,303)	(50,040)	(4,796)
Net (increase)/decrease in loans and receivables to customers	(107,491,777)	(48,256,796)	(106,588,618)	(48,775,194)
Net (increase)/decrease in financial investments – available-for-sale	449,351	(80,435,091)	450,364	(80,434,686)
Net (increase)/decrease in financial investments – loans and receivables	(4,271,016)	(2,950,353)	(4,271,016)	(2,950,353)
Net (increase)/decrease in other assets	(1,536,587)	(1,111,827)	(1,554,799)	(1,125,449)
Total	(96,006,694)	(176,123,060)	(95,120,734)	(176,656,168)

65. Change in Operating Liabilities

<i>As at December 31,</i>	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Net increase/(decrease) in due to banks	6,120,371	10,436,070	5,058,143	11,066,757
Net increase/(decrease) in derivative financial instruments	697,631	(218,777)	697,631	(218,777)
Net increase/(decrease) in securities sold under repurchased agreements	(12,141,339)	85,336,075	(12,179,687)	85,333,860
Net increase/(decrease) in deposits from banks, customers and debt securities issued	94,754,629	78,167,642	94,740,326	78,208,561
Net increase/(decrease) in other borrowings	(1,650,946)	(3,305,953)	(1,650,946)	(3,305,953)
Net increase/(decrease) in other provisions	–	(535)	–	(535)
Net increase/(decrease) in other liabilities	(2,163,940)	7,453,105	(2,143,433)	7,393,572
Net increase/(decrease) in due to Subsidiaries	–	–	6,923	3,603
Total	85,616,406	177,867,627	84,528,957	178,481,088

66. Operating Leases

66.1 Operating Lease Commitments (payables)

The Group has leased a number of branches and office premises under operating leases. These leases have an average life of between five to ten 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:

<i>As at December 31,</i>	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Less than one year	740,366	510,968	736,784	507,386
Between one to five years	1,901,675	1,400,091	1,897,436	1,395,852
Over five years	848,690	686,146	848,690	686,146
Total	3,490,731	2,597,205	3,482,910	2,589,384

66.2 Operating Lease Commitments (receivables)

The Group has entered into operating leases to rent its own properties, (mainly consisting of areas not currently occupied by the branch) and automated teller machines. 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:

<i>As at December 31,</i>	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Less than one year	5,190	7,579	4,290	6,679
Between one to five years	3,320	7,940	2,825	7,445
Over five years	–	–	–	–
Total	8,510	15,519	7,115	14,124

67. Financial Risk Review

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 the 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 pages 253 to 256 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 defence in managing the risk. The IRMD through Chief Risk Officer reports to the 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 an 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.

67.1 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 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.

67.1.1 Credit Quality Analysis

67.1.1 (a) Maximum Exposure to Credit Risk by Risk Rating

The table below sets out information about the maximum exposure to credit risk (including Off-Balance Sheet exposure) broken down by risk ratings and the related provision for impairment made by the Bank against those assets.

As at December 31,	Notes	Loans and Receivables to Other Customers		Loans and Receivables to Banks		Financial Investments		Lending Commitments and Financial Guarantees	
		2015	2014	2015	2014	2015	2014	2015	2014
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Maximum Exposure to Credit Risk									
Carrying amount	30-34	508,115,127	405,431,457	601,106	551,066	269,625,007	270,971,070	-	-
Amount Committed/Guarantees	57	-	-	-	-	-	-	519,854,597	351,196,011
At Amortised Cost									
Government Securities (Risk Free Investments)		-	-	-	-	44,925,168	40,850,011	-	-
Rating 0-4: Investment Grade(*)		295,536,012	223,041,038	-	-	12,799,201	9,586,053	-	-
Rating 5-6: Moderate Risk		205,704,910	177,468,590	601,106	551,066	-	-	-	-
Rating S: High Risk		2,937,274	2,791,464	-	-	-	-	-	-
Rating 7-9: Extreme Risk		21,988,485	19,086,939	-	-	-	-	-	-
Gross carrying amount		526,166,681	422,388,031	601,106	551,066	57,724,369	50,436,064	-	-
Less: Provision for impairment (individual and collective)		18,051,554	16,956,574	-	-	-	-	-	-
Net carrying amount	31, 32,34	508,115,127	405,431,457	601,106	551,066	57,724,369	50,436,064	-	-
Available-for-Sale									
Government Securities (Risk Free Investments)		-	-	-	-	193,938,549	205,160,033	-	-
Rating 0-4: Investment Grade		-	-	-	-	486,880	843,630	-	-
Rating 5-6: Moderate Risk		-	-	-	-	9,818,860	8,204,707	-	-
Rating S: High Risk		-	-	-	-	-	-	-	-
Rating 7-9: Extreme Risk		-	-	-	-	-	-	-	-
Gross/net carrying amount	33	-	-	-	-	204,244,289	214,208,370	-	-
Other financial instruments – Held-for-trading									
Government Securities (Risk Free Investments)		-	-	-	-	3,943,697	2,423,272	-	-
Rating 0-4: Investment Grade		-	-	-	-	326,263	367,732	-	-
Rating 5-6: Moderate Risk		-	-	-	-	3,386,389	3,535,632	-	-
Rating S: High Risk		-	-	-	-	-	-	-	-
Rating 7-9: Extreme Risk		-	-	-	-	-	-	-	-
Gross/net carrying amount	30	-	-	-	-	7,656,349	6,326,636	-	-
Total net carrying amount		508,115,127	405,431,457	601,106	551,066	269,625,007	270,971,070	-	-
Off-Balance Sheet(**)									
Maximum Exposure									
Lending Commitments									
Grade 0-6: Investment Grade to Moderate Risk		-	-	-	-	-	-	153,979,986	106,560,178
Financial Guarantees									
Grade 0-6: Investment Grade to Moderate Risk		-	-	-	-	-	-	365,874,611	244,635,833
Total exposure	57	-	-	-	-	-	-	519,854,597	351,196,011

(*) Investment grade also includes Cash, Gold.

(**) Amounts reported above does not include capital commitments disclosed in the Note 57 on 'Contingent Liabilities and Commitments' on pages 358 to 360.

671.1 (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,	Notes	Loans and Receivables to Other Customers		Loans and Receivables to Banks		Financial Investment		Lending Commitments and Financial Guarantees	
		2015	2014	2015	2014	2015	2014	2015	2014
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Government Securities (Risk Free investments)		-	-	-	-	242,807,414	248,433,316	-	-
Gross carrying amount		-	-	-	-	242,807,414	248,433,316	-	-
Neither Past Due Nor Individually Impaired									
Rating 0-4: Investment grade		294,042,877	222,897,028	-	-	13,612,344	10,797,415	283,307,261	141,026,873
Rating 5-6: Moderate risk		203,984,694	176,917,981	601,106	551,066	13,205,249	11,740,339	236,547,336	210,169,138
Gross carrying amount		498,027,571	399,815,009	601,106	551,066	26,817,593	22,537,754	519,854,597	351,196,011
Past Due But Not Individually Impaired									
Less than 3 months		5,568,510	3,705,964	-	-	-	-	-	-
3 to 6 months		914,145	1,868,823	-	-	-	-	-	-
6 to 12 months		921,336	1,297,997	-	-	-	-	-	-
12 to 18 months		789,046	1,326,904	-	-	-	-	-	-
More than 18 months		8,199,444	7,824,652	-	-	-	-	-	-
Gross carrying amount		16,392,481	16,024,340	-	-	-	-	-	-
Individually Impaired									
Less than 3 months		4,357,858	266,435	-	-	-	-	-	-
3 to 6 months		1,099,777	1,007,795	-	-	-	-	-	-
6 to 12 months		284,986	148,659	-	-	-	-	-	-
12 to 18 months		906,849	734,831	-	-	-	-	-	-
More than 18 months		5,097,159	4,390,962	-	-	-	-	-	-
Gross carrying amount		11,746,629	6,548,682	-	-	-	-	-	-
Total gross carrying amount		526,166,681	422,388,031	601,106	551,066	269,625,007	270,971,070	519,854,597	351,196,011
Provisional for Impairment									
Individual		5,369,960	4,334,587	-	-	-	-	-	-
Collective		12,681,594	12,621,987	-	-	-	-	-	-
Total Provision for impairment		18,051,554	16,956,574	-	-	-	-	-	-
Total net carrying amount	30-34,57	508,115,127	405,431,457	601,106	551,066	269,625,007	270,971,070	519,854,597	351,196,011

The methodology of the impairment assessment is explained in the Note 17 on pages 276 and 277.

671.1 (c) Credit Risk Exposure for Each Internal Credit Rating on Facilities and Historical Default Rates

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 grading framework consists of several ratings of risks to represent varying degrees of risks as an indicator for Lending Officers to evaluate the overall risk profile of counterpart 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 grading 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 receivable portfolio together with historical default rates and respective gross carrying amounts are given in the table below:

<i>As at December 31,</i>		2015		2014	
Bank's Internal Credit Rating	Note	Historical Default Rates	Gross Carrying Amount	Historical Default Rates	Gross Carrying Amount
		%	Rs. '000	%	Rs. '000
Gold		12.13	1,879,893	15.77	2,348,767
Investment Grade					
Rating - 0		0.14	57,957,593	0.15	49,585,111
Rating - 1		0.28	5,343,970	0.40	5,432,532
Rating - 2		0.20	25,937,869	0.39	17,259,834
Rating - 3		0.54	96,615,386	0.59	50,123,205
Rating - 4		0.54	106,308,166	0.31	98,147,579
Sub total			294,042,877		222,897,028
Moderate Risk					
Rating - 5		0.74	172,997,420	0.88	154,362,496
Rating - 6		1.30	30,987,274	1.68	22,555,485
Sub total			203,984,694		176,917,981
Past Due But Not Individually Impaired					
High Risk					
Rating - S		23.29	1,807,302	25.27	2,593,132
Extreme Risk					
Rating - 7		56.39	3,246,400	58.02	1,854,792
Rating - 8		69.86	1,191,771	69.04	1,774,810
Rating - 9		100.00	10,147,008	100.00	9,801,606
Sub total			16,392,481		16,024,340
Impaired					
Individually Impaired(*)		-	11,746,629	-	6,548,682
Total	32		526,166,681		422,388,031

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

67.1.1 (d) Credit Quality by Class of Financial Assets

The table 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.

<i>As at December 31, 2015</i>							
	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	–	20,043,512	–	–	–	20,043,512
Balances with Central Banks	27	28,221,017	–	–	–	–	28,221,017
Placements with banks	28	–	17,193,539	–	–	–	17,193,539
Securities purchased under resale agreements		8,002,100	–	–	–	–	8,002,100
Derivative financial instruments	29	–	4,118,169	–	–	–	4,118,169
Other financial instruments – held-for-trading	30	3,943,697	326,263	3,386,389	–	–	7,656,349
Loans and receivables to banks	31	–	–	601,106	–	–	601,106
Loans and receivables to other customers	32	–	292,140,306	202,385,179	7,212,973	6,376,669	508,115,127
Corporate banking		–	156,450,856	70,818,794	2,377,758	2,368,232	232,015,636
Amortised cost		–	157,741,097	71,573,763	2,743,604	5,029,349	237,087,813
Less–provision for impairment		–	1,290,241	754,969	365,846	2,661,121	5,072,177
Personal banking		–	135,689,450	131,566,385	4,835,215	4,008,441	276,099,491
Amortised cost		–	136,301,780	132,410,931	13,648,878	6,717,280	289,078,869
Less–provision for impairment		–	612,330	844,546	8,813,663	2,708,839	12,979,378
Financial investments – available-for-sale	33	193,938,549	486,880	9,818,860	–	–	204,244,289
Government Securities		193,938,549	–	9,818,860	–	–	203,757,409
Quoted shares		–	234,839	–	–	–	234,839
Unquoted shares		–	46,487	–	–	–	46,487
Investment in unit trust		–	205,554	–	–	–	205,554
Financial investments – loans and receivables	34	44,925,168	12,799,201	–	–	–	57,724,369
Government Securities		44,925,168	–	–	–	–	44,925,168
Other investments		–	12,799,201	–	–	–	12,799,201
Total		279,030,531	347,107,870	216,191,534	7,212,973	6,376,669	855,919,577

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

<i>As at December 31, 2014</i>		Neither Past Due Nor Individually Impaired			Past Due But Not Impaired	Individually Impaired	Total
	Note	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
Securities purchased under resale agreements		41,198,266	-	-	-	-	41,198,266
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	-	222,039,175	174,801,951	6,376,232	2,214,099	405,431,457
Corporate banking		-	129,230,858	62,137,985	453,448	759,582	192,581,873
Amortised cost		-	129,723,348	63,295,937	868,904	2,615,388	196,503,577
Less - provision for impairment		-	492,490	1,157,952	415,456	1,855,806	3,921,704
Personal banking		-	92,808,317	112,663,966	5,922,784	1,454,517	212,849,584
Amortised cost		-	93,173,680	113,622,041	15,155,436	3,933,294	225,884,451
Less - provision for impairment		-	365,363	958,075	9,232,652	2,478,777	13,034,867
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
Quoted shares		-	185,132	-	-	-	185,132
Unquoted shares		-	45,057	-	-	-	45,057
Investment in unit trust		-	613,441	-	-	-	613,441
Financial investments – loans and receivables	34	40,850,011	9,586,053	-	-	-	50,436,064
Government securities		40,850,011	-	-	-	-	40,850,011
Other Investments		-	9,586,053	-	-	-	9,586,053
Total		309,265,328	268,395,828	187,093,356	6,376,232	2,214,099	773,344,843

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

671.1 (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	2015 Rs. '000	2014 Rs. '000
Government Securities			
Government Securities – Sri Lanka			
Treasury Bills		1,552,531	781,287
Treasury Bonds		2,391,166	1,641,985
Government Securities – Bangladesh			
Treasury Bills		–	3,442,876
Treasury Bonds		3,386,389	92,756
Total – Government Securities		7,330,086	5,958,904
Equity Securities			
Rated AAA		54,803	58,063
Rated AA+ to AA-		17	5,923
Rated A+ to A		30,380	41,018
Rated BBB+		–	7,545
Unrated		241,063	255,183
Total – Equity securities		326,263	367,732
Total	30	7,656,349	6,326,636

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 the counterparty failing to deliver the counter value.

The tables below shows analysis of credit exposures arising from derivative financial assets and liabilities.

<i>As at December 31, 2015</i>	Derivative Type							
	Forward		SWAPS		Spot		Total	
	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Derivative financial assets (Note 1)	33,615,548	786,794	119,436,202	3,328,679	4,537,226	2,696	157,588,976	4,118,169
Derivative financial liabilities (Note 2)	37,226,463	(1,098,002)	49,029,977	(791,199)	2,505,341	(1,569)	88,761,781	(1,890,770)
Note 1								
Derivative financial assets by counterparty type								
With Banks	7,233,582	108,548	119,349,712	3,328,679	4,150,359	1,711	130,733,653	3,438,938
Other customers	26,381,966	678,246	86,490	–	386,867	985	26,855,323	679,231
	33,615,548	786,794	119,436,202	3,328,679	4,537,226	2,696	157,588,976	4,118,169
Note 2								
Derivative financial liabilities by counterparty type								
With Banks	31,120,972	(851,679)	49,029,977	(787,433)	2,412,484	(1,513)	82,563,433	(1,640,625)
Other customers	6,105,491	(246,323)	–	(3,766)	92,857	(56)	6,198,348	(250,145)
	37,226,463	(1,098,002)	49,029,977	(791,199)	2,505,341	(1,569)	88,761,781	(1,890,770)

<i>As at December 31, 2014</i>	Derivative Type							
	Forward		SWAPS		Spot		Total	
	Notional Amount	Fair Value						
	Rs. '000	Rs. '000						
Derivative financial assets (Note 1)	20,358,635	233,300	37,306,791	222,533	2,845,959	3,677	60,511,385	459,510
Derivative financial liabilities (Note 2)	8,222,097	(368,886)	60,338,932	(823,596)	549,217	(657)	69,110,246	(1,193,139)
Note 1								
Derivative financial assets by counterparty type								
With Banks	6,328,908	54,701	37,306,791	222,533	2,092,045	2,437	45,727,744	279,671
Other customers	14,029,727	178,599	–	–	753,914	1,240	14,783,641	179,839
	20,358,635	233,300	37,306,791	222,533	2,845,959	3,677	60,511,385	459,510
Note 2								
Derivative financial liabilities by counterparty type								
With Banks	3,747,560	(24,499)	60,338,932	(823,596)	336,711	(501)	64,423,203	(848,596)
Other customers	4,474,537	(344,387)	–	–	212,506	(156)	4,687,043	(344,543)
	8,222,097	(368,886)	60,338,932	(823,596)	549,217	(657)	69,110,246	(1,193,139)

67.1.2 Impaired Loans and Receivables and Investment Debt Securities

Reconciliation of changes in the carrying amount of individually impaired loans and receivables as detailed below:

<i>As at December 31,</i>	2015 Rs. '000	2014 Rs. '000
Impaired loans and receivables to other customers as at January 01,	2,214,099	2,598,374
Newly classified as impaired loans and receivables during the year	5,282,954	628,790
Net change in already impaired loans and receivables during the year	(608,652)	(100,073)
Net payment, write-off and recoveries and other movement during the year	(511,732)	(912,992)
Impaired loans and receivables to customers as at December 31,	6,376,669	2,214,099

No impairment provision has been made for investment in debt securities as at December 31, 2015 (2014 – nil).

For methodology of the impairment assessment, refer Note 17 on impairment of finance assets which carried at amortised cost on pages 276 and 277.

For details of provision for impairment for loans and receivables to banks and for loans and receivable to other customers, refer Notes 31 and 32 on pages 299 to 307.

Set out below is an analysis of the gross and net carrying amounts of individually impaired loans and receivables by risk rating.

<i>As at December 31,</i>	2015		2014	
	Loans and Receivable to Customers		Loans and Receivable to Customers	
	Gross	Net	Gross	Net
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Rating 0-4: Investment Grade	1,493,134	1,418,234	144,010	103,374
Rating 5-6: Moderate Risk	1,720,216	1,620,746	550,610	335,272
Rating S: High Risk	1,129,972	807,046	198,333	184,071
Rating 7-9: Extreme Risk	7,403,307	2,530,643	5,655,729	1,591,382
	11,746,629	6,376,669	6,548,682	2,214,099

67.1.3 Collateral Held

Loan to Value Ratio of Residential Mortgage Lending

The table below stratifies mortgaged credit exposures 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 to compute the risk weighted assets for the calculation of Capital Adequacy ratios. The value of the collateral for residential mortgage loan is based on the forced sale value determined by professional valuers.

As at December 31,	2015		2014	
	Rs. '000	Composition (%)	Rs. '000	Composition (%)
LTV ratio				
Less than 50%	4,706,206	21.68	4,351,805	24.04
51 - 70%	5,443,350	25.08	4,690,017	25.90
71 - 90%	6,693,133	30.84	5,244,165	28.96
91 - 100%	958,034	4.41	821,071	4.53
More than 100%*	3,903,690	17.99	3,001,235	16.57
	21,704,413	100.00	18,108,293	100.00

* 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 claims.

67.1.4 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 economical 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 are given below:

67.1.4 (a) Industry-wise Distribution

As at December 31, 2015	Agriculture and Fishing	Manu- facturing	Tourism	Transport	Const- ruction	Traders	New Economy	Financial and Business Services	Government	Infras- tructure	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
Financial Assets													
Cash and cash equivalents	-	-	-	-	-	-	-	20,043,512	-	-	-	-	20,043,512
Balances with Central Banks	-	-	-	-	-	-	-	-	28,221,017	-	-	-	28,221,017
Placements with banks	-	-	-	-	-	-	-	17,193,539	-	-	-	-	17,193,539
Securities purchased under resale agreements	-	-	-	-	-	-	-	-	8,002,100	-	-	-	8,002,100
Derivative financial assets	-	166,252	6,600	8,353	262	317,574	-	3,602,206	-	-	16,422	500	4,118,169
Other financial instruments – held-for-trading	-	155,422	9,495	-	15,599	35,019	30,516	52,106	7,330,086	28,106	-	-	7,656,349
Government Securities	-	-	-	-	-	-	-	-	7,330,086	-	-	-	7,330,086
Quoted equity securities	-	155,422	9,495	-	15,599	35,019	30,516	52,106	-	28,106	-	-	326,263
Loans and receivables to banks								601,106					601,106
Loans and receivables to other customers	43,880,354	70,756,644	31,704,922	16,229,559	59,068,173	74,515,538	13,733,055	43,678,286	-	18,958,293	49,292,548	86,297,755	508,115,127
Loans & advances*	43,880,354	70,756,644	31,704,922	16,229,559	59,068,173	74,515,538	13,733,055	43,678,286	-	18,958,293	49,292,548	86,297,755	508,115,127
Financial investments – available-for-sale	-	12,427	-	-	-	-	-	437,966	203,764,668	-	29,228	-	204,244,289
Government Securities	-	-	-	-	-	-	-	-	203,757,409	-	-	-	203,757,409
Equity securities – Quoted shares	-	12,427	-	-	-	-	-	222,412	-	-	-	-	234,839
Equity securities - Unquoted shares	-	-	-	-	-	-	-	10,000	7,259	-	29,228	-	46,487
Investment in unit trusts	-	-	-	-	-	-	-	205,554	-	-	-	-	205,554
Financial investments – loans and receivable	-	2,875,163	-	-	-	1,083,961	-	8,602,910	44,925,168	-	237,167	-	57,724,369
Government Securities	-	-	-	-	-	-	-	-	44,925,168	-	-	-	44,925,168
Investment in Unit trusts	-	2,875,163	-	-	-	1,083,961	-	8,602,910	-	-	237,167	-	12,799,201
Total	43,880,354	73,965,908	31,721,017	16,237,912	59,084,034	75,952,092	13,763,571	94,211,631	292,243,039	18,986,399	49,575,365	86,298,255	855,919,577

(*) Industry wise loans and receivables appearing in the Note 32.1 (c) on page 301 do not agree due to the impairment.

Notes to the Financial Statements

As at December 31, 2014	Agriculture and Fishing	Manu- facturing	Tourism	Transport	Const- ruction	Traders	New Economy	Financial and Business Services	Government	Infras- tructure	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
Financial Assets													
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
Securities purchased under resale agreements	-	-	-	-	-	-	-	-	41,198,266	-	-	-	41,198,266
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
Quoted 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	52,662,465	16,888,688	12,940,410	40,351,177	58,916,183	6,209,585	28,751,154	-	15,590,465	39,593,074	89,946,637	405,431,457
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	-	15,590,465	39,593,074	89,946,637	405,431,457
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
Investment in unit trusts	-	-	-	-	-	-	-	613,440	-	-	-	-	613,440
Financial investments – loans and receivable	-	960,696	-	-	-	953,298	-	6,987,597	41,297,306	-	237,167	-	50,436,064
Government Securities	-	-	-	-	-	-	-	-	40,850,011	-	-	-	40,850,011
Investment in Unit trusts	-	960,696	-	-	-	953,298	-	6,987,597	447,295	-	237,167	-	9,586,053
Total	43,606,927	53,816,329	16,900,850	12,940,410	40,405,011	59,903,557	6,229,539	72,597,700	321,468,825	15,643,104	39,864,008	89,968,583	773,344,843

(*) Industry wise loans and receivables appearing in the Note 32.1 (c) on page 301 do not agree due to the impairment.

671.4 (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 76% (approximately) of total advances portfolio of the Bank (excluding Bangladesh operation) as at December 31, 2015. Although, Western Province is vested with highest credit concentration, we believe that a sizable 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 thereby reflecting a fairly diversified geographical concentration on such borrowers.

As at December 31, 2015

Province	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	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
Sri Lanka												
Central	8,554,213	180,407	2,066,547	256,801	103,425	-	2,480,416	1,438,608	12,100,975	1,005,681	50,194	28,237,267
Eastern	671,967	27,151	479,533	59,211	35,273	-	228,346	435,810	1,490,021	28,071	1,599	3,456,982
North Central	691,180	71,533	1,384,839	68,702	8,779	-	355,277	281,563	2,948,036	199,250	2,901	6,012,060
Northern	1,709,859	47,798	735,285	73,501	486,231	-	536,945	557,278	2,504,367	29,811	967	6,682,042
North Western	3,531,249	406,243	2,579,974	220,765	192,368	-	2,756,994	1,414,967	9,546,347	558,536	3,212	21,210,655
Sabaragamuwa	3,222,608	139,125	1,912,235	121,407	78,159	-	1,961,883	882,740	5,437,548	255,548	8,833	14,020,086
Southern	4,071,013	1,328,383	3,062,705	238,144	126,180	-	3,961,944	1,958,579	10,612,183	213,666	21,603	25,594,400
Uva	828,363	2,409	998,925	75,521	31,476	-	1,359,779	481,967	3,049,962	145,196	7	6,973,605
Western	51,816,858	41,965,436	20,425,439	2,868,609	803,814	5,999,407	25,570,432	17,918,380	165,670,040	19,425,636	2,838,338	355,302,389
Bangladesh	3,943,380	911,569	176,685	57,608	-	100,426	170,182	279,043	5,861,989	20,825,415	8,299,344	40,625,641
Total	79,040,690	45,080,054	33,822,167	4,040,269	1,865,705	6,099,833	39,382,198	25,648,935	219,221,468	42,686,810	11,226,998	508,115,127

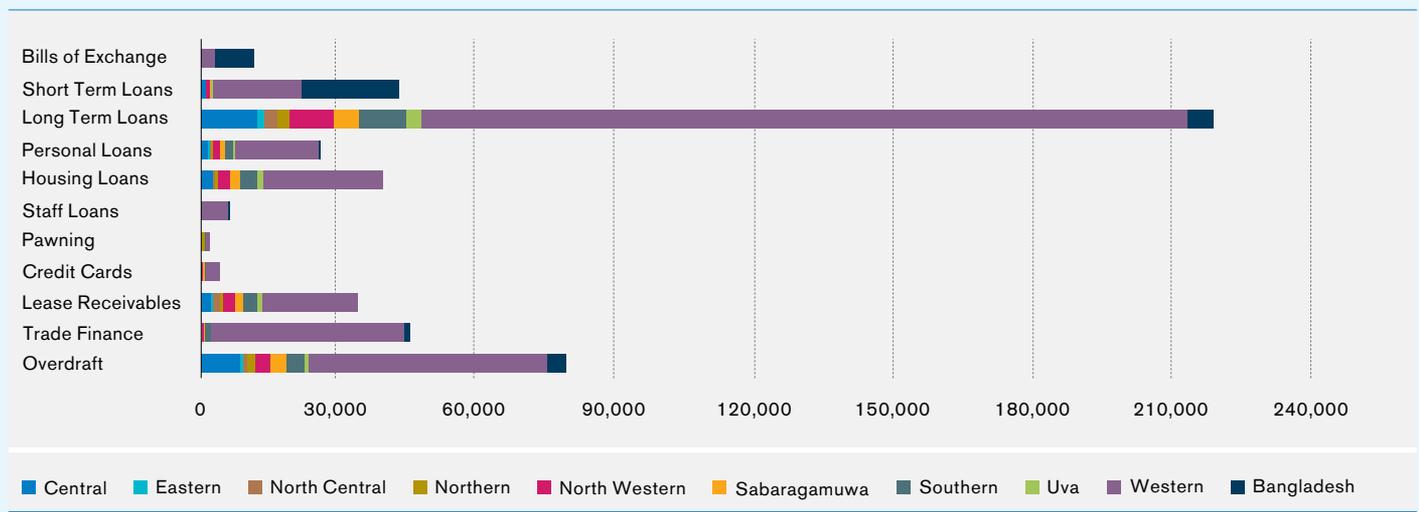
As at December 31, 2014

Province	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	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
Sri Lanka												
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	1,989	5,833,609
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	117,884	99,293	-	1,432,771	651,940	3,303,445	238,764	9,637	9,328,751
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	46,910,669	37,926,034	13,894,422	2,404,226	1,007,100	4,873,068	19,440,762	14,375,984	128,245,662	18,126,426	3,595,742	290,800,095
Bangladesh	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
Total	67,500,659	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	405,431,457

Please refer Note 32 on page 300 for the Gross carrying amount of the Loans and Advances.

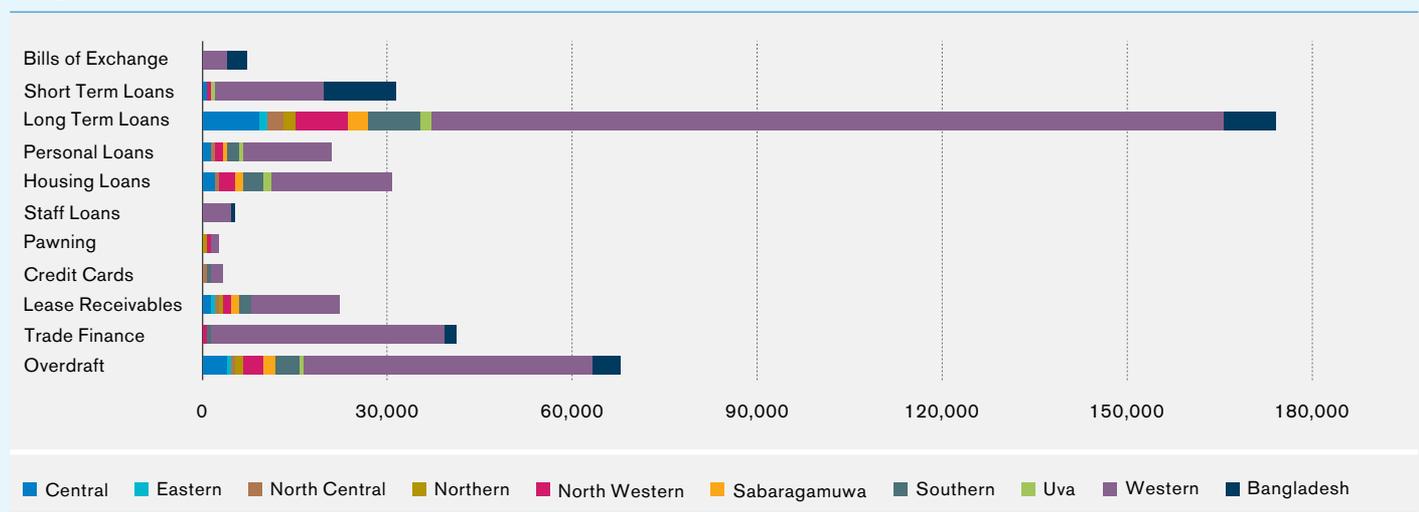
Geographical Distribution of Loans and Receivables for the Year 2015

Rs. Mn.



Geographical Distribution of Loans and Receivables for the Year 2014

Rs. Mn.



67.1.5 Exposures to Unrated Countries

This note summarises the Bank's on-balance sheet and off-balance sheet exposure to countries which are not rated by an established rating company.

<i>As at December 31,</i>	2015	2014
	Rs. '000	Rs. '000
On-Balance Sheet Exposures		
Loans and receivables to customers		
Net carrying value	12,565,857	6,025,118
Gross carrying value	14,177,263	7,124,420
Less – Provision for impairment	1,611,406	1,099,302
Fair value net of provision for impairment(*)	12,565,857	6,025,118
Fair value before impairment	14,177,263	7,124,420
Less – Provision for impairment	1,611,406	1,099,302
Off-Balance Sheet Exposures		
Loan commitments and financial guarantees	9,301,980	360,557
Financial guarantees	47,419	135,082
Loan commitments	9,254,561	225,475
Total on-balance sheet and off-balance sheet exposure	21,867,837	6,385,675

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

67.2 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 the 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.

Assets 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.

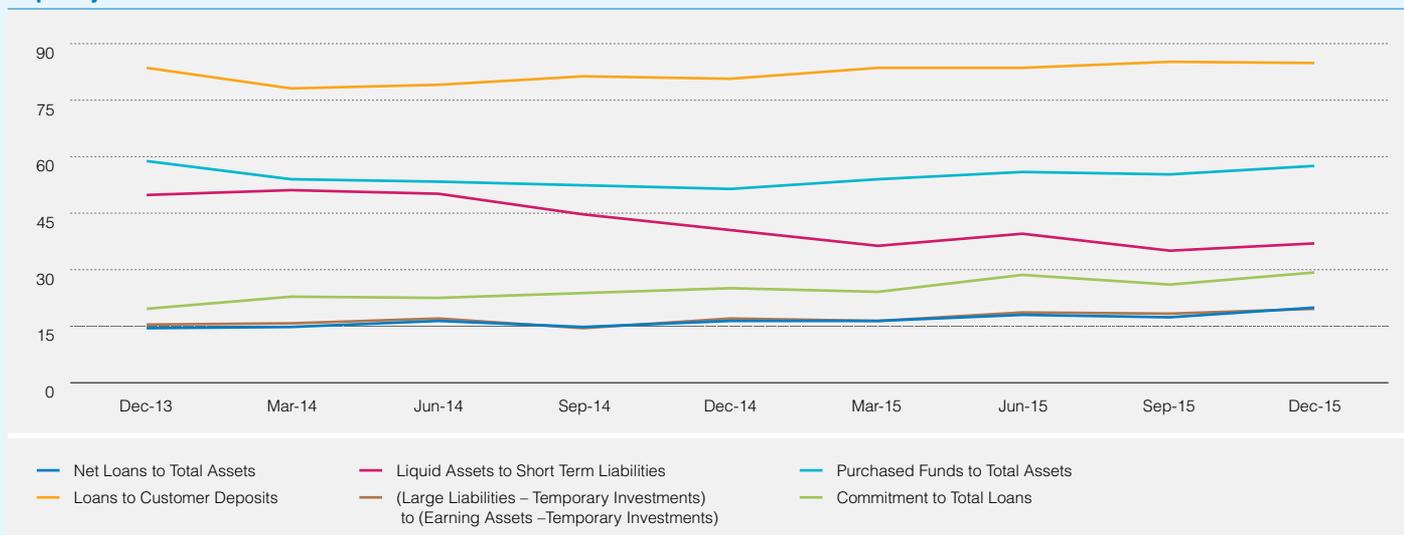
67.2.1 Exposure to Liquidity Risk

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	
	2015 %	2014 %	2015 %	2014 %
As at December 31,	26.24	33.15	49.13	31.43
Average for the period	28.50	35.26	43.90	32.13
Maximum for the period	34.29	37.10	51.20	38.54
Minimum for the period	24.99	33.15	32.05	27.35
Statutory minimum requirement	20.00	20.00	20.00	20.00

The graph below depicts the trends in quarterly regulatory liquidity ratios of the Bank during the period from December 2013 to December 2015:

Liquidity Ratios



The ratio between net loans to total On-Balance Sheet assets has gradually increased during 2015, 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 (MM) borrowing and institutional deposits] to total assets and large liabilities after deducting temporary investments to earning assets and temporary investments have been marginally below 20%. The ratio of commitments to total loans has gradually increased. The ratio of liquid assets to short term liabilities has remained above 30%. All above ratios indicate strong liquidity position maintained by the Bank.

<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 31.12.2015 Rs. '000	Total as at 31.12.2014 Rs. '000
Non-Financial Assets							
Investments in subsidiaries	–	–	–	–	1,237,146	1,237,146	1,211,000
Investments in associates	–	–	–	–	44,331	44,331	44,331
Property, plant & equipment	–	–	–	–	9,968,985	9,968,985	9,953,091
Intangible assets	–	–	–	–	465,960	465,960	439,128
Leasehold property	–	–	–	–	74,478	74,478	75,420
Other assets	8,344,808	169,805	985,405	374,696	2,219,877	12,094,591	10,541,817
Total non-interest earning assets as at 31.12.2015	44,874,588	7,583,819	2,176,751	789,092	14,685,970	70,110,220	–
Total non-interest earning assets as at 31.12.2014	38,184,360	5,428,275	1,460,320	1,278,646	14,596,584	–	60,948,185
Total assets – as at 31.12.2015	280,864,234	134,113,519	240,774,816	119,293,865	104,758,634	879,805,068	–
Total assets – as at 31.12.2014	282,469,237	141,503,748	146,257,420	131,460,303	93,918,922	–	795,609,630
Percentage – as at 31.12.2015(*)	31.92	15.24	27.37	13.56	11.91	100.00	–
Percentage – as at 31.12.2014(*)	35.51	17.79	18.38	16.52	11.80	–	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:

<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 31.12.2015 Rs. '000	Total as at 31.12.2014 Rs. '000
Interest-bearing liabilities:							
Financial Liabilities							
Due to banks	14,236,607	12,252,750	–	–	–	26,489,357	7,101,355
Derivative financial liabilities	–	–	–	–	–	–	–
Securities sold under repurchase agreements	89,404,870	22,648,445	331,497	–	–	112,384,812	124,564,499
Other financial liabilities – held-for-trading	–	–	–	–	–	–	–
Due to other customers/ Deposits from customers	372,821,253	164,738,055	14,096,129	9,075,203	10,433,689	571,164,329	484,439,838
Other borrowings	492,184	1,506,179	4,089,640	139,873	3,757,761	9,985,637	11,636,583
Subordinated liabilities	132,361	1,117,677	–	–	10,723,234	11,973,272	11,044,775
Total interest-bearing liabilities as at 31.12.2015	477,087,275	202,263,106	18,517,266	9,215,076	24,914,684	731,997,407	–
Total interest-bearing liabilities as at 31.12.2014	409,117,698	180,713,705	20,555,908	8,810,120	19,589,619	–	638,787,050

<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 31.12.2015 Rs. '000	Total as at 31.12.2014 Rs. '000
Non-interest bearing liabilities:							
Financial Liabilities							
Due to banks	3,829,762	-	-	-	-	3,829,762	18,159,621
Derivative financial liabilities	1,026,823	783,512	80,435	-	-	1,890,770	1,193,139
Due to other customers/ Deposits from customers	52,937,481	-	-	-	-	52,937,481	44,921,646
Non-Financial Liabilities							
Current tax liabilities	1,503,502	1,498,482	-	-	-	3,001,984	1,997,990
Deferred tax	260,056	199,449	111,823	471,153	(811,866)	230,615	2,573,760
Other provisions	1,874	-	-	-	-	1,874	1,874
Other liabilities	11,385,635	1,509,154	1,239,799	299,833	1,113,738	15,548,159	17,443,531
Due to subsidiaries	26,212	-	-	-	-	26,212	19,289
Equity							
Stated capital	-	-	-	-	23,254,605	23,254,605	21,457,501
Statutory reserves	-	-	-	-	4,922,264	4,922,264	4,327,103
Retained earnings	-	-	-	-	4,388,867	4,388,867	4,258,287
Other reserves	-	-	-	-	37,775,068	37,775,068	40,468,839
Total non-interest bearing liabilities as at 31.12.2015	70,971,345	3,990,597	1,432,057	770,986	70,642,676	147,807,661	
Total non-interest bearing liabilities as at 31.12.2014	74,289,006	6,032,858	3,055,498	1,512,995	71,932,223		156,822,580
Total liabilities and equity – as at 31.12.2015	548,058,620	206,253,703	19,949,323	9,986,062	95,557,360	879,805,068	
Total liabilities and equity – as at 31.12.2014	483,406,704	186,746,563	23,611,406	10,323,115	91,521,842		795,609,630
Percentage – as at 31.12.2015(*)	62.29	23.44	2.27	1.14	10.86	100	
Percentage – as at 31.12.2014(*)	60.76	23.47	2.97	1.30	11.50		100

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

67.2.2 (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>	2015	2014
	Rs. '000	Rs. '000
Financial Assets		
Non-Derivative Financial Assets		
Balances with central banks	1,284,010	1,047,349
Loans and receivables to banks	601,106	551,066
Loans and receivables to other customers	232,631,534	198,905,938
Financial investments – Available-for-sale	180,968,180	155,625,347
	415,484,830	356,129,700
Financial Liabilities		
Non-Derivative Financial Liabilities		
Securities sold under repurchase agreements	331,497	–
Due to other customers/deposits from customers	33,605,021	27,844,004
Other borrowings	7,987,274	10,327,959
Subordinated liabilities	10,723,234	10,783,684
	52,647,026	48,955,647

67.2.3 Liquidity Reserves

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

<i>As at December 31,</i>	2015		2014	
	Carrying Amount Rs. '000	Fair Value Rs. '000	Carrying Amount Rs. '000	Fair Value Rs. '000
Balances with central banks	28,221,017	28,221,017	19,633,746	19,633,746
Cash and balances with other banks	4,170,033	4,170,033	6,943,357	6,943,357
Other cash and cash equivalents	15,873,479	15,873,479	13,648,510	13,648,510
Unencumbered debt securities issued by sovereigns	106,704,783	107,319,745	135,957,411	137,548,651
Total liquidity reserves	154,969,312	155,584,274	176,183,024	177,774,264

67.2.4 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, 2015</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			20,043,512		20,043,512
Balances with central banks	27			28,221,017		28,221,017
Placements with banks	28			17,193,539		17,193,539
Securities Purchased Under Resale Agreements				8,002,100		8,002,100
Derivative financial assets	29			4,118,169		4,118,169
Other financial instruments – Held-for-trading	30			7,656,349		7,656,349
Loans and receivables to banks	31		601,106	–		601,106
Loans and receivables to other customers	32			508,115,127		508,115,127
Financial investments – Available-for-sale*	33	112,384,812		91,859,477		204,244,289
Financial investments – Loans and Receivables	34			57,724,369		57,724,369
Total financial assets		112,384,812	601,106	742,933,659	–	855,919,577

<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
Securities Purchased Under Resale Agreements				41,198,266		41,198,266
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			405,431,457		405,431,457
Financial investments – Available-for-sale*	33	124,564,499	–	89,643,871		214,208,370
Financial investments – Loans and Receivables	34			50,436,064		50,436,064
Total financial assets		124,564,499	551,066	648,229,278	–	773,344,843

* Market value of securities pledged as collateral is Rs. 126,431,123 – 2015 (Rs. 149,640,324 – 2014).

**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.

67.3 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.

67.3.1 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:

<i>As at December 31, 2015</i>	Note	Carrying Amount Rs. '000	Market Risk Measurement	
			Trading Portfolios Rs. '000	Non-Trading Portfolios Rs. '000
Assets Subject to Market Risk				
Cash and cash equivalents	26	6,012,136		6,012,136
Balances with central banks	27	8,145,887		8,145,887
Placements with banks	28	17,193,539		17,193,539
Securities purchased under resale agreements		8,002,100		8,002,100
Derivative financial assets	29	4,118,169	4,118,169	–
Other financial instruments – Held-for-trading	30	7,656,349	7,656,349	–
Loans and receivables to banks	31	601,106		601,106
Loans and receivables to other customers	32	508,115,127		508,115,127
Financial investments – Available-for-sale	33	204,244,289		204,244,289
Financial investments – Loans and Receivables	34	57,724,369		57,724,369
		821,813,071	11,774,518	810,038,553
Liabilities Subject to Market Risk				
Due to banks	41	30,319,119		30,319,119
Derivative financial liabilities	42	1,890,770	1,890,770	–
Securities sold under repurchase agreements		112,384,812		112,384,812
Due to other customers/deposits from customers	43	624,101,810		624,101,810
Other borrowings	44	9,985,637		9,985,637
Subordinated liabilities	50	11,973,272		11,973,272
		790,655,420	1,890,770	788,764,650

As at December 31, 2014	Note	Carrying Amount Rs. '000	Market Risk Measurement	
			Trading Portfolios Rs. '000	Non-Trading Portfolios Rs. '000
Assets Subject to Market Risk				
Cash and cash equivalents	26	8,369,802		8,369,802
Balances with central banks	27	2,199,888		2,199,888
Placements with banks	28	14,507,861		14,507,861
Securities purchased under resale agreements		41,198,266		41,198,266
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	405,431,457		405,431,457
Financial investments – Available-for-sale	33	214,208,370		214,208,370
Financial investments – Loans and receivables	34	50,436,064		50,436,064
		743,668,920	6,786,146	736,902,774
Liabilities Subject to Market Risk				
Due to banks	41	25,260,976		25,260,976
Derivative financial liabilities	42	1,193,139	1,193,139	–
Securities sold under repurchase agreements		124,564,499		124,564,499
Due to other customers/deposits from customers	43	529,361,484		529,361,484
Other borrowings	44	11,636,583		11,636,583
Subordinated liabilities	50	11,044,775		11,044,775
		703,061,456	1,193,139	701,868,317

673.2 Exposure to Interest Rate Risk – Sensitivity Analysis

673.2 (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.

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

<i>As at December 31, 2015</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 31.12.2015 Rs. '000
Financial Assets							
Cash and cash equivalents	-	-	-	-	-	20,043,512	20,043,512
Balances with central banks	5,707,697	-	-	-	-	22,513,320	28,221,017
Placements with banks	16,472,789	720,750	-	-	-	-	17,193,539
Securities purchased under resale agreements	8,002,100	-	-	-	-	-	8,002,100
Derivative financial assets	-	-	-	-	-	-	-
Other financial instruments – held-for-trading	-	-	-	-	-	-	-
Loans and receivables to banks	-	-	-	-	-	601,106	601,106
Loans and receivables to other customers	305,050,450	102,751,351	45,161,485	29,482,071	20,557,607	5,112,163	508,115,127
Financial investments – available-for-sale	13,236,069	10,905,467	81,166,272	35,687,455	51,541,198	11,707,828	204,244,289
Financial investments – loans and receivables	45,991,446	1,493,686	5,025,175	5,211,040	-	3,022	57,724,369
Total Financial Assets	394,460,551	115,871,254	131,352,932	70,380,566	72,098,805	59,980,951	844,145,059
Financial Liabilities							
Due to banks	15,872,928	12,252,750	-	-	-	2,193,441	30,319,119
Derivative financial liabilities	-	-	-	-	-	-	-
Securities sold under repurchase agreements	89,404,870	22,648,445	331,497	-	-	-	112,384,812
Due to other customers/deposits from customers	376,414,265	164,654,425	13,448,855	8,416,197	7,222,343	53,945,725	624,101,810
Other borrowings	7,935,160	419,463	348,618	264,069	1,018,327	-	9,985,637
Subordinated liabilities	10,855,595	1,117,677	-	-	-	-	11,973,272
Total Financial Liabilities	500,482,818	201,092,760	14,128,970	8,680,266	8,240,670	56,139,166	788,764,650
Interest rate sensitivity gap	(106,022,267)	(85,221,506)	117,223,962	61,700,300	63,858,135	3,841,785	55,380,409

<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
Financial Assets							
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
Securities purchased under resale agreements	40,023,056	1,175,210	–	–	–	–	41,198,266
Derivative financial assets	–	–	–	–	–	–	–
Other financial instruments – held-for-trading	–	–	–	–	–	–	–
Loans and receivables to banks	–	–	–	–	–	551,066	551,066
Loans and receivables to other customers	257,183,352	76,633,731	30,417,239	18,773,170	16,191,616	6,232,349	405,431,457
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
Financial investments – loans and receivables	41,639,748	845,575	4,215,747	3,734,994	–	–	50,436,064
Total Financial Assets	367,997,433	122,879,403	65,247,305	94,847,435	68,901,961	46,685,160	766,558,697
Financial Liabilities							
Due to banks	10,300,549	13,307,653	–	–	–	1,652,774	25,260,976
Derivative financial liabilities	–	–	–	–	–	–	–
Securities sold under repurchase agreements	84,774,772	37,921,798	1,867,929	–	–	–	124,564,499
Due to other customers/deposits from customers	318,124,063	134,432,410	12,187,265	5,977,239	13,598,934	45,041,573	529,361,484
Other borrowings	2,827,263	966,982	633,385	6,922,301	286,652	–	11,636,583
Subordinated liabilities	9,943,394	129,121	972,260	–	–	–	11,044,775
Total Financial Liabilities	425,970,041	186,757,964	15,660,839	12,899,540	13,885,586	46,694,347	701,868,317
Interest rate sensitivity gap	(57,972,608)	(63,878,561)	49,586,466	81,947,895	55,016,375	(9,187)	64,690,380

673.2 (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.

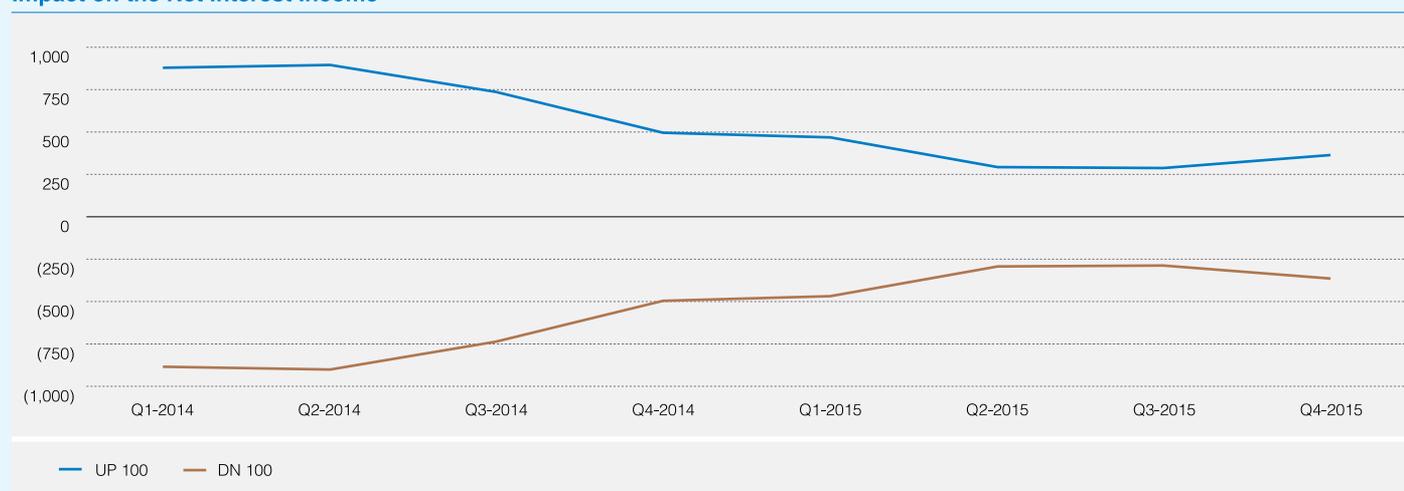
Sensitivity of Projected Net Interest Income

Net Interest Income (NII)	2015		2014	
	100 bp Parallel Increase Rs. '000	100 bp Parallel Decrease Rs. '000	100 bp Parallel Increase Rs. '000	100 bp Parallel Decrease Rs. '000
As at December 31,	363,173	(362,303)	494,488	(495,461)
Average for the period	336,601	(335,541)	751,326	(753,968)
Maximum for the period	469,161	(468,336)	893,537	(901,327)
Minimum for the period	267,117	(266,063)	494,488	(495,461)

The Graph below depicts the impact on the Net Interest Income (NII) of Sri Lankan Operations – Rate shock of 100 bp on Rupee denominated Assets and Liabilities and 10 bp on FCY denominated Assets and Liabilities.

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 100bps and 10bps shocks on rupee and foreign currency denominated interest earning assets and interest bearing liability portfolios, respectively. Thereafter, the potential impact on the Bank's profitability due to changes in rupee and foreign currency interest rates is evaluated to ensure that the volatilities are prudently managed within the internal tolerance limits. Above graph depicts the sensitivity of NII to rate shocks during the years 2014 and 2015. Right throughout 2015, 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.

673.3 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, 2015 and 2014 and the exposure as a percentage of the total capital funds:

Foreign Exchange Position as at December 31, 2015

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				
	2 '000	3 '000	4=2-3 '000	5 '000	6 '000	7=5-6 '000				
United States Dollar	27,147	27,207	(60)	15,410	14,568	842	1,096		1,877	270,602
Great Britain Pound	191	183	8	60	100	(40)	46		15	3,171
Euro	2,751	753	1,998	172	2,143	(1,971)	(58)		(31)	(4,886)
Japanese Yen	16,056	12,095	3,961	12,040	9,734	2,306	(420)		5,848	6,999
Indian Rupee	-	-	-	-	-	-	-		-	-
Australian Dollars	503	569	(66)	1,350	1,250	100	(33)		1	86
Canadian Dollars	354	347	7	-	-	-	-		7	716
Other currencies in US\$	363	144	219	168	99	69	44		333	47,951
Total exposure							US\$ 1,117		US\$ 2,252	324,639
Total capital funds as per the latest Audited Financial Statements (capital base of the Bank as at December 31, 2015)										79,687,972
Total exposure as a % of total capital funds as per the latest Audited Financial Statements										0.41%

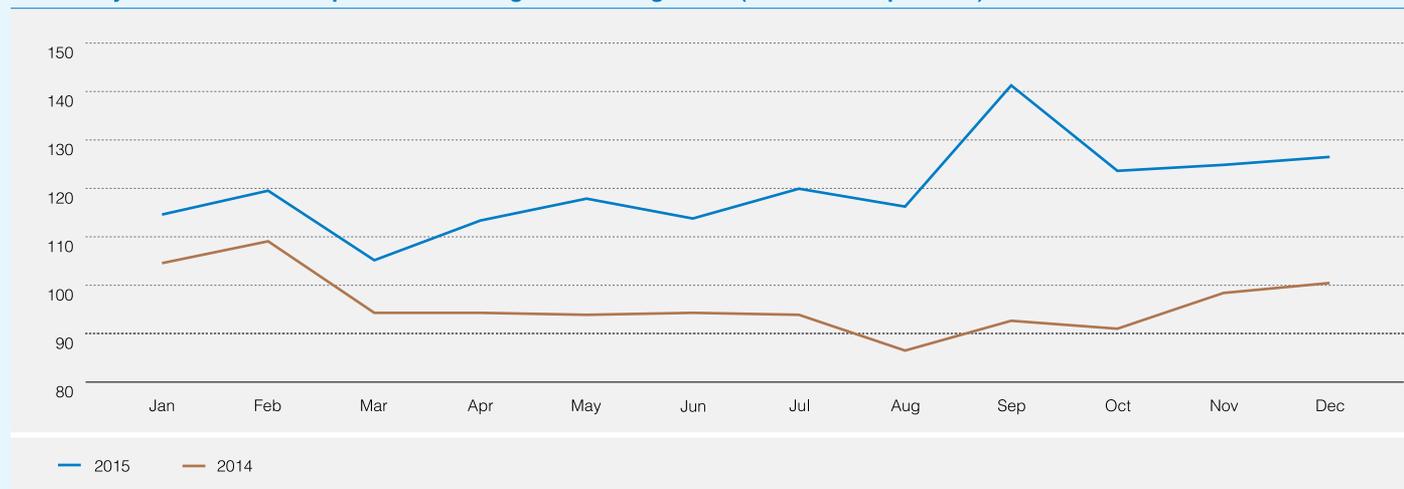
Foreign Exchange Position as at December 31, 2014

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				
	2 '000	3 '000	4=2-3 '000	5 '000	6 '000	7=5-6 '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)	(4,750)
Euro	1,260	74	1,186	144	1,317	(1,173)	16	-	29	4,611
Japanese Yen	3,781	45,351	(41,570)	47,803	12,580	35,223	52	-	(6,294)	(6,974)
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 US\$	614	216	398	75	460	(385)	147	-	161	21,233
Total exposure							US\$ (5,041)		US\$ (938)	(123,234)
Total capital funds as per the latest Audited Financial Statements (capital base of the Bank as at December 31, 2014)										72,177,447
Total exposure as a % of total capital funds as per the latest Audited Financial Statements										-0.17%

The Bank regularly conducts sensitivity analysis on Net Open Position (NOP) due to possible changes in the USD/LKR exchange rate to assess the exposure to Foreign Exchange Risk. An appropriate shock based on historical US\$/LKR exchange rate is applied on the NOP which is measured against the Board approved threshold limits.

Sensitivity of FX Position - Impact of 1% Change in Exchange Rate (Sri Lankan Operation)

+/- (Rs. Mn.)



67.3.4 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 arises as result of 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.

	2015			2014		
	Held-for-Trading Rs. '000	Available-for-Sale Rs. '000	Total Rs. '000	Held-for-Trading Rs. '000	Available-for-Sale Rs. '000	Total Rs. '000
Market value of equity securities as at December 31,	326,263	234,839	561,102	367,732	185,132	552,864
Stress Level	Impact on P&L	Impact on OCI	Impact on Equity	Impact on P&L	Impact on OCI	Impact on Equity
Shock of 10% on equity price (upward)	32,626	23,484	56,110	36,773	18,513	55,286
Shock of 10% on equity price (downward)	(32,626)	(23,484)	(56,110)	(36,773)	(18,513)	(55,286)

67.4 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 to 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 135 of the section on 'Managing Risk at Commercial Bank'.

67.5 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.

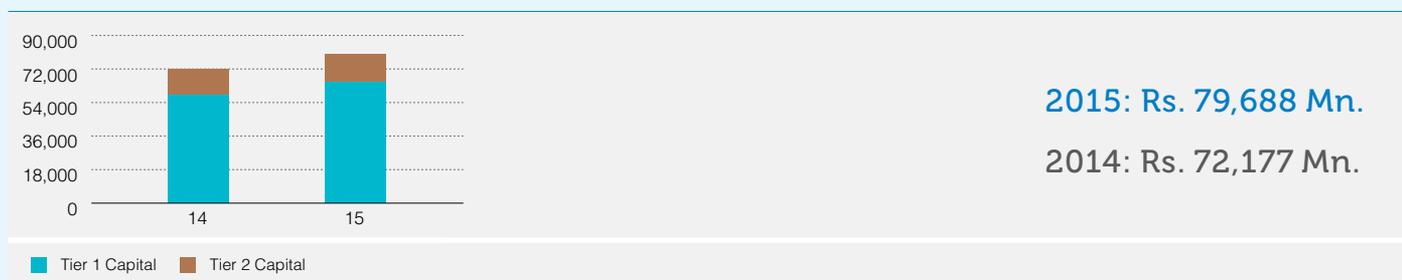
67.5.1 Regulatory Capital

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>	2015 Rs. '000	2014 Rs. '000
Tier I: Core Capital		
Paid-up ordinary shares/Common stock/Assigned capital++	23,254,605	21,457,502
Statutory reserve fund	4,922,265	4,327,103
Published retained profits/(accumulated losses)(+/-)	1,582,894	1,568,605
General and other reserves	36,007,573	32,010,399
Minority interests (consistent with the above capital constituents)	-	-
Tier I: Deductions/Adjustments		
Goodwill	-	-
Other intangible assets	(465,962)	(439,129)
Advances granted to employees of the Bank for the purchase of shares of the Bank (ESOP)	(499)	(786)
50% of Investments in unconsolidated banking and financial subsidiary companies	(458,023)	(458,023)
50% Investments in the capital of other banks and financial institutions	(402)	(402)
Total Eligible Core Capital (Tier I Capital)	64,842,451	58,465,269
Tier II: Supplementary Capital		
Revaluation reserves (as approved by Central Bank of Sri Lanka)	2,034,231	2,034,231
General provisions	2,351,948	1,836,058
Approved subordinated term debt	10,917,767	10,300,314
Tier II: Deductions/Adjustments		
50% of investments in unconsolidated banking and financial subsidiary companies	(458,023)	(458,023)
50% investments in the capital of other banks and financial institutions	(402)	(402)
Total eligible supplementary capital (Tier II Capital)	14,845,521	13,712,178
Total capital base	79,687,972	72,177,447

Total Capital Base

Rs. Mn.



2015: Rs. 79,688 Mn.

2014: Rs. 72,177 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, stability and reliance.

The higher level of capital maintained by the Bank too contributed to the 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 income of the Bank.

67.5.2 Capital Allocation

Management uses regulatory capital ratios to monitor its capital base. The allocation of capital between specific operations and activities, 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.

68. Events After the Reporting Date

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

68.1 Final Dividend – 2015

The Board of Directors of the Bank have recommended the payment of a final dividend of Rs. 5/- per share which consist of a cash dividend of Rs. 3/- per share and the balance entitlement of Rs. 2/- per share that will be satisfied in the form of issue and allotment of new shares for both voting and non-voting ordinary shareholders of the Bank for the year ended December 31, 2015.

This dividend is yet to be approved at the Annual General Meeting to be held on March 31, 2016. 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, 2015. 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 the 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 24, 2016 has been audited by KPMG.