

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

59.2 Undrawn commitments

<i>As at December 31,</i>	GROUP		BANK	
	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
On direct advances	105,053,514	97,459,750	104,670,407	97,212,484
On indirect advances	19,924,268	34,168,872	19,924,268	34,168,872
Subtotal	124,977,782	131,628,622	124,594,675	131,381,356

59.3 Capital commitments

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

<i>As at December 31,</i>	GROUP		BANK	
	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Commitments in relation to property, plant and equipment	1,539,657	647,677	1,529,624	647,677
Approved and contracted for	1,425,307	511,667	1,415,274	511,667
Approved but not contracted for	114,350	136,010	114,350	136,010
Commitments in relation to intangible assets	216,561	429,596	216,561	421,574
Approved and contracted for	216,561	429,596	216,561	421,574
Approved but not contracted for	-	-	-	-
Subtotal	1,756,218	1,077,273	1,746,185	1,069,251

59.4 Contingent liabilities and commitments of subsidiaries and associates
59.4 (a) Contingent liabilities and commitments of subsidiaries

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

59.4 (b) Contingent liabilities and commitments of associates

The associates of the Group do not have any contingencies as at the reporting date.

60. Net Assets Value per Ordinary Share

<i>As at December 31,</i>	GROUP		BANK	
	2017	2016	2017	2016
Amounts used as the numerator:				
Total equity attributable to equity holders of the Bank (Rs. '000)	107,994,800	78,992,310	107,099,360	78,353,664
Number of ordinary shares used as the denominator:				
Total number of shares	995,899,302	890,734,540	995,899,302	890,734,540
Net assets value per share (Rs.)	108.44	88.68	107.54	87.97

61. Litigation Against the Bank

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

Set out below are the unresolved legal claims against the Bank as at December 31, 2017 for which, adjustments to the Financial Statements have not been made due to the uncertainty of its outcome. In addition, there are cases filed against the Bank that has not been listed here on the basis of non-materiality to operations, aggrieved party had obtained injunctions prior to acquiring the property by the Bank etc.

- (i) Court action has been initiated by a customer in High Court proceeding No. 236/2011/MR, challenging the Bank on transfer of title of a vehicle upon settlement of a lease facility. The Bank had transferred the title of a vehicle in the name of a relative of the customer on the strength of a letter issued by him which is now being disputed. The value of the action is Rs. 3.500 Mn. Plaintiff and the 1st defendant have closed their case. Evidence of an officer of the Bank was led and further trial fixed for March 28, 2018.
- (ii) Court action has been initiated by a customer in District Court, Colombo under proceeding No. DMR 3/2014 for Rs. 14.000 Mn. to recover a sum of Rs. 13.063 Mn. including interest on cheques paid with a fraudulent signature. The case which was initially filed at the District Court was later referred to the Commercial High Court under case No. 315/2015/MR. The matter is fixed for trial on June 13, 2018.
- (iii) Court action has been initiated in District Court, Colombo under case No. 03034/14/DMR to claim a sum of Rs. 27.870 Mn. being the total amount withdrawn from the Company account with forged signatures by an employee of the company in a number of transactions during a period of two years. Further trial fixed for May 25, 2018.
- (iv) Court action has been initiated in District Court, Colombo under proceeding No. DMR/974/2016 to recover a sum of Rs. 26.237 Mn. together with interest as damages incurred by the plaintiff due to the delay by the Bank in refunding the amount with regard to a duplicated telegraphic transfer for USD 25,000. Further trial fixed for May 21, 2018.
- (v) Court action has been initiated in District Court, Colombo under proceeding No. DMR/2274/2015 to recover a sum of Rs. 3.374 Mn. as parking charges and interest thereon due to a dispute over parking facility provided to the Bank. Trial is due on March 29, 2018.
- (vi) Court action has been initiated District Court, Kaduwela under proceeding No. 584/L for Rs. 15.000 Mn. and interest thereon in seeking declaration that the plaintiff is the lawful owner of the property mortgaged by her daughter as security for a loan (currently in the past-due section) obtained from the Bank. Replication on February 23, 2018.
- (vii) Court action has been initiated by a third party in District Court Colombo under proceeding No. DMR/873/17 to recover a sum of Rs. 15.300 Mn. as damages for accepting three stale cheques amounting to Rs. 2.500 Mn. drawn by the plaintiff and deposited to an account of a customer, which was returned as "Account Closed". Customer has taken criminal action against the plaintiff in this regard and the latter had initiated action against the Bank successively. Answer by the Bank due on May 8, 2018.
- (viii) An appeal was filed by the Bank under proceedings No. HCALT 405/2014 in Provincial High Court of the Eastern Province against the order of the Labour Tribunal for payment of compensation and reinstatement in employment of an outsourced office helper. The office helper too filed a case in Provincial High Court in proceedings No. HCALT 404/2014 refusing compensation and asking for reinstatement. Appeal made by the Bank was dismissed and case filed by outsourced office helper was decided in favour of him. Bank has appealed in the Supreme Court against the judgement of both cases under proceeding No. SC/SPL/LA/220/15 and SC/SPL/LA/221/15. Next hearing of the cases fixed for June 1, 2018.
- (ix) Court action has been initiated in Colombo High Court under proceedings No. 112/2005 (1) to claim Rs. 5.584 Mn. and Rs. 10.000 Mn. as damages for disposing of shares owned by the plaintiff which were held under lien to the Bank. Plaintiff alleges that the transaction has taken place without obtaining her consent. Judgement was delivered in favour of the Plaintiff. Bank has appealed in the Supreme Court (Appeal No. 09/2010) against the judgement delivered. Appeal is fixed for argument on May 11, 2018.
- (x) Court action has been initiated by a customer in Colombo High Court under proceedings No. 36/96 (1) to claim a sum of Rs. 183.050 Mn. regarding a forward exchange contract. Judgement was delivered in favour of the Bank dismissing the plaintiff's action, but the plaintiff has appealed against the judgement in the Supreme Court (Appeal No. 38/2006). Next hearing on February 26, 2018.
- (xi) Court action has been initiated in the Commercial High Court of the Western Province under proceedings No. 571/2008/MR to prevent the Bank from exercising the inherent rights of the Bank to set-off a deposit of the plaintiff amounting to USD 15.000 Mn. against a sum due from the plaintiff in terms of a hedging agreement. Commercial High Court issued the judgement in favour of the Bank and dismissed plaintiff's application for an interim injunction. Presently the case is at the Trial stage. Further trial fixed for March 7, 2018.

62. Maturity Analysis

Group

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

<i>As at December 31,</i>	Up to 3 months Rs. '000	3 to 12 months Rs. '000	1 to 3 years Rs. '000	3 to 5 years Rs. '000	More than 5 years Rs. '000	Total as at 31.12.2017 Rs. '000	Total as at 31.12.2016 Rs. '000
Interest earning assets:							
Financial assets							
Cash and cash equivalents	3,660,584	-	-	-	-	3,660,584	8,291,413
Balances with Central Banks	1,632,454	263,830	-	4,607	-	1,900,891	560,669
Placements with banks	17,633,269	-	-	-	-	17,633,269	11,718,499
Securities purchased under resale agreements	-	-	-	-	-	-	-
Derivative financial assets	-	-	-	-	-	-	-
Other financial instruments – Held for trading	4,096,168	-	-	-	-	4,096,168	4,693,989
Loans and receivables to banks	-	-	-	-	-	-	-
Loans and receivables to other customers	232,293,546	199,536,025	171,769,829	94,461,959	44,382,771	742,444,130	620,129,488
Financial investments – Available for sale	13,224,706	67,787,547	59,124,910	14,229,518	-	154,366,681	159,642,243
Financial investments – Held to maturity	6,966,556	12,785,739	12,885,249	29,661,652	7,066,600	69,365,796	63,626,598
Financial investments – Loans and receivables	2,521,780	5,188,975	16,430,329	24,571,393	-	48,712,477	51,824,026
Total interest earning assets as at 31.12.2017	282,029,063	285,562,116	260,210,317	162,929,129	51,449,371	1,042,179,996	
Total interest earning assets as at 31.12.2016	278,177,314	177,445,705	270,732,533	114,198,779	79,932,594		920,486,925
Non-interest earning assets:							
Financial assets							
Cash and cash equivalents	31,012,840	-	-	-	-	31,012,840	24,632,814
Balances with central banks	26,999,348	14,321,349	783,669	730,063	811,029	43,645,458	43,374,589
Placements with banks	-	-	-	-	-	-	-
Securities purchased under resale agreements	-	-	-	-	-	-	-
Derivative financial assets	959,937	1,374,599	-	-	-	2,334,536	1,052,829
Other financial instruments – Held for trading	314,745	-	-	-	-	314,745	293,809
Loans and receivables to banks	-	-	640,512	-	-	640,512	624,458
Loans and receivables to other customers	-	-	-	-	-	-	-
Financial investments – Available for sale	-	-	-	17,491	529,471	546,962	450,279
Financial investments – Held to maturity	-	-	-	-	-	-	-
Financial investments – Loans and receivables	-	-	-	-	-	-	-
Non-financial assets							
Investments in subsidiaries	-	-	-	-	-	-	-
Investments in associates	-	-	-	-	109,844	109,844	108,859
Property, plant and equipment	-	-	-	-	16,317,044	16,317,044	11,569,666
Intangible assets	-	-	-	-	1,251,226	1,251,226	1,132,669
Leasehold property	-	-	-	-	104,516	104,516	105,968
Deferred tax assets	-	-	-	-	-	-	668,150
Other assets	12,335,522	257,173	1,245,002	506,177	3,019,103	17,362,977	16,482,559
Total non-interest earning assets as at 31.12.2017	71,622,392	15,953,121	2,669,183	1,253,731	22,142,233	113,640,660	
Total non-interest earning assets as at 31.12.2016	64,361,841	14,616,440	3,826,664	991,974	16,699,730		100,496,649
Total assets – as at 31.12.2017	353,651,455	301,515,237	262,879,500	164,182,860	73,591,604	1,155,820,656	
Total assets – as at 31.12.2016	342,539,155	192,062,145	274,559,197	115,190,753	96,632,324		1,020,983,574
Percentage – as at 31.12.2017 (*)	30.60	26.09	22.74	14.20	6.37	100.00	
Percentage – as at 31.12.2016 (*)	33.56	18.81	26.89	11.28	9.46		100.00

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

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

	Up to 3 months Rs. '000	3 to 12 months Rs. '000	1 to 3 years Rs. '000	3 to 5 years Rs. '000	More than 5 years Rs. '000	Total as at 31.12.2017 Rs. '000	Total as at 31.12.2016 Rs. '000
Interest-bearing liabilities:							
Financial liabilities							
Due to banks	33,084,091	4,622,936	13,243,490	1,086,634	41,224	52,078,375	67,012,968
Derivative financial liabilities	-	-	-	-	-	-	-
Securities sold under repurchase agreements	35,806,750	10,978,972	2,746,663	-	-	49,532,385	69,628,961
Other financial liabilities – Held for trading	-	-	-	-	-	-	-
Due to other customers/deposits from customers	456,843,445	290,068,614	18,492,159	13,050,450	13,783,280	792,237,948	685,709,264
Other borrowings	657,813	2,091,720	5,021,093	7,503,789	8,511,679	23,786,094	9,270,154
Subordinated liabilities	203,326	314,552	-	9,477,720	15,170,326	25,165,924	24,849,539
Total interest-bearing liabilities as at 31.12.2017	526,595,425	308,076,794	39,503,405	31,118,593	37,506,509	942,800,726	
Total interest-bearing liabilities as at 31.12.2016	506,171,295	264,521,678	32,826,512	23,143,483	29,807,918		856,470,886
Non-interest-bearing liabilities:							
Financial liabilities							
Due to banks	8,166,517	-	-	-	-	8,166,517	4,085,423
Derivative financial liabilities	2,488,462	1,185,570	-	-	4,462	3,678,494	1,515,035
Securities sold under repurchase agreements	-	-	-	-	-	-	-
Other financial liabilities – Held for trading	-	-	-	-	-	-	-
Due to other customers/deposits from customers	65,032,033	-	-	-	-	65,032,033	57,601,349
Other borrowings	-	-	-	-	-	-	-
Subordinated liabilities	-	-	-	-	-	-	-
Non-financial liabilities							
Current tax liabilities	857,023	3,345,827	-	-	-	4,202,850	3,464,682
Deferred tax liabilities	472,934	153,861	588,908	261,930	2,087,582	3,565,215	-
Other provisions	-	-	-	-	-	-	1,874
Other liabilities	3,354,484	9,738,767	2,943,111	1,374,896	2,096,857	19,508,115	18,028,902
Equity							
Stated capital	-	-	-	-	37,143,541	37,143,541	24,978,003
Statutory reserves	-	-	-	-	6,492,552	6,492,552	5,647,993
Retained earnings	-	-	-	-	5,086,609	5,086,609	4,553,778
Other reserves	-	-	-	-	59,272,098	59,272,098	43,812,536
Non-controlling interest	-	-	-	-	871,906	871,906	823,113
Total non-interest-bearing liabilities as at 31.12.2017	80,371,453	14,424,025	3,532,019	1,636,826	113,055,607	213,019,930	
Total non-interest-bearing liabilities as at 31.12.2016	78,625,428	3,058,595	1,529,112	309,278	80,990,275		164,512,688
Total liabilities and equity – as at 31.12.2017	606,966,878	322,500,819	43,035,424	32,755,419	150,562,116	1,155,820,656	
Total liabilities and equity – as at 31.12.2016	584,796,723	267,580,273	34,355,624	23,452,761	110,798,193		1,020,983,574
Percentage – as at 31.12.2017(*)	52.52	27.90	3.72	2.83	13.03	100.00	
Percentage – as at 31.12.2016(*)	57.28	26.21	3.36	2.30	10.85		100.00

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

Bank

Maturity analysis of the assets and liabilities of the Bank is given in Note 69.2.2 on "Financial Risk Review" on pages 319 to 322.

63. Operating Segments

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

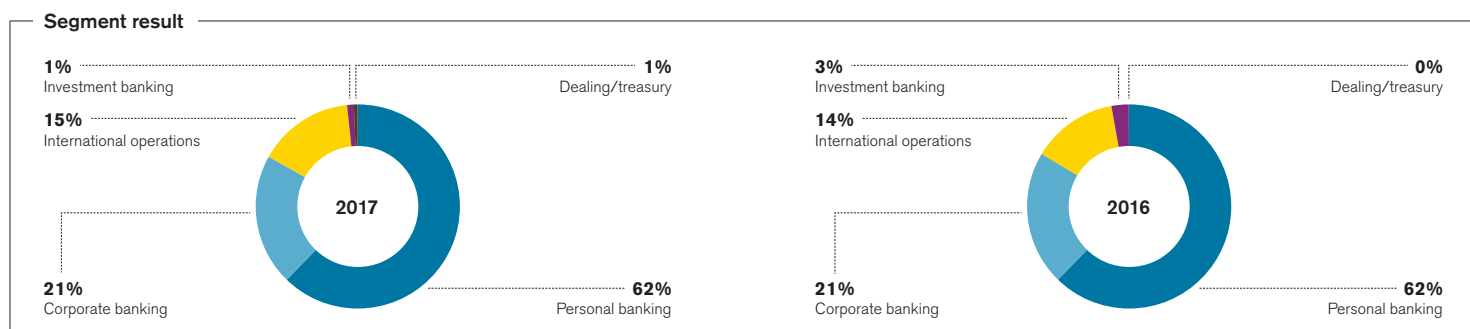
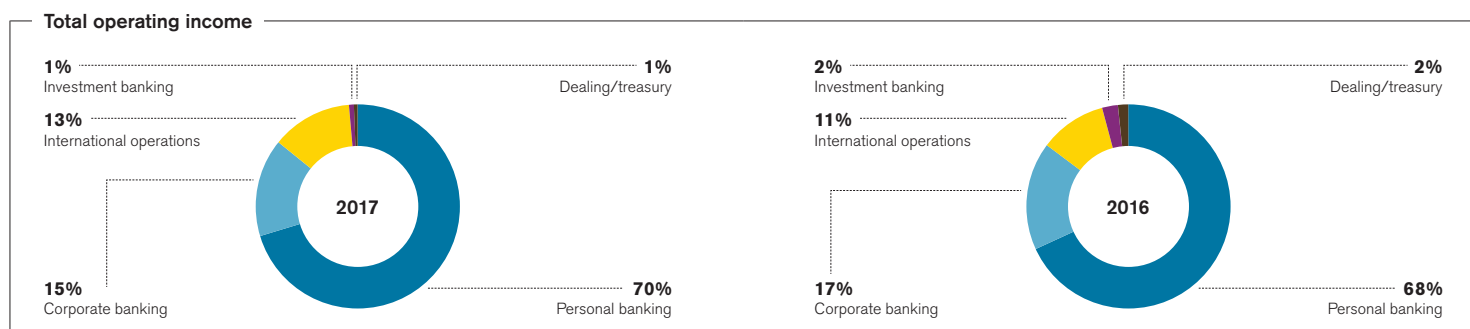
The Group has five strategic divisions which are reportable segments, namely:

Operating segment	Types of products and services offered
Personal banking	Refer pages 61 to 72 for details on product portfolio by Business Lines
Corporate banking	
International operations	
Investment banking	
Dealing and treasury	

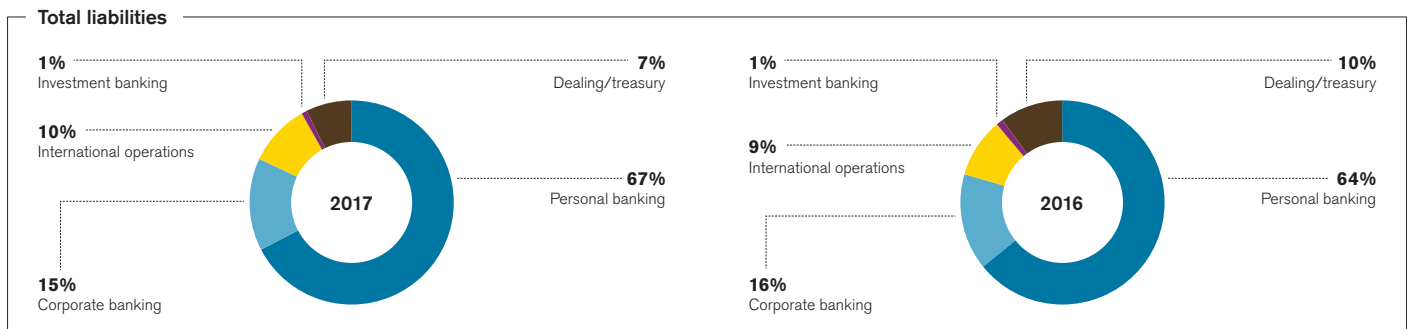
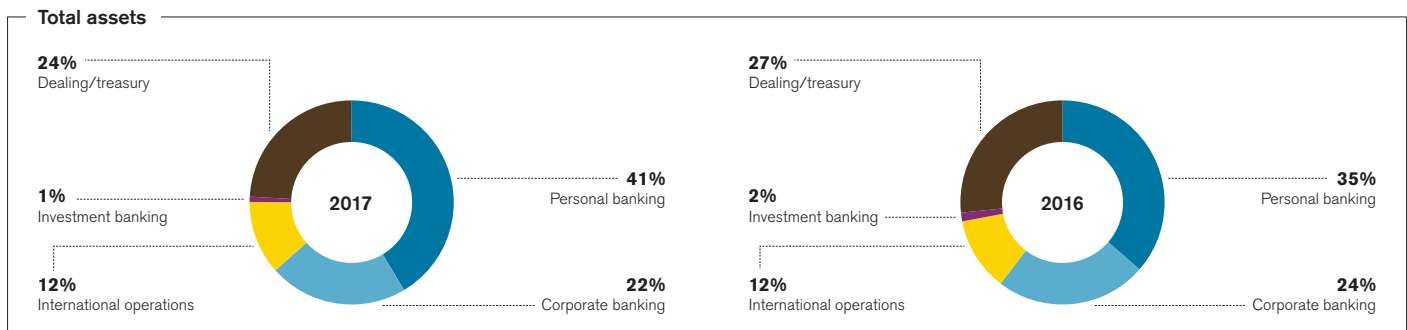
Segment performance is evaluated based on operating profits or losses which, in certain respects, are measured differently from operating profits or losses in the Consolidated Financial Statements. Income taxes are managed on a Group basis and are not allocated to operating segments.

The following table presents the income, profit, asset and liability information on the Group's strategic business divisions for the year ended December 31, 2017 and comparative figures for the year ended December 31, 2016.

For the year ended December 31,	Personal banking		Corporate banking		International operations		Investment banking		Dealing/treasury		Unallocated/eliminations		Total/consolidated	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
External operating income:														
Net interest income	26,884,392	23,255,124	4,639,252	4,528,344	4,044,558	3,214,891	381,502	1,026,278	1,559,382	(125,417)	2,058,212	1,229,056	39,567,298	33,128,276
Foreign exchange profit	217,330	198,679	699,565	822,894	1,015,851	509,081	-	-	(1,335,721)	795,504	-	-	597,025	2,326,158
Net fee and commission income	6,135,191	4,857,448	1,803,963	1,594,813	934,398	609,430	45,242	23,505	5,672	3,981	-	-	8,924,466	7,089,177
Other income	454,232	779,594	334,100	353,668	125,674	190,003	42,303	8,984	213,662	64,252	514,857	458,138	1,684,828	1,854,639
Total operating income	33,691,145	29,090,845	7,476,880	7,299,719	6,120,481	4,523,405	469,047	1,058,767	442,995	738,320	2,573,069	1,687,194	50,773,617	44,398,250
Impairment loss expenses	(2,471,052)	202,442	564,494	(1,726,375)	(319,356)	(59,393)	-	-	-	-	-	-	(2,225,914)	(1,583,326)
Net operating income	31,220,093	29,293,287	8,041,374	5,573,344	5,801,125	4,464,012	469,047	1,058,767	442,995	738,320	2,573,069	1,687,194	48,547,703	42,814,924
Segment result	16,281,986	14,328,813	5,414,227	4,874,706	4,086,117	3,148,044	287,326	625,923	126,225	(4,086)	(2,919,235)	(2,865,270)	23,276,646	20,108,130
Profit from operations													23,276,646	20,108,130
Share of profit of associates – net of tax													3,678	6,454
Income tax expense													(6,653,817)	(5,648,160)
Non-controlling interest													(20,544)	43,909
Net profit for the year, attributable to equity holders of the parent													16,605,963	14,510,333



As at December 31,	Personal banking		Corporate banking		International operations		Investment banking		Dealing/treasury		Unallocated/eliminations		Total/consolidated	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Other information														
Segment assets	443,643,154	340,853,854	240,649,838	229,759,156	128,456,896	112,387,766	17,270,623	19,644,842	262,780,975	257,143,130	62,909,326	61,085,967	1,155,710,812	1,020,874,715
Investment in associates	-	-	-	-	-	-	-	-	-	-	109,844	108,859	109,844	108,859
Unallocated assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	443,643,154	340,853,854	240,649,838	229,759,156	128,456,896	112,387,766	17,270,623	19,644,842	262,780,975	257,143,130	63,019,170	61,194,826	1,155,820,656	1,020,983,574
Segment liabilities	690,860,560	601,064,166	151,728,410	145,104,008	103,813,211	86,181,038	17,380,467	12,444,122	75,403,237	92,910,135	7,768,065	3,464,682	1,046,953,950	941,168,151
Unallocated liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	690,860,560	601,064,166	151,728,410	145,104,008	103,813,211	86,181,038	17,380,467	12,444,122	75,403,237	92,910,135	7,768,065	3,464,682	1,046,953,950	941,168,151



For the year ended	Personal banking		Corporate banking		International operations		Investment banking		Dealing/treasury		Unallocated/eliminations		Total/consolidated	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Information on cash flows														
Cash flows from operating activities	3,977,097	48,260,328	(7,219,784)	(20,442,140)	322,609	(491,909)	140,802	(40,710)	(191,366)	(21,391,095)	-	-	(2,970,642)	5,894,474
Cash flows from investing activities	-	-	-	-	-	-	3,362,948	1,124,546	-	-	-	-	3,362,948	1,124,546
Cash flows from financing activities	(2,274,217)	(1,298,062)	-	-	-	-	-	-	(88,053)	12,191,770	6,177,191	(3,204,500)	3,814,921	7,689,208
Capital expenditure														
Property, plant and equipment													(2,105,701)	(1,468,902)
Intangible assets													(352,329)	(422,175)
Net cash flow generated during the year													1,749,197	12,817,151

64. Related Party Disclosures

The Bank carried out transactions in the ordinary course of business on an arm's length basis at commercial rates with parties who are defined as Related Parties as per the Sri Lanka Accounting Standard – LKAS 24 – “Related Party Disclosures”, other than, transactions that the Key Management Personnel (KMP) have availed under schemes uniformly applicable to all staff at concessionary rates.

64.1 Parent and ultimate controlling party

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

64.2 Key Management Personnel (KMP)

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

KMP of the Bank

The Board of Directors of the Bank has been classified as KMP of the Bank.

KMP of the Group

As the Bank is the ultimate parent of the subsidiaries listed out on page 173, the Board of Directors of the Bank has the authority and responsibility for planning, directing and controlling the activities of the Group directly or indirectly. Accordingly, the Board of Directors of the Bank is also KMP of the Group. Therefore, officers who are only Directors of the subsidiaries and not of the Bank have been classified as KMP only for that respective subsidiary.

64.2.1 Transactions with KMP

64.2.1.1 Compensation of KMP – Bank

<i>For the year ended December 31,</i>	2017	2016
	Rs. '000	Rs. '000
Short-term employment benefits	159,190	124,478
Post-employment benefits	7,831	6,984
Total	167,021	131,462

64.2.1.2 Compensation of KMP – Group

<i>For the year ended December 31,</i>	2017	2016
	Rs. '000	Rs. '000
Short-term employment benefits	161,282	125,648
Post-employment benefits	7,831	6,984
Total	169,113	132,632

64.2.2 Transactions, arrangements and agreements involving KMP and their Close Family Members (CFM)

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

64.2.2.1 Statement of Financial Position – Bank

As at December 31,	Year-end balance		Average balance	
	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Assets				
Loans and advances	18,890	10,229	9,282	9,462
Credit cards	115	–	427	238
Total	19,005	10,229	9,709	9,700
Liabilities				
Deposits	228,579	145,701	167,137	79,474
Securities sold under repurchase agreements	7,844	35,062	30,123	31,198
Debentures	2,000	2,000	2,000	355
Total	238,423	182,763	199,260	111,027

64.2.2.2 Commitments and contingencies – Bank

As at December 31,	Year-end balance		Average balance	
	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Undrawn facilities	18,035	10,380	13,024	11,716
Total	18,035	10,380	13,024	11,716

64.2.2.3 Direct and indirect accommodation – Bank

As at December 31,	Year-end balance	
	2017	2016
	%	%
Direct and indirect accommodation as a % of the Bank's Regulatory Capital	0.03	0.02

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

64.2.2.4 Income Statement

For the Year Ended December 31,	Note	Page No.	2017	2016
			Rs. '000	Rs. '000
			Interest income	
Interest expense			17,226	7,747
Other income			–	20
Compensation to KMP	64.2.1.1 & 64.2.1.2	294	167,021	131,462

64.2.2.5 Share-based transactions of KMP and CFM

<i>As at the year end</i>	2017	2016
Number of ordinary shares held	1,206,569	810,939
Dividends paid (in Rs. '000)	6,304	4,762
Number of cumulative exercisable options under the Employee Share Option Plan (ESOP) 2008		
Tranche II	50,270	98,678
Tranche III	105,695	155,603
Number of cumulative exercisable options under the Employee Share Option Plan (ESOP) 2015		
Tranche I	83,416	81,869
Tranche II	85,912	-

64.2.3 Transactions, arrangements and agreements involving entities which are controlled, and/or significantly influenced by the KMP or their CFM

64.2.3.1 Statement of Financial Position

	Year-end balance		Average balance	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Assets				
Loans and advances	3,693,085	266,349	2,220,358	80,967
Credit cards	777	-	596	-
Total	3,693,862	266,349	2,220,954	80,967
Liabilities				
Deposits	1,305,617	977,122	986,253	276,411
Securities sold under repurchase agreements	119,000	126,237	74,093	426
Debentures	24,310	24,310	24,310	4,317
Total	1,448,927	1,127,669	1,084,656	281,154

64.2.3.2 Commitments and contingencies

	Year-end balance		Average balance	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Guarantees	76,530	71,280	74,055	71,280
Undrawn facilities	354,901	379,266	218,930	279,891
Total	431,431	450,546	292,985	351,171

64.2.3.3 Direct and indirect accommodation

	Year-end balance	
	2017	2016
	%	%
Direct and indirect accommodation as a % of the Bank's Regulatory Capital	3.37	0.69

64.2.3.4 Income Statement

<i>For the year ended December 31,</i>	2017	2016
	Rs. '000	Rs. '000
Interest income	233,786	10,451
Interest expense	39,411	9,916
Other income	118	-

64.3 Transactions with group entities

The Group entities include the subsidiaries and the associates of the Bank.

64.3.1 Transactions with subsidiaries

64.3.1.1 Statement of Financial Position

	Year-end balance		Average balance	
	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Assets				
Loans and advances	841,060	786,000	879,790	564,749
Lease receivables	-	-	-	-
Other receivables	31,439	92,857	62,148	91,727
Impairment for other receivables	-	(55,684)	-	(54,554)
Total	872,499	823,173	941,938	601,922
Liabilities				
Deposits	502,575	178,827	120,953	108,269
Securities sold under repurchase agreements	142,550	238,508	202,877	145,944
Other	74,523	20,061	47,292	23,137
Total	719,648	437,396	371,122	277,350

64.3.1.2 Commitments and contingencies

	Year-end balance		Average balance	
	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Letters of credit	-	-	-	1,126
Undrawn facilities	100,000	62,565	84,881	113,165
Total	100,000	62,565	84,881	114,291

64.3.1.3 Direct and indirect accommodation

	Year-end balance	
	2017	2016
	%	%
Direct and indirect accommodation as a % of the Bank's Regulatory Capital	0.79	0.72

64.3.1.4 Income Statement

<i>For the Year Ended December 31,</i>	2017	2016
	Rs. '000	Rs. '000
Interest income	143,796	58,002
Interest expense	32,695	26,731
Other income	182,826	103,569
Impairment charges	-	3,306
Expenses	523,214	454,126

64.3.1.5 Other transactions

<i>For the year ended December 31,</i>	2017	2016
	Rs. '000	Rs. '000
Payments made to OneZero Company Ltd. in relation to purchase of computer hardware and software	29,738	8,253

64.3.2 Transactions with associates
64.3.2.1 Statement of Financial Position

	Year-end balance		Average balance	
	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Assets				
Loans and advances	-	-	32	29
Lease receivables	-	-	-	-
Total	-	-	32	29
Liabilities				
Deposits	35,468	48,606	19,945	38,967
Securities sold under repurchase agreements	-	-	16,228	-
Total	35,468	48,606	36,173	38,967

64.3.2.2 Commitments and contingencies

	Year-end balance		Average balance	
	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Undrawn facilities	1,000	-	-	-
Total	1,000	-	-	-

64.3.2.3 Direct and indirect accommodation

	Year end Balance	
	2017	2016
	%	%
Direct and indirect accommodation as a % of the Bank's Regulatory Capital	0.00	0.00

64.3.2.4 Income Statement

<i>For the year ended December 31,</i>	2017	2016
	Rs. '000	Rs. '000
Interest income	8	7
Interest expense	3,666	3,310
Other income	21,213	22,698
Expenses	71,194	-

64.3.2.5 Other transactions

	2017	2016
Number of ordinary shares of the Bank held by the associates as at the year-end	46,154	4,605
Dividend paid (Rs. '000)	278	29

64.4 Transactions with other related entities

Other related entities include significant investors (either entities or individuals) that have control, joint control or significant influence, post-employment benefit plans for the Bank's employees.

64.4.1 Transactions with the post-employment benefit plans for the employees of the Bank

64.4.1.1 Statement of Financial Position

	Year-end balance		Average balance	
	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Assets				
Loans and advances	-	-	474	-
Total	-	-	474	-
Liabilities				
Deposits	9,427,494	12,681,135	8,452,541	7,615,681
Securities sold under repurchase agreements	-	386,447	83,265	293,317
Total	9,427,494	13,067,582	8,535,806	7,908,998

64.4.1.2 Income Statement

For the year ended December 31,	2017	2016
	Rs. '000	Rs. '000
Interest income	114	30
Interest expense	1,075,241	821,179
Contribution made/taxes paid by the Bank	1,005,342	1,007,451

65. Non-Cash Items Included in Profit Before Tax

As at December 31,	GROUP		BANK	
	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Depreciation of property, plant and equipment	1,185,698	1,093,088	1,097,096	1,022,648
Amortisation of leasehold property	1,452	1,452	942	942
Amortisation of intangible assets	229,764	173,790	209,766	165,903
Impairment losses on loans and advances	2,225,914	1,583,326	1,956,725	1,511,158
Other impairment	-	-	(42,484)	18,656
Contributions to defined benefit plans – Unfunded schemes	288,791	234,262	279,249	227,816
Provision made o/a of leave encashment	79,128	76,193	79,128	76,193
Equity-settled Share-based payments	138,341	206,174	138,341	206,174
Unamortised interest payable o/a subordinated liabilities	12,211	12,210	12,211	12,210
Mark to market on other financial instruments – held for trading	(85,627)	129,562	(85,627)	129,562
Loss on write-off intangible assets	7,241	303	-	303
Effect of exchange rate variances on investment in subsidiaries	-	-	(26,349)	(30,136)
Effect of exchange rate variances on loans and receivables to banks	(16,054)	(23,352)	(16,054)	(23,352)
Effect of exchange rate variances on property, plant and equipment	(168)	(2,024)	882	(2,012)
Effect of exchange rate variances on intangible assets	(3,208)	(553)	429	(540)
Effect of exchange rate variances on defined benefit plans	(7,279)	7,782	(7,279)	7,782
Effect of exchange rate variances on subordinated liabilities	288,750	420,000	288,750	420,000
Net effect of exchange rate variances on net deferred tax liability	995	(4,980)	4,626	(4,979)
Net effect of exchange rate variances on income tax liability	(45,703)	56,937	(45,820)	56,937
Grossed up notional tax and withholding tax credits	(1,985,107)	(1,209,319)	(1,961,769)	(1,206,343)
Total	2,315,139	2,754,851	1,882,763	2,588,922

66. Change in Operating Assets

As at December 31,	GROUP		BANK	
	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Net (increase)/decrease in derivative financial instruments	(1,281,707)	3,065,340	(1,281,707)	3,065,340
Net (increase)/decrease in balances with central banks	(1,611,091)	(15,714,241)	(928,241)	(15,652,188)
Net (increase)/decrease in placements with banks	(5,914,770)	5,475,040	(5,914,770)	5,475,040
Net (increase)/decrease in securities purchased under resale agreements	-	8,002,100	-	8,002,100
Net (increase)/decrease in other financial assets – Held for trading	683,448	2,556,114	683,448	2,556,114
Net (increase)/decrease in loans and receivables to customers	(124,540,556)	(111,789,686)	(123,385,064)	(109,414,259)
Net (increase)/decrease in financial investments – Available for sale	12,820,870	39,672,872	12,951,296	39,724,256
Financial investments – Held-to-maturity	(5,739,198)	(63,626,598)	(2,581,454)	(60,981,298)
Net (increase)/decrease in financial investments – Loans and receivables	(263,047)	4,815,666	(263,047)	4,815,666
Net (increase)/decrease in other assets	(880,418)	(4,385,542)	(859,996)	(4,346,881)
Total	(126,726,469)	(131,928,935)	(121,579,535)	(126,756,110)

67. Change in Operating Liabilities

As at December 31,	GROUP		BANK	
	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Net increase/(decrease) in due to banks	(10,853,499)	39,308,995	(10,487,820)	37,289,692
Net increase/(decrease) in derivative financial instruments	2,158,997	(375,735)	2,158,997	(375,735)
Net increase/(decrease) in securities sold under repurchase agreements	(20,096,576)	(42,620,742)	(20,190,702)	(42,517,343)
Net increase/(decrease) in deposits from banks, customers and debt securities issued	113,959,368	119,289,396	110,564,017	115,461,684
Net increase/(decrease) in other borrowings	14,515,940	(715,483)	14,515,940	(715,483)
Net increase/(decrease) in other provisions	(1,874)	-	(1,874)	-
Net increase/(decrease) in other liabilities	583,523	2,236,019	633,847	2,122,523
Net increase/(decrease) in due to subsidiaries	-	-	54,462	(6,151)
Total	100,265,879	117,122,450	97,246,867	111,259,187

68. Operating Leases**68.1 Operating lease commitments (payables)**

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

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

As at December 31,	GROUP		BANK	
	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Less than one year	937,070	760,677	890,519	707,066
Between one to five years	2,510,540	1,889,163	2,352,812	1,762,161
Over five years	2,186,383	1,066,952	2,076,645	927,007
Total	5,633,993	3,716,792	5,319,976	3,396,234

68.2 Operating lease commitments (receivables)

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

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

As at December 31,	GROUP		BANK	
	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Less than one year	6,007	6,042	1,820	3,218
Between one to five years	10,289	12,167	2,440	3,469
Over five years	-	-	-	-
Total	16,296	18,209	4,260	6,687

69. Financial Risk Review

This note presents information about the Bank's exposure to financial risks and the Bank's management of capital.

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Introduction

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

Risk Management framework

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

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

The Bank strives to inculcate a Risk Management Culture through continuous training, work ethics and standards.

Refer Note 3 on pages 178 and 179 for more information on the Risk Management Framework of the Bank.

Integrated Risk Management Department (IRMD)

Business Units are the Risk Owners and have the primary responsibility for Risk Management. The IRMD acts as the second line of defence in managing the Risk. The IRMD through Chief Risk Officer reports to the BIRMC thus ensuring its independence.

Risk measurement and reporting

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

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

69.1 Credit risk

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

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

69.1.1 Credit quality analysis

69.1.1 (a) Maximum exposure to credit risk by risk rating

As at December 31,	Notes	Page No.	Loans and receivables to other customers		Loans and receivables to banks		Financial investments		Lending commitments and contingencies	
			2017	2016	2017	2016	2017	2016	2017	2016
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Maximum exposure to credit risk										
Carrying amount	31-36		737,446,567	616,018,228	640,512	624,458	271,400,274	277,816,593		
Amount committed/ contingencies	59	285							563,048,700	497,235,276
At amortised cost –										
Loans and receivables										
Government securities (Risk free investments)							40,566,702	40,076,392		
Rating 0-4: Investment grade(*)			476,843,647	382,276,912	-	-	8,145,775	11,747,634		
Rating 5-6: Moderate risk			249,066,153	222,439,065	640,512	624,458				
Rating S: High risk			2,035,633	1,696,932	-	-				
Rating 7-9: Extreme risk			26,762,544	26,977,998	-	-				
Gross carrying amount			754,707,977	633,390,907	640,512	624,458	48,712,477	51,824,026	-	-
Less: Provision for impairment (Individual and collective)			17,261,410	17,372,679	-	-	-	-	-	-
Net carrying amount			737,446,567	616,018,228	640,512	624,458	48,712,477	51,824,026	-	-

As at December 31,	Notes	Page No.	Loans and receivables to other customers		Loans and receivables to banks		Financial investments		Lending commitments and contingencies	
			2017	2016	2017	2016	2017	2016	2017	2016
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial investments – Available for sale										
Government securities (Risk free investments)							154,167,169	159,573,316		
Rating 0-4: Investment grade							546,963	450,155		
Rating 5-6: Moderate risk							-	-		
Rating S: High risk										
Rating 7-9: Extreme risk										
Gross/net carrying amount	34	232	-	-	-	-	154,714,132	160,023,471	-	-
Financial investments – Held to maturity										
Government securities (Risk free investments)							53,555,302	50,980,717		
Rating 0-4: Investment grade										
Rating 5-6: Moderate risk							10,007,450	10,000,581		
Rating S : High risk										
Rating 7-9: Extreme risk										
Gross/net carrying amount	35	238	-	-	-	-	63,562,752	60,981,298	-	-
Other financial instruments – Held for trading										
Government securities (Risk free investments)							2,357,876	3,505,335		
Rating 0-4: Investment grade							314,745	293,809		
Rating 5-6: Moderate risk							1,738,292	1,188,654		
Rating S: High risk										
Rating 7-9: Extreme risk										
Gross/net carrying amount	31	222	-	-	-	-	4,410,913	4,987,798	-	-
Total net carrying amount			737,446,567	616,018,228	640,512	624,458	271,400,274	277,816,593	-	-
Off-Balance Sheet(**)										
Maximum exposure										
Lending commitments										
Grade 0-6: Investment grade to moderate risk									124,594,675	131,381,356
Contingencies										
Grade 0-6: Investment grade to moderate risk									438,454,025	365,853,920
Total exposure	59	285	-	-	-	-	-	-	563,048,700	497,235,276

(*) Investment grade also includes cash, gold.

(**) Amounts reported above does not include capital commitments disclosed in Note 59 on "Contingent Liabilities and Commitments" on pages 285 to 287.

69.1.1 (b) Age analysis by class of financial assets

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

As at December 31,	Loans and receivables to other customers		Loans and receivables to banks		Financial investments		Lending commitments and contingencies	
	2017	2016	2017	2016	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Government securities (Risk free investments)	-	-	-	-	250,647,049	254,135,760	-	-
Gross carrying amount	-	-	-	-	250,647,049	254,135,760	-	-
Neither past due nor individually impaired								
Rating 0-4: Investment grade	472,230,045	377,513,301	-	-	9,007,483	12,491,598	282,344,809	268,186,647
Rating 5-6: Moderate risk	244,352,749	218,392,511	640,512	624,458	11,745,742	11,189,235	280,703,891	229,048,629
Gross carrying amount	716,582,794	595,905,812	640,512	624,458	20,753,225	23,680,833	563,048,700	497,235,276
Past due but not individually Impaired								
Less than 3 months	8,160,289	8,484,516	-	-	-	-	-	-
3 to 6 months	856,410	507,450	-	-	-	-	-	-
6 to 12 months	724,801	859,216	-	-	-	-	-	-
12 to 18 months	469,520	490,692	-	-	-	-	-	-
More than 18 months	4,870,915	5,041,144	-	-	-	-	-	-
Gross carrying amount	15,081,935	15,383,018	-	-	-	-	-	-
Individually impaired								
Less than 3 months	12,533,705	11,145,557	-	-	-	-	-	-
3 to 6 months	1,292,185	748,471	-	-	-	-	-	-
6 to 12 months	404,605	598,082	-	-	-	-	-	-
12 to 18 months	1,209,297	893,546	-	-	-	-	-	-
More than 18 months	7,603,456	8,716,421	-	-	-	-	-	-
Gross carrying amount	23,043,248	22,102,077	-	-	-	-	-	-
Total gross carrying amount	754,707,977	633,390,907	640,512	624,458	271,400,274	277,816,593	563,048,700	497,235,276
Less: Provision for impairment								
Individual	7,853,654	8,453,457	-	-	-	-	-	-
Collective	9,407,756	8,919,222	-	-	-	-	-	-
Total provision for impairment	17,261,410	17,372,679	-	-	-	-	-	-
Total net carrying amount	737,446,567	616,018,228	640,512	624,458	271,400,274	277,816,593	563,048,700	497,235,276

The methodology of the impairment assessment is explained in the Note 18 on pages 201 and 202.

69.1.1 (c) Credit risk exposure for each internal credit rating on facilities and probability of historical default rates

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

The Bank's internal credit rating of the loans and receivable portfolio together with historical default rates and respective gross carrying amounts are given in the table below:

As at December 31, Bank's Internal Credit Rating		Note		2017		2016	
				Probability of historical default rates %	Gross carrying amount Rs. '000	Probability of historical default rates %	Gross carrying amount Rs. '000
Gold				9.50	1,337,133	10.34	1,246,374
Investment grade							
Rating – 0				0.10	100,062,702	0.21	74,103,326
Rating – 1				0.19	11,494,072	0.17	8,137,933
Rating – 2				0.22	39,968,653	0.22	32,231,244
Rating – 3				0.35	145,571,878	0.42	124,005,233
Rating – 4				0.55	173,795,607	0.60	137,789,192
Subtotal					472,230,045		377,513,302
Moderate risk							
Rating – 5				0.68	207,167,645	0.75	183,723,935
Rating – 6				0.98	37,185,104	1.31	34,668,576
Subtotal					244,352,749		218,392,511
Past due but not individually impaired							
High risk							
Rating – S				21.51	1,272,065	23.57	1,081,476
Extreme risk							
Rating – 7				47.52	6,804,251	54.78	7,474,654
Rating – 8				68.45	1,042,713	71.22	630,680
Rating – 9				100.00	5,962,906	100.00	6,196,207
Subtotal					15,081,935		15,383,017
Impaired							
Individually Impaired(*)				-	23,043,248	-	22,102,077
Total		33	226		754,707,977		633,390,907

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

69.1.1 (d) Credit quality by class of financial assets

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

<i>As at December 31, 2017</i>			Neither past due nor individually impaired			Past due but not individually impaired	Individually impaired	Total
	Note	Page No.	Government guarantee	Investment grade	Moderate risk			
			Rs. '000	Rs. '000	Rs. '000			
Cash and cash equivalents	27	219	–	33,224,619	–	–	–	33,224,619
Balances with central banks	28	219	44,801,446	–	–	–	–	44,801,446
Placements with banks	29	221	–	17,633,269	–	–	–	17,633,269
Securities purchased under resale agreements			–	–	–	–	–	–
Derivative financial assets	30	221	–	2,334,536	–	–	–	2,334,536
Other financial instruments – Held for trading	31	222	2,357,876	314,745	1,738,292	–	–	4,410,913
Loans and receivables to banks	32	225		–	640,512			640,512
Loans and receivables to other customers	33	226	–	469,669,456	242,786,716	9,800,801	15,189,594	737,446,567
Corporate banking			–	249,817,145	86,639,832	5,776,899	3,931,899	346,165,775
Amortised cost			–	251,613,579	87,342,167	6,116,798	6,517,529	351,590,073
Less – Provision for impairment			–	1,796,434	702,335	339,899	2,585,630	5,424,298
Personal banking			–	219,852,311	156,146,884	4,023,902	11,257,695	391,280,792
Amortised cost			–	220,616,463	157,010,582	8,965,140	16,525,719	403,117,904
Less – Provision for impairment			–	764,152	863,698	4,941,238	5,268,024	11,837,112
Financial investments – Available for sale	34	232	154,167,169	546,963	–	–	–	154,714,132
Government securities			154,167,169	–	–	–	–	154,167,169
Quoted shares			–	500,278	–	–	–	500,278
Unquoted shares			–	46,685	–	–	–	46,685
Investment in unit trust			–	–	–	–	–	–
Financial investments – Held to maturity	35	238	63,562,752	–	–	–	–	63,562,752
Government securities			63,562,752	–	–	–	–	63,562,752
Other investments			–	–	–	–	–	–
Financial investments – Loans and receivables	36	239	40,566,702	8,145,775	–	–	–	48,712,477
Government securities			40,566,702	–	–	–	–	40,566,702
Other investments			–	8,145,775	–	–	–	8,145,775
Total			305,455,945	531,869,363	245,165,520	9,800,801	15,189,594	1,107,481,223

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

As at December 31, 2016			Neither past due nor individually impaired			Past due but not individually impaired	Individually impaired	Total
	Note	Page No.	Government guarantee	Investment grade	Moderate risk			
			Rs. '000	Rs. '000	Rs. '000			
Cash and cash equivalents	27	219	-	30,193,589	-	-	-	30,193,589
Balances with central banks	28	219	43,873,205	-	-	-	-	43,873,205
Placements with banks	29	221	-	11,718,499	-	-	-	11,718,499
Securities purchased under resale agreements			-	-	-	-	-	-
Derivative financial assets	30	221	-	1,052,829	-	-	-	1,052,829
Other financial instruments – Held for trading	31	222	3,505,335	293,809	1,188,654	-	-	4,987,798
Loans and receivables to banks	32	225		-	624,458			624,458
Loans and receivables to other customers	33	226	-	375,317,855	216,881,465	10,170,288	13,648,620	616,018,228
Corporate banking			-	194,301,767	69,668,628	6,354,171	4,144,273	274,468,839
Amortised cost			-	195,783,488	70,296,607	6,850,195	7,095,590	280,025,880
Less – Provision for impairment			-	1,481,721	627,979	496,024	2,951,317	5,557,041
Personal banking			-	181,016,088	147,212,837	3,816,117	9,504,347	341,549,389
Amortised cost			-	181,729,813	148,095,904	8,532,823	15,006,487	353,365,027
Less – Provision for impairment			-	713,725	883,067	4,716,706	5,502,140	11,815,638
Financial investments – Available for sale	34	232	159,573,316	450,155	-	-	-	160,023,471
Government securities			159,573,316	-	-	-	-	159,573,316
Quoted shares			-	246,548	-	-	-	246,548
Unquoted shares			-	47,147	-	-	-	47,147
Investment in unit trust			-	156,460	-	-	-	156,460
Financial investments – Held to maturity	35	238	60,981,298	-	-	-	-	60,981,298
Government securities			60,981,298	-	-	-	-	60,981,298
Other investments				-	-	-	-	-
Financial investments – Loans and receivables	36	239	40,076,392	11,747,634	-	-	-	51,824,026
Government securities			40,076,392	-	-	-	-	40,076,392
Other investments				11,747,634	-	-	-	11,747,634
Total			308,009,546	430,774,370	218,694,577	10,170,288	13,648,620	981,297,401

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

69.1.1 (e) Trading assets

Held-for-trading investments in debt and equity securities

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

<i>As at December 31,</i>			2017	2016
	Note	Page No.	Rs. '000	Rs. '000
Government securities				
Government securities – Sri Lanka				
Treasury bills			654,438	1,761,970
Treasury bonds			1,703,438	1,743,365
Government securities – Bangladesh				
Treasury bills			278,618	705,251
Treasury bonds			1,459,674	483,403
Total – Government securities			4,096,168	4,693,989
Equity securities				
Rated AAA			12,341	9,966
Rated AA+ to AA-			16,492	19
Rated A+ to A			60,879	86,970
Rated BBB+			5,710	–
Unrated			219,323	196,854
Total – Equity securities			314,745	293,809
Total	31	222	4,410,913	4,987,798

Credit exposure arising from derivative transactions

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

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

<i>As at December 31, 2017</i>	Derivative Type							
	Forward		SWAPS		Spot		Total	
	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Derivative financial assets (Note 1)	35,831,935	1,264,900	80,896,084	1,067,259	4,432,721	2,377	121,160,740	2,334,536
Derivative financial liabilities (Note 2)	26,602,410	(1,015,648)	83,904,746	(2,660,838)	1,569,843	(2,008)	112,076,999	(3,678,494)
Note 1								
Derivative financial assets by counterparty type								
With banks	10,081,268	170,229	78,629,102	972,827	3,617,099	2,375	92,327,469	1,145,431
Other customers	25,750,667	1,094,671	2,266,982	94,432	815,622	2	28,833,271	1,189,105
	35,831,935	1,264,900	80,896,084	1,067,259	4,432,721	2,377	121,160,740	2,334,536
Note 2								
Derivative financial liabilities by counterparty type								
With banks	3,146,244	(61,900)	83,904,746	(2,660,838)	1,569,843	(2,008)	88,620,833	(2,724,746)
Other customers	23,456,166	(953,748)	-	-	-	-	23,456,166	(953,748)
	26,602,410	(1,015,648)	83,904,746	(2,660,838)	1,569,843	(2,008)	112,076,999	(3,678,494)

<i>As at December 31, 2016</i>	Derivative type							
	Forward		SWAPS		Spot		Total	
	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Derivative financial assets (Note 1)	45,610,942	788,808	61,841,987	261,664	2,713,810	2,357	110,166,739	1,052,829
Derivative financial liabilities (Note 2)	20,808,137	(849,010)	96,170,047	(663,714)	1,513,965	(2,311)	118,492,149	(1,515,035)
Note 1								
Derivative financial assets by counterparty type								
With banks	12,618,500	98,281	56,881,672	247,217	2,352,621	2,258	71,852,793	347,756
Other customers	32,992,442	690,527	4,960,315	14,447	361,189	99	38,313,946	705,073
	45,610,942	788,808	61,841,987	261,664	2,713,810	2,357	110,166,739	1,052,829
Note 2								
Derivative financial liabilities by counterparty type								
With banks	8,910,120	(38,476)	93,952,339	(654,910)	1,513,965	(2,311)	104,376,424	(695,697)
Other customers	11,898,017	(810,534)	2,217,708	(8,804)	-	-	14,115,725	(819,338)
	20,808,137	(849,010)	96,170,047	(663,714)	1,513,965	(2,311)	118,492,149	(1,515,035)

69.1.2 Impaired loans and receivables and investment in debt securities

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

<i>As at December 31,</i>	2017	2016
	Rs. '000	Rs. '000
Impaired loans and receivables to other customers as at January 1,	13,648,620	6,376,669
Newly classified as impaired loans and receivables during the year	8,177,859	9,802,478
Net change in already impaired loans and receivables during the year	361,095	(281,599)
Net payment, write-off and recoveries and other movements during the year	(6,997,980)	(2,248,928)
Impaired loans and receivables to customers as at December 31,	15,189,594	13,648,620

No impairment provision has been made for investment in debt securities as at December 31, 2017 (2016 – Nil).

Refer Note 18 for methodology of impairment assessment, on "Impairment of Financial Assets" which are carried at amortised cost on pages 201 and 202.

Details of provision for impairment for loans and receivables to banks and for loans and receivable to other customers, are detailed in Notes 32 and 33 on pages 225 to 226.

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

<i>As at December 31,</i>	2017		2016	
	Loans and receivable to customers		Loans and receivable to customers	
	Gross	Net	Gross	Net
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Rating 0-4: Investment grade	4,613,603	4,470,693	4,766,976	4,607,959
Rating 5-6: Moderate risk	4,713,404	4,600,908	4,046,553	3,912,239
Rating S: High risk	763,567	642,017	615,456	402,464
Rating 7-9: Extreme risk	12,952,674	5,475,976	12,673,092	4,725,958
Total	23,043,248	15,189,594	22,102,077	13,648,620

69.1.3 Collaterals held**Loan to value ratio of residential mortgage lending**

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

As at December 31,	2017		2016	
	Rs. '000	Composition (%)	Rs. '000	Composition (%)
LTV ratio				
Less than 50%	11,804,905	29.83	8,406,374	26.14
51 - 70%	8,952,662	22.62	7,027,873	21.86
71 - 90%	10,466,905	26.45	8,262,704	25.70
91 - 100%	1,600,415	4.05	1,352,172	4.20
More than 100%*	6,745,986	17.05	7,105,439	22.10
	39,570,873	100.00	32,154,562	100.00

* LTV ratio more than 100% has arisen due to subsequent disbursements made to the borrower after the initial valuation of the property (the denominator).

Assets obtained by taking the possession of collaterals

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

69.1.4 Concentration of credit risk

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

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

69.1.4 (a) Industry-wise distribution

As at December 31, 2017	Agriculture and fishing	Manu- facturing	Tourism	Transport	Construction	Traders	New economy	Financial and business services	Government	Infrastructure	Other services	Other customers	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial assets													
Cash and cash equivalents	-	-	-	-	-	-	-	33,224,619	-	-	-	-	33,224,619
Balances with central banks	-	-	-	-	-	-	-	-	44,801,446	-	-	-	44,801,446
Placements with banks	-	-	-	-	-	-	-	17,633,269	-	-	-	-	17,633,269
Securities purchased under resale agreements	-	-	-	-	-	-	-	-	-	-	-	-	-
Derivative financial assets	-	2,261	-	-	-	586,294	-	1,745,507	-	-	474	-	2,334,536
Other financial instruments – Held for trading	-	107,107	5,732	-	27,781	26,674	48,207	78,102	4,096,168	21,142	-	-	4,410,913
Government Securities	-	-	-	-	-	-	-	-	4,096,168	-	-	-	4,096,168
Quoted equity securities	-	107,107	5,732	-	27,781	26,674	48,207	78,102	-	21,142	-	-	314,745
Loans and receivables to banks	-	-	-	-	-	-	-	640,512	-	-	-	-	640,512
Loans and receivables to other customers*	68,713,903	112,807,745	44,937,470	16,820,822	104,314,394	110,304,070	17,031,993	47,045,113	-	20,086,388	62,567,873	132,816,796	737,446,567
Financial investments – Available for sale													
Government securities	-	-	-	-	-	-	-	-	154,167,169	-	-	-	154,167,169
Equity securities – Quoted shares	-	13,213	-	-	141,093	-	-	345,972	-	-	-	-	500,278
Equity securities – Unquoted shares	-	-	-	-	-	-	-	46,685	-	-	-	-	46,685
Investment in unit trusts	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial investments – Held to maturity													
Government securities	-	-	-	-	-	-	-	-	63,562,752	-	-	-	63,562,752
Financial investments – Loans and receivables													
Government securities	-	-	-	-	-	-	-	-	40,566,702	-	-	-	40,566,702
Other investments	-	2,233,016	-	-	-	997,423	-	4,678,169	-	-	237,167	-	8,145,775
Total	68,713,903	115,163,342	44,943,202	16,820,822	104,483,268	111,914,461	17,080,200	105,437,948	307,194,237	20,107,530	62,805,514	132,816,796	1,107,481,223

(*) Loans and advances referred to above do not agree with the Note 33.1 (c) on page 228 due to impairment provisions.

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

(*) Loans and advances referred to above do not agree with the Note 33.1 (c) on page 228 due to impairment provisions.

69.1.4 (b) Geographical distribution of loans and receivable portfolio

The Western Province has recorded a higher percentage of lending based on geographical distribution of the Bank's lending portfolio. It has accounted for 77% (approximately) of total advances portfolio of the Bank (excluding Bangladesh operations) as at December 31, 2017. Although, Western Province is attracted with highest credit concentration, we believe that a sizable portion of these lending has been utilised to facilitate industries scattered around the country. For example, most of the large corporates which have island-wide operations are being accommodated by the Branches and Corporate Banking Division situated in the Western Province and thereby reflecting a fairly diversified geographical concentration contrary to the figures given below:

As at December 31, 2017

Country/province	Loans and Receivables by Product											
	Overdrafts	Trade finance	Lease receivables	Credit cards	Pawning	Staff loans	Housing loans	Personal loans	Long-Term loans	Short-Term loans	Bills of exchange	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Sri Lanka												
Central	9,105,845	234,423	1,916,498	411,761	45,545	-	3,068,331	1,477,341	18,850,775	1,475,025	10,947	36,596,491
Eastern	1,117,710	30,735	627,422	96,299	24,244	-	359,754	530,338	2,204,475	138,066	-	5,129,043
North Central	1,106,922	87,888	1,502,978	105,245	9,554	-	563,567	424,136	5,643,030	369,027	-	9,812,347
Northern	2,526,778	95,605	1,216,214	117,523	430,787	-	737,940	777,142	3,536,515	434,081	-	9,872,585
North Western	6,748,789	948,591	2,956,376	356,880	117,380	-	3,301,358	1,833,343	12,636,399	1,737,537	8,657	30,645,310
Sabaragamuwa	5,023,234	544,685	2,638,106	213,385	46,153	-	2,863,952	950,615	8,441,449	805,885	137,733	21,665,197
Southern	6,014,775	1,464,661	3,603,623	388,474	89,707	-	4,908,557	1,948,311	13,632,876	968,028	10,519	33,029,531
Uva	1,516,886	25,906	1,006,287	121,106	16,417	-	1,832,132	629,553	4,376,394	425,507	-	9,950,188
Western	76,142,919	50,154,096	21,747,218	6,956,843	555,710	7,831,111	34,700,747	18,696,937	225,372,988	75,412,905	3,941,857	521,513,331
Bangladesh	5,193,417	3,925,396	258,288	58,047	-	117,336	476,542	385,564	10,368,545	25,758,410	12,690,999	59,232,544
Total	114,497,275	57,511,986	37,473,010	8,825,563	1,335,497	7,948,447	52,812,880	27,653,280	305,063,446	107,524,471	16,800,712	737,446,567

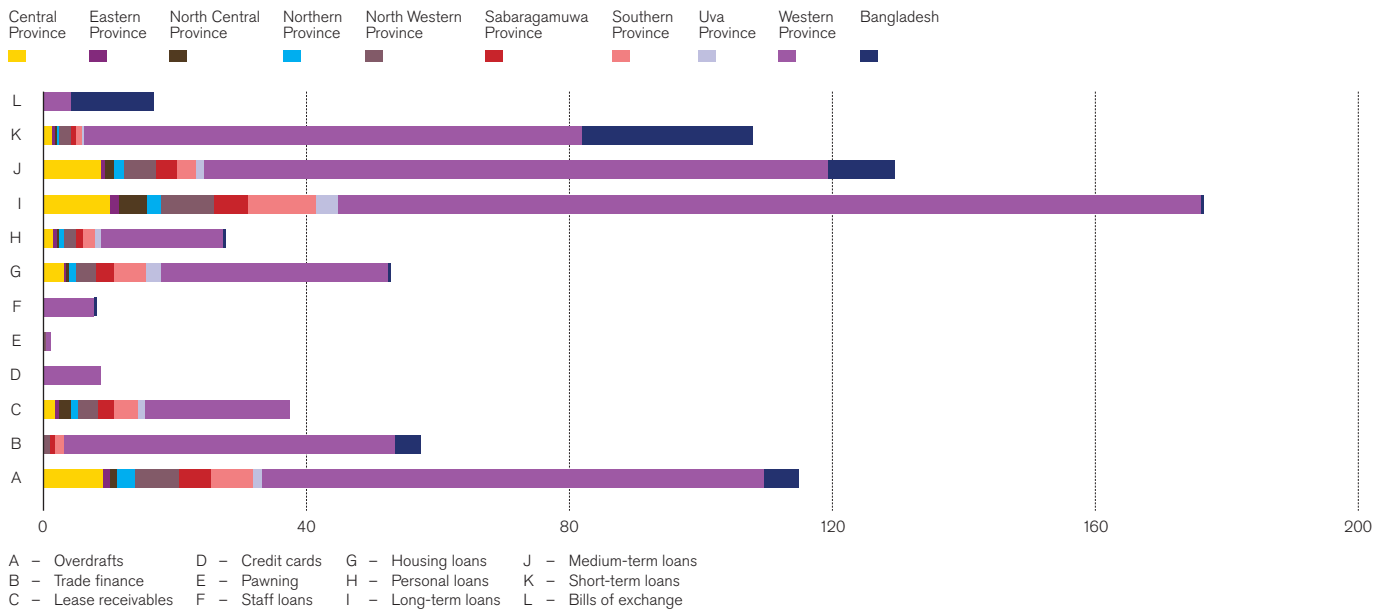
As at December 31, 2016

Country/province	Loans and Receivables by Product											
	Overdrafts	Trade finance	Lease receivables	Credit cards	Pawning	Staff loans	Housing loans	Personal loans	Long-Term loans	Short-Term loans	Bills of exchange	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Sri Lanka												
Central	10,661,557	178,668	1,942,902	323,715	52,966	-	2,787,403	1,374,071	16,327,523	953,154	30,441	34,632,400
Eastern	832,420	91,427	428,517	69,867	13,091	-	286,271	407,103	1,933,866	34,492	-	4,097,054
North Central	946,600	104,482	1,534,704	79,938	7,219	-	423,027	293,058	4,584,201	201,547	4,433	8,179,209
Northern	2,004,596	148	792,854	90,711	352,881	-	619,791	614,333	3,070,477	40,954	-	7,586,745
North Western	4,761,332	522,114	2,633,365	270,788	121,944	-	2,982,527	1,483,099	11,563,070	714,417	13,287	25,065,943
Sabaragamuwa	4,571,645	289,939	2,334,374	165,686	53,744	-	2,430,909	865,355	7,917,406	427,456	3,025	19,059,539
Southern	5,137,398	1,380,610	3,022,169	329,615	83,428	-	4,472,432	1,803,027	12,331,936	327,570	976	28,889,161
Uva	1,226,155	31,070	963,565	92,241	17,990	-	1,600,487	551,923	3,505,996	220,512	1,248	8,211,187
Western	64,168,727	38,940,278	21,660,085	4,646,051	532,526	7,144,946	30,661,911	17,701,287	201,515,731	43,616,020	3,571,804	434,159,366
Bangladesh	3,793,007	704,416	177,863	68,234	-	106,066	221,024	276,508	8,720,126	23,435,538	8,634,842	46,137,624
Total	98,103,437	42,243,152	35,490,398	6,136,846	1,235,789	7,251,012	46,485,782	25,369,764	271,470,332	69,971,660	12,260,056	616,018,228

Please refer Note 33 on page 226 for the gross carrying amount of the loans and advances.

Geographical analysis of loans and receivables product-wise to other customers as at December 31, 2017

Rs. Bn.



69.1.5 Exposures to unrated countries

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

<i>As at December 31,</i>	2017	2016
	Rs. '000	Rs. '000
On-balance sheet exposures		
Loans and receivables to customers		
At net carrying amount	294,567	253,978
Gross carrying value	296,249	254,534
Less – Provision for impairment	1,682	556
At fair value net of provision for impairment (*)	294,567	253,978
Fair value before impairment	296,249	254,534
Less – Provision for impairment	1,682	556
Off-balance sheet exposures		
Loan commitments and contingencies	-	-
Contingencies	-	-
Loan commitments	-	-
Total on-balance sheet and off-balance sheet exposure	294,567	253,978

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

69.2 Liquidity risk

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

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

Assets and Liability Management Committee (ALCO)

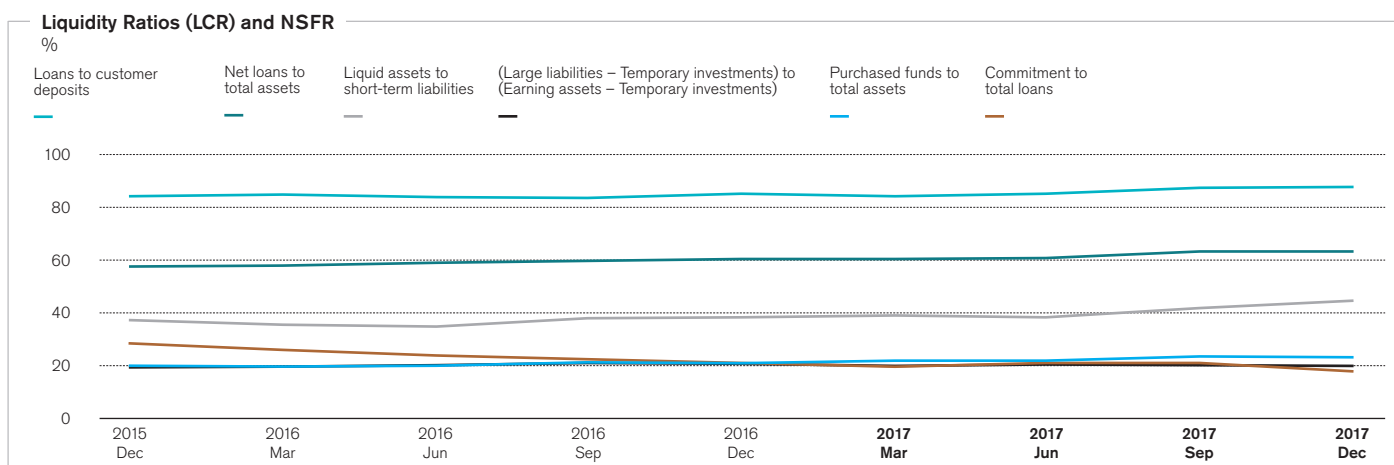
ALCO chaired by the Managing Director, has representatives from Treasury, Corporate Banking, Personal Banking, Risk and Finance Departments. The Committee meets fortnightly or more frequently to monitor and manage the assets and liabilities of the Bank and also the overall liquidity position to keep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

69.2.1 Exposure to liquidity risk

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

	DBU		OBC	
	2017 %	2016 %	2017 %	2016 %
As at December 31,	27.28	27.19	30.95	30.19
Average for the period	26.66	25.63	31.72	35.78
Maximum for the period	27.98	27.19	37.00	47.13
Minimum for the period	25.75	23.88	27.80	28.84
Statutory minimum requirement	20.00	20.00	20.00	20.00

The graph below depicts the trends in liquidity ratios of the Bank calculated on a quarterly basis during the period from December 2015 to December 2017:



69.2.2 Maturity analysis of financial assets and financial liabilities**69.2.2 (a) Remaining contractual period to maturity – Bank**

(i) Remaining contractual period to maturity of the assets employed by the Bank as at December 31, is detailed below:

<i>As at December 31,</i>	Up to 3 months Rs. '000	3 to 12 months Rs. '000	1 to 3 years Rs. '000	3 to 5 years Rs. '000	More than 5 years Rs. '000	Total as at 31.12.2017 Rs. '000	Total as at 31.12.2016 Rs. '000
Interest earning assets							
Financial assets							
Cash and cash equivalents	3,457,539	–	–	–	–	3,457,539	7,930,050
Balances with central banks	887,551	263,830	–	4,607	–	1,155,988	498,616
Placements with banks	17,633,269	–	–	–	–	17,633,269	11,718,499
Securities purchased under resale agreements	–	–	–	–	–	–	–
Derivative financial assets	–	–	–	–	–	–	–
Other financial instruments – Held-for-trading	4,096,168	–	–	–	–	4,096,168	4,693,989
Loans and receivables to banks	–	–	–	–	–	–	–
Loans and receivables to other customers	231,342,860	198,426,781	169,978,799	93,774,191	43,923,936	737,446,567	616,018,228
Financial investments – Available-for-sale	13,025,195	67,787,547	59,124,910	14,229,518	–	154,167,170	159,573,316
Financial investments – Held-to-maturity	4,077,407	9,871,844	12,885,249	29,661,652	7,066,600	63,562,752	60,981,298
Financial investments – Loans and receivables	2,521,780	5,188,975	16,430,329	24,571,393	–	48,712,477	51,824,026
Total interest earning assets as at December 31, 2017	277,041,769	281,538,977	258,419,287	162,241,361	50,990,536	1,030,231,930	
Total interest earning assets as at December 31, 2016	276,268,527	174,556,015	269,347,751	113,511,379	79,554,350		913,238,022
Non-interest earning assets							
Financial assets							
Cash and cash equivalents	29,767,080	–	–	–	–	29,767,080	22,263,539
Balances with central banks	26,999,348	14,321,349	783,669	730,063	811,029	43,645,458	43,374,589
Placements with banks	–	–	–	–	–	–	–
Securities purchased under resale agreements	–	–	–	–	–	–	–
Derivative financial assets	959,937	1,374,599	–	–	–	2,334,536	1,052,829
Other financial instruments – Held for trading	314,745	–	–	–	–	314,745	293,809
Loans and receivables to banks	–	–	640,512	–	–	640,512	624,458
Loans and receivables to other customers	–	–	–	–	–	–	–
Financial investments – Available for sale	–	–	–	17,491	529,471	546,962	450,155
Financial investments – Held to maturity	–	–	–	–	–	–	–
Financial investments – Loans and receivables	–	–	–	–	–	–	–

As at December 31,	Up to 3 months Rs. '000	3 to 12 months Rs. '000	1 to 3 years Rs. '000	3 to 5 years Rs. '000	More than 5 years Rs. '000	Total as at 31.12.2017 Rs. '000	Total as at 31.12.2016 Rs. '000
Non-financial assets							
Investments in subsidiaries	-	-	-	-	3,065,935	3,065,935	2,435,392
Investments in associates	-	-	-	-	44,331	44,331	44,331
Property, plant and equipment	-	-	-	-	14,634,710	14,634,710	10,307,825
Intangible assets	-	-	-	-	776,810	776,810	640,645
Leasehold property	-	-	-	-	72,594	72,594	73,536
Deferred tax assets	-	-	-	-	-	-	963,935
Other assets	12,270,707	257,173	1,245,002	506,177	3,019,103	17,298,162	16,438,166
Total non-interest earning assets as at December 31, 2017	70,311,817	15,953,121	2,669,183	1,253,731	22,953,983	113,141,835	
Total non-interest earning assets as at December 31, 2016	62,243,958	14,616,440	3,826,664	991,974	17,284,173		98,963,209
Total assets – as at December 31, 2017	347,353,586	297,492,098	261,088,470	163,495,092	73,944,519	1,143,373,765	
Total assets – as at December 31, 2016	338,512,485	189,172,455	273,174,415	114,503,353	96,838,523		1,012,201,231
Percentage – as at December 31, 2017 (*)	30.38	26.02	22.83	14.30	6.47	100.00	
Percentage – as at December 31, 2016 (*)	33.44	18.69	26.99	11.31	9.57		100.00

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

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

As at December 31,	Up to 3 months Rs. '000	3 to 12 months Rs. '000	1 to 3 years Rs. '000	3 to 5 years Rs. '000	More than 5 years Rs. '000	Total as at 31.12.2017 Rs. '000	Total as at 31.12.2016 Rs. '000
Interest-bearing liabilities:							
Financial liabilities							
Due to banks	32,840,250	3,840,696	12,232,304	-	41,224	48,954,474	63,523,388
Derivative financial liabilities	-	-	-	-	-	-	-
Securities sold under repurchase agreements	35,951,132	10,978,972	2,746,663	-	-	49,676,767	69,867,469
Other financial liabilities – Held-for-trading	-	-	-	-	-	-	-
Due to other customers/ deposits from customers	455,218,755	288,988,744	18,492,159	13,050,348	13,783,280	789,533,286	683,569,052
Other borrowings	657,813	2,091,720	5,021,093	7,503,789	8,511,679	23,786,094	9,270,154
Subordinated liabilities	203,326	314,552	-	9,477,720	15,170,326	25,165,924	24,849,539
Total interest-bearing liabilities as at December 31, 2017	524,871,276	306,214,684	38,492,219	30,031,857	37,506,509	937,116,545	
Total interest-bearing liabilities as at December 31, 2016	504,725,495	263,099,940	31,662,332	21,783,917	29,807,918		851,079,602

<i>As at December 31,</i>	Up to 3 months Rs. '000	3 to 12 months Rs. '000	1 to 3 years Rs. '000	3 to 5 years Rs. '000	More than 5 years Rs. '000	Total as at 31.12.2017 Rs. '000	Total as at 31.12.2016 Rs. '000
Non-interest bearing liabilities:							
Financial liabilities							
Due to banks	8,166,517	-	-	-	-	8,166,517	4,085,423
Derivative financial liabilities	2,488,462	1,185,570	-	-	4,462	3,678,494	1,515,035
Securities sold under repurchase agreements	-	-	-	-	-	-	-
Other financial liabilities – Held-for-trading	-	-	-	-	-	-	-
Due to other customers/deposits from customers	60,594,225	-	-	-	-	60,594,225	55,994,442
Other borrowings	-	-	-	-	-	-	-
Subordinated liabilities	-	-	-	-	-	-	-
Non-financial liabilities							
Current tax liabilities	798,084	3,345,827	-	-	-	4,143,911	3,440,736
Deferred tax	182,545	153,861	588,908	261,930	2,087,582	3,274,826	-
Other provisions	-	-	-	-	-	-	1,874
Other liabilities	3,071,733	9,738,767	2,943,111	1,374,896	2,096,857	19,225,364	17,710,394
Due to subsidiaries	74,523	-	-	-	-	74,523	20,061
Equity							
Stated capital	-	-	-	-	37,143,541	37,143,541	24,978,003
Statutory reserves	-	-	-	-	6,476,952	6,476,952	5,647,890
Retained earnings	-	-	-	-	4,987,446	4,987,446	4,464,077
Other reserves	-	-	-	-	58,491,421	58,491,421	43,263,694
Total non-interest bearing liabilities as at December 31, 2017	75,376,089	14,424,025	3,532,019	1,636,826	111,288,261	206,257,220	
Total non-interest bearing liabilities as at December 31, 2016	76,696,128	3,058,595	1,529,112	309,278	79,528,516		161,121,629
Total liabilities and equity – as at December 31, 2017	600,247,365	320,638,709	42,024,238	31,668,683	148,794,770	1,143,373,765	
Total liabilities and equity – as at December 31, 2016	581,421,623	266,158,535	33,191,444	22,093,195	109,336,434		1,012,201,231
Percentage – as at December 31, 2017 (*)	52.50	28.04	3.68	2.77	13.01	100.00	
Percentage – as at December 31, 2016 (*)	57.44	26.30	3.28	2.18	10.80		100.00

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

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

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

<i>As at December 31,</i>	2017	2016
	Rs. '000	Rs. '000
Financial assets		
Non-derivative financial assets		
Balances with central banks	2,329,368	2,459,890
Loans and receivables to banks	640,512	624,458
Loans and receivables to other customers	307,676,926	272,097,889
Financial investments – Available for sale	73,901,390	114,074,408
Financial investments – Held to maturity	49,613,501	56,725,526
Total	434,161,697	445,982,171
Financial liabilities		
Non-derivative financial liabilities		
Securities sold under repurchase agreements	2,746,663	11,019
Due to other customers/deposits from customers	45,325,787	40,211,606
Other borrowings	21,036,561	6,721,530
Subordinated liabilities	24,630,973	24,330,012
Total	93,739,984	71,274,167

69.2.3 Liquidity reserves

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

<i>As at December 31,</i>	2017		2016	
	Carrying amount	Fair value	Carrying amount	Fair value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balances with central banks	44,801,446	44,801,446	43,873,205	43,873,205
Cash and balances with other banks	9,944,020	9,944,020	12,786,813	12,786,813
Coins and notes held	23,280,599	23,280,599	17,406,776	17,406,776
Unencumbered debt securities issued by sovereigns	172,149,322	171,675,912	155,381,134	151,455,447
Total	250,175,387	249,701,977	229,447,928	225,522,241

69.2.4 Financial assets available to support future funding

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

As at December 31, 2017	Note	Page No.	Encumbered		Unencumbered		Total Rs. '000
			Pledged as collateral	Other	Available as collateral	Other	
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Cash and cash equivalents	27	219			33,224,619		33,224,619
Balances with central banks	28	219		39,766,630	5,034,816		44,801,446
Placements with banks	29	221			17,633,269		17,633,269
Securities purchased under resale agreements							-
Derivative financial assets	30	221			2,334,536		2,334,536
Other financial instruments – Held for trading	31	222			4,410,913		4,410,913
Loans and receivables to banks*	32	225		640,512			640,512
Loans and receivables to other customers	33	226			737,446,567		737,446,567
Financial investments – Available for sale**	34	232	58,768,665		95,945,467		154,714,132
Financial investments – Held to maturity	35	238			63,562,752		63,562,752
Financial investments – Loans and receivables	36	239			48,712,477		48,712,477
Total			58,768,665	40,407,142	1,008,305,416	-	1,107,481,223

As at December 31, 2016	Note	Page No.	Encumbered		Unencumbered		Total Rs. '000
			Pledged as collateral	Other	Available as collateral	Other	
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Cash and cash equivalents	27	219			30,193,589		30,193,589
Balances with central banks	28	219		34,268,658	9,604,547		43,873,205
Placements with banks	29	221			11,718,499		11,718,499
Securities purchased under resale agreements							-
Derivative financial assets	30	221			1,052,829		1,052,829
Other financial instruments – Held for trading	31	222			4,987,798		4,987,798
Loans and receivables to banks *	32	225		624,458			624,458
Loans and receivables to other customers	33	226			616,018,228		616,018,228
Financial investments – Available for sale**	34	232	89,037,472		70,985,999		160,023,471
Financial investments – Held to maturity	35	238			60,981,298		60,981,298
Financial investments – Loans and receivables	36	239			51,824,026		51,824,026
Total			89,037,472	34,893,116	857,366,813	-	981,297,401

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

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

69.3 Market risk

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

69.3.1 Exposure to market risk – trading and non-trading portfolios

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

As at December 31, 2017	Note	Page No.	Carrying amount	Market risk measurement	
				Trading portfolios	Non-trading portfolios
				Rs. '000	Rs. '000
Assets subject to market risk					
Cash and cash equivalents	27	219	12,387,967		12,387,967
Balances with central banks	28	219	4,601,606		4,601,606
Placements with banks	29	221	17,633,269		17,633,269
Derivative financial assets	30	221	2,334,536	2,334,536	–
Other financial instruments – Held for trading	31	222	4,410,913	4,410,913	–
Loans and receivables to banks	32	225	640,512		640,512
Loans and receivables to other customers	33	226	737,446,567		737,446,567
Financial investments – Available for sale	34	232	154,714,132		154,714,132
Financial investments – Held to maturity	35	238	63,562,752		63,562,752
Financial investments – Loans and receivables	36	239	48,712,477		48,712,477
Total			1,046,444,731	6,745,449	1,039,699,282
Liabilities subject to market risk					
Due to banks	43	261	57,120,991		57,120,991
Derivative financial liabilities	44	262	3,678,494	3,678,494	
Securities sold under repurchase agreements			49,676,767		49,676,767
Due to other customers/deposits from customers	45	263	807,630,072		807,630,072
Other borrowings	46	265	23,786,094		23,786,094
Subordinated liabilities	52	276	25,165,924		25,165,924
Total			967,058,342	3,678,494	963,379,848

As at December 31, 2016	Note	Page No.	Carrying amount Rs. '000	Market risk measurement	
				Trading portfolios	Non-trading portfolios
				Rs. '000	Rs. '000
Assets subject to market risk					
Cash and cash equivalents	27	219	14,704,722		14,704,722
Balances with central banks	28	219	3,403,219		3,403,219
Placements with banks	29	221	11,718,499		11,718,499
Derivative financial assets	30	221	1,052,829	1,052,829	
Other financial instruments – Held for trading	31	222	4,987,798	4,987,798	
Loans and receivables to banks	32	225	624,458		624,458
Loans and receivables to other customers	33	226	616,018,228		616,018,228
Financial investments – Available for sale	34	232	160,023,471		160,023,471
Financial investments – Held to maturity	35	238	60,981,298		60,981,298
Financial investments – Loans and receivables	36	239	51,824,026		51,824,026
Total			925,338,548	6,040,627	919,297,921
Liabilities subject to market risk					
Due to banks	43	261	67,608,811		67,608,811
Derivative financial liabilities	44	262	1,515,035	1,515,035	
Securities sold under repurchase agreements			69,867,469		69,867,469
Due to other customers/deposits from customers	45	263	701,410,848		701,410,848
Other borrowings	46	265	9,270,154		9,270,154
Subordinated liabilities	52	276	24,849,539		24,849,539
Total			874,521,856	1,515,035	873,006,821

69.3.2 Exposure to interest rate risk – Sensitivity analysis**69.3.2 (a) Exposure to interest rate risk – Non-trading portfolio**

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

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

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

<i>As at December 31, 2017</i>	Up to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Non-sensitive	Total as at 31.12.2017
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial assets							
Cash and cash equivalents	3,952,578	–	–	–	–	29,272,041	33,224,619
Balances with central banks	4,601,606	–	–	–	–	40,199,840	44,801,446
Placements with banks	16,097,269	1,536,000	–	–	–	–	17,633,269
Securities purchased under resale agreements	–	–	–	–	–	–	–
Derivative financial assets	–	–	–	–	–	–	–
Other financial instruments – Held for trading	–	–	–	–	–	–	–
Loans and receivables to banks	–	–	–	–	–	640,512	640,512
Loans and receivables to other customers	460,905,113	134,400,971	65,554,128	38,341,792	31,537,815	6,706,748	737,446,567
Financial investments – Available for sale	10,573,104	68,317,215	46,631,198	28,638,006	–	554,609	154,714,132
Financial investments – Held to maturity	4,077,406	9,871,844	12,885,242	29,661,660	7,066,600	–	63,562,752
Financial investments – Loans and receivables	41,140,625	1,893,522	5,678,330	–	–	–	48,712,477
Total financial assets	541,347,701	216,019,552	130,748,898	96,641,458	38,604,415	77,373,750	1,100,735,774
Financial liabilities							
Due to banks	44,703,696	5,366,253	–	–	–	7,051,042	57,120,991
Derivative financial liabilities	–	–	–	–	–	–	–
Securities sold under repurchase agreements	35,949,554	10,652,592	2,733,779	–	–	340,842	49,676,767
Due to other customers/deposits from customers	457,830,953	286,182,073	16,482,261	12,360,297	10,739,911	66,532,016	850,127,511
Other borrowings	18,293,434	814,083	1,002,777	908,493	2,767,307	–	23,786,094
Subordinated liabilities	11,664,201	327,156	–	9,500,724	3,673,843	–	25,165,924
Total financial liabilities	568,441,838	303,342,157	20,218,817	22,769,514	17,181,061	73,923,900	1,005,877,287
Interest rate sensitivity gap	(27,094,137)	(87,322,605)	110,530,081	73,871,944	21,423,354	3,449,850	94,858,487

<i>As at December 31, 2016</i>	Up to 3 months Rs. '000	3 to 12 months Rs. '000	1 to 3 years Rs. '000	3 to 5 years Rs. '000	More than 5 years Rs. '000	Non- sensitive Rs. '000	Total as at 31.12.2016 Rs. '000
Financial assets							
Cash and cash equivalents	6,991,886	-	-	-	-	23,201,703	30,193,589
Balances with central banks	3,403,219	-	-	-	-	40,469,986	43,873,205
Placements with banks	11,718,499	-	-	-	-	-	11,718,499
Securities purchased under resale agreements	-	-	-	-	-	-	-
Derivative financial assets	-	-	-	-	-	-	-
Other financial instruments – Held for trading	-	-	-	-	-	-	-
Loans and receivables to banks	-	-	-	-	-	624,458	624,458
Loans and receivables to other customers	380,578,852	114,228,759	56,281,391	30,331,334	29,613,153	4,984,739	616,018,228
Financial investments – Available for sale	4,616,318	35,445,896	94,598,716	24,912,386	-	450,155	160,023,471
Financial investments – Held to maturity	13,220,906	5,077,400	17,061,858	135,192	25,485,942	-	60,981,298
Financial investments – Loans and receivables	41,332,775	2,599,730	5,663,994	2,227,527	-	-	51,824,026
Total financial assets	461,862,455	157,351,785	173,605,959	57,606,439	55,099,095	69,731,041	975,256,774
Financial liabilities							
Due to banks	47,523,006	17,370,999	-	-	-	2,714,806	67,608,811
Derivative financial liabilities	-	-	-	-	-	-	-
Securities sold under repurchase agreements	55,479,230	14,377,545	10,694	-	-	-	69,867,469
Due to other customers/deposits from customers	419,615,132	229,599,655	14,761,841	10,500,371	8,882,763	56,203,732	739,563,494
Other borrowings	5,601,711	322,650	661,989	639,217	2,044,587	-	9,270,154
Subordinated liabilities	11,670,109	-	-	9,502,140	3,677,290	-	24,849,539
Total financial liabilities	539,889,188	261,670,849	15,434,524	20,641,728	14,604,640	58,918,538	911,159,467
Interest rate sensitivity gap	(78,026,733)	(104,319,064)	158,171,435	36,964,711	40,494,455	10,812,503	64,097,307

69.3.2 (b) Exposure to interest rate risk – non-trading portfolio (rate shocks)

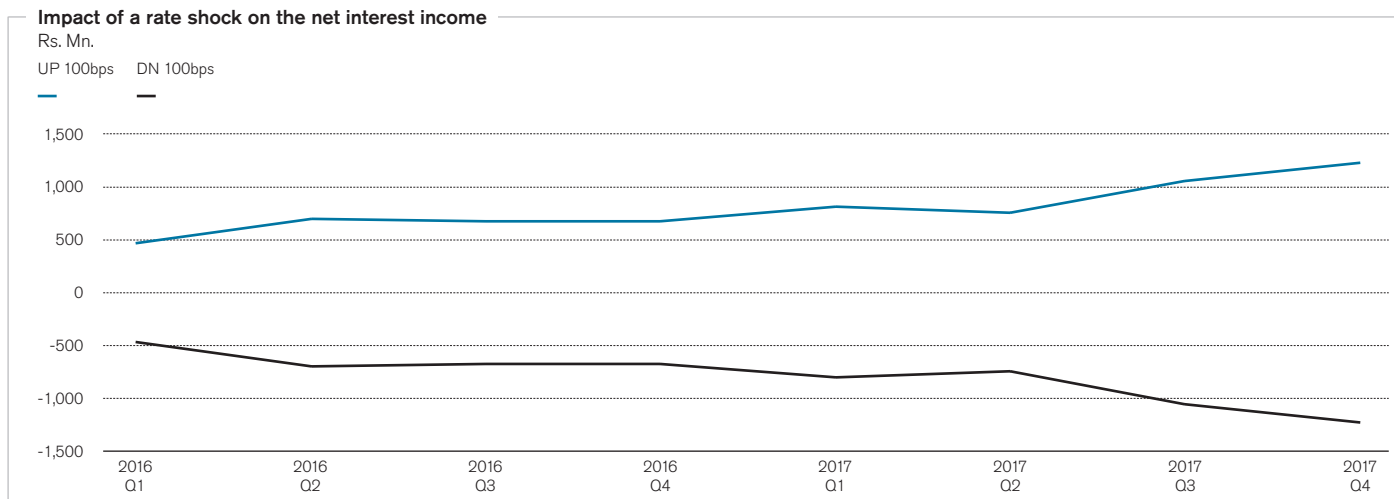
The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and financial liabilities to various interest rate scenarios.

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

Sensitivity of projected net interest income

Net interest income (NII)	2017		2016	
	Parallel increase Rs. '000	Parallel decrease Rs. '000	Parallel increase Rs. '000	Parallel decrease Rs. '000
As at December 31,	1,243,611	(1,241,623)	670,859	(668,620)
Average for the period	920,414	(918,225)	634,306	(632,375)
Maximum for the period	1,243,611	(1,241,623)	827,488	(824,962)
Minimum for the period	706,442	(704,325)	366,432	(365,569)

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



The impact of changes in interest rates on NII is measured applying interest rate shocks on static Balance Sheet. In line with the industry practices, interest rate shock of 100 bps is applied on LKR denominated assets and liabilities and 25 bps on FCN denominated assets and liabilities. The potential impact on the Bank's profitability due to changes in Rupee and Foreign currency interest rates is evaluated to ensure that the volatilities are prudently managed within the internal tolerance limits. Above graph depicts the sensitivity of NII to rate shocks during the years 2016 and 2017. Since the first quarter of 2017, the impact of rate shocks on projected NII has been gradually increasing due to the conscious decision of the Bank to focus more on short-term Fixed Income Securities (FIS) portfolio, considering the prevailed market conditions.

69.3.3 Exposure to currency risk – Non-trading portfolio

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

The table below indicates the currencies to which the Bank had significant exposures as at December 31, 2017 and 2016 and the exposure as a percentage of the total capital funds:

Foreign Exchange Position as at December 31, 2017

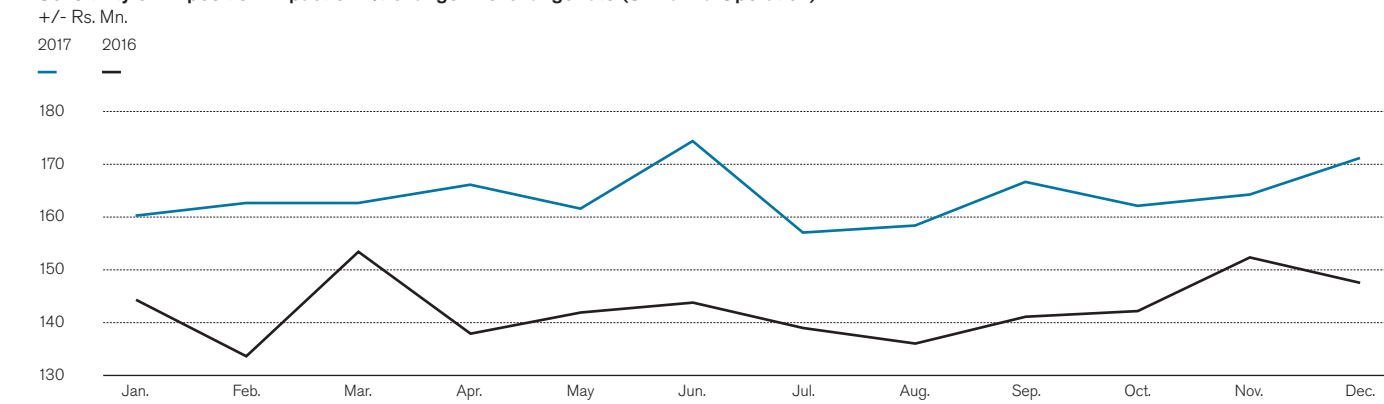
Currency	Spot			Forward			Net open position	Net position in other exchange contracts	Overall exposure in respective foreign currency	Overall exposure in Rs.
	Assets	Liabilities	Net	Assets	Liabilities	Net				
	2 '000	3 '000	4=2-3 '000	5 '000	6 '000	7=5-6 '000				
United States Dollar	22,289	22,822	(533)	5,350	389	4,961	2,734	–	7,162	1,100,083
Great Britain Pound	388	473	(85)	36	–	36	20	–	(29)	(5,991)
Euro	5,479	5,696	(217)	–	–	–	(52)	–	(269)	(49,344)
Japanese Yen	12,181	8,754	3,427	11,278	18,042	(6,764)	372	–	(2,965)	(4,039)
Indian Rupee	–	–	–	–	–	–	–	–	–	–
Australian Dollar	482	633	(151)	106	16	90	10	–	(51)	(6,106)
Canadian Dollar	65	13	52	–	–	–	(34)	–	18	2,201
Other currencies in US Dollars	705	354	351	–	170	(170)	(88)	–	93	14,285
Total exposure							USD 2,595		USD 6,843	1,051,089
Total capital funds as per the Audited Basel III computation (capital base of the Bank as at December 31, 2017)										122,415,882
Total exposure as a percentage of total capital funds (%)										0.86

Foreign exchange position as at December 31, 2016

Currency	Spot			Forward			Net open position	Net position in other exchange contracts	Overall exposure in respective foreign currency	Overall exposure in Rs.
	Assets	Liabilities	Net	Assets	Liabilities	Net				
	2 '000	3 '000	4=2-3 '000	5 '000	6 '000	7=5-6 '000				
United States Dollar	34,367	42,279	(7,912)	20,447	11,005	9,442	3,179	–	4,709	705,226
Great Britain Pound	3,524	7,832	(4,308)	5,072	807	4,265	45	–	3	467
Euro	5,216	5,384	(168)	420	300	120	66	–	17	2,703
Japanese Yen	15,549	2,271	13,278	5,847	18,937	(13,090)	(150)	–	38	49
Indian Rupee	–	–	–	–	–	–	–	–	–	–
Australian Dollar	180	71	109	–	100	(100)	(40)	–	(30)	(3,284)
Canadian Dollar	97	74	23	–	–	–	(1)	–	23	2,538
Other currencies in US Dollars	914	340	574	–	509	(509)	95	–	160	23,948
Total exposure							USD 3,367		USD 4,886	731,647
Total capital funds as per the Audited Basel III computation (capital base of the Bank as at December 31, 2016)										96,517,086
Total exposure as a percentage of total capital funds (%)										0.76

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

Sensitivity of Fx position Impact of 1% change in exchange rate (Sri Lanka Operation)



69.3.4 Exposure to equity price risk

Equity price risk arises as a result of any change in prices and volatilities of individual equities. The Bank conducts mark-to-market calculations on a daily, quarterly and on a need basis to identify the impact due to changes in equity prices.

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

The table below summarises the impact (both to the Income Statement and to the equity) due to a shock of 10% on equity prices.

	2017			2016		
	Held for trading Rs. '000	Available for sale Rs. '000	Total Rs. '000	Held for trading Rs. '000	Available for sale Rs. '000	Total Rs. '000
Market value of equity securities as at December 31,	314,745	500,278	815,023	293,809	246,548	540,357
Stress Level	Impact on P&L	Impact on OCI	Impact on equity	Impact on P&L	Impact on OCI	Impact on Equity
Shock of 10% on equity prices (upward)	31,475	50,028	81,503	29,381	24,655	54,036
Shock of 10% on equity prices (downward)	(31,475)	(50,028)	(81,503)	(29,381)	(24,655)	(54,036)

69.4 Operational risk

Operational risk arises due to inadequate or failed internal processes, people and systems or from external events. Operational risk events which include legal and regulatory implications could lead to financial and reputational losses to the Bank.

The Operational Risk Management framework of the Bank has been defined under the Board approved Operational Risk Management Policy. Operational risk is managed by establishing an appropriate internal control system that requires a mechanism for segregation of related responsibilities within the Bank, and a detailed testing and verification of the Bank's overall operational systems, and achieving a full harmony between internal and external systems and establishing a fully independent back-up facility for business continuity planning.

69.5 Capital management and Pillar III disclosures as per Basel III

Objective

The Bank is required to manage its capital taking into account the need to meet the regulatory requirements as well as the current and future business needs, stakeholder expectations and available options for raising capital.

69.5.1 Regulatory capital

Capital Adequacy Ratio (CAR) is calculated based on the CBSL Directions stemming from Basel III Accord. These guidelines require the Bank to maintain a CAR not less than 7.75% with minimum Tier 1 Capital with buffers in relation to total risk weighted assets and a minimum Total CAR of 11.75% with buffers in relation to total risk weighted assets as at December 31, 2017.

<i>As at December 31,</i>	2017	2016
	Rs. '000	Rs. '000
Common Equity Tier 1 (CET1) Capital after adjustments	94,151,253	67,284,572
Total Common Equity Tier 1 (CET1) Capital	96,696,269	69,368,825
Equity capital (stated capital)/assigned capital	37,143,541	24,977,700
Reserve fund	6,476,952	5,647,890
Published retained earnings/(accumulated retained losses)	1,798,112	1,538,142
Published Accumulated Other Comprehensive Income (OCI)	(1,522,156)	(6,705,188)
General and other disclosed reserves	52,799,820	43,910,281
Unpublished current year's profit/(losses) and gains reflected in OCI	-	-
Ordinary shares issued by consolidated banking and financial subsidiaries of the bank and held by third parties	-	-
Total adjustments to CET1 Capital	2,545,016	2,084,253
Goodwill (net)	-	-
Intangible assets (net)	776,812	640,646
Revaluation losses of property, plant and equipment	3,813	-
Significant investments in the capital of financial institutions where the bank owns more than 10 per cent of the issued ordinary share capital of the entity	1,764,391	1,443,607
Additional Tier 1 (AT1) Capital after adjustments	-	-
Total additional Tier 1 (AT1) Capital	-	-
Qualifying additional Tier 1 capital instruments	-	-
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	-	-
Total adjustments to AT1 Capital	-	-
Investment in own shares	-	-
Others (Specify)	-	-
Tier 2 Capital after adjustments	28,264,629	29,232,514
Total Tier 2 Capital	28,264,629	29,232,514
Qualifying Tier 2 capital instruments	22,799,002	24,334,875
Revaluation gains	2,024,804	2,034,231
Loan loss provisions	3,440,823	2,863,408
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
Total adjustments to Tier 2 capital	-	-
Investment in own shares	-	-
Others (Specify)	-	-
CET1 capital	94,151,253	67,284,572
Total Tier 1 capital	94,151,253	67,284,572
Total Capital	122,415,882	96,517,086

69.5.2 Capital allocation

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

69.5.3 Pillar III disclosures as per Basel III

Disclosure under these requirements mainly include the regulatory capital requirements and liquidity, risk weighted assets, discussion on adequacy to meet current and future capital requirements of banks and linkages between financial statements and regulatory exposures. It is required to disclose the templates specified by the Central Bank of Sri Lanka as per Basel III - Minimum disclosure requirements with effective from July 01, 2017.

70. Events After the Reporting Period

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

70.1 Interim dividend – 2017

The Bank declared and paid a second interim dividend of Rs. 3/- per share on February 20, 2018 to both the voting and non-voting ordinary shareholders of the Bank, for the year ended December 31, 2017.

In accordance with the Sri Lanka Accounting Standard – LKAS 10 on “Events After the Reporting Period”, this second interim dividend has not been recognised as a liability as at December 31, 2017. Under the Inland Revenue Act No. 10 of 2006, a withholding tax of 10% has been imposed on dividends paid.

70.2 Final dividend – 2017

The Board of Directors of the Bank has recommended the payment of a final dividend of Rs. 2/- per share which will be satisfied in the form of issue and allotment of new shares for both the voting and non-voting ordinary shareholders of the Bank for the year ended December 31, 2017.

This final dividend is yet to be approved at the Annual General Meeting to be held on March 28, 2018. In accordance with the Sri Lanka Accounting Standard – LKAS 10 on “Events After the Reporting Period”, this proposed final dividend has not been recognised as a liability as at December 31, 2017. Under the Inland Revenue Act No. 10 of 2006, a withholding tax of 10% has been imposed on dividends declared.

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

As required by the Section 56 of the Companies Act No. 07 of 2007, the Board of Directors of the Bank satisfied the solvency test in accordance with the Section 57, prior to recommending the final dividend. A Statement of Solvency completed and duly signed by the Directors on February 23, 2018 has been audited by Messrs KPMG.