

## 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.

For the year ended December 31,	Note	Page No.	GROUP		BANK	
			2017	2016	2017	2016
			Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest income	13.1	196	104,049,102	81,314,607	103,034,386	80,738,176
Fees and commission income	14.1	198	10,510,800	8,230,131	10,169,211	8,143,041
Net gains/(losses) from trading	15	199	233,956	(1,466,711)	233,956	(1,466,711)
Net gains/(losses) from financial investments	16	199	129,210	110,759	129,030	110,701
Other income (net)	17	200	1,918,687	5,536,749	2,027,365	5,617,403
<b>Total</b>			<b>116,841,755</b>	<b>93,725,535</b>	<b>115,593,948</b>	<b>93,142,610</b>

## 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.

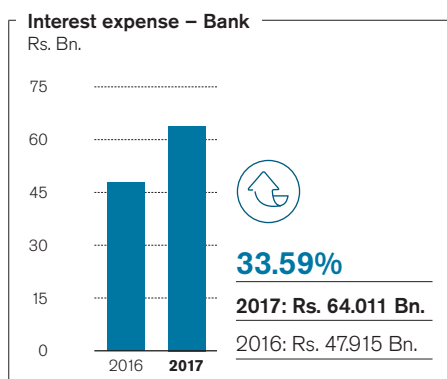
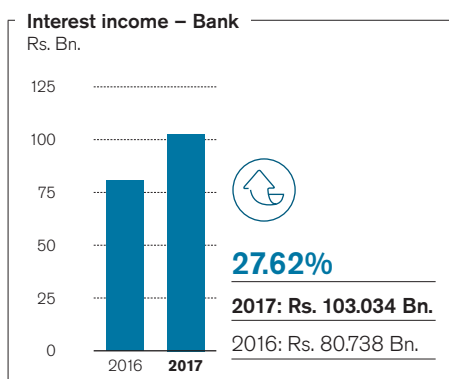
The calculation of the EIR includes transaction costs and fees and points paid or received that are an integral part of the EIR. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

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.

For the year ended December 31,	Note	Page No.	GROUP		BANK	
			2017	2016	2017	2016
			Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest income	13.1	196	104,049,102	81,314,607	103,034,386	80,738,176
Less: Interest expense	13.2	196	64,481,804	48,186,331	64,010,991	47,914,573
<b>Net interest income</b>			<b>39,567,298</b>	<b>33,128,276</b>	<b>39,023,395</b>	<b>32,823,603</b>

### 13.1 Interest income

For the year ended December 31,	GROUP		BANK	
	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cash and cash equivalents	362,695	219,048	356,930	218,337
Balances with central banks	4,400	40,575	3,263	40,504
Placements with banks	215,909	145,504	215,920	145,504
Securities purchased under resale agreements	139,153	352,695	139,153	352,695
Financial instruments – Held for trading	469,012	457,308	469,012	457,308
Derivative financial instruments	24,111	–	24,111	–
Other financial instruments	444,901	457,308	444,901	457,308
Loans and receivables to other customers	78,132,371	58,135,238	77,294,117	57,587,445
Financial investments – Available for sale	15,349,974	14,311,753	15,335,424	14,307,559
Financial investments – Held to maturity	5,475,592	3,757,168	5,318,994	3,731,930
Financial investments – Loans and receivables	3,036,526	3,360,048	3,036,526	3,360,048
Interest income from impaired loans and receivables to other customers	861,057	533,528	861,057	533,528
Other interest income	2,413	1,742	3,990	3,318
<b>Total interest income</b>	<b>104,049,102</b>	<b>81,314,607</b>	<b>103,034,386</b>	<b>80,738,176</b>



### 13.2 Interest expense

For the year ended December 31,	GROUP		BANK	
	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Due to banks	2,069,416	1,278,205	1,617,094	990,560
Derivative financial instruments	38,702	–	38,702	–
Securities sold under repurchase agreements	5,943,417	7,756,308	5,965,608	7,775,316
Due to other customers/deposits from customers	53,385,259	37,176,139	53,344,577	37,174,433
Refinance borrowings	352,074	270,977	352,074	270,977
Foreign currency borrowings	315,242	169,353	315,242	169,353
Subordinated liabilities	2,377,694	1,535,349	2,377,694	1,533,934
<b>Total interest expense</b>	<b>64,481,804</b>	<b>48,186,331</b>	<b>64,010,991</b>	<b>47,914,573</b>

### 13.3 Net interest income from Government securities

Interest income and interest expenses 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

For the year ended December 31,	GROUP		BANK	
	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Interest income</b>	<b>22,331,944</b>	<b>19,870,503</b>	<b>22,317,394</b>	<b>19,866,309</b>
Securities purchased under resale agreements	81,635	290,627	81,635	290,627
Financial instruments – Held for trading	296,520	351,293	296,520	351,293
Financial investments – Available for sale	15,349,974	13,412,354	15,335,424	13,408,160
Financial investments – Held to maturity	4,520,977	3,678,099	4,520,977	3,678,099
Financial investments – Loans and receivables	2,082,838	2,138,130	2,082,838	2,138,130
<b>Less: Interest expenses</b>	<b>5,942,176</b>	<b>7,755,075</b>	<b>5,964,367</b>	<b>7,774,082</b>
Securities sold under repurchase agreements	5,942,176	7,755,075	5,964,367	7,774,082
<b>Net interest income</b>	<b>16,389,768</b>	<b>12,115,428</b>	<b>16,353,027</b>	<b>12,092,227</b>

#### Notional tax credit on secondary market transactions

As per the Section 137 of the Inland Revenue Act No. 10 of 2006 and amendments thereto, net interest income of the Group derived from secondary market transactions in Government Securities, Treasury Bills and Bonds (Interest income accrued or received on outright or reverse repurchase transactions on Government Securities, Treasury Bills and Bonds less interest expenses accrued or paid on repurchase transactions with such Government Securities, Treasury Bills and Bonds from which such interest income was earned) for the period January 1, 2017 to December 31, 2017 has been grossed up by Rs. 1,338.116 Mn. (2016 – Rs. 918.062 Mn.) and Rs. 1,336.673 Mn. (2016 – Rs. 916.767 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

For the year ended December 31,	GROUP		BANK	
	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Interest income</b>	<b>1,003,916</b>	<b>1,121,313</b>	<b>1,003,916</b>	<b>1,121,313</b>
Securities purchased under resale agreements	57,518	62,068	57,518	62,068
Financial instruments – Held for trading	148,381	106,015	148,381	106,015
Financial investments – Available for sale	–	899,399	–	899,399
Financial investments – Held to maturity	798,017	53,831	798,017	53,831
<b>Less: Interest expenses</b>	<b>1,240</b>	<b>1,252</b>	<b>1,240</b>	<b>1,252</b>
Securities sold under repurchase agreements	1,240	1,252	1,240	1,252
<b>Net interest income</b>	<b>1,002,676</b>	<b>1,120,061</b>	<b>1,002,676</b>	<b>1,120,061</b>

**13.3 (c) Net interest income from Maldivian Government securities**

For the year ended December 31,	GROUP		BANK	
	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest income	156,598	25,238	-	-
Financial investments – Held to maturity	156,598	25,238	-	-
Net interest income	156,598	25,238	-	-

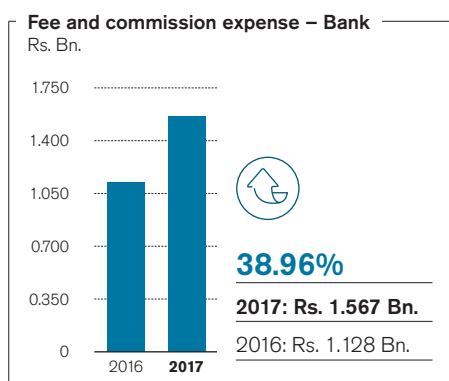
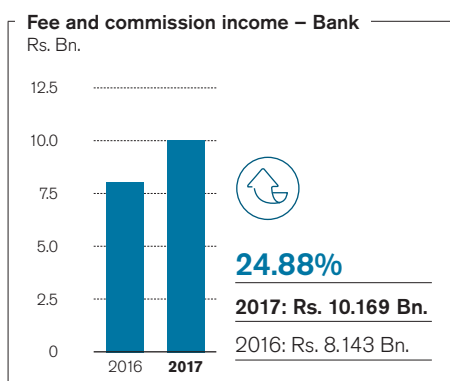
**14. Net Fee and Commission Income**

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

For the year ended December 31,	Note	Page No.	GROUP		BANK	
			2017	2016	2017	2016
			Rs. '000	Rs. '000	Rs. '000	Rs. '000
Fee and commission income	14.1	198	10,510,800	8,230,131	10,169,211	8,143,041
Less: Fee and commission expenses	14.2	199	1,586,334	1,140,954	1,566,851	1,127,536
Net fee and commission income			8,924,466	7,089,177	8,602,360	7,015,505


**14.1 Fee and commission income**

For the year ended December 31,	GROUP		BANK	
	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loans and advances related services	834,468	778,517	742,996	715,086
Credit and debit cards related services	3,389,773	2,671,294	3,388,707	2,671,116
Trade and remittances related services	3,184,574	2,619,429	3,176,106	2,619,194
Deposits related services	1,687,448	1,110,216	1,680,926	1,109,285
Guarantees related services	798,583	669,497	798,281	669,409
Other financial services	615,954	381,178	382,195	358,951
Total fee and commission income	10,510,800	8,230,131	10,169,211	8,143,041

**14.2 Fee and commission expenses**

	GROUP		BANK	
	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<i>For the year ended December 31,</i>				
Loans and advances related services	58,313	53,289	42,114	39,871
Credit and debit cards related services	1,385,010	980,927	1,385,010	980,927
Trade and remittances related services	44,205	32,851	40,921	32,851
Other financial services	98,806	73,887	98,806	73,887
<b>Total fee and commission expenses</b>	<b>1,586,334</b>	<b>1,140,954</b>	<b>1,566,851</b>	<b>1,127,536</b>

**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.

	GROUP		BANK	
	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<i>For the year ended December 31,</i>				
<b>Derivative financial instruments</b>	107,201	(1,429,188)	107,201	(1,429,188)
Foreign exchange gains/(losses) from banks and other customers	107,201	(1,429,188)	107,201	(1,429,188)
<b>Other financial instruments – Held for trading</b>				
<b>Government securities</b>	122,390	(9,042)	122,390	(9,042)
Net mark-to-market losses	94,672	(79,981)	94,672	(79,981)
Net capital gains	27,718	70,939	27,718	70,939
<b>Equities</b>	4,365	(28,481)	4,365	(28,481)
Net mark-to-market losses	(9,046)	(49,581)	(9,046)	(49,581)
Net capital gains	3,251	13,299	3,251	13,299
Dividend income	10,160	7,801	10,160	7,801
<b>Total</b>	<b>233,956</b>	<b>(1,466,711)</b>	<b>233,956</b>	<b>(1,466,711)</b>

**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.

	Note	Page No.	GROUP		BANK	
			2017	2016	2017	2016
			Rs. '000	Rs. '000	Rs. '000	Rs. '000
<i>For the year ended December 31,</i>						
Financial investments – Available for sale	16.1	200	129,140	75,555	128,960	75,497
Financial investments – Loans and receivables	16.2	200	70	35,204	70	35,204
<b>Total</b>			<b>129,210</b>	<b>110,759</b>	<b>129,030</b>	<b>110,701</b>

**16.1 Financial investments – Available for sale**

	GROUP		BANK	
	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<i>For the year ended December 31,</i>				
<b>Government securities</b>	91,202	38,091	91,202	38,091
Net capital gains	91,202	38,091	91,202	38,091
<b>Equities</b>	37,938	37,464	37,758	37,406
Net capital gains	–	–	–	–
Dividend income	37,938	37,464	37,758	37,406
<b>Total</b>	<b>129,140</b>	<b>75,555</b>	<b>128,960</b>	<b>75,497</b>

**16.2 Financial investments – Loans and receivables**

	GROUP		BANK	
	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<i>For the year ended December 31,</i>				
<b>Government securities</b>	70	35,204	70	35,204
Net capital gains	70	35,204	70	35,204
<b>Total</b>	<b>70</b>	<b>35,204</b>	<b>70</b>	<b>35,204</b>

**17. Other Income (Net)**

	Note	Page No.	GROUP		BANK	
			2017	2016	2017	2016
			Rs. '000	Rs. '000	Rs. '000	Rs. '000
<i>For the year ended December 31,</i>						
Gains/(losses) on sale of property, plant and equipment	17.1	200	(18,774)	10,395	(35,018)	1,705
Gains on revaluation of foreign exchange			489,824	3,755,346	481,012	3,755,047
Recoveries of loans written off and provision reversals			1,269,419	1,589,763	1,269,419	1,589,763
Dividend income from subsidiaries			–	–	96,332	81,468
Dividend income from associates			4,111	5,808	4,111	4,111
Profit due to change in ownership			5,262	3,047	5,262	3,047
Rental and other income	17.2	200	178,218	181,245	206,247	182,262
Less: Dividends received from associates transferred to investment account			(4,111)	(5,808)	–	–
Less: Profit due to change in ownership			(5,262)	(3,047)	–	–
<b>Total</b>			<b>1,918,687</b>	<b>5,536,749</b>	<b>2,027,365</b>	<b>5,617,403</b>

**17.1 Gains/(losses) on sale of property, plant and equipment**

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

**17.2 Rental income**

Rental income is recognised in 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 counterparties 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".



Impairment charges for loans and other losses are given below:

For the year ended December 31,	Note	Page No.	GROUP		BANK	
			2017	2016	2017	2016
			Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loans and receivables to banks	32	225	-	-	-	-
Loans and receivables to other customers			2,225,914	1,583,326	1,956,725	1,511,158
Charge to the Income Statement – Individual impairment	33.2	229	401,716	3,439,879	401,716	3,439,879
Charge/(write-back) to the Income Statement – Collective impairment	33.2	229	1,823,522	(1,859,806)	1,554,333	(1,931,932)
Direct write-offs			676	3,253	676	3,211
Investments in subsidiaries	37.1	243	-	-	(42,484)	15,350
Due from subsidiaries			-	-	-	3,306
<b>Total</b>			<b>2,225,914</b>	<b>1,583,326</b>	<b>1,914,241</b>	<b>1,529,814</b>

## 19. Personnel Expenses

For the year ended December 31,	Note	Page No.	GROUP		BANK	
			2017	2016	2017	2016
			Rs. '000	Rs. '000	Rs. '000	Rs. '000
Salary and bonus	19.1	203	8,538,989	8,261,068	8,509,813	8,161,579
Pension costs	19.1	203	1,596,841	1,595,795	1,569,187	1,582,798
Contributions to defined contribution/benefit plans – Funded schemes			1,308,050	1,361,533	1,289,938	1,354,982
Contributions to defined benefit plans – Unfunded schemes	50.1 (c) & 50.2 (c)	269 & 270	288,791	234,262	279,249	227,816
Equity-settled share-based payment expense	19.2 & 57.5	203 & 285	138,341	206,174	138,341	206,174
Others	19.3	203	1,064,346	850,051	1,050,675	843,756
<b>Total</b>			<b>11,338,517</b>	<b>10,913,088</b>	<b>11,268,016</b>	<b>10,794,307</b>

### 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 280.

### 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 and 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 and equipment of the Bank as at December 31, 2017 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 and fittings	10	10
Machinery and 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 and 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 and 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 245 to 257.

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 from the date on which it is available for use, at the rate specified below:

Class of asset	Amortisation % per annum	Period (years)
Computer software	20	5
Trademarks	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.

Amortisation method, useful lives, and residual values are reassessed at each reporting date and adjusted, if required.

For the year ended December 31,	Note	Page No.	GROUP		BANK	
			2017	2016	2017	2016
			Rs. '000	Rs. '000	Rs. '000	Rs. '000
Depreciation of property, plant and equipment	39	245	1,185,698	1,093,088	1,097,096	1,022,648
Amortisation of intangible assets	40	258	229,764	173,790	209,766	165,903
Amortisation of trademarks			13	-	-	-
Amortisation of leasehold property	41	260	1,452	1,452	942	942
<b>Total</b>			<b>1,416,927</b>	<b>1,268,330</b>	<b>1,307,804</b>	<b>1,189,493</b>

## 21. Other Operating Expenses

For the year ended December 31,	Note	Page No.	GROUP		BANK	
			2017	2016	2017	2016
			Rs. '000	Rs. '000	Rs. '000	Rs. '000
Directors' fees	21.1	205	65,205	38,872	45,901	32,133
Auditors' remuneration			30,260	31,218	22,696	25,124
Audit fees and expenses			16,656	14,304	10,563	9,766
Audit-related fees and expenses			7,620	8,677	6,825	8,392
Non-audit fees and expenses			6,084	8,237	5,308	6,966
Professional and legal expenses			361,880	262,522	443,387	329,237
Deposit insurance premium paid to the Central Banks			682,108	590,544	681,944	590,236
Donations, including contribution made to the CSR Trust Fund			83,104	61,681	83,043	61,681
Establishment expenses			2,677,614	2,439,490	2,714,360	2,488,984
Maintenance of property, plant and equipment			1,187,143	890,002	1,205,215	1,035,238
Office administration expenses			2,531,679	2,495,106	2,265,418	2,269,712
<b>Total</b>			<b>7,618,993</b>	<b>6,809,435</b>	<b>7,461,964</b>	<b>6,832,345</b>

### 21.1 Directors' emoluments

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

## 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 tax

"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 206. 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 tax

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:

For the year ended December 31,	Note	Page No.	GROUP		BANK	
			2017	2016	2017	2016
			Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Current year tax expense</b>			6,679,675	5,606,143	6,564,443	5,554,989
Current year income tax expense of Domestic Banking Unit			4,870,548	4,086,795	4,870,548	4,086,795
Current year income tax expense of Off-shore Banking Centre			232,412	291,831	232,412	291,831
Current year income tax expense of Bangladesh Operation			1,450,193	1,167,596	1,450,193	1,167,596
Current year Income tax expense of Commercial Development Company PLC			37,450	40,063	-	-
Current year Income tax expense of ONEzero Company Limited			17,684	13,169	-	-
Current year Income tax expense of Serendib Finance Limited			45,744	(2,258)	-	-
Current year Income tax expense of Commercial Bank of Maldives Private Limited			13,518	-	-	-
Current year Income tax expense of Commex Sri Lanka S.R.L. – Italy			656	-	-	-
Withholding tax on dividends received			11,470	8,947	11,290	8,767
<b>Prior years</b>						
Under/(Over) provision of taxes in respect of prior years	47	265	(99,996)	-	(100,000)	-
<b>Deferred tax expense</b>			74,138	42,017	137,257	(16,317)
Effect of change in tax rates			-	-	-	-
Origination and reversal of temporary differences	48.1	265	74,138	42,017	137,257	(16,317)
<b>Total</b>			6,653,817	5,648,160	6,601,700	5,538,672
Effective tax rate (including deferred tax) (%)					28.48	27.62
Effective tax rate (excluding deferred tax) (%)					27.88	27.70

Income tax expense for 2017 and 2016 of the Bank and its subsidiaries have been provided for on the taxable income at rates shown below:

	2017 %	2016 %
Domestic operations of the Bank	28	28
Off-shore banking operation of the Bank	28	28
Bangladesh operation of the Bank	42.5	42.5
Commercial Development Company PLC	28	28
ONEzero Company Limited	28	28
Serendib Finance Limited	28	28
Commercial Bank of Maldives Private Limited	25	25
Commex Sri Lanka S.R.L. – Italy	24	24

## 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,	Note	Page No.	Tax Rate		GROUP		BANK	
			2017 %	2016 %	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Accounting profit before tax from operations					23,280,324	20,114,584	23,182,944	20,051,183
Tax effect at the statutory income tax rate					7,031,752	5,988,705	6,959,962	5,907,894
Domestic banking operation of the Bank			28	28	4,808,919	4,497,651	4,808,919	4,497,651
Offshore banking operation of the Bank			28	28	744,242	273,192	744,242	273,192
Bangladesh operation of the Bank			42.5	42.5	1,406,801	1,137,051	1,406,801	1,137,051
Subsidiaries			28, 25 & 24	28, 25 & 24	71,790	80,811	-	-
Tax effect of exempt income					(1,490,271)	(1,313,810)	(1,490,271)	(1,313,424)
Tax effect of non-deductible expenses					7,840,250	6,766,163	7,550,140	6,722,770
Tax effect of deductible expenses					(6,711,539)	(5,841,357)	(6,464,691)	(5,768,513)
Qualifying payments					(1,987)	(2,505)	(1,987)	(2,505)
Under/(over) provision of taxes in respect of prior years	22.1 & 47	206 & 265			(99,996)	-	(100,000)	-
Withholding tax on dividends received					11,470	8,947	11,290	8,767
Deferred tax expense	22.1 & 48.1	206 & 265			74,138	42,017	137,257	(16,317)
Income tax expense reported in the Income Statement at the effective income tax rate					6,653,817	5,648,160	6,601,700	5,538,672

## 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 potentially dilutive 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

	Note	Page No.	GROUP		BANK	
			2017	2016	2017	2016
Amount used as the numerator:						
Profit for the year attributable to equity holders of the Bank (Rs. '000)			16,605,963	14,510,333	16,581,244	14,512,511
Number of ordinary shares used as the denominator:						
Weighted average number of ordinary shares	23.3	208	960,767,103	918,193,096	960,767,103	918,193,096
Basic earnings per ordinary share (Rs.)			17.28	15.80	17.26	15.81

### 23.2 Diluted earnings per ordinary share

	Note	Page No.	GROUP		BANK	
			2017	2016	2017	2016
Amount used as the numerator:						
Profit for the year attributable to equity holders of the Bank (Rs. '000)			16,605,963	14,510,333	16,581,244	14,512,511
Number of ordinary shares used as the denominator:						
Weighted average number of ordinary shares	23.3	208	961,802,370	920,199,124	961,802,370	920,199,124
Diluted earnings per ordinary share (Rs.)			17.27	15.77	17.24	15.77

### 23.3 Weighted average number of ordinary shares for basic and diluted earnings per share

	Note	Page No.	Outstanding no. of shares		Weighted average no. of shares	
			2017	2016	2017	2016
Number of shares in issue as at January 1,			890,734,540	876,866,801	890,734,540	876,866,801
Add: Number of shares satisfied in the form of issue and allotment of new shares from final dividend for 2015	53.1	278	-	12,731,007	-	12,731,007
Add: Number of shares satisfied in the form of issue and allotment of new shares from final dividend for 2016	53.1	278	11,425,159	-	11,425,159	11,425,159
Add: Number of shares exercised in the form of Rights Issue in 2017	53.1	278	90,461,066	-	56,449,510	16,730,174
			992,620,765	889,597,808	958,609,209	917,753,141
Add: Number of shares issued under Employee Share Option Plan (ESOP) 2008			2,518,564	894,487	1,737,730	268,784
Add: Number of shares issued under Employee Share Option Plan (ESOP) 2015			759,973	242,245	420,164	171,171
Weighted average number of ordinary shares for basic earnings per ordinary share calculation			995,899,302	890,734,540	960,767,103	918,193,096
Add: Bonus element on number of outstanding options under ESOP 2008 as at the year end			-	-	625,382	1,404,951
Add: Bonus element on number of outstanding options under ESOP 2015 as at the year end			-	-	409,885	601,077
Weighted average number of ordinary shares for diluted earnings per ordinary share calculation(*)			995,899,302	890,734,540	961,802,370	920,199,124

(\*) 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, 2017 and December 31, 2016 over the offer price.

**24. Dividends**

	GROUP		BANK	
	2017	2016	2017	2016
	<b>Second interim Rs. 3.00 per share for 2016 (paid on February 17, 2017)</b>		<b>Second interim Rs. 3.00 per share for 2016 (paid on February 17, 2017)</b>	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>On ordinary shares</b>				
Net dividend paid to the ordinary shareholders out of normal profits	2,418,709	–	2,418,709	–
Withholding tax deducted at source	256,090	–	256,090	–
<b>Gross ordinary dividend paid</b>	<b>2,674,799</b>	<b>–</b>	<b>2,674,799</b>	<b>–</b>

	First interim	First interim	First interim	First interim
	Rs. 1.50 per share for 2017 (paid on November 20, 2017)	Rs. 1.50 per share for 2016 (paid on November 18, 2016)	Rs. 1.50 per share for 2017 (paid on November 20, 2017)	Rs. 1.50 per share for 2016 (paid on November 18, 2016)
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>On ordinary shares</b>				
Net dividend paid to the ordinary shareholders out of normal profits	1,350,719	1,208,039	1,350,719	1,208,039
Withholding tax deducted at source	143,000	127,889	143,000	127,889
<b>Gross ordinary dividend paid</b>	<b>1,493,719</b>	<b>1,335,928</b>	<b>1,493,719</b>	<b>1,335,928</b>
<b>Total gross ordinary dividend paid</b>	<b>4,168,518</b>	<b>1,335,928</b>	<b>4,168,518</b>	<b>1,335,928</b>

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, 2017 and this dividend was paid on February 20, 2018.

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, 2017 (Bank declared a final dividend of Rs. 2.00 per share for 2016 in 2017 and this was satisfied in the form of issue and allotment of new shares for both voting and non-voting ordinary shares of the Bank). The total dividend recommended by the Board is to be approved at the forthcoming Annual General Meeting to be held on March 28, 2018. 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, 2017 have not been recognised as liabilities as at the year end. Final dividend payable for the year 2017 has been estimated at Rs.1,993.401 Mn. (Actual final dividend for 2016 amounted to Rs. 1,785.054 Mn.).

Accordingly, the dividend per ordinary share (for both voting and non-voting ) for the year 2017 would be Rs. 6.50 (2016 – Rs. 6.50).