

NOTES TO THE FINANCIAL STATEMENTS

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 (CSE), 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 CSE.

The staff strength of the Bank as at December 31, 2016 was 4,987 (4,951 as at December 31, 2015).

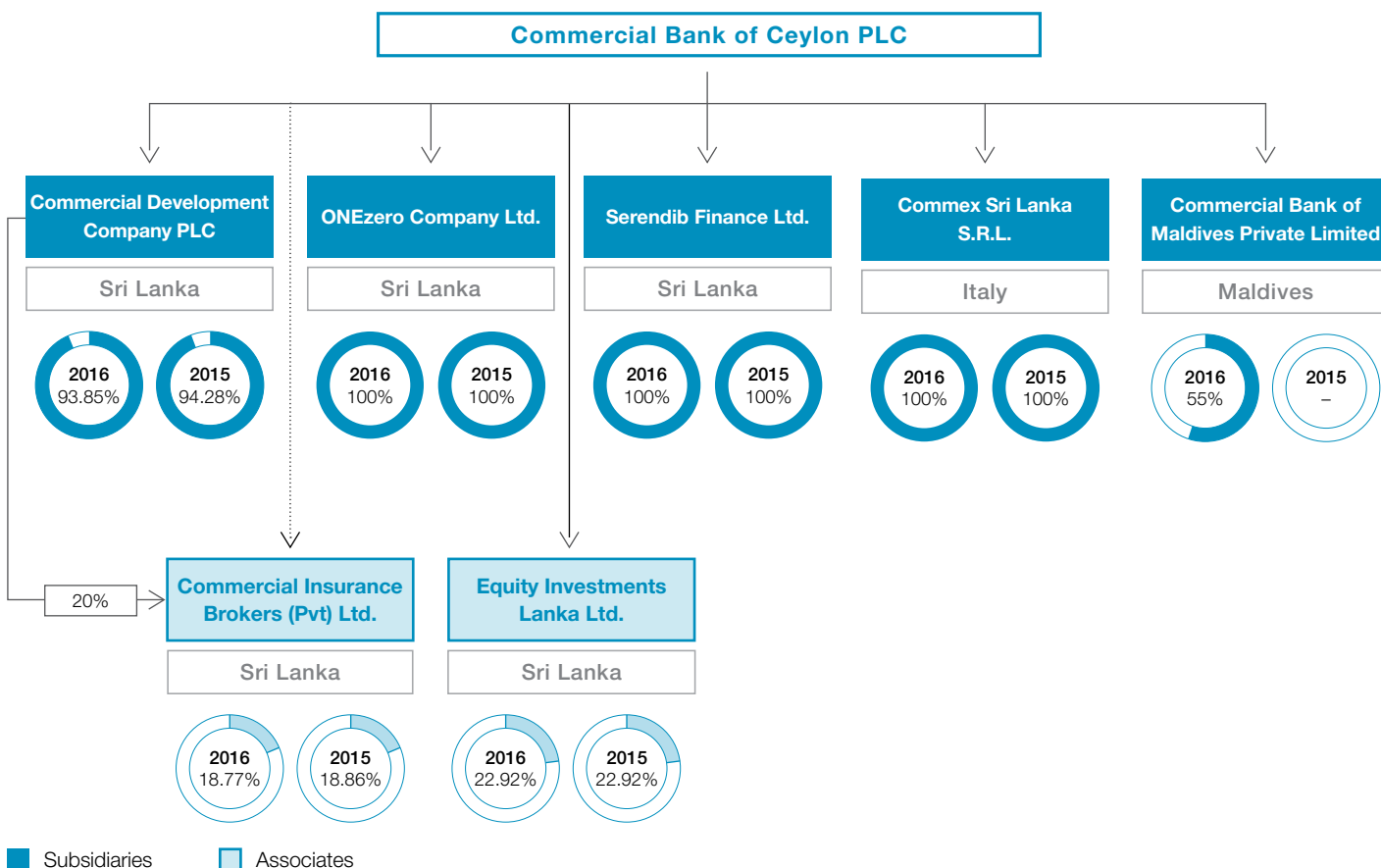
Corporate information is presented in the inner back cover of this Annual Report.

1.2 Consolidated Financial Statements

The Consolidated Financial Statements as at and for the year ended December 31, 2016, 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 of the Group and Ownership by the Bank in its Subsidiaries and Associates



Commercial Bank of Ceylon PLC

The principal business activities of the Bank are providing a comprehensive range of financial services encompassing accepting deposits, personal banking, trade financing, off-shore banking, resident and non-resident foreign currency operations, travel-related services, corporate and retail credit, syndicated financing, project financing, development banking, lease financing, hire purchase financing, rural credit, issuing of local and international debit and credit cards, tele-banking, 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.

Commercial Development Company PLC (CDC)

Principal business activities of CDC are property development, related ancillary services and outsourcing of staff for non-critical functions of the Bank.

During 2015, the Board of Directors of the Bank resolved to reduce the shareholding of CDC, (in which the Bank had a stake of 94.55%) to comply with the requirements of the Listing Rule No. 7.13 of the CSE on Minimum Public Holding. Accordingly, the Bank disposed a part of shares through the CSE and reduced the shareholding in CDC to 93.85% by December 31, 2016 (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.

CDC, holds a 20% stake of Commercial Insurance Brokers (Pvt) Ltd. The Bank has a significant influence over financial and operating activities of CIB though it effectively holds only 18.77% as at December 31, 2016 (18.86% as at December 31, 2015).

ONEzero Company Ltd.

The principal business activities being providing IT – related services.

Serendib Finance Ltd.

Principal business activities being providing financial services including leasing, hire purchase, loans, etc.

Commex Sri Lanka S.R.L.

Commex Sri Lanka S.R.L. inaugurated its money transfer operation during 2016 following the grant of a Money Transfer License from the Bank of Italy.

It operates 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.

Commercial Bank of Maldives Private Limited

Commercial Bank of Maldives Private Limited, a fully-fledged Tier-I Bank, inaugurated its banking operations in the Maldives on September 26, 2016. This is a Subsidiary of the Bank partnering with Treetop Investments Maldives.

The principal activities will include offering of an extensive range of banking and related financial services.

Equity Investments Lanka Ltd.

The principal activities include investment services, risk capital and venture capital management.

Commercial Insurance Brokers (Pvt) Ltd. (CIB)

CIB, a private limited liability company is an insurance broker registered with the Ministry of Finance in terms of legislation.

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 (CA Sri Lanka) and in compliance with the requirements of the Companies Act and the Banking Act and provide appropriate disclosures as required by the Listing Rules of the CSE. 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 6 to 10 on pages 200 to 211.

The formats used in the preparation of the Financial Statements and the disclosures made therein also comply with the specified formats prescribed by the CBSL 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 Sri Lanka Accounting Standards (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 153, 164 and 185, 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 183 and 184;
- 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 185;
- 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 186 to 189;
- 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 190;
- Notes to the Financial Statements comprising Significant Accounting Policies and other explanatory information. Refer pages 191 to 352.

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, 2016 (including comparatives for 2015), were approved and authorised for issue by the Board of Directors in accordance with Resolution of the Directors on February 22, 2017.

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	30 & 31	241 – 244
Financial investments – Available-for-sale	Fair Value	34	251
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	39	265
Defined benefit obligation	Net liability for defined benefit obligations are 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	50	286
Equity settled share-based payment arrangements	Fair Value on grant date	54	298

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 these Financial Statements 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 434 and 435 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 62 on pages 308 and 309.

2.8 Rounding

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

2.9 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 Interpretations Committee) and as specifically disclosed in the Significant Accounting Policies of the Bank.

2.10 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' and amendments to the LKAS 1 on 'Disclosure Initiative' which was effective from January 01, 2016.

Notes to the Financial Statements are presented in a systematic manner which ensures the understandability and comparability of Financial Statements of the Group and the Bank. Understandability of the Financial Statements is not compromised by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.

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 judgments, 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.

Significant areas of critical judgments, assumptions and estimation uncertainty, in applying Accounting Policies that have most significant effects on the amounts recognised in the Financial Statements of the Group are as follows:

A. Judgment

Information about judgments made in applying Accounting Policies that have the most significant effects on the amounts recognised in these Financial Statements is included in the following notes.

2.12.1 Determination of Control Over Investees

Management applies its judgment to determine whether the control indicators set out in Note 37 on page 260 indicates that the Group controls the investees.

2.12.2 Classification of Financial Assets and Liabilities

The Significant Accounting Policies of the Group provide scope for assets 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' (FVTPL), the Group has determined that it has met the criteria for this designation set out in Notes 30 and 31 on pages 240 to 241.

- In classifying financial assets as 'Held-to-maturity' (HTM), 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 35 on page 257.
- In classifying financial assets as 'Available-for-sale' (AFS), the Group has determined that all non-derivative financial assets that are designated as available-for-sale or those financial assets not classified as loans and receivables, FVTPL or HTM be classified as AFS as set out in Note 34 on page 251.

B. Assumptions and Estimation Uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments for the year ended December 31, 2016 are included in the following Notes.

2.12.3 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 26 on pages 233 to 238.

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 judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss.

These estimates are based on assumptions about a number of factors and 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 judgments 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 judgment 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 as 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 18 on page 220 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 judgments 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 7.1.10.2 on page 206 for details.

2.12.6 Impairment of 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 7.5 on page 207 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 engages independent professional valuers to assess fair value of land and buildings. The key assumptions used to determine the fair value of the land and building and sensitivity analyses are provided in Note 39.5 (b) and 39.5 (c) on pages 271 to 275.

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. Judgment of the Management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

Refer Note 20 on page 222.

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

Refer Note 48 on page 283 for details.

2.12.10 Defined Benefit Obligation

The cost of the defined benefit plans 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, future pension increases, etc. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

Refer Note 50 on pages 286 to 294 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 judgments as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depends on the due processes in respective legal jurisdictions.

Information about significant areas of estimation uncertainty and critical judgments in applying Accounting Policies other than those stated above that have significant effects on the amounts

recognised in the Consolidated Financial Statements are described in Notes 7.9 to 7.15 on pages 209 to 210.

2.13 Events After the Reporting Period

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

In this regard, all material and important events that occurred after the Reporting period have been considered and appropriate disclosures are made in Note 70 on page 352 where necessary.

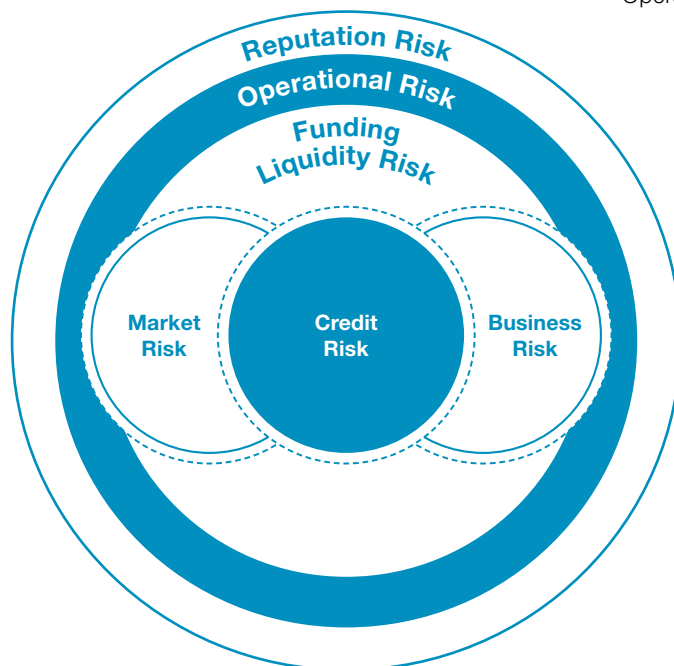
3. Financial Risk Management

3.1 Introduction and Overview

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 Group has exposure mainly to the following risks from financial instruments:

- Credit Risk;
- Market Risk;
- Liquidity Risk; and
- Operational Risk.



3.2 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 Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. 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 a 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 Subcommittee 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 Assets and Liabilities Management Committee (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 Internal 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.

Credit Risk

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

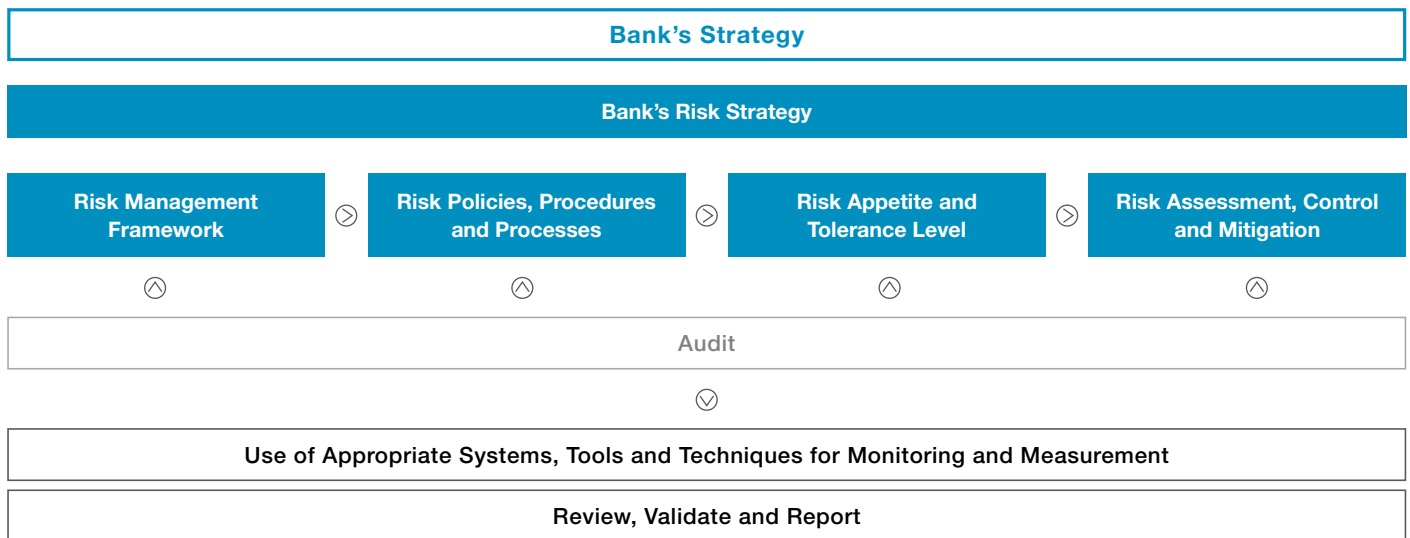
The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations and by monitoring exposures in relation to such limits.

Management of Credit Risk

Lending Guidelines of the Bank formulated in consultation with lending units provide 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 requirements of facility rating and counterparty rating are adopted by the Bank for evaluation of credit proposals.

Bank's Financial Risk Management Framework



This risk grading framework consists 10 grades of varying degrees of risk as indicators 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 approval of high value 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 Integrated 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.

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.

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.

Volatile interest scenarios experienced by the country during the period impacted the financial market in Sri Lanka resulted in 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: An Overview' on pages 172 to 175. 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 volatility 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, as the reporting currency of the Bank being Sri Lankan Rupees.

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.

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 of 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.

Operational Risk

The risk that the Bank will incur a loss due to 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.

Management of Operational Risk

Sound Operational Risk Management practices are embedded into the work process through the 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 69 on pages 321 to 352 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: An Overview' on pages 172 to 175. The said write-up on 'Managing Risk: An Overview' 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 in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted pricing in an active market, then the Group uses valuation techniques that maximise the use of

relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

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

The Group recognises transfers between levels of the fair value hierarchy as of the end of the Reporting period during which the change has occurred.

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 26 on pages 233 to 238.

5. Changes in Accounting Policies

The Group and the Bank has consistently applied the Accounting Policies as set out in Notes 6 to 10 on pages 200 to 211 to all periods presented in these Financial Statements.

Significant Accounting Policies

The Significant 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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6. Significant Accounting Policies – General

6.1 Basis of Consolidation

The Group's Financial Statements comprise, Consolidated Financial Statements of the Bank and 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 and Joint Ventures'. The Bank's Financial Statements comprise the amalgamation of the Financial Statements of the Domestic Banking Unit, the Off-Shore Banking Centre and the international operations of the Bank.

6.1.1 Business Combinations

Business combinations are accounted for using the acquisition method when control is transferred to the Group. 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 7.5 on page 207). 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.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

6.1.2 Non-Controlling Interests (NCI)

Details of NCI are given in Note 58 on page 304.

6.1.3 Subsidiaries

Details of the Bank's Subsidiaries and their contingencies are set out in Notes 37 and 59.4 (a) on pages 260 to 262 and 306.

6.1.4 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 profit or loss. 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.

6.1.5 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 38 and 59.4 (b) on pages 262 to 264 and 306.

6.1.6 Transactions Eliminated on Consolidation

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

6.1.7 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.

6.2 Foreign Currency

6.2.1 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 as at the Reporting date are translated into the Functional Currency at the middle exchange rate of the Functional Currency ruling as at the Reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the Functional Currency as 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 as at the Reporting date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into the Functional Currency at the spot exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from the translation of the following items are recognised in OCI:

- Available-for-sale equity instruments; or
- A financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; and
- Qualifying cash flow hedges to the extent that the hedge is effective.

6.2.2 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 6.2.3 and 6.2.4 below.

6.2.3 Transactions of the Off-Shore Banking Centre

These are recorded in accordance with Note 6.2.1 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.

6.2.4 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, including goodwill and fair value adjustments arising on acquisition, are translated at the rates of exchange ruling as at the Reporting date.
- Income and expenses are translated at the average exchange rate for the period, unless this average rate is not a reasonable approximation of the rate prevailing at the transaction date, in which case income and expenses are translated at the exchange rates ruling at the transaction date.
- All resulting exchange differences are recognised in the OCI and accumulated in the Foreign Currency Translation Reserve (Translation Reserve), which is a separate component of Equity, except to the extent that the translation difference is allocated to the NCI.

When a Foreign Operation is disposed of such that the control is lost, the cumulative amount in the Translation Reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. 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.

7. Significant Accounting Policies – Recognition of Assets and Liabilities

7.1 Financial Instruments – Initial Recognition, Classification and Subsequent Measurement

7.1.1 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.

7.1.2 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 7.1.3 and 7.1.4 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.

7.1.2.1 '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 8.1 on page 210.

7.1.3 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; and
- Available-for-sale.

The subsequent measurement of financial assets depends on their classification.

Please refer Note 25 on pages 229 to 232 for details on different types of financial assets recognised on the Statement of Financial Position.

7.1.3.1 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 7.1.3.1.1 and 7.1.3.1.2 below:

7.1.3.1.1 Financial Assets – Held-for-Trading

Details of 'Financial assets – Held-for-trading' are given in Note 31 on pages 241 to 244.

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 30 on page 240.

7.1.3.1.2 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 on a fair value basis; 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.

7.1.3.1.3 Embedded Derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Group accounts for an embedded derivative separately from the host contract when:

- the host contract was not itself carried at Fair Value through Profit or Loss;
- the terms of the embedded derivative would have met the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative were not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they formed part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the Statement of Financial Position together with the host contract.

7.1.3.2 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 32 and 33 on pages 244 to 251.

7.1.3.2.1 Securities Purchased Under Resale Agreements (Reverse Repos)

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

Details of 'Securities purchased under resale agreements' are given in the Statement of Financial Position on page 185.

7.1.3.3 Other Financial Investments Classified as Loans and Receivables

Details of 'Financial investments - Loans and receivables' are given in Note 36 on pages 258 to 260.

7.1.3.4 Financial Investments – Available-for-Sale

Details of 'Financial investments – Available-for-sale' are given in Note 34 on pages 251 to 257.

7.1.3.5 Financial Investments – Held-to-Maturity

Details of 'Financial investments – Held-to-maturity' are given in Note 35 on page 257.

7.1.3.6 Cash and Cash Equivalents

Details of 'Cash and cash equivalents' are given in Note 27 to the Financial Statements on page 238.

7.1.3.7 Balances with Central Banks

Details of 'Balances with Central Banks' are given in Note 28 to the Financial Statements on pages 238 and 239.

7.1.4 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 7.1.4.1 and 7.1.4.2 as detailed below:

7.1.4.1 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 7.1.4.1.1 and 7.1.4.1.2 below:

7.1.4.1.1 Financial Liabilities Held-for-Trading

Details of 'Derivative financial liabilities' are given in Note 44 on page 281.

7.1.4.1.2 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.

7.1.4.2 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', 'Due to Other Customers/ Deposits from Customers', '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. The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

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 expense' 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.

7.1.4.2.1 Due to Banks

Details of the 'Due to banks' are given in Note 43 on page 280.

7.1.4.2.2 Due to Other Customers/ Deposits from Customers

Details of 'Due to other customers/ deposits from customers' are given in Note 45 on pages 281 and 282.

7.1.4.2.3 Subordinated Liabilities

Details of 'Subordinated liabilities' are given in Note 52 on pages 294 and 295.

7.1.4.2.4 Securities Sold Under Repurchase Agreements (Repos)

When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date (Repos), the arrangement is accounted for as a financial liability in the Statement of Financial Position reflecting the transaction's economic substance as a deposit. Subsequent to initial recognition, these securities are measured at amortised cost using the EIR with the corresponding interest payable being recognised as interest expense in profit or loss.

Details of 'Securities sold under repurchase agreements (Repos)' are given in the Statement of Financial Position on page 185.

7.1.5 Reclassification of Financial Assets and Liabilities

Financial assets are not re classified subsequent to their initial recognition, except in the period after the Group

changes its business model for managing financial assets. The Group reclassifies financial assets and liabilities into and out of the different categories of financial instruments as permitted by the Sri Lanka Accounting Standard – LKAS 39 on 'Financial Instruments: Recognition and Measurement'.

7.1.5.1 Reclassification of Financial Instruments at 'Fair value through profit or loss'

The Group does not reclassify financial instruments out of the fair value through profit or loss category while it is held or issued. Non-derivative financial assets and liabilities designated at fair value through profit or loss upon initial recognition are not reclassified subsequently out of fair value through profit or loss category.

The Group may in rare circumstances, reclassify financial instruments out fair value through profit or loss category, if such instruments are no longer held for the purpose of selling or repurchasing in the near term notwithstanding that such financial instruments may have been acquired for the purpose of selling or repurchasing in the near term.

Financial assets classified as fair value through profit or loss at the initial recognition which would have also met the definition of 'loans and receivable' as at that date is reclassified out of the fair value through profit or loss category only if the Group has the intention or ability to hold such asset for the foreseeable future or until maturity.

Fair value of financial instrument at the date of reclassification becomes the new cost or new amortised cost of the financial instrument. Any gain or loss already recognised in respect of the reclassified financial instrument until the date of reclassification is not reversed to the Income Statement.

If financial asset is reclassified and if the Group subsequently increases its estimate of future cash receipts as a result of increased recoverability of those cash receipts, the effect of such increase is recognised as an adjustments to the EIR from the date of the change in estimate

rather than an adjustment to the carrying amount of the asset at the date of change in estimates.

The Group does not reclassify any financial instrument into the 'Fair value through profit or loss' category after initial recognition.

7.1.5.2 Reclassification of Financial Investments – Available-for-Sale

The Group may reclassify financial investments out of available-for-sale category as a result of change in intention or ability or in rare circumstances that a reliable measure of fair value is no longer available.

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

7.1.5.3 Reclassification of Financial Investments – Held-to-Maturity

As a result of a change in intention or ability, if it is no longer appropriate to classify an investment as held-to-maturity, Group may reclassify such financial asset as available-for-sale and remeasured at fair value. Any difference between the carrying value of the financial asset before reclassification and fair value is recognised in equity through other comprehensive income (OCI).

However, if the Group were to sell or reclassify more than an insignificant amount of held-to-maturity financial 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 above reclassifications at the election of the Management and is determined on an instrument-by-instrument basis.

7.1.6 Derecognition of Financial Assets and Financial Liabilities

7.1.6.1 Financial Assets

The Group derecognises a financial asset (or where applicable a part of thereof) 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.

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

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.

7.1.6.2 Financial Liabilities

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

7.1.7 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.

7.1.8 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.

7.1.9 Fair Value of Financial Instruments

Fair value measurement of financial instruments including the fair value hierarchy is explained in Notes 4 and 26 on pages 199 and 233.

7.1.10 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;
- reschedulement of credit facilities;
- default or delinquency by a borrower;
- restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider;
- indications that a borrower or issuer will enter bankruptcy;
- the disappearance of an active market for a security; or
- other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Group or economic conditions that correlate with defaults in the Group.

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

7.1.10.1 Impairment of Financial Assets Carried at Amortised Cost

Details of the individual and collective assessment of impairments are given in Note 18 on pages 220 to 222.

7.1.10.2 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 is also 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.

7.2 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-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. Impairment loss is first allocated to goodwill, and then to the remaining assets and liabilities on a *pro rata* basis, except that no loss is allocated to financial assets, deferred tax assets or employee benefit assets which continue to be measured in accordance with the Group's other accounting policies. 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.

7.3 Property, Plant & Equipment

Details of 'Property, Plant & Equipment' are given in Note 39 on pages 265 to 276.

7.3.1 Depreciation

Details of 'Depreciation' are given in Note 20 on pages 222 and 223.

7.3.2 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.

7.4 Intangible Assets

Details of ‘Intangible assets’ are given in Note 40 on pages 277 to 279.

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 20 on pages 222 and 223.

7.5 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.

7.6 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 and not provided for, 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 70.1 on page 352.

7.7 Employee Benefits

7.7.1 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’.

7.7.1.1 Defined Benefit Pension Plans

7.7.1.1.1 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 resign 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 estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets, as per the Sri Lanka Accounting Standard – LKAS 19 on 'Employee Benefits' as detailed in Note 50 on pages 286 to 294.

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.

7.7.1.1.2 Recognition of Actuarial Gains or Losses

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

7.7.1.1.3 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.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the Projected Unit Credit Method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurement of the net defined benefit liability, which comprises actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net-defined benefit liability (asset), taking into account any changes in the net-defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Amounts recognised in profit or loss as expenses on DBPs and provisions made on DBPs together with the details of valuation methods are given in Notes 19 and 50 on pages 222 and 286 to 294, respectively.

7.7.2 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 the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. The Group has three such plans as explained in Notes 7.7.2.1, 7.7.2.2 and 7.7.2.3.

Amounts recognised in profit or loss as expenses on DCPs are given in Note 19 on page 222.

7.7.2.1 Defined Contribution Pension Plan

As explained in Note 7.7.1.1.1(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.

7.7.2.2 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.

7.7.2.3 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.

7.7.3 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 as 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. Remeasurements 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.

7.7.4 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.

7.7.5 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.

7.7.6 Share-Based Payment Arrangements

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 is subjected to the above accounting treatment.

However, the Employee Share Option Plan – 2008 which was granted prior to January 01, 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 Notes 53.2 and 54 on pages 297 to 300.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted Earnings per Share as disclosed in Note 23.2 on page 227.

7.8 Other Liabilities

Details of 'Other liabilities' are given in Note 50 on page 286.

7.9 Provisions

Details of 'Other provisions' are given in Note 49 on page 285.

7.10 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.

7.11 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. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

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

7.12 Bank Levies

A provision for bank levies is recognised when the condition that triggers the payment of the levy is met. If a levy obligation is subject to a minimum activity threshold so that the obligating event is reaching a minimum activity, then a provision is recognised when that minimum activity threshold is reached.

7.13 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.

The Group has issued no loan commitment that are measured at FVTPL. The Group recognises a provision in accordance with the Sri Lanka Accounting Standard – LKAS 37 on 'Provisions, Contingent Liabilities and Contingent Assets', if the contract was considered to be onerous. Liabilities arising from financial guarantees and loan commitments are included within provisions.

7.14 Commitments

All discernible risks are accounted for in determining the amount of known liabilities as explained in Note 7.9 above.

Details of the Commitments are given in Notes 59.2 and 59.3 on pages 305 and 306.

7.15 Contingent Liabilities and Commitments

A detailed list of 'Contingent liabilities and commitments' and 'Litigation against the Bank and the Group' are given in Notes 59 and 61 on pages 304 to 307.

7.16 Stated Capital and Reserves

Details of the 'Stated capital and reserves' are given in Notes 53, 55, 56 and 57 to the Financial Statements on pages 296 to 298 and 300 to 303

7.17 Earnings Per Share (EPS)

Details of 'Basic and Diluted EPS' are given in Note 23 on pages 226 and 227.

7.18 Operating Segments

Details of 'Operating segments' are given in Note 63 on pages 310 to 312.

7.19 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.

8. Significant Accounting Policies – Recognition of Income and Expense

Details of 'Income and expense' are given in Notes 12 to 21 on pages 214 to 224.

8.1 Interest Income and Expense

Details of 'Interest income and expense' are given in Note 13 on pages 214 to 217.

8.2 Fee and Commission Income and Expense

Details of 'Commission income and expense' are given in Note 14 on pages 217 and 218.

8.3 Net Gains/(Losses) from Trading

Details of 'Net gains/(losses) from trading' are given in Note 15 on page 218.

8.4 Dividend Income

Dividend income is recognised when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities.

Dividends are presented in Net gains/losses from trading, Net gains/losses from financial investments or Other income (net) based on the underlying classification of the equity investment.

Details of 'Dividend income' are given in Notes 15, 16 and 17 on pages 218 and 219.

8.5 Leases

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

8.5.1 Finance Leases

8.5.1.1 Finance Leases – Group as a Lessee

Finance leases that transfer substantially all risks and rewards incidental to ownership of the leased item to the Group are classified as finance leases and capitalised at the commencement of the lease at the lower of the fair value of the leased property and 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.

8.5.1.2 Finance Leases – Group as a Lessor

When the Group is the lessor under a lease agreement that transfers substantially all of the risks and rewards incidental to the ownership of the asset to the lessee, the net investment in lease (i.e. 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 achieve a constant rate of return on the net investment in the leases.

8.5.2 Operating Leases

8.5.2.1 Operating Leases – Group as a Lessee

Assets held under leases other than finance leases are classified as operating leases and are not recognised in the Group's Statement of Financial Position. 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. Contingent rental payable is recognised as an expense in the period in which they are incurred.

8.5.2.2 Operating Leases – Group as a Lessor

Assets leased under leases other than finance leases 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 68 on page 320.

8.6 Rental Income and Expenses

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

9. Significant Accounting Policies – Income Tax Expense

9.1 Current Tax

Details of 'Income tax expense' are given in Note 22 on pages 224 to 226.

9.2 Deferred Tax

Details of 'Deferred tax assets and liabilities' are given in Note 48 on pages 283 to 285.

9.3 Tax Exposures

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

9.4 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.

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

9.5.1 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.

9.5.2 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.

9.6 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.

9.7 Value Added Tax on Financial Services

The value base for the computation of value added tax on financial services is calculated by adjusting the economic 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.

9.8 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 9.7 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 183.

10. Significant Accounting Policies – Statement of Cash Flows

10.1 Statement of Cash Flows

The Statement of Cash Flows is prepared 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 27 on page 238.

The Statement of Cash Flows is given on page 190.

11. 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 contains three principal classification categories for financial assets – i.e. measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The existing LKAS 39 categories of Held-to-maturity, Loans and receivables and Available-for-sale are removed.</p> <p>SLFRS 9 replaces the ‘incurred loss’ model in LKAS 39 with an ‘expected credit loss’ model. The new model applies to financial assets that are not measured at FVTPL.</p> <p>The model uses a dual measurement approach, under which the loss allowance is measured as either:</p> <ul style="list-style-type: none"> • 12 month expected credit loss; or • Lifetime expected credit losses. <p>The measurement basis will generally depend on whether there has been a significant increase in credit risk since initial recognition.</p> <p>A simplified approach is available for trade receivables, contract assets and lease receivables, allowing or requiring the recognition of lifetime expected credit losses at all times. Special rules apply to assets that are credit impaired at initial recognition. The new standard carried guidance on new general hedge accounting requirements.</p> <p>SLFRS 9 introduces new presentation requirements and extensive new disclosure requirements.</p> <p>Effective date of SLFRS 9 has been deferred till January 01, 2018.</p>	<p>The Group has completed the initial high level assessment of the potential impact on its Consolidated Financial Statements resulting from the application of SLFRS 9 with the assistance of an external consultant.</p> <p>The next phase being the implementation phase, will commence from end February 2017. During this Phase the Group will implement a business model approach and solely payment of principal and interest criteria to ensure that financial assets are classified into the appropriate categories</p> <p>Need to build a model with appropriate methodologies and controls to ensure that judgment exercised to assess recoverability of loans and make robust estimates of expected credit losses and point at which there is significant increase in credit risk.</p> <p>Judgment will need to be applied to ensure that the measurement of expected credit losses reflects reasonable and supportable information.</p> <p>Given the nature of the Group’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>

Accounting Standard	Summary of the Requirements	Possible Impact on Consolidated Financial Statements
SLFRS 15 – 'Revenue from Contracts with Customers'	<p>SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. New qualitative and quantitative disclosure requirements aim to enable Financial Statements users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.</p> <p>Entities will apply five-step model to determine when to recognise revenue and at what amount. The model specified that revenue is recognised when or as an entity transfers control of goods and services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised.</p> <p>It replaces existing revenue recognition guidance, including LKAS 18 on 'Revenue' and LKAS 11 on 'Construction Contracts' and IFRIC 13 on 'Customer Loyalty Programmes'.</p> <p>SLFRS 15 is effective for annual reporting periods beginning on or after January 01, 2018, with early adoption permitted.</p>	<p>The Group does not expect significant impact on its Financial Statements resulting from the application of SLFRS 15.</p>
SLFRS 16 – 'Leases'	<p>SLFRS 16 eliminates the current dual accounting model for lessees which distinguishes between On-Balance Sheet finance leases and Off-Balance Sheet operating leases. Instead there will be a single On-Balance Sheet accounting model that is similar to current finance lease accounting.</p> <p>SLFRS 16 is effective for annual Reporting periods beginning on or after January 01, 2019.</p>	<p>The Group is assessing the potential impact on its Financial Statements resulting from the application of SLFRS 16.</p>

12. Gross Income

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

<i>For the year ended December 31,</i>	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest income [Refer Note 13.1]	81,314,607	66,339,317	80,738,176	66,030,456
Fee and commission income [Refer Note 14.1]	8,230,131	6,329,900	8,143,041	6,275,276
Net gains/(losses) from trading [Refer Note 15]	(1,466,711)	813,376	(1,466,711)	813,376
Net gains/(losses) from financial investments [Refer Note 16]	110,759	693,987	110,701	693,933
Other income (net) [Refer Note 17]	5,536,749	4,048,817	5,617,403	4,054,911
Total	93,725,535	78,225,397	93,142,610	77,867,952

13. Net Interest Income

Interest income and expense are recognised in profit or loss using the effective interest rate (EIR) method.

Interest income and expense presented in the Income Statement include:

- Interest on Held-for-trading financial instruments calculated using EIR method;
- Interest on Loans and receivables calculated using EIR method;
- Interest on Available-for-sale investments calculated using EIR method;
- Interest on Held-to-maturity investments calculated using EIR method;
- Interest on financial liabilities measured at amortised cost calculated using EIR method.

Effective Interest Rate (EIR)

The 'effective interest rate' is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability.

The calculation of the EIR includes transaction costs and fees and points paid or received that forms 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.

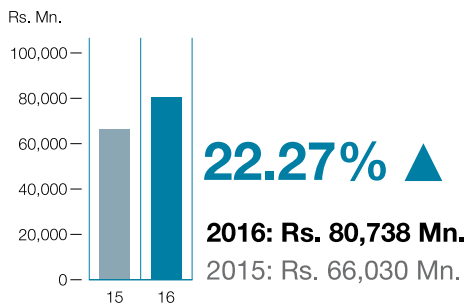
When calculating the effective interest rate for financial instruments other than credit impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. For credit impaired financial assets, a credit adjusted effective interest rate is calculated using estimated future cash flows.

<i>For the year ended December 31,</i>	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest income [Refer Note 13.1]	81,314,607	66,339,317	80,738,176	66,030,456
Less: Interest expense [Refer Note 13.2]	(48,186,331)	(35,771,967)	(47,914,573)	(35,685,172)
Net interest income	33,128,276	30,567,350	32,823,603	30,345,284

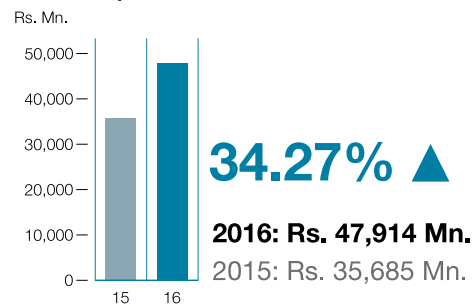
13.1 Interest Income

<i>For the year ended December 31,</i>	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cash and cash equivalents	219,048	88,573	218,337	88,270
Balances with Central Banks	40,575	336,040	40,504	336,040
Placements with banks	145,504	158,645	145,504	158,645
Securities purchased under resale agreements	352,695	665,897	352,695	665,897
Financial instruments – Held-for-trading	457,308	681,464	457,308	681,464
Derivative financial instruments	–	–	–	–
Other financial instruments	457,308	681,464	457,308	681,464
Loans and receivables to other customers	58,135,238	43,540,371	57,587,445	43,231,339
Financial investments – Available-for-sale	14,311,753	17,549,260	14,307,559	17,548,160
Financial investments – Held-to-maturity	3,757,168	–	3,731,930	–
Financial investments – Loans and receivables	3,360,048	3,052,231	3,360,048	3,052,231
Interest income from impaired loans and receivables to other customers	533,528	265,344	533,528	265,344
Other interest income	1,742	1,492	3,318	3,066
Total interest income	81,314,607	66,339,317	80,738,176	66,030,456

Interest Income – Bank



Interest Expense – Bank



13.2 Interest Expense

<i>For the year ended December 31,</i>	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Due to banks	1,278,205	593,651	990,560	527,983
Securities sold under repurchase agreements	7,756,308	7,876,715	7,775,316	7,886,186
Due to other customers/deposits from customers	37,176,139	26,034,412	37,174,433	26,040,128
Refinance borrowings	270,977	253,502	270,977	253,502
Foreign currency borrowings	169,353	190,420	169,353	190,420
Subordinated liabilities	1,535,349	823,267	1,533,934	786,953
Total interest expense	48,186,331	35,771,967	47,914,573	35,685,172

13.3 Net Interest Income from Government Securities

Interest income and interest expense on Government Securities given in the Notes 13.3 (a), 13.3 (b) and 13.3 (c) below have been extracted from interest incomes and interest expenses given in Notes 13.1 and 13.2 respectively and disclosed separately, as required by the Guidelines issued by the Central Bank of Sri Lanka.

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

<i>For the year ended December 31,</i>	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest income	19,870,503	19,303,078	19,866,309	19,301,978
Securities purchased under resale agreements	290,627	600,681	290,627	600,681
Financial instruments – Held-for-trading	351,293	320,011	351,293	320,011
Financial investments – Available-for-sale	13,412,354	16,560,676	13,408,160	16,559,576
Financial investments – Held-to-maturity	3,678,099	–	3,678,099	–
Financial investments – Loans and receivables	2,138,130	1,821,710	2,138,130	1,821,710
Less: Interest expense	(7,755,075)	(7,883,079)	(7,774,082)	(7,892,551)
Securities sold under repurchase agreements	(7,755,075)	(7,883,079)	(7,774,082)	(7,892,551)
Net interest income	12,115,428	11,419,999	12,092,227	11,409,427

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 derived from secondary market transactions in Government Securities, Treasury Bills and Treasury Bonds (Interest income accrued or received on outright or reverse repurchase transactions on Government Securities, Treasury Bills and Treasury Bonds less interest expense accrued or paid on repurchase transactions with such Government Securities, Treasury Bills and Treasury Bonds from which such interest income was earned) for the period January 01, 2016 to December 31, 2016 has been grossed up by Rs. 918.062 Mn. (2015 – Rs. 900.495 Mn.) and Rs. 916.767 Mn. (2015 – Rs. 899.563 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.

13.3 (b) Net Interest Income from Bangladesh Government Securities

<i>For the year ended December 31,</i>	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest income	1,121,313	1,415,253	1,121,313	1,415,253
Securities purchased under resale agreements	62,068	65,216	62,068	65,216
Financial instruments – Held-for-trading	106,015	361,453	106,015	361,453
Financial investments – Available-for-sale	899,399	988,584	899,399	988,584
Financial investments – Held-to-maturity	53,831	–	53,831	–
Less: Interest expense	(1,252)	(14,786)	(1,252)	(14,786)
Securities sold under repurchase agreements	(1,252)	(14,786)	(1,252)	(14,786)
Net interest income	1,120,061	1,400,467	1,120,061	1,400,467

13.3 (c) Net Interest Income from Maldivian Government Securities

<i>For the year ended December 31,</i>	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest income	25,238	–	–	–
Financial investments – Held-to-maturity	25,238	–	–	–
Net interest income	25,238	–	–	–

14. Net Fee and Commission Income

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

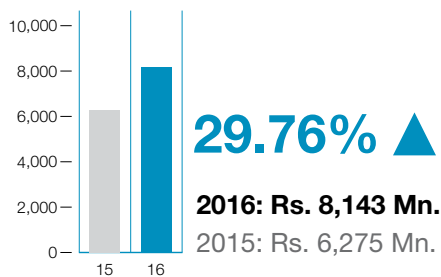
Other fee and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees are recognised as the related services are performed. If a loan commitment is not expected to result in the drawdown of a loan, then the related loan commitment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

Other fee and commission expense 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	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Fee and commission income [Refer Note 14.1]	8,230,131	6,329,900	8,143,041	6,275,276
Less: Fee and commission expense [Refer Note 14.2]	1,140,954	919,590	1,127,536	901,190
Net fee and commission income	7,089,177	5,410,310	7,015,505	5,374,086

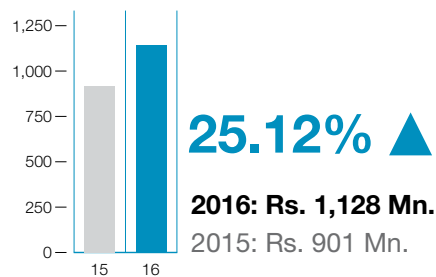
Fee and Commission Income – Bank

Rs. Mn.



Fee and Commission Expense - Bank

Rs. Mn.



14.1 Fee and Commission Income

<i>For the year ended December 31,</i>	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loans and advances related services	778,517	715,502	715,086	664,269
Credit and debit cards related services	2,671,294	1,849,571	2,671,116	1,849,571
Trade and remittances related services	2,619,429	2,212,916	2,619,194	2,212,916
Deposits related services	1,110,216	562,797	1,109,285	562,860
Guarantees related services	669,497	505,109	669,409	505,109
Other financial services	381,178	484,005	358,951	480,551
Total fee and commission income	8,230,131	6,329,900	8,143,041	6,275,276

14.2 Fee and Commission Expense

<i>For the year ended December 31,</i>	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loans and advances related services	53,289	52,149	39,871	33,749
Credit and debit cards related services	980,927	768,406	980,927	768,406
Trade and remittances related services	32,851	31,826	32,851	31,826
Other financial services	73,887	67,209	73,887	67,209
Total fee and commission expense	1,140,954	919,590	1,127,536	901,190

15. Net Gains/(Losses) from Trading

'Net gains/(losses) from trading' comprise gains less losses related to trading assets and trading 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	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Derivative Financial Instruments	(1,429,188)	891,825	(1,429,188)	891,825
Foreign exchange gains/(losses) from banks and other customers	(1,429,188)	891,825	(1,429,188)	891,825
Other Financial Instruments – Held-for-Trading				
Government Securities	(9,042)	(72,319)	(9,042)	(72,319)
Net mark-to-market losses	(79,981)	(92,831)	(79,981)	(92,831)
Net capital gains	70,939	20,512	70,939	20,512
Equities	(28,481)	(6,130)	(28,481)	(6,130)
Net mark-to-market losses	(49,581)	(26,452)	(49,581)	(26,452)
Net capital gains	13,299	11,294	13,299	11,294
Dividend income	7,801	9,028	7,801	9,028
Total	(1,466,711)	813,376	(1,466,711)	813,376

16. Net Gains/(Losses) from Financial Investments

Net gains/(losses) from financial investments comprise gains less losses related to Available-for-sale investments, Held-to-maturity 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	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial investments – Available-for-sale [Refer Note 16.1]	75,555	560,715	75,497	560,661
Financial investments – Loans and receivables [Refer Note 16.2]	35,204	133,272	35,204	133,272
Total	110,759	693,987	110,701	693,933

16.1 Financial Investments – Available-for-Sale

<i>For the year ended December 31,</i>	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Government Securities	38,091	514,289	38,091	514,289
Net capital gains	38,091	514,289	38,091	514,289
Equities	37,464	46,426	37,406	46,372
Net capital gains	–	–	–	–
Dividend income	37,464	46,426	37,406	46,372
Total	75,555	560,715	75,497	560,661

16.2 Financial Investments – Loans and Receivables

<i>For the year ended December 31,</i>	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Government securities	35,204	133,272	35,204	133,272
Net capital gains	35,204	133,272	35,204	133,272
Total	35,204	133,272	35,204	133,272

17. Other Income (Net)

<i>For the year ended December 31,</i>	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gains/(losses) on sale of property, plant & equipment [Refer Note 17.1]	10,395	(1,334)	1,705	(6,505)
Gains on revaluation of foreign exchange	3,755,346	1,985,444	3,755,047	1,985,444
Recoveries of loans written off and provision reversals	1,589,763	1,874,575	1,589,763	1,874,575
Dividend income from subsidiaries	–	–	81,468	81,664
Dividend income from associates	5,808	6,733	4,111	6,166
Profit due to change in ownership	3,047	2,344	3,047	2,344
Rental and other income [Refer Note 17.2]	181,245	190,132	182,262	111,223
Less: Dividends received from associates transferred to investment account	(5,808)	(6,733)	–	–
Less: Profit due to change in ownership	(3,047)	(2,344)	–	–
Total	5,536,749	4,048,817	5,617,403	4,054,911

17.1 Gains/(losses) on sale of Property, Plant & Equipment

The gains or losses on disposal of property, plant & equipment is determined as the difference between the carrying amount of the assets at the time of disposal and the proceeds from 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.

17.2 Rental Income

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

18. Impairment Charges for Loans and Other Losses

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 whether objective evidence of impairment exists for individually significant financial assets or collectively for financial assets that are not individually significant. Assets that are individually assessed for impairment and for which an impairment loss is not recognised are included in a collective assessment of impairment together with the financial assets that are not individually significant.

Individual Assessment of Impairment

For financial assets above a pre-determined threshold (i.e., for individually significant financial assets), 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.

Collective Assessment of Impairment

Those financial assets for which, the Group determines that no provision is required under individual impairment, such financial assets are then collectively assessed for any impairments that have been incurred but not yet identified. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar risk characteristics such as internal credit ratings, asset type, industry, geographical location, collateral type, past-due status, etc.

Future cash flows on a group of financial assets that are collectively evaluated for impairment, are estimated based on the historical loss experiences of assets with similar credit risk characteristics to those in the group.

The key inputs into the measurement of provision for collective impairment are the term structure of the following variables:

- Probability of default (PD)
- Loss given default (LGD)
- Exposure at default (EAD)

These parameters are generally derived from internally developed statistical models and other historical data.

PD values are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counter parties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures.

LGD is the magnitude of the likely loss in case of default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default or the financial asset's gross carrying amount.

Historical loss experiences are adjusted based on the current observable data to reflect the effects of current conditions on the historical losses experienced, further removing the effects of conditions that do not exist at the Reporting date. Estimates of changes in future cash flows reflect, and are directionally consistent with the changes in related observable data year-on-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, and
- 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 experiences.

Impairment of Rescheduled Loans and Advances

Where possible, the Bank seeks to reschedule loans and advances rather than to take possession of collateral. If the terms of a financial asset are renegotiated, modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made to whether the financial asset should be derecognised. If the cash flows of the renegotiated asset is substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and new financial asset is recognised at fair value. The impairment loss before an expected restructuring is measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original EIR of the existing financial asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of derecognition to the Reporting date using the original EIR of the existing financial asset.

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'.

Write Off

Financial assets (and the related impairment allowances) are normally written off either partially or in full, when there is no realistic prospect of recovery. Where financial assets are secured, this is generally after receipt of any proceeds from the realisation of securities.

Impairment losses are recognised in profit or loss and reflected in a provision account against the relevant category of financial assets. 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 write-off is later recovered, the recovery is credited to 'Other Income'.

<i>For the year ended December 31,</i>	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loans and receivables to banks [Refer Note 32]	-	-	-	-
Loans and receivables to other customers	1,583,326	4,099,738	1,511,158	3,904,948
Charge to the Income Statement – Individual impairment [Refer Note 33.2]	3,439,879	1,386,477	3,439,879	1,386,477
Charge/(write-back) to the Income Statement – Collective impairment [Refer Note 33.2]	(1,859,806)	2,710,834	(1,931,932)	2,516,044
Direct write-offs	3,253	2,427	3,211	2,427
Investments in subsidiaries [Refer Note 37.1]	-	-	15,350	36,223
Due from subsidiaries	-	-	3,306	2,025
Total	1,583,326	4,099,738	1,529,814	3,943,196

19. Personnel Expenses

<i>For the year ended December 31,</i>	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Salary and bonus [Refer Note 19.1]	8,261,068	7,740,991	8,161,579	7,675,955
Pension costs [Refer Note 19.1]	1,595,795	1,281,017	1,582,798	1,268,889
Contributions to defined contribution/benefit plans – Funded schemes	1,361,533	1,083,341	1,354,982	1,078,109
Contributions to defined benefit plans – Unfunded schemes [Refer Notes 50.1 (c) and 50.2 (c)]	234,262	197,676	227,816	190,780
Equity-settled share-based payments [Refer Notes 19.2 and 57.5]	206,174	223,330	206,174	223,330
Others [Refer Note 19.3]	850,051	1,015,412	843,756	1,012,363
Total	10,913,088	10,260,750	10,794,307	10,180,537

19.1 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.

19.2 Share Based Payment

The Bank has an equity-settled share based compensation plan, the details of which are given in Note 54 on page 298.

19.3 Others

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

20. 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, 2016 are as follows:

Class of Asset	Depreciation % Per Annum	Period (years)
Freehold and leasehold buildings	2.5	40
Motor vehicles	20	5
Computer equipment	20	5
Office equipment	20	5
Office interior work	20	5
Furniture & fittings	10	10
Machinery & equipment	10	10

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 depreciation commences 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 39 on pages 265 to 276.

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 rate specified below:

Class of Asset	Amortisation % Per Annum	Period (years)
Computer software	20	5

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.

For the year ended December 31,	GROUP		BANK	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Depreciation of property, plant & equipment [Refer Note 39]	1,093,088	1,024,162	1,022,648	961,492
Amortisation of intangible assets [Refer Note 40]	173,790	180,558	165,903	179,370
Amortisation of leasehold property [Refer Note 41]	1,452	1,452	942	942
Total	1,268,330	1,206,172	1,189,493	1,141,804

21. Other Operating Expenses

For the year ended December 31,	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Directors' fees [Refer Note 21.1]	38,872	31,947	32,133	26,886
Auditors' remuneration	31,218	26,787	25,124	21,399
Audit fees and expenses	14,304	14,195	9,766	9,736
Audit related fees and expenses	8,677	6,461	8,392	5,871
Non-audit fees and expenses	8,237	6,131	6,966	5,792
Professional and legal expenses	262,522	290,184	329,237	353,256
Deposit insurance premium paid to the Central Banks	590,544	497,850	590,236	497,850
Donations, including contribution made to the CSR Trust Fund	61,681	62,533	61,681	62,533
Establishment expenses	2,439,490	2,036,083	2,488,984	2,112,577
Maintenance of property, plant & equipment	890,002	731,213	1,035,238	870,500
Office administration expenses	2,495,106	2,277,886	2,269,712	2,038,087
Total	6,809,435	5,954,483	6,832,345	5,983,088

21.1 Directors' Fees

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

22. 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. The amount of current tax receivable or payable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted, as at the Reporting date. Current tax also includes any tax arising from dividends.

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 22.1 on page 225. This Note also includes the major components of tax expense, the effective tax rates and a reconciliation between the profit before tax and tax expense, as required by the Sri Lanka Accounting Standard – LKAS 12 on 'Income Taxes'.

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

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects as 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.

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

	GROUP		BANK	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
<i>For the year ended December 31,</i>				
Current Year Tax Expense	5,606,143	5,185,218	5,554,989	5,094,780
Current year income tax expense of Domestic Banking Unit	4,086,795	3,536,032	4,086,795	3,536,032
Current year income tax expense of Off-shore Banking Centre	291,831	277,207	291,831	277,207
Current year income tax expense of Bangladesh Operation	1,167,596	1,185,736	1,167,596	1,185,736
Current year Income tax expense of Commercial Development Company PLC	40,063	37,882	-	-
Current year Income tax expense of ONEzero Company Ltd.	13,169	10,914	-	-
Current year Income tax expense of Serendib Finance Ltd.	(2,258)	41,582	-	-
Profit remittance tax of Bangladesh Operation	-	86,551	-	86,551
Withholding tax on dividends received	8,947	9,314	8,767	9,254
Prior years				
Under/(Over) Provision of taxes in respect of prior years [Refer Note 47]	-	1,700	-	1,701
Deferred Tax Expense	42,017	89,933	(16,317)	143,905
Effect of change in tax rates	-	-	-	-
Origination and reversal of temporary differences [Refer Note 48.1]	42,017	89,933	(16,317)	143,905
Total	5,648,160	5,276,851	5,538,672	5,240,386
Effective tax rate (including deferred tax) (%)			27.62	30.57
Effective tax rate (excluding deferred tax) (%)			27.70	29.73

The income tax for 2016 and 2015 of the Bank and its subsidiaries have been provided on the taxable income at rates shown below:

	2016 %	2015 %
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
Commercial Bank of Maldives Private Limited	25.0	-

22.2 Reconciliation of the Accounting Profit to Income Tax Expense

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

For the year ended December 31,	Tax Rate		GROUP		BANK	
	2016 %	2015 %	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Accounting profit before tax from operations			20,114,584	17,136,111	20,051,183	17,143,610
Tax effect at the statutory income tax rate			5,988,705	5,186,846	5,907,894	5,160,768
Domestic operations of the Bank	28	28	4,497,651	3,888,621	4,497,651	3,888,621
Off-shore banking operation of the Bank	28	28	273,192	118,712	273,192	118,712
Bangladesh operation of the Bank	42.5	42.5	1,137,051	1,153,435	1,137,051	1,153,435
Subsidiaries	28 & 25	28	80,811	26,078	-	-
Tax effect of exempt income			(1,313,810)	(1,099,101)	(1,313,424)	(1,099,080)
Tax effect of non-deductible expenses			6,766,163	6,864,719	6,722,770	6,626,069
Tax effect of deductible expenses			(5,841,357)	(5,859,214)	(5,768,513)	(5,684,885)
Qualifying payments			(2,505)	(3,897)	(2,505)	(3,897)
Profit remittance tax of Bangladesh operation			-	86,551	-	86,551
Under/(Over) provision of taxes in respect of prior years [Refer Notes 22.1 and 47]			-	1,700	-	1,701
Withholding tax on dividends received			8,947	9,314	8,767	9,254
Deferred tax expense [Refer Notes 22.1 and 48.1]			42,017	89,933	(16,317)	143,905
Income tax expense reported in the Income Statement at the effective income tax rate			5,648,160	5,276,851	5,538,672	5,240,386

23. Earnings Per Share (EPS)

The Group computes basic and diluted EPS for its ordinary shares. Basic EPS is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding, adjusted for the effects of all dilutive potentially ordinary shares, which comprise share options granted to employees.

Details of Basic and Diluted EPS are given below:

23.1 Basic Earnings per Ordinary Share

	GROUP		BANK	
	2016	2015	2016	2015
Amounts used as the numerator:				
Profit for the year attributable to equity holders of the Bank (Rs. '000)	14,510,333	11,855,172	14,512,511	11,903,224
Number of ordinary shares used as the denominator:				
Weighted average number of ordinary shares [Refer Note 23.3]	890,037,763	888,693,776	890,037,763	888,693,776
Basic earnings per ordinary share (Rs.)	16.30	13.34	16.31	13.39

23.2 Diluted Earnings per Ordinary Share

	GROUP		BANK	
	2016	2015	2016	2015
Amounts used as the numerator:				
Profit for the year attributable to equity holders of the Bank (Rs. '000)	14,510,333	11,855,172	14,512,511	11,903,224
Number of ordinary shares used as the denominator:				
Weighted average number of ordinary shares [Refer Note 23.3]	892,043,791	890,103,365	892,043,791	890,103,365
Diluted earnings per ordinary share (Rs.)	16.27	13.32	16.27	13.37

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

	Outstanding No. of Shares		Weighted average No. of Shares	
	2016	2015	2016	2015
Number of shares in issue as at January 01,	876,866,801	865,857,675	876,866,801	865,857,675
Add: Number of shares satisfied in the form of issue and allotment of new shares from final dividend for 2014 [Refer Note 53.1]	-	8,838,513	-	8,838,513
Add: Number of shares satisfied in the form of issue and allotment of new shares from final dividend for 2015 [Refer Note 53.1]	12,731,007	-	12,731,007	12,731,007
	889,597,808	874,696,188	889,597,808	887,427,195
Add: Number of shares issued under Employee Share Option Plan (ESOP) 2008	894,487	2,170,613	268,784	1,266,581
Add: Number of shares issued under Employee Share Option Plan (ESOP) 2015	242,245	-	171,171	-
Weighted average number of ordinary shares for basic earnings per ordinary share calculation	890,734,540	876,866,801	890,037,763	888,693,776
Add: Bonus element on number of outstanding options under ESOP 2008 as at the year end	-	-	1,404,951	1,409,589
Add: Bonus element on number of outstanding options under ESOP 2015 as at the year end	-	-	601,077	-
Weighted average number of ordinary shares for diluted earnings per ordinary share calculation(*)	890,734,540	876,866,801	892,043,791	890,103,365

(*) 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, 2016 and December 31, 2015 over the offer price.

24. Dividends

	GROUP		BANK	
	2016	2015 Second Interim Rs. 1.00 Per share for 2014 (Paid on February 05, 2015)	2016	2015 Second Interim Rs. 1.00 Per share for 2014 (Paid on February 05, 2015)
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
On Ordinary Shares				
Net dividend paid to the ordinary shareholders out of normal profits	-	783,258	-	783,258
Withholding tax deducted at source	-	82,685	-	82,685
Gross ordinary dividend paid	-	865,943	-	865,943

	First Interim Rs. 1.50 Per share for 2016 (Paid on November 18, 2016)	First Interim Rs. 1.50 Per share for 2015 (Paid on December 18, 2015)	First Interim Rs. 1.50 Per share for 2016 (Paid on November 18, 2016)	First Interim Rs. 1.50 Per share for 2015 (Paid on December 18, 2015)
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
On Ordinary Shares				
Net dividend paid to the ordinary shareholders out of normal profits	1,208,039	1,189,367	1,208,039	1,189,367
Withholding tax deducted at source	127,889	125,884	127,889	125,884
Gross ordinary dividend paid	1,335,928	1,315,251	1,335,928	1,315,251
Total gross ordinary dividend paid	1,335,928	2,181,194	1,335,928	2,181,194

The Board of Directors of the Bank has approved the payment of a second interim dividend of Rs.3.00 per share for both the voting and non-voting ordinary shareholders of the Bank for the year ended December 31, 2016 and this dividend was paid on February 17, 2017.

The Board of Directors of the Bank has recommended the payment of a final dividend of Rs.2.00 per share which is to be satisfied in the form of issue and allotment of new shares for both voting and non-voting ordinary shares of the Bank for the year ended December 31, 2016 (Bank declared a final dividend of Rs. 5.00 per share for 2015 in 2016 and this was satisfied by way of Rs. 3.00 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 30, 2017. In accordance with provisions of the Sri Lanka Accounting Standard No.10 on 'Events after the Reporting Period', the second interim dividend referred to above and the proposed final dividend for the year ended December 31, 2016 has not been recognised as a liability as at the year end. Final dividend payable for the year 2016 has been estimated at Rs.1,783.199 Mn. (Actual final dividend for 2015 amounted to Rs. 4,384.985 Mn.)

Accordingly, the dividend per ordinary share (for both voting and non-voting) for the year 2016 would be Rs. 6.50 (2015 – Rs. 6.50).

25. Classification of Financial Assets and Financial Liabilities

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 Group and the Bank.

25.1 Classification of Financial Assets and Financial Liabilities – Group

25.1 (a) Group

<i>As at December 31, 2016</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	27	-	-	32,924,227	-	-	32,924,227
Balances with Central Banks	28	-	-	43,935,258	-	-	43,935,258
Placements with banks	29	-	-	11,718,499	-	-	11,718,499
Securities purchased under resale agreements		-	-	-	-	-	-
Derivative financial assets	30	1,052,829	-	-	-	-	1,052,829
Other financial instruments – Held-for-trading	31	4,987,798	-	-	-	-	4,987,798
Loans and receivables to banks	32	-	-	624,458	-	-	624,458
Loans and receivables to other customers	33	-	-	620,129,488	-	-	620,129,488
Financial investments – Available-for-sale	34	-	-	-	160,092,522	-	160,092,522
Financial investments – Held-to-maturity	35	-	63,626,598	-	-	-	63,626,598
Financial investments – Loans and receivables	36	-	-	51,824,026	-	-	51,824,026
Total Financial Assets		6,040,627	63,626,598	761,155,956	160,092,522	-	990,915,703
Financial Liabilities							
Due to banks	43	-	-	-	-	71,098,391	71,098,391
Derivative financial liabilities	44	1,515,035	-	-	-	-	1,515,035
Securities sold under repurchase agreements		-	-	-	-	69,628,961	69,628,961
Due to other customers/ deposits from customers	45	-	-	-	-	743,310,613	743,310,613
Other borrowings	46	-	-	-	-	9,270,154	9,270,154
Subordinated liabilities	52	-	-	-	-	24,849,539	24,849,539
Total Financial Liabilities		1,515,035	-	-	-	918,157,658	919,672,693

25.1 (b) Group

<i>As at December 31, 2015</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	27	-	-	20,107,076	-	-	20,107,076
Balances with Central Banks	28	-	-	28,221,017	-	-	28,221,017
Placements with banks	29	-	-	17,193,539	-	-	17,193,539
Securities purchased under resale agreements		-	-	8,002,100	-	-	8,002,100
Derivative financial assets	30	4,118,169	-	-	-	-	4,118,169
Other financial instruments – Held-for-trading	31	7,656,349	-	-	-	-	7,656,349
Loans and receivables to Banks	32	-	-	601,106	-	-	601,106
Loans and receivables to other customers	33	-	-	509,923,128	-	-	509,923,128
Financial investments – Available-for-sale	34	-	-	-	204,261,934	-	204,261,934
Financial investments – Loans and receivables	36	-	-	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	43	-	-	-	-	31,789,396	31,789,396
Derivative financial liabilities	44	1,890,770	-	-	-	-	1,890,770
Securities sold under repurchase agreements		-	-	-	-	112,249,703	112,249,703
Due to other customers/ deposits from customers	45	-	-	-	-	624,021,217	624,021,217
Other borrowings	46	-	-	-	-	9,985,637	9,985,637
Subordinated liabilities	52	-	-	-	-	11,988,272	11,988,272
Total Financial Liabilities		1,890,770	-	-	-	790,034,225	791,924,995

25.2 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.

25.2 (a) Bank

<i>As at December 31, 2016</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	27	-	-	30,193,589	-	-	30,193,589
Balances with Central Banks	28	-	-	43,873,205	-	-	43,873,205
Placements with banks	29	-	-	11,718,499	-	-	11,718,499
Securities purchased under resale agreements		-	-	-	-	-	-
Derivative financial assets	30	1,052,829	-	-	-	-	1,052,829
Other financial instruments – Held-for-trading	31	4,987,798	-	-	-	-	4,987,798
Loans and receivables to banks	32	-	-	624,458	-	-	624,458
Loans and receivables to other customers	33	-	-	616,018,228	-	-	616,018,228
Financial investments – Available-for-sale	34	-	-	-	160,023,471	-	160,023,471
Financial investments – Held-to-maturity	35	-	60,981,298	-	-	-	60,981,298
Financial investments – Loans and receivables	36	-	-	51,824,026	-	-	51,824,026
Total Financial Assets		6,040,627	60,981,298	754,252,005	160,023,471	-	981,297,401
Financial Liabilities							
Due to banks	43	-	-	-	-	67,608,811	67,608,811
Derivative financial liabilities	44	1,515,035	-	-	-	-	1,515,035
Securities sold under repurchase agreements		-	-	-	-	69,867,469	69,867,469
Due to other customers/ deposits from customers	45	-	-	-	-	739,563,494	739,563,494
Other borrowings	46	-	-	-	-	9,270,154	9,270,154
Subordinated liabilities	52	-	-	-	-	24,849,539	24,849,539
Total Financial Liabilities		1,515,035	-	-	-	911,159,467	912,674,502

25.2 (b) Bank

<i>As at December 31, 2015</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	27	-	-	20,043,512	-	-	20,043,512
Balances with Central Banks	28	-	-	28,221,017	-	-	28,221,017
Placements with banks	29	-	-	17,193,539	-	-	17,193,539
Securities purchased under resale agreements		-	-	8,002,100	-	-	8,002,100
Derivative financial assets	30	4,118,169	-	-	-	-	4,118,169
Other financial instruments – Held-for-trading	31	7,656,349	-	-	-	-	7,656,349
Loans and receivables to banks	32	-	-	601,106	-	-	601,106
Loans and receivables to other customers	33	-	-	508,115,127	-	-	508,115,127
Financial investments – Available-for-sale	34	-	-	-	204,244,289	-	204,244,289
Financial investments – Loans and receivables	36	-	-	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	43	-	-	-	-	30,319,119	30,319,119
Derivative financial liabilities	44	1,890,770	-	-	-	-	1,890,770
Securities sold under repurchase agreements		-	-	-	-	112,384,812	112,384,812
Due to other customers/ deposits from customers	45	-	-	-	-	624,101,810	624,101,810
Other borrowings	46	-	-	-	-	9,985,637	9,985,637
Subordinated liabilities	52	-	-	-	-	11,973,272	11,973,272
Total Financial Liabilities		1,890,770	-	-	-	788,764,650	790,655,420

26. 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 quoted market prices (unadjusted) 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 prices 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 valuation.

This category includes instruments that are valued based on quoted prices of similar instruments for which significant unobservable adjustments or assumptions are required to reflect difference between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist. 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 Treasury Bonds. Availability of observable prices and model inputs reduces the need for management judgment 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.

26.1 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.

As at December 31, 2016	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
Non-Financial Assets									
Property, plant & equipment									
Land and buildings	26.2	-	-	7,743,071	7,743,071	-	-	7,528,891	7,528,891
Total non-financial assets at fair value		-	-	7,743,071	7,743,071	-	-	7,528,891	7,528,891
Financial Assets									
Derivative financial assets 30									
Currency swaps		-	261,664	-	261,664	-	261,664	-	261,664
Forward contracts		-	788,808	-	788,808	-	788,808	-	788,808
Spot contracts		-	2,357	-	2,357	-	2,357	-	2,357
Other financial instruments – Held-for-trading 31									
Government securities		4,693,989	-	-	4,693,989	4,693,989	-	-	4,693,989
Equity shares		293,809	-	-	293,809	293,809	-	-	293,809
Financial investments – Available-for-sale 34									
Government securities		159,642,243	-	-	159,642,243	159,573,316	-	-	159,573,316
Equity securities		246,548	-	47,271	293,819	246,548	-	47,147	293,695
Investment in unit trust		-	156,460	-	156,460	-	156,460	-	156,460
Total financial assets at fair value		164,876,589	1,209,289	47,271	166,133,149	164,807,662	1,209,289	47,147	166,064,098
Total assets at fair value		164,876,589	1,209,289	7,790,342	173,876,220	164,807,662	1,209,289	7,576,038	173,592,989
Financial Liabilities									
Derivative financial liabilities 44									
Currency swaps		-	663,714	-	663,714	-	663,714	-	663,714
Forward contracts		-	849,011	-	849,011	-	849,011	-	849,011
Spot contracts		-	2,310	-	2,310	-	2,310	-	2,310
Total liabilities at fair value		-	1,515,035	-	1,515,035	-	1,515,035	-	1,515,035

As at December 31, 2015	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
Non-Financial Assets									
Property, plant & equipment									
Land and buildings	26.2	-	-	7,469,355	7,469,355	-	-	7,242,924	7,242,924
Total non-financial assets at fair value		-	-	7,469,355	7,469,355	-	-	7,242,924	7,242,924
Financial Assets									
Derivative financial assets									
Currency swaps	30	-	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	31	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	34	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	7,515,966	223,505,807	211,648,597	4,323,723	7,289,411	223,261,731
Financial Liabilities									
Derivative financial liabilities									
Currency swaps	44	-	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

26.2 Level 3 Fair Value Measurement

Property, Plant & Equipment (PPE)

Reconciliation from the opening balance to the ending balance for the land and buildings in the Level 3 of the fair value hierarchy is available in Note 39.1 to 39.4 on pages 266 to 269.

Reconciliation of Revaluation Reserve pertaining to land and buildings categorised as Level 3 in the fair value hierarchy is given in the Statement of Changes in Equity on pages 186 to 189.

Note 39.5 (b) on page 271 provides information on significant unobservable inputs used as at December 31, 2016 in measuring fair value of land and buildings categorised as Level 3 in the fair value hierarchy.

Note 39.5 (c) on page 275 provides details of valuation techniques used and sensitivity of fair value measurement to changes in significant unobservable inputs.

Equity Securities

Value of unquoted shares of Rs. 47.271 Mn. in Group and Rs. 47.147 Mn. in Bank as at end of the year 2016 (Rs. 46.611 Mn. in Group and Rs. 46.487 Mn. in Bank as at end 2015) 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 LKAS 39 on ‘Financial Instruments: Recognition and Measurement’.

26.3 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, subordinated liabilities) are estimated based on the Discounted Cash Flow approach. This approach employs the current market interest rates of similar financial instruments as a significant unobservable input in measuring the fair value and hence it is categorised under Level 3 in the fair value hierarchy.

Sensitivity of 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 estimated fair values of financial assets and liabilities not measured at fair value and hence reflected at the carrying amounts in Financial Statements and the fair value hierarchy used:

As at December 31, 2016	Note	GROUP					BANK				
		Level 1	Level 2	Level 3	Total Fair Value	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Total Carrying Amount
		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	27	-	32,924,227	-	32,924,227	32,924,227	-	30,193,589	-	30,193,589	30,193,589
Balance with Central Banks	28	-	43,935,258	-	43,935,258	43,935,258	-	43,873,205	-	43,873,205	43,873,205
Placements with banks	29	-	11,718,499	-	11,718,499	11,718,499	-	11,718,499	-	11,718,499	11,718,499
Loans and receivables to banks	32	-	624,458	-	624,458	624,458	-	624,458	-	624,458	624,458
Loans and receivables to other customers	33	-	-	625,821,184	625,821,184	620,129,488	-	-	621,709,924	621,709,924	616,018,228
Financial investments – Held-to-maturity	35	62,777,800	-	-	62,777,800	63,626,598	60,132,500	-	-	60,132,500	60,981,298
Financial investments – Loans and receivables	36	-	-	51,824,026	51,824,026	51,824,026	-	-	51,824,026	51,824,026	51,824,026
Total financial assets not at fair value		62,777,800	89,202,442	677,645,210	829,625,452	824,782,554	60,132,500	86,409,751	673,533,950	820,076,201	815,233,303
Financial Liabilities											
Due to banks	43	-	71,098,391	-	71,098,391	71,098,391	-	67,608,811	-	67,608,811	67,608,811
Securities sold under repurchase agreements		-	69,628,961	-	69,628,961	69,628,961	-	69,867,469	-	69,867,469	69,867,469
Due to other customers/ deposits from customers	45	-	-	743,145,668	743,145,668	743,310,613	-	-	739,728,439	739,728,439	739,563,494
Other borrowings	46	-	-	9,270,154	9,270,154	9,270,154	-	-	9,270,154	9,270,154	9,270,154
Subordinated liabilities	52	-	-	24,175,367	24,175,367	24,849,539	-	-	24,175,367	24,175,367	24,849,539
Total financial liabilities not at fair value		-	140,727,352	776,591,189	917,318,541	918,157,658	-	137,476,280	773,173,960	910,650,240	911,159,467

As at December 31, 2015	Note	GROUP					BANK				
		Level 1	Level 2	Level 3	Total Fair Value	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Total Carrying Amount
		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	27	-	20,107,076	-	20,107,076	20,107,076	-	20,043,512	-	20,043,512	20,043,512
Balances with Central Banks	28	-	28,221,017	-	28,221,017	28,221,017	-	28,221,017	-	28,221,017	28,221,017
Placements with banks	29	-	17,193,539	-	17,193,539	17,193,539	-	17,193,539	-	17,193,539	17,193,539
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	32	-	601,106	-	601,106	601,106	-	601,106	-	601,106	601,106
Loans and receivables to other customers	33	-	-	511,056,767	511,056,767	509,923,128	-	-	509,248,766	509,248,766	508,115,127
Financial investments – Loans and receivables	36	-	-	57,724,369	57,724,369	57,724,369	-	-	57,724,369	57,724,369	57,724,369
Total financial assets not at fair value		-	74,124,838	568,781,136	642,905,974	641,772,335	-	74,061,274	566,973,135	641,034,409	639,900,770
Financial Liabilities											
Due to banks	43	-	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	45	-	-	624,570,898	624,570,898	624,021,217	-	-	624,651,491	624,651,491	624,101,810
Other borrowings	46	-	-	9,985,637	9,985,637	9,985,637	-	-	9,985,637	9,985,637	9,985,637
Subordinated liabilities	52	-	-	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	646,575,877	790,614,976	790,034,225	-	142,703,931	646,641,470	789,345,401	788,764,650

26.4 Valuation Techniques and Inputs in Measuring Fair Values

The 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 26.1 on page 234.

Type of Financial Instruments	Fair Value as at December 31, 2016 (Rs. '000)	Valuation Technique	Significant Valuation inputs
Derivative Financial Assets	1,052,829	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.	<ul style="list-style-type: none"> Spot exchange rate Interest rate differentials between currencies under consideration
Derivative Financial Liabilities	1,515,035		

27. Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, placements with banks and loans at call/short notice and highly liquid financial assets with original maturities within three months or less from the date of acquisition that are subject to an insignificant risk of changes in fair value and are used by the Group in the management of its short-term commitments. These items are brought to Financial Statements at 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.

As at December 31,	GROUP		BANK	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Cash in hand	17,599,901	15,931,941	17,406,776	15,873,479
Coins and notes held in local currency	15,497,697	14,035,800	15,488,867	14,031,376
Coins and notes held in foreign currency	2,102,204	1,896,141	1,917,909	1,842,103
Balances with banks	6,122,355	2,705,999	5,794,927	2,700,897
Local banks	-	5,102	-	-
Foreign banks	6,122,355	2,700,897	5,794,927	2,700,897
Money at call and at short notice	9,201,971	1,469,136	6,991,886	1,469,136
Total	32,924,227	20,107,076	30,193,589	20,043,512

The maturity analysis of Cash and Cash Equivalents is given in Note 62 on pages 308 and 309.

28. Balances with Central Banks

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

As at December 31,	GROUP		BANK	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Statutory balances with Central Banks [Refer Note 28.1]	43,935,258	22,820,127	43,873,205	22,820,127
Non-statutory balances with Central Banks [Refer Note 28.2]	-	5,400,890	-	5,400,890
Total	43,935,258	28,221,017	43,873,205	28,221,017

28.1 Statutory Balances with Central Banks

As at December 31,	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balances with the Central Bank of Sri Lanka	40,469,986	20,075,130	40,469,986	20,075,130
Balances with the Bangladesh Bank	3,403,219	2,744,997	3,403,219	2,744,997
Balances with the Maldives Monetary Authority	62,053	–	–	–
Total	43,935,258	22,820,127	43,873,205	22,820,127

Balances with Central Bank of Sri Lanka

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. 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, 2016, the minimum cash reserve requirement was 7.50% of the rupee deposit liabilities (7.50% in 2015). There is no reserve requirement for foreign currency deposits liabilities of the Domestic Banking Unit (DBU) and the deposit liabilities of the Off-shore Banking Centre (OBC) in Sri Lanka.

Balances with Bangladesh Bank

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. As per the Bangladesh Bank regulations, the Statutory Liquidity Requirement as at December 31, 2016 was 19.50% (19.50% in 2015) on time and demand liabilities (both local and foreign currencies), which includes a 6.50% (6.50% in 2015) cash reserve requirement and the balance 13.00% (13.00% in 2015) is permitted to be maintained in foreign currency and/or also in unencumbered securities held with the Bangladesh Bank.

Balances with Maldives Monetary Authority

The Maldives Banking Act No. 24 of 2010 section 25 requires the Bank to maintain a statutory reserve on all deposits liabilities denominated in both foreign currency and local currency deposits excluding interbank deposits of other banks in Maldives and Letter of Credit margin deposits. According to the Bank regulations of Maldives Monetary Authority, the Minimum Reserve Requirement (MRR) as at December 31, 2016 was 10%. The reserve requirement for local currency is to be met in the form of Rufiyaa deposits, while reserve requirement for foreign currency is to be met in the form of US dollar deposits.

28.2 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 the 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	
	2016	2015	2016	2015
	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 December 31, 2015.

The maturity analysis of Balances with Central Banks is given in Note 62 on pages 308 and 309.

29. Placements with Banks

<i>As at December 31,</i>	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Placements – within Sri Lanka	1,094,821	5,516,273	1,094,821	5,516,273
Placements – outside Sri Lanka	10,623,678	11,677,266	10,623,678	11,677,266
Total	11,718,499	17,193,539	11,718,499	17,193,539

The maturity analysis of Placements with Banks is given in Note 62 on pages 308 and 309.

30. Derivative Financial Assets

The Bank uses derivatives such as interest rate swaps, foreign currency swaps and forward foreign exchange contracts, etc. Derivative financial assets are recorded at fair value. Changes in the fair value of derivatives are included in 'Net Gains/(Losses) from Trading' 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	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Foreign currency derivatives				
Currency swaps	261,664	3,328,679	261,664	3,328,679
Forward contracts	788,808	786,794	788,808	786,794
Spot contracts	2,357	2,696	2,357	2,696
Total	1,052,829	4,118,169	1,052,829	4,118,169

The maturity analysis of Derivative Financial Assets is given in Note 62 on pages 308 and 309.

31. 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	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Government securities [Refer Note 31.1]	4,693,989	7,330,086	4,693,989	7,330,086
Equity securities [Refer Note 31.2]	293,809	326,263	293,809	326,263
Total	4,987,798	7,656,349	4,987,798	7,656,349

31.1 Government Securities

<i>As at December 31,</i>	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Treasury bills	2,467,221	1,552,531	2,467,221	1,552,531
Treasury bonds	2,226,768	5,777,555	2,226,768	5,777,555
Total Government securities	4,693,989	7,330,086	4,693,989	7,330,086

The maturity analysis of Other Financial Instruments Held-for-trading is given in Note 62 on pages 308 and 309.

31.2 Equity Securities – Group and Bank

Sector/Name of the Company	As at December 31, 2016				As at December 31, 2015			
	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	196,189	100.00	19,619	18,937	94,930	253.00	24,017	18,937
Citizens Development Business Finance PLC (Non-voting)	101,965	62.10	6,332	3,398	101,965	80.00	8,157	3,398
Hatton National Bank PLC	83	225.00	19	12	82	210.60	17	12
Lanka Ventures PLC	100,000	42.50	4,250	3,033	100,000	43.50	4,350	3,033
National Development Bank PLC	200,000	156.00	31,200	34,381	–	–	–	–
People's Insurance Ltd.	126,500	19.00	2,404	1,898	–	–	–	–
Sampath Bank PLC	26,350	260.40	6,862	4,298	25,655	248.00	6,362	4,298
Subtotal			70,686	65,957			42,903	29,678
Beverage, Food and Tobacco								
Lanka Milk Foods (CWE) PLC	250,000	119.00	29,750	27,866	250,000	135.00	33,750	27,866
Melstacorp Ltd.	245,960	59.30	14,585	9,814	–	–	–	–
Renuka Foods PLC (Non-voting)	1,000	19.50	20	15	–	–	–	–
COCO Lanka PLC (Non-voting)	–	–	–	–	1,000	23.90	24	15
Distilleries Company of Sri Lanka PLC	–	–	–	–	181,490	246.00	44,647	28,968
Subtotal			44,355	37,695			78,421	56,849
Chemicals and Pharmaceuticals								
Chemical Industries Colombo Holding PLC (Non-voting)	161,400	68.00	10,975	11,692	161,400	81.20	13,106	11,692
Haycarb PLC	107,100	150.00	16,065	15,914	107,100	164.90	17,661	15,914
Subtotal			27,040	27,606			30,767	27,606
Construction and Engineering								
Colombo Dockyard PLC	75,000	78.60	5,895	16,685	75,000	150.10	11,258	16,685
Subtotal			5,895	16,685			11,258	16,685
Diversified Holdings								
Hemas Holdings PLC	60	98.00	6	2	60	92.90	6	2
John Keells Holdings PLC	130,611	145.00	18,939	20,527	114,285	178.10	20,354	20,527
Subtotal			18,945	20,529			20,360	20,529
Healthcare								
Ceylon Hospitals PLC	121,900	87.40	10,654	12,868	121,900	101.20	12,336	12,868
Ceylon Hospitals PLC (Non-voting)	61,100	69.50	4,246	4,423	61,100	75.00	4,583	4,423
Subtotal			14,900	17,291			16,919	17,291
Hotels and Travels								
John Keells Hotels PLC	267,608	10.90	2,917	3,473	267,608	15.40	4,121	3,473
Taj Lanka Hotels PLC	212,390	25.20	5,352	6,625	212,390	25.30	5,373	6,625
Subtotal			8,269	10,098			9,494	10,098

Sector/Name of the Company	As at December 31, 2016				As at December 31, 2015			
	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	21.10	2,472	3,180	117,158	26.90	3,152	3,180
Renuka Holdings PLC (Non-voting)	265,368	18.00	4,777	4,958	265,368	22.80	6,050	4,958
Subtotal			7,249	8,138			9,202	8,138
Land and Property								
Overseas Reality Ceylon PLC	183,320	20.00	3,666	2,716	183,320	23.20	4,253	2,716
CT Land Development PLC	15,000	53.10	797	531	15,000	50.00	750	531
Subtotal			4,463	3,247			5,003	3,247
Manufacturing								
ACL Cables PLC	343,032	60.50	20,753	14,096	171,516	120.90	20,736	14,096
Dipped Products PLC	200,000	86.80	17,360	24,239	200,000	110.00	22,000	24,239
Lanka Walltile PLC	60	99.70	6	5	60	109.80	7	5
Pelwatte Sugar Industries PLC	12,300	0.10	1	351	12,300	0.10	1	351
Royal Ceramics Lanka PLC	155,927	115.50	18,010	18,057	155,927	111.20	17,339	18,057
Subtotal			56,130	56,748			60,083	56,748
Plantations								
Kotagala Plantations PLC	201,750	8.90	1,796	9,172	201,750	17.80	3,591	9,172
Subtotal			1,796	9,172			3,591	9,172
Power and Energy								
Hemas Power PLC	106,249	22.30	2,369	2,053	106,249	25.00	2,656	2,053
Lanka IOC PLC	685,984	31.70	21,746	15,013	685,984	37.10	25,450	15,013
Subtotal			24,115	17,066			28,106	17,066
Telecommunications								
Dialog Axiata PLC	949,172	10.50	9,966	6,300	949,172	10.70	10,156	6,300
Subtotal			9,966	6,300			10,156	6,300
Total			293,809	296,532			326,263	279,407
Mark to market gains/(losses)				(2,723)				46,856
Market value of equity securities				293,809				326,263

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

Industry/Sector	As at December 31, 2016			As at December 31, 2015		
	Market Value	Cost of the Investment	%	Market Value	Cost of the Investment	%
	Rs. '000	Rs. '000		Rs. '000	Rs. '000	
Banking, Finance and Insurance	70,686	65,957	24.06	42,903	29,678	13.15
Beverage, Food and Tobacco	44,355	37,695	15.10	78,421	56,849	24.04
Chemicals and Pharmaceuticals	27,040	27,606	9.20	30,767	27,606	9.43
Construction and Engineering	5,895	16,685	2.01	11,258	16,685	3.45
Diversified Holdings	18,945	20,529	6.45	20,360	20,529	6.24
Healthcare	14,900	17,291	5.07	16,919	17,291	5.19
Hotels and Travels	8,269	10,098	2.81	9,494	10,098	2.91
Investment Trusts	7,249	8,138	2.47	9,202	8,138	2.82
Land and Property	4,463	3,247	1.52	5,003	3,247	1.53
Manufacturing	56,130	56,748	19.10	60,083	56,748	18.42
Plantations	1,796	9,172	0.61	3,591	9,172	1.10
Power and Energy	24,115	17,066	8.21	28,106	17,066	8.61
Telecommunications	9,966	6,300	3.39	10,156	6,300	3.11
Subtotal	293,809	296,532	100.00	326,263	279,407	100.00
Mark to market gains/(losses)		(2,723)			46,856	
Market value of equity securities	293,809	293,809	100.00	326,263	326,263	100.00

32. Loans and Receivables to Banks

'Loans and receivables to banks' comprises 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 that the Group, upon initial recognition, designates as held-to-maturity.
- those for which the Group may not recover substantially all of its initial investment, other than because of credit deterioration.
- finance lease receivables

'Loans and receivables to banks' include amounts due from banks. After initial measurement, Loans and receivables to banks 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	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross loans and receivables	624,458	601,106	624,458	601,106
Less: Provision for impairment	-	-	-	-
Net loans and receivables	624,458	601,106	624,458	601,106

The maturity analysis of Loans and Receivables to Banks is given in Note 62 on pages 308 and 309.

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 counterparty banks appropriated US\$ 4.170 Mn. (Rs. 624.458 Mn.) which has been kept as a deposit with them. This action has been contested by the Bank. In view of the stance taken by the Bank in this regard, both the deposit (made by the Bank) and the amount due to the said counterparty bank, have been recorded in the Statement of Financial Position.

32. 1 (a) By Currency

As at December 31,	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
United States Dollar	624,458	601,106	624,458	601,106
Subtotal	624,458	601,106	624,458	601,106

33. Loans and Receivables to Other Customers

'Loans and receivables to other customers' comprises 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 that the Group, upon initial recognition, designates as held-to-maturity.
- 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.

As at December 31,	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross loans and receivables	637,982,536	528,382,921	633,390,907	526,166,681
Less: Provision for individual impairment [Refer Note 33.2]	8,453,457	5,369,960	8,453,457	5,369,960
Provision for collective impairment [Refer Note 33.2]	9,399,591	13,089,833	8,919,222	12,681,594
Net loans and receivables	620,129,488	509,923,128	616,018,228	508,115,127

The maturity analysis of Loans and Receivables to Other Customers is given in Note 62 on pages 308 and 309.

33.1 Analysis**33.1 (a) By Product**

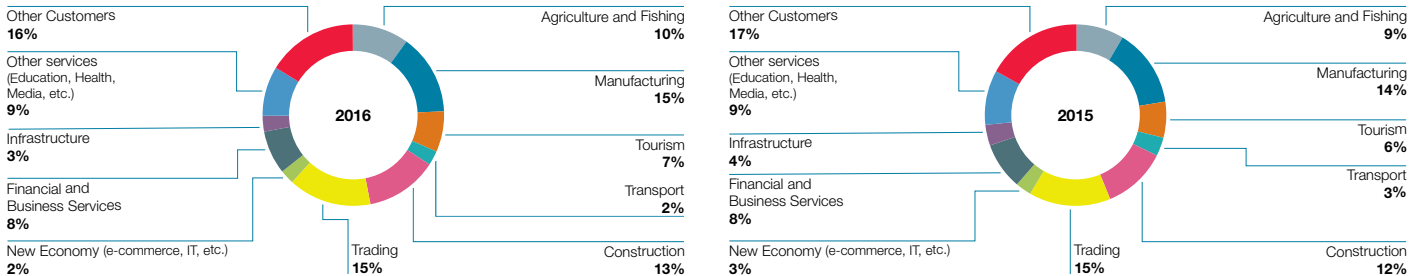
As at December 31,	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loans and receivables				
Overdrafts	100,985,232	81,493,071	100,903,024	81,966,028
Trade finance	43,088,097	45,805,983	43,088,097	45,805,983
Lease/hire purchase receivable [Refer Note 33.3]	39,040,966	37,292,636	35,993,964	34,472,653
Credit cards	6,679,059	4,830,429	6,679,059	4,830,429
Pawning	1,239,785	1,870,881	1,239,785	1,870,881
Staff loans	7,276,285	6,117,701	7,274,154	6,115,662
Housing loans	47,275,462	40,327,887	47,275,462	40,327,887
Personal loans	25,996,196	26,290,382	25,906,055	26,270,744
Term loans				
Short-term	72,590,084	44,044,255	71,219,300	44,044,255
Long-term	277,354,045	224,519,934	277,354,682	224,672,397
Loans granted from Investment Fund Account (IFA) [Refer Note 33.4]	3,974,359	4,435,479	3,974,359	4,435,479
Bills of exchange	12,482,966	11,354,283	12,482,966	11,354,283
Subtotal	637,982,536	528,382,921	633,390,907	526,166,681

33.1 (b) By currency

As at December 31,	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Sri Lankan Rupee	506,118,547	425,498,965	501,609,126	423,282,725
United States Dollar	94,727,986	68,414,361	94,645,778	68,414,361
Great Britain Pound	695,403	731,487	695,403	731,487
Euro	1,545,852	1,017,634	1,545,852	1,017,634
Australian Dollar	514,017	149,680	514,017	149,680
Japanese Yen	71,144	112,514	71,144	112,514
Singapore Dollar	127	-	127	-
Bangladesh Taka	34,174,199	32,449,851	34,174,199	32,449,851
Others	135,261	8,429	135,261	8,429
Subtotal	637,982,536	528,382,921	633,390,907	526,166,681

33.1 (c) By Industry

As at December 31,	GROUP		BANK	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Agriculture and fishing	63,529,644	45,842,559	63,332,661	45,667,263
Manufacturing	92,030,456	73,304,224	91,982,499	73,282,037
Tourism	46,086,461	33,696,456	45,919,393	33,644,481
Transport	14,892,683	16,684,942	14,800,244	16,592,979
Construction	81,259,365	61,665,875	81,187,168	61,602,932
Trading	94,987,320	78,254,327	93,538,474	77,628,493
New economy (e-commerce, IT, etc.)	15,111,861	14,226,759	15,111,861	14,226,759
Financial and business services	49,066,227	43,466,286	49,740,977	44,264,897
Infrastructure	17,894,260	19,128,131	17,894,260	19,128,131
Other services (Education, Health, Media, etc.)	57,961,305	51,057,181	56,923,320	50,305,657
Other customers	105,162,954	91,056,181	102,960,050	89,823,052
Subtotal	637,982,536	528,382,921	633,390,907	526,166,681

Sectoral Classification of Loans and Advances – Bank

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

	GROUP		BANK	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Movement in Provision for Individual Impairment				
Balance as at January 01,	5,369,960	4,334,587	5,369,960	4,334,587
Charge/(write-back) to the Income Statement [Refer Note 18]	3,439,879	1,386,477	3,439,879	1,386,477
Net write-off/(recoveries) during the year	(287,226)	(490,046)	(287,226)	(490,046)
Exchange rate variance on foreign currency provisions	51,080	90,680	51,080	90,680
Interest accrued/(reversals) on impaired loans and advances	(533,528)	(265,344)	(533,528)	(265,344)
Other movements	413,292	313,606	413,292	313,606
Balance as at December 31,	8,453,457	5,369,960	8,453,457	5,369,960
Movement in Provision for Collective Impairment				
Balance as at January 01,	13,089,833	12,835,436	12,681,594	12,621,987
Charge/(write-back) to the Income Statement [Refer Note 18]	(1,859,806)	2,710,834	(1,931,932)	2,516,044
Net write-off/(recoveries) during the year	(1,835,798)	(2,465,797)	(1,835,798)	(2,465,797)
Exchange rate variance on foreign currency provisions	5,362	9,360	5,358	9,360
Balance as at December 31,	9,399,591	13,089,833	8,919,222	12,681,594
Total of Individual and Collective Impairment	17,853,048	18,459,793	17,372,679	18,051,554

33.3 Lease/Hire Purchase Receivable

<i>As at December 31,</i>	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Lease/Hire Purchase Receivable	39,040,966	37,292,636	35,993,964	34,472,653
Within one year [Refer Note 33.3 (a)]	13,440,584	12,781,980	12,631,092	11,619,035
From one to five years [Refer Note 33.3 (b)]	25,250,003	24,424,152	23,358,999	22,851,419
After five years [Refer Note 33.3 (c)]	350,379	86,504	3,873	2,199
Less: Provision for individual impairment [Refer Note 33.3 (d)]	241,185	93,710	241,185	93,710
Provision for collective impairment [Refer Note 33.3 (e)]	681,035	953,696	262,381	556,776
Net lease receivable	38,118,746	36,245,230	35,490,398	33,822,167

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

<i>As at December 31,</i>	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Total Lease/Hire purchase receivable within one year	17,390,714	16,412,304	16,232,578	14,926,248
Less: Unearned lease/hire purchase income	3,950,130	3,630,324	3,601,486	3,307,213
Gross Lease/Hire purchase receivable within one year	13,440,584	12,781,980	12,631,092	11,619,035
Less: Provision for individual impairment	228,553	72,660	228,553	72,660
Provision for collective impairment	364,252	642,514	228,060	488,019
Subtotal	12,847,779	12,066,806	12,174,479	11,058,356

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

<i>As at December 31,</i>	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Total Lease/Hire purchase receivable from one to five years	29,185,428	28,211,137	26,793,674	26,138,901
Less: Unearned lease/hire purchase income	3,935,425	3,786,985	3,434,675	3,287,482
Gross Lease/Hire purchase receivable from one to five years	25,250,003	24,424,152	23,358,999	22,851,419
Less: Provision for individual impairment	12,632	21,050	12,632	21,050
Provision for collective impairment	268,364	307,592	34,319	68,755
Subtotal	24,969,007	24,095,510	23,312,048	22,761,614

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

<i>As at December 31,</i>	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Total Lease/Hire purchase receivable after five years	354,646	94,062	4,480	2,254
Less: Unearned lease/hire purchase income	4,267	7,558	607	55
Gross Lease/Hire purchase receivable after five years	350,379	86,504	3,873	2,199
Less: Provision for individual impairment	-	-	-	-
Provision for collective impairment	48,419	3,590	2	2
Subtotal	301,960	82,914	3,871	2,197

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

	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 01,	93,710	60,961	93,710	60,961
Charge/(write-back) to the Income Statement	209,134	55,159	209,134	55,159
Net write-off/(recoveries) during the year	(31,648)	(21,673)	(31,648)	(21,673)
Interest accrued on impaired lease/hire purchase receivable	(32,268)	(4,516)	(32,268)	(4,516)
Other movements	2,257	3,779	2,257	3,779
Balance as at December 31,	241,185	93,710	241,185	93,710

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

	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 01,	953,696	1,064,533	556,776	856,170
Charge/(write-back) to the Income Statement	1,154,843	620,604	1,133,109	432,047
Net write-off/(recoveries) during the year	(1,427,504)	(731,441)	(1,427,504)	(731,441)
Balance as at December 31,	681,035	953,696	262,381	556,776

33.4 Loans Granted from Investment Fund Account (IFA) – Bank

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:

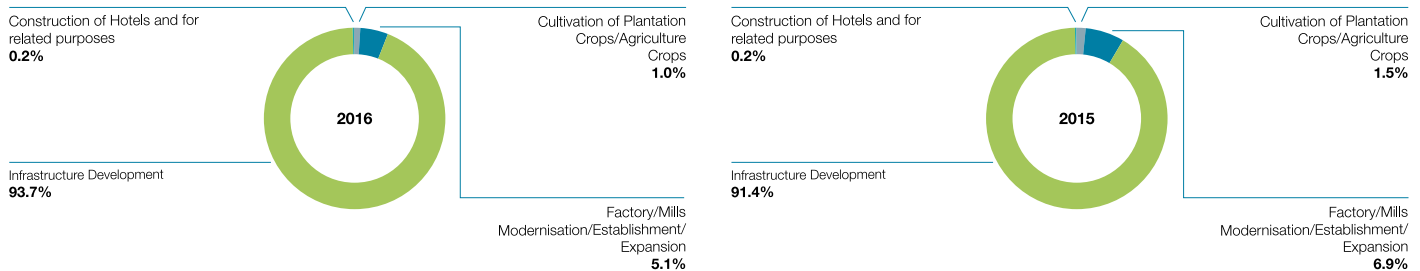
- 5% of the Profits Before Tax (PBT) calculated for Income Tax (IT) purposes, on the dates of making Self-Assessment payments on IT.
- 8% of the profits calculated for the payment of Value Added Tax (VAT) on financial services at the time of making payments on VAT.

The Sectoral Distribution of Loans Disbursed under IFA is given below:

As at December 31, Sector	Range of Interest Rates (%)	Tenure (Years)	2016			2015		
			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	7.91 – 12.12	5.5	38,636	–	38,636	65,909	–	65,909
(b) Factory/mills modernisation/ establishment/expansion	7.91 – 13.12	5.5	192,040	–	192,040	295,591	51,800	347,391
(c) Infrastructure development	6.80 – 11.00	14.5	3,559,585	98,627	3,658,212	3,886,732	132,414	4,019,146
(d) Construction of hotels and for related purposes	8.41 – 12.62	7	8,236	–	8,236	10,372	–	10,372
Capital Outstanding of the Loans granted			3,798,497	98,627	3,897,124	4,258,604	184,214	4,442,818
(e) Interest receivable			175,862	–	175,862	176,875	–	176,875
Carrying amount of the Loans granted			3,974,359	98,627	4,072,986	4,435,479	184,214	4,619,693

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

Sectoral Distribution of Loans Under IFA



33.5 Summary of Individually Impaired Loans and Receivables – Bank

As at December 31,	2016		2015	
	Individually Impaired Loans and Receivables	Provision for Individual Impairment	Individually Impaired Loans and Receivables	Provision for Individual Impairment
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loans and Advances				
Overdrafts	2,311,257	1,554,417	1,336,117	1,007,622
Trade finance	749,241	507,360	548,552	303,921
Lease/hire purchase receivable	444,882	241,185	533,359	93,710
Credit cards	-	-	-	-
Pawning	-	-	4,566	67
Staff loans	-	-	-	-
Housing loans	480,970	169,831	12,445	6,194
Personal loans	6,586	4,338	2,588	1,753
Term loans	18,109,141	5,976,326	9,309,002	3,956,693
Bills of exchange	-	-	-	-
Total	22,102,077	8,453,457	11,746,629	5,369,960

The net exposure of Rs. 13,648.620 Mn. (Rs. 6,376.669 Mn. As at December 31, 2015) is covered by collateral valued over Rs. 13,648.620 Mn. (Over Rs. 6,376.669 Mn. as at December 31, 2015) excluding machinery and stocks.

34. 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.

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 through 'Operating income'. Interest earned while holding available-for-sale financial investments is reported as 'Interest income' using the EIR. Dividend earned while holding available-for-sale financial investments are recognised in the Income Statement as 'Operating income' when the right to receive the payment has been established. The losses arising from impairment of such investments are recognised in the Income Statement in 'Impairment charges for loans and other losses' and removed from the 'Available-for-sale reserve'.

As at December 31,	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Government securities	159,642,243	203,774,930	159,573,316	203,757,409
Government securities – Sri Lanka [Refer Note 34.1 (a)]	159,642,243	193,956,070	159,573,316	193,938,549
Government securities – Bangladesh [Refer Note 34.1 (b)]	–	9,818,860	–	9,818,860
Equity securities	293,819	281,450	293,695	281,326
Quoted shares [Refer Notes 34.2.(a) and 34.3.(a)]	246,548	234,839	246,548	234,839
Unquoted shares [Refer Notes 34.2 (b) and 34.3 (b)]	47,271	46,611	47,147	46,487
Investment in Unit Trust [Refer Notes 34.4 and 34.5]	156,460	205,554	156,460	205,554
Total	160,092,522	204,261,934	160,023,471	204,244,289

There were no impairment losses on Financial Investments – Available-for-Sale as at December 31, 2016 (2015 – Nil).

The maturity analysis of Financial Investments – Available-for-Sale is given in Note 62 on pages 308 and 309.

34.1 Government Securities

34.1 (a) Government Securities – Sri Lanka

As at December 31,	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Treasury bills	17,827,210	8,961,530	17,758,283	8,944,009
Treasury bonds	138,993,358	172,727,815	138,993,358	172,727,815
Sri Lanka sovereign bonds	2,821,675	12,266,725	2,821,675	12,266,725
Subtotal	159,642,243	193,956,070	159,573,316	193,938,549

During 2016, the Sri Lankan operation of the Bank reclassified part of the Treasury Bonds and Sovereign Bonds portfolio amounting Rs. 34,646.318 Mn. (Face value Rs. 35,094.126 Mn.) classified as Available-for-sale (AFS) investments to the Held-to-maturity (HTM) category based on a detailed assessment of the actual intention and ability to hold to maturity. The said re-classification was effected after obtaining written approval from the Board of Directors and the Central Bank of Sri Lanka and this transfer also meets the requirement set out for reclassification under Sri Lanka Accounting Standard – LKAS 39 on 'Financial Instruments: Recognition and Measurement'.

34.1 (b) Government Securities – Bangladesh

As at December 31,	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Treasury bills	–	817,545	–	817,545
Treasury bonds	–	9,001,315	–	9,001,315
Subtotal	–	9,818,860	–	9,818,860

Bangladesh operation of the Bank reclassified its total Available-for-sale (AFS) portfolio amounting to Rs. 9,556.057Mn. (Face Value Rs. 8,521.690 Mn.) to Held-to-maturity (HTM) category during the year, based on a detailed assessment and the actual intention and ability to hold to maturity.

34.1 (c) Reclassification out of Available-for-sale Investment Securities

During the year Group reclassified part of Available-for-sale investment securities to Held-to-maturity category. The Group identified financial assets that would have met the definition of Held-to-maturity (if they had not been designated as Available-for-sale) for which at the date of reclassification it had the intention and ability to hold them until maturity.

The fair value of the reclassified Available-for-sale investment securities was Rs. 44,202.375 Mn. which was considered to be the new amortised cost of the Held-to-maturity portfolio at the date of reclassification.

The table below sets out the amounts actually recognised in profit or loss and OCI in respect of the financial assets reclassified out of Available-for-sale investment securities.

	2016		2015	
	Profit or loss Rs. '000	OCI Rs. '000	Profit or loss Rs. '000	OCI Rs. '000
Available-for-sale investment securities reclassified to Held-to-maturity				
Interest income	2,830,744	–	–	–
Net impairment loss on financial assets	–	–	–	–
Net change in fair value	–	–	–	–
Amount transferred from AFS Reserve to profit of loss	–	243,331	–	–
Total	2,830,744	243,331	–	–

The table below sets out the amounts that would have been recognised, if the reclassification had not been made.

	2016		2015	
	Profit or loss Rs. '000	OCI Rs. '000	Profit or loss Rs. '000	OCI Rs. '000
Available-for-sale investment securities reclassified to Held-to-maturity				
Interest income	2,830,744	–	–	–
Net impairment loss on financial assets	–	–	–	–
Net change in fair value	–	(844,209)	–	–
Total	2,830,744	(844,209)	–	–

The Effective Interest Rates on reclassified Available-for-sale investment securities that were held as at the Reporting date ranged from 5.25% to 10.74%, with expected recoverable cash flows of Rs. 65,838.057 Mn.

34.2 (a) Equity Securities – As at December 31, 2016

Sector/Type of Securities	GROUP				BANK			
	No. of Shares	Market Price	Market Value	Cost of Investment	No. of Shares	Market Price	Market Value	Cost of Investment
		Rs.	Rs. '000	Rs. '000		Rs.	Rs. '000	Rs. '000
Quoted Shares:								
Bank, Finance and Insurance								
DFCC Bank PLC	3,496	122.50	428	155	3,496	122.50	428	155
Hatton National Bank PLC	11,950	225.00	2,689	315	11,950	225.00	2,689	315
Nations Trust Bank PLC	1,333	80.90	108	22	1,333	80.90	108	22
National Development Bank PLC	5,424	156.00	846	215	5,424	156.00	846	215
Sampath Bank PLC	3,914	260.40	1,019	72	3,914	260.40	1,019	72
Seylan Bank PLC	1,015	90.00	91	24	1,015	90.00	91	24
VISA Inc.	19,424	US \$ 78.02	226,940	–	19,424	US \$ 78.02	226,940	–
Subtotal			232,121	803			232,121	803
Manufacturing								
Alumex PLC	714,200	20.20	14,427	9,999	714,200	20.20	14,427	9,999
Subtotal			14,427	9,999			14,427	9,999
Total			246,548	10,802			246,548	10,802

34.2 (b) Equity Securities – As at December 31, 2016

Sector/Type of Securities	GROUP				BANK			
	No. of Shares	Market Price	Market Value	Cost of Investment	No. of Shares	Market Price	Market Value	Cost of Investment
		Rs.	Rs. '000	Rs. '000		Rs.	Rs. '000	Rs. '000
Unquoted Shares:								
Bank, Finance and Insurance								
Central Depository of Bangladesh Ltd.	3,427,083	BDT 2.75	17,953	17,953	3,427,083	BDT 2.75	17,953	17,953
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
Lanka Ratings Agency 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 978.01	7,259	7,259	47	EUR 978.01	7,259	7,259
Total			47,271	47,271			47,147	47,147

34.2 (c) Sector/Industry Composition of the Equity Securities – As at December 31, 2016

	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	279,392	48,074	279,268	47,950
Manufacturing	14,427	9,999	14,427	9,999
Total	293,819	58,073	293,695	57,949

34.3 (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	–
Subtotal			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
Subtotal			12,427	9,999			12,427	9,999
Total			234,839	10,802			234,839	10,802

34.3 (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
Lanka Ratings Agency 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

34.3 (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

34.4 Investment in Unit Trust – As at December 31, 2016

	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.	156,460	153,849	156,460	153,849
Total	156,460	153,849	156,460	153,849

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

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

35. Financial Investments – Held-to-Maturity

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, that the Group has the positive intention and ability to hold to maturity, and which are not designated as at Fair value through profit or loss or Available-for-sale. After initial measurement, held-to-maturity financial investments 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 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.

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

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

<i>As at December 31,</i>	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Government securities – Sri Lanka	50,980,717	–	50,980,717	–
Treasury bonds	36,599,599	–	36,599,599	–
Sri Lanka sovereign bonds	14,381,118	–	14,381,118	–
Government securities – Bangladesh	10,000,581	–	10,000,581	–
Treasury bills	1,524,677	–	1,524,677	–
Treasury bonds	8,475,904	–	8,475,904	–
Government securities – Maldives	2,645,300	–	–	–
Treasury bills	2,645,300	–	–	–
Total	63,626,598	–	60,981,298	–

Please refer Notes 34.1 (a) and 34.1 (b) on page 252 for the details of re-classification to Held-to-maturity (HTM) investments from Available-for-sale (AFS) category effected during the year.

The maturity analysis of Financial Investments – Held-to-maturity is given in Note 62 on pages 308 and 309.

36. 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	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Investments in Government Securities [Refer Note 36.1]	40,076,392	44,925,168	40,076,392	44,925,168
Other Investments [Refer Note 36.2]	11,747,634	12,799,201	11,747,634	12,799,201
Total	51,824,026	57,724,369	51,824,026	57,724,369

36.1 Investments in Government Securities

<i>As at December 31,</i>	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Treasury Bonds	–	605,737	–	605,737
Sri Lanka Development Bonds	40,076,392	44,319,431	40,076,392	44,319,431
Total	40,076,392	44,925,168	40,076,392	44,925,168

36.2 Other Investments

<i>As at December 31,</i>	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Debentures [Refer Note 36.2.1]	11,236,208	11,272,757	11,236,208	11,272,757
Trust certificates [Refer Note 36.2.2]	511,208	1,140,613	511,208	1,140,613
Corporate investments in Bangladesh [Refer Note 36.2.3]	218	385,831	218	385,831
Total	11,747,634	12,799,201	11,747,634	12,799,201

The maturity analysis of Financial Investments – Loans and Receivables is given in Note 62 on pages 308 and 309.

36.2.1 Debentures

As at December 31,	GROUP				BANK			
	2016		2015		2016		2015	
	No of Debentures	Carrying Value	No of Debentures	Carrying Value	No of Debentures	Carrying Value	No of Debentures	Carrying Value
		Rs. '000		Rs. '000		Rs. '000		Rs. '000
Central Finance Company PLC	2,349,400	391,976	2,534,900	439,344	2,349,400	391,976	2,534,900	439,344
Commercial Leasing and Finance PLC	10,000,000	1,097,767	10,000,000	1,043,808	10,000,000	1,097,767	10,000,000	1,043,808
DFCC Bank PLC	18,000,000	1,857,008	18,000,000	1,857,008	18,000,000	1,857,008	18,000,000	1,857,008
Dunamis Capital PLC	500,000	50,403	500,000	50,403	500,000	50,403	500,000	50,403
Hayleys PLC	10,878,400	1,114,983	10,966,800	1,206,558	10,878,400	1,114,983	10,966,800	1,206,558
Hemas Holdings PLC	525,900	54,048	525,900	54,048	525,900	54,048	525,900	54,048
Lanka Orix Leasing Company PLC	20,000,000	2,045,370	20,000,000	2,045,370	20,000,000	2,045,370	20,000,000	2,045,370
Lion Brewery (Ceylon) PLC	400,000	413,177	600,000	611,968	400,000	413,177	600,000	611,968
Mercantile Investments and Finance PLC	418,650	42,551	418,650	42,551	418,650	42,551	418,650	42,551
MTD Walkers PLC	3,000,000	307,373	3,000,000	307,453	3,000,000	307,373	3,000,000	307,453
Nawaloka Hospitals PLC	2,290,000	237,167	2,290,000	237,167	2,290,000	237,167	2,290,000	237,167
Orient Finance PLC	1,968,800	197,173	1,968,800	197,173	1,968,800	197,173	1,968,800	197,173
People's Leasing & Finance PLC	6,924,200	751,180	6,924,200	751,133	6,924,200	751,180	6,924,200	751,133
Richard Pieris and Company PLC	6,763,400	695,136	6,763,400	695,136	6,763,400	695,136	6,763,400	695,136
Senkadagala Finance PLC	200,684	20,941	401,368	41,869	200,684	20,941	401,368	41,869
Singer (Sri Lanka) PLC	9,598,100	998,155	5,972,938	622,475	9,598,100	998,155	5,972,938	622,475
Singer Finance (Lanka) PLC	5,914,610	631,335	6,336,030	661,672	5,914,610	631,335	6,336,030	661,672
Softlogic Finance PLC	3,223,400	330,465	3,223,400	330,465	3,223,400	330,465	3,223,400	330,465
Abans PLC	-	-	720,700	77,156	-	-	720,700	77,156
Subtotal		11,236,208		11,272,757		11,236,208		11,272,757

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

36.2.2 Trust Certificates

As at December 31,	GROUP		BANK	
	2016	2015	2016	2015
	Carrying Value	Carrying Value	Carrying Value	Carrying Value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Assetline Leasing Company Ltd.	141,699	319,009	141,699	319,009
Mercantile Investments & Finance PLC	38,494	361,378	38,494	361,378
People's Leasing & Finance PLC	213,303	338,364	213,303	338,364
Richard Pieris Finance Ltd.	117,712	121,862	117,712	121,862
Subtotal	511,208	1,140,613	511,208	1,140,613

36.2.3 Corporate Investments in Bangladesh

As at December 31,	GROUP		BANK	
	2016	2015	2016	2015
	Carrying Value	Carrying Value	Carrying Value	Carrying Value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Price Bonds	218	1,501	218	1,501
Commercial Papers	–	384,330	–	384,330
Sub total	218	385,831	218	385,831

37. 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 a 12-month period ending March 31 and 6 month period ending 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 and Commercial Bank of Maldives Private Limited which was incorporated in the Republic of Maldives.

As at December 31,	Holding	GROUP				BANK			
		2016		2015		2016		2015	
		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	
Local Subsidiaries:									
Quoted:									
Commercial Development Company PLC	93.85*	-	-	-	-	272,363	845,755	273,610	1,047,611
(11,261,717 Ordinary Shares)							(@ Rs. 92.60)		(@ Rs. 92.60)
(11,313,290 Ordinary Shares as at December 31, 2015)	(94.28 in 2015)								
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, 2015)									
Unquoted:									
Serendib Finance Ltd.	100	-	-	-	-	1,116,046	1,116,046	916,046	916,046
(21,600,000 Ordinary Shares)									
(21,600,000 Ordinary Shares as at December 31, 2015)									
Foreign Subsidiary:									
Unquoted:									
Commex – Sri Lanka S.R.L. (incorporated in Italy) (**)	100	-	-	-	-	193,080	27,140	193,080	42,490
Commercial Bank of Maldives Private Limited (***)	55	-	-	-	-	1,014,843	1,014,843	-	-
Gross Total		-	-	-	-	2,601,332	3,008,784	1,387,736	2,011,147
Provision for impairment [Refer Note 37.1]						(165,940)	-	(150,590)	-
Net Total		-	-	-	-	2,435,392	3,008,784	1,237,146	2,011,147

(*) During 2015, the Board of Directors of the Bank resolved to reduce the shareholding of Commercial Development Company PLC, (in which the Bank originally 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 83,988 shares since November 2015 through the Colombo Stock Exchange and reduced the shareholding in the above Company to 93.85% by December 31, 2016 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.

(**) During the year, Commex Sri Lanka S.R.L., a fully-owned subsidiary of the Bank, inaugurated its money transfer operation in Italy, following the grant of a Money Transfer License from the Bank of Italy. However, the Bank has made provisions for the expenses incurred on Account of Italy operations before finalising the Bank's Financial Statements.

(***) Commercial Bank of Maldives, a subsidiary of the Bank partnering with Treetop Investments Maldives, formally inaugurated banking operations in the Maldives on September 26, 2016. The Bank holds a majority stake of 55% and the Maldivian partner owns 45%.

The following table summarises the information relating to the Group's subsidiary that has a material non-controlling interest (NCI).

Commercial Bank of Maldives Private Limited Non-controlling interest (NCI) percentage – 45%

<i>As at December 31,</i>	2016 Rs. '000
Cash and cash equivalents	2,721,818
Balances with Central Banks	62,053
Financial investments – Held-to-maturity	2,645,299
Loans and advances	81,797
Other assets	22,737
Liabilities	3,946,301
Net assets value	1,706,094
Carrying amount of Non-controlling interest (NCI)	767,743
Revenue	20,496
Loss	(107,728)
Loss allocated to Non-controlling interest (NCI)	(48,478)
Cash flows from operating activities	3,331,906
Cash flows from investing activities	(2,804,158)
Cash flows from financing activities	1,845,168
Net increase in cash and cash equivalents	2,372,916

The maturity analysis of Investments in Subsidiaries is given in Note 62 on pages 308 and 309.

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

<i>As at December 31,</i>	GROUP		BANK	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Balance as at January 01,	–	–	150,590	114,367
Charge/(Write back) to the Income Statement [Refer Note 18]	–	–	15,350	36,223
Balance as at December 31,	–	–	165,940	150,590

The Bank made a provision against its investment in Commex – Sri Lanka S.R.L which is 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, 2016 is Rs.165.940 Mn. (2015 – Rs. 150.590 Mn.)

38. 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 Standard – LKAS 28 on 'Investments in Associates and Joint Ventures'. 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, and recognises the loss as 'Share of profits of associates' in the Income Statement.

As at December 31,	Incorporation and operation	Ownership Interest %	No. of Shares	2016		2015	
				Cost	Carrying Value	Cost	Carrying Value
				Rs. '000	Rs. '000	Rs. '000	Rs. '000
Equity Investments Lanka Ltd.	Sri Lanka	22.92	4,110,938	44,331	68,621	44,331	67,373
Commercial Insurance Brokers (Pvt) Ltd.	Sri Lanka	18.77(*)	120,000	100	40,238	100	37,130
				44,431	108,859	44,431	104,503

(*) 20% stake of Commercial Insurance Brokers (Pvt) Ltd. is held by Commercial Development Company PLC, a 93.85% 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 18.77%.

38.1 Reconciliation of Summarised Financial Information

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

As at December 31,	2016			2015		
	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,	23,043	37,030	60,073	27,803	34,053	61,856
Total Comprehensive Income	5,358	4,903	10,261	1,405	3,544	4,949
Profit/(loss) for the period recognised in Income Statement, net of tax	1,645	4,809	6,454	9,916	3,722	13,638
Profit or Loss and Other Comprehensive Income, net of tax	3,713	94	3,807	(8,511)	(178)	(8,689)
Movement due to change in ownership	-	(98)	(98)	-	-	-
Transactions which are recorded directly in equity	-	-	-	-	-	-
Dividend received	(4,111)	(1,697)	(5,808)	(6,166)	(567)	(6,733)
Balance as at December 31,	68,621	40,238	108,859	67,373	37,130	104,503

38.2 Summarised Financial Information in Respect of Associates is set out below:**38.2 (a) Summarised Income Statement**

For the year ended December 31,	2016			2015		
	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	28,000	252,335	280,335	59,436	224,373	283,809
Expenses	(21,602)	(214,731)	(236,333)	(16,926)	(192,222)	(209,148)
Income Tax	783	(12,090)	(11,307)	754	(12,468)	(11,714)
Profit from continuing operations, net of tax	7,181	25,514	32,695	43,264	19,683	62,947
Group's share of profit from continuing operations, net of tax	1,645	4,809	6,454	9,916	3,722	13,638
Other Comprehensive Income, net of tax	16,201	499	16,700	(37,134)	(939)	(38,073)
Group's share of Other Comprehensive Income from continuing operations, net of tax	3,713	94	3,807	(8,511)	(178)	(8,689)
Share of results of equity-accounted investee recognised in Income Statement and Statement of Profit or Loss and Other Comprehensive Income	5,358	4,903	10,261	1,405	3,544	4,949

38.2 (b) Summarised Statement of Financial Position

As at December 31,	2016		2015	
	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	194,144	143,515	207,786	141,015
Current assets	114,197	152,333	94,757	128,868
Non-current liabilities	(5,975)	(22,366)	(5,618)	(21,199)
Current liabilities	(2,974)	(60,020)	(2,975)	(52,334)
Net assets	299,392	213,462	293,950	196,350
Group's share of net assets	68,621	40,238	67,373	37,130
Less: Unrealised profits	-	-	-	-
Carrying amount of interest in associates	68,621	40,238	67,373	37,130

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 62 on pages 308 and 309.

39. 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 used 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 is 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 Note below. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Purchased software which is integral to the functionality of the related equipment is capitalised as part of Computer Equipment.

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

- Cost Model

The Group applies the Cost Model to all Property, Plant & Equipment except freehold land and freehold & leasehold buildings. These are recorded 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 & 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 as are substantially different from carrying amounts to ensure that the carrying amounts do not differ from the fair values as 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 & 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 39.5 (b) and Note 39.5 (c).

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).

39.1 Group – 2016

	Freehold Land	Freehold Buildings	Leasehold Buildings	Computer Equipment	Motor Vehicles	Office Equipment, Furniture & Fixtures	Capital Work-in- Progress	Total 2016	Total 2015
	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,	4,924,702	2,635,938	1,080,861	3,880,784	335,180	4,514,891	358,439	17,730,795	16,810,952
Additions/transfers during the year	–	379,169	2,507	643,084	44,457	746,335	(314,482)	1,501,070	1,086,405
Disposals during the year	(10,419)	(905)	–	(275,233)	(31,768)	(72,080)	–	(390,405)	(209,304)
Exchange rate variance	–	–	–	4,772	1,964	12,935	–	19,671	42,742
Adjustments	–	–	–	11,666	–	(11,666)	–	–	–
Balance as at December 31,	4,914,283	3,014,202	1,083,368	4,265,073	349,833	5,190,415	43,957	18,861,131	17,730,795
Accumulated Depreciation and Impairment Losses									
Balance as at January 01,	–	91,285	62,296	2,973,701	217,350	3,204,730	–	6,549,362	5,676,091
Charge for the year [Refer Note 20]	–	94,171	29,887	413,528	40,519	514,983	–	1,093,088	1,024,162
Disposals during the year	–	(42)	–	(271,541)	(30,511)	(66,538)	–	(368,632)	(187,573)
Exchange rate variance	–	–	–	4,351	1,964	11,332	–	17,647	36,682
Transfers/adjustments	–	–	–	1,207	–	(1,207)	–	–	–
Balance as at December 31,	–	185,414	92,183	3,121,246	229,322	3,663,300	–	7,291,465	6,549,362
Net book value as at December 31, 2016	4,914,283	2,828,788	991,185	1,143,827	120,511	1,527,115	43,957	11,569,666	
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

39.2 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/transfers during the year	41,429	153,299	22,022	441,459	41,428	436,534	(49,766)	1,086,405	1,072,322
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)
Adjustments	-	(66,713)	66,713	-	-	-	-	-	-
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 20]	-	90,677	27,927	334,108	41,274	530,176	-	1,024,162	1,087,175
Reversal of over provided depreciation	-	-	-	-	-	-	-	-	(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

There were no capitalised borrowing cost related to the acquisition of Property, Plant & Equipment during the year 2016 (2015 – 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,	2016			2015		
	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	742,730	-	742,730	753,149	-	753,149
Freehold buildings	1,544,666	357,334	1,187,332	1,166,621	328,170	838,451
Leasehold buildings	350,867	165,344	185,523	348,360	154,886	193,474
Total	2,638,263	522,678	2,115,585	2,268,130	483,056	1,785,074

39.3 Bank – 2016

	Freehold Land	Freehold Buildings	Leasehold Buildings	Computer Equipment	Motor Vehicles	Office Equipment, Furniture & Fixtures	Capital Work-in-Progress	Total 2016	Total 2015
	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	2,534,238	189,966	3,864,859	127,798	4,475,277	354,453	16,343,864	15,493,095
Additions/transfers during the year	-	378,045	2,507	620,541	6,177	676,941	(314,482)	1,369,729	986,735
Disposals during the year	-	-	-	(275,233)	(12,057)	(71,236)	-	(358,526)	(177,835)
Exchange rate variance	-	-	-	4,772	1,964	12,878	-	19,614	41,869
Adjustments	-	-	-	11,666	-	(11,666)	-	-	-
Balance as at December 31,	4,797,273	2,912,283	192,473	4,226,605	123,882	5,082,194	39,971	17,374,681	16,343,864
Accumulated Depreciation and Impairment Losses									
Balance as at January 01,	-	88,587	38,850	2,964,201	106,732	3,176,509	-	6,374,879	5,540,004
Charge for the year [Refer Note 20]	-	92,078	5,809	409,811	9,485	505,465	-	1,022,648	961,492
Disposals during the year	-	-	-	(271,541)	(10,850)	(65,882)	-	(348,273)	(162,124)
Exchange rate variance	-	-	-	4,351	1,964	11,287	-	17,602	35,507
Adjustments	-	-	-	1,207	-	(1,207)	-	-	-
Balance as at December 31,	-	180,665	44,659	3,108,029	107,331	3,626,172	-	7,066,856	6,374,879
Net book value as at December 31, 2016	4,797,273	2,731,618	147,814	1,118,576	16,551	1,456,022	39,971	10,307,825	
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

39.4 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/transfers during the year	-	142,599	18,628	439,313	3,958	432,003	(49,766)	986,735	989,864
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)
Adjustments	-	(66,713)	66,713	-	-	-	-	-	-
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 20]	-	88,587	4,482	331,996	12,578	523,849	-	961,492	1,026,730
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

There were no capitalised borrowing costs related to the acquisition of Property, Plant & Equipment during the year 2016 (2015 – 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,	2016			2015		
	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	1,484,701	350,755	1,133,946	1,106,656	323,089	783,567
Leasehold buildings	190,574	50,471	140,103	188,067	45,707	142,360
Total	2,336,262	401,226	1,935,036	1,955,710	368,796	1,586,914

The maturity analysis of Property, Plant & Equipment is given in Note 62 on pages 308 and 309.

39.5 (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	553,940	421,459
Holiday Bungalow – Bandarawela, Ambatenne Estate, Bandarawela	423	5,649	56,700	11,400	67,109	61,436
Holiday Bungalow – Haputale No. 23, Lilly Avenue, Welimada Road, Haputale	258	5,662	30,900	15,300	44,500	38,713
Branch Buildings						
Battaramulla – No. 213, Kaduwela Road, Battaramulla	14	11,216	52,500	87,375	131,138	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	340,805	126,331
Chilaw – No. 44, Colombo Road, Chilaw	35	9,420	63,522	38,000	99,622	126,541
Galewela – No. 49/57, Matale Road, Galewela	99	18,472	22,275	15,225	36,739	32,012
Galle City – No. 130, Main Street, Galle	7	3,675	40,500	8,269	48,156	40,277
Galle Fort – No. 22, Church Street, Fort, Galle	100	11,625	210,000	40,000	248,000	146,256
Gampaha – No. 51, Queen Mary's Road, Gampaha	33	4,685	57,575	10,541	67,511	61,463
Hikkaduwa – No. 217, Galle Road, Hikkaduwa	37	6,713	26,370	24,608	49,647	37,518
Ja-Ela – No. 140, Negombo Road, Ja-Ela	13	7,468	29,000	21,000	48,727	38,741
Jaffna – No. 474, Hospital Road, Jaffna	77	5,146	581,000	19,000	598,100	283,456
Kandy – No. 120, Kotugodella Veediya, Kandy	45	44,500	354,000	231,000	568,500	549,953
Kegalle – No. 186, Main Street, Kegalle	85	2,650	128,000	7,000	134,500	121,300
Keyzer Street – No. 32, Keyzer Street, Colombo 11	7	6,100	56,000	26,000	80,700	68,128
Kollupitiya – No. 285, Galle Road, Colombo 3	17	16,254	115,000	65,000	175,357	158,283
Kotahena – No. 198, George R. De Silva Mawatha, Kotahena, Colombo 13	28	26,722	140,000	207,400	337,030	314,958
Kurunegala – No. 4, Suratissa Mawatha, Kurunegala	50	9,821	199,325	34,675	232,267	218,636
Maharagama – No. 154, High Level Road, Maharagama	18	8,440	53,250	31,750	83,413	101,015
Matale – No. 70, King Street, Matale	51	8,596	75,000	60,000	131,667	117,358
Matara – No. 18, Station Road, Matara	37	8,137	50,695	25,291	74,655	50,470
Minuwangoda – No. 42, Siriwardena Mawatha, Minuwangoda	25	5,550	31,250	17,690	48,010	71,655
Mutwal – 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	213,736	162,939
Narammala – No. 55, Negombo Road, Narammala	42	5,353	53,391	16,609	69,170	58,843
Negombo – Nos. 24, 26, Fernando Avenue, Negombo	37	11,360	73,000	31,000	101,520	73,940
Nugegoda – No. 100, Stanley Thilakaratne Mawatha, Nugegoda	39	11,150	156,000	41,000	194,950	234,221
Nuwara Eliya – No. 36, Buddha Jayanthi Mawatha, Nuwara Eliya	42	10,184	82,000	71,000	149,161	135,834
Panadura – No. 375, Galle Road, Panadura	12	6,168	30,750	40,090	66,833	35,236
Pettah – People's Park Shopping Complex, Colombo 11	–	3,147	–	58,000	52,727	45,723
Pettah – Stores – People's Park Shopping Complex, Colombo 11	–	225	–	4,800	4,364	3,521
Pettah – Main Street – No. 280, Main Street, Pettah, Colombo 11	20	22,760	280,000	152,010	423,522	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	1,146,427	936,148
Wellawatte – No. 343, Galle Road, Colombo 6	45	48,560	249,520	421,700	664,021	235,222
Wennappuwa – Nos. 262, 264, Colombo Road, Wennappuwa	36	9,226	42,000	28,000	68,069	58,315
Total			4,797,273	2,912,283	7,528,893	5,634,136

39.5 (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 of Property	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 Thilakaratne 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.						

Name of Professional Valuer/ Location and Address of Property	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
Kotahena No. 198, George R. De Silva Mawatha, Kotahena, Colombo 13	Market comparable method • Price per perch for land • Price per square foot for building	Rs. 5,000,000 p.p. Rs. 1,000 to Rs. 7,750 p.sq.ft.	110,000	204,958	140,000	207,400	30,000	2,442
Mutwal 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	27,982	32,027
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	23,303
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	22,541	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 of Property	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, Kings 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 of Property	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	110,630	–
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 of Property	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. Pamaratne								
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 Rs. 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	8,841	2,316
	• Price per perch for land	Rs. 1,300,000 p.p.						
	• Price per square foot for building	Rs. 3,500 p.sq.ft.						
	• Depreciation rate	5%						
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

39.5 (c) Valuation Techniques and Sensitivity of the Fair Value Measurement of the Freehold Land and Buildings of the Bank

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
Market Comparable Method This method considers the selling price of a similar property within a reasonably recent period of time in determining the fair value of the property being revalued. This involves evaluation of recent active market prices of similar assets, making appropriate adjustments for differences in size, nature, location, condition of specific property. In this process, outlier transactions, indicative of particularly motivated buyers or sellers are too compensated for since the price may not adequately reflect the fair market value.	Price per perch for land Price per square foot for building Depreciation rate for building	Estimated fair value would increase (decrease) if; Price per perch would increase (decrease) Price per square foot would increase (decrease) Depreciation rate for building would decrease (increase)
Investment Method This method involves the capitalisation of the expected rental income at an appropriate rate of years purchased currently characterised by the real estate market.	Gross Annual Rentals Years purchase (Present value of 1 unit per period) Void period	Estimated fair value would increase (decrease) if; Gross Annual Rentals would increase (decrease) Years purchase would increase (decrease) Void period would decrease (increase)

39.6 Title Restriction on Property, Plant & Equipment

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

39.7 Property, Plant & Equipment Pledged as Security for Liabilities – Bank

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

39.8 Compensation from Third Parties for Items of Property, Plant & Equipment – Bank

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

<i>As at December 31,</i>	2016 Rs. '000	2015 Rs. '000
Total claims lodged	4,832	1,702
Total claims received	(1,643)	(402)
Total claims rejected	–	(643)
Total claims receivable	3,189	657

39.9 Fully Depreciated Property, Plant & Equipment – Bank

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>	2016 Rs. '000	2015 Rs. '000
Computer equipment	1,205,702	1,823,142
Office equipment, furniture and fixtures	1,748,517	1,542,990
Motor vehicles	20,765	27,369

39.10 Temporarily Idle Property, Plant & Equipment – Bank

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

<i>As at December 31,</i>	2016 Rs. '000	2015 Rs. '000
Computer equipment	128,136	349,244
Office equipment, furniture and fixtures	45,887	122,796

39.11 Property, Plant & Equipment Retired from Active Use – Bank

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

<i>As at December 31,</i>	2016 Rs. '000	2015 Rs. '000
Computer equipment	160,181	151,998
Office equipment, furniture and fixtures	100,681	73,991
Motor vehicles	–	–

39.12 Borrowing Costs

There were no capitalised borrowing costs related to the acquisition of Property, Plant & Equipment during the year 2016 (2015 – Nil).

40. 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. 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 40 on page 277). 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.

<i>As at December 31,</i>	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Computer Software [Refer Note 40.1]	506,134	316,864	423,851	308,531
Software under development [Refer Note 40.2]	226,490	167,125	216,794	157,429
Goodwill arising on business combination	400,045	400,045	-	-
Total	1,132,669	884,034	640,645	465,960

40.1 Computer Software

	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cost/Valuation				
Balance as at January 01,	1,731,169	1,629,086	1,719,589	1,618,429
Additions during the year	362,810	99,407	280,986	98,414
Disposals/write-off during the year	(413,059)	(70)	(413,059)	-
Exchange rate variance	1,757	2,754	1,785	2,754
Transfers/adjustments	-	(8)	-	(8)
Balance as at December 31,	1,682,677	1,731,169	1,589,301	1,719,589
Accumulated amortisation and impairment losses				
Balance as at January 01,	1,414,305	1,231,442	1,411,058	1,229,333
Amortisation for the year [Refer Note 20]	173,790	180,558	165,903	179,370
Impairment loss	-	-	-	-
Disposals/write-off during the year	(412,756)	(50)	(412,756)	-
Exchange rate variance	1,204	2,363	1,245	2,363
Transfers/adjustments	-	(8)	-	(8)
Balance as at December 31,	1,176,543	1,414,305	1,165,450	1,411,058
Net book value as at December 31,	506,134	316,864	423,851	308,531

40.2 Software Under Development

	GROUP		BANK	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Cost/Valuation				
Balance as at January 01,	167,125	58,541	157,429	50,032
Additions during the year	135,830	124,901	135,830	123,537
Exchange rate variance	-	(177)	-	-
Transfers/adjustments	(76,465)	(16,140)	(76,465)	(16,140)
Balance as at December 31,	226,490	167,125	216,794	157,429

There were no restrictions on the title of the intangible assets of the Group 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 2016 (2015 – Nil).

The maturity analysis of Intangible Assets is given in Note 62 on pages 308 and 309.

41. Leasehold Property

	GROUP		BANK	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 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,	21,280	19,828	10,362	9,420
Amortisation for the year [Refer Note 20]	1,452	1,452	942	942
Balance as at December 31,	22,732	21,280	11,304	10,362
Net book value as at December 31,	105,968	107,420	73,536	74,478

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:

	GROUP			BANK		
	Cost Rs. '000	Accumulated Amortisation Rs. '000	Net Book Value Rs. '000	Cost Rs. '000	Accumulated Amortisation Rs. '000	Net Book Value Rs. '000
<i>As at December 31, 2016</i>						
Class of Asset						
Leasehold Land	23,715	6,827	16,888	14,846	3,783	11,063
Total	23,715	6,827	16,888	14,846	3,783	11,063

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

The maturity analysis of Leasehold Property is given in Note 62 on pages 308 and 309.

42. Other Assets

As at December 31,	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Receivables	36,511	11,290	36,511	11,290
Deposits and prepayments	1,481,830	1,426,519	1,490,786	1,434,714
Clearing account balance	6,370,312	4,811,743	6,370,312	4,811,743
Unamortised cost on staff loans (Day 1 difference)	3,373,174	2,696,643	3,373,174	2,696,643
Other accounts	5,220,732	3,150,822	5,167,383	3,140,201
Total	16,482,559	12,097,017	16,438,166	12,094,591

The maturity analysis of Other Assets is given in Note 62 on pages 308 and 309.

43. 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 amortised cost using the EIR method. Interest paid/payable on these borrowings is recognised in profit or loss.

As at December 31,	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Borrowings	58,406,994	30,975,857	54,917,414	29,505,580
Local currency borrowings	3,714,684	1,459,600	225,104	–
Foreign currency borrowings	54,692,310	29,516,257	54,692,310	29,505,580
Securities sold under repurchase (Repo) agreements (*)	12,691,397	813,539	12,691,397	813,539
Total	71,098,391	31,789,396	67,608,811	30,319,119

(*) 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 62 on pages 308 and 309.

44. 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 held 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.

Derivative financial liabilities are recorded at fair value. Gains or losses on financial liabilities held-for-trading are recognised in the Income Statement.

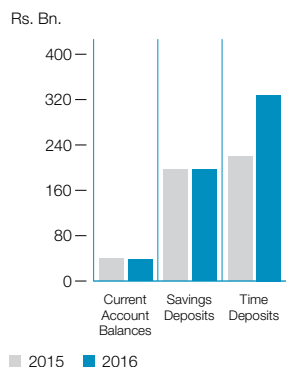
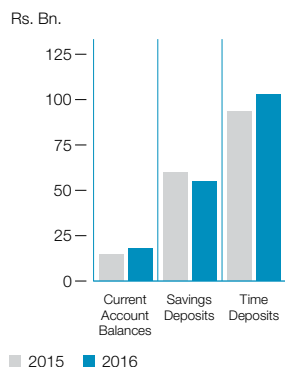
As at December 31,	GROUP		BANK	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Foreign currency derivatives				
Currency swaps	663,714	791,199	663,714	791,199
Forward contracts	849,011	1,098,002	849,011	1,098,002
Spot contracts	2,310	1,569	2,310	1,569
Total	1,515,035	1,890,770	1,515,035	1,890,770

The maturity analysis of Derivative Financial Liabilities is given in Note 62 on pages 308 and 309.

45. 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 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.

As at December 31,	GROUP		BANK	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Local currency deposits	564,036,848	455,729,976	564,194,443	455,810,569
Current account balances	38,151,058	38,689,812	38,152,646	38,692,706
Savings deposits	197,136,502	196,605,341	197,244,642	196,631,547
Time deposits	328,382,343	219,882,652	328,430,210	219,934,145
Certificates of deposit	366,945	552,171	366,945	552,171
Foreign currency deposits	179,273,765	168,291,241	175,369,051	168,291,241
Current account balances	19,516,806	14,699,065	17,908,311	14,699,065
Savings deposits	56,388,046	60,128,349	54,845,666	60,128,349
Time deposits	103,368,913	93,463,827	102,615,074	93,463,827
Total	743,310,613	624,021,217	739,563,494	624,101,810

Deposits – Local Currency – Bank

Deposits – Foreign Currency – Bank

45.1 Analysis of Due to Other Customers/Deposits from Customers

As at December 31,	GROUP		BANK	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
(a) By product				
Current account balances	57,667,864	53,388,877	56,060,957	53,391,771
Savings deposits	253,524,548	256,733,690	252,090,308	256,759,896
Time deposits	431,751,256	313,346,479	431,045,284	313,397,972
Certificates of deposit	366,945	552,171	366,945	552,171
Subtotal	743,310,613	624,021,217	739,563,494	624,101,810
(b) By currency				
Sri Lankan Rupee	564,036,848	455,729,976	564,194,443	455,810,569
United States Dollar	119,220,744	112,704,677	115,932,892	112,704,677
Great Britain Pound	8,195,451	8,194,138	8,195,451	8,194,138
Euro	34,738,958	32,679,287	34,738,958	32,679,287
Australian Dollar	5,984,750	5,653,284	5,851,603	5,653,284
Bangladesh Taka	9,087,549	7,605,532	9,087,088	7,605,532
Other currencies	2,046,313	1,454,323	1,563,059	1,454,323
Subtotal	743,310,613	624,021,217	739,563,494	624,101,810
(c) By institution/customers				
Deposits from banks	5,678,189	9,177,616	5,678,189	9,177,616
Deposits from finance companies	14,908,797	8,551,835	14,888,958	8,551,835
Deposits from other customers	722,723,627	606,291,766	718,996,347	606,372,359
Subtotal	743,310,613	624,021,217	739,563,494	624,101,810

The maturity analysis of due to other customers deposits from customers is given in Note 62 on pages 308 and 309.

46. Other Borrowings

As at December 31,	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Refinance borrowings	5,425,666	4,434,582	5,425,666	4,434,582
Borrowings from International Finance Corporation (IFC)	3,844,488	5,551,055	3,844,488	5,551,055
Total	9,270,154	9,985,637	9,270,154	9,985,637

The maturity analysis of Other Borrowings is given in Note 62 on pages 308 and 309.

47. Current Tax Liabilities

	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 01,	3,025,662	2,037,388	3,001,984	1,997,990
Provision for the year	5,606,143	5,185,218	5,554,989	5,094,780
Under/(Over) provision of taxes in respect of prior years [Refer Note 22.1]	-	1,700	-	1,701
Self-assessment payments	(4,014,741)	(3,376,261)	(3,966,831)	(3,271,753)
Notional tax credits (*)	(918,062)	(900,495)	(916,767)	(899,563)
Withholding tax/other credits	(291,257)	(43,681)	(289,576)	(42,964)
Exchange rate variance	56,937	121,793	56,937	121,793
Balance as at December 31,	3,464,682	3,025,662	3,440,736	3,001,984

(*) 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 and 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 62 on pages 308 and 309.

48. Deferred Tax Assets and Liabilities

48.1 Summary of Net Deferred Tax Liability

	GROUP				BANK			
	2016		2015		2016		2015	
	Temporary Difference Rs. '000	Tax Effect Rs. '000	Temporary Difference Rs. '000	Tax Effect Rs. '000	Temporary Difference Rs. '000	Tax Effect Rs. '000	Temporary Difference Rs. '000	Tax Effect Rs. '000
Balance as at January 01,	1,815,596	467,632	10,435,226	2,876,199	969,263	230,615	9,355,102	2,573,760
Amount originating/(reversing) to Income Statement [Refer Note 22.1]	303,341	42,017	268,938	89,933	94,840	(16,317)	461,836	143,905
Amount originating/(reversing) to Statement of Profit or Loss and Other Comprehensive Income	(4,188,639)	(1,172,819)	(8,838,782)	(2,474,859)	(4,190,193)	(1,173,254)	(8,847,675)	(2,477,349)
Deferred tax on re-classification of revaluation surplus to revaluation reserve	-	-	(49,786)	(13,940)	-	-	-	-
Exchange rate variance	-	(4,980)	-	(9,701)	-	(4,979)	-	(9,701)
Balance as at December 31,	(2,069,702)	(668,150)	1,815,596	467,632	(3,126,090)	(963,935)	969,263	230,615

48.2 Reconciliation of Net Deferred Tax Liability – Group

For the year ended/as at December 31,	Statement of Financial Position		Income Statement		Statement of Profit or Loss and Other Comprehensive Income	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Deferred Tax Liabilities on:						
Accelerated depreciation for tax purposes – Own assets	422,466	371,955	(50,511)	1,220	–	–
Accelerated depreciation for tax purposes – Leased assets	2,024,509	1,873,011	(151,498)	(291,195)	–	–
Revaluation surplus on freehold buildings	726,052	746,234	20,182	20,183	–	–
Tax effect on actuarial gains on defined benefit plans	66,464	26,458	–	–	(40,006)	(22,874)
Effective interest rate on deposits	1,986	2,585	599	813	–	–
Effect of exchange rate variance	–	–	(5,888)	(11,447)	908	1,746
	3,241,477	3,020,243	(187,116)	(280,426)	(39,098)	(21,128)
Deferred Tax Assets on:						
Finance leases	–	–	–	(203)	–	–
Defined benefit plans	386,144	332,194	53,950	51,154	–	–
Tax effect on actuarial losses on defined benefit plans	61,179	23,975	–	–	37,204	8,174
Unrealised (loss) on available-for-sale (AFS) portfolio	2,875,685	1,679,467	–	–	1,196,218	2,471,980
Specific provision on lease receivable	56,254	56,254	–	–	–	–
Leave encashment	179,216	168,232	10,984	7,242	–	–
Tax effect on actuarial losses on leave encashment	13,444	34,949	–	–	(21,505)	15,833
Straight lining of lease rentals	39,236	28,463	10,773	9,241	–	–
De-recognition of commission income	110,633	81,016	29,617	10,354	–	–
Equity-settled share-based payments	117,679	62,532	55,147	62,532	–	–
Impairment provision	62,672	85,529	(22,857)	50,173	–	–
Carried forward tax loss on leasing business	7,485	–	7,485	–	–	–
	3,909,627	2,552,611	145,099	190,493	1,211,917	2,495,987
Deferred tax effect on Income Statement and Statement of Profit or Loss and Other Comprehensive Income for the year			(42,017)	(89,933)	1,172,819	2,474,859
Net deferred tax liability as at December 31,	(668,150)	467,632				

48.3 Reconciliation of Net Deferred Tax Liability – Bank

For the year ended/as at December 31,	Statement of Financial Position		Income Statement		Statement of Profit or Loss and Other Comprehensive Income	
	2016	2015	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Deferred Tax Liabilities on:						
Accelerated depreciation for tax purposes – Own assets	379,184	332,042	(47,142)	(1,175)	–	–
Accelerated depreciation for tax purposes – Leased assets	1,926,686	1,816,321	(110,365)	(290,797)	–	–
Revaluation surplus on freehold buildings	493,791	513,721	19,930	19,930	–	–
Tax effect on actuarial gains on defined benefit plans	63,016	23,301	–	–	(39,715)	(20,242)
Effective interest rate on deposits	1,986	2,585	599	813	–	–
Effect of exchange rate variance	–	–	(5,887)	(11,447)	908	1,746
	2,864,663	2,687,970	(142,865)	(282,676)	(38,807)	(18,496)
Deferred Tax Assets on:						
Defined benefit plans	375,497	322,835	52,662	49,402	–	–
Tax effect on actuarial losses on defined benefit plans	60,946	23,620	–	–	37,326	8,047
Unrealised (loss) on available-for-sale (AFS) portfolio	2,875,694	1,679,454	–	–	1,196,240	2,471,965
Specific provision on lease receivable	56,254	56,254	–	–	–	–
Leave encashment	179,216	168,232	10,984	7,242	–	–
Tax effect on actuarial losses on leave encashment	13,444	34,949	–	–	(21,505)	15,833
Straight lining of lease rentals	39,236	28,463	10,773	9,241	–	–
De-recognition of commission income	110,632	81,016	29,616	10,354	–	–
Equity-settled share-based payments	117,679	62,532	55,147	62,532	–	–
	3,828,598	2,457,355	159,182	138,771	1,212,061	2,495,845
Deferred tax effect on Income Statement and Statement of Profit or Loss and Other Comprehensive Income for the year			16,317	(143,905)	1,173,254	2,477,349
Net deferred tax liability as at December 31,	(963,935)	230,615				

The maturity analysis of Deferred Tax Liabilities is given in Note 62 on pages 308 and 309.

49. 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.

As at December 31,	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	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 62 on pages 308 and 309.

50. 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 as at the Reporting date.

As at December 31,	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Accrued expenditure	2,362,488	2,029,007	2,342,023	2,015,485
Cheques sent on clearing	6,358,679	4,811,743	6,358,679	4,811,743
Provision for gratuity payable [Refer Note 50.1 (b)]	1,010,095	886,648	983,180	863,230
Provision for unfunded pension scheme [Refer Note 50.2 (b)]	214,886	219,283	214,886	219,283
Provision for Leave Encashment [Refer Note 50.3 (b)]	688,073	725,647	688,073	725,647
Payable on oil hedging transactions	929,044	894,302	929,044	894,302
Other payables	6,465,637	6,182,554	6,194,509	6,018,469
Total	18,028,902	15,749,184	17,710,394	15,548,159

The maturity analysis of Other Liabilities is given in Note 62 on pages 308 and 309.

50.1 Provision for Gratuity Payable

An actuarial valuation of the retirement gratuity payable was carried out as at December 31, 2016 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'.

50.1 (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, 2015) to determine the liabilities of the active employees in the gratuity, were used in the actuarial valuation carried out as at December 31, 2016.
	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	Sri Lankan operation In the absence of a deep market in long-term bonds in Sri Lanka, a long-term interest rate of 11.50% p.a. (2015 – 10.50% p.a.) has been used to discount future liabilities considering anticipated long-term rate of inflation.
		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 8% p.a. (2015 – 9% p.a.) has been used to discount future liabilities considering anticipated long-term rate of inflation.
	Salary increases	Sri Lankan operation A salary increment of 10% p.a. (2015 – 10% p.a.) has been used in respect of the active employees. Bangladesh operation A salary increment of 10% p.a. (2015 – 10% p.a.) has been used in respect of the active employees.

50.1 (b) Movement in the Provision for Gratuity Payable

	GROUP		BANK	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Balance as at January 01,	886,648	748,969	863,230	720,520
Expense recognised in the Income Statement [Refer Note 50.1 (c)]	211,237	178,347	204,791	171,451
Exchange rate variance	7,782	14,579	7,782	14,579
Amount paid during the year	(39,701)	(28,194)	(38,230)	(25,017)
Actuarial gain recognised in other comprehensive income	(55,871)	(27,053)	(54,393)	(18,303)
Balance as at December 31,	1,010,095	886,648	983,180	863,230

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

<i>For the year ended December 31,</i>	GROUP		BANK	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Interest cost	91,149	73,745	88,801	70,160
Current service cost	120,088	104,602	115,990	101,291
Total	211,237	178,347	204,791	171,451

50.1 (d) Sensitivity Analysis on Actuarial Valuation

The following table illustrates the impact of the possible changes in the discount rate and salary increases in gratuity valuation of the Group and the Bank as at December 31, 2016.

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	(143,011)	(141,480)
1% decrease in discount rate	158,313	156,576
1% increase in salary	163,072	161,297
1% decrease in salary	(148,678)	(147,090)

50.2 Provision for Unfunded Pension Scheme

An actuarial valuation of the unfunded pension liability was carried out as at December 31, 2016 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'.

50.2 (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, 2015) to determine the liabilities of the active employees in the funded scheme, were used in the actuarial valuation carried out as at December 31, 2016.
	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 11.50% p.a. (2015 – 10.50% 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. (2015 – 10% p.a.) has been used in respect of the active employees.
	Post-retirement pension increase rate	There is no agreed rate of increase even though the pension payments are subject to periodic increases, and increases are granted solely at the discretion of the Bank. Therefore, no specific rate was assumed for this valuation.

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

	GROUP		BANK	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Balance as at January 01,	219,283	203,458	219,283	203,458
Expense recognised in the Income Statement [Refer Note 50.2 (c)]	23,025	19,329	23,025	19,329
Amount paid during the year	(34,134)	(32,245)	(34,134)	(32,245)
Actuarial loss recognised in other comprehensive income	6,712	28,741	6,712	28,741
Balance as at December 31,	214,886	219,283	214,886	219,283

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

	GROUP		BANK	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
<i>For the year ended December 31,</i>				
Interest cost	23,025	19,329	23,025	19,329
Current service cost	-	-	-	-
Total	23,025	19,329	23,025	19,329

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

The following table illustrates the impact of the possible changes in the discount rate and salary increases in the unfunded pension scheme valuation of the Bank as at December 31, 2016.

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	(8,196)	(8,196)
1% decrease in discount rate	8,949	8,949
1% increase in salary	–	–
1% decrease in salary	–	–

50.3 Provision for Leave Encashment

An actuarial valuation of the leave encashment liability was carried out as at December 31, 2016 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'.

50.3 (a) Actuarial Assumptions

Type of Assumption	Criteria	Description
Demographic	Mortality – In service	A 1967/70 Mortality table issued by the Institute of Actuaries, London
	Staff turnover	The probability of a member withdrawing from the scheme within a year of ages between 20 to 55 years.
	Disability	The probability of a member becoming disabled within a year of ages between 20 to 55 years.
Financial	Rate of discount	In the absence of a deep market in long-term bonds in Sri Lanka, a long-term interest rate of 11.50% p.a. (2015 – 10.50% 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. (2015 – 10% p.a.) has been used in respect of the active employees.

50.3 (b) Movement in the Provision for Leave Encashment

	GROUP		BANK	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Balance as at January 01,	725,647	643,238	725,647	643,238
Expense recognised in the Income Statement [Refer Note 50.3 (c)]	76,193	61,108	76,193	61,108
Amount paid during the year	(36,965)	(35,243)	(36,965)	(35,243)
Actuarial (gain)/loss recognised in other comprehensive income	(76,802)	56,544	(76,802)	56,544
Balance as at December 31,	688,073	725,647	688,073	725,647

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

<i>For the year ended</i>	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest cost	76,193	61,108	76,193	61,108
Current service cost	-	-	-	-
Total	76,193	61,108	76,193	61,108

50.3 (d) Sensitivity Analysis on Actuarial Valuation – Leave Encashment

The following table illustrates the impact of the possible changes in the discount rates and salary increases on account of leave encashment liability of the Bank as at December 31, 2016.

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		(76,710)		(76,710)
1% decrease in discount rate		93,149		93,149
1% increase in salary		96,842		96,842
1% decrease in salary		(80,841)		(80,841)

50.4 Employee Retirement Benefit**50.4.1 Pension Fund – Defined Benefit Plan**

An actuarial valuation of the Retirement Pension Fund was carried out as at December 31, 2016 by Mr. M. Poopalanathan, AIA, of Messrs Actuarial and 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.

50.4.1 (a) Actuarial Assumptions

Type of Assumption	Criteria	Description
Demographic	Mortality – in service	A 67/70 Mortality table issued by the Institute of Actuaries, London
	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, 2015) 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, 2016.
	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 11.50% p.a. (2015 – 10.50% 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. (2015 – 10% p.a.) has been used in respect of the active employees.
	Post-retirement pension increase rate	There is no agreed rate of increase even though the pension payments are subject to periodic increases and increases are granted solely at the discretion of the Bank. Therefore, no specific rate was assumed for this valuation.

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

	2016 Rs. '000	2015 Rs. '000
Balance as at January 01,	163,821	140,311
Interest cost	17,201	13,329
Current service cost	2,686	3,022
Benefits paid during the year	(15,879)	(12,169)
Actuarial (gain)/loss	(6,996)	19,328
Balance as at December 31,	160,833	163,821

50.4.1 (c) Movement in the Fair Value of Plan Assets

	2016 Rs. '000	2015 Rs. '000
Fair value as at January 01,	137,308	125,708
Expected return on plan assets	14,418	11,943
Contribution paid into plan	1,624	1,588
Benefits paid by the plan	(15,879)	(12,169)
Actuarial gain on plan assets	23,281	10,238
Fair value as at December 31,	160,752	137,308

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

	2016 Rs. '000	2015 Rs. '000
Present value of defined benefit obligations as at January 01,	160,833	163,821
Fair value of plan assets	(160,752)	(137,308)
Net liability recognised under other liabilities	81	26,513

50.4.1 (e) Plan Assets Consist of the following

	2016 Rs. '000	2015 Rs. '000
Deposits held with the Bank	160,752	137,308
Total	160,752	137,308

50.4.2 W&OP Fund – Defined Benefit Plan

An actuarial valuation of the Retirement Pension W&OP Fund was carried out as at December 31, 2016 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.

50.4.2 (a) Actuarial Assumptions

Type of Assumption	Criteria	Description
Demographic	Mortality – in service	A 67/70 Mortality table issued by the Institute of Actuaries, London
	After retirement	A (90) Annuities table (Males & 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, 2015) 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, 2016.
	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 11.50% p.a. (2015 – 10.50% 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. (2015 – 10% p.a.) has been used in respect of the active employees.
	Post-retirement pension increase rate	There is no agreed rate of increase even though the pension payments are subject to periodic increases and increases are granted solely at the discretion of the Bank. Therefore, no specific rate was assumed for this valuation.

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

	2016 Rs. '000	2015 Rs. '000
Balance as at January 01,	49,853	45,046
Interest cost	5,235	4,279
Current service cost	310	368
Benefits paid during the year	(3,328)	(3,124)
Actuarial (gain)/loss	(3,651)	3,284
Balance as at December 31,	48,419	49,853

50.4.2 (c) Movement in the Fair Value of Plan Assets

	2016 Rs. '000	2015 Rs. '000
Fair value as at January 01,	44,320	38,351
Expected return on plan assets	4,654	3,644
Contribution paid into plan	200	189
Benefits paid by the plan	(3,328)	(3,124)
Actuarial gain on plan assets	4,336	5,260
Fair value as at December 31,	50,182	44,320

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

	2016 Rs. '000	2015 Rs. '000
Present value of defined benefit obligations as at January 01,	48,419	49,853
Fair value of plan assets	(50,182)	(44,320)
Net liability recognised under other liabilities	(1,763)	5,533

50.4.2 (e) Plan Assets Consist of the following

	2016 Rs. '000	2015 Rs. '000
Deposits held with the Bank	50,182	44,320
Total	50,182	44,320

50.4.3 Pension Fund – Defined Contribution Plan

During 2006, the Bank restructured its pension scheme which was a Defined Benefit Plan (DBP) to a Define Contribution Plan (DCP). This restructured plan was offered on a voluntary basis to the eligible employees of the Bank. The scheme provided for lump sum payments instead of commuted/monthly pension 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 future service package. The cost to be incurred 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, estimated to increase for this purpose at 10% p.a. In addition, interest to be earned on the assets of the DCP is also allocated to the employees who joined the restructured scheme.

51. Due to Subsidiaries

As at December 31,	GROUP		BANK	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Local Subsidiaries				
Commercial Development Company PLC	-	-	9,260	8,500
ONEzero Company Ltd.	-	-	10,801	17,712
Serendib Finance Ltd.	-	-	-	-
Subtotal	-	-	20,061	26,212
Foreign Subsidiaries				
Commex Sri Lanka S.R.L. – Italy	-	-	-	-
Commercial Bank of Maldives Private Limited	-	-	-	-
Subtotal	-	-	-	-
Total	-	-	20,061	26,212

The maturity analysis of Due to Subsidiaries is given in Note 62 on pages 308 and 309.

52. 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.

	GROUP		BANK	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Balance as at January 01,	11,798,910	11,098,910	11,783,910	10,883,910
Amount borrowed during the year (*)	13,179,430	-	13,179,430	-
Repayments/redemptions during the year	(987,660)	(200,000)	(972,660)	-
Subtotal	23,990,680	10,898,910	23,990,680	10,883,910
Exchange rate variance	420,000	900,000	420,000	900,000
Balance as at December 31, (before adjusting for amortised interest and transaction cost) [Refer Note 52.1]	24,410,680	11,798,910	24,410,680	11,783,910
Unamortised transaction cost	(75,805)	(88,015)	(75,805)	(88,015)
Net effect of amortised interest payable	514,664	277,377	514,664	277,377
Adjusted balance as at December 31,	24,849,539	11,988,272	24,849,539	11,973,272

(*) Funds raised through the Debenture Issues have been utilised to finance expansion by increasing the lending portfolio of the Bank within 12 months from the Date of Allotment. Subordinated funds raised through the Debenture Issue are expected to further improve the Capital Adequacy of the Bank by increasing its Tier II Capital base thus strengthening its Total Eligible Capital.

Outstanding subordinated liabilities of the Bank as at December 31, 2016, consisted of 131,794,300 (2015 – 972,660) unsecured subordinated redeemable debentures of Rs. 100/- (2015 – Rs. 1,000/-) each and a subordinated loan of US \$ 75.0 Mn. (2015 – US \$ 75.0 Mn.) from International Finance Corporation (IFC).

52.1 Categories of Subordinated Liabilities

Categories	Colombo Stock Exchange Listing	Interest Payable Frequency	Allotment Date	Maturity Date	Effective Annual Yield		GROUP		BANK	
					2016	2015	2016	2015	2016	2015
					%	%	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Fixed Rate Debentures										
2016/2021 – 10.75% p.a.	Listed	Bi-annually	09.03.2016	08.03.2021	11.04	–	4,430,340	–	4,430,340	–
2016/2021 – 12.00% p.a.	Listed	Bi-annually	28.10.2016	27.10.2021	12.36	–	5,071,800	–	5,071,800	–
2016/2026 – 11.25% p.a.	Listed	Bi-annually	09.03.2016	08.03.2026	11.57	–	1,749,090	–	1,749,090	–
2016/2026 – 12.25% p.a.	Listed	Bi-annually	28.10.2016	27.10.2026	12.63	–	1,928,200	–	1,928,200	–
2006/2016 – 13.25% p.a.	Not Listed	Annually	16.05.2006	16.05.2016	–	13.25	–	505,000	–	505,000
2006/2016 – 14.00% p.a.	Listed	Annually	18.12.2006	18.12.2016	–	14.00	–	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	–	10.21	–	400	–	400
Floating Rate Subordinated Loans										
IFC Borrowings – 6 months LIBOR + 5.75%		Bi-annually	13.03.2013	14.03.2023	7.013	6.275	11,231,250	10,811,250	11,231,250	10,811,250
Subsidiaries										
Fixed Rate Debentures										
2011/2016 – 14.15% p.a.	Not listed	Monthly	25.08.2011	25.08.2016	–	15.10	–	10,000	–	–
2011/2016 – 14.15% p.a.	Not listed	Monthly	25.08.2011	25.08.2016	–	15.10	–	5,000	–	–
Total							24,410,680	11,798,910	24,410,680	11,783,910

(*) 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.

52.2 Subordinated Liabilities by Maturity

As at December 31,	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Payable within one year	–	987,660	–	972,660
Payable after one year	24,410,680	10,811,250	24,410,680	10,811,250
Total	24,410,680	11,798,910	24,410,680	11,783,910

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, 2016.

The maturity analysis of Subordinated Liabilities is given in Note 62 on pages 308 and 309.

53. Stated Capital

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

	GROUP		BANK	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Balance as at January 01,	23,254,605	21,457,501	23,254,605	21,457,501
Issue of ordinary voting shares under the Employee Share Option Plan	144,804	237,304	144,804	237,304
Issue of ordinary shares as part of the final dividend satisfied in the form of issue and allotment of new shares	1,578,594	1,559,800	1,578,594	1,559,800
Ordinary voting shares	1,477,179	1,459,666	1,477,179	1,459,666
Ordinary non-voting shares	101,415	100,134	101,415	100,134
Balance as at December 31,	24,978,003	23,254,605	24,978,003	23,254,605

53.1 Movement in Number of Shares

	No. of Ordinary Voting Shares		No. of Ordinary Non-Voting Shares	
	2016	2015	2016	2015
Balance as at January 01,	820,567,115	810,277,729	56,299,686	55,579,946
Issue of ordinary voting shares under the Employee Share Option Plan	1,136,732	2,170,613	-	-
Issue of ordinary shares as part of the final dividend satisfied in the form of issue and allotment of new shares	11,818,040	8,118,773	912,967	719,740
Balance as at December 31,	833,521,887	820,567,115	57,212,653	56,299,686

The shares of Commercial Bank of Ceylon PLC are quoted on 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 refer Note 53.2 on page 297 for details.

53.2 Employee Share Option Plan – 2008

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

Option price is determined on the basis of the weighted average market price of Bank's voting shares, during the period of ten market days immediately prior to each option offer date.

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

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

Date granted	Tranche I			Total
	April 30, 2008	April 30, 2008	April 30, 2008	
Price (Rs.) – (*)	46.91	46.91	46.91	
Exercisable between	1/3 of Options	1/3 of Options	1/3 of Options	
	April 30, 2009 to April 29, 2013	April 30, 2010 to April 29, 2014	April 30, 2011 to April 29, 2015	
Original number of options	777,308	777,308	777,308	2,331,924
Additions consequent to share splits and rights issues	692,095	789,320	1,057,059	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, 2016	(1,416,460)	(1,513,685)	(1,781,424)	(4,711,569)
Number of options to be exercised as at December 31, 2016	-	-	-	-

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

Date granted	Tranche II			Total
	April 30, 2011	April 30, 2011	April 30, 2011	
Price (Rs.)	132.23	132.23	132.23	
Exercisable between	1/3 of Options	1/3 of Options	1/3 of Options	
	April 30, 2012 to April 29, 2016	April 30, 2013 to April 29, 2017	April 30, 2014 to April 29, 2018	
Original number of options	1,213,370	1,213,386	1,213,399	3,640,155
Additions consequent to share splits and rights issues	1,213,370	1,213,386	1,213,399	3,640,155
Number of options cancelled before vesting	(30,980)	(41,307)	(95,236)	(167,523)
Number of options vested	2,395,760	2,385,465	2,331,562	7,112,787
Options cancelled due to non-acceptance	(1,337,809)	-	-	(1,337,809)
Number of options exercised up to December 31, 2016	(1,057,951)	(661,204)	(371,669)	(2,090,824)
Number of options to be exercised as at December 31, 2016	-	1,724,261	1,959,893	3,684,154

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	Total
	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	2,596,557	2,596,624	2,596,663	7,789,844
Number of options cancelled before vesting	–	(49,706)	(79,964)	(129,670)
Number of options vested	2,596,557	2,546,918	2,516,699	7,660,174
Number of options exercised up to December 31, 2016	(1,687,979)	(1,235,341)	(855,973)	(3,779,293)
Number of options to be exercised as at December 31, 2016	908,578	1,311,577	1,660,726	3,880,881

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 54 to the Financial Statements below:

54. Share-Based Payment

54.1 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	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	1½ years of service from the grant date and the fulfilment of performance conditions stated above for the Financial Year 2015	2½ years of service from the grant date and the fulfilment of performance conditions stated above for the Financial Year 2016	3½ years of service from the grant date and the fulfilment of performance conditions stated above for the Financial Year 2017
No. of options vested on the date of vesting			
Option granted to Key Management Personal	81,869	–	–
Option granted to senior employees	4,073,989	–	–
Total options vested on the date of vesting	4,155,858	–	–

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 types 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.

54.2 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

Growths in share prices 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.

54.3 Reconciliation of Outstanding Share Options

The number and weighted-average exercise prices of share options are as follows:

	2016		2015	
	No. of options	WAEP*	No. of options	WAEP*
No. of voting shares vested and to be vested as at January 01,	16,351,837	212.20	–	233.59
Granted during the year	–	–	16,351,837	–
Exercised during the year	(242,245)	122.73	–	–
No. of voting shares vested and to be vested as at December 31,	16,109,592	213.55	16,351,837	233.59
No. of options to be exercised as at December 31,	3,913,613	122.73	–	–

*Weighted Average Exercise Price

54.4 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 19].

55. Statutory Reserves

Statutory reserves are maintained by the Group in order to meet legal requirements. The details of these reserves including the nature and purpose of maintaining them are given in Note 55.1 below:

As at December 31,	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Statutory reserve fund [Refer Note 55.1]	5,647,993	4,922,367	5,647,890	4,922,264
Subtotal	5,647,993	4,922,367	5,647,890	4,922,264

55.1 Statutory Reserve Fund

	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 01,	4,922,367	4,327,103	4,922,264	4,327,103
Transfers during the year	725,626	595,264	725,626	595,161
Balance as at December 31,	5,647,993	4,922,367	5,647,890	4,922,264

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 the said 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.

56. Retained Earnings

	GROUP		BANK	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Balance as at January 01,	4,467,807	4,418,412	4,388,867	4,258,287
Super Gain Tax for the year of assessment 2013/14 (*)	-	(2,608,469)	-	(2,576,355)
Balance as at January 01, (Adjusted)	4,467,807	1,809,943	4,388,867	1,681,932
Total comprehensive income	14,654,924	11,783,842	14,652,274	11,834,510
Profit for the year	14,510,333	11,855,172	14,512,511	11,903,224
Other comprehensive income, net of tax	144,591	(71,330)	139,763	(68,714)
Dividends paid	(5,720,913)	(5,647,414)	(5,720,913)	(5,647,414)
Write back of dividend payable	624	-	-	-
Derecognition of revaluation reserve	5,628	-	-	-
Transfers to other reserves	(8,856,151)	(3,480,264)	(8,856,151)	(3,480,161)
Profit on sale of partial disposal of subsidiary	3,047	2,344	-	-
Reinstatement of non-controlling interest due to partial disposal of subsidiary	(1,188)	(644)	-	-
Balance as at December 31,	4,553,778	4,467,807	4,464,077	4,388,867

(*) As per the amendments to provisions of the Finance Act from the Government Interim Budget Proposals for 2015, the Group and the Bank were 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 01, 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.

57. Other Reserves

57. (a) Current Year – 2016

	GROUP			BANK		
	Balance as at January 01, Rs. '000	Movement/ Transfers Rs. '000	Balance as at December 31, Rs. '000	Balance as at January 01, Rs. '000	Movement/ Transfers Rs. '000	Balance as at December 31, Rs. '000
Revaluation reserve [Refer Note 57.1]	6,258,939	(8,385)	6,250,554	5,722,859	-	5,722,859
General reserve [Refer Note 57.2]	35,359,478	8,130,525	43,490,003	35,359,478	8,130,525	43,490,003
Available-for-sale reserve [Refer Note 57.3]	(3,955,376)	(3,253,429)	(7,208,805)	(3,955,367)	(3,253,429)	(7,208,796)
Foreign currency translation reserve [Refer Note 57.4]	432,489	428,013	860,502	424,768	414,578	839,346
Employee share option reserve [Refer Note 57.5]	223,330	196,952	420,282	223,330	196,952	420,282
Total	38,318,860	5,493,676	43,812,536	37,775,068	5,488,626	43,263,694

57. (b) Previous Year – 2015

	GROUP			BANK		
	Balance as at January 01, Rs. '000	Movement/ Transfers Rs. '000	Balance as at December 31, Rs. '000	Balance as at January 01, Rs. '000	Movement/ Transfers Rs. '000	Balance as at December 31, Rs. '000
Revaluation reserve [Refer Note 57.1]	6,246,960	11,979	6,258,939	5,722,859	–	5,722,859
General reserve [Refer Note 57.2]	32,474,478	2,885,000	35,359,478	32,474,478	2,885,000	35,359,478
Available-for-sale reserve [Refer Note 57.3]	2,735,569	(6,690,945)	(3,955,376)	2,735,578	(6,690,945)	(3,955,367)
Foreign currency translation reserve [Refer Note 57.4]	(454,188)	886,677	432,489	(464,076)	888,844	424,768
Employee share option reserve [Refer Note 57.5]	–	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

57.1 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	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Balance as at January 01,	6,258,939	6,246,960	5,722,859	5,722,859
Derecognition of revaluation reserve to the retained earnings	(5,628)	–	–	–
Reinstatement of deferred tax on revaluation gains	–	13,710	–	–
Movement due to changes in equity	(2,757)	(1,731)	–	–
Balance as at December 31,	6,250,554	6,258,939	5,722,859	5,722,859

57.2 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	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Balance as at January 01,	35,359,478	32,474,478	35,359,478	32,474,478
Transfers during the year	8,130,525	2,885,000	8,130,525	2,885,000
Balance as at December 31,	43,490,003	35,359,478	43,490,003	35,359,478

57.3 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	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Balance as at January 01,	(3,955,376)	2,735,569	(3,955,367)	2,735,578
Net fair value gains/(losses) on remeasuring financial investments available-for-sale	(3,253,429)	(6,690,945)	(3,253,429)	(6,690,945)
Balance as at December 31,	(7,208,805)	(3,955,376)	(7,208,796)	(3,955,367)

57.4 Foreign Currency Translation Reserve

The foreign currency translation reserve comprises 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, Commex – Sri Lanka S.R.L. Italy and Commercial Bank of Maldives Private Limited., subsidiaries of the Bank were translated into the presentation currency (Sri Lankan Rupee) at the exchange rate ruling as 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	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Balance as at January 01,	432,489	(454,188)	424,768	(464,076)
Net unrealised gains/(losses) arising from translating the Financial Statements of foreign operations	438,565	886,677	414,578	888,844
Foreign currency translation reserve attributable to non-controlling interest	(10,552)	–	–	–
Balance as at December 31,	860,502	432,489	839,346	424,768

57.5 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	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Balance as at January 01,	223,330	–	223,330	–
Transfers during the year [Refer Note 19]	206,174	223,330	206,174	223,330
Transfers to stated capital	(9,222)	–	(9,222)	–
Balance as at December 31,	420,282	223,330	420,282	223,330

58. 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. Accordingly, the Bank has Non-controlling interest of two subsidiaries namely, Commercial Development Company PLC. (NCI of 6.15%) and Commercial Bank of Maldives Private Limited (NCI of 45%) as at the Reporting date as follows.

	2016 Rs. '000	2015 Rs. '000
Balance as at January 01,	50,208	47,564
Super Gain Tax for the year of assessment 2013/2014	-	(1,503)
Profit for the year	(43,909)	4,088
Other comprehensive income, net of tax	10,594	369
Dividends paid for the year	(3,432)	(3,270)
Reinstatement of deferred tax on revaluation gains	-	585
Write back of dividend payable	38	-
Reinstatement of non-controlling interest due to partial disposal of subsidiary	3,945	2,375
Incorporation of a subsidiary with Non-Controlling Interest	805,669	-
Balance as at December 31,	823,113	50,208

59. 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 59.1 on page 305.

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 therefore form part of the overall risk profile of the Bank.

As at December 31,	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Contingencies	365,862,605	365,874,611	365,853,920	365,874,611
Guarantees	33,267,170	31,504,779	33,258,485	31,504,779
Performance bonds	22,553,060	14,095,269	22,553,060	14,095,269
Documentary credits	36,222,394	30,161,623	36,222,394	30,161,623
Other contingencies [Refer Note 59.1]	273,819,981	290,112,940	273,819,981	290,112,940
Commitments	132,705,895	155,357,709	132,450,607	155,357,709
Undrawn commitments [Refer Note 59.2]	131,628,622	153,979,986	131,381,356	153,979,986
Capital commitments [Refer Note 59.3]	1,077,273	1,377,723	1,069,251	1,377,723
Total	498,568,500	521,232,320	498,304,527	521,232,320

59.1 Other Contingencies

As at December 31,	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Forward exchange contracts:	70,646,854	77,647,330	70,646,854	77,647,330
Forward exchange sales	26,084,323	44,293,601	26,084,323	44,293,601
Forward exchange purchases	44,562,531	33,353,729	44,562,531	33,353,729
Interest Rate Swap agreements/Currency Swaps:	158,012,034	168,466,179	158,012,034	168,466,179
Interest rate swaps	-	-	-	-
Currency swaps	158,012,034	168,466,179	158,012,034	168,466,179
Others:	45,161,093	43,999,431	45,161,093	43,999,431
Acceptances	25,281,037	25,708,732	25,281,037	25,708,732
Bills for collection	19,260,765	17,533,095	19,260,765	17,533,095
Stock of Travellers' Cheques	616,341	586,893	616,341	586,893
Bullion on consignment	2,950	170,711	2,950	170,711
Subtotal	273,819,981	290,112,940	273,819,981	290,112,940

59.2 Undrawn Commitments

As at December 31,	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
On direct advances	97,459,750	109,755,816	97,212,484	109,755,816
On indirect advances	34,168,872	44,224,170	34,168,872	44,224,170
Subtotal	131,628,622	153,979,986	131,381,356	153,979,986

59.3 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	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Commitments in relation to property, plant & equipment	647,677	964,469	647,677	964,469
Approved and contracted for	511,667	725,069	511,667	725,069
Approved but not contracted for	136,010	239,400	136,010	239,400
Commitments in relation to intangible assets	429,596	413,254	421,574	413,254
Approved and contracted for	429,596	413,254	421,574	413,254
Approved but not contracted for	–	–	–	–
Subtotal	1,077,273	1,377,723	1,069,251	1,377,723

59.4 Contingent Liabilities and Commitments of Subsidiaries and Associates

59.4 (a) Contingent Liabilities and Commitments of Subsidiaries

Contingent liabilities and commitments of the subsidiary, Commercial Bank of Maldives Private Limited have been included in the Consolidated Financial Statements of the Group while other subsidiaries of the Group do not have any contingencies or commitments as at the Reporting date.

59.4 (b) Contingent Liabilities and Commitments of Associates

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

60. Net Assets Value Per Ordinary Share

As at December 31,	GROUP		BANK	
	2016	2015	2016	2015
Amounts used as the Numerator:				
Total equity attributable to equity holders of the Bank (Rs. '000)	78,992,310	70,963,639	78,353,664	70,340,804
Number of ordinary shares used as the denominator:				
Total number of shares	890,734,540	876,866,801	890,734,540	876,866,801
Net assets value per share (Rs.)	88.68	80.93	87.97	80.22

61. Litigation Against the Bank

Litigation is a common occurrence in the banking industry due to the nature of the business. The Bank has an established protocol for dealing with such legal claims. In respect of pending legal claims where the Bank had already made provisions for possible losses in its Financial Statements or has a realisable security to cover the damages are not included below as the Bank does not expect cash outflows from such claims. However, further adjustments are made to Financial Statements if necessary on the adverse effects of legal claims based on the professional advice obtained on the certainty of the outcome and also based on a reasonable estimate.

Set out below are the unresolved legal claims against the Bank as at December 31, 2016 for which, adjustments to the Financial Statements have not been made due to the uncertainty of its outcome. In addition, there are cases filed against the Bank that have not been listed here on the basis of non-materiality to operations and aggrieved party had obtained injunctions prior to acquiring the property by the Bank.

- (i) Court action has been initiated by a customer in High Court Civil Case No. 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. Plaintiff has closed his case. Evidence by the 1st defendant has been completed. Bank as the 2nd defendant is scheduled to submit evidences on July 06, 2017.
- (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 judgment was entered against the Bank in the District Court for Rs.1.874 Mn. The Bank has appealed (Appeal No. 133/2010) to the Supreme Court. Arguments have been concluded. Bank has complied with written submissions. Date for the judgment is yet to be fixed.
- (iii) Court action has been initiated by the plaintiff in the Commercial High Court of the Western Province case No. 571/2008/MR to prevent the Bank from exercising the inherent rights of the Bank to set off a deposit of the plaintiff amounting to US\$ 15.000 Mn. against a sum due from the plaintiff in terms of a hedging agreement. Commercial High Court issued the judgment in favour of the Bank and dismissed plaintiff's application for an interim injunction. Presently the case is at the trial stage. Further trial fixed for July 12, 2017.
- (iv) Court action has been initiated by a customer for Rs. 14.000 Mn. in District Court, Colombo proceeding No. 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 initially filed at the District Court was later referred to the Commercial High Court under case No. 315/2018/MR. Trial fixed for March 20, 2017.
- (v) Court action has been initiated in proceedings No. 03034/14/MR to claim a sum of Rs. 27.870 Mn. being the total amount withdrawn from the Company account with forged signatures by an employee by forging authorised customer's signatures in a number of transactions during a period of two years. Further trial fixed for June 14, 2017.
- (vi) Court action has been initiated in proceedings No. DMR/974/2016 to recover a sum of Rs. 26.237 Mn. together with interest as damages incurred by the plaintiff due to the delay by the Bank in refunding the amount with regard to a duplicated telegraphic transfer for USD 25,000/-. Answer filed by the Bank and next trial is fixed for June 28, 2017.
- (vii) An appeal was filed by the Bank under proceedings number HCALT 405/2014 in Provincial High Court of the Eastern Province against the order of the Labour Tribunal for payment of compensation and re-instatement in employment of an outsourced office helper. The office helper too filed a case in Provincial High Court in proceedings number HCALT 404/2014 refusing compensation and asking for reinstatement. Appeal made by the Bank was dismissed and the case filed by outsourced office helper was decided in favour of him. Bank appealed in the Supreme Court against the judgment of both cases under proceeding number SC/SPL/LA/220/15 and SC/SPL/LA/221/15. Next hearing of the cases is fixed for April 07, 2017.
- (viii) Court action has been initiated in proceeding No. 139/2016/MR to recover a sum of Rs. 29.000 Mn. together with interest and Rs. 10.000 Mn. as damages for holding a balance in a fixed deposit as lien against loans which plaintiff claims to be fraudulently created. Final answer due on March 22, 2017.
- (ix) Court action has been initiated for Rs. 15.000 Mn. and interest thereon in proceedings No. 584/L seeking declaration that the plaintiff is the lawful owner of the property mortgaged by her daughter as a security for a loan obtained from the Bank. The estimated loan loss to the Bank is Rs. 15.000 Mn. together with interest thereon. Answer due on March 03, 2017.
- (x) Court action has been initiated by a third party in Colombo High Court in proceedings No. 112/2005(1) to claim Rs. 5.584 Mn. plus Rs. 10.000 Mn. as damages for disposing of the shares owned by the plaintiff which were held under lien to the Bank. Plaintiff alleges that the transaction has taken place without obtaining her consent. Judgment was delivered in favour of the plaintiff. Bank has appealed to the Supreme Court (Appeal No. 09/2010) against the judgment delivered. The plaintiff has filed an application for the issue of Writ Pending Appeal. Bank had agreed to issue a guarantee for Rs. 5.000 Mn. in favour of the plaintiff, to be claimed only on the final determination of the appeal by the Supreme Court. Appeal is refixed for argument on June 16, 2017.
- (xi) Court action has been initiated by a customer in Colombo High Court Case No. 36/96 (1) to claim a sum of Rs. 183.050 Mn. regarding a forward exchange contract. Judgment was delivered in favour of the Bank dismissing the plaintiff's action, but the plaintiff has appealed against the judgment in the Supreme Court (Appeal No. 38/2006). The appeal is fixed for argument on March 8, 2017.
- (xii) Court action has been initiated by a customer in proceedings No. 52/10 to claim a sum of Bangladeshi Taka 35.328 Mn. (approx. Rs. 67.3546 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 control measures taken by the customer on cheques issued by the Bank. Last hearing was on January 2, 2017. Next date is yet to be fixed.

62. Maturity Analysis

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 31.12.2016	Total as at 31.12.2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest earning assets:							
Financial Assets							
Cash and cash equivalents	8,291,413	-	-	-	-	8,291,413	1,662,487
Balances with central banks	405,258	155,411	-	-	-	560,669	5,706,807
Placements with banks	11,718,499	-	-	-	-	11,718,499	17,193,539
Securities purchased under resale agreements	-	-	-	-	-	-	8,002,100
Derivative financial assets	-	-	-	-	-	-	-
Other financial instruments Held-for-trading	4,693,989	-	-	-	-	4,693,989	7,330,086
Loans and receivables to banks	-	-	-	-	-	-	-
Loans and receivables to other customers	233,537,753	112,043,420	149,228,993	78,486,820	46,832,502	620,129,488	509,923,128
Financial investments – Available-for-sale	4,371,101	41,490,429	90,256,125	23,524,588	-	159,642,243	203,987,506
Financial investments – Held-to-maturity	4,075,831	2,825,241	16,573,313	7,052,121	33,100,092	63,626,598	-
Financial investments – Loans and receivables	11,083,470	20,931,204	14,674,102	5,135,250	-	51,824,026	57,724,369
	-	-	-	-	-	-	-
Total interest earning assets as at 31.12.2016	278,177,314	177,445,705	270,732,533	114,198,779	79,932,594	920,486,925	
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
Non-interest earning assets:							
Financial Assets							
Cash and cash equivalents	24,632,814	-	-	-	-	24,632,814	18,444,589
Balances with central banks	27,356,043	13,558,656	858,703	809,680	791,507	43,374,589	22,514,210
Placements with banks	-	-	-	-	-	-	-
Securities purchased under resale agreements	-	-	-	-	-	-	-
Derivative financial assets	393,762	508,226	150,841	-	-	1,052,829	4,118,169
Other financial instruments – Held-for-trading	293,809	-	-	-	-	293,809	326,263
Loans and receivables to banks	-	-	624,458	-	-	624,458	601,106
Loans and receivables to other customers	-	-	-	-	-	-	-
Financial investments – Available-for-sale	156,460	-	-	17,954	275,865	450,279	274,428
Financial investments – Held-to-maturity	-	-	-	-	-	-	-
Financial investments – Loans and receivables	-	-	-	-	-	-	-
Non-Financial assets							
Investments in subsidiaries	-	-	-	-	-	-	-
Investments in associates	-	-	-	-	108,859	108,859	104,503
Property, plant & equipment	-	-	-	-	11,569,666	11,569,666	11,181,433
Intangible assets	-	-	-	-	1,132,669	1,132,669	884,034
Leasehold property	-	-	-	-	105,968	105,968	107,420
Deferred tax assets	(494,346)	360,404	1,119,681	(273,441)	(44,148)	668,150	
Other assets	12,023,299	189,154	1,072,981	437,781	2,759,344	16,482,559	12,097,017
Total non-interest earning assets as at 31.12.2016	64,361,841	14,616,440	3,826,664	991,974	16,699,730	100,496,649	
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 assets – as at 31.12.2016	342,539,155	192,062,145	274,559,197	115,190,753	96,632,324	1,020,983,574	
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
Percentage – as at 31.12.2016(*)	33.56	18.81	26.89	11.28	9.46	100.00	
Percentage – as at 31.12.2015(*)	31.83	15.27	27.40	13.56	11.94		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 31.12.2016 Rs. '000	Total as at 31.12.2015 Rs. '000
Interest-bearing liabilities:							
Financial liabilities							
Due to banks	42,777,902	9,731,320	13,144,180	1,359,566	-	67,012,968	27,959,634
Derivative financial liabilities	-	-	-	-	-	-	-
Securities sold under repurchase agreements	54,636,347	14,981,595	11,019	-	-	69,628,961	112,249,703
Other financial liabilities – Held-for-trading	-	-	-	-	-	-	-
Due to other customers/Deposits from customers	407,935,082	237,562,576	16,790,103	11,505,418	11,916,085	685,709,264	571,086,630
Other borrowings	614,168	1,934,456	2,881,210	777,775	3,062,545	9,270,154	9,985,637
Subordinated liabilities	207,796	311,731	-	9,500,724	14,829,288	24,849,539	11,988,272
Total interest-bearing liabilities as at 31.12.2016	506,171,295	264,521,678	32,826,512	23,143,483	29,807,918	856,470,886	
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
Non-interest-bearing liabilities:							
Financial liabilities							
Due to banks	4,085,423	-	-	-	-	4,085,423	3,829,762
Derivative financial liabilities	748,553	534,112	232,370	-	-	1,515,035	1,890,770
Securities sold under repurchase agreements	-	-	-	-	-	-	-
Other financial liabilities Held-for-trading	-	-	-	-	-	-	-
Due to other customers/deposits from customers	57,601,349	-	-	-	-	57,601,349	52,934,587
Other borrowings	-	-	-	-	-	-	-
Non-financial liabilities							
Current tax liabilities	1,100,850	2,363,832	-	-	-	3,464,682	3,025,662
Deferred tax liabilities	-	-	-	-	-	-	467,632
Other provisions	-	-	1,874	-	-	1,874	1,874
Other liabilities	15,089,253	160,651	1,294,868	309,278	1,174,852	18,028,902	15,749,184
Equity							
Stated capital	-	-	-	-	24,978,003	24,978,003	23,254,605
Statutory reserves	-	-	-	-	5,647,993	5,647,993	4,922,367
Retained earnings	-	-	-	-	4,553,778	4,553,778	4,467,807
Other reserves	-	-	-	-	43,812,536	43,812,536	38,318,860
Non-controlling interest	-	-	-	-	823,113	823,113	50,208
Total non-interest-bearing liabilities as at 31.12.2016	78,625,428	3,058,595	1,529,112	309,278	80,990,275	164,512,688	
Total non-interest-bearing liabilities as at 31.12.2015	71,403,959	3,990,597	1,432,057	770,986	71,315,719		148,913,318
Total liabilities and equity – as at 31.12.2016	584,796,723	267,580,273	34,355,624	23,452,761	110,798,193	1,020,983,574	
Total liabilities and equity – as at 31.12.2015	548,590,652	206,923,010	20,352,292	10,086,837	96,230,403		882,183,194
Percentage – as at 31.12.2016(*)	57.28	26.21	3.36	2.30	10.85	100.00	
Percentage – as at 31.12.2015(*)	62.18	23.46	2.31	1.14	10.91		100.00

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

Bank

Maturity analysis of the assets and liabilities of the Bank is given in Note 69.2.2 on 'Financial Risk Review' on pages 338 to 342.

63. Operating Segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Corporate Management Team headed by the Managing Director/Chief Executive Officer (being the chief operating decision-maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

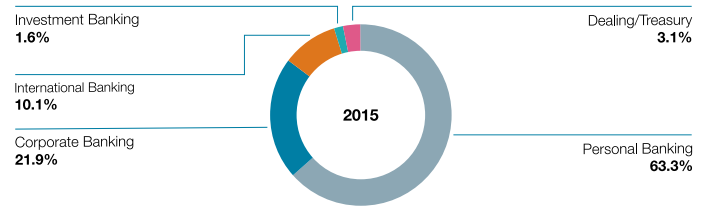
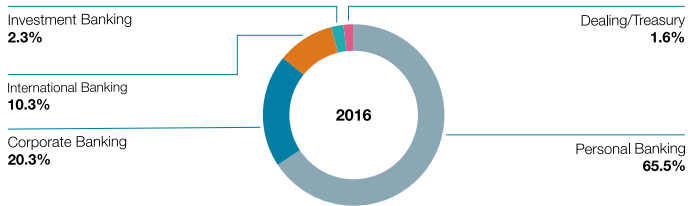
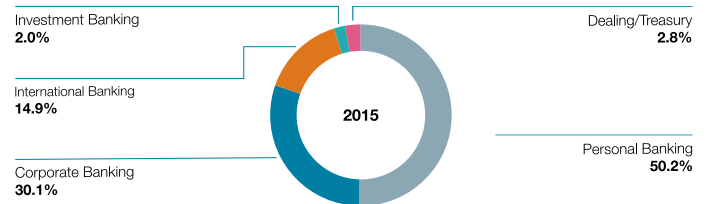
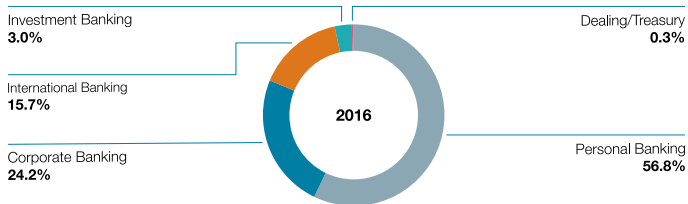
The Group has five strategic divisions which are reportable segments, namely:

Operating Segment	Types of Products and Services Offered
Personal Banking	Refer pages 82 to 101 for details on product portfolio by 'Key Business Lines Review'
Corporate Banking	
International Operations	
Investment Banking	
Dealing and Treasury	

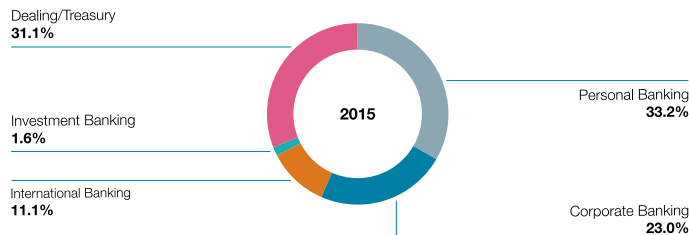
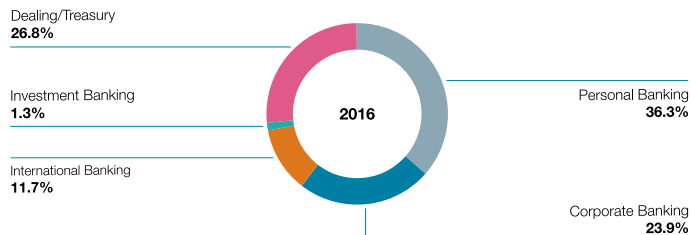
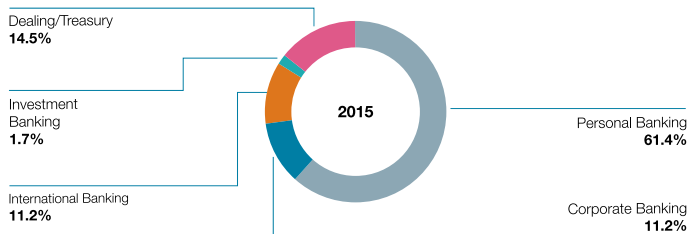
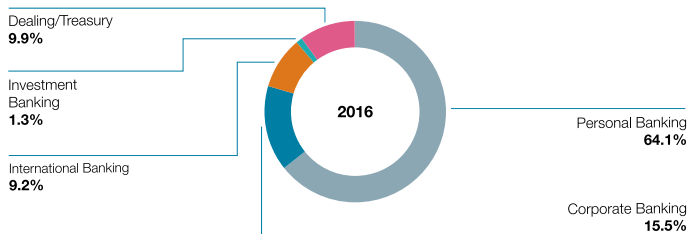
Segment performance is evaluated based on operating profits or losses which, in certain respects, are measured differently from operating profits or losses in the Consolidated Financial Statements. Income taxes are managed on a Group basis and are not allocated to operating segments.

The following table presents the income, profit, asset and liability information on the Group's strategic business divisions for the year ended December 31, 2016 and comparative figures for the year ended December 31, 2015.

For the year ended December 31,	Personal Banking		Corporate Banking		International Operations		Investment Banking		Dealing/Treasury		Total/Consolidated	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	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	22,882,865	21,229,112	6,162,515	6,038,268	3,214,891	3,035,880	992,038	591,019	(124,033)	(326,929)	33,128,276	30,567,350
Foreign exchange profit	198,679	84,085	822,894	1,270,664	509,081	518,116	-	-	795,504	1,004,405	2,326,158	2,877,270
Net fee and commission income	4,867,603	3,317,748	1,594,813	1,543,735	609,430	524,103	13,350	20,600	3,981	4,124	7,089,177	5,410,310
Other income	779,594	1,381,067	353,668	161,456	190,003	62,360	8,984	40,296	64,252	575,242	1,396,501	2,220,421
Eliminations/unallocated											458,138	458,489
Total operating income	28,728,741	26,012,012	8,933,890	9,014,123	4,523,405	4,140,459	1,014,372	651,915	739,704	1,256,842	44,398,250	41,533,840
Credit loss expenses	202,442	(3,266,263)	(1,726,375)	(478,732)	(59,393)	(354,743)	-	-	-	-	(1,583,326)	(4,099,738)
Net operating income	28,931,183	22,745,749	7,207,515	8,535,391	4,464,012	3,785,716	1,014,372	651,915	739,704	1,256,842	42,814,924	37,434,102
Segment result	11,436,038	8,591,633	4,874,706	5,166,707	3,148,044	2,544,328	599,677	345,419	49,665	474,386	20,108,130	17,122,473
Profit from operations											20,108,130	17,122,473
Share of profit of associates – net of tax											6,454	13,638
Income tax expense											(5,648,160)	(5,276,851)
Non-controlling interest											43,909	(4,088)
Net profit for the year, attributable to Equity holders of the parent											14,510,333	11,855,172

Total Operating Income

Segment Result


As at December 31,	Personal Banking		Corporate Banking		International Operations		Investment Banking		Dealing/Treasury		Total/Consolidated	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Other information												
Segment assets	348,163,433	279,706,505	229,759,156	193,881,080	112,387,766	93,138,952	12,335,263	13,406,914	257,143,130	261,627,206	959,788,748	841,760,657
Investment in associates	-	-	-	-	-	-	108,859	104,503	-	-	108,859	104,503
Unallocated assets	-	-	-	-	-	-	-	-	-	-	61,085,967	40,318,034
Total assets	348,163,433	279,706,505	229,759,156	193,881,080	112,387,766	93,138,952	12,444,122	13,511,417	257,143,130	261,627,206	1,020,983,574	882,183,194
Segment liabilities	601,064,166	496,764,815	145,104,008	90,064,347	86,181,038	90,399,530	12,444,122	13,511,417	92,910,135	116,935,944	937,703,469	807,676,053
Unallocated liabilities	-	-	-	-	-	-	-	-	-	-	3,464,682	3,493,294
Total liabilities	601,064,166	496,764,815	145,104,008	90,064,347	86,181,038	90,399,530	12,444,122	13,511,417	92,910,135	116,935,944	941,168,151	811,169,347

Total Assets

Total Liabilities


For the year ended December 31,	Personal Banking		Corporate Banking		International Operations		Investment Banking		Dealing/Treasury		Total/Consolidated	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Information on cash flows												
Cash flows from operating activities												
	48,260,328	5,511,885	(20,442,140)	(4,636,226)	(491,909)	(2,818,494)	(40,710)	(235,112)	(21,391,095)	10,396,929	5,894,474	8,218,982
Cash flows from investing activities												
	-	-	-	-	-	-	1,124,546	(2,596,130)	-	-	1,124,546	(2,596,130)
Cash flows from financing activities												
	11,969,421	(641,079)	-	-	-	-	-	-	(1,075,713)	(368,699)	10,893,708	(1,009,778)
Capital expenditure												
Property, plant & equipment											(1,468,902)	(1,066,028)
Intangible assets											(422,175)	(208,168)
Eliminations/unallocated											(3,204,500)	(3,853,580)
Net cash flow generated during the year											12,817,151	(514,702)

64. 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'.

However, transactions that the Key Management Personnel (KMP) have availed under schemes uniformly applicable to all staff are at concessionary rates.

64.1 Parent and Ultimate Controlling Party

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

64.2 Key Management Personnel (KMP)

KMP 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 of the Bank has been classified as KMP of the Bank.

KMP of the Group

As the Bank is the ultimate parent of the Subsidiaries listed out on page 191, the Board of Directors of the Bank has the authority and responsibility for planning, directing and controlling the activities of the Group directly or indirectly. Accordingly, the Board of Directors of the Bank is 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.

64.2.1 Transactions with KMP

64.2.1.1 Compensation of KMP – Bank

<i>For the year ended December 31,</i>	2016 Rs. '000	2015 Rs. '000
Short-term employment benefits	124,478	119,089
Post-employment benefits	6,984	6,384
Total	131,462	125,473

64.2.1.2 Compensation of KMP – Group

<i>For the year ended December 31,</i>	2016 Rs. '000	2015 Rs. '000
Short-term employment benefits	125,648	119,909
Post-employment benefits	6,984	6,384
Total	132,632	126,293

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

64.2.2 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.

64.2.2.1 Statement of Financial Position – Bank

<i>As at December 31,</i>	Year end Balance		Average Balance	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Assets				
Loans and advances	10,229	7,800	9,462	7,777
Credit cards	–	–	238	144
Total	10,229	7,800	9,700	7,921
Liabilities				
Deposits	145,701	28,686	79,474	49,565
Securities sold under repurchase agreements	35,062	26,790	31,198	23,732
Debentures	2,000	–	355	–
Total	182,763	55,476	111,027	73,297

64.2.2.2 Commitments and Contingencies – Bank

<i>As at December 31,</i>	Year end Balance		Average Balance	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Undrawn facilities	10,380	9,195	11,716	9,184
Total	10,380	9,195	11,716	9,184

64.2.2.3 Direct and Indirect Accommodation – Bank

<i>As at December 31,</i>	Year-end Balance	
	2016	2015
	%	%
Direct and indirect accommodation as a % of the Bank's Regulatory Capital	0.02	0.02

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

64.2.2.4 Income Statement

<i>For the Year Ended December 31,</i>	2016	2015
	Rs. '000	Rs. '000
Interest income	626	433
Interest expense	7,747	3,228
Other income	20	226
Compensation to KMP [Refer Notes 64.2.1.1 & 64.2.1.2]	131,462	125,473

64.2.2.5 Share-Based Transactions of KMP and CFM

<i>As at the year end</i>	2016	2015
Number of ordinary shares held	810,939	694,883
Dividends paid (in Rs. '000)	4,762	3,674
Number of cumulative exercisable options under the Employee Share Option Plan (ESOP) 2008		
Tranche II	98,678	148,016
Tranche III	155,603	155,603
Number of cumulative exercisable options under the Employee Share Option Plan (ESOP) 2015		
Tranche I	81,869	-

64.2.3 Transactions, Arrangements and Agreements involving Entities which are Controlled, and/or Significantly Influenced by the KMP or their CFM

64.2.3.1 Statement of Financial Position

	Year end Balance		Average Balance	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Assets				
Loans and advances	266,349	-	80,967	-
Total	266,349	-	80,967	-
Liabilities				
Deposits	977,122	-	276,411	-
Securities sold under repurchase agreements	126,237	-	426	-
Debentures	24,310	-	4,317	-
Total	1,127,669	-	281,154	-

64.2.3.2 Commitments and Contingencies

	Year end Balance		Average Balance	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Guarantees	71,280	-	71,280	-
Undrawn facilities	379,266	-	279,891	-
Total	450,546	-	351,171	-

64.2.3.3 Direct and Indirect Accommodation

	Year end Balance	
	2016	2015
	%	%
Direct and indirect accommodation as a % of the Bank's Regulatory Capital	0.69	0.00

64.2.3.4 Income Statement

<i>For the year ended December 31,</i>	2016	2015
	Rs. '000	Rs. '000
Interest income	10,451	-
Interest expense	9,916	-
Other income	-	-

64.3 Transactions with Group Entities

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

64.3.1 Transactions with Subsidiaries

64.3.1.1 Statement of Financial Position

	Year end Balance		Average Balance	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Assets				
Loans and advances	786,000	859,356	564,749	588,616
Lease receivables	-	-	-	465
Other receivables	92,857	90,596	91,727	88,141
Impairment for other receivables	(55,684)	(53,423)	(54,554)	(52,410)
Total	823,173	896,529	601,922	624,812
Liabilities				
Deposits	178,827	80,593	108,269	100,251
Securities sold under repurchase agreements	238,508	135,109	145,944	136,559
Other	20,061	26,212	23,137	22,750
Total	437,396	241,914	277,350	259,560

64.3.1.2 Commitments and Contingencies

	Year end Balance		Average Balance	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Letters of Credit	-	-	1,126	1,126
Undrawn facilities	62,565	126,349	113,165	81,333
Total	62,565	126,349	114,291	82,459

64.3.1.3 Direct and Indirect Accommodation

	Year end Balance	
	2016	2015
	%	%
Direct and indirect accommodation as a % of the Bank's Regulatory Capital	0.86	1.28

64.3.1.4 Income Statement

<i>For the Year Ended December 31,</i>	2016	2015
	Rs. '000	Rs. '000
Interest income	58,002	45,842
Interest expense	26,731	60,384
Other income	103,569	84,997
Impairment charges	3,306	2,025
Expenses	454,126	427,106

64.3.1.5 Other Transactions

<i>For the Year Ended December 31,</i>	2016	2015
	Rs. '000	Rs. '000
Payments made to OneZero Company Ltd. in relation to purchase of computer hardware and software	8,253	70,618

64.3.2 Transactions with Associates

64.3.2.1 Statement of Financial Position

	Year end Balance		Average Balance	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Assets				
Loans and advances	-	-	29	88
Lease receivables	-	-	-	20
Total	-	-	29	108
Liabilities				
Deposits	48,606	23,733	38,967	23,427
Total	48,606	23,733	38,967	23,427

64.3.2.2 Direct and Indirect Accommodation

	Year end Balance	
	2016	2015
	%	%
Direct and indirect accommodation as a % of the Bank's Regulatory Capital	0.00	0.00

64.3.2.3 Income Statement

<i>For the year ended December 31,</i>	2016	2015
	Rs. '000	Rs. '000
Interest income	7	23
Interest expense	3,310	616
Other income	22,698	22,577

64.3.2.4 Other Transactions

<i>For the year ended December 31,</i>	2016	2015
	Rs. '000	Rs. '000
Number of Ordinary shares of the Bank held by the associates as at the year end	4,605	4,536
Dividend paid (Rs. '000)	29	25

64.4 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.

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

64.4.1.1 Statement of Financial Position

	Year end Balance		Average Balance	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Liabilities				
Deposits	12,681,135	4,029,010	7,615,681	2,984,576
Securities sold under repurchase agreements	386,447	5,060,229	293,317	1,863,801
Total	13,067,582	9,089,239	7,908,998	4,848,377

64.4.1.2 Income Statement

<i>During the year</i>	2016	2015
	Rs. '000	Rs. '000
Interest income	30	–
Interest expense	821,179	431,322
Contribution made/taxes paid by the Bank	1,007,451	947,416

65. Non-Cash Items Included in Profit Before Tax

<i>As at December 31,</i>	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Depreciation of property, plant & equipment	1,093,088	1,024,162	1,022,648	961,492
Amortisation of leasehold property	1,452	1,452	942	942
Amortisation of intangible assets	173,790	180,558	165,903	179,370
Impairment losses on loans and advances	1,583,326	4,099,738	1,511,158	3,904,948
Other impairment	-	-	18,656	38,248
Contributions to defined benefit plans – Unfunded schemes	234,262	197,676	227,816	190,780
Provision made o/a of leave encashment	76,193	61,108	76,193	61,108
Equity-settled share-based payments	206,174	223,330	206,174	223,330
Unamortised interest payable o/a subordinated liabilities	12,210	12,210	12,210	12,210
Mark to market on other financial instruments – Held-for-trading	129,562	119,283	129,562	119,283
Loss on intangible assets written off	303	-	303	-
Effect of exchange rate variances on investment in subsidiaries	-	-	(30,136)	-
Effect of exchange rate variances on property, plant & equipment	(2,024)	(6,060)	(2,012)	(6,362)
Effect of exchange rate variances on intangible assets	(553)	(214)	(540)	(391)
Effect of exchange rate variances on defined benefit plans	7,782	14,579	7,782	14,579
Effect of exchange rate variances on subordinated liabilities	420,000	900,000	420,000	900,000
Net effect of exchange rate variances on net deferred tax liability	(4,980)	(9,701)	(4,979)	(9,701)
Net effect of exchange rate variances on income tax liability	56,937	121,793	56,937	121,793
Grossed up notional tax and withholding tax credits	(1,209,319)	(944,176)	(1,206,343)	(942,527)
Total	2,778,203	5,995,738	2,612,274	5,769,102

66. Change in Operating Assets

<i>As at December 31,</i>	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Net (increase)/decrease in derivative financial instruments	3,065,340	(3,658,659)	3,065,340	(3,658,659)
Net (increase)/decrease in balances with Central Banks	(15,714,241)	(8,587,271)	(15,652,188)	(8,587,271)
Net (increase)/decrease in placements with banks	5,475,040	(2,685,678)	5,475,040	(2,685,678)
Net (increase)/decrease in securities purchased under resale agreements	8,002,100	33,196,166	8,002,100	33,196,166
Net (increase)/decrease in other financial assets held-for-trading	2,556,114	(1,460,608)	2,556,114	(1,460,608)
Net (increase)/decrease in loans and receivables to banks	(23,352)	(50,040)	(23,352)	(50,040)
Net (increase)/decrease in loans and receivables to customers	(111,789,686)	(107,491,777)	(109,414,259)	(106,588,618)
Net (increase)/decrease in Financial investments – Available-for-sale	39,672,872	400,472	39,724,256	401,485
Net (increase)/decrease in Financial investments – Held-to-maturity	(63,626,598)	-	(60,981,298)	-
Net (increase)/decrease in financial investments – Loans and receivables	4,815,666	(4,271,016)	4,815,666	(4,271,016)
Net (increase)/decrease in other assets	(4,385,542)	(1,536,587)	(4,346,881)	(1,554,799)
Total	(131,952,287)	(96,144,998)	(126,779,462)	(95,259,038)

67. Change in Operating Liabilities

As at December 31,	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Net increase/(decrease) in due to banks	39,308,995	6,120,371	37,289,692	5,058,143
Net increase/(decrease) in derivative financial instruments	(375,735)	697,631	(375,735)	697,631
Net increase/(decrease) in securities sold under repurchase agreements	(42,620,742)	(12,141,339)	(42,517,343)	(12,179,687)
Net increase/(decrease) in deposits from customers	119,289,396	94,754,629	115,461,684	94,740,326
Net increase/(decrease) in other borrowings	(715,483)	(1,650,946)	(715,483)	(1,650,946)
Net increase/(decrease) in other liabilities	2,236,019	(2,163,940)	2,122,523	(2,143,433)
Net increase/(decrease) in due to subsidiaries	-	-	(6,151)	6,923
Total	117,122,450	85,616,406	111,259,187	84,528,957

68. Operating Leases

68.1 Operating Lease Commitments (Payables)

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

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

As at December 31,	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Less than one year	731,251	740,366	707,066	736,784
Between one to five years	1,771,460	1,901,675	1,762,161	1,897,436
Over five years	941,892	848,690	927,007	848,690
Total	3,444,603	3,490,731	3,396,234	3,482,910

68.2 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 branches). Lease agreements include clauses to enable upward revision of rental income on a periodic basis to reflect market conditions. These leases have an average life of three to five years. There are no restrictions placed upon the Group by entering into these leases.

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

As at December 31,	GROUP		BANK	
	2016	2015	2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Less than one year	6,042	5,190	3,218	4,290
Between one to five years	12,167	3,320	3,469	2,825
Over five years	-	-	-	-
Total	18,209	8,510	6,687	7,115

69. 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 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 Subcommittee 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 have 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 196 to 199 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.

69.1 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.

69.1.1 Credit Quality Analysis

69.1.1 (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 Contingencies	
		2016	2015	2016	2015	2016	2015	2016	2015
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Maximum Exposure to Credit Risk									
Carrying amount	31 - 36	616,018,228	508,115,127	624,458	601,106	277,816,593	269,625,007	-	-
Amount committed/contingencies	59	-	-	-	-	-	-	497,235,276	519,854,597
At amortised Cost –									
Loans and receivables									
Government securities (Risk Free Investments)		-	-	-	-	40,076,392	44,925,168	-	-
Rating 0-4: Investment grade(*)		382,276,912	295,536,012	-	-	11,747,634	12,799,201	-	-
Rating 5-6: Moderate risk		222,439,065	205,704,910	624,458	601,106	-	-	-	-
Rating S: High risk		1,696,932	2,937,274	-	-	-	-	-	-
Rating 7-9: Extreme risk		26,977,998	21,988,485	-	-	-	-	-	-
Gross carrying amount		633,390,907	526,166,681	624,458	601,106	51,824,026	57,724,369	-	-
Less: Provision for impairment (Individual and Collective)		17,372,679	18,051,554	-	-	-	-	-	-
Net carrying amount	32,33,36	616,018,228	508,115,127	624,458	601,106	51,824,026	57,724,369	-	-
Financial investments – Available-for-sale									
Government securities (Risk Free Investments)		-	-	-	-	159,573,316	193,938,549	-	-
Rating 0-4: Investment grade		-	-	-	-	450,155	486,880	-	-
Rating 5-6: Moderate risk		-	-	-	-	-	9,818,860	-	-
Rating S: High risk		-	-	-	-	-	-	-	-
Rating 7-9: Extreme risk		-	-	-	-	-	-	-	-
Gross/net carrying amount	34	-	-	-	-	160,023,471	204,244,289	-	-
Financial investments – Held-to-maturity									
Government securities (Risk Free Investments)		-	-	-	-	50,980,717	-	-	-
Rating 0-4: Investment grade		-	-	-	-	-	-	-	-
Rating 5-6: Moderate risk		-	-	-	-	10,000,581	-	-	-
Rating S : High risk		-	-	-	-	-	-	-	-
Rating 7-9: Extreme risk		-	-	-	-	-	-	-	-
Gross/net carrying amount	35	-	-	-	-	60,981,298	-	-	-

As at December 31,	Notes	Loans and Receivables to Other Customers		Loans and Receivables to Banks		Financial Investments		Lending Commitments and Contingencies	
		2016	2015	2016	2015	2016	2015	2016	2015
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Other financial instruments – Held-for-trading									
Government securities (Risk Free Investments)		-	-	-	-	3,505,335	3,943,697	-	-
Rating 0-4: Investment grade		-	-	-	-	293,809	326,263	-	-
Rating 5-6: Moderate risk		-	-	-	-	1,188,654	3,386,389	-	-
Rating S: High risk		-	-	-	-	-	-	-	-
Rating 7-9: Extreme risk		-	-	-	-	-	-	-	-
Gross/net carrying amount	31	-	-	-	-	4,987,798	7,656,349	-	-
Total net carrying amount		616,018,228	508,115,127	624,458	601,106	277,816,593	269,625,007	-	-
Off-Balance Sheet(**)									
Maximum Exposure									
Lending commitments									
Grade 0-6: Investment grade to moderate risk		-	-	-	-	-	-	131,381,356	153,979,986
Contingencies									
Grade 0-6: Investment grade to moderate risk		-	-	-	-	-	-	365,853,920	365,874,611
Total exposure	59	-	-	-	-	-	-	497,235,276	519,854,597

(*) Investment grade also includes Cash, Gold.

(**) Amounts reported above does not include capital commitments disclosed in Note 59 on 'Contingent Liabilities and Commitments' on pages 304 to 306.

69.1.1 (b) Age Analysis by Class of Financial Assets

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

As at December 31,	Notes	Loans and Receivables to Other Customers		Loans and Receivables to Banks		Financial Investments		Lending Commitments and Contingencies	
		2016	2015	2016	2015	2016	2015	2016	2015
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Government securities (Risk Free investments)		-	-	-	-	254,135,760	242,807,414	-	-
Gross carrying amount		-	-	-	-	254,135,760	242,807,414	-	-
Neither past due nor individually impaired									
Rating 0-4: Investment grade		377,513,301	294,042,877	-	-	12,491,598	13,612,344	268,186,647	283,307,261
Rating 5-6: Moderate risk		218,392,511	203,984,694	624,458	601,106	11,189,235	13,205,249	229,048,629	236,547,336
Gross carrying amount		595,905,812	498,027,571	624,458	601,106	23,680,833	26,817,593	497,235,276	519,854,597
Past due but not individually Impaired									
Less than 3 months		8,484,516	5,568,510	-	-	-	-	-	-
3 to 6 months		507,450	914,145	-	-	-	-	-	-
6 to 12 months		859,216	921,336	-	-	-	-	-	-
12 to 18 months		490,692	789,046	-	-	-	-	-	-
More than 18 months		5,041,144	8,199,444	-	-	-	-	-	-
Gross carrying amount		15,383,018	16,392,481	-	-	-	-	-	-
Individually impaired									
Less than 3 months		11,145,557	4,357,858	-	-	-	-	-	-
3 to 6 months		748,471	1,099,777	-	-	-	-	-	-
6 to 12 months		598,082	284,986	-	-	-	-	-	-
12 to 18 months		893,546	906,849	-	-	-	-	-	-
More than 18 months		8,716,421	5,097,159	-	-	-	-	-	-
Gross carrying amount		22,102,077	11,746,629	-	-	-	-	-	-
Total gross carrying amount		633,390,907	526,166,681	624,458	601,106	277,816,593	269,625,007	497,235,276	519,854,597
Less: Provision for impairment									
Individual		8,453,457	5,369,960	-	-	-	-	-	-
Collective		8,919,222	12,681,594	-	-	-	-	-	-
Total Provision for impairment		17,372,679	18,051,554	-	-	-	-	-	-
Total net carrying amount	31-36,59	616,018,228	508,115,127	624,458	601,106	277,816,593	269,625,007	497,235,276	519,854,597

The methodology of the impairment assessment is explained in the Note 18 on pages 220 and 222.

69.1.1 (c) Credit Risk Exposure for Each Internal Credit Rating on Facilities and Probability of 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 gradings 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>		2016		2015	
Bank's Internal Credit Rating	Note	Probability of Historical Default Rates	Gross Carrying Amount	Probability of Historical Default Rates	Gross Carrying Amount
		%	Rs. '000	%	Rs. '000
Gold		10.34	1,246,374	12.13	1,879,893
Investment Grade					
Rating – 0		0.21	74,103,326	0.14	57,957,593
Rating – 1		0.17	8,137,933	0.28	5,343,970
Rating – 2		0.22	32,231,244	0.20	25,937,869
Rating – 3		0.42	124,005,233	0.54	96,615,386
Rating – 4		0.60	137,789,192	0.54	106,308,166
Subtotal			377,513,302		294,042,877
Moderate Risk					
Rating – 5		0.75	183,723,935	0.74	172,997,420
Rating – 6		1.31	34,668,576	1.30	30,987,274
Subtotal			218,392,511		203,984,694
Past due but not individually impaired					
High Risk					
Rating – S		23.57	1,081,476	23.29	1,807,302
Extreme Risk					
Rating – 7		54.78	7,474,654	56.39	3,246,400
Rating – 8		71.22	630,680	69.86	1,191,771
Rating – 9		100.00	6,196,207	100.00	10,147,008
Subtotal			15,383,017		16,392,481
Impaired					
Individually Impaired(*)		–	22,102,077	–	11,746,629
Total	33		633,390,907		526,166,681

(*) Probability of historical default rates are not calculated for individually impaired loans and receivables.

69.1.1 (d) Credit Quality by Class of Financial Assets

The table below shows 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, 2016</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	27	-	30,193,589	-	-	-	30,193,589
Balances with Central Banks	28	43,873,205	-	-	-	-	43,873,205
Placements with banks	29	-	11,718,499	-	-	-	11,718,499
Securities purchased under resale agreements		-	-	-	-	-	-
Derivative financial assets	30	-	1,052,829	-	-	-	1,052,829
Other financial instruments – held-for-trading	31	3,505,335	293,809	1,188,654	-	-	4,987,798
Loans and receivables to banks	32	-	-	624,458	-	-	624,458
Loans and receivables to other customers	33	-	375,317,855	216,881,465	10,170,288	13,648,620	616,018,228
Corporate banking		-	194,301,767	69,668,628	6,354,171	4,144,273	274,468,839
Amortised cost		-	195,783,488	70,296,607	6,850,195	7,095,590	280,025,880
Less – provision for impairment		-	1,481,721	627,979	496,024	2,951,317	5,557,041
Personal banking		-	181,016,088	147,212,837	3,816,117	9,504,347	341,549,389
Amortised cost		-	181,729,813	148,095,904	8,532,823	15,006,487	353,365,027
Less – provision for impairment		-	713,725	883,067	4,716,706	5,502,140	11,815,638
Financial investments – Available-for-sale	34	159,573,316	450,155	-	-	-	160,023,471
Government Securities		159,573,316	-	-	-	-	159,573,316
Quoted shares		-	246,548	-	-	-	246,548
Unquoted shares		-	47,147	-	-	-	47,147
Investment in unit trust		-	156,460	-	-	-	156,460
Financial investments – Held-to-maturity	35	60,981,298	-	-	-	-	60,981,298
Government Securities		60,981,298	-	-	-	-	60,981,298
Other investments		-	-	-	-	-	-
Financial investments – Loans and receivables	36	40,076,392	11,747,634	-	-	-	51,824,026
Government Securities		40,076,392	-	-	-	-	40,076,392
Other investments		-	11,747,634	-	-	-	11,747,634
Total		308,009,546	430,774,370	218,694,577	10,170,288	13,648,620	981,297,401

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, 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	27	-	20,043,512	-	-	-	20,043,512
Balances with Central Banks	28	28,221,017	-	-	-	-	28,221,017
Placements with banks	29	-	17,193,539	-	-	-	17,193,539
Securities purchased under resale agreements		8,002,100	-	-	-	-	8,002,100
Derivative financial assets	30	-	4,118,169	-	-	-	4,118,169
Other financial instruments – Held-for-trading	31	3,943,697	326,263	3,386,389	-	-	7,656,349
Loans and receivables to banks	32	-	-	601,106	-	-	601,106
Loans and receivables to other customers	33	-	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	2,368,228	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	34	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 – Held-to-maturity	35	-	-	-	-	-	-
Government Securities		-	-	-	-	-	-
Other investments		-	-	-	-	-	-
Financial investments – Loans and receivables	36	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 amount uncollected one day or more beyond their contractual due date.

69.1.1 (e) Trading Assets

Held-for-Trading Investments in Debt and Equity Securities

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

<i>As at December 31,</i>	Note	2016 Rs. '000	2015 Rs. '000
Government securities			
Government securities – Sri Lanka			
Treasury bills		1,761,970	1,552,531
Treasury bonds		1,743,365	2,391,166
Government securities – Bangladesh			
Treasury bills		705,251	–
Treasury bonds		483,403	3,386,389
Total – Government securities		4,693,989	7,330,086
Equity securities			
Rated AAA		9,966	54,803
Rated AA+ to AA-		19	17
Rated A+ to A		86,970	30,380
Rated BBB+		–	–
Unrated		196,854	241,063
Total – Equity securities		293,809	326,263
Total	31	4,987,798	7,656,349

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 show an analysis of credit exposures arising from derivative financial assets and liabilities:

As at December 31, 2016	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)	45,610,942	788,808	61,841,987	261,664	2,713,810	2,357	110,166,739	1,052,829
Derivative financial liabilities (Note 2)	20,808,137	(849,010)	96,170,047	(663,714)	1,513,965	(2,311)	118,492,149	(1,515,035)
Note 1								
Derivative financial assets by counterparty type								
With Banks	12,618,500	98,281	56,881,672	247,217	2,352,621	2,258	71,852,793	347,756
Other customers	32,992,442	690,527	4,960,315	14,447	361,189	99	38,313,946	705,073
	45,610,942	788,808	61,841,987	261,664	2,713,810	2,357	110,166,739	1,052,829
Note 2								
Derivative financial liabilities by counterparty type								
With Banks	8,910,120	(38,476)	93,952,339	(654,910)	1,513,965	(2,311)	104,376,424	(695,697)
Other customers	11,898,017	(810,534)	2,217,708	(8,804)	-	-	14,115,725	(819,338)
	20,808,137	(849,010)	96,170,047	(663,714)	1,513,965	(2,311)	118,492,149	(1,515,035)

As at December 31, 2015	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)

69.1.2 Impaired Loans and Receivables and Investment Debt Securities

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

As at December 31,	2016	2015
	Rs. '000	Rs. '000
Impaired loans and receivables to other customers as at January 01,	6,376,669	2,214,099
Newly classified as impaired loans and receivables during the year	9,802,478	5,282,954
Net change in already impaired loans and receivables during the year	(281,599)	(608,652)
Net payment, write-off and recoveries and other movement during the year	(2,248,928)	(511,732)
Impaired loans and receivables to customers as at December 31,	13,648,620	6,376,669

No impairment provision has been made for investment in debt securities as at December 31, 2016 (2015 – Nil).

For methodology of the impairment assessment, refer Note 18 on 'Impairment of Financial Assets' which are carried at amortised cost on pages 220 and 222.

For details of provision for impairment for loans and receivables to banks and for loans and receivable to other customers, refer Notes 32 and 33 on pages 244 to 251.

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

As at December 31,	2016		2015	
	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	4,766,976	4,607,959	1,493,134	1,418,234
Rating 5-6: Moderate risk	4,046,553	3,912,239	1,720,216	1,620,746
Rating S: High risk	615,456	402,464	1,129,972	807,046
Rating 7-9: Extreme risk	12,673,092	4,725,958	7,403,307	2,530,643
Total	22,102,077	13,648,620	11,746,629	6,376,669

69.1.3 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 used for the computation of Capital Adequacy ratios. The value of the collateral for residential mortgage loans is based on the forced sale value determined by professional valuers.

As at December 31,	2016		2015	
	Rs. '000	Composition (%)	Rs. '000	Composition (%)
LTV ratio				
Less than 50%	8,406,374	26.14	4,706,206	21.68
51 - 70%	7,027,873	21.86	5,443,350	25.08
71 - 90%	8,262,704	25.70	6,693,133	30.84
91 - 100%	1,352,172	4.20	958,034	4.41
More than 100%*	7,105,439	22.10	3,903,690	17.99
	32,154,562	100.00	21,704,413	100.00

* LTV ratio of more than 100% has arisen due to subsequent disbursements made to the borrower on the initial valuation 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. The amount recovered in excess of the dues is refunded to the customer.

69.1.4 Concentrations of Credit Risk

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

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

69.1.4 (a) Industry-wise Distribution

As at December 31, 2016	Agriculture and Fishing	Manu- facturing	Tourism	Transport	Construction	Traders	New Economy	Financial and Business Services	Government	Infrastructure	Other Services	Other Customers	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Assets													
Cash and cash equivalents	-	-	-	-	-	-	-	30,193,589	-	-	-	-	30,193,589
Balances with Central Banks	-	-	-	-	-	-	-	-	43,873,205	-	-	-	43,873,205
Placements with banks	-	-	-	-	-	-	-	11,718,499	-	-	-	-	11,718,499
Securities purchased under resale agreements	-	-	-	-	-	-	-	-	-	-	-	-	-
Derivative financial assets	-	86,050	-	-	-	180,305	-	757,311	-	-	29,163	-	1,052,829
Other financial instruments – Held-for-trading	-	115,386	8,269	-	8,487	30,707	28,912	77,933	4,693,989	24,115	-	-	4,987,798
Government Securities	-	-	-	-	-	-	-	-	4,693,989	-	-	-	4,693,989
Quoted equity securities	-	115,386	8,269	-	8,487	30,707	28,912	77,933	-	24,115	-	-	293,809
Loans and receivables to banks	-	-	-	-	-	-	-	624,458	-	-	-	-	624,458
Loans and receivables to other customers	61,601,062	89,467,955	43,784,446	14,493,562	78,831,928	90,502,006	14,664,164	49,133,741	-	17,805,741	56,263,732	99,469,891	616,018,228
Loans & advances*	61,601,062	89,467,955	43,784,446	14,493,562	78,831,928	90,502,006	14,664,164	49,133,741	-	17,805,741	56,263,732	99,469,891	616,018,228
Financial investments – Available-for-sale	-	14,427	-	-	-	-	-	435,728	159,573,316	-	-	-	160,023,471
Government Securities	-	-	-	-	-	-	-	-	159,573,316	-	-	-	159,573,316
Equity securities – Quoted shares	-	14,427	-	-	-	-	-	232,121	-	-	-	-	246,548
Equity securities – Unquoted shares	-	-	-	-	-	-	-	47,147	-	-	-	-	47,147
Investment in Unit trusts	-	-	-	-	-	-	-	156,460	-	-	-	-	156,460
Financial investments – Held-to-maturity	-	-	-	-	-	-	-	-	60,981,298	-	-	-	60,981,298
Government Securities	-	-	-	-	-	-	-	-	60,981,298	-	-	-	60,981,298
Financial investments – Loans and receivable	-	2,584,717	-	-	-	998,155	-	7,927,595	40,076,392	-	237,167	-	51,824,026
Government Securities	-	-	-	-	-	-	-	-	40,076,392	-	-	-	40,076,392
Investment in Unit trusts	-	2,584,717	-	-	-	998,155	-	7,927,595	-	-	237,167	-	11,747,634
Total	61,601,062	92,268,535	43,792,715	14,493,562	78,840,415	91,711,173	14,693,076	100,868,854	309,198,200	17,829,856	56,530,062	99,469,891	981,297,401

(*) Loans and advances referred to above do not agree with the Note 33.1 (c) on page 247 due to impairment provision.

As at December 31, 2015	Agriculture and Fishing	Manufacturing	Tourism	Transport	Construction	Traders	New Economy	Financial and Business Services	Government	Infrastructure	Other Services	Other Customers	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
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 securities – Quoted shares	-	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	-	-	-	-	-	474,453	203,757,409	-	-	-	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	-	-	-	-	-	-	-	46,487	-	-	-	-	46,487
Investment in Unit trust	-	-	-	-	-	-	-	205,554	-	-	-	-	205,554
Financial investments – Held-to-maturity	-	-	-	-	-	-	-	-	-	-	-	-	-
Government Securities	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial investments – Loans and receivables	-	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	94,248,118	292,235,780	18,986,399	49,546,137	86,298,255	855,919,577

(*) Loans and advances referred to above do not agree with the Note 33.1 (c) on page 247 due to impairment provision.

69.1.4 (b) Geographical Distribution of Loans and Receivable 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 operations) as at December 31, 2016. Although, Western Province is attracted 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 contrary to the figures given below:

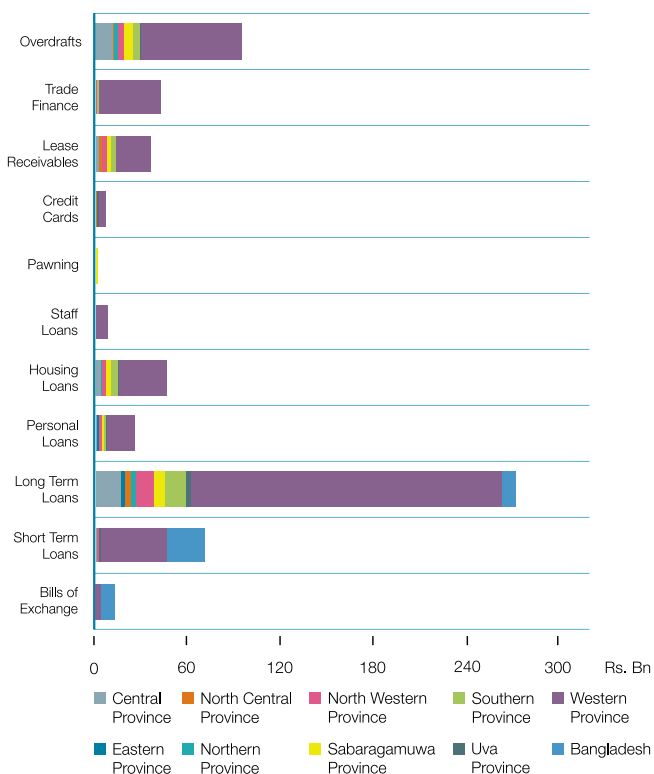
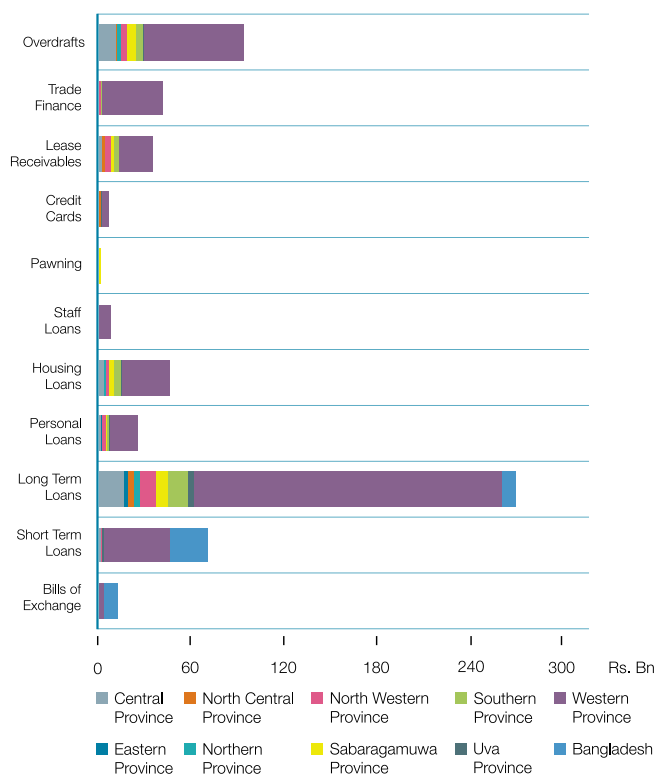
As at December 31, 2016

Country/Province	Loans and Receivables by Product											
	Overdrafts	Trade Finance	Lease Receivables	Credit Cards	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	10,661,557	178,668	1,942,902	323,715	52,966	-	2,787,403	1,374,071	16,327,523	953,154	30,441	34,632,400
Eastern	832,420	91,427	428,517	69,867	13,091	-	286,271	407,103	1,933,866	34,492	-	4,097,054
North Central	946,600	104,482	1,534,704	79,938	7,219	-	423,027	293,058	4,584,201	201,547	4,433	8,179,209
Northern	2,004,596	148	792,854	90,711	352,881	-	619,791	614,333	3,070,477	40,954	-	7,586,745
North Western	4,761,332	522,114	2,633,365	270,788	121,944	-	2,982,527	1,483,099	11,563,070	714,417	13,287	25,065,943
Sabaragamuwa	4,571,645	289,939	2,334,374	165,686	53,744	-	2,430,909	865,355	7,917,406	427,456	3,025	19,059,539
Southern	5,137,398	1,380,610	3,022,169	329,615	83,428	-	4,472,432	1,803,027	12,331,936	327,570	976	28,889,161
Uva	1,226,155	31,070	963,565	92,241	17,990	-	1,600,487	551,923	3,505,996	220,512	1,248	8,211,187
Western	64,168,727	38,940,278	21,660,085	4,646,051	532,526	7,144,946	30,661,911	17,701,287	201,515,731	43,616,020	3,571,804	434,159,366
Bangladesh												
Bangladesh	3,793,007	704,416	177,863	68,234	-	106,066	221,024	276,508	8,720,126	23,435,538	8,634,842	46,137,624
Total	98,103,437	42,243,152	35,490,398	6,136,846	1,235,789	7,251,012	46,485,782	25,369,764	271,470,332	69,971,660	12,260,056	616,018,228

As at December 31, 2015

Country/Province	Loans and Receivables by Product											
	Overdrafts	Trade Finance	Lease Receivables	Credit Cards	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												
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

Please refer Note 33 on page 245 for the Gross carrying amount of the Loans and Advances.

Geographical Distribution of Loans and Receivables for the year 2016

Geographical Distribution of Loans and Receivables for the year 2015


69.1.5 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>	2016 Rs. '000	2015 Rs. '000
On-Balance Sheet Exposures		
Loans and receivables to customers		
At net carrying amount	253,978	12,565,857
Gross carrying value	254,534	14,177,263
Less – Provision for impairment	556	1,611,406
At fair value net of provision for impairment (*)	253,978	12,565,857
Fair value before impairment	254,534	14,177,263
Less – Provision for impairment	556	1,611,406
Off-Balance Sheet Exposures		
Loan commitments and contingencies	–	9,301,980
Contingencies	–	47,419
Loan commitments	–	9,254,561
Total On-Balance Sheet and Off-Balance Sheet exposure	253,978	21,867,837

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

69.2 Liquidity Risk

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

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

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.

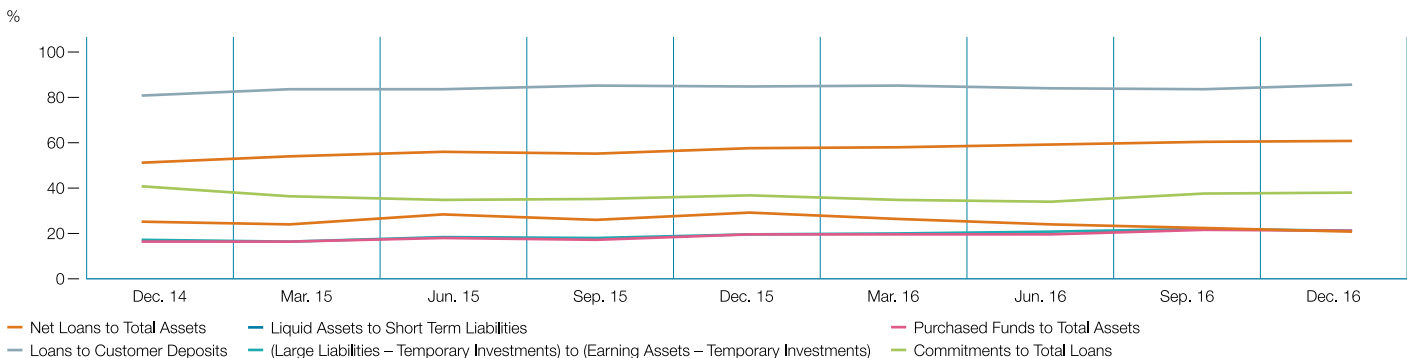
69.2.1 Exposure to Liquidity Risk

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 dates are as follows:

	DBU		OBC	
	2016 %	2015 %	2016 %	2015 %
As at December 31,	27.19	26.24	30.19	49.13
Average for the period	25.63	28.50	35.78	43.90
Maximum for the period	27.19	34.29	47.13	51.20
Minimum for the period	23.88	24.99	28.84	32.05
Statutory minimum requirement	20.00	20.00	20.00	20.00

The graph below depicts the trends in liquidity ratios of the Bank calculated on a quarterly basis during the period from December 2014 to December 2016:

Liquidity Ratios



69.2.2 Maturity Analysis of Financial Assets and Financial Liabilities**69.2.2 (a) Remaining Contractual Period to Maturity – Bank**

(i) Remaining contractual period to maturity of the assets employed by the Bank as at December 31, 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 31.12.2016 Rs. '000	Total as at 31.12.2015 Rs. '000
Interest Earning Assets							
Financial Assets							
Cash and cash equivalents	7,930,050	–	–	–	–	7,930,050	1,652,959
Balances with Central Banks	343,205	155,411	–	–	–	498,616	5,706,807
Placements with banks	11,718,499	–	–	–	–	11,718,499	17,193,539
Securities purchased under resale agreements	–	–	–	–	–	–	8,002,100
Derivative financial assets	–	–	–	–	–	–	–
Other financial instruments – Held-for-trading	4,693,989	–	–	–	–	4,693,989	7,330,086
Loans and receivables to banks	–	–	–	–	–	–	–
Loans and receivables to other customers	233,368,248	110,552,091	147,844,211	77,799,420	46,454,258	616,018,228	508,115,127
Financial investments – Available-for-sale	4,302,174	41,490,429	90,256,125	23,524,588	–	159,573,316	203,969,861
Financial investments – Held-to-maturity	2,828,892	1,426,880	16,573,313	7,052,121	33,100,092	60,981,298	–
Financial investments – Loans and receivables	11,083,470	20,931,204	14,674,102	5,135,250	–	51,824,026	57,724,369
Total interest earning assets as at 31.12.2016	276,268,527	174,556,015	269,347,751	113,511,379	79,554,350	913,238,022	
Total interest earning assets as at 31.12.2015	235,989,646	126,529,700	238,598,065	118,504,773	90,072,664		809,694,848

<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 31.12.2016 Rs. '000	Total as at 31.12.2015 Rs. '000
Non-Interest Earning Assets							
Financial Assets							
Cash and cash equivalents	22,263,539	–	–	–	–	22,263,539	18,390,553
Balances with Central Banks	27,356,043	13,558,656	858,703	809,680	791,507	43,374,589	22,514,210
Placements with banks	–	–	–	–	–	–	–
Securities purchased under resale agreements	–	–	–	–	–	–	–
Derivative financial assets	393,762	508,226	150,841	–	–	1,052,829	4,118,169
Other financial instruments – Held-for-trading	293,809	–	–	–	–	293,809	326,263
Loans and receivables to banks	–	–	624,458	–	–	624,458	601,106
Loans and receivables to other customers	–	–	–	–	–	–	–
Financial investments – Available-for-sale	156,460	–	–	17,954	275,741	450,155	274,428
Financial investments – Held-to-maturity	–	–	–	–	–	–	–
Financial investments – Loans and receivables	–	–	–	–	–	–	–
Non-Financial Assets							
Investments in subsidiaries	–	–	–	–	2,435,392	2,435,392	1,237,146
Investments in associates	–	–	–	–	44,331	44,331	44,331
Property, plant & equipment	–	–	–	–	10,307,825	10,307,825	9,968,985
Intangible assets	–	–	–	–	640,645	640,645	465,960
Leasehold property	–	–	–	–	73,536	73,536	74,478
Deferred tax assets	(198,561)	360,404	1,119,681	(273,441)	(44,148)	963,935	–
Other assets	11,978,906	189,154	1,072,981	437,781	2,759,344	16,438,166	12,094,591
Total non-interest earning assets as at 31.12.2016	62,243,958	14,616,440	3,826,664	991,974	17,284,173	98,963,209	–
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 assets – as at 31.12.2016	338,512,485	189,172,455	273,174,415	114,503,353	96,838,523	1,012,201,231	–
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
Percentage – as at 31.12.2016 (*)	33.44	18.69	26.99	11.31	9.57	100.00	–
Percentage – as at 31.12.2015 (*)	31.92	15.24	27.37	13.56	11.91	–	100.00

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

(ii) Remaining contractual period to maturity of the liabilities and shareholders' funds employed by the Bank as at the date of Statement of Financial Position 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 31.12.2016 Rs. '000	Total as at 31.12.2015 Rs. '000
Interest-Bearing Liabilities:							
Financial Liabilities							
Due to banks	42,514,223	9,029,165	11,980,000	-	-	63,523,388	26,489,357
Derivative financial liabilities	-	-	-	-	-	-	-
Securities sold under repurchase agreements	54,874,855	14,981,595	11,019	-	-	69,867,469	112,384,812
Other financial liabilities – Held-for-trading	-	-	-	-	-	-	-
Due to other customers/ deposits from customers	406,514,453	236,842,993	16,790,103	11,505,418	11,916,085	683,569,052	571,164,329
Other borrowings	614,168	1,934,456	2,881,210	777,775	3,062,545	9,270,154	9,985,637
Subordinated liabilities	207,796	311,731	-	9,500,724	14,829,288	24,849,539	11,973,272
Total interest-bearing liabilities as at 31.12.2016	504,725,495	263,099,940	31,662,332	21,783,917	29,807,918	851,079,602	
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
Non-Interest Bearing Liabilities:							
Financial Liabilities							
Due to banks	4,085,423	-	-	-	-	4,085,423	3,829,762
Derivative financial liabilities	748,553	534,112	232,370	-	-	1,515,035	1,890,770
Securities sold under repurchase agreements	-	-	-	-	-	-	-
Other financial liabilities – Held-for-trading	-	-	-	-	-	-	-
Due to other customers/deposits from customers	55,994,442	-	-	-	-	55,994,442	52,937,481
Other borrowings	-	-	-	-	-	-	-
Subordinated liabilities	-	-	-	-	-	-	-

<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 31.12.2016 Rs. '000	Total as at 31.12.2015 Rs. '000
Non-Financial Liabilities							
Current tax liabilities	1,076,904	2,363,832	-	-	-	3,440,736	3,001,984
Deferred tax	-	-	-	-	-	-	230,615
Other provisions	-	-	1,874	-	-	1,874	1,874
Other liabilities	14,770,745	160,651	1,294,868	309,278	1,174,852	17,710,394	15,548,159
Due to subsidiaries	20,061	-	-	-	-	20,061	26,212
Equity							
Stated capital	-	-	-	-	24,978,003	24,978,003	23,254,605
Statutory reserves	-	-	-	-	5,647,890	5,647,890	4,922,264
Retained earnings	-	-	-	-	4,464,077	4,464,077	4,388,867
Other reserves	-	-	-	-	43,263,694	43,263,694	37,775,068
Total non-interest bearing liabilities as at 31.12.2016	76,696,128	3,058,595	1,529,112	309,278	79,528,516	161,121,629	
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 liabilities and equity - as at 31.12.2016	581,421,623	266,158,535	33,191,444	22,093,195	109,336,434	1,012,201,231	
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
Percentage - as at 31.12.2016 (*)	57.44	26.30	3.28	2.18	10.80	100.00	
Percentage - as at 31.12.2015 (*)	62.29	23.44	2.27	1.14	10.86		100.00

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

69.2.2 (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>	2016 Rs. '000	2015 Rs. '000
Financial Assets		
Non-Derivative Financial Assets		
Balances with Central Banks	2,459,890	1,284,010
Loans and receivables to banks	624,458	601,106
Loans and receivables to other customers	272,097,889	232,631,534
Financial investments – Available-for-sale	114,074,408	180,968,180
Financial investments – Held-to-maturity	56,725,526	–
	445,982,171	415,484,830
Financial Liabilities		
Non-Derivative Financial Liabilities		
Securities sold under repurchase agreements	11,019	331,497
Due to other customers/deposits from customers	40,211,606	33,605,021
Other borrowings	6,721,530	7,987,274
Subordinated liabilities	24,330,012	10,723,234
	71,274,167	52,647,026

69.2.3 Liquidity Reserves

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

<i>As at December 31,</i>	2016		2015	
	Carrying Amount Rs. '000	Fair Value Rs. '000	Carrying Amount Rs. '000	Fair Value Rs. '000
Balances with Central Banks	43,873,205	43,873,205	28,221,017	28,221,017
Cash and balances with other banks	12,786,813	12,786,813	4,170,033	4,170,033
Coins and notes held	17,406,776	17,406,776	15,873,479	15,873,479
Unencumbered debt securities issued by sovereigns	155,381,134	151,455,447	106,704,783	107,319,745
Total liquidity reserves	229,447,928	225,522,241	154,969,312	155,584,274

69.2.4 Financial Assets Available to Support Future Funding

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

December 31, 2016	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	27			30,193,589		30,193,589
Balances with Central Banks	28		34,268,658	9,604,547		43,873,205
Placements with banks	29			11,718,499		11,718,499
Securities purchased under resale agreements				–		–
Derivative financial assets	30			1,052,829		1,052,829
Other financial instruments – Held-for-trading	31			4,987,798		4,987,798
Loans and receivables to banks*	32		624,458			624,458
Loans and receivables to other customers	33			616,018,228		616,018,228
Financial investments – Available-for-sale**	34	89,037,472		70,985,999		160,023,471
Financial investments – Held-to-maturity	35	–		60,981,298		60,981,298
Financial investments – Loans and receivables	36			51,824,026		51,824,026
Total financial assets		89,037,472	34,893,116	857,366,813		981,297,401

December 31, 2015	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	27			20,043,512		20,043,512
Balances with Central Banks	28		28,221,017	–		28,221,017
Placements with banks	29			17,193,539		17,193,539
Securities purchased under resale agreements	–			8,002,100		8,002,100
Derivative financial assets	30			4,118,169		4,118,169
Other financial instruments – Held-for-trading	31			7,656,349		7,656,349
Loans and receivables to banks *	32		601,106			601,106
Loans and receivables to other customers	33			508,115,127		508,115,127
Financial investments – Available-for-sale**	34	126,431,103	–	77,813,186		204,244,289
Financial investments – Held-to-maturity	35	–	–	–		–
Financial investments – Loans and receivables	36			57,724,369		57,724,369
Total financial assets		126,431,103	28,822,123	700,666,351		855,919,577

*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.

** Market value of Securities pledged as collateral is considered as encumbered.

69.3 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.

69.3.1 Exposure to Market Risk – Trading and Non-Trading Portfolios

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

As at December 31, 2016	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	27	14,704,722		14,704,722
Balances with Central Banks	28	3,403,219		3,403,219
Placements with banks	29	11,718,499		11,718,499
Securities purchased under resale agreements		–		–
Derivative financial assets	30	1,052,829	1,052,829	
Other financial instruments – Held-for-trading	31	4,987,798	4,987,798	
Loans and receivables to banks	32	624,458		624,458
Loans and receivables to other customers	33	616,018,228		616,018,228
Financial investments – Available-for-sale	34	160,023,471		160,023,471
Financial investments – Held-to-maturity	35	60,981,298		60,981,298
Financial investments – Loans and receivables	36	51,824,026		51,824,026
		925,338,548	6,040,627	919,297,921
Liabilities Subject to Market Risk				
Due to banks	43	67,608,811		67,608,811
Derivative financial liabilities	44	1,515,035	1,515,035	
Securities sold under repurchase agreements		69,867,469		69,867,469
Due to other customers/deposits from customers		701,410,848		701,410,848
Other borrowings	46	9,270,154		9,270,154
Subordinated liabilities	52	24,849,539		24,849,539
		874,521,856	1,515,035	873,006,821

<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	27	6,012,136	–	6,012,136
Balances with Central Banks	28	8,145,887	–	8,145,887
Placements with banks	29	17,193,539	–	17,193,539
Securities purchased under resale agreements		8,002,100	–	8,002,100
Derivative financial assets	30	4,118,169	4,118,169	–
Other financial instruments – Held-for-trading	31	7,656,349	7,656,349	–
Loans and receivables to banks	32	601,106	–	601,106
Loans and receivables to other customers	33	508,115,127	–	508,115,127
Financial investments – Available-for-sale	34	204,244,289	–	204,244,289
Financial investments – Held-to-maturity	35	–	–	–
Financial investments – Loans and receivables	36	57,724,369	–	57,724,369
		821,813,071	11,774,518	810,038,553
Liabilities Subject to Market Risk				
Due to banks	43	30,319,119	–	30,319,119
Derivative financial liabilities	44	1,890,770	1,890,770	–
Securities sold under repurchase agreements		112,384,812	–	112,384,812
Due to other customers/deposits from customers		585,409,104	–	585,429,104
Other borrowings	46	9,985,637	–	9,985,637
Subordinated liabilities	52	11,973,272	–	11,973,272
		751,962,714	1,890,770	750,071,944

69.3.2 Exposure to Interest Rate Risk – Sensitivity Analysis

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

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

The tables below analyse the Bank's interest rate risk exposure on financial assets and financial liabilities. The Bank's assets and liabilities are included at carrying amounts 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, 2016</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 31.12.2016 Rs. '000
Financial Assets							
Cash and cash equivalents	6,991,886	–	–	–	–	23,201,703	30,193,589
Balances with Central Banks	3,403,219	–	–	–	–	40,469,986	43,873,205
Placements with banks	11,718,499	–	–	–	–	–	11,718,499
Securities purchased under resale agreements	–	–	–	–	–	–	–
Derivative financial assets	–	–	–	–	–	–	–
Other financial instruments – Held-for-trading	–	–	–	–	–	–	–
Loans and receivables to banks	–	–	–	–	–	624,458	624,458
Loans and receivables to other customers	380,578,852	114,228,759	56,281,391	30,331,334	29,613,153	4,984,739	616,018,228
Financial investments – Available-for-sale	4,616,318	35,445,896	94,598,716	24,912,386	–	450,155	160,023,471
Financial investments – Held-to-maturity	13,220,906	5,077,400	17,061,858	135,192	25,485,942	–	60,981,298
Financial investments – Loans and receivables	41,332,775	2,599,730	5,663,994	2,227,527	–	–	51,824,026
Total Financial Assets	461,862,455	157,351,785	173,605,959	57,606,439	55,099,095	69,731,041	975,256,774
Financial Liabilities							
Due to banks	47,523,006	17,370,999	–	–	–	2,714,806	67,608,811
Derivative financial liabilities	–	–	–	–	–	–	–
Securities sold under repurchase agreements	55,479,230	14,377,545	10,694	–	–	–	69,867,469
Due to other customers/deposits from customers	419,615,132	229,599,655	14,761,841	10,500,371	8,882,763	56,203,732	739,563,494
Other borrowings	5,601,711	322,650	661,989	639,217	2,044,587	–	9,270,154
Subordinated liabilities	11,670,109	–	–	9,502,140	3,677,290	–	24,849,539
Total Financial Liabilities	539,889,188	261,670,849	15,434,524	20,641,728	14,604,640	58,918,538	911,159,467
Interest rate sensitivity gap	(78,026,733)	(104,319,064)	158,171,435	36,964,711	40,494,455	10,812,503	64,097,307

<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	16,995,448	12,795,555	83,586,193	37,424,636	52,955,579	486,878	204,244,289
Financial investments – Held-to-maturity	-	-	-	-	-	-	-
Financial investments – Loans and receivables	45,994,468	1,493,686	5,025,175	5,211,040	-	-	57,724,369
Total Financial Assets	398,222,952	117,761,342	133,772,853	72,117,747	73,513,186	48,756,979	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	(102,259,866)	(83,331,418)	119,643,883	63,437,481	65,272,516	(7,382,187)	55,380,409

69.3.2 (b) Exposure to Interest Rate Risk – Non-Trading Portfolio (Rate Shocks)

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank’s financial assets and financial liabilities to various interest rate scenarios.

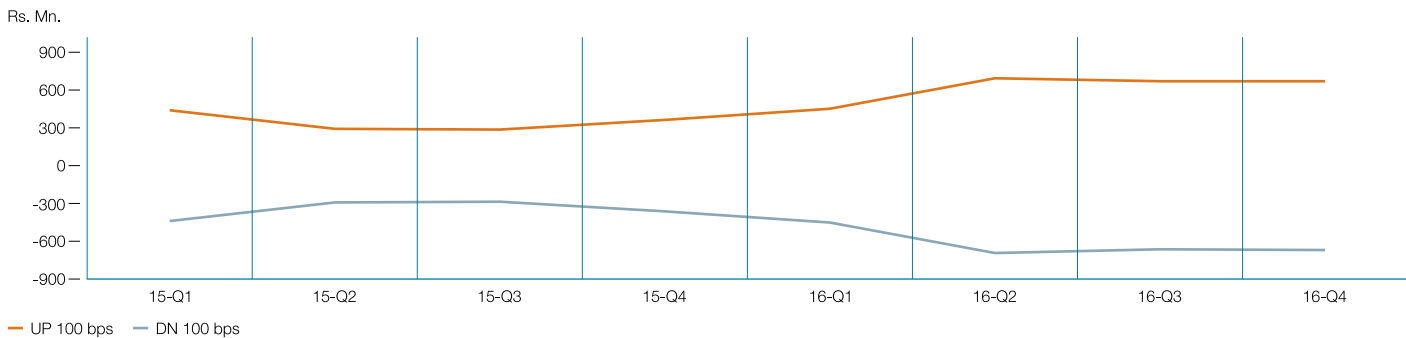
The following table demonstrates the sensitivity of the Bank’s Income Statement as at the Reporting date to a reasonably possible change in interest rates, with all other variables held constant.

Sensitivity of Projected Net Interest Income

Net Interest Income (NII)	2016		2015	
	Parallel Increase Rs. '000	Parallel Decrease Rs. '000	Parallel Increase Rs. '000	Parallel Decrease Rs. '000
As at December 31,	670,859	(668,620)	363,173	(362,303)
Average for the period	634,306	(632,375)	336,601	(335,541)
Maximum for the period	827,488	(824,962)	469,161	(468,336)
Minimum for the period	366,432	(365,569)	267,117	(266,063)

The graph below depicts the impact on the Net Interest Income due to a Rate shock of 100 bps on Rupee denominated Assets and Liabilities and 25 bps on FCY denominated Assets and Liabilities.

Impact of a Rate Shock on the Net Interest Income



The impact of changes in interest rates on NII is measured using a static Balance Sheet which is subjected to 100 bps and 25 bps shocks on Rupee and foreign currency denominated interest earning assets and interest bearing liabilities 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 2015 and 2016. Right throughout 2016, the impact of rate shocks on projected NII has been well below the Management Action Trigger (MAT) limit. Since December, 2015 the impact has gradually decreased due to the conscious decision of the Bank to rebalance the Fixed Income Securities (FIS) portfolio, growth in short term repricing portfolio and the Bank’s decision to increase the shock level for foreign currency denominated assets and liabilities to 25 bps from 10 bps.

69.3.3 Exposure to Currency Risk – Non-Trading Portfolio

Currency Risk arises as a result of fluctuations in the value of a financial instrument due to changes in foreign exchange rates. There are set limits on position by currency and these positions are monitored on a daily basis.

The table below indicates the currencies to which the Bank had significant exposures as at December 31, 2016 and 2015 and the exposure as a percentage of the total capital funds:

Foreign Exchange Position as at December 31, 2016

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	34,367	42,279	(7,912)	20,447	11,005	9,442	3,179		4,709	705,226
Great Britain Pound	3,524	7,832	(4,308)	5,072	807	4,265	45		3	467
Euro	5,216	5,384	(168)	420	300	120	66		17	2,703
Japanese Yen	15,549	2,271	13,278	5,847	18,937	(13,090)	(150)		38	49
Indian Rupee	-	-	-	-	-	-	-		-	-
Australian Dollar	180	71	109	-	100	(100)	(40)		(30)	(3,284)
Canadian Dollar	97	74	23	-	-	-	(1)		23	2,538
Other currencies in US Dollars	914	340	574	-	509	(509)	95		160	23,948
Total exposure							US \$ 3,367		US \$ 4,886	731,647
Total capital funds as per the Audited Basel II computation (capital base of the Bank as at December 31, 2016)										103,373,535
Total exposure as a percentage of total capital funds										0.71%

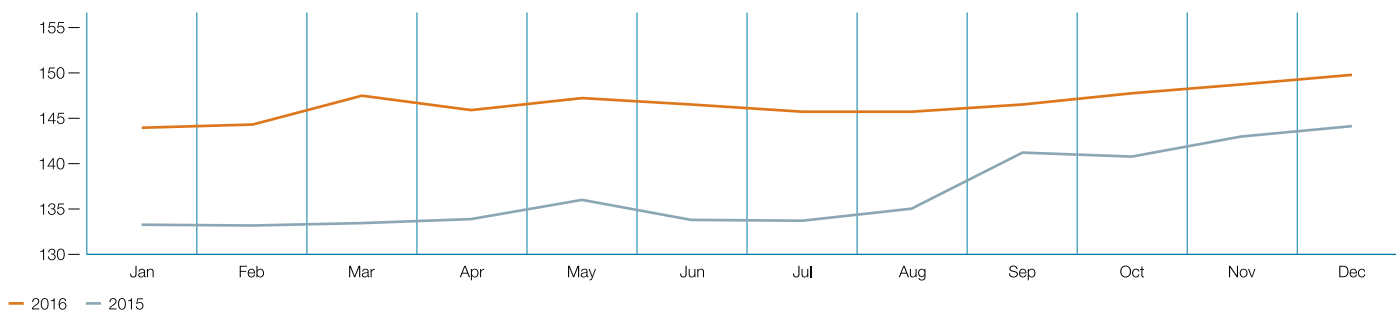
Foreign Exchange Position as at December 31, 2015

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 Dollar	503	569	(66)	1,350	1,250	100	(33)		1	86
Canadian Dollar	354	347	7	-	-	-	-		7	716
Other currencies in US Dollars	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 percentage of total capital funds as per the Audited Financial Statements										0.41%

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 FX Risk. An appropriate shock based on historical USD/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 Lanka Operation)

+/- Rs. Mn.



69.3.4 Exposure to Equity Price Risk

Impact on Income Statement due to a change in market price by 10% on equity shares held by the Bank.

Equity price risk arises as a 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 Income Statement and to the equity) due to a shock of 10% on equity price.

	2016			2015		
	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,	293,809	246,548	540,357	326,263	234,839	561,102
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)	29,381	24,655	54,036	32,626	23,484	56,110
Shock of 10% on equity price (downward)	(29,381)	(24,655)	(54,036)	(32,626)	(23,484)	(56,110)

69.4 Operational Risk

Operational risk arises due to 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 reputational 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.

69.5 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.

69.5.1 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 1) in relation to total risk weighted assets and a minimum overall CAR of 10% with Tier I and Tier II (Supplementary Capital) in relation to total risk weighted assets.

<i>As at December 31,</i>	2016 Rs. '000	2015 Rs. '000
Tier I: Core Capital		
Paid-up ordinary shares/Common stock/Assigned capital++	24,978,002	23,254,605
Statutory reserve fund	5,647,890	4,922,265
Published retained profits/(accumulated losses)(+/-)	1,538,142	1,582,894
General and other reserves	44,749,627	36,007,573
Minority interests (consistent with the above capital constituents)	-	-
Tier I: Deductions/Adjustments		
Goodwill	-	-
Other intangible assets	(640,646)	(465,962)
Advances granted to employees of the Bank for the purchase of shares of the Bank (ESOP)	(302)	(499)
50% of Investments in unconsolidated banking and financial subsidiary companies	(1,065,444)	(458,023)
50% Investments in the capital of other banks and financial institutions	(402)	(402)
Total Eligible Core Capital (Tier I Capital)	75,206,867	64,842,451
Tier II: Supplementary Capital		
Revaluation reserves (as approved by the Central Bank of Sri Lanka)	2,034,231	2,034,231
General provisions	2,863,408	2,351,948
Approved subordinated term debt	24,334,875	10,917,767
Tier II: Deductions/Adjustments		
50% of investments in unconsolidated banking and financial subsidiary companies	(1,065,444)	(458,023)
50% investments in the capital of other banks and financial institutions	(402)	(402)
Total eligible supplementary capital (Tier II Capital)	28,166,668	14,845,521
Total capital base	103,373,535	79,687,972

The Bank's regulator, the Central Bank of Sri Lanka sets and monitors capital requirements for the Banking industry as a whole.

Historically, the Bank has been maintaining a relatively higher CAR, which shows the stability and resilience of the Bank.

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 and therefore Capital budgeting decisions are arrived at after evaluating the impact of such decisions on the income of the Bank.

69.5.2 Capital Allocation

Management monitors the capital adequacy ratio on a regular basis and ensures that it operates well above the internal limit set by the Bank. The allocation of capital between specific operations and activities, to a large extent, is driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily on regulatory capital requirements, but in some cases the regulatory requirements do not fully reflect the varying degree of risk associated with different activities. In such cases, the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum requirements for regulatory purposes.

70. Events After the Reporting Period

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

70.1 Interim Dividend – 2016

The Bank declared and paid a second interim dividend of Rs. 3.00 per share on February 17, 2017 to both the voting and non-voting ordinary shareholders of the Bank.

In accordance with the Sri Lanka Accounting Standard – LKAS 10 on 'Events after the Reporting Period', this interim dividend has not been recognised as a liability as at December 31, 2016. Under the Inland Revenue Act No. 10 of 2006, a withholding tax of 10% has been imposed on dividends paid.

70.2 Final Dividend – 2016

The Board of Directors of the Bank has recommended the payment of a final dividend of Rs. 2.00 per share which will be satisfied in the form of issue and allotment of new shares for both the voting and non-voting ordinary shareholders of the Bank for the year ended December 31, 2016.

This dividend is yet to be approved at the Annual General Meeting to be held on March 30, 2017. In accordance with the Sri Lanka Accounting Standard – LKAS 10 on 'Events after the Reporting Period', this proposed final dividend has not been recognised as a liability as at December 31, 2016. Under the Inland Revenue Act No. 10 of 2006, a withholding tax of 10% will be imposed on dividends declared.

Compliance with Sections 56 and 57 of Companies Act No. 07 of 2007

As required by the 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 22, 2017 has been audited by Messrs KPMG.