

As at December 31, 2016	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	6,827	16,888	14,846	3,783	11,063
Total	23,715	6,827	16,888	14,846	3,783	11,063

The maturity analysis of Leasehold Property is given in Note 62 on pages 289 and 290.

42. Other Assets

As at December 31,	GROUP		BANK	
	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Receivables	46,212	36,511	46,171	36,511
Deposits and prepayments	1,530,984	1,481,830	1,563,026	1,490,786
Clearing account balance	6,135,630	6,370,312	6,135,630	6,370,312
Unamortised cost on staff loans (Day 1 difference)	3,676,965	3,373,174	3,676,965	3,373,174
Other accounts	5,973,186	5,220,732	5,876,370	5,167,383
Total	17,362,977	16,482,559	17,298,162	16,438,166

The maturity analysis of other assets is given in Note 62 on pages 289 and 290.

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	
	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Borrowings	54,538,743	58,406,994	51,414,842	54,917,414
Local currency borrowings	8,939,723	3,714,684	5,815,822	225,104
Foreign currency borrowings	45,599,020	54,692,310	45,599,020	54,692,310
Securities sold under repurchase (Repo) agreements (*)	5,706,149	12,691,397	5,706,149	12,691,397
Total	60,244,892	71,098,391	57,120,991	67,608,811

(*) 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 289 and 290.

44. Derivative Financial Liabilities

As at December 31,	Note	Page No.	GROUP		BANK	
			2017	2016	2017	2016
			Rs. '000	Rs. '000	Rs. '000	Rs. '000
Derivative financial liabilities – Held for trading	44.1	262	3,674,032	1,515,035	3,674,032	1,515,035
Derivative financial liabilities – Cash flow hedges held for risk management	44.2	262	4,462	–	4,462	–
Total			3,678,494	1,515,035	3,678,494	1,515,035

44.1 Derivative financial liabilities – Held for trading

Derivative 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.

These are recorded at fair value with corresponding gains or losses recognised in net gains/(losses) on trading in the Income Statement.

As at December 31,	GROUP		BANK	
	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Foreign currency derivatives				
Currency swaps	2,656,376	663,714	2,656,376	663,714
Forward contracts	1,015,648	849,011	1,015,648	849,011
Spot contracts	2,008	2,310	2,008	2,310
Total	3,674,032	1,515,035	3,674,032	1,515,035

44.2 Derivative financial liabilities – cash flow hedges held for risk management

The Group uses interest rate swaps to hedge the interest rate risk arising from a floating rate borrowing denominated in foreign currencies.

The fair value of the derivative financial liability denominated as cash flow hedge is as follows.

As at December 31,	GROUP		BANK	
	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest rate swaps	4,462	–	4,462	–
Total	4,462	–	4,462	–

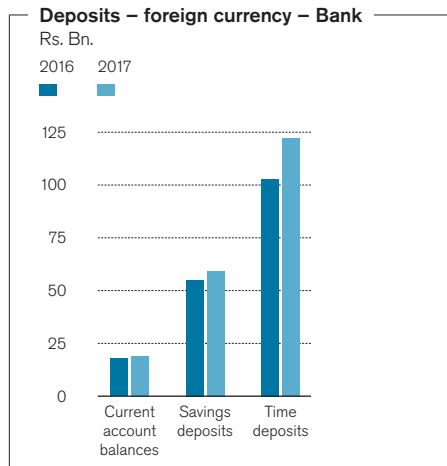
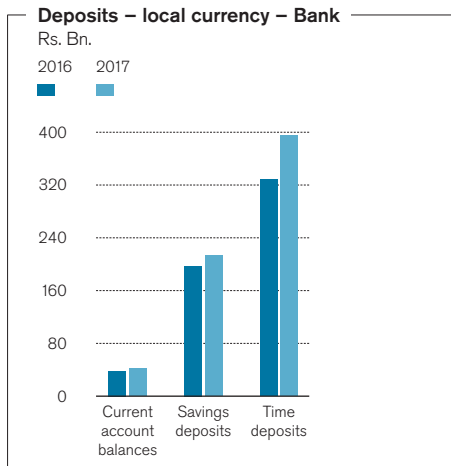
During the year, loss (net of tax) of Rs. 3.212 Mn. (2016 – Nil) relating to the effective portion of cash flow hedges were recognised in OCI.

The maturity analysis of Derivative Financial Liabilities is given in Note 62 on pages 289 and 290.

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	
	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Local currency deposits	649,709,858	564,036,848	650,161,430	564,194,443
Current account balances	42,488,222	38,151,058	42,497,439	38,152,646
Savings deposits	212,687,511	197,136,502	213,055,712	197,244,642
Time deposits	394,357,770	328,382,343	394,431,924	328,430,210
Certificates of deposit	176,355	366,945	176,355	366,945
Foreign currency deposits	207,560,123	179,273,765	199,966,081	175,369,051
Current account balances	23,401,770	19,516,806	18,954,618	17,908,311
Savings deposits	60,355,737	56,388,046	59,001,649	54,845,666
Time deposits	123,802,616	103,368,913	122,009,814	102,615,074
Total	857,269,981	743,310,613	850,127,511	739,563,494



45.1 Analysis of due to other customers/deposits from customers

<i>As at December 31,</i>	GROUP		BANK	
	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
(a) By product				
Current account balances	65,889,992	57,667,864	61,452,057	56,060,957
Savings deposits	273,043,248	253,524,548	272,057,361	252,090,308
Time deposits	518,160,386	431,751,256	516,441,738	431,045,284
Certificates of deposit	176,355	366,945	176,355	366,945
Subtotal	857,269,981	743,310,613	850,127,511	739,563,494
(b) By currency				
Sri Lankan Rupee	649,709,858	564,036,848	650,161,430	564,194,443
United States Dollar	133,126,818	119,220,744	127,914,412	115,932,891
Great Britain Pound	7,753,315	8,195,451	7,753,315	8,195,451
Euro	43,047,102	34,738,958	43,047,102	34,738,958
Australian Dollar	10,673,908	5,984,750	10,513,278	5,851,603
Bangladesh Taka	8,887,830	9,087,549	8,887,302	9,087,088
Maldivian Rufiyaa	2,271,481	504,726	-	-
Other currencies	1,799,669	1,541,587	1,850,672	1,563,060
Subtotal	857,269,981	743,310,613	850,127,511	739,563,494
(c) By institution/customers				
Deposits from banks	12,153,761	5,678,189	12,153,761	5,678,189
Deposits from finance companies	6,666,165	14,908,797	6,705,055	14,888,958
Deposits from other customers	838,450,055	722,723,627	831,268,695	718,996,347
Subtotal	857,269,981	743,310,613	850,127,511	739,563,494

The maturity analysis of deposits from customers is given in Note 62 on pages 289 and 290.

46. Other Borrowings

As at December 31,	GROUP		BANK	
	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Refinance borrowings	6,624,731	5,425,666	6,624,731	5,425,666
Borrowings from International Finance Corporation (IFC)	17,161,363	3,844,488	17,161,363	3,844,488
Total	23,786,094	9,270,154	23,786,094	9,270,154

The maturity analysis of Other Borrowings is given in Note 62 on pages 289 and 290.

47. Current Tax Liabilities

	Note	Page No.	GROUP		BANK	
			2017	2016	2017	2016
			Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 1,			3,464,682	3,025,662	3,440,736	3,001,984
Provision for the year			6,679,675	5,606,143	6,564,443	5,554,989
Reversal of (over)/under provision	22.1	206	(99,996)	-	(100,000)	-
Self-assessment payments			(3,810,701)	(4,014,741)	(3,753,679)	(3,966,831)
Notional tax credits (*)			(1,338,116)	(918,062)	(1,336,673)	(916,767)
Withholding tax/other credits			(646,991)	(291,257)	(625,096)	(289,576)
Exchange rate variance			(45,703)	56,937	(45,820)	56,937
Balance as at December 31,			4,202,850	3,464,682	4,143,911	3,440,736

(*) 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.

As per the Inland Revenue Act No. 24 of 2017, which will become effective from April 1, 2018 the Bank will not be entitled to accrue notional tax credit from April 1, 2018.

The maturity analysis of Current Tax Liabilities is given in Note 62 on pages 289 and 290.

48. Deferred Tax Assets and Liabilities

48.1 Summary of net deferred tax liability

	Note	Page No.	GROUP				BANK			
			2017		2016		2017		2016	
			Temporary difference	Tax effect	Temporary difference	Tax effect	Temporary difference	Tax effect	Temporary difference	Tax effect
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 1,			(2,069,702)	(668,150)	1,815,596	467,632	(3,126,090)	(963,935)	969,263	230,615
Amount originating/(reversing) to Income Statement	22.1	206	254,859	74,138	303,341	42,017	508,142	137,257	94,840	(16,317)
Amount originating/(reversing) to Statement of Profit or Loss and Other Comprehensive Income			14,850,829	4,158,232	(4,188,639)	(1,172,819)	14,631,707	4,096,878	(4,190,193)	(1,173,254)
Exchange rate variance			-	995	-	(4,980)	-	4,626	-	(4,979)
Balance as at December 31,			13,035,986	3,565,215	(2,069,702)	(668,150)	12,013,759	3,274,826	(3,126,090)	(963,935)

48.2 Reconciliation of net deferred tax liability – Group

For the year ended/as at December 31,	Statement of financial position		Profit or loss		Other comprehensive income	
	2017	2016	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Deferred tax liabilities on:						
Accelerated depreciation for tax purposes – Own assets	501,389	422,466	(78,923)	(50,511)	–	–
Accelerated depreciation for tax purposes – Leased assets	2,250,845	2,024,509	(226,336)	(151,498)	–	–
Revaluation surplus on freehold buildings	1,146,902	726,052	20,394	20,182	(441,244)	–
Revaluation surplus on freehold land (*)	1,762,741	–	–	–	(1,762,741)	–
Tax effect on actuarial gains on defined benefit plans	(21,569)	66,464	–	–	88,033	(40,006)
Effective interest rate on deposits	1,432	1,986	554	599	–	–
Effect of exchange rate variance	–	–	752	(5,888)	243	908
	5,641,740	3,241,477	(283,559)	(187,116)	(2,115,709)	(39,098)
Deferred tax assets on:						
Defined benefit plans	434,236	386,144	48,092	53,950	–	–
Tax effect on actuarial losses on defined benefit plans	85,738	61,179	–	–	24,559	37,204
Unrealised gain/(loss) on available-for-sale (AFS) portfolio	737,639	2,875,685	–	–	(2,138,046)	1,196,218
Specific provision on lease receivable	56,254	56,254	–	–	–	–
Leave encashment	181,231	179,216	2,015	10,984	–	–
Tax effect on actuarial losses on leave encashment	83,159	13,444	–	–	69,715	(21,505)
Straight lining of lease rentals	47,740	39,236	8,504	10,773	–	–
De-recognition of commission income	131,046	110,633	20,413	29,617	–	–
Equity-settled share-based payments	148,349	117,679	30,670	55,147	–	–
Impairment provision	144,888	62,672	82,216	(22,857)	–	–
Carried forward tax loss on leasing business	–	7,485	(7,485)	7,485	–	–
Cash flow hedges	1,249	–	–	–	1,249	–
Deferred tax on previous losses	24,996	–	24,996	–	–	–
	2,076,525	3,909,627	209,421	145,099	(2,042,523)	1,211,917
Deferred tax effect on Profit or Loss and Other Comprehensive Income for the year			(74,138)	(42,017)	(4,158,232)	1,172,819
Net deferred tax liability as at December 31,	3,565,215	(668,150)				

48.3 Reconciliation of net deferred tax liability – Bank

For the year ended/as at December 31,	Statement of financial position		Profit or loss		Other comprehensive income	
	2017	2016	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Deferred tax liabilities on:						
Accelerated depreciation for tax purposes – Own assets	448,849	379,184	(69,665)	(47,142)	–	–
Accelerated depreciation for tax purposes – Leased assets	2,127,270	1,926,686	(200,584)	(110,365)	–	–
Revaluation surplus on freehold buildings	857,785	493,791	19,930	19,930	(383,924)	–
Revaluation surplus on freehold land (*)	1,756,155	–	–	–	(1,756,155)	–
Tax effect on actuarial gains on defined benefit plans	(22,492)	63,016	–	–	85,508	(39,715)
Effective interest rate on deposits	1,432	1,986	554	599	–	–
Effect of exchange rate variance	–	–	4,383	(5,887)	243	908
	5,168,999	2,864,663	(245,382)	(142,865)	(2,054,328)	(38,807)
Deferred tax assets on:						
Defined benefit plans	422,019	375,497	46,522	52,662	–	–
Tax effect on actuarial losses on defined benefit plans	85,461	60,946	–	–	24,515	37,326
Unrealised gain/(loss) on available-for-sale (AFS) portfolio	737,665	2,875,694	–	–	(2,138,029)	1,196,240
Specific provision on lease receivable	56,254	56,254	–	–	–	–
Leave encashment	181,231	179,216	2,015	10,984	–	–
Tax effect on actuarial losses on leave encashment	83,159	13,444	–	–	69,715	(21,505)
Straight lining of lease rentals	47,740	39,236	8,504	10,773	–	–
De-recognition of commission income	131,046	110,632	20,414	29,616	–	–
Equity-settled share-based payments	148,349	117,679	30,670	55,147	–	–
Cash flow hedges	1,249	–	–	–	1,249	–
	1,894,173	3,828,598	108,125	159,182	(2,042,550)	1,212,061
Deferred tax effect on Profit or Loss and Other Comprehensive Income for the year			(137,257)	16,317	(4,096,878)	1,173,254
Net deferred tax liability as at December 31,	3,274,826	(963,935)				

(*) As per the Inland Revenue Act No. 24 of 2017, which will become effective from April 1, 2018 Capital Assets/Business Assets will attract tax at applicable Corporate tax rate on the gains at the time of disposal. Accordingly, deferred tax liability has been recognised at 28% on the revaluation surplus relating to freehold land in these Financial Statements.

The maturity analysis of Deferred Tax Liabilities is given in Note 62 on pages 289 and 290.

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	
	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Provision for claims payable	–	1,874	–	1,874
Total	–	1,874	–	1,874

The maturity analysis of Other Provisions is given in Note 62 on pages 289 and 290.

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,	Note	Page No.	GROUP		BANK	
			2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Accrued expenditure			2,895,090	2,362,488	2,865,751	2,342,023
Cheques sent on clearing			6,119,528	6,358,679	6,119,528	6,358,679
Provision for gratuity payable	50.1 (b)	269	1,515,410	1,010,095	1,474,387	983,180
Provision for unfunded pension scheme	50.2 (b)	270	285,095	214,886	285,095	214,886
Provision for leave encashment	50.3 (b)	271	944,251	688,073	944,251	688,073
Payable on oil hedging transactions			952,929	929,044	952,929	929,044
Other payables			6,795,812	6,465,637	6,583,423	6,194,509
Total			19,508,115	18,028,902	19,225,364	17,710,394

The maturity analysis of other liabilities is given in Note 62 on pages 289 and 290.

50.1 Provision for gratuity payable

An actuarial valuation of the retirement gratuity payable was carried out as at December 31, 2017 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, 2016) to determine the liabilities of the active employees in the gratuity, were used in the actuarial valuation carried out as at December 31, 2017.
	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 11.00% p.a. (2016 – 11.50% 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. (2016 – 8% 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 11.50% p.a. (2016 – 10% p.a.) has been used in respect of the active employees. Bangladesh operation A salary increment of 10% p.a. (2016 – 10% p.a.) has been used in respect of the active employees.

50.1 (b) Movement in the provision for gratuity payable

	Note	Page No.	GROUP		BANK	
			2017	2016	2017	2016
			Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 1,			1,010,095	886,648	983,180	863,230
Expense recognised in the Income Statement	50.1 (C)	269	264,079	211,237	254,537	204,791
Exchange rate variance			(7,279)	7,782	(7,279)	7,782
Amount paid during the year			(67,216)	(39,701)	(62,607)	(38,230)
Actuarial (gain)/loss recognised in other comprehensive income			315,731	(55,871)	306,556	(54,393)
Balance as at December 31,			1,515,410	1,010,095	1,474,387	983,180

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

<i>For the year ended December 31,</i>	GROUP		BANK	
	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest cost	105,960	91,149	102,993	88,801
Current service cost	158,119	120,088	151,544	115,990
Total	264,079	211,237	254,537	204,791

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, 2017.

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	(225,654)	(223,047)
1% decrease in discount rate	280,956	277,988
1% increase in salary	285,515	282,509
1% decrease in salary	(231,506)	(228,822)

50.2 Provision for unfunded pension scheme

An actuarial valuation of the unfunded pension liability was carried out as at December 31, 2017 by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional actuaries. The valuation method used by the actuary to value the liability is the "Projected Unit Credit Method (PUC)", the method recommended by the Sri Lanka Accounting Standard – LKAS 19 on "Employee Benefits".

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, 2016) to determine the liabilities of the active employees in the funded scheme, were used in the actuarial valuation carried out as at December 31, 2017.
	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 decided 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 11.00% p.a. (2016 – 11.50% p.a.) has been used to discount future liabilities considering anticipated long-term rate of inflation.
	Salary increases	A salary increment of 11.50% p.a. (2016 – 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

	Note	Page No.	GROUP		BANK	
			2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Balance as at January 1,			214,886	219,283	214,886	219,283
Expense recognised in the Income Statement	50.2 (c)	270	24,712	23,025	24,712	23,025
Amount paid during the year			(45,317)	(34,134)	(45,317)	(34,134)
Actuarial loss recognised in other comprehensive income			90,814	6,712	90,814	6,712
Balance as at December 31,			285,095	214,886	285,095	214,886

50.2 (c) Expense recognised in the Income Statement – Unfunded pension scheme

For the year ended December 31,	GROUP		BANK	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Interest cost	24,712	23,025	24,712	23,025
Current service cost	–	–	–	–
Total	24,712	23,025	24,712	23,025

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, 2017.

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	(10,811)	(10,811)
1% decrease in discount rate	11,801	11,801
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, 2017 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 11.00% p.a. (2016 – 11.50% p.a.) has been used to discount future liabilities considering anticipated long-term rate of inflation.
	Salary increases	A salary increment of 11.50% p.a. (2016 – 10.00% p.a.) has been used in respect of the active employees.

50.3 (b) Movement in the provision for leave encashment

	Note	Page No.	GROUP		BANK	
			2017	2016	2017	2016
			Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 1,			688,073	725,647	688,073	725,647
Expense recognised in the Income Statement	50.3 (c)	272	79,128	76,193	79,128	76,193
Amount paid during the year			(71,931)	(36,965)	(71,931)	(36,965)
Actuarial (gain)/loss recognised in other comprehensive income			248,981	(76,802)	248,981	(76,802)
Balance as at December 31,			944,251	688,073	944,251	688,073

50.3 (c) Expense recognised in the Income Statement – Leave encashment

For the year ended December 31,	GROUP		BANK	
	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest cost	79,128	76,193	79,128	76,193
Current service cost	–	–	–	–
Total	79,128	76,193	79,128	76,193

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 leave encashment liability of the Bank as at December 31, 2017.

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	(118,563)	(118,563)
1% decrease in discount rate	145,531	145,531
1% increase in salary	147,799	147,799
1% decrease in salary	(122,412)	(122,412)

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, 2017 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 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, 2016) 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, 2017.
	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 11.00% p.a. (2016 – 11.50% p.a.) has been used to discount future liabilities considering anticipated long-term rate of inflation.
	Salary increases	A salary increment of 11.50% p.a. (2016 – 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

	2017 Rs. '000	2016 Rs. '000
Balance as at January 1,	160,833	163,821
Interest cost	18,496	17,201
Current service cost	3,518	2,686
Benefits paid during the year	(16,842)	(15,879)
Actuarial (gain)/loss	38,436	(6,996)
Balance as at December 31,	204,441	160,833

50.4.1 (c) Movement in the fair value of plan assets

	2017 Rs. '000	2016 Rs. '000
Fair value as at January 1,	160,752	137,308
Expected return on plan assets	18,486	14,418
Contribution paid into plan	1,710	1,624
Benefits paid by the plan	(16,842)	(15,879)
Actuarial gain/(loss) on plan assets	(3,576)	23,281
Fair value as at December 31,	160,530	160,752

50.4.1 (d) Liability recognised in the statement of financial position

	2017 Rs. '000	2016 Rs. '000
Present value of defined benefit obligations as at December 31,	204,441	160,833
Fair value of plan assets	(160,530)	(160,752)
Net liability recognised under other liabilities	43,911	81

50.4.1 (e) Plan assets consist of the following:

	2017 Rs. '000	2016 Rs. '000
Deposits held with the Bank	160,530	160,752
Total	160,530	160,752

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, 2017 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 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, 2016) 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, 2017.
	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 11.00% p.a. (2016 – 11.50% p.a.) has been used to discount future liabilities considering anticipated long-term rate of inflation.
	Salary increases	A salary increment of 11.50% p.a. (2016 – 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

	2017 Rs. '000	2016 Rs. '000
Balance as at January 1,	48,419	49,853
Interest cost	5,568	5,235
Current service cost	409	310
Benefits paid during the year	(5,003)	(3,328)
Actuarial (gain)/loss	18,141	(3,651)
Balance as at December 31,	67,534	48,419

50.4.2 (c) Movement in the fair value of plan assets

	2017 Rs. '000	2016 Rs. '000
Fair value as at January 1,	50,182	44,320
Expected return on plan assets	5,771	4,654
Contribution paid into plan	212	200
Benefits paid by the plan	(5,003)	(3,328)
Actuarial gain/(loss) on plan assets	(2,892)	4,336
Fair value as at December 31,	48,270	50,182

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

	2017 Rs. '000	2016 Rs. '000
Present value of defined benefit obligations as at December 31,	67,534	48,419
Fair value of plan assets	(48,270)	(50,182)
Net liability recognised under other liabilities	19,264	(1,763)

50.4.2 (e) Plan assets consist of the following:

	2017 Rs. '000	2016 Rs. '000
Deposits held with the Bank	48,270	50,182
Total	48,270	50,182

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	
	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Local subsidiaries				
Commercial Development Company PLC	-	-	42,732	9,260
ONEzero Company Ltd.	-	-	31,791	10,801
Serendib Finance Ltd.	-	-	-	-
Subtotal	-	-	74,523	20,061
Foreign subsidiaries				
Commex Sri Lanka S.R.L. – Italy	-	-	-	-
Commercial Bank of Maldives Private Limited	-	-	-	-
CBC Myanmar Microfinance Co. Limited	-	-	-	-
Subtotal	-	-	-	-
Total	-	-	74,523	20,061

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.

	Note	Page No.	GROUP		BANK	
			2017	2016	2017	2016
			Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 1,			24,410,680	11,798,910	24,410,680	11,783,910
Amount borrowed during the year (*)			-	13,179,430	-	13,179,430
Repayments/redemptions during the year			-	(987,660)	-	(972,660)
Subtotal			24,410,680	23,990,680	24,410,680	23,990,680
Exchange rate variance			288,750	420,000	288,750	420,000
Balance as at December 31, (before adjusting for amortised interest and transaction cost)	52.1	277	24,699,430	24,410,680	24,699,430	24,410,680
Unamortised transaction cost			(63,594)	(75,805)	(63,594)	(75,805)
Net effect of amortised interest payable			530,088	514,664	530,088	514,664
Adjusted balance as at December 31,			25,165,924	24,849,539	25,165,924	24,849,539

(*) Funds raised through Debenture issues during the year has been utilised to finance the enhancing lending portfolio of the Bank. The Bank has followed and adhered to all conditions as laid down in Debenture prospectus. New Debenture issues are qualified to be treated under Tier 2 capital and thereby improving the total capital adequacy ratio of the Bank.

Outstanding subordinated liabilities of the Bank as at December 31, 2017, consisted of 131,794,300 (2016 – 131,794,300) unsecured subordinated redeemable debentures of Rs. 100/- each and a subordinated loan of USD 75.0 Mn. (2016 – USD 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	
					2017	2016	2017	2016	2017	2016
					%	%	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	11.04	4,430,340	4,430,340	4,430,340	4,430,340
2016/2021 – 12.00% p.a.	Listed	Bi-annually	28.10.2016	27.10.2021	12.36	12.36	5,071,800	5,071,800	5,071,800	5,071,800
2016/2026 – 11.25% p.a.	Listed	Bi-annually	09.03.2016	08.03.2026	11.57	11.57	1,749,090	1,749,090	1,749,090	1,749,090
2016/2026 – 12.25% p.a.	Listed	Bi-annually	28.10.2016	27.10.2026	12.63	12.63	1,928,200	1,928,200	1,928,200	1,928,200
Floating Rate Subordinated Loans										
IFC Borrowings –										
6 month LIBOR + 5.75%		Bi-annually	13.03.2013	14.03.2023	7.013	7.013	11,520,000	11,231,250	11,520,000	11,231,250
Total							24,699,430	24,410,680	24,699,430	24,410,680

52.2 Subordinated liabilities by maturity

As at December 31,	GROUP		BANK	
	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Payable within one year	–	–	–	–
Payable after one year	24,699,430	24,410,680	24,699,430	24,410,680
Total	24,699,430	24,410,680	24,699,430	24,410,680

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, 2017.

The maturity analysis of subordinated liabilities is given in Note 62 on pages 289 and 290.

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	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Balance as at January 1,	24,978,003	23,254,605	24,978,003	23,254,605
Issue of ordinary voting shares under the Employee Share Option Plan	415,117	144,804	415,117	144,804
Issue of ordinary shares as part of the final dividend satisfied in the form of issue and allotment of new shares	1,606,549	1,578,594	1,606,549	1,578,594
Ordinary voting shares	1,503,566	1,477,179	1,503,566	1,477,179
Ordinary non-voting shares	102,983	101,415	102,983	101,415
Rights issue of ordinary voting shares	9,616,179	–	9,616,179	–
Rights issue of ordinary non-voting shares	527,693	–	527,693	–
Balance as at December 31,	37,143,541	24,978,003	37,143,541	24,978,003

53.1 Movement in number of shares

	No. of ordinary voting shares		No. of ordinary non-voting shares	
	2017	2016	2017	2016
Balance as at January 1,	833,521,887	820,567,115	57,212,653	56,299,686
Issue of ordinary voting shares under the Employee Share Option Plan	3,278,537	1,136,732	–	–
Issue of ordinary shares as part of the final dividend satisfied in the form of issue and allotment of new shares	10,521,802	11,818,040	903,357	912,967
Rights issue of ordinary shares	84,649,465	–	5,811,601	–
Balance as at December 31,	931,971,691	833,521,887	63,927,611	57,212,653

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 279 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 :

	Tranche I			Total
	April 30, 2008	April 30, 2008	April 30, 2008	
Date granted	April 30, 2008	April 30, 2008	April 30, 2008	
Price (Rs.) – (*)	46.91	46.91	46.91	
	1/3 of Options	1/3 of Options	1/3 of Options	
Exercisable between	April 30, 2009 to April 29, 2013	April 30, 2010 to April 29, 2014	April 30, 2011 to April 29, 2015	
Original number of options	777,308	777,308	777,308	2,331,924
Additions consequent to 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, 2017	(1,416,460)	(1,513,685)	(1,781,424)	(4,711,569)
Number of options to be exercised as at December 31, 2017	–	–	–	–

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

	Tranche II			Total
	April 30, 2011	April 30, 2011	April 30, 2011	
Date granted	April 30, 2011	April 30, 2011	April 30, 2011	
Price (Rs.)	129.78	129.78	129.78	
	1/3 of Options	1/3 of Options	1/3 of Options	
Exercisable between	April 30, 2012 to April 29, 2016	April 30, 2013 to April 29, 2017	April 30, 2014 to April 29, 2018	
Original number of options	1,213,370	1,213,386	1,230,817	3,657,573
Additions consequent to share splits and rights issues	1,213,370	1,213,386	1,230,817	3,657,573
Number of options cancelled before vesting	(30,980)	(41,307)	(95,236)	(167,523)
Number of options vested	2,395,760	2,385,465	2,366,398	7,147,623
Options cancelled due to non-acceptance	(1,337,809)	(1,020,819)	–	(2,358,628)
Number of options exercised up to December 31, 2017	(1,057,951)	(1,364,646)	(738,900)	(3,161,497)
Number of options to be exercised as at December 31, 2017	–	–	1,627,498	1,627,498

	Tranche III			Total
	April 30, 2012	April 30, 2012	April 30, 2012	
Date granted				
Price (Rs.)	102.69	102.69	102.69	
	1/3 of Options	1/3 of Options	1/3 of Options	
Exercisable between	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	2,596,558	2,616,965	2,623,341	7,836,864
Number of options cancelled before vesting	–	(49,706)	(79,964)	(129,670)
Number of options vested	2,596,558	2,567,259	2,543,377	7,707,194
Number of options exercised up to December 31, 2017	(2,596,558)	(1,642,358)	(1,199,193)	(5,438,109)
Number of options to be exercised as at December 31, 2017	–	924,901	1,344,184	2,269,085

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 1, 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 1, 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% share 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 at vesting dates 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 1, 2016 to September 30, 2019	October 1, 2017 to September 30, 2020	October 1, 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			
Options granted to Key Management Personnel	81,869	85,912	–
Options granted to other executive officers	4,073,989	4,142,949	–
Total options vested on the date of vesting	4,155,858	4,228,861	–

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, 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.)	122.73	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:

	Tranche 1			
	2017		2016	
	No. of options	WAEP*	No. of options	WAEP*
No. of voting shares vested and to be vested as at January 1,	16,203,130	213.55	16,445,375	212.29
No. of shares granted from the right issue	297,177	191.41		
Granted during the year	-	-	-	-
Exercised during the year – Before right issue	(456,776)	122.73	(242,245)	122.73
Exercised during the year – After right issue	(303,197)	126.42	-	-
No. of voting shares vested and to be vested as at December 31,	15,740,334	190.67	16,203,130	213.63
Exercisable as at December 31,	7,447,408		3,913,613	

*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] on page 203.

Several statutory and voluntary reserves are maintained by the Group in order to meet various legal and operational requirements. The details of these reserves including the nature and purpose of maintaining them are given in Notes 55, 56 and 57 on pages 282 to 285.

55. Statutory Reserves

As at December 31,	Note	Page No.	GROUP		BANK	
			2017	2016	2017	2016
			Rs. '000	Rs. '000	Rs. '000	Rs. '000
Statutory reserve fund	55.1	282	6,492,552	5,647,993	6,476,952	5,647,890
Subtotal			6,492,552	5,647,993	6,476,952	5,647,890

55.1 Statutory reserve fund

	GROUP		BANK	
	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 1,	5,647,993	4,922,367	5,647,890	4,922,264
Transfers made during the year	852,024	725,626	829,062	725,626
Statutory reserve attributable to non-controlling Interest	(7,465)	-	-	-
Balance as at December 31,	6,492,552	5,647,993	6,476,952	5,647,890

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	
	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 1,	4,553,778	4,467,807	4,464,077	4,388,867
Total comprehensive income	16,073,373	14,654,924	16,051,342	14,652,274
Profit for the year	16,605,963	14,510,333	16,581,244	14,512,511
Other comprehensive income, net of tax	(532,590)	144,591	(529,902)	139,763
Dividends paid	(5,955,851)	(5,720,913)	(5,955,851)	(5,720,913)
Revaluation gain on disposal of freehold land and building	36,940	-	36,940	-
Write back of unclaimed dividends	-	624	-	-
De-recognition of revaluation reserve	-	5,628	-	-
Transfers to other reserves	(9,624,559)	(8,856,151)	(9,609,062)	(8,856,151)
Profit on sale of partial disposal of subsidiary	5,262	3,047	-	-
Reinstatement of non-controlling interest due to partial disposal of subsidiary	(2,334)	(1,188)	-	-
Balance as at December 31,	5,086,609	4,553,778	4,987,446	4,464,077

57. Other Reserves
57. (a) Current year – 2017

	Note	Page No.	GROUP			BANK		
			Balance as at January 1, Rs. '000	Movement/transfers Rs. '000	Balance as at December 31, Rs. '000	Balance as at January 1, Rs. '000	Movement/transfers Rs. '000	Balance as at December 31, Rs. '000
Revaluation reserve	57.1	283	6,250,554	1,583,449	7,834,003	5,722,859	1,365,195	7,088,054
General reserve	57.2	284	43,490,003	8,780,000	52,270,003	43,490,003	8,780,000	52,270,003
Available-for-sale reserve	57.3	284	(7,208,805)	5,501,319	(1,707,486)	(7,208,796)	5,501,302	(1,707,494)
Foreign currency translation reserve	57.4	284	860,502	(511,529)	348,973	839,346	(525,093)	314,253
Employee share option reserve	57.5	285	420,282	109,535	529,817	420,282	109,535	529,817
Hedging reserve	57.6	285	–	(3,212)	(3,212)	–	(3,212)	(3,212)
Total			43,812,536	15,459,562	59,272,098	43,263,694	15,227,727	58,491,421

57. (b) Previous year – 2016

	GROUP			BANK		
	Balance as at January 1, Rs. '000	Movement/transfers Rs. '000	Balance as at December 31, Rs. '000	Balance as at January 1, 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

57.1 Revaluation reserve

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

The Bank carried out a revaluation of all its freehold lands and buildings as at December 31, 2017 and recognised Rs. 1,396.663 Mn., as revaluation surplus, net of tax.

	GROUP		BANK	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Balance as at January 1,	6,250,554	6,258,939	5,722,859	5,722,859
Surplus on revaluation of freehold land and building	3,828,390	–	3,542,214	–
Deferred tax effect on revaluation surplus on freehold buildings	(2,205,823)	–	(2,145,551)	–
Revaluation gain on disposal of freehold land and building	(31,468)	(5,628)	(31,468)	–
Movement due to changes in equity	(7,650)	(2,757)	–	–
Balance as at December 31,	7,834,003	6,250,554	7,088,054	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	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Balance as at January 1,	43,490,003	35,359,478	43,490,003	35,359,478
Transfers during the year	8,780,000	8,130,525	8,780,000	8,130,525
Balance as at December 31,	52,270,003	43,490,003	52,270,003	43,490,003

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	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Balance as at January 1,	(7,208,805)	(3,955,376)	(7,208,796)	(3,955,367)
Net fair value gains/(losses) on remeasuring financial investments available for sale	5,501,319	(3,253,429)	5,501,302	(3,253,429)
Balance as at December 31,	(1,707,486)	(7,208,805)	(1,707,494)	(7,208,796)

57.4 Foreign currency translation reserve

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

As at the reporting date, the assets and liabilities of the Bank's Bangladesh Operation and Commex – Sri Lanka S.R.L. Italy and Commercial Bank of Maldives Private Limited and CBC Myanmar Microfinance Co. Limited a subsidiary of the Bank were translated into the presentation currency (Sri Lankan Rupee) at the exchange rate ruling at the reporting date and the Statement of Profit or Loss and Other Comprehensive Income was translated at the average exchange rate for the period. The exchange differences arising on the translation of these Financial Statements are taken to foreign currency translation reserve through other comprehensive income.

	GROUP		BANK	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Balance as at January 1,	860,502	432,489	839,346	424,768
Net gains/(losses) arising from translating the Financial Statements of foreign operations	(503,140)	438,565	(525,093)	414,578
Foreign currency translation reserve attributable to non-controlling interest	(8,389)	(10,552)	-	-
Balance as at December 31,	348,973	860,502	314,253	839,346

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.

	Note	Page No.	GROUP		BANK	
			2017	2016	2017	2016
			Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 1,			420,282	223,330	420,282	223,330
Transfers during the year	19	203	138,341	206,174	138,341	206,174
Transfers to stated capital			(28,806)	(9,222)	(28,806)	(9,222)
Balance as at December 31,			529,817	420,282	529,817	420,282

57.6 Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss as the hedged cash flows affect profit or loss.

	GROUP		BANK	
	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 1,	-	-	-	-
Transfers during the year	(3,212)	-	(3,212)	-
Balance as at December 31,	(3,212)	-	(3,212)	-

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 7.03%) and Commercial Bank of Maldives Private Limited (NCI of 45%) as at the reporting date as follows:

	2017	2016
	Rs. '000	Rs. '000
Balance as at January 1,	823,113	50,208
Profit for the year	20,544	(43,909)
Other comprehensive income, net of tax	21,955	10,594
Dividends paid for the year	(3,690)	(3,432)
Write-back of unclaimed dividends	-	38
Reinstatement of non-controlling interest due to partial disposal of subsidiary	9,984	3,945
Acquisition of subsidiary with non-controlling Interest	-	805,669
Balance as at December 31,	871,906	823,113

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 286.

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

As at December 31,	Note	Page No.	GROUP		BANK	
			2017	2016	2017	2016
			Rs. '000	Rs. '000	Rs. '000	Rs. '000
Contingencies			438,543,821	365,862,605	438,454,025	365,853,920
Guarantees			64,869,807	33,267,170	64,869,608	33,258,485
Performance bonds			30,604,509	22,553,060	30,601,521	22,553,060
Documentary credits			45,146,266	36,222,394	45,078,313	36,222,394
Other contingencies	59.1	286	297,923,239	273,819,981	297,904,583	273,819,981
Commitments			126,734,000	132,705,895	126,340,860	132,450,607
Undrawn commitments	59.2	287	124,977,782	131,628,622	124,594,675	131,381,356
Capital commitments	59.3	287	1,756,218	1,077,273	1,746,185	1,069,251
Total			565,277,821	498,568,500	564,794,885	498,304,527

59.1 Other contingencies

As at December 31,	GROUP		BANK	
	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Forward exchange contracts:	68,436,909	70,646,854	68,436,909	70,646,854
Forward exchange sales	24,380,254	26,084,323	24,380,254	26,084,323
Forward exchange purchases	44,056,655	44,562,531	44,056,655	44,562,531
Interest Rate Swap agreements/Currency Swaps:	164,800,830	158,012,034	164,800,830	158,012,034
Interest rate swaps	-	-	-	-
Currency swaps	164,800,830	158,012,034	164,800,830	158,012,034
Others:	64,685,500	45,161,093	64,666,844	45,161,093
Acceptances	40,336,138	25,281,037	40,321,501	25,281,037
Bills for collection	23,310,642	19,260,765	23,306,623	19,260,765
Stock of Travellers' Cheques	1,030,549	616,341	1,030,549	616,341
Bullion on consignment	8,171	2,950	8,171	2,950
Subtotal	297,923,239	273,819,981	297,904,583	273,819,981