Notes to the Financial Statements

1 Reporting Entity

DFCC Bank PLC ('Bank') is a limited liability public company incorporated and domiciled in Sri Lanka.

The Bank was incorporated in 1955 under DFCC Bank Act, No. 35 of 1955 as a limited liability public company and the ordinary shares of the Bank were listed in the Colombo Stock Exchange.

Consequent to the enactment of the DFCC Bank (Repeal and Consequential Provisions) Act, No. 39 of 2014, the DFCC Bank Act, No. 35 of 1955 was repealed and the Bank was incorporated under the Companies Act, No. 07 of 2007 as a public limited company listed in the Colombo Stock Exchange with the name 'DFCC Bank PLC' with effect from 6 January 2015.

The Registrar General of Companies on 1 October 2015 issued the Certificate of Amalgamation in terms of Section 244 (1) (a) of the Companies Act, No. 07 of 2007 that DFCC Vardhana Bank PLC (DVB) has been amalgamated with DFCC Bank PLC in accordance with the provisions of Part VIII of the Companies Act, No. 07 of 2007 with DFCC Bank PLC surviving as the amalgamated entity.

DFCC Bank PLC (DFCC) also obtained a commercial banking license from the Monetary Board of the Central Bank of Sri Lanka in terms of the Banking Act, No. 30 of 1988, as amended, and accordingly upon the amalgamation now operates as a licensed commercial bank.

The registered office of the Bank is at 73/5, Galle Road, Colombo 3.

The Bank does not have an identifiable parent of its own. The Bank is the ultimate parent of the Group company.

The Bank's Group comprises subsidiary companies viz, DFCC Consulting (Pvt) Limited, Lanka Industrial Estates Limited and Synapsys Limited.

A joint venture company, Acuity Partners (Pvt) Limited which is equally owned by the Bank and Hatton National Bank PLC.

The Bank has one associate company viz, National Asset Management Limited.

Total employee population of the Bank and the Group on 31 December 2016 was 1,642 and 1,760 respectively (31 December 2015 – 1,445 and 1,659 respectively).

A summary of principal activities of DFCC Bank PLC, its subsidiary companies, associate company and Joint Venture Company is as follows:

DFCC Bank PLC

Range of financial services such as accepting deposits, corporate credit and retail banking, personal financial services, project financing, investment banking, foreign currency operations, trade finance and dealing in Government Securities and Treasury-related products.

Subsidiaries

DFCC Consulting (Pvt) Limited

Technical, financial and other professional consultancy services in Sri Lanka and abroad.

Lanka Industrial Estates Limited

Leasing of land and buildings to industrial enterprises.

Synapsys Limited

Information technology services and information technology enabled services.

Associate

National Asset Management Limited

Fund management.

Joint Venture

Acuity Partners (Pvt) Limited

Investment banking-related financial services.

There were no significant changes in the nature of the principal activities of the Group during the financial period under review.

2 Basis of Preparation

2.1 Statement of Compliance

The consolidated financial statements of the Bank (Group) and the separate financial statements of the Bank (Bank), which comprise the statement of financial position, income statement, statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and notes thereto, have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs and LKASs) issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and in compliance with the requirements of the Companies Act, No. 07 of 2007 and the Banking Act, No. 30 of 1988 and amendments thereto.

2.2 Approval of Financial Statements by Directors

The financial statements are authorised for issue by the Board of Directors on 20 February 2017.

2.3 Consolidated and Separate Financial Statements

DFCC Bank PLC as the parent of subsidiaries under its control is required to present only the consolidated financial statements as per Sri Lanka Accounting Standard LKAS 27 – 'Separate Financial Statements'. In addition to the consolidated financial statements, separate financial statements are also presented as per the Companies Act, No. 07 of 2007 and Banking Act, No. 30 of 1988 and amendments thereto. The separate financial statements of the Bank consists of the financial performance of the amalgamated entity (DFCC Bank) for the year ended 31 December 2016. The comparative information presented in the Income Statement and Statement of Profit and Loss and other Comprehensive Income consists of the performance of the DFCC Bank PLC (prior to amalgamation) for the six months ended 30 September 2015 and performance of the amalgamated entity for the three months ended 31 December 2015.

2.4 Basis of Measurement

The consolidated and separate financial statements of the Bank have been prepared on the historical cost basis except for the following material items in the statement of financial position:

i. Assets held-for-trading are measured at fair value.
ii. Derivative assets and derivative liabilities held for risk management are measured at fair value.
iii. Financial assets available-for-sale are measured at fair value.
iv. The liability/asset for defined benefit pension obligations is recognised as the present value of the defined benefit pension obligation less the net total of the pension assets maintained in DFCC Bank Pension Fund, a Trust separate from the Bank.
v. The liability for defined benefit statutory end of service gratuity obligations is as the present value of the defined benefit gratuity obligation.

The Bank has not designated any financial instrument at fair value which is an option under LKAS 39 – 'Sri Lanka Accounting Standard – Financial Instruments: Recognition and Measurement', since it does not have any embedded derivative and the Bank considers that currently, there are no significant accounting mismatches due to recognition or measurement inconsistency between financial assets and financial liabilities.

2.5 Materiality and Aggregation

Each material class of similar items is presented separately in the financial statements. Items of a dissimilar nature or function are presented separately unless they are immaterial.

2.6 Functional and Presentation Currency

The consolidated and separate financial statements of the Bank are presented in Sri Lanka Rupees (LKR) being the, functional and presentation currency, rounded to the nearest thousand and, unless otherwise stated.

2.7 Critical Accounting Estimates and Judgments

2.7.1 General

In the preparation of separate financial statements and consolidated financial statements, the Bank makes judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Management discusses with the Board Audit Committee the development, selection and disclosure of critical accounting policies and their application, and assumptions made relating to major estimation uncertainties.

The use of available information and application of judgment are inherent in the formation of estimates; actual results in the future may differ from estimates upon which financial information is prepared.

Estimates and underlying assumptions are reviewed on an ongoing basis. Changes to estimates in a subsequent financial year, if any, are prospectively.

Management believes that Bank's critical accounting policies where judgment is necessarily applied are those which relate to impairment of loans and advances, financial leases and goodwill, the valuation of financial instruments, deferred tax assets and provisions for liabilities.

Further information about key assumptions concerning the future and other key sources of estimated uncertainty are set out in the notes to the financial statements.

2.7.2 Loan Losses

The assessment of loan loss as set out in Note 30.2 involves considerable judgment and estimation. Judgment is required firstly to determine whether there are indications that a loss may already have been incurred in individually significant loans and secondly to determine the recoverable amount.

2.7.3 Pension Liability

The estimation of this liability determined by an independent, qualified actuary, necessarily involves long-term assumptions on future changes to salaries, future income derived from pension assets, life expectancy of covered employees, etc. Key assumptions are disclosed in Note 48.1.3.8 on page 193.

The pension scheme is closed to new entrants recruited on or after 1 May 2004 and the basic pension and the survivor pension amount is frozen on the date of cessation of tenured employment. These risk mitigation strategies together with annual actuarial valuation and review of key assumptions tend to reduce the probability that the actual results will be significantly different from the estimate.

2.7.4 End of Service Gratuity Liability

The estimation of this liability, which is not externally funded, determined by an independent qualified actuary necessarily involves long-term assumptions on future changes to salaries, resignations prior to the normal retirement age and mortality of covered employees. Key assumptions are disclosed in Note 48.1.3.8 on page 193.

2.7.5 Current Tax

The estimation of current tax liability include interpretation of tax law and judgment on the allowance for losses on loans. The estimation process by the Bank includes seeking expert advice where appropriate and the payment of the current tax liability is on self-assessment basis. In the event, an additional assessment is issued, the additional income tax and deferred tax adjustment, will be in the period in which the assessment is issued, if so warranted.

2.7.6 Deferred Tax Assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available and can be utilised against such tax losses. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. Refer Note 42.2 on page 187 for details.

2.7.7 Impairment of Tangible and Intangible Assets

The assessment of impairment of tangible and intangible assets includes the estimation of the value in use of the asset computed at the present value of the best estimates of future cash flows generated by the asset adjusted for associated risks. This estimation has inherent uncertainties. Impairment losses, if any, are charged to income statement immediately.

2.8 Changes in Accounting Policies

There are no changes to the accounting policies of the Group and the Group has consistently applied the accounting policies for all periods presented in these consolidated and separate financial statements.

2.8.1 Statement of Alternative Treatment (SoAT) on Accounting for Super Gain Tax

As per the provisions of Part III of the Finance Act, No. 10 of 2016, which was certified on 30 October 2016, the Bank is liable for Super Gain Tax of LKR 777 million. According to the Act, the Super Gain Tax shall be deemed to be an expenditure in the financial statements relating to the year of assessment, which commenced on 1 April 2013.

The Act supersedes the requirements of the Sri Lanka Accounting Standards, hence the expense of Super Gain Tax is accounted in accordance with the requirements of the said Act as recommended by the Statement of Alternative Treatment (SoAT) on Accounting for Super Gain Tax, issued by The Institute of Chartered Accountants of Sri Lanka, dated 24 November 2016.

This SoAT supersedes paragraph 46 of LKAS 12 – 'Income Taxes'. Further, this SoAT must be applied by all companies who are liable to pay Super Gain Tax as required under Part III of the Finance Act, No. 10 of 2016 without any option.

3 Basis of Consolidation

3.1 General

The consolidated financial statements are the financial statements of the Group, prepared by consistent application of consolidation procedures, which include amalgamation of the financial statements of the parent and subsidiaries and accounting for the investments in associate company and joint venture company on the basis of reported results and net assets of the investee instead of the direct equity interest.

Thus, the consolidated financial statements present financial information about the Group as a single economic entity, distinguishing the equity attributable to the parent (controlling interest) and attributable to minority shareholders with non-controlling interest.

3.2 Transactions Eliminated on Consolidation

Intra-group balances and transactions, including income, expenses and dividend are eliminated in full.

3.3 Financial Statements of Subsidiaries, Associate Company and Joint Venture Company included in the Consolidated Financial Statements

Audited financial statements are used for consolidation of companies which has a similar financial year end, as the Bank and for other a special review is performed.

Financial statements of Lanka Industrial Estates Limited included in the consolidation have financial years ending 31 March.

The financial statements of DFCC Consulting (Pvt) Limited, Acuity Partners (Pvt) Limited, Synapsys Limited and National Asset Management Limited included in the consolidation have financial years ending on 31 December.

3.4 *Significant Events and Transactions during the period between Date of Financial Statements of the Subsidiaries, Associate Company and Joint Venture Company and the Date of Financial Statements of the Bank*

No adjustments to the results of subsidiaries, associate company and Joint Venture Company have been made as there were no significant events or transactions.

3.5 *Financial Statements used for Computation of Goodwill or Negative Goodwill on Date of Acquisition*

This is based on unaudited financial statements proximate to the date of acquisition.

3.6 *Taxes on the Undistributed Earnings of Subsidiaries, Associate Company and Joint Venture Company*

The distribution of the undistributed earnings of the subsidiaries, associate company and Joint Venture Company is remote in the foreseeable future. As such, 10% withholding tax applicable on the distribution has not been as a tax expense in the financial statements of the Group.

4 *Scope of Consolidation*

All subsidiaries have been consolidated.

4.1 *Subsidiary Companies*

'Subsidiaries' are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

Acquisition method of accounting is used when subsidiaries are acquired by the Bank. Cost of acquisition is measured at the fair value of the consideration, including contingent consideration, given at the date of exchange. Acquisition-related costs are recognised as an amount of the expense in the profit or loss in the period of which they are incurred. The acquiree's identifiable assets, liabilities and contingent liabilities are generally measured at their fair value at the date of acquisition.

Goodwill is measured as the excess of the aggregate consideration transferred, the amount of non-controlling interest and the fair value of banks previously held equity interest if any, over the net of the amount of the identifiable assets acquired and the liabilities assumed.

The amount of non-controlling interest is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

In a business combination achieved in stages, the previously held equity interest is remeasured at the acquisition date fair value with a resulting gain or loss in the income statement.

Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are treated as transactions between equity holders and are reported in equity.

Note 33 on page 177 contains the financial information relating to subsidiaries.

4.2 *Associate Company*

Associate company is the enterprise over which the Bank has significant influence that is neither a subsidiary nor an interest in a joint venture. The Bank has only one associate company, National Asset Management Limited. The consolidated financial statements include the Bank's share of the total comprehensive income of the associate company, on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases.

Note 34 on page 178 contain financial information relating to associate company.

4.3 *Joint Venture Company*

Joint venture company is an incorporated enterprise in which the Bank owns 50% of the voting shares with a contractual arrangement with the other company, who owns the balance 50% of the voting shares, in terms of which both parties have joint control over that enterprise. The results of the joint venture company are consolidated using equity method.

Note 35 on page 179 contains the financial information relating to joint venture company.

5 *Principal Accounting Policies*

Accounting policies are the specific principles, bases, conventions, rules and practices applied consistently by the Bank in presenting and preparing the financial statements. Changes in accounting policies are made, only if the Sri Lanka Accounting Standards require such changes or when a change results in providing more relevant information. New policies are formulated as appropriate to new products and services provided by the Bank or new obligations incurred by the Bank.

5.1 Revenue and Expense Recognition

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

5.1.1 Interest Income and Expense

Details of interest income and expenses are given on Note 11 on pages 153 to 154.

5.1.2 Net Fees and Commission

Details of commission income and expenses are given on Note 12 on pages 154 to 155.

5.1.3 Net Gain from Trading

Details of net gain/loss from trading are given on Note 13 on page 155.

5.1.4 Net Gain/(Loss) from Financial Instruments at Fair Value Through Profit or Loss

Details of Net Gain/(Loss) from Financial Instruments at Fair Value Through Profit or Loss are given on Note 14 on page 155.

5.1.5 Net Gain/(Loss) from Financial Investments

Details of net gain/(Loss) from financial instruments are given on Note 15 on page 156.

5.1.6 Foreign Exchange Gain/(Loss)

Items included in the financial statements of the Bank are measured in Sri Lankan Rupees denoted as LKR which is the currency of the primary economic environment in which the Bank operates ('the functional currency') as well as the presentation currency.

Transactions in foreign currencies are recorded in the functional currency at the average exchange rate on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the average exchange rate ruling at the reporting date (viz. date of the statement of financial position) and consequently recognised in the 'other operating (loss)/income' in the income statement of the Bank. The average exchange rate used is the middle rates quoted by commercial banks for purchase or sale of the relevant foreign currency.

The Bank does not have any non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency.

Foreign exchange income recognised in the income statement is presented as follows, based on the underlying classification:

i. Foreign exchange gain/(loss) which is part of a trading activity comprising profit or loss from the sale and purchase of foreign currencies for spot exchange is included as net gain/(loss) from trading (Note 14).

ii. Foreign exchange income or loss on derivatives held-for-risk management purposes and mandatorily measured at fair value through profit or loss is recognised as net gain/(loss) from financial instruments at fair value through profit or loss (Note 14).

The Bank does not have any foreign operation that is a subsidiary, associate, joint venture or a branch and therefore, there is no exchange differences recognised in other comprehensive income.

5.1.7 Other Expenses

All other expenses are recognised on an accrual basis.

5.2 Financial Assets

5.2.1 Recognition and Measurement

The financial asset is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction cost that are directly attributable to its acquisition.

Loans and advances are initially recognised on the date at which they are originated at fair value which is usually the loan amount granted and subsequent measurement is at amortised cost.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

All other financial assets are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

5.2.2 Classification

At the inception, a financial asset is classified and measured at fair value and classified as follows:

- **Loans and receivables** – at amortised cost.
- **Held-to-maturity** – non-derivative financial assets with fixed or determinable payments and fixed maturity (for example, bonds, debentures and debt instruments listed in the Colombo Stock Exchange) that the Bank has the positive intent and ability to hold to maturity are measured at amortised cost.

- **Fair value through profit or loss** – financial assets held-for-trade measured at fair value with changes in fair value recognised in the income statement.
  - **Designated at fair value** – this is an option to deal with accounting mismatches and currently the Bank has not exercised this option.
  - **Derivative assets** – are mandatorily measured at fair value with fair value changes recognised in the income statement.
- **Available-for-sale** – this is measured at fair value and is the residual classification with fair value changes recognised in other comprehensive income.

5.2.3 Reclassification

- Non-derivative financial assets (other than those designated at fair value through profit or loss upon initial recognition) may be reclassified out of the fair value through profit or loss category, in the following circumstances:
- Financial assets that would have met the definition of loans and receivables at initial recognition (if the financial asset had not been required to be classified as held-for-trading) may be reclassified out of the fair value through profit or loss category if there is the intention and ability to hold the financial asset for the foreseeable future or until maturity;
  and
- Financial assets except financial assets that would have met the definition of loans and receivables at initial recognition may be reclassified out of the fair value through profit or loss category and into another category in rare circumstances.

5.2.4 Derecognition of Financial Assets

Financial assets are derecognised when the contractual right to receive cash flows from the asset has expired; or when Bank has transferred its contractual right to receive the cash flows of the financial assets, and either –

- Substantially all the risks and rewards of ownership have been transferred;
  or
- Bank has neither retained nor transferred substantially all the risks and rewards, but has not retained control of the financial asset.

5.2.5 Fair Value Measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

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

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e., the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price.

Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

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

5.2.6 Identification and Measurement of Impairment

At each reporting date, the Bank assesses whether there is an objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) that can be estimated reliably.

5.2.6.1 Loans and Advances and Held-to-Maturity Investment Securities

Objective evidence that loans and advances and held-to-maturity investment securities (e.g., debt instruments quoted in the Colombo Stock Exchange, Treasury Bills and Bonds) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Group or economic conditions that correlate with defaults in the Group.

The Bank considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific and collective level. Details of the individual and collective assessment of impairments are given in Note 17 on pages 157 and 158.

5.2.6.2 Available-for-Sale Financial Assets

At each date of statement of financial position an assessment is made of whether there is any objective evidence of impairment in the value of a financial asset. Impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a 'loss event') and that loss event (or events) have an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

If the available-for-sale financial asset is impaired, the difference between the financial asset's acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any previous impairment loss recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

5.2.6.3 Available-for-Sale Debt Securities

When assessing available-for-sale debt securities for objective evidence of impairment at the reporting date. Bank considers all available evidence, including observable data or information about events specifically relating to the securities which may result in a shortfall in recovery of future cash flows. These events may include a significant financial difficulty of the issuer, a breach of contract such as a default, bankruptcy or other financial recognition, or the disappearance of an active market for the debt security.

These types of specific events and other factors such as information about the issuers' liquidity, business and financial risk exposures, levels of and trends in default for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees may be considered individually, or in combination, to determine if there is objective evidence of impairment of a debt security.

5.2.6.4 Available-for-Sale Equity Securities

Objective evidence of impairment for available-for-sale equity securities may include specific information about the issuer and information about significant changes in technology, markets, economics or the law that provide evidence that the cost of the equity securities may not be recovered.

A significant or prolonged decline in the fair value of the asset below its cost is also objective evidence of impairment. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the asset has been below its original cost at initial recognition.

Once an impairment loss has been recognised on an available-for-sale financial asset, the subsequent accounting treatment for changes in the fair value of that asset differs depending on the nature of the available-for-sale financial asset concerned:

- For an available-for-sale debt security, a subsequent decline in the fair value of the instrument is recognised in the income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, a decline in the fair value of the financial asset is recognised in other comprehensive income. If the fair value of a debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement. If there is no longer objective evidence that the debt security is impaired, the impairment loss is also reversed through the income statement.
- For an available-for-sale equity security, all subsequent increases in the fair value of the instrument are treated as a revaluation and are recognised in other comprehensive income. Impairment losses on the equity security are not reversed through the income statement.

Subsequent decreases in the fair value of the available-for-sale equity security are in the income statement, to the extent that further cumulative impairment losses have been incurred in relation to the acquisition cost of the equity security.

5.2.6.5 Impairment of Intangible Assets – Computer Application Software and Goodwill on Consolidation

The Bank reviews on the date of the statement of financial position, whether the carrying amount is lower than the recoverable amount.

In such event, the carrying amount is reduced to the recoverable amount and the reduction being an impairment loss is immediately recognised in the income statement. The recoverable amount is the value in use.

5.2.7 Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under SLAS or for gains and losses arising from a group of similar transactions.

5.2.8 Fiduciary Assets

Assets held in a fiduciary capacity are not reported in these financial statements as they do not belong to the Bank.

5.3 Financial Liabilities

5.3.1 Recognition and Initial Measurement

Deposits, borrowing from foreign multilateral, bilateral sources and domestic sources, debt securities issued and subordinated liabilities are initially recognised on the date at which they are originated. A financial liability is measured initially at fair value plus, transaction costs that are directly attributable to its acquisition or issue.

Subsequent measurement of financial liability is at fair value or amortised cost. The amortised cost of a financial liability is the amount at which the financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount.

5.3.2 Derecognition of Financial Liabilities

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

5.3.3 Due to Banks, Customers, Debt Securities Issued and Other Borrowing

Financial liabilities are recognised when Group enters into the contractual provisions of the arrangements with counterparties, which is generally on trade date, and initially measured at fair value, which is normally the consideration received, net of directly attributable transaction costs incurred. Subsequent measurement of financial liabilities is at amortised cost, using the effective interest method to amortise the difference between proceeds received, net of directly attributable transaction costs incurred, and the redemption amount over the expected life of the instrument.

5.3.4 Provisions

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a current legal or constructive obligation, which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation.

5.3.5 Sale and Repurchase Agreements

When securities are sold subject to a commitment to repurchase them at a predetermined price ('repos'), they remain on the statement of financial position and a liability is recorded in respect of the consideration received.

Securities purchased under commitments to sell ('reverse repos') are not recognised on the statement of financial position and the consideration paid is recorded in 'loans and advances to banks', 'loans and advances to customers' as appropriate. The difference between the sale and repurchase price is treated as interest and recognised over the life of the agreement for loans and advances to banks and customers.

5.4 Stated Capital

Share are classified as equity when there is no contractual obligation to transfer cash or other financial assets.

6 *Cash Flow*

The cash flow has been prepared by using the 'Direct Method'. Cash and cash equivalents include cash balances, time deposits and Treasury Bills of three months' maturity at the time of issue. For the purpose of cash flow statement, cash and cash equivalents are presented net of bank overdrafts.

7 *Directors' Responsibility*

The Directors acknowledge the responsibility for true and fair presentation of the financial statements in accordance with Sri Lanka Accounting Standards.

8 New SLFRS Issued and Not Yet Effective

8.1 SLFRS Applicable for Financial Periods beginning on or after 1 January 2018

8.1.1 SLFRS 9 – 'Financial Instruments'

SLFRS 9, issued in 2014, replaces the existing guidance in LKAS 39 – Financial Instruments: Recognition and Measurement. SLFRS 9 contains three principal classification categories for financial assets – i.e. measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The existing LKAS 39 categories of fair value through profit or loss, held-to-maturity, loans and receivables and available-for-sale are removed.

SLFRS 9 replaces the 'incurred loss' model in LKAS 39 with an 'expected credit loss' model. The new model applies to financial assets that are not measured at FVTPL.

The model uses a dual measurement approach, under which the loss allowance is measured as either:

- 12 months expected credit loss; or
- Lifetime expected credit losses.

The measurement basis will generally depend on whether there has been a significant increase in credit risk since initial recognition.

A simplified approach is available for trade receivables, contract assets and lease receivables, allowing or requiring the recognition of lifetime expected credit losses at all times. Special rules apply to assets that are credit impaired at initial recognition. The new standard carried guidance on new general hedge accounting requirements.

SLFRS 9 introduces new presentation requirements and extensive new disclosure requirements.

Effective date of SLFRS 9 has been deferred till 01 January 2018.

The Group/Bank, has completed the initial high level assessment of the potential impact on its Consolidated Financial Statements resulting from the application of SLFRS 9 with the assistance of an external consultant.

The next phase being the implementation phase, will commence from end February 2017. During this Phase the Group will –

- Implement a business model approach and solely payment of principal and interest criteria to ensure that financial assets are classified into the appropriate categories
- Build a model with appropriate methodologies and controls to ensure that judgment exercised to assess recoverability of loans and make robust estimates of expected credit losses and point at which there is significant increase in credit risk.

Judgment will need to be applied to ensure that the measurement of expected credit losses reflects reasonable and supportable information.

Given the nature of the Group/Bank's operations, this standard is expected to have a pervasive impact on the Bank/Group's financial statements. In particular, calculation of impairment of financial instruments on an expected credit loss model is expected to result in an increase in the overall level of impairment allowances

8.1.2 SLFRS 15 – 'Revenue from Contracts with Customers'

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. New qualitative and quantitative disclosure requirements aim to enable financial statements users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Entities will apply five step model to determine when to recognise revenue and at what amount. The model specified that revenue is recognised when or as an entity transfers control of goods and services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recignised.

It replaces existing revenue recognition guidance, including LKAS 18 on 'Revenue' and LKAS 11 on 'Construction Contracts' and IFRIC 13 on 'Customer Loyalty Programmes'.

SLFRS 15 is effective for annual reporting periods beginning on or after 01 January 2018, with early adoption permitted.

The Group/Bank does not expect significant impact on its financial statements resulting from the application of SLFRS 15.

8.1.2 SLFRS 16 – 'Leases'

SLFRS 16 eliminates the current dual accounting model for lessees which distinguishes between On-Balance Sheet finance leases and Off-Balance Sheet operating leases. Instead, there will be a single On-Balance Sheet accounting model that is similar to current finance lease accounting.

SLFRS 16 is effective for annual reporting periods beginning on or after 01 January 2019.

The Group/Bank is assessing the potential impact on its financial statements resulting from the application of SLFRS 16.

9 The Effect to the Results of the Group Due to Change in Financial Year End

Current year results of the Bank and Group include the results for the year ended 31 December 2016. DFCC Bank PLC changed its financial year end to 31 December during last financial year. Accordingly the comparative Bank and the consolidated financial statements for the period ended 31 December 2015 include the results of the DFCC Bank PLC and subsidiaries with year ending 31 March for the nine months to 31 December 2015 and results of 31 December financial year ending subsidiaries, associate and joint venture company for 12 months to 31 December 2015.

10 Income

Accounting Policy →

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

	BANK		GROUP	
	Year ended 31 December 2016 LKR 000	9 months ended 31 December 2015 LKR 000	**Year ended 31 December 2016 LKR 000**	9 months ended 31 December 2015 LKR 000
Interest income	**24,194,158**	8,918,343	**24,206,112**	15,308,568
Fee and commission income	**1,309,049**	400,066	**1,309,049**	1,179,505
Net gain from trading	**340,456**	87,062	**340,456**	215,575
Net (loss)/gain from financial instruments at fair value through profit or loss	**(179,727)**	(330)	**(179,727)**	74,583
Net gain from financial investments	**1,165,389**	640,637	**1,081,129**	507,528
Other operating (loss)/income – net	**(75,430)**	(9,498)	**223,064**	217,109
	26,753,895	10,036,280	**26,980,083**	17,502,868

11 Net Interest Income

Accounting Policy →

Interest income and expense for all interest-bearing financial instruments are recognised in 'Interest Income' and 'Interest Expense' in the income statement, using the effective interest rate of the financial assets or financial liabilities to which they relate.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments earned or paid on a financial asset or financial liability through its expected life (or, where appropriate, a shorter period) to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates future cash flows, considering all contractual terms of the financial instruments but not future credit losses.

The calculation of the effective interest includes all transaction cost, premiums or discounts and fees paid or received by the Bank, that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income includes income from finance leases, dividend from preference shares and notional tax credit on interest income from Treasury Bills and Bonds.

Finance lease income is recognised on a pattern reflecting a constant periodic rate of return on the Bank's net investment in the finance lease.

	BANK		GROUP	
	Year ended 31 December 2016 LKR 000	9 months ended 31 December 2015 LKR 000	**Year ended 31 December 2016 LKR 000**	9 months ended 31 December 2015 LKR 000
Interest income				
Placements with banks	**203,105**	37,700	**215,059**	42,536
Loans to and receivables from banks	**531,828**	79,630	**531,828**	190,431
Loans to and receivables from other customers	**20,559,370**	7,843,674	**20,559,370**	13,498,498
Other financial assets held-for-trading	**154,544**	101,665	**154,544**	211,877
Financial investments - Available-for-sale	**1,587,178**	466,404	**1,587,178**	748,920
Financial investments - Held-to-maturity	**1,158,133**	388,080	**1,158,133**	615,116
Others	**–**	1,190	**–**	1,190
	24,194,158	8,918,343	**24,206,112**	15,308,568
Interest expenses				
Due to banks	**1,293,423**	404,237	**1,293,423**	628,280
Due to other customers	**9,552,556**	2,665,807	**9,522,440**	5,584,815
Other borrowing	**1,366,328**	879,155	**1,366,328**	879,155
Debt securities issued	**3,080,715**	1,611,155	**3,080,715**	1,830,993
	15,293,022	5,560,354	**15,262,906**	8,923,243
Net interest income	**8,901,136**	3,357,989	**8,943,206**	6,385,325
Interest income on Sri Lanka Government Securities	**2,462,600**	733,936	**2,462,600**	1,487,117

This income includes notional tax credit of 10% imputed for the withholding tax deducted/paid at source.

12 *Net Fee and Commission Income*

Accounting Policy →

Fee & commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognised on a straight-line basis over the commitment period.

Fees for guarantees and trade related commissions are recognised on a straight-line basis over the period of the contract. Other fees and commission expense relate mainly to transaction and service fees, which are expensed, as the services are received.

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognised on a straight-line basis over the commitment period.

Fees for guarantees and trade related commissions are recognised on a straight-line basis over the period of the contract. Other fees and commission expense relate mainly to transaction and service fees, which are expensed, as the services are received.

	BANK		GROUP	
	Year ended 31 December 2016 LKR 000	9 months ended 31 December 2015 LKR 000	**Year ended 31 December 2016 LKR 000**	9 months ended 31 December 2015 LKR 000
Fee and commission income	**1,309,049**	400,066	**1,309,049**	1,179,505
Fee and commission expenses	**–**	1,208	**–**	9,914
Net fee and commission income	**1,309,049**	398,858	**1,309,049**	1,169,591
Comprising:				
Loans and advances	**403,589**	135,388	**403,589**	379,921
Credit cards	**4,820**	958	**4,820**	22,634
Trade and remittances	**390,020**	80,707	**390,020**	349,021
Customer accounts	**281,056**	65,244	**281,056**	22,628
Guarantees	**161,805**	66,992	**161,805**	139,268
Management and consulting fees	**67,759**	49,569	**67,759**	256,119
Net fee and commission income	**1,309,049**	398,858	**1,309,049**	1,169,591

13 *Net Gain from Trading*

This comprises all gains less losses from changes in fair value of financial assets held-for-trading (both realised and unrealised) together with foreign exchange differences.

	BANK		GROUP	
	Year ended 31 December 2016 LKR 000	9 months ended 31 December 2015 LKR 000	**Year ended 31 December 2016 LKR 000**	9 months ended 31 December 2015 LKR 000
Foreign exchange from banks	**176,346**	(8,496)	**176,346**	118,916
Fixed income	**164,110**	95,558	**164,110**	96,659
	340,456	87,062	**340,456**	215,575

14 *Net (Loss)/Gain from Financial Instruments at Fair Value through Profit or Loss*

Accounting Policy →

Bank has not chosen the option to designate financial instruments at fair value through profit or loss as a compensatory mechanism for accounting mismatches that would otherwise arise from measuring assets or liabilities or recognising gains or losses on them on different bases.

The Bank has non-trading derivatives held for risk management purposes (e.g., forward foreign exchange purchase or sale contracts) that do not form part of qualifying hedge relationship, that are mandatorily fair valued through profit or loss. In respect of such financial instruments, all realised and unrealised fair value changes and foreign exchange differences are included.

	BANK		GROUP	
	Year ended 31 December 2016 LKR 000	9 months ended 31 December 2015 LKR 000	**Year ended 31 December 2016 LKR 000**	9 months ended 31 December 2015 LKR 000
Forward exchange fair value changes				
Contracts with commercial banks	**(93,944)**	(14,368)	**(93,944)**	60,545
Contract with CBSL (Note 41.1)	**(83,606)**	14,038	**(83,606)**	14,038
Interest rate swap fair value changes	**(2,177)**	–	**(2,177)**	–
	(179,727)	(330)	**(179,727)**	74,583

15 Net Gain from Financial Investments

Accounting Policy →

Dividend income is recognised when the right to receive payment is established. Dividend income are presented in net gains/(loss) from trading and net gains/(loss) from financial investment, based on underlying classification of the equity investment.

Net Gain/loss from Financial Investments includes realised gain or loss on sale of available-for-sale securities (e.g., Treasury Bills and Bonds, ordinary shares-both listed in the Colombo Stock Exchange and unlisted) and dividend income from ordinary shares classified as available-for-sale. Where the dividend clearly represents a recovery of part of the cost of the investment, it is presented in other comprehensive income.

	BANK		GROUP	
	Year ended 31 December 2016 LKR 000	9 months ended 31 December 2015 LKR 000	**Year ended 31 December 2016 LKR 000**	9 months ended 31 December 2015 LKR 000
Assets available-for-sale				
Gain on sale of equity securities	**152,186**	37,018	**152,186**	37,018
Gain on sale of Government Securities	**4,202**	424	**4,202**	774
Dividend income	**772,046**	218,249	**772,046**	218,569
Dividend income from subsidiaries, joint venture and associate	**84,260**	318,027	**–**	–
Net gain from repurchase transactions	**152,695**	66,919	**152,695**	251,167
	1,165,389	640,637	**1,081,129**	507,528

16 Other Operating (Loss)/Income – Net

Accounting Policy →

Rental income and expenses are accounted on a straight-line basis over the entire period of the tenancy incorporating predetermined rent escalation during the period of the tenancy.

	BANK		GROUP	
	Year ended 31 December 2016 LKR 000	9 months ended 31 December 2015 LKR 000	**Year ended 31 December 2016 LKR 000**	9 months ended 31 December 2015 LKR 000
Premises rental income	**37,815**	41,577	**228,951**	162,661
Gain on sale of property, plant and equipment	**7,694**	2,654	**13,631**	3,050
Foreign exchange (loss)/gain	**(330,157)**	17,139	**(330,154)**	77,984
Recovery of loans written off	**24,499**	23,267	**24,499**	31,463
Amortisation of deferred income on Government grant – CBSL Swap (Note 41.2)	**180,106**	(130,288)	**180,106**	(130,288)
Others	**4,613**	36,153	**106,031**	72,239
	(75,430)	(9,498)	**223,064**	217,109

17 Impairment for Loans and Other Losses

Accounting Policy →

Individually Assessed Loans and Advances and Held-to-Maturity Debt Instruments

These are exposures, where evidence of impairment exists and those that are individually significant meriting individual assessment for objective evidence of impairment and computation of impairment allowance. The factors considered in determining that the exposures are individually significant include

- *the size of the loan; and*
- *the number of loans in the portfolio.*

For all loans and held-to-maturity debt instruments that are considered individually significant, Bank assesses on a case by case basis, whether there is any objective evidence of impairment. The criteria used by the Bank to determine that there is such objective evident include

- *contractual payments for either principal or interest being past due for a prolonged period;*
- *the probability that the borrower will enter bankruptcy or other financial realisation;*
- *a concession granted to the borrower for economic or legal reasons relating to the borrower's financial difficulty that results in forgiveness or postponement of principal, interest or fees, where the concession is not insignificant; and*
- *there has been deterioration in the financial condition or outlook of the borrower such that its ability to repay is considered doubtful.*

For those loans and held-to-maturity investment securities where objective evidence of impairment exists, impairment losses are determined considering the following factors:

- *Bank's aggregate exposure to the customer;*
- *Thee viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations;*
- *the amount and timing of expected receipts and recoveries;*
- *the likely dividend available on liquidation or bankruptcy;*
- *the extent of other creditors' commitments ranking ahead of or pari passu with, the Bank and*
- *the likelihood of other creditors continuity to support the Company;*
- *the realisable value of security (or other credit mitigants) and likelihood of successful repossession or enforcement of security;*
- *the likely deduction of any costs involved in recovery of amounts outstanding.*

Impairment allowance on loans and advances and held-to-maturity investment securities measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Collective Assessment, this includes:

All loans and advances of smaller value where there is no evidence of impairment and those individually assessed for which no evidence of impairment has been specifically identified on an individual basis.

- *Import loans*
- *Export loans*
- *Corporate term loans*
- *Overdraft*
- *Personal loans*
- *Finance leases*
- *Project Loans*
- *Credit Cards*

These loans and advances are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective impairment.

In assessing collective impairment, the Bank uses statistical modelling of historical trends of the default rates, the timing of recoveries and the amount of loss incurred, adjusted for experience adjustment by the management, where current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

Default rates, loss rates and the expected timing of future recoveries will be regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Individually assessed loans for which, no evidence of impairment has been specifically identified on an individual basis are grouped together, according to their credit risk characteristics for the purpose of calculating an estimated collective impairment. This reflects impairment losses that the Bank has incurred as a result of events occurring before the reporting date, which the Bank is not able to identify on an individual basis and that can be reliably estimated. These losses will only be individually identified in the future. As soon as information becomes available, which identifies losses on individual loans and held-to-maturity investment securities within the Group, these are removed from the Group and assessed on an individual basis for impairment. The collective impairment allowance is based on historical loss experience adjusted by management's experienced judgment.

Impairment allowance on loans and advances and held-to-maturity investment securities measured at a mortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Reversals of Impairment

If the amount of an impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance accordingly. The write-back is recognised in the income statement.

Renegotiated Loans

Loans subject to collective impairment assessment, whose terms have been renegotiated are no longer considered past due, but are treated as up-to-date loans for measurement purposes once a minimum number of payments required have been received.

Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired. The carrying amounts of loans that have been classified as renegotiated retain this classification until maturity or derecognition.

Write-off of Loans and Advances

Loans (and the related impairment allowance) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

Asset-Backed Securities

These are included in loans and advances. When assessing for objective evidence of impairment, the Bank considers the performance of underlying collateral.

	BANK		GROUP	
	Year ended 31 December 2016 LKR 000	9 months ended 31 December 2015 LKR 000	**Year ended 31 December 2016 LKR 000**	9 months ended 31 December 2015 LKR 000
Loans to and receivables from other customers				
Specific allowance for impairment (Note 30.2.1)	**792,389**	325,635	**792,389**	757,051
Collective allowance for impairment (Note 30.2.2)	**81,772**	(104,907)	**81,772**	23,483
Impairment charge/(recoveries) – other debts	**5,371**	(3,034)	**5,371**	918
Impairment charge – Investment in other equity securities	**33,929**	–	**33,929**	–
Impairment charge – Investment in subsidiaries (Note 33.1)	**20,923**	1,681	**–**	–
Write-offs – Loans to and receivables from other customers	**2,883**	5,564	**2,883**	13,875
	937,267	224,939	**916,344**	795,327

18 Personnel Expenses

Accounting Policy →

Employee Benefits

Defined Benefit Plans (DBPs)

A Defined Benefit Plan is a post-employment benefit plan other than a Defined Contribution Plan as defined in the Sri Lanka Accounting Standard – LKAS 19 on 'Employee Benefits'.

Pension Liability Arising from Defined Benefit Obligations

Description of the Plan and Employee Groups Covered

The Bank established a trust fund in May 1989, for payment of pension which operates the pension scheme approved by the Commissioner General of Inland Revenue. The fund of the scheme is managed by trustees appointed by the Bank and is separate from the Bank. The scheme provides for payment of pension to retirees, spouse and minor children of deceased retirees based on pre-retirement salary. All members of the permanent staff who joined prior to 1 May 2004, are covered by this funded pension scheme subject to fulfilment of eligibility conditions prescribed by the Bank.

The scheme was amended on 31 August 1998 and the amended plan will apply to all members of permanent staff who joined the Bank on or after this date and prior to 1 May 2004. The amendment reduced the scope of the benefit in the interest of long-term sustainability of the pension plan as advised by the independent actuary.

The defined benefit pension plan does not permit any post-retirement increases in pension nor any other benefit (e.g. medical expenses reimbursement).

Funding Arrangement

The Bank's contributions to the trust fund are made annually based on the recommendation of an independent actuary. The employees make no contributions to qualify for the basic pension, which is therefore a non-contributory benefit to the employees.

Eligible employees who desire to provide for the payment of pension to spouse and minor children, who survive them are however, required to contribute monthly, an amount based on a percentage of gross emoluments, excluding bonus, if they joined the Bank on or after 31 August 1998 and prior to 1 May 2004.

Recognition of Actuarial Gains and Losses

The net actuarial gains or losses arising in a financial year is due to increases or decreases in either the present value of the promised pension benefit obligation or the fair value of pension assets.

The causes for such gains or losses include, changes in the discount rate, differences between the actual return and the expected return on pension assets and changes in the estimates of actual employee turnover, mortality rates and increases in salary.

The Bank recognises the total actuarial gains and losses that arise in calculating the Bank's obligation in respect of the plan in other comprehensive income and the expense under personnel expenses in the income statement during the period in which it occurs.

Recognition of Past Service Cost

Past service cost arises when a defined benefit plan is introduced for the first time or subsequent changes are made to the benefits payable under an existing defined benefit plan. Bank will recognise past service cost as an expense on a straight-line basis over the average period until the benefits become vested. To the extent the benefits are already vested, following the introduction of or changes to a defined benefit plan, the Bank will recognise past service cost immediately.

Provision for End of Service Gratuity Liability under a Defined Benefit Plan

Description of the Plan and Employee Groups Covered

The Bank provides for the gratuity payable under the Payment of Gratuity Act, No. 12 of 1983, as amended for all employees who do not qualify under the pension scheme. Therefore, this applies to employees recruited to the permanent cadre on or after 1 May 2004, on tenured or fixed term contract employment in the Bank. The subsidiary companies, which do not have a non-contributory pension scheme, provide for the gratuity payable under the Payment of Gratuity Act, No. 12 of 1983 for all employees. The promised benefit is half a month pre-termination salary for each completed year of service, provided a minimum qualifying period of 5 years is served, prior to termination of employment.

The Bank however, recognises the liability by way of a provision for all employees in tenured employment from the date they joined the permanent cadre, while fixed term employees liability is recognised only if the fixed term contract of service provides for unbroken service of 5 years or more either singly or together with consecutive contracts.

Funding Arrangement

The Bank and the subsidiaries adopt a pay as you go method, whereby the employer makes a lump sum payment only on termination of employment by resignation, retirement at the age of 55 years or death while in service.

Recognition of Actuarial Gains and Losses

The Bank recognises the total actuarial gains and losses in the other comprehensive income during the period in which it occurs.

Recognition of Past Service Cost

Since end of service gratuity defined benefit is a statutory benefit, the recognition of past service cost will arise only if the Payment of Gratuity Act, No. 12 of 1983, is amended in future to increase the promised benefit on termination of employment. In such an event, the Bank will adopt the accounting policy currently used for the defined benefit pension plan.

Defined Contribution Plans

This provides for a lump-sum payment on termination of employment by resignation, retirement at the age of 55 years or death while in service.

Lump sum payment is by an outside agency to which contributions are made.

All employees of the Bank are members of the Mercantile Service Provident Society and the Employees' Trust Fund to which the Bank contributes 15% and 3% respectively of such employee's consolidated salary.

Contributions to defined contribution plans are recognised as an expense in the income statement as incurred.

	BANK		GROUP	
	Year ended 31 December 2016 LKR 000	9 months ended 31 December 2015 LKR 000	**Year ended 31 December 2016 LKR 000**	9 months ended 31 December 2015 LKR 000
Salaries and other benefits	**2,429,063**	1,044,277	**2,574,073**	2,303,921
Provision for staff retirement benefits (Note 18.1)	**380,679**	203,984	**405,996**	325,818
	2,809,742	1,248,261	**2,980,069**	2,629,739

18.1 Provision for Staff Retirement Benefits

18.1.1 Amount Recognised as Expense

18.1.1.1 Funded Pension Liability

	BANK 2016	BANK 2015	GROUP 2016	GROUP 2015
Current service cost	**71,746**	58,048	**71,746**	58,048
Interest on obligation	**206,681**	144,561	**206,681**	144,561
Expected return on pension assets	**(193,785)**	(139,779)	**(193,785)**	(139,779)
	84,642	62,830	**84,642**	62,830

18.1.1.2 Unfunded Pension Liability

	BANK 2016	BANK 2015	GROUP 2016	GROUP 2015
Interest on obligation	**5,688**	4,569	**5,688**	4,569
	5,688	4,569	**5,688**	4,569

18.1.1.3 Unfunded end of Service Gratuity Liability

	BANK 2016	BANK 2015	GROUP 2016	GROUP 2015
Current service cost	**29,417**	12,404	**33,853**	28,636
Interest on obligation	**17,440**	6,960	**19,218**	14,517
	46,857	19,364	**53,071**	43,153
Total defined benefit plans	**137,187**	86,763	**143,401**	110,552

18.1.1.4 Defined Contribution Plan

	BANK 2016	BANK 2015	GROUP 2016	GROUP 2015
Employer's contribution to Employees' Provident Fund	**202,910**	97,685	**218,284**	178,821
Employer's contribution to Employees' Trust Fund	**40,582**	19,536	**44,311**	36,445
Total defined contribution plans	**243,492**	117,221	**262,595**	215,266
Total expense recognised in the income statement	**380,679**	203,984	**405,996**	325,818

19 Other Expenses

For the period end	BANK Year ended 31 December 2016 LKR 000	BANK 9 months ended 31 December 2015 LKR 000	GROUP Year ended 31 December 2016 LKR 000	GROUP 9 months ended 31 December 2015 LKR 000
Directors' remuneration	**18,582**	13,006	**19,472**	24,682
Auditors' remuneration				
Audit fees and expenses	**3,900**	4,723	**4,623**	6,270
Audit related fees and expenses	**1,265**	1,733	**1,316**	2,145
Fees for non-audit services and expenses	**1,150**	–	**1,150**	–
Depreciation – Investment property	–	–	**13,800**	9,706
– Property, plant and equipment	**233,079**	114,781	**257,532**	237,528
Amortisation- Intangible assets	**98,262**	42,538	**98,567**	102,158
Expenses on litigation	**2,767**	2,232	**2,767**	2,401
Premises, equipment and establishment expenses	**1,049,987**	467,195	**1,048,935**	894,586
Other overhead expenses	**905,232**	423,547	**873,475**	801,062
	2,314,224	1,069,755	**2,321,637**	2,080,538

Directors' remuneration consists of fees paid to Non-Executive Directors. Remuneration paid to Executive Directors are included under salaries and other benefits in Note 18.

20 Value Added Tax (VAT) and Nation Building Tax on Financial Services

Accounting Policy →

VAT on financial services is calculated in accordance with Value Added Tax Act, No. 14 of 2002 and subsequent amendments thereto.

The value base for computation of VAT is the operating profit before value added tax and nation building tax on financial services adjusted for emoluments of employees and depreciation computed as per prescribed rates.

Nation Building Tax on Financial Services (NBT)

NBT on financial services is calculated in accordance with Nation Building Tax Act, No. 09 of 2009 and subsequent amendments thereto. NBT is chargeable on the same base used for calculation of VAT on financial services.

	BANK Year ended 31 December 2016 LKR 000	BANK 9 months ended 31 December 2015 LKR 000	GROUP Year ended 31 December 2016 LKR 000	GROUP 9 months ended 31 December 2015 LKR 000
20.1 Value Added Tax on Financial Services				
Financial services VAT – Current year/period	**854,680**	294,804	**854,680**	493,857
– Under/(Over) provision in respect of previous years	**2,495**	(4,732)	**2,495**	6,236
	857,175	290,072	**857,175**	500,093
20.2 Nation Building Tax on Financial Services				
Nation building tax on financial services - Current year/period	**137,105**	53,601	**137,105**	90,412
- Over provision in respect of previous years	**(8,170)**	(1,175)	**(8,170)**	(1,175)
	128,935	52,426	**128,935**	89,237
	986,110	342,498	**986,110**	589,330

21 Income Tax Expense

Accounting Policy →

Income Tax expense comprise of current and deferred tax. Current tax and deferred tax are recognised in the income statement, except to the extent that they relate to items recognised directly in equity and other comprehensive income.

Current Taxation

Current tax is the amount of income tax payable on the taxable profit for the financial year, calculated using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Taxable profit is determined in accordance with the provisions of Inland Revenue Act no 10 of 2006, as amended.

Deferred Taxation

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available, against which, deductible temporary differences can be utilised.

Deferred tax is calculated using the tax rates expected to apply in the periods, in which the assets will be realised or the liabilities settled. Deferred tax assets and liabilities are offset, if there is a legally enforceable right to offset current tax liabilities and assets.

Withholding Tax on Dividend Distributed by Subsidiaries, Associate Company and Joint Venture Company

Dividend distributed out of the taxable profit of the subsidiaries, associate company and joint venture company, suffers a 10% deduction at source and is not available for set off against the tax liability of the Bank. Thus the withholding tax deducted at source, is added to the tax expense of the subsidiary companies, the associate company and joint venture company in the Group's financial statements, as a consolidation adjustment.

21.1 Composition

	BANK		GROUP	
	Year ended 31 December 2016 LKR 000	9 months ended 31 December 2015 LKR 000	**Year ended 31 December 2016 LKR 000**	9 months ended 31 December 2015 LKR 000
Current tax	**1,027,194**	341,911	**1,084,646**	624,801
Under provision in previous years	**57,912**	11,070	**57,827**	16,885
Deferred tax – origination and reversal of temporary differences	**39,701**	167,934	**62,621**	270,156
	1,124,807	520,915	**1,205,094**	911,842

Financial Reports

Notes to the Financial Statements

21.1.1 Reconciliation of Effective Tax Rate with Income Tax Rate

	BANK				GROUP			
	Year ended 31 December 2016		9 months ended 31 December 2015		**Year ended 31 December 2016**		9 months ended 31 December 2015	
	%	**LKR 000**	%	LKR 000	**%**	**LKR 000**	%	LKR 000
Tax using 28% tax rate on profit before tax (PBT)	**28.00**	**1,235,788**	28.00	444,994	**28.00**	**1,308,767**	28.00	714,972
Non-deductible expenses	**16.64**	**734,605**	17.78	282,581	**15.94**	**745,177**	18.18	464,095
Allowable deductions	**(7.79)**	**(343,916)**	(8.89)	(141,310)	**(7.54)**	**(352,204)**	(13.50)	(344,652)
Dividend income	**(5.24)**	**(231,478)**	(10.06)	(159,887)	**(4.95)**	**(231,478)**	(5.15)	(131,526)
Tax incentives	**(7.36)**	**(324,683)**	(7.76)	(123,382)	**(6.95)**	**(324,973)**	(5.13)	(131,092)
Taxable timing difference from capital allowances on assets	**0.64**	**28,148**	(6.27)	(99,645)	**0.60**	**28,143**	(1.67)	(42,566)
Tax losses from prior year	**(1.61)**	**(71,270)**	(2.66)	(42,320)	**(1.53)**	**(71,651)**	(1.67)	(42,591)
Adjustments	–	–	11.38	180,880	**(0.37)**	**(17,135)**	5.41	138,161
Current tax expense	**23.28**	**1,027,194**	21.52*	341,911	**23.02**	**1,084,646**	24.47	624,801

** Effective tax rate is computed, including the additional tax arising on financial year change.*

21.2 Super Gain Tax

	BANK		GROUP	
	Year ended 31 December 2016 LKR 000	9 months ended 31 December 2015 LKR 000	**Year ended 31 December 2016 LKR 000**	9 months ended 31 December 2015 LKR 000
Related to the taxable profits for the year of assessment 2015/2016	–	776,593	–	811,368

As per the provisions of part III of Finance Act No. 10 of 2015, which was certified on 30 October 2015, the Bank and Group were liable for Super Gain Tax. The method of accounting is explained in Note 2.8.1.

22 *Basic Earnings per Ordinary Share*

Basic earnings per share of the Bank has been calculated by dividing the profit after income tax by the weighted average number of shares in issue during the financial year.

Basic group earnings per share has been calculated by dividing the profit after income tax attributable to the equity holders of the Bank by the weighted average number of shares in issue during the financial year.

	BANK		GROUP	
	Year ended 31 December 2016 LKR 000	9 months ended 31 December 2015 LKR 000	**Year ended 31 December 2016 LKR 000**	9 months ended 31 December 2015 LKR 000
Profit attributable to equity holders of the Bank	**3,288,723**	1,068,350	**3,414,980**	1,592,303
Number of ordinary shares (Note 50)	**265,097,688**	265,097,688	**265,097,688**	265,097,688
Basic earnings per ordinary share – LKR	**12.41**	4.03	**12.88**	6.01

23 Dividend per Share

	BANK		GROUP	
	Year ended 31 December 2016	9 months ended 31 December 2015	**Year ended 31 December 2016**	9 months ended 31 December 2015
Dividend per share (LKR)	**4.50**	2.50	**4.50**	2.50

The Board of Directors of the Bank has approved the payment of a first and final dividend of LKR 4.50 per share for the year ended 31 December 2016

24 Analysis of Financial Instruments by Measurement Basis

As at 31 December 2016	Fair value through profit or loss mandatory LKR 000	Fair value held-for-trading LKR 000	Fair value through other comprehensive income LKR 000	Amortised cost LKR 000	Held-to-maturity LKR 000	Total LKR 000
24.1 Bank						
Financial Assets						
Cash and cash equivalents	–	–	–	4,330,934	–	4,330,934
Balances with Central Bank of Sri Lanka	–	–	–	8,062,567	–	8,062,567
Placements with banks	–	–	–	1,351,117	–	1,351,117
Derivative assets held-for-risk management	122,977	–	–	–	–	122,977
Loans to and receivables from banks	–	–	–	12,300,398	–	12,300,398
Loans to and receivables from other customers	–	–	–	185,784,979	–	185,784,979
Financial investments	–	–	49,272,243	–	23,189,085	72,461,328
Due from subsidiaries	–	–	–	19,855	–	19,855
Government grant receivable	861,915	–	–	–	–	861,914
Other assets	–	–	–	2,562,978	–	2,562,978
	984,892	–	49,272,243	214,412,828	23,189,085	287,859,047
Financial Liabilities						
Due to banks	–	–	–	18,103,587	–	18,103,587
Derivative liabilities held-for-risk management	105,741	–	–	–	–	105,741
Due to other customers	–	–	–	140,514,373	–	140,514,373
Other borrowing	–	–	–	40,802,490	–	40,802,490
Debt securities issued	–	–	–	29,179,185	–	29,179,185
Subordinated term debt	–	–	–	9,205,637	–	9,205,637
Other liabilities	–	–	–	3,850,825	–	3,850,825
	105,741	–	–	241,656,097	–	241,761,838

As at 31 December 2015	Fair value through profit or loss mandatory LKR 000	Fair value held-for-trading LKR 000	Fair value through other comprehensive income LKR 000	Amortised cost LKR 000	Held-to-maturity LKR 000	Total LKR 000
24.2 Bank						
Financial Assets						
Cash and cash equivalents	–	–	–	4,305,247	–	4,305,247
Balances with Central Bank of Sri Lanka	–	–	–	5,553,809	–	5,553,809
Derivative assets held-for-risk management	198,776	–	–	–	–	198,776
Loans to and receivables from banks	–	–	–	4,574,319	–	4,574,319
Loans to and receivables from other customers	–	–	–	160,345,530	–	160,345,530
Financial investments	–	–	48,957,015	–	17,903,885	66,860,900
Due from subsidiaries	–	–	–	17,394	–	17,394
Government grant receivable	539,758	–	–	–	–	539,758
Other assets	–	–	–	1,705,379	–	1,705,379
	738,534	–	48,957,015	176,501,678	17,903,885	244,101,112
Financial Liabilities						
Due to banks	–	–	–	24,364,403	–	24,364,403
Derivative liabilities held-for-risk management	85,333	–	–	–	–	85,333
Due to other customers	–	–	–	110,890,685	–	110,890,685
Other borrowing	–	–	–	35,955,297	–	35,955,297
Debt securities issued	–	–	–	23,292,660	–	23,292,660
Subordinated term debt	–	–	–	3,767,081	–	3,767,081
Other liabilities	–	–	–	2,977,560	–	2,977,560
	85,333	–	–	201,247,686	–	201,333,019

As at 31 December 2016	Fair value through profit or loss mandatory LKR 000	Fair value held-for-trading LKR 000	Fair value through other comprehensive income LKR 000	Amortised cost LKR 000	Held-to-maturity LKR 000	Total LKR 000
24.3 Group						
Financial Assets						
Cash and cash equivalents	–	–	–	4,344,260	–	4,344,260
Balances with Central Bank of Sri Lanka	–	–	–	8,062,567	–	8,062,567
Placements with banks	–	–	–	1,415,985	–	1,415,985
Derivative assets held-for-risk management	122,977	–	–	–	–	122,977
Loans to and receivables from banks	–	–	–	12,300,398	–	12,300,398
Loans to and receivables from other customers	–	–	–	185,784,979	–	185,784,979
Financial investments	–	–	49,272,243	–	23,189,085	72,461,328
Government grant receivable	861,914	–	–	–	–	861,914
Other assets	–	–	–	2,609,655	–	2,609,655
	984,891	–	49,272,243	214,517,844	23,189,085	287,964,063
Financial Liabilities						
Due to banks	–	–	–	18,103,587	–	18,103,587
Derivative liabilities held-for-risk management	105,741	–	–	–	–	105,741
Due to other customers	–	–	–	140,219,872	–	140,219,872
Other borrowing	–	–	–	40,787,444	–	40,787,444
Debt securities issued	–	–	–	29,179,185	–	29,179,185
Subordinated term debt	–	–	–	9,205,637	–	9,205,637
Other liabilities	–	–	–	3,961,249	–	3,961,249
	105,741	–	–	241,456,974	–	241,562,715

As at 31 March 2015	Fair value through profit or loss mandatory LKR 000	Fair value held-for-trading LKR 000	Fair value through other comprehensive income LKR 000	Amortised cost LKR 000	Held-to-maturity LKR 000	Total LKR 000
24.4 Group						
Financial Assets						
Cash and cash equivalents	–	–	–	4,314,777	–	4,314,777
Balances with Central Bank of Sri Lanka	–	–	–	5,553,809	–	5,553,809
Placements with banks	–	–	–	1,718	–	1,718
Derivative assets held-for-risk management	198,776	–	–	–	–	198,776
Loans to and receivables from banks	–	–	–	4,602,263	–	4,602,263
Loans to and receivables from other customers	–	–	–	160,343,155	–	160,343,155
Financial investments	–	–	48,957,015	–	17,903,885	66,860,900
Government grant receivable	539,758	–	–	–	–	539,758
Other assets	–	–	–	1,765,199	–	1,765,199
	738,534	–	48,957,015	176,580,921	17,903,885	244,180,355
Financial Liabilities						
Due to banks	–	–	–	24,365,653	–	24,365,653
Derivative liabilities held-for-risk management	85,333	–	–	–	–	85,333
Due to other customers	–	–	–	110,551,220	–	110,551,220
Other borrowing	–	–	–	35,955,297	–	35,955,297
Debt securities issued	–	–	–	23,292,660	–	23,292,660
Subordinated term debt	–	–	–	3,767,081	–	3,767,081
Other liabilities	–	–	–	3,083,161	–	3,083,161
	85,333			201,015,072		201,100,405

25 *Cash and Cash Equivalents*

Accounting Policy →

For the purpose of the statement of cash flows, cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with three months or less than three months' maturity from the date of acquisition.

Cash and cash equivalents include cash and short-term Treasury Bills with maximum three months' maturity from date of acquisition.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

	BANK		GROUP	
As at	**31.12.2016 LKR 000**	31.12.2015 LKR 000	**31.12.2016 LKR 000**	31.12.2015 LKR 000
Cash in hand	**3,193,720**	2,330,722	**3,193,825**	2,330,827
Balances with banks	**1,137,214**	1,550,457	**1,150,435**	1,559,882
Money at call and short notice	**–**	424,068	**–**	424,068
	4,330,934	4,305,247	**4,344,260**	4,314,777

26 Balances with Central Bank of Sri Lanka

Accounting Policy →

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

	BANK		GROUP	
As at	**31 .12.2016 LKR 000**	31.12.2015 LKR 000	**31.12.2016 LKR 000**	31.12.2015 LKR 000
Statutory balances with Central Bank of Sri Lanka	**8,062,567**	5,553,809	**8,062,567**	5,553,809

As required by the provisions of Section 93 of Monetary Law Act, a minimum cash balance is maintained with the Central Bank of Sri Lanka. The minimum cash reserve requirement on rupee deposit liabilities is prescribed as a percentage of rupee deposit liabilities. The percentage is varied from time to time. Applicable minimum rate is 7.5%. There are no reserve requirement for deposit liabilities of the Foreign Currency Banking Unit and foreign currency deposit liabilities in the Domestic Banking Unit.

27 Placements with Banks

	BANK		GROUP	
As at	**31 .12.2016 LKR 000**	31.12.2015 LKR 000	**31.12.2016 LKR 000**	31.12.2015 LKR 000
Placements with Banks	**1,351,117**	–	**1,415,985**	1,718

28 Derivatives Held-for-Risk Management

Accounting Policy →

Derivative assets held-for-risk management purposes include all derivative assets that are not classified as trading assets and are measured at fair value in the statement of financial position.

The Bank has not designated any derivative held-for-risk management purposes as a qualifying hedge relationship and therefore the Bank has not adopted hedge accounting.

Derivatives are classified as assets, when their fair value is positive or as liabilities, when their fair value is negative. Derivative assets and liabilities, arising from different transactions are only offset, if the transactions are with the same counter party, a legal right of offset exists and the parties intend to settle cash flows on a net basis.

28.1 Assets

	BANK		GROUP	
As at	**31.12.2016 LKR 000**	31.12.2015 LKR 000	**31.12.2016 LKR 000**	31.12.2015 LKR 000
Forward foreign exchange contracts - Currency Swaps	**104,902**	143,233	**104,902**	143,233
- Others	**18,075**	55,543	**18,075**	55,543
	122,977	198,776	**122,977**	198,776

28.2 Liabilities

As at		BANK 31.12.2016 LKR 000	BANK 31.12.2015 LKR 000	GROUP 31.12.2016 LKR 000	GROUP 31.12.2015 LKR 000
Forward foreign exchange contracts	- Currency Swaps	**94,327**	13,377	**94,327**	13,377
	- Interest Rate Swaps	**2,177**	–	**2,177**	–
	- Others	**9,237**	71,956	**9,237**	71,956
		105,741	85,333	**105,741**	85,333

29 Loans to and Receivables from Banks

Accounting Policy →

Loans and receivables from Bank include amount due from Banks.

The carrying amount includes interest receivable from the banks on these loans. This also includes investment by the Bank in any debentures, bonds, commercial paper or any other debt instrument which is not listed in the Colombo Stock Exchange or in any recognised market. The amount includes the principal amount and interest due and/or accrued on the date of the statement of financial position.

Principal amount of loans and advances (for example, over drawn balances in current account) are recognised when cash is advanced to a borrower. They are derecognised when either the borrower repays its obligations, or the loans are written-off, or substantially all the risks and rewards of ownership are transferred. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method, less any reduction for impairment or uncollectibility.

As at	BANK 31.12.2016 LKR 000	BANK 31.12.2015 LKR 000	GROUP 31.12.2016 LKR 000	GROUP 31.12.2015 LKR 000
Gross loans and receivables	**12,300,398**	4,574,319	**12,300,398**	4,602,263
Allowance for impairment	–	–	–	–
Net loans and receivables	**12,300,398**	4,574,319	**12,300,398**	4,602,263

29.1 Analysis

29.1.1 By Product

Securities purchased under resale agreements	–	–	–	27,944
Refinanced loans – Plantation development project	**84,148**	142,593	**84,148**	142,593
KFW* DFCC (V) SME in the North and the East	**2,940**	59,535	**2,940**	59,535
Sri Lanka Development Bonds	**12,213,310**	4,372,191	**12,213,310**	4,372,191
Gross loans and receivables	**12,300,398**	4,574,319	**12,300,398**	4,602,263

** KFW – Kreditanstalt Fur Wiederaufbau*

29.1.2 By Currency

Sri Lankan Rupee	**87,208**	202,128	**87,208**	230,072
United States Dollar	**12,213,190**	4,372,191	**12,213,190**	4,372,191
Gross loans and receivables	**12,300,398**	4,574,319	**12,300,398**	4,602,263

30 Loans to and Receivables from Other Customers

Accounting Policy →

Loans to and receivables from other customers include loans and advances and lease receivables of the Group.

The carrying amount includes interest receivable from the customers and banks on these loans. This also includes investment by the Bank in any debentures, bonds, commercial paper or any other debt instrument which is not listed in the Colombo Stock Exchange or in any recognised market. The amount includes the principal amount and interest due and/or accrued on the date of the statement of financial position.

Principal amount of loans and advances (for example, over drawn balances in current account) are recognised when cash is advanced to a borrower. They are derecognised when either the borrower repays its obligations, or the loans are written-off, or substantially all the risks and rewards of ownership are transferred. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method, less any reduction for impairment or uncollectibility.

When the Bank is the lessor in a lease agreement that transfers substantially all of the risk and rewards incidental to the ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and advances.

	BANK		GROUP	
As at	**31.12.2016 LKR 000**	31.12.2015 LKR 000	**31.12.2016 LKR 000**	31.12.2015 LKR 000
Gross loans and receivables	**192,454,529**	166,511,168	**192,454,529**	166,508,793
Specific allowance for impairment (Note 30.2.1)	**(4,778,752)**	(4,240,756)	**(4,778,752)**	(4,240,756)
Collective allowance for impairment (Note 30.2.2)	**(1,890,798)**	(1,924,882)	**(1,890,798)**	(1,924,882)
Net loans and receivables	**185,784,979**	160,345,530	**185,784,979**	160,343,155

30.1 Analysis

30.1.1 By Product

Overdrafts	**29,115,220**	24,272,954	**29,115,220**	24,272,954
Trade finance	**24,726,990**	18,742,710	**24,726,990**	18,742,710
Lease rentals receivable (Note 30.1.1.1)	**15,909,152**	15,436,155	**15,909,152**	15,433,780
Credit cards	**242,091**	204,406	**242,091**	204,406
Pawning	**2,109,667**	1,532,181	**2,109,667**	1,532,181
Staff loans	**1,397,579**	1,241,687	**1,397,579**	1,241,687
Term loans	**116,395,228**	102,135,760	**116,395,228**	102,135,760
Commercial papers and asset back notes	**962,763**	1,934,126	**962,763**	1,934,126
Debenture loans	**71,119**	71,189	**71,119**	71,189
Preference shares unquoted	**517,500**	940,000	**517,500**	940,000
Securities purchased under resale agreements	**1,007,220**	–	**1,007,220**	–
Gross loans and receivables	**192,454,529**	166,511,168	**192,454,529**	166,508,793

As at	BANK 31.12.2016 LKR 000	BANK 31.12.2015 LKR 000	GROUP 31.12.2016 LKR 000	GROUP 31.12.2015 LKR 000

30.1.1.1 Lease Rentals Receivable

Gross investment in leases:				
Lease rentals receivable				
- within one year	**7,260,287**	6,756,288	**7,260,287**	6,756,288
- one to five years	**11,667,471**	11,546,339	**11,667,471**	11,543,964
	18,927,758	18,302,627	**18,927,758**	18,300,252
Less: Deposit of rentals	**11,480**	15,932	**11,480**	15,932
Unearned income on rentals receivable				
- within one year	**1,483,826**	1,371,442	**1,483,826**	1,371,442
- one to five years	**1,523,300**	1,479,098	**1,523,300**	1,479,098
	15,909,152	15,436,155	**15,909,152**	15,433,780

30.1.2 By Currency

Sri Lankan Rupee	**175,840,682**	152,436,592	**175,840,682**	152,434,217
United States Dollar	**16,021,231**	13,399,942	**16,021,231**	13,399,942
Great Britain Pound	**428,982**	495,468	**428,982**	495,468
Australian Dollar	**18,140**	20,568	**18,140**	20,568
Euro	**145,494**	158,598	**145,494**	158,598
Gross loans and receivables	**192,454,529**	166,511,168	**192,454,529**	166,508,793

30.1.3 By Industry

Agriculture and fishing	**21,177,351**	17,644,788	**21,177,351**	17,644,788
Manufacturing	**42,467,362**	39,710,497	**42,467,362**	39,710,497
Tourism	**11,345,823**	8,905,273	**11,345,823**	8,905,273
Transport	**6,561,001**	5,723,242	**6,561,001**	5,723,242
Construction	**14,769,286**	15,699,860	**14,769,286**	15,699,860
Trading	**42,917,888**	35,994,005	**42,917,888**	35,994,005
Financial and business services	**8,285,786**	7,440,214	**8,285,786**	7,437,839
Infrastructure	**13,767,614**	10,855,351	**13,767,614**	10,855,351
Other services	**14,643,050**	15,751,910	**14,643,050**	15,751,910
Consumer durables	**8,096,930**	4,211,387	**8,096,930**	4,211,387
New economy	**1,399,681**	1,257,448	**1,399,681**	1,257,448
Others	**7,022,757**	3,317,193	**7,022,757**	3,317,193
Gross loans and receivables	**192,454,529**	166,511,168	**192,454,529**	166,508,793

As at	BANK 31.12.2016 LKR 000	BANK 31.12.2015 LKR 000	GROUP 31.12.2016 LKR 000	GROUP 31.12.2015 LKR 000

30.2 Movement in Specific and Collective Allowance for Impairment

30.2.1 Specific Allowance for Impairment

Balance at beginning	**4,240,756**	1,932,635	**4,240,756**	4,001,868
Balance transferred on amalgamation	–	2,278,723	–	–
Charge to income statement	**792,389**	325,635	**792,389**	757,051
Effect of foreign currency movement	**22,903**	7,471	**22,903**	22,591
Write-off loans and receivables	**(277,296)**	(303,708)	**(277,296)**	(540,754)
Balance on 31 December	**4,778,752**	4,240,756	**4,778,752**	4,240,756

30.2.2 Collective Allowance for Impairment

Balance at beginning	**1,924,882**	968,820	**1,924,882**	2,007,988
Balance transferred on amalgamation	–	1,114,051	–	–
Charge/(Write-back) to income statement	**81,772**	(104,907)	**81,772**	23,483
Effect of foreign currency movement	**3,712**	791	**3,712**	1,155
Transfer to dues on terminated leases*	**(3,344)**	(16,037)	**(3,344)**	(16,037)
Write-off of loans and receivables	**(116,224)**	(37,836)	**(116,224)**	(91,707)
Balance on 31 December	**1,890,798**	1,924,882	**1,890,798**	1,924,882
Total	**6,669,550**	6,165,638	**6,669,550**	6,165,638

**Included in debtors under other Assets Note 43*

31 *Financial Investments – Available-for-Sale*

Accounting Policy →

Available-for-sale investments are non-derivative investments that were designated as available-for-sale or not classified as another category of financial assets. These include Treasury Bills, Bonds, Debt Securities and unquoted and quoted equity securities. They are carried at fair value except for unquoted equity securities whose fair value cannot reliably be measured and therefore carried at cost.

Interest income is recognised in profit or loss, using the effective interest method. Dividend income was recognised in profit or loss when the Bank become entitled to the dividend.

Fair value changes are recognised in other comprehensive income until the investment is sold or impaired, where upon the cumulative gains and losses previously recognised in other comprehensive income are reclassified to profit or loss as are classification adjustment.

As at	BANK 31.12.2016 LKR 000	BANK 31.12.2015 LKR 000	GROUP 31.12.2016 LKR 000	GROUP 31.12.2015 LKR 000
Government of Sri Lanka Treasury Bills	**16,993,058**	20,856,663	**16,993,058**	20,856,663
Government of Sri Lanka Treasury Bonds	**12,372,198**	8,833,930	**12,372,198**	8,833,930
Equity securities				
Quoted ordinary shares (Note 31.1)	**18,797,639**	18,123,603	**18,797,639**	18,123,603
Unquoted ordinary shares (Note 31.2)	**112,484**	147,374	**112,484**	147,374
Preference shares (Note 31.3)	**500**	500	**500**	500
Quoted units in Unit Trusts (Note 31.4)	**190,153**	197,759	**190,153**	197,759
Unquoted units in Unit Trusts (Note 31.5)	**806,211**	797,186	**806,211**	797,186
	49,272,243	48,957,015	**49,272,243**	48,957,015

All the financial investments are carried at fair value except for unquoted equity securities and irredeemable preference shares whose fair value cannot be reliably measured, is carried at cost.

As at	31.12.2016			31.12.2015		
	Number of ordinary shares	**Cost* LKR 000**	**Fair value LKR 000**	Number of ordinary Shares	Cost* LKR 000	Fair value LKR 000
31.1 Quoted Ordinary Shares						
Banks, Finance and Insurance						
Commercial Bank of Ceylon PLC – voting	**122,747,994**	**3,508,069**	**17,798,459**	121,005,515	3,290,259	17,001,276
Commercial Bank of Ceylon PLC – non-voting	**230,726**	**18,246**	**26,649**	227,045	17,838	27,949
National Development Bank PLC	**2,000,000**	**352,369**	**312,000**	2,000,000	352,369	392,000
		3,878,684	**18,137,108**		3,660,466	17,421,225
Beverages, Food and Tobacco						
Ceylon Tobacco Company PLC	**59,532**	**3,360**	**47,626**	59,532	3,360	59,234
Distilleries Company of Sri Lanka PLC**	–	–	–	417,485	69,829	102,701
		3,360	**47,626**		73,189	161,935
Chemicals and Pharmaceuticals						
Chemical Industries (Colombo) PLC – voting	**247,900**	**14,131**	**22,311**	247,900	14,131	24,864
Chemical Industries (Colombo) PLC – non-voting	**389,400**	**15,577**	**26,479**	389,400	15,577	31,619
		29,708	**48,790**		29,708	56,483
Construction and Engineering						
Access Engineering PLC	**473,000**	**9,737**	**11,730**	400,000	8,010	9,280
Colombo Dockyard PLC	**160,000**	**12,160**	**12,160**	160,000	22,645	24,480
		21,897	**23,890**		30,655	33,760
Diversified Holdings						
Carson Cumberbatch PLC	**46,967**	**12,681**	**8,360**	46,967	13,635	16,204
Hayleys PLC	**7,333**	**2,225**	**1,980**	7,333	2,225	2,262
Hemas Holdings PLC	**496,560**	**16,297**	**49,159**	496,560	16,297	46,131
John Keells Holdings PLC	**219,907**	**18,362**	**31,886**	144,294	10,080	25,756
John Keells Holdings PLC – Warrants	–	–	–	8,016	–	258
Melstacorp Limited**	**1,669,940**	**69,829**	**100,196**	–	–	–
Richard Pieris & Co. PLC	**1,000,000**	**8,234**	**8,100**	1,000,000	8,234	8,500
		127,628	**199,681**		50,471	99,111

Sector classification and fair value per share are based on the list published by Colombo Stock Exchange, as at the reporting date.

* *Cost is reduced by write-off of diminution in value other than temporary in respect of investments.*

** *In terms of the 'Arrangement' between Distilleries Company of Sri Lanka PLC (DCSL) and Melstacorp Limited (ML) announced in August 2015, every 1 share of DCSL was alloted 4 shares of Melstacorp Limited.*

As at	31.12.2016			31.12.2015		
	Number of ordinary shares	**Cost* LKR 000**	**Fair value LKR 000**	Number of ordinary Shares	Cost* LKR 000	Fair value LKR 000
Healthcare						
Ceylon Hospitals PLC – voting	**100,000**	**2,306**	**8,740**	100,000	2,306	10,100
Ceylon Hospitals PLC – non-voting	**240,000**	**4,167**	**17,976**	240,000	4,167	18,072
		6,473	**26,716**		6,473	28,172
Hotels and Travels						
Dolphin Hotels PLC	**100,000**	**964**	**3,940**	100,000	964	5,420
		964	**3,940**		964	5,420
Investment Trusts						
Ceylon Guardian Investment Trust PLC	**152,308**	**5,918**	**17,058**	152,308	5,918	26,639
Ceylon Investment PLC	**288,309**	**9,429**	**14,704**	288,309	9,429	22,921
		15,347	**31,762**		15,347	49,560
Telecommunications						
Dialog Axiata PLC	**2,050,000**	**18,860**	**21,525**	2,050,000	18,860	21,935
Manufacturing						
Ceylon Grain Elevators PLC	**48,997**	**1,297**	**4,042**	48,997	1,297	4,483
Chevron Lubricants Lanka PLC	**761,628**	**27,907**	**119,576**	330,814	11,020	114,131
Piramal Glass Ceylon PLC	**5,000,000**	**14,024**	**26,500**	7,500,000	21,036	45,750
Royal Ceramics Lanka PLC	**139,800**	**16,996**	**16,217**	139,800	16,996	15,518
Tokyo Cement Company (Lanka) PLC – voting	**100,000**	**5,734**	**5,950**	–	–	–
Tokyo Cement Company (Lanka) PLC – non-voting	**1,227,096**	**25,759**	**63,196**	1,127,096	21,040	44,520
		91,717	**235,481**		71,389	224,402
Power and Energy						
Vallibel Power Erathna PLC	**2,400,000**	**6,400**	**21,120**	2,400,000	6,400	21,600
		6,400	**21,120**		6,400	21,600
Total Quoted Ordinary Shares – Bank/Group		**4,201,038**	**18,797,639**		3,963,922	18,123,603

Sector classification and fair value per share are based on the list published by Colombo Stock Exchange, as at the reporting date.

* *Cost is reduced by write-off of diminution in value other than temporary in respect of investments.*

As at	31.12.2016		31.12.2015	
	Number of ordinary shares	**Cost* LKR 000**	Number of ordinary Shares	Cost* LKR 000
31.2 Unquoted Ordinary Shares				
Credit Information Bureau of Sri Lanka	**9,184**	**918**	9,184	918
Durdans Medical and Surgical Hospital (Private) Limited	**1,273,469**	**16,029**	1,273,469	16,029
Fitch Ratings Lanka Limited	**62,500**	**625**	62,500	625
Lanka Clear (Private) Limited	**100,000**	**1,000**	100,000	1,000
Lanka Financial Services Bureau Limited	**100,000**	**1,000**	100,000	1,000
Plastipak Lanka Limited	–	–	240,000	2,400
Sampath Centre Limited	–	–	1,000,000	10,000
Samson Reclaim Rubber Limited	**116,700**	**2,334**	116,700	2,334
Sinwa Holdings Limited	**460,000**	**9,200**	460,000	9,200
Society for Worldwide Interbank Financial Telecommunication	**6**	**3,385**	6	3,385
Sun Tan Beach Resorts Limited	**9,059,013**	**67,943**	9,059,013	90,433
The Video Team (Private) Limited	**30,000**	**300**	30,000	300
Wayamba Plantations (Private) Limited	**2,750,000**	**9,750**	2,750,000	9,750
Total unquoted ordinary shares – Bank/Group		**112,484**		147,374

* *Cost is reduced by write-off of diminution in value other than temporary in respect of investments.*

As at	31.12.2016			31.12.2015		
	Number of ordinary shares	**Cost LKR 000**	**Fair value LKR 000**	Number of ordinary shares	Cost LKR 000	Fair value LKR 000
31.3 Unquoted Irredeemable Preference Shares						
Arpico Finance Company PLC	**50,000**	**500**	**500**	50,000	500	500
Total investments in unquoted irredeemable preference shares – Bank/Group		**500**	**500**		500	500
31.4 Quoted Units in Unit Trusts						
NAMAL Acuity Value Fund	**2,112,810**	**106,070**	**190,153**	2,112,810	106,070	197,759
Total investments in quoted units – Bank/Group		**106,070**	**190,153**		106,070	197,759

As at	31.12.2016			31.12.2015		
	Number of units	**Cost LKR 000**	**Fair value LKR 000**	Number of units	Cost LKR 000	Fair value LKR 000
31.5 Unquoted Units in Unit Trusts						
NAMAL Growth Fund	**2,125,766**	**251,539**	**272,867**	2,125,766	251,539	272,481
NAMAL Income Fund	**11,162,129**	**113,961**	**143,719**	11,162,129	113,961	139,080
NAMAL Money Market Fund	**11,679,366**	**118,457**	**125,616**	11,085,879	112,239	116,512
National Equity Fund	**250,000**	**2,657**	**8,352**	250,000	2,657	8,495
Guardian Acuity Equity Fund	**9,052,504**	**150,000**	**151,432**	9,052,504	150,000	155,341
JB Vantage Value Equity Fund	**5,224,660**	**100,000**	**104,225**	5,224,660	100,000	105,277
Total investments in unquoted Unit Trusts – Bank/Group		**736,614**	**806,211**		730,396	797,186

	Ordinary Shares		Preference	Unit Trusts		Total	
	Quoted LKR 000	Unquoted LKR 000	Unquoted LKR 000	Quoted LKR 000	Unquoted LKR 000	**31.12.2016 LKR 000**	31.12.2015 LKR 000
31.6 Equity Securities							
31.6.1 Composition*							
31.6.1.1 Bank							
Performing investments	18,797,639	34,491	500	190,153	533,344	**19,556,127**	18,891,058
Non-performing investments	–	77,993	–	–	272,867	**350,860**	375,364
	18,797,639	112,484	500	190,153	806,211	**19,906,987**	19,266,422
31.6.1.2 Group							
Performing investments	18,797,639	34,491	500	190,153	533,344	**19,556,127**	18,891,058
Non-performing investments	–	77,993	–	–	272,867	**350,860**	375,364
	18,797,639	112,484	500	190,153	806,211	**19,906,987**	19,266,422

** Disclosure as per the Direction on the prudential norms for classification, valuation and operation of the Bank's investment portfolio.*

32 Financial Investments – Held-to-maturity

Accounting Policy →

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that Bank positively intends, and is able, to hold to maturity. Held-to-maturity investments are initially recorded at fair value plus any directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest rate method, less any impairment losses.

A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in there classification of all investment securities as available-for-sale for the current and the subsequent two financial years.

However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

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

As at	BANK 31.12.2016 LKR 000	BANK 31.12.2015 LKR 000	GROUP 31.12.2016 LKR 000	GROUP 31.12.2015 LKR 000
Quoted debentures (Note 32.1)	**5,949,747**	5,356,587	**5,949,747**	5,356,587
Sri Lanka Government Securities				
Treasury Bills	**2,357,188**	–	**2,357,188**	–
Treasury Bonds	**14,882,150**	12,547,298	**14,882,150**	12,547,298
Total	**23,189,085**	17,903,885	**23,189,085**	17,903,885

32.1 Quoted Debentures

As at	31.12.2016 Number of debentures	31.12.2016 Cost of investment LKR 000	31.12.2015 Number of debentures	31.12.2015 Cost of investment LKR 000
Abans PLC	**2,500,000**	**267,917**	2,500,000	268,053
Access Engineering PLC	**2,500,000**	**253,031**	2,500,000	252,958
Alliance Finance Company PLC	**5,721,693**	**623,823**	5,721,693	623,836
Central Finance Company PLC	**2,075,700**	**221,626**	2,210,100	236,050
Commercial Credit & Finance PLC	**4,500,000**	**461,879**	4,500,000	461,549
HDFC Bank	**532,200**	**55,227**	532,200	55,232
Hemas Holdings PLC	**827,900**	**85,049**	827,900	85,080
Lanka ORIX Leasing Company PLC	**3,000,000**	**306,787**	3,000,000	306,805
Lion Brewery (Ceylon) PLC	**1,462,200**	**195,446**	1,483,500	217,514
People's Leasing & Finance PLC	**13,326,300**	**1,391,578**	13,326,300	1,391,370
Richard Pieris and Company PLC	**1,201,000**	**123,303**	1,201,000	123,347
Senkadagala Finance PLC	**3,650,000**	**371,981**	–	–
Singer (Sri Lanka) PLC	**8,975,800**	**942,964**	6,475,800	685,476
Siyapatha Finance Limited	**2,000,000**	**217,802**	2,000,000	217,809
Softlogic Finance PLC	**706,500**	**72,429**	706,500	72,479
Vallibel Finance PLC	**3,500,000**	**358,905**	3,500,000	359,029
Total investments in quoted debentures – Bank/Group		5,949,747		5,356,587

33 Investments in Subsidiaries

Accounting Policy →

Bank's investments in subsidiaries are stated at cost less impairment losses. Reversals of impairment losses are recognised in the income statement, if there has been a change in the estimates used to determine the recoverable amount of the investment.

	DFCC Consulting (Pvt) Limited Ownership 100% LKR 000	Lanka Industrial Estates Limited Ownership 51.16% LKR 000	Synapsys Limited Ownership 100% LKR 000	BANK **31.12.2016 LKR 000**	BANK 31.12.2015 LKR 000
Balance at beginning	5,000	97,036	70,000	**172,036**	5,995,064
Adjustment on amalgamation	–	–	–	–	(5,823,028)
Balance before impairment	5,000	97,036	70,000	**172,036**	172,036
Less: Allowance for impairment (Note 33.1)	–	–	60,104	**60,104**	39,181
Balance net of impairment	5,000	97,036	9,896	**111,932**	132,855

33.1 Movement in Impairment Allowance

	31.12.2016	31.12.2015
Balance at beginning	**39,181**	37,500
Charge to income statement	**20,923**	1,681
Balance on 31 December	**60,104**	39,181

33.2 Non-Controlling Interest (NCI) in Subsidiaries

Accounting Policy →

The non-controlling interest are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition . Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted as equity transactions.

	Percentage of Ownership Interest held by NCI	Percentage of Voting Rights held by NCI	Share of Total Comprehensive Income of NCI for the Period ended		NCI as at		Dividends Paid to NCI for the Period ended	
	31.12.2016 %	31.12.2015 %	**31.12.2016 LKR 000**	31.12.2015 LKR 000	**31.12.2016 LKR 000**	31.12.2015 LKR 000	**31.12.2016 LKR 000**	31.12.2015 LKR 000
Lanka Industrial Estates Limited	**48.84**	48.84	**54,270**	48,666	**259,900**	252,426	**46,796**	54,600
			54,270	48,666	**259,900**	252,426	**46,796**	54,600

33.3 Summarised Financial Information of Subsidiaries

Lanka Industrial Estates Limited

As at	**31.12.2016 LKR 000**	31.12.2015 LKR 000
Assets	**702,868**	629,868
Liabilities	**170,777**	113,071
Equity	**532,091**	516,797
For the year ended		
Revenue	**293,687**	191,567
Profit after tax	**110,748**	88,085
Other comprehensive income	**361**	–
Total comprehensive income	**111,109**	88,085

34 Investments in Associate (Unquoted)

Accounting Policy →

Investments in associates are recognised using the equity method, initially stated at cost, including attributable goodwill, and are adjusted thereafter for the post-acquisition change in Bank's share of net assets.

Unrealised gains on transactions between Bank and its associates are eliminated to the extent of Bank's interest in the respective associate. Unrealised losses are also eliminated to the extent of Bank's interest in the associate.

	BANK		GROUP	
As at	**31.12.2016 LKR 000**	31.12.2015 LKR 000	**31.12.2016 LKR 000**	31.12.2015 LKR 000
National Asset Management Limited (Ownership 30%)				
Balance at beginning	**35,270**	35,270	**66,980**	63,960
Share of profit after tax	–	–	**11,752**	12,032
Share of other comprehensive expenses	–	–	**(3,359)**	(12)
Dividend received – Elimination on consolidation	–	–	**(10,500)**	(9,000)
Balance on 31 December	**35,270**	35,270	**64,873**	66,980

As at	31.12.2016 LKR 000	31.12.2015 LKR 000
34.1 Summarised Financial Information of Associate		
National Asset Management Limited		
Assets	**239,051**	241,052
Liabilities	**22,861**	17,837
Equity	**216,190**	223,215
For the year ended		
Revenue	**134,075**	133,565
Profit after tax	**39,174**	40,107
Other comprehensive expenses	**(11,198)**	(39)
Total comprehensive income	**27,976**	40,068

35 Investments in Joint Venture (Unquoted)

Accounting Policy →

Investments in Joint Ventures are recognised using the equity method, initially stated at cost, including attributable goodwill, and are adjusted thereafter for the post-acquisition change in Bank's share of net assets.

Unrealised gains on transactions between Bank and its Joint Ventures are eliminated to the extent of Bank's interest in the respective Joint Ventures. Unrealised losses are also eliminated to the extent of Bank's interest in the Joint Ventures.

As at	31.12.2016 Cost of Investment LKR 000	31.12.2015 Cost of Investment LKR 000
35.1 Investments in Joint Venture – Bank		
Acuity Partners (Pvt) Limited (Ownership 50%)	**755,000**	655,000
	755,000	655,000

As at	31.12.2016 LKR 000	31.12.2015 LKR 000
35.2 Investment in Joint Venture – Group		
Share of identifiable asset and liabilities of joint venture as at the beginning of the period	**1,365,507**	1,308,713
Share of unrealised profit on disposal of investments	**(184,688)**	(184,688)
Balance at beginning	**1,180,819**	1,124,025
Investment made during the period	**100,000**	–
Share of profit net of tax	**149,399**	66,661
Share of other comprehensive income	**(21,154)**	17,041
Change in holding – through subsidiary of joint venture	**(610)**	9,830
Preference share dividend paid by the subsidiary of joint venture	–	(6,576)
Dividend received during the period	**(30,200)**	(30,162)
Group's share of net assets	**1,378,254**	1,180,819

35.3 Summarised Financial Information of Joint Venture

For the year ended	**31.12.2016 LKR 000**	31.12.2015 LKR 000
Acuity Partners (Pvt) Limited		
Revenue	**671,603**	576,723
Depreciation	**34,654**	34,163
Income tax expense	**61,499**	68,748
Profit after tax	**534,885**	305,979
Other comprehensive (expenses)/income	**(48,143)**	64,450
Total comprehensive income	**486,742**	370,429

As at	**31.12.2016 LKR 000**	31.12.2015 LKR 000
Current assets	**4,085,610**	5,487,054
Non-current assets	**7,488,394**	3,629,739
Current liabilities	**6,098,931**	4,348,748
Non-current liabilities	**1,063,494**	945,056

	BANK	
As at	**31.12.2016 LKR 000**	31.12.2015 LKR 000
36 Due from Subsidiaries		
DFCC Consulting (Pvt) Limited	**2,265**	452
Synapsys Limited	**17,590**	16,942
	19,855	17,394

37 Investment Property

Accounting Policy →

Investment property of the Group (held by Subsidiary Lanka Industrial Estates Limited) is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business. The Group has chosen the cost model instead of fair value model and therefore investment property is measured at cost. Cost includes expenditure that is directly attributable to the acquisition of the investment property.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in the Income Statement.

As at	GROUP 31.12.2016 LKR 000	31.12.2015 LKR 000
Cost		
Balance at beginning	**313,909**	294,541
Acquisitions	**49,420**	19,368
Cost as at 31 December	**363,329**	313,909
Less: Accumulated Depreciation		
Balance at beginning	**118,177**	108,471
Charge for the year	**13,800**	9,706
Accumulated depreciation as at 31 December	**131,977**	118,177
Carrying amount as at 31 December	**231,352**	195,732

37.1 Details of Investment Property

As at 31 December 2016	Buildings Sq. Ft.	Extent of land Perches*	Cost LKR 000	Accumulated depreciation/ impairment LKR 000	Net Book value LKR 000	Fair value LKR 000
Pattiwila Road, Sapugaskanda, Makola	**280,000**	**20,000**	**363,329**	**131,977**	**231,352**	**1,096,558**

1 perch = 25.2929m²; 1 sq ft = 0.0929m²

The fair value of investment property as at 31 December 2016 situated at Pattiwila Road, Sapugaskanda, Makola was based on market valuation carried out in April 2014 by P B Kalugalagedara Fellow Member of Institute of Valuers (Sri Lanka).

Rental income from investment property of Group for 2016 – LKR 198 million (2015 – LKR 137 million).

Operating expenses on investment property of Group for 2016 – LKR 28 million (2015 – LKR 15 million).

38 Property, Plant and Equipment

Accounting Policy →

Recognition and Measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in the income statement.

Subsequent Costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Bank. Ongoing repairs and maintenance costs are expensed as incurred.

Depreciation

Items of property, plant and equipment are depreciated from the month they are available-for-use up to the month of disposal. Depreciation is calculated to write-off the cost of items of property, plant and equipment less their estimated residual values using the straight-line basis over their estimated useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods of significant items of property, plant and equipment are as follows:

	Years
Buildings	20
Office equipment and motor vehicles	5
Fixtures and fittings	10

Derecognition

The carrying amount of property, plant and equipment is derecognised on disposal or when non-future economic benefits are expected from its use. The gain or loss arising from the derecognition (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in the income statement.

	Land & buildings LKR 000	Office equipment LKR 000	Furniture & fittings LKR 000	Motor vehicles LKR 000	**Total 31.12.2016 LKR 000**	Total 31.12.2015 LKR 000
38.1 Composition – Bank						
Cost at beginning	467,821	1,421,990	782,993	275,093	**2,947,897**	1,409,936
Balance transferred on amalgamation	–	–	–	–	–	1,479,475
Acquisitions	40	153,617	58,303	6,590	**218,550**	82,529
Less: Disposals	–	1,797	1,115	12,407	**15,319**	24,043
Cost as at 31 December	467,861	1,573,810	840,181	269,276	**3,151,128**	2,947,897
Accumulated depreciation at beginning	195,311	1,111,616	456,071	241,882	**2,004,880**	1,058,729
Balance transferred on amalgamation	–	–	–	–	–	855,257
Depreciation for the period	19,230	128,245	68,946	16,658	**233,079**	114,781
Less: Accumulated depreciation on disposals	–	1,630	651	12,407	**14,688**	23,887
Accumulated depreciation as at 31 December	214,541	1,238,231	524,366	246,133	**2,223,271**	2,004,880
Carrying amount as at 31 December	253,320	335,579	315,815	23,143	**927,857**	943,017

As at 31 December 2016	Buildings Sq. Ft.	Extent of land Perches*	Cost LKR 000	Accumulated depreciation/ impairment LKR 000	Carrying Amount LKR 000
38.1.2 List of Freehold Land and Buildings					
73/5, Galle Road, Colombo 3	57,190	106.81	85,518	71,325	14,193
5, Deva Veediya, Kandy	6,260	12.54	16,195	7,233	8,962
259/30, Kandy Road, Bambarakelle, Nuwara-Eliya	–	93.50	7,279	–	7,279
73, W A D Ramanayake Mawatha, Colombo 2	37,538	45.00	191,268	125,106	66,162
4 A, 4th Cross Lane, Borupana, Ratmalana	–	20.00	2,600	–	2,600
454, Main Street, Negombo	19,087	29.00	165,001	10,877	154,124
			467,861	214,541	253,320

** 1 perch = 25.2929m²; 1 sq ft = 0.0929m²*

	LKR million	Date of valuation
38.1.3 Market Value of Properties		
73/5, Galle Road, Colombo 3	946	30.12.2013
5, Deva Veediya, Kandy	72	30.12.2013
73, W A D Ramanayake Mawatha, Colombo 2	440	30.12.2013
4 A, 4th Cross Lane, Borupana, Ratmalana	10	30.12.2013
454, Main Street, Negombo	250	05.05.2015
259/30, Kandy Road, Bambarakelle, Nuwara-Eliya	80	26.05.2015

(Valued by A A M Fathihu – Former Government Chief Valuer and J S M I B Karunatilaka. Associate Member of the Institute of Valuers of Sri Lanka.)

38.1.4 Fully-Depreciated Property, Plant and Equipment – Bank

The initial cost of fully-depreciated property, plant and equipment as at 31 December 2016, which are still in use as at the reporting date is as follows:

	BANK	
As at	**31.12.2016 LKR 000**	31.12.2015 LKR 000
Land & buildings	**58,739**	58,571
Office equipment	**909,043**	813,158
Furniture & fittings	**158,184**	102,096
Motor vehicles	**183,925**	187,386
	1,309,891	1,161,211

	Land & buildings LKR 000	Office equipment LKR 000	Furniture & fittings LKR 000	Motor vehicles LKR 000	**Total 31.12.2016 LKR 000**	Total 31.12.2015 LKR 000
38.2 Composition – Group						
Cost at beginning	678,973	1,459,722	795,963	320,080	**3,254,738**	3,056,121
Acquisitions	12,597	165,729	58,606	21,560	**258,492**	228,723
Less: Disposals	–	4,455	1,115	20,790	**26,360**	30,106
Write-off	–	–	360	–	**360**	–
Cost as at 31 December	691,570	1,620,996	853,094	320,850	**3,486,510**	3,254,738
Accumulated depreciation at beginning	325,742	1,139,961	472,215	274,519	**2,212,437**	2,004,189
Depreciation for the year	31,241	133,189	69,964	23,138	**257,532**	237,528
Less: Accumulated depreciation on disposals	–	4,277	651	20,790	**25,718**	29,280
Write-off	–	–	360	–	**360**	–
Accumulated depreciation as at 31 December	356,983	1,268,873	541,168	276,867	**2,443,891**	2,212,437
Carrying amount as at 31 December	334,587	352,123	311,926	43,983	**1,042,619**	1,042,301

39 *Intangible Assets*

Accounting Policy →

Intangible Assets – Computer Application Software

All software licensed for use by the Bank, not constituting an integral part of related hardware are included in the statement of financial position under the category intangible assets and carried at cost less cumulative amortisation and any impairment losses.

The initial acquisition cost comprises licence fee paid at the inception, import duties, non-refundable taxes and levies, cost of customising the software to meet the specific requirements of the Bank and other directly attributable expenditure in preparing the asset for its intended use.

The initial cost is enhanced by subsequent expenditure incurred by further customisation to meet ancillary transaction processing and reporting requirements tailor-made for the use of the Bank constituting an improvement to the software.

The cost is amortised, using the straight-line method, at the rate of 20% per annum commencing from the date the application software is available-for-use. The amortised amount is based on the best estimate of its useful life, such that the cost is amortised fully at the end of the useful life during which the Bank has legal right of use. The amortisation cost is recognised as an expense.

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use and subsequent disposal.

	BANK		GROUP	
As at	**31.12.2016 LKR 000**	31.12.2015 LKR 000	**31.12.2016 LKR 000**	31.12.2015 LKR 000
Cost at beginning	**1,313,816**	426,807	**1,316,581**	1,246,674
Balance transferred on amalgamation	–	851,004	–	–
Acquisitions	**58,833**	36,005	**62,948**	69,907
Less: Write-off*	**348,199**	–	**348,199**	–
Cost as at 31 December	**1,024,450**	1,313,816	**1,031,330**	1,316,581
Accumulated amortisation at beginning	**1,066,701**	344,427	**1,068,636**	966,478
Balance transferred on amalgamation	–	679,736	–	–
Amortisation for the period	**98,262**	42,538	**98,567**	102,158
Less: Write-off*	**344,255**	–	**344,255**	–
Accumulated amortisation as at 31 December	**820,708**	1,066,701	**822,948**	1,068,636
Carrying amount as at 31 December	**203,742**	247,115	**208,382**	247,945

**Software not in use.*

40 Goodwill on Consolidation

Accounting Policy →

Goodwill arises on the acquisition of subsidiaries, when the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest and the fair value of any previously held equity interest in the acquiree exceed the amount of the identifiable assets and liabilities acquired. If the amount of the identifiable assets and liabilities acquired is greater, the difference is recognised immediately in the income statement. Goodwill arises on the acquisition of interests in joint ventures and associates when the cost of investment exceeds Bank's share of the net fair value of the associate's or joint venture's identifiable assets and liabilities.

	GROUP	
As at	**31.12.2016 LKR 000**	31.12.2015 LKR 000
DFCC Vardhana Bank PLC	**146,603**	146,603
Lanka Industrial Estates Limited	**9,623**	9,623
	156,226	156,226

In accordance with the provisions of part VIII of the Companies Act, DFCC Vardhana Bank PLC (DVB) has been amalgamated with DFCC Bank PLC with effect from 1 October 2015. The amalgamation between two entities is considered as a common control transaction, as DFCC Bank continues to control the operations of DVB after amalgamation. Thus the results of amalgamation of two entities are economically the same before and after the amalgamation as the entity will have identical net assets. Therefore, DFCC will continue to record carrying values including the remaining goodwill that resulted from the original acquisition of DVB in the consolidated financial status.

41 Government Grant Receivable/Deferred Income – CBSL Swap

Accounting Policy →

Government grants are recognised initially as deferred income at fair value, when there is a reasonable assurance that they will be received and Group will comply with the conditions associated with the grant, and are then recognised in profit or loss as other income on asystematic basis in the period in which the expenses (losses) are recognised.

	BANK		GROUP	
As at	**31.12.2016 LKR 000**	31.12.2015 LKR 000	**31.12.2016 LKR 000**	31.12.2015 LKR 000
41.1 Government Grant – Receivable				
Fair value at beginning	**539,758**	483,727	**539,758**	483,727
Change in fair value on the renewal of contract	**405,763**	41,993	**405,763**	41,993
Change in fair value during the period	**(83,606)**	14,038	**(83,606)**	14,038
Fair value as at 31 December	**861,915**	539,758	**861,915**	539,758
41.2 Government Grant – Deferred Income				
Fair value at beginning	**476,008**	303,727	**476,008**	303,727
Change in fair value on the renewal of contract	**405,763**	41,993	**405,763**	41,993
Change in fair value during the period	**(83,606)**	14,038	**(83,606)**	14,038
Foreign exchange (loss)/gain on revaluation	**(96,500)**	116,250	**(96,500)**	116,250
Amortisation of deferred income on Government grant – CBSL Swap	**(180,106)**	130,288	**(180,106)**	130,288
Fair value as at 31 December	**701,665**	476,008	**701,665**	476,008

DFCC Bank PLC in October 2013 raised USD 100 million by Issue of Notes abroad repayable in October 2018. The proceeds of this note issue are to be deployed predominantly in LKR denominated monetary assets. In order to hedge the resulting net open foreign currency liability position, DFCC Bank PLC has entered into a annually renewable currency SWAP arrangement with Central Bank of Sri Lanka (CBSL) for 75% of the US Dollar (USD) denominated liability. Accordingly, this contract was renewed in November 2016.

The currency SWAP arrangement, pursuant to Government policy for the principal amount only is designed to reimburse DFCC Bank by CBSL for any exchange loss incurred and conversely for DFCC Bank to pay CBSL any exchange gain arising from depreciation of LKR vis-a-vis USD or appreciation of LKR vis-a-vis USD respectively.

Although, USD denominated notes are repayable at the end of 5 years, the currency SWAP arrangement contract is renewed annually up to the date of repayment of the notes so as to exchange cash flow arising from movement in USD/LKR spot exchange rate that occurs at the time of renewal of the annual contract.

The currency SWAP arrangement with CBSL provides for SWAP of LKR to USD at the end of the contract at the same spot rate as the initial SWAP of USD to LKR at the commencement of the annual contract. (i.e., CBSL SWAP arrangement amounts to a full discount to USD LKR spot rate at the end of the contract.)

The hedging instrument for currency SWAP is deemed to be a derivative asset recognised at the fair value at the inception of the contract.

The fair value of this derivative asset is measured by reference to forward exchange quotes for USD purchase contracts by commercial banks, who are the normal market participants. Thus the fair value gain at the inception of the contract is the full amount of the forward premium quote at the end of one year.

The subsequent change in fair value is recognised in the income statement.

CBSL normally does not enter into forward exchange contracts with market participants providing 100% discount to the USD LKR spot rate at the time of the maturity of the contract. Thus, this arrangement has features of both derivative instrument and Government grant through the agency of CBSL.

The initial gain by reference to forward price of an equivalent forward exchange dollar purchase contract is recognised as a Government grant and deferred income.

The deferred income is amortised on a systematic basis over the period in which the Bank recognises the fall in value of derivative which the grant is intended to compensate.

	BANK		GROUP	
As at	**31.12.2016 LKR 000**	31.12.2015 LKR 000	**31.12.2016 LKR 000**	31.12.2015 LKR 000

42 *Deferred Tax Asset/Liability*

Deferred tax liability (Note 42.1)	**851,662**	880,490	**873,912**	880,490
Deferred tax asset (Note 42.2)	**–**	–	**628**	1,536
Net total	**851,662**	880,490	**873,284**	878,954

42.1 Deferred Tax Liability

Balance at beginning	**1,021,744**	506,553	**1,022,192**	742,729
Balance transferred on amalgamation	**–**	394,498	**–**	–
Recognised in income statement	**(30,252)**	120,693	**(8,002)**	309,571
Recognised in other comprehensive income	**–**	–	**(448)**	(30,108)
	991,492	1,021,744	**1,013,742**	1,022,192
Transferred from deferred tax asset	**(139,830)**	(141,254)	**(139,830)**	(141,702)
Balance as at 31 December	**851,662**	880,490	**873,912**	880,490

As at	BANK 31.12.2016 LKR 000	BANK 31.12.2015 LKR 000	GROUP 31.12.2016 LKR 000	GROUP 31.12.2015 LKR 000

42.2 Deferred Tax Asset

Balance at beginning	**141,254**	19,699	**143,238**	102,270
Balance transferred on amalgamation	–	168,044	–	–
Recognised in income statement	**(69,953)**	(47,241)	**(70,623)**	39,415
Recognised in other comprehensive income	**68,529**	752	**67,843**	1,553
	139,830	141,254	**140,458**	143,238
Offset against deferred tax liability	**(139,830)**	(141,254)	**(139,830)**	(141,702)
Balance as at 31 December	–	–	**628**	1,536

42.3 Recognised Deferred Tax Assets and Liabilities

Assets				
Property, equipment and software	–	–	**(1,234)**	–
Gratuity liability and actuarial losses on defined benefit plans	**61,868**	50,445	**63,730**	52,429
Fair value of available-for-sale financial assets	**77,962**	12,515	**77,962**	**12,515**
Unutilised tax losses – Finance leases	–	78,294	–	**78,294**
Balance as at 31 December	**139,830**	141,254	**140,458**	143,238
Liabilities				
Property, equipment and software	**133,762**	136,954	**156,012**	137,402
Finance leases	**857,730**	884,790	**857,730**	884,790
	991,492	1,021,744	**1,013,742**	1,022,192

42.4 Unrecognised Deferred Tax Assets

Accumulated tax losses		
DFCC Consulting (Pvt) Limited – Subsidiary	**6,114**	6,022
Synapsys Limited – Subsidiary*	**7,321**	3,968
	13,435	9,990

**Tax effect at 10%*

As at	BANK 31.12.2016 LKR 000	BANK 31.12.2015 LKR 000	GROUP 31.12.2016 LKR 000	GROUP 31.12.2015 LKR 000

43 *Other Assets*

Refundable deposits and advances	**323,819**	169,712	**330,694**	171,501
Dividends due	**–**	24,068	**–**	24,068
Debtors (net of provisions)	**718,135**	565,639	**757,936**	623,670
Clearing account balances	**1,521,023**	945,960	**1,521,024**	945,960
Defined benefit asset	**165,363**	–	**165,363**	–
	2,728,340	1,705,379	**2,775,017**	1,765,199

44 *Due to Banks*

Balances with foreign banks	**1,536,573**	75,369	**1,536,573**	75,369
Borrowing – local banks	**12,063,868**	13,269,916	**12,063,868**	13,271,166
Borrowing – other local sources	**–**	–	**–**	–
Securities sold under repurchase (Repo) agreements	**4,503,146**	11,019,118	**4,503,146**	11,019,118
	18,103,587	24,364,403	**18,103,587**	24,365,653

45 *Due to Other Customers*

Total amount due to other customers	**140,514,373**	110,890,685	**140,219,872**	110,551,220

45.1 Analysis

45.1.1 By Product

Demand deposits (current accounts)	**4,649,369**	3,705,529	**4,648,714**	3,705,529
Savings deposits	**23,798,492**	17,374,347	**23,776,214**	17,337,514
Fixed deposits	**111,052,817**	88,854,449	**110,781,249**	88,551,817
Certificate of deposits	**739,483**	699,080	**739,483**	699,080
Other deposits	**274,212**	257,280	**274,212**	257,280
	140,514,373	110,890,685	**140,219,872**	110,551,220

45.1.2 By Currency

Sri Lankan Rupee	**112,168,697**	100,056,541	**111,881,136**	99,721,458
United States Dollar (USD)	**23,790,651**	6,766,779	**23,783,711**	6,762,397
Great Britain Pound (GBP)	**1,521,875**	1,110,474	**1,521,875**	1,110,474
Others	**3,033,150**	2,956,891	**3,033,150**	2,956,891
	140,514,373	110,890,685	**140,219,872**	110,551,220

As at	BANK 31.12.2016 LKR 000	BANK 31.12.2015 LKR 000	GROUP 31.12.2016 LKR 000	GROUP 31.12.2015 LKR 000

46 *Other Borrowing*

	BANK 31.12.2016 LKR 000	BANK 31.12.2015 LKR 000	GROUP 31.12.2016 LKR 000	GROUP 31.12.2015 LKR 000
Repayable in Foreign Currency				
Borrowing sourced from				
Multilateral institutions	**7,027,937**	3,540,230	**7,027,937**	3,540,230
Bilateral institutions	**4,046,689**	3,124,940	**4,046,689**	3,124,940
	11,074,626	6,665,170	**11,074,626**	6,665,170
Repayable in Rupees				
Borrowing sourced from				
Multilateral institutions	**15,328,484**	18,648,230	**15,328,484**	18,648,230
Bilateral institutions	**1,154,259**	1,036,860	**1,154,259**	1,036,860
Central Bank of Sri Lanka – refinance loans (secured)	**250,548**	392,314	**250,548**	392,314
Securities sold under repurchase (Repo) agreements	**12,994,573**	9,212,723	**12,979,527**	9,212,723
	29,727,864	29,290,127	**29,712,818**	29,290,127
	40,802,490	35,955,297	**40,787,444**	35,955,297

46.1 Assets Pledged as Security

Nature	Amount 31.12.2016 LKR 000
Assignment in terms of Section 88 A of the Monetary Law of Loans refinanced by Central Bank of Sri Lanka	248,222

47 *Debt Securities Issued*

Year of issuance	Face value LKR 000	Interest rate %	Repayment terms	Issue date	Maturity date	BANK/GROUP 31.12.2016 LKR 000	BANK/GROUP 31.12.2015 LKR 000
Issued by Bank							
i. Debenture issue (LKR)							
- Unlisted	506,000	16.5	3 Years	22-Jan-13	22-Jan-16	–	506,212
- Listed	5,000,000	8.36	3 Years	18-Aug-14	18-Aug-17	**5,138,232**	5,122,538
	3,000,000	9.10	5 Years	10-Jun-15	10-Jun-20	**3,131,330**	3,136,376
	5,315,450	10.63	3 Years	18-Mar-16	18-Mar-19	**5,745,558**	–
ii. Notes issue (USD)	15,010,000	9.625	5 Years	1-Nov-13	31-Oct-18	**15,164,065**	14,527,534
						29,179,185	23,292,660
Due within one year						**5,138,232**	506,212
Due after one year						**24,040,953**	22,786,448
						29,179,185	23,292,660

Carrying values are the discounted amounts of principal and interest.

47.1 Debt Securities Issued – Listed Debentures

Debenture category	Interest payable frequency	Applicable interest rate %	Interest rate of Comparative Government Securities (Gross) p.a. %	**Balance as at 31.12.2016 LKR 000**	Market price Highest	Market price Lowest	Market price Last traded	Yield last traded %
Fixed Rate:								
2014/2017	Annually	8.5	10.05	**3,937,104**	N/T	N/T	N/T	N/A
2014/2017	Semi-annually	8.33	10.05	**899,979**	N/T	N/T	N/T	N/A
2014/2017	Quarterly	8.24	10.05	**301,149**	N/T	N/T	N/T	N/A
2015/2020	Annually	9.1	12.05	**3,131,330**	N/T	N/T	N/T	N/A
2016/2019	Annually	10.625	11.55	**5,745,558**	N/T	N/T	N/T	N/A

N/T - Not Traded

Other ratios – Bank	**31.12.2016**	31.12.2015
Debt to equity ratio (times)	**2.12**	2.04
Interest cover (times)	**1.01**	0.98
Liquid asset ratio (%)	**27.19**	22.5

As at	**BANK 31.12.2016 LKR 000**	BANK 31.12.2015 LKR 000	**GROUP 31.12.2016 LKR 000**	GROUP 31.12.2015 LKR 000
48 Other Liabilities				
Accruals	**395,545**	356,337	**412,010**	360,215
Prior year's dividend	**57,538**	39,805	**57,538**	39,805
Security deposit for leases	**4,065**	4,065	**44,888**	41,692
Prepaid loan and lease rentals	**57,166**	85,033	**84,442**	85,033
Accounts payable	**2,925,313**	2,162,651	**2,978,449**	2,226,747
Provision for staff retirement benefits (Note 48.1)	**282,684**	305,965	**306,640**	331,818
Other provisions (Note 48.2)	**468,364**	414,702	**468,364**	414,702
	4,190,675	3,368,558	**4,352,331**	3,500,012
48.1 Provision for Staff Retirement Benefits				
Defined benefit – unfunded pension (Note 48.1.1)	**61,728**	66,994	**61,728**	66,994
– unfunded end of service gratuity (Note 48.1.2)	**220,956**	180,163	**244,912**	206,016
– funded pension (Note 48.1.3)	**–**	58,808	**–**	58,808
	282,684	305,965	**306,640**	331,818

As at	BANK/ GROUP 31.12.2016 LKR 000	BANK/ GROUP 31.12.2015 LKR 000
48.1.1 Unfunded Pension Liability		
Balance at beginning	**66,994**	67,686
Interest on obligation	**5,688**	4,569
Benefit paid	**(6,995)**	(4,664)
Actuarial experience loss/(gain)	**608**	(597)
Actuarial gain due to changes in assumptions	**(4,567)**	–
Present value of defined benefit pension obligations	**61,728**	66,994

As at	BANK 31.12.2016 LKR 000	BANK 31.12.2015 LKR 000	GROUP 31.12.2016 LKR 000	GROUP 31.12.2015 LKR 000
48.1.2 Unfunded End of Service Gratuity				
Balance at beginning	**180,163**	70,355	**206,016**	172,678
Liability transferred	**3,416**	–	–	–
Current service cost	**29,417**	12,404	**33,853**	28,636
Interest on obligation	**17,440**	6,960	**19,218**	14,517
Balances transferred on amalgamation	–	97,950	–	–
Benefits paid	**(20,488)**	(11,477)	**(22,396)**	(15,148)
Actuarial experience loss	**11,306**	3,971	**8,519**	5,333
Actuarial gain due to changes in assumptions	**(298)**	–	**(298)**	–
Present value of defined benefit pension obligations	**220,956**	180,163	**244,912**	206,016

As at	BANK/GROUP 31.12.2016 LKR 000	BANK/GROUP 31.12.2015 LKR 000
48.1.3 Funded Pension (Asset)/Liability		
Present value of defined benefit pension obligations (Note 48.1.3.1)	**2,280,943**	2,296,454
Fair value of pension assets (Note 48.1.3.2)	**(2,446,306)**	(2,237,646)
Defined benefit liability/(asset)	**(165,363)**	58,808

As per LKAS 19 – 'employee benefits' if a plan is in surplus, then the amount recognised as an asset in the Statement of Financial Position is limited to the 'asset ceiling'. The asset ceiling is the present value of any economic benefits available to the entity in the form of a refund or a reduction in future contributions. By analysing all the future economic benefits available to the DFCC Pension Fund, the independent actuary Mr Piyal S Goonetilleke of Priyal S Goonetilleke & Associate has estimated the asset ceiling as at 31 December 2016 to be LKR 169.45 million in his report dated 13 February 2017. Based on the estimated asset ceiling, the Bank has recognised a surplus asset amounting to LKR 165.36 million under other assets in Note 43.

As at	BANK/GROUP 31.12.2016 LKR 000	31.12.2015 LKR 000
48.1.3.1 Movement in Defined Pension Obligation		
Present value of defined benefit pension obligations at beginning	**2,296,454**	2,141,649
Current service cost	**71,746**	58,048
Interest on obligation	**206,681**	144,561
Benefits paid	**(155,931)**	(125,982)
Actuarial experience loss	**85,266**	78,178
Actuarial gain due to changes in assumptions	**(223,273)**	–
Present value of defined benefit pension obligations	**2,280,943**	2,296,454

As at	BANK/GROUP 31.12.2016 LKR 000	31.12.2015 LKR 000
48.1.3.2 Movement in Pension Assets		
Pension assets at beginning	**2,237,646**	2,139,052
Expected return on pension assets	**193,785**	139,779
Employer's contribution	**164,000**	106,000
Benefits paid	**(155,931)**	(125,982)
Actuarial experience gain/(loss)	**6,806**	(21,203)
	2,446,306	2,237,646
48.1.3.3 Plan Assets Consist of the Following		
Debentures	**216,555**	321,754
Government Bonds	**1,439,581**	1,517,319
Fixed deposits	**789,623**	397,209
Others	**547**	1,364
	2,446,306	2,237,646

As at	Unfunded Pension Liability* 31.12.2016 LKR 000	Unfunded End of Service Gratuity* 31.12.2016 LKR 000	Funded Pension Liability* 31.12.2016 LKR 000
48.1.3.4 The Expected Benefit Payout in the Future Years to the Defined Benefit Obligation – Bank			
Within next 12 months	**6,995**	**21,416**	**188,223**
Between 2 and 5 years	**27,980**	**118,953**	**738,595**
Beyond 5 years	**34,975**	**266,670**	**1,314,638**

** Based on expected benefits payout in next 10 years.*

48.1.3.5 Unfunded Pension Liability

This relates to pension liability of an ex-employee, not funded through the DFCC Bank PLC Pension Fund. The liability covers the pension benefit to retiree and survivors.

48.1.3.6 Actuarial Valuation

Actuarial valuation was carried out by Piyal S Goonetilleke, Fellow of the Society of Actuaries USA of Piyal S Goonetilleke & Associates, on 31 December 2016.

48.1.3.7 Actuarial Valuation Method

Projected unit credit method was used to allocate the actuarial present value of the projected benefits earned by employees to date of valuation.

	31 December 2016		31 December 2015	
	Pension benefit (%)	End of service gratuity (%)	Pension benefit (%)	End of service gratuity (%)
48.1.3.8 Principal Actuarial Assumptions Bank				
Discount rate per annum				
Pre-retirement	10	10	9	9.5
Post-retirement	10	Not applicable	9	Not applicable
Future salary increases per annum	10.5	10.5	10.5	10
Expected rate of return on pension assets	10	–	9	–
Actual rate of return on pension assets	11.8	–	7	–
Mortality	UP 1984 mortality table	RP-2000 mortality table	UP 1984 mortality table	RP-2000 mortality table
Retirement age	55 years	55 years	55 years	55 years
Normal form of payment:	Lump sum commuted pension payment followed by reduced pension for 10 years (25% reduction) (for new entrants recovery period is 15 years)	Lump sum	Lump sum commuted pension payment followed by reduced pension for 10 years (25% reduction) (for new entrants recovery period is 15 years)	Lump sum
Turnover rate -				
Age				
20	10.0	10.0	10.0	10.0
25	10.0	10.0	10.0	10.0
30	10.0	10.0	10.0	10.0
35	7.5	7.5	7.5	7.5
40	5.0	5.0	5.0	5.0
45	2.5	2.5	2.5	2.5
50/55	1.0	1.0	1.0	1.0

Other than the discount rate, the future salary increase and the expected rate of return on pension assets, the principal actuarial assumptions in the previous year has not changed. The discount rate is the yield rate on 31 December 2016 with a term equalling the estimated period for which all benefit payments will continue. This period is approximately 24.4 years for pension and 10.9 years for end of service gratuity.

48.1.3.9 Principal Actuarial Assumptions – Group

The subsidiaries have used discount rates ranging 11% - 11.5% and the salary increment rate ranging 8% - 10.5%.

48.1.3.10 Sensitivity of Assumptions Used in the Actuarial Valuation

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions used with all other variables held constant in the employment benefit liability measurement. The effect in the income statement and the statement of financial position with the assumed changes in the discount rates and salary increment rate is given below:

	Effect on income statement increase/(decrease) LKR 000	Effect on defined benefit obligation increase/(decrease) LKR 000
Funded Pension Liability		
Discount rate		
1%	109,496	(109,496)
-1%	(223,273)	223,273
Salary Increment Rate		
1%	(47,452)	47,452
-1%	44,521	(44,521)
Unfunded Pension Liability*		
Discount rate		
1%	4,015	(4,015)
-1%	(4,566)	4,566
Unfunded End of Service Gratuity		
Discount rate		
1%	22,916	(22,916)
-1%	(27,078)	27,078
Salary Increment Rate		
1%	(26,129)	26,129
-1%	22,592	(22,592)

** Salary increment not applicable for ex-employee.*

As at	31.12.2015 LKR 000	31.03.2015 LKR 000	31.03.2014 LKR 000	31.03.2013 LKR 000	31.03.2012 LKR 000
48.1.3.11 Historical Information					
Present value of the defined benefit obligation	2,296,454	2,141,649	1,866,434	1,750,987	1,494,887
Fair value of plan assets	(2,237,646)	2,139,052	2,027,664	1,821,009	1,607,025
Deficit/(surplus) in the plan	58,808	2,597	(161,230)	(70,022)	(112,138)

As at	BANK 31.12.2016 LKR 000	BANK 31.12.2015 LKR 000	GROUP 31.12.2016 LKR 000	GROUP 31.12.2015 LKR 000

48.2 Other Provisions

Balance at beginning	**414,702**	237,743	**414,702**	327,707
Provisions for the financial period	**468,364**	308,427	**468,364**	414,702
Provisions used during the period	**(401,927)**	(234,647)	**(401,927)**	(324,611)
Provisions reversed during the period	**(12,775)**	(3,096)	**(12,775)**	(3,096)
Balance transferred on amalgamation	–	106,275	–	–
Balance as at 31 December	**468,364**	414,702	**468,364**	414,702

49 Subordinated Term Debt

	Face value LKR 000	Interest rate %	Repayment terms	Issue date	Maturity date	BANK 31.12.2016 LKR 000	BANK 31.12.2015 LKR 000	GROUP 31.12.2016 LKR 000	GROUP 31.12.2015 LKR 000
Listed Debentures									
Issued by Bank	6,043,140	12.75	7 Years	9-Nov-16	9-Nov-23	**6,131,261**	672,600	**6,131,261**	672,600
	956,860	12.15	5 Years	9-Nov-16	9-Nov-21	**970,094**		**970,094**	
Transferred on amalgamation	2,000,000	9.4	5 Years	10-Jun-15	10-Jun-20	**2,104,282**	833,584	**2,104,282**	833,584
	9,000,000					**9,205,637**	1,506,184	**9,205,637**	1,506,184
Due within one year							1,672,888	–	1,672,888
Due after one year						**9,205,637**	2,094,193	**9,205,637**	2,094,193
						9,205,637	3,767,081	**9,205,637**	3,767,081

49.1 Subordinated Term Debt – Listed Debentures

Debenture category	Interest rate frequency %	Applicable interest rate	Interest rate of comparative government securites (Gross) p.a. %	**Balance as at 31.12.2016 LKR 000**	Market price Highest	Market price Lowest	Market price Last Traded	Yield last traded %
Fixed Rate								
2006/2020	Annually	9.4	12.05	**2,104,282**	N/T	N/T	N/T	N/A
2011/2021	Annually	12.15	12.25	**970,094**	N/T	N/T	N/T	N/A
2015/2023	Annually	12.75	12.35	**6,131,261**	N/T	N/T	N/T	N/A

N/T – Not traded

Bank’s debt equity ratio, interest cover and liquid asset ratios are given in Note 47.1.

As at	BANK/GROUP 31.12.2016 LKR 000	31.12.2015 LKR 000

50 Stated Capital

Balance as at 31 December (Number of shares – 265,097,688)	**4,715,814**	4,715,814

51 Statutory Reserve

51.1 Reserve Fund

Five percent of profit after tax is transferred to the reserve fund as per Direction issued by Central Bank of Sri Lanka under Section 76 (j) (1) of the Banking Act No. 30 of 1988 as amended by Banking (Amendment) Act No. 33 of 1995.

52 Retained Earnings

This represents cumulative net earnings, inclusive of final dividend approved amounting to LKR 1,193 million. The balance is retained and reinvested in the business of the Bank.

	BANK		GROUP	
As at	**31.12.2016 LKR 000**	31.12.2015 LKR 000	**31.12.2016 LKR 000**	31.12.2015 LKR 000

53 Other Reserves

General reserve	**13,779,839**	13,779,839	**13,779,839**	13,779,839
Fair value reserve	**14,549,487**	14,285,657	**12,085,454**	11,857,655
Exchange equalisation reserve	**–**	–	**33,428**	21,910
	28,329,326	28,065,496	**25,898,721**	25,659,404

54 Contingent Liabilities and Commitments

Accounting Policy →

Commitments and Contingencies

Contingent liabilities, which include guarantees are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Bank; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require the outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

Financial Guarantees

Liabilities under financial guarantee contracts are recorded initially at their fair value, which is generally the fee received or receivable. Subsequently, financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortisation, and the best estimate of the expenditure required to settle the obligations.

54.1 Commitments and Contingencies

As at	BANK 31.12.2016 LKR 000	BANK 31.12.2015 LKR 000	GROUP 31.12.2016 LKR 000	GROUP 31.12.2015 LKR 000
Guarantees issued to –				
Banks in respect of indebtedness of customers of the Bank	**34,403**	41,122	**34,403**	41,122
Companies in respect of indebtedness of customers of the Bank	**5,092,952**	3,750,570	**5,092,952**	3,750,570
Principal collector of customs (duty guarantees)	**313,295**	172,090	**313,295**	172,090
Shipping guarantees	**1,541,757**	620,806	**1,541,757**	620,806
Documentary credit	**9,763,476**	10,367,005	**9,763,476**	10,367,005
Bills for collection	**3,148,059**	2,175,953	**3,148,059**	2,175,953
Performance bonds	**2,461,709**	2,066,268	**2,461,709**	2,066,268
Forward exchange contracts (net)	**26,704,132**	16,943,219	**26,704,132**	16,943,219
Commitments in ordinary course of business – Commitments for unutilised credit facilities	**52,059,192**	39,719,549	**52,059,192**	39,719,549
Capital expenditure approved by the Board of Directors				
Contracted	**202,692**	90,030	**202,692**	90,030
Not contracted	**130,434**	68,239	**130,434**	68,239
	101,452,101	76,014,851	**101,452,101**	76,014,851

54.2 Litigations Against the Bank

54.2.1 A client has filed action against five defendants including the Bank in the District Court of Kurunegala, claiming that a property mortgaged by him to the Bank had been unlawfully transferred to a third party under the parate process to be set aside, and also claiming LKR 6 million as damages from the Bank. The Bank is defending the case before the District Court.

54.2.2 There are four cases filed in the District Court of Kandy and one case filed in District Court of Negombo and another case in District Court of Moratuwa, where third parties are claiming ownership of properties acquired by the Bank under recovery action. The Bank is defending the cases before the respective District Courts.

54.2.3 There is one cases filed in the District Court of Bandarawela, where a third party is claiming ownership of a property mortgaged to the Bank. The Bank is defending the cases before the District Court.

54.2.4 There are two cases filed in the District Court of Anuradhapura, by a customer claiming damages due to a cancellation by the insurer of an insurance policy covering a mortgaged asset and claiming damages for not insuring a mortgaged asset. The Bank is defending the cases before the District Court.

54.2.5 The Bank has appealed to the High Court to set aside an award made in favour of an ex-employee by the Labour Tribunal.

54.2.6 Case filed in the Labour Tribunal by one ex-employee of the Bank, claiming compensation from the Bank.

54.2.7 Case filed in the Labour Tribunal – Galle by an ex-employee of the Bank, claiming compensation and reinstatement from the Bank.

No material losses are anticipated as a result of the aforesaid actions.

54.3 Tax Assessments Against the Bank

The following assessments are outstanding, against which the Bank has duly appealed.

1. The income tax assessment received by the Bank for the Year of Assessment 2010/11, which was determined by the Commissioner General of Inland Revenue amounting to LKR 760 million has been appealed to the Tax Appeal Commission for their determination.

2. Tax assessments on income tax received by the DFCC Vardhana Bank for the Year of Assessment 2009-2010 and 2010-2011, which were determined by the Commissioner General of Inland Revenue, have been appealed to the Tax Appeal Commission.

The Bank is of the view that the above assessments will not have any significant impact on the financial statements.

55 Related Party Transactions

55.1 The Group's related parties include associates, subsidiaries, Trust established by the Bank for post-employment retirement plan, joint venture, Key Management Personnel, close family members of Key Management Personnel and entities which are controlled, jointly controlled or significantly influenced for which significant voting power is held by Key Management Personnel or their close family members.

As at	**31.12.2016 LKR 000**	31.12.2015 LKR 000
55.2 Transactions with Subsidiaries		
55.2.1 Statement of Financial Position – Bank		
Assets		
Loans to and receivable from other customers	–	1,960
	–	1,960
Liabilities		
Due to other customers	**290,777**	339,901
Other borrowing	**15,065**	1,334
	305,842	341,235

	Year ended 31.12.2016 LKR 000	9 Months ended 31.12.2015 LKR 000
55.2.2 Income Statement – Bank		
Interest income	**20**	41,266
Interest expenses	**29,930**	32,351
Fee and commission income	**44**	**37**
Other operating income (net)	**317**	16,409
Net gain from financial investments – dividend received	**44,596**	279,769
Other overhead expenses	**142,762**	79,236
Personnel expenses – reimbursed expenses	–	216,793

As at	**31.12.2016 LKR 000**	31.12.2015 LKR 000
55.3 Transactions with Joint Venture		
55.3.1 Statement of Financial Position – Bank		
Assets		
Loans to and receivable from other customers	**146,271**	–
	146,271	–
Liabilities		
Due to other customers	**1,506**	303
Other borrowing	–	30,005
Debt Securities issued	**103**	–
	1,609	30,308

	Year ended 31.12.2016 LKR 000	9 Months ended 31.12.2015 LKR 000

55.3.2 Income Statement – Bank

Net (loss)/gain from trading		–	(3,951)
Interest expenses		**8**	2,565
Net gain from financial investments	– reverse repo income	–	73
	– dividend received	**30,200**	30,130

As at	31.12.2016 LKR 000	31.12.2015 LKR 000

55.4 Transactions with Associate

55.4.1 Statement of Financial Position – Bank

Liabilities

Due to other customers	**135**	25
Other borrowing	–	5,541
	135	5,566

	Year ended 31.12.2016 LKR 000	9 Months ended 31.12.2015 LKR 000

55.4.2 Income Statement – Bank

Interest expenses	–	1,378
Net gain from financial investments – dividend received	**9,463**	8,128
Other overhead expenses	–	28

As at	31.12.2016 LKR 000	31.12.2015 LKR 000

55.5 Transaction with Entities in which Directors of the Bank have Significant Influence without Substantial Shareholding

55.5.1 Statement of Financial Position – Bank

Assets

Financial investments – available-for-sale	–	102,701
	–	102,701

Liabilities

Due to other customers	–	408,061
	–	408,061

	Year ended 31.12.2016 LKR 000	9 Months ended 31.12.2015 LKR 000
55.5.2 Income Statement – Bank		
Interest income	–	289
Fee and commission income	–	793
Net gain from financial investments – dividend received	–	1,283
Interest expenses	–	6,264

55.6 Transactions with Key Management Personnel

55.6.1 Key Management Personnel

Key Management Personnel are the Board of Directors of the Bank, Executive Vice President Investment/International Relations and Strategic Planning, Chief Risk Officer, Senior Vice President Treasury and Resource Mobilisation, Chief Financial Officer and Chief Operating Officer for the purpose of Sri Lanka Accounting Standard 24 on 'Related Party Disclosures'.

	BANK		GROUP	
	Year ended 31.12.2016 LKR 000	9 Months ended 31.12.2015 LKR 000	Year ended 31.12.2016 LKR 000	9 Months ended 31.12.2015 LKR 000
55.6.2 Compensation of Directors and Other Key Management Personnel				
Number of persons	**16**	21	**18**	23
Short-term employment benefits	**124,920**	106,589	**139,575**	180,809
Post employment benefits – pension	**2,494**	6,163	**2,494**	6,163
– others	**15,115**	12,313	**15,524**	22,241
	142,529	125,065	**157,593**	209,213

As at	31.12.2016		31.12.2015	
	Number of KMPs	LKR 000	Number of KMPs	LKR 000
55.6.3 Other Transactions with Key Management Personnel and their Close Family Members				
55.6.3.1 Statement of Financial Position – Bank				
Assets				
Loans to and receivables from other customers	**6**	**17,289**	7	32,387

As at	31.12.2016		31.12.2015	
	Number of KMPs	LKR 000	Number of KMPs	LKR 000
Liabilities				
Due to other customers	**21**	**285,106**	28	312,256
Other borrowing	**1**	**16,400**	4	116,204
Debt securities issued	**1**	**2,168,253**	4	31,906
		2,469,759		460,366

	Year ended 31.12.2016 LKR 000	9 Months ended 31.12.2015 LKR 000

55.6.3.2 Income Statement – Bank

	Year ended 31.12.2016 LKR 000	9 Months ended 31.12.2015 LKR 000
Interest income	**877**	2,378
Interest expenses	**20,405**	17,457
Fee and commission income	**5**	55

55.6.4 Accommodation Granted to Directors of the Bank

Disclosure under Section 47 (11A) of the Banking Act, No. 30 of 1988 as amended by amendment Act, No. 2 of 2005.

Name of Director	Limit LKR 000	Type of Facility	Balance as at 31.12.2016 LKR 000	Security	
				Type	Value LKR 000
C R Jansz	**500**	Credit Card	–		
L H A L Silva*	**500**	Credit Card	**29**		
L H A L Silva	**2000**	Overdraft	–	Cash Deposits	2,603
L N De S Wijayarathne	**500**	Credit Card	–		
T Dharmarajah	**500**	Credit Card	–		
A R Fernando	**500**	Credit Card	–		
A R Fernando*	**25,000**	Overdraft	**367**	Cash Deposits	33,773
Ms S R Thambiayah	**500**	Credit Card	–		
			396		

The above total is included under loans and advances to Key Management Personnel and their close family members in Note 55.6.3.1.

55.6.5 Transactions with DFCC Bank Pension Fund – Trust

DFCC Bank Pension Fund constituted as a Trust was established by the DFCC Bank to discharge defined benefit pension liability of eligible employees of the Bank.

	31.12.2016 LKR 000	31.12.2015 LKR 000
Contribution payable at beginning	**(58,808)**	(2,597)
Contribution due for the financial period recognised as expense in income statement	**(84,642)**	(62,830)
Recognition of actuarial gains/(losses) in the other comprehensive income	**144,813**	(99,381)
Contribution paid by the Bank	**164,000**	106,000
Contribution prepaid/(payable) (Note 48.1.3)	**165,363**	(58,808)

55.7 Transactions with Government of Sri Lanka (GOSL) and its Related Entities

Entities related to the Government of Sri Lanka (GOSL) by virtue of their aggregate shareholdings has the power to participate in the financial and operating policy decision of the Bank and by extension to participate in the financial and operating policy decisions of the Bank. However, in fact this power was not exercised.

Paragraph 25 of Sri Lanka Accounting Standard – LKAS 24 on 'Related Party Disclosure' has exempted DFCC Bank from the normally applicable disclosure requirements on transactions with GOSL – related entities. In making use of this exemption the Board has determined that the limited disclosure required under paragraph 26 of LKAS 24 is only required to be made for transaction that are individually significant because of their size although these transactions were undertaken on normal market terms in the ordinary course of business and there was no requirement to disclose the transactions to regulatory or supervisory authorities or require shareholder approval.

55.7.1 Individually Significant Transactions Included in the Statement of Financial Position

As at	**31.12.2016 LKR 000**	31.12.2015 LKR 000
55.7.1.1 Statement of Financial Position – Bank		
Assets		
Cash and cash equivalents	–	424,068
Loans to and receivables from banks	**12,213,311**	4,372,191
Loans to and receivables from other customers	**5,859,992**	4,492,981
Balances with the Central Bank of Sri Lanka	**8,062,567**	5,553,809
Financial investments – Held-to-maturity	**17,239,338**	12,547,298
Financial investments – Available-for-sale	**29,365,255**	29,690,593
Government grant receivable	**861,914**	539,758
	73,602,377	57,620,698
Liabilities		
Due to banks	**7,672,071**	6,617,554
Due to other customers	**5,796,290**	4,753,843
Other borrowing	**8,388,916**	9,018,778
Other borrowing – credit lines	**23,761,357**	21,631,475
Debt securities issued	**2,393,335**	1,038,055
Government grant – deferred income	**701,664**	476,008
Subordinated term debt	**3,004,003**	1,020,197
	51,717,636	44,555,910
Commitments		
Undrawn credit facilities	**3,494,485**	4,727,930

	Year ended ended 31.12.2016 LKR 000	9 Months ended 31.12.2015 LKR 000
55.7.1.2 Income Statement – Bank		
Interest income	**3,454,367**	999,519
Net (loss)/gain from trading	**(9,880)**	5,180
Net gain from financial investments	–	7,787
Interest expenses	**3,050,930**	1,101,554

There are no other transactions that are collectively significant with Government related entities.

55.8 Disclosure Requirement under Section 9 of the Colombo Stock Exchange Listing Rules

55.8.1 The Bank does not have any non-recurrent related party transactions carried out during the financial year under review with a value exceeding 10% of the equity or 5% of the total assets whichever is lower, as per the audited financial statements of the Bank.

55.8.2 The Bank does not have any recurrent related party transactions carried out during the financial year under review with value exceeding 10% of the gross revenue/income as per the audited financial statements of the Bank.

55.9 Pricing Policy and Terms for Transactions with Related Parties

Bank enters into transactions with related parties in the ordinary course of business on terms similar to comparable transactions with an unrelated comparable counterparty with the exception of accommodation granted to Key Management Personnel under approved schemes uniformly applicable to all or specific categories of employees. The terms include pricing for loans, deposits and services, collateral obtained for loans where appropriate.

56 Business Segment Information

Business segment results include items directly attributable to a business segment as well as those that can be allocated on a reasonable basis. Unallocated items include corporate assets, head office expenses, and tax assets and liabilities.

For the year ended 31 December 2016	Banking LKR 000	Finance leasing LKR 000	Investing in equity LKR 000	Other LKR 000	Unallocated LKR 000	Eliminations LKR 000	Total LKR 000
Group							
Revenue							
Interest income	22,360,944	1,833,214	–	42,070	–	(30,116)	24,206,112
Net fees and commission income	1,309,049	–	–		–		1,309,049
Net gain from trading	340,456	–	–	–	–	–	340,456
Net loss from financial instruments at fair value through profit or loss	(179,727)	–	–	–	–	–	(179,727)
Net gain from financial investments	152,695	–	1,012,694	–	–	(84,260)	1,081,129
Other operating (loss)/income – net	(125,553)	–	–	469,396	50,123	(170,902)	223,064
Total income	23,857,864	1,833,214	1,012,694	511,466	50,123	(285,278)	26,980,083
Percentage*	88	7	4	2	–	(1)	100
Expenses							
Segment losses	882,415		54,852	–	–	(20,923)	916,344
Depreciation	–	–	–	38,254	–	–	38,254
Other operating and interest expense	18,399,506	1,300,127	–	310,902	–	(201,532)	19,809,003
	19,281,921	1,300,127	54,852	349,156	–	(222,455)	20,763,601
Result	4,575,943	533,087	957,842	162,310	50,123	(62,823)	6,216,482
Unallocated expenses							717,355
Value added tax and nation building tax on financial services							986,110
Operating profit after value added tax and nation building tax on financial services							4,513,017
Share of profits of associate and joint venture							161,151
Profit before income tax							4,674,168
Income tax expense							1,205,094
Profit for the period							3,469,074
Other comprehensive expenses net of tax							382,670
Total comprehensive expenses							3,851,744
Total comprehensive income – non-controlling interests							54,270
Profit attributable to equity holders of the Bank							3,797,474
Assets	236,081,685	15,909,152	20,018,918	790,936	17,467,961	(446,216)	289,822,436
Percentage*	81	5	7	1	6	–	100
Investments in associate and joint venture company							1,443,127
Liabilities	212,473,516	14,318,237	–	228,080	17,470,595	(334,584)	244,155,844
Capital expenditure – additions	–	–	–	39,942	218,550	–	258,492

* *Net of eliminations.*

For the period ended 31 December 2015	Banking LKR 000	Finance leasing LKR 000	Investing in equity LKR 000	Other LKR 000	Unallocated LKR 000	Eliminations LKR 000	Total LKR 000
Group							
Revenue							
Interest income	13,948,157	1,383,604	–	23,658	–	(46,851)	15,308,568
Net fees and commission income	1,099,543	–	–	247,363	–	(177,315)	1,169,591
Net gain from trading	215,575	–	–	–	–	–	215,575
Net gain from financial instruments at fair value through profit or loss	74,583	–	–	–	–	–	74,583
Net gain/(loss) from financial investments	184,890	–	412,362	–	–	(89,724)	507,528
Other operating (loss)/income – net	(20,846)	–	–	174,776	80,383	(17,204)	217,109
Total Income	15,501,902	1,383,604	412,362	445,797	80,383	(331,094)	17,492,954
Percentage*	89	8	2	3	–	(2)	100
Expenses							
Segment losses	797,597	(589)	–	–	–	(1,681)	795,327
Depreciation	–	–	–	26,555	–	–	26,555
Other operating and interest expenses	12,266,942	664,425	–	305,470	–	(241,370)	12,995,467
	13,064,539	663,836	–	332,025	–	(243,051)	13,817,349
Result	2,437,363	719,768	412,362	113,772	80,383	(88,043)	3,675,605
Unallocated expenses							611,498
Value added tax and nation building tax on financial services							589,330
Operating profit after value added tax and nation building tax on financial services							2,474,777
Share of profits of associate and joint venture							78,693
Profit before income tax							2,553,470
Income tax expense							911,842
Profit for the year							1,641,628
Other comprehensive income net of tax							(3,358,430)
Total comprehensive income							(1,716,802)
Total comprehensive income – non-controlling interests							48,666
Profit attributable to equity holders of the Bank							(1,765,468)
Assets	197,078,172	15,436,155	19,399,277	733,285	13,706,000	(492,086)	245,860,803
Percentage*	80	6	8	–	6	–	100
Investments in associate and joint venture company							1,247,799
							247,108,602
Liabilities	177,437,981	13,892,540	–	164,792	12,004,395	(359,231)	203,140,477
Capital expenditure – additions	–	–	–	13,528	295,536	–	309,064

* *Net of eliminations.*

56.1 Revenue and expenses attributable to the incorporated business segments of industrial estate management, information technology services and consultancy services are included in the column for other.

56.2 Property and equipment and depreciation attributable to an incorporated business segment is included in the relevant segment and the balance is unallocated.

56.3 Eliminations are the consolidation adjustments for inter-company transactions, dividend and dividend payable attributable to minority shareholders.

57 Comparative Figures

57.1 Change of Year End

DFCC Bank has changed its financial year end from 31 March to 31 December in the year 2015. Accordingly, the comparative figures presented in these financial statements contain the results of nine months from 1 April 2015 to 31 December 2015. However, the current year's financial statements contain the results of twelve months from 01 January 2016 to 31 December 2016 and entirely not comparable with previous period.

57.2 Reclassification of Comparative Figures

The following information has been reclassified with the current year's classification in order to provide a better presentation.

As at	**As Disclosed Previously**		Current Presentation	
	Bank LKR 000	**Group LKR 000**	**Bank LKR 000**	**Group LKR 000**
Net fee and commission	**370,382**	**1,141,115**	398,858	1,169,591
Other operating (loss)/income – net	**18,978**	**245,585**	(9,498)	217,109
Personnel expenses	**1,212,541**	**2,559,350**	1,248,261	2,629,739
Other expenses	**1,105,475**	**2,150,927**	1,069,755	2,080,538

58 Events after the Reporting Period

58.1 First and Final Dividend

The Directors have approved the payment of a first and final dividend of LKR 4.50 per share for the year ended 31 December 2016. The Board of Directors confirms that the Bank has satisfied the solvency test in accordance with Section 57 of the Companies Act No. 07 of 2007 and has obtained the certificate from the Auditors. The dividend exceeds the minimum distribution mandated by the Inland Revenue Act No. 10 of 2006 and therefore the 15% deemed dividend tax, will not be imposed on the Bank.

No other circumstances have arisen which would require disclosure or adjustment to the Financial Statements.

59 Fair Value Measurement

59.1 Determining Fair Value

The determination of fair value for financial assets and financial liabilities, for which there is no observable market price, requires the use of valuation techniques as described in Note 5.2.5. For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. The Group's accounting policy on fair value measurements is discussed in Note 5.2.5. The Group measures fair values, using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e., prices) or indirectly (i.e., derived from prices).

This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued, based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like government securities, interest rate and currency swaps that use mostly observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, government securities and simple over the counter derivatives like forward exchange contracts and interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Management judgments and estimations are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

59.2 Valuation Framework

The established control framework with respect to the measurement of fair values, includes an oversight which is independent of front office management. Treasury Middle Office has overall responsibility for independently verifying the results of trading and investment operation.

Specific controls include:

- Verification of observable pricing
- Review and approval process for new models and changes to models involving both product control and group market risk
- Calibration and back testing of models
- Stress Testing

When third party information, such as broker quotes or pricing services is used to measure fair value, the evidence so obtained to support the conclusion that such valuations meet the requirements of SLFRSs/LKASs is documented.

This includes:

- Verifying that the broker or pricing service is approved by the Bank for use in pricing the relevant type of financial instrument
- Several quotes obtained from randomly selected brokers for the same financial instrument and the fair value determined on this basis

Any changes to the fair value methodology is reported to the Bank's Audit Committee.

59.3 Fair Value by Level of the Fair Value Hierarchy – Bank

As at 31 December 2016	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Total LKR 000
Financial Assets					
Derivative assets held-for-risk management	28				
Forward foreign exchange contracts			122,977		122,977
Other financial assets held-for-trading					
Government of Sri Lanka Treasury Bills and Bonds			–		–
Financial investments – Available-for-sale	31				
Government of Sri Lanka Treasury Bills and Bonds		29,365,256			29,365,256
Quoted ordinary shares		18,797,639			18,797,639
Units in Unit Trusts – Quoted		190,153			190,153
Units in Unit Trusts – Unquoted			806,211		806,211
Unquoted shares				112,984	112,984
Government grant receivable	41		861,914		861,914
		48,353,048	1,791,102	112,984	50,257,134
Financial Liabilities					
Derivative liabilities held-for-risk management	28				
Forward foreign exchange contracts		–	105,741	–	105,741
		–	105,741	–	105,741

As at 31 December 2015	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Total LKR 000
Financial Assets					
Derivative assets held-for-risk management	28				
Forward foreign exchange contracts			198,776		198,776
Other financial assets held-for-trading					
Government of Sri Lanka Treasury Bills and Bonds			–		–
Financial investments – Available-for-sale	31				
Government of Sri Lanka Treasury Bills and Bonds			29,690,593		29,690,593
Quoted ordinary shares		18,123,603			18,123,603
Units in Unit Trusts – Quoted		197,759			197,759
Units in Unit Trusts – Unquoted			797,186		797,186
Unquoted shares				147,874	147,874
Government grant receivable	41		539,758		539,758
		18,321,362	31,226,313	147,874	49,695,549
Financial Liabilities					
Derivative liabilities held-for-risk management	28				
Forward foreign exchange contracts			85,333		85,333
			85,333		85,333

As Treasury Bills/Bonds are valued using Central Bank published rates, investments in Treasury Bills/Bonds are classified under level 1.

59.4 Fair Value by Level of the Fair Value Hierarchy – Group

As at 31 December 2016	**Notes**	**Level 1 LKR 000**	**Level 2 LKR 000**	**Level 3 LKR 000**	**Total LKR 000**
Financial Assets					
Derivative assets held-for-risk management	**28**				
Forward foreign exchange contracts			**122,977**		**122,977**
Other financial assets held-for-trading					
Government of Sri Lanka Treasury Bills and Bonds			**–**		**–**
Financial investments – Available-for-sale	**31**				
Government of Sri Lanka Treasury Bills and Bonds		**29,365,256**			**29,365,256**
Quoted ordinary shares		**18,797,639**			**18,797,639**
Units in Unit Trusts – Quoted		**190,153**			**190,153**
Units in Unit Trusts – Unquoted			**806,211**		**806,211**
Unquoted shares				**112,984**	**112,984**
Government grant receivable	**41**		**861,914**		**861,914**
		48,353,048	**1,791,102**	**112,984**	**50,257,134**
Financial Liabilities					
Derivative liabilities held-for-risk management	**28**				
Forward foreign exchange contracts			**105,741**		**105,741**
			105,741		**105,741**

As at 31 December 2015	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Total LKR 000
Financial Assets					
Derivative assets held-for-risk management	28				
Forward foreign exchange contracts			198,776		198,776
Other financial assets held-for-trading					
Government of Sri Lanka Treasury Bills and Bonds			–		–
Financial investments – Available-for-sale	31				
Government of Sri Lanka Treasury Bills and Bonds			29,690,593		29,690,593
Quoted ordinary shares		18,123,603			18,123,603
Units in Unit Trusts – Quoted		197,759			197,759
Units in Unit Trusts – Unquoted			797,186		797,186
Unquoted shares				147,874	147,874
Government grant receivable	41		539,758		539,758
		18,321,362	31,226,313	147,874	49,695,549
Financial Liabilities					
Derivative liabilities held-for-risk management	28				
Forward foreign exchange contracts		–	85,333	–	85,333
		–	85,333	–	85,333

59.5 Fair Value of Financial Instruments Carried at Amortised Cost – Bank

The following table summarises the carrying amounts and the Bank's estimate of fair values of those financial assets and liabilities not presented on the Bank's Statement of Financial Position at fair value. The fair values in the table below may be different from the actual amounts that will be received/paid on the settlement or maturity of the financial instrument. For certain instruments, the fair value may be determined using assumptions which are not observable in the market.

As at 31 December 2016	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Fair value LKR 000	Carrying amount LKR 000
Assets						
Cash and cash equivalents	25		4,330,934		4,330,934	4,330,934
Balances with Central Bank of Sri Lanka	26		8,062,567		8,062,567	8,062,567
Placements with banks	27		1,351,117		1,351,117	1,351,117
Loans to and receivables from banks	29		12,300,398		12,300,398	12,300,398
Loans to and receivables from other customers	30			183,514,729	183,514,729	185,784,979
Financial investments – Held-to-maturity	32	13,757,420	2,372,636		16,130,056	23,189,085
Total		13,757,420	28,417,652	183,514,729	225,689,801	235,019,080
Liabilities						
Due to banks	44		18,103,587		18,103,587	18,103,587
Due to other customers	45			139,995,435	139,995,435	140,514,373
Other borrowing	46			40,802,490	40,802,490	40,802,490
Debt securities issued	47		28,077,060		28,077,060	29,179,185
Subordinated term debt	49		8,796,976		8,796,976	9,205,637
			54,977,622	180,797,925	235,775,547	237,805,272

As at 31 December 2015	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Fair value LKR 000	Carrying amount LKR 000
Assets						
Cash and cash equivalents	25		4,305,247		4,305,247	4,305,247
Balances with Central Bank of Sri Lanka	26		5,553,809		5,553,809	5,553,809
Placements with banks	27		–		–	–
Loans to and receivables from banks	29		4,574,319		4,574,319	4,574,319
Loans to and receivables from other customers	30			158,622,894	158,622,894	160,345,530
Financial investments – Held-to-maturity	32	3,655,412	14,155,734		17,811,146	17,903,885
Total		3,655,412	28,589,109	158,622,894	190,867,415	192,682,790
Liabilities						
Due to banks	44		24,364,403		24,364,403	24,364,403
Due to other customers	45			110,639,616	110,639,616	110,890,685
Other borrowing	46			35,955,297	35,955,297	35,955,297
Debt securities issued	47		23,331,215		23,331,215	23,292,660
Subordinated term debt	49		3,421,616		3,421,616	3,767,081
			51,117,234	146,594,913	197,712,147	198,270,126

59.6 Fair Value of Financial Instruments Carried at Amortised Cost – Group

The following table summarises the carrying amounts and the Group's estimate of fair values of those financial assets and liabilities not presented on the Group's Statement of Financial Position at fair value. The fair values in the table below may be different from the actual amounts that will be received/paid on the settlement or maturity of the financial instrument. For certain instruments, the fair value may be determined using assumptions which are not observable in the market.

As at 31 December 2016	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Fair value LKR 000	Carrying amount LKR 000
Assets						
Cash and cash equivalents	**25**		**4,330,934**		**4,330,934**	**4,330,934**
Balances with Central Bank of Sri Lanka	**26**		**8,062,567**		**8,062,567**	**8,062,567**
Placements with banks	**27**		**1,351,117**		**1,351,117**	**1,351,117**
Loans to and receivables from banks	**29**		**12,300,398**		**12,300,398**	**12,300,398**
Loans to and receivables from other customers	**30**			**183,514,729**	**183,514,729**	**185,784,979**
Financial investments – Held-to-maturity	**32**	**13,757,420**	**2,372,636**		**16,130,056**	**23,189,085**
Total		**13,757,420**	**28,417,652**	**189,514,729**	**225,689,802**	**235,019,080**
Liabilities						
Due to banks	**44**		**18,103,587**		**18,103,587**	**18,103,587**
Due to other customers	**45**			**139,658,669**	**139,658,669**	**140,514,373**
Other borrowing	**46**			**40,787,444**	**40,787,444**	**40,787,444**
Debt securities issued	**47**		**28,077,060**		**28,077,060**	**29,179,185**
Subordinated term debt	**49**		**8,796,976**		**8,796,976**	**9,205,637**
			54,977,622	**180,446,113**	**235,423,735**	**237,790,226**

As at 31 December 2015	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Fair value LKR 000	Carrying amount LKR 000
Assets						
Cash and cash equivalents	**25**		4,314,777		4,314,777	4,314,777
Balances with Central Bank of Sri Lanka	**26**		5,553,809		5,553,809	5,553,809
Placements with banks	**27**		1,718		1,718	1,718
Loans to and receivables from banks	**29**		4,602,263		4,602,263	4,602,263
Loans to and receivables from other customers	**30**			158,620,519	158,620,519	160,343,155
Financial investments – Held-to-maturity	**32**	3,655,412	14,155,734		17,811,146	17,903,885
Total		3,655,412	28,628,301	158,620,519	190,904,232	192,719,607
Liabilities						
Due to banks	**44**		24,365,653		24,365,653	24,365,653
Due to other customers	**45**			110,300,151	110,300,151	110,551,220
Other borrowing	**46**			35,955,297	35,955,297	35,955,297
Debt securities issued	**47**		23,331,215		23,331,215	23,292,660
Subordinated term debt	**49**		3,421,616		3,421,616	3,767,081
			51,118,484	146,255,448	197,373,932	197,931,911

Given below is the basis adopted by the Bank/Group in order to establish the fair values of the financial instruments.

59.7 Cash and Cash Equivalents and Placements with Banks

Carrying amounts of cash and cash equivalents and placements with banks approximates their fair value as these balances have a remaining maturity of less than three months from the reporting date.

59.8 Loans to and Receivables from Banks and Other Customers

59.8.1 Lease Rentals Receivable – Bank

The estimated fair value of lease rentals receivable is the present value of future cash flows expected to be received from such finance lease facilities calculated based on current interest rates for similar type of facilities. The finance lease portfolio is at fixed interest rates and the fair value calculated on this basis as at 31 December 2016 was LKR 14,412 million as against a carrying value of LKR 15,909 million. (as at 31 December 2015 - fair value calculated on this basis was LKR 15,895 million as against a carrying value of LKR 14,436 million).

59.8.2 Other Loans

Composition:

	%
Floating rate loan portfolio	
Fixed rate loans	62
– With remaining maturity less than one year	5
– Others	33
Total	

Since the floating rate loans can be repriced monthly, quarterly and semi-annually in tandem with market rates fair value of these loans is approximately same as the carrying value. Carrying amount of fixed rate loans with a remaining maturity of less than one year approximates the fair value.

Based on the results of the fair value computed on the lease rentals receivable, it is estimated that the fair value of the other loans at fixed interest rates with maturity of more than one year is not materially different to its carrying value as at the reporting date.

59.9 Financial Investments – Held-to-Maturity

Fair value of the fixed rate debentures are based on prices quoted in the Colombo Stock Exchange, where there is an active market for quoted debentures.

Where there is no active market, fair value of the fixed rate debentures has been determined by discounting the future cash flows by the interest rates derived with reference to Government Treasury Bond rates with adjustments to risk premiums at the time of investment.

59.10 Due to Banks

Carrying value of amounts due to banks approximates their fair value as these balances have a remaining maturity of less than one year from the reporting date.

59.11 Due to Other Customers

The carrying value of deposits with a remaining maturity of less than one year approximates the fair value.

Fair values of deposits with a remaining maturity of more than one year is estimated using discounted cash flows applying current interest rates offered for deposits of similar remaining maturities.

The fair value of a deposit repayable on demand is assumed to be the amount payable on demand at the reporting date and the savings account balances are repriced frequently to match with the current market rates, therefore the demand and saving deposits carrying amounts are reasonable approximation to the fair values as at the reporting date.

59.12 Other Borrowing

This consists of borrowings sourced from multilateral and bilateral institutions. 70% of these borrowing are repriced either monthly, quarterly or semi-annually and rates are revised in line with changes in market rates. Hence the carrying value of these borrowings approximates the fair value.

The others at fixed rates which relates to borrowings on credit lines are based on interest rates which are specific to each refinancing arrangement and as such there are no comparable market rates. Hence, the fair value approximates the carrying value.

59.13 Debt Securities Issued

Debts issued comprise the USD notes issue and LKR debentures. Fair value of the USD notes are determined by reference to the bid and ask price quoted in the Singapore Stock Exchange. The LKR debentures are fair valued by reference to current Government Treasury Bond rates with a risk premium.

60 Financial Risk Management

60.1 Introduction and Overview

Bank has exposure to the following key risks from financial instruments:

- Credit Risk
- Liquidity Risk
- Operational Risk
- Market Risk

This note presents information about the Bank's exposure to each of the above risks, the objectives, policies and processes for measuring and managing such risk.

Risk Management Framework

The Board of Directors has the overall responsibility for the establishment and oversight of the Bank's risk management framework. It has set up an Integrated Risk Management Committee (BIRMC) with four Non-Executive Directors including the Chairman, one Executive Director and Chief Risk Officer (CRO) as members. CRO represents at the BIRMC the supervision and the management of the broad risk categories including credit, liquidity market risk, and strategic risk. As per the Board approved Charter, BIRMC assists the Board to manage these risks prudently. Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and to monitor adherence to limits. Risk management policies and systems are reviewed at least annually to reflect changes in market conditions, business strategy, products and services offered.

60.2 Credit Risk

60.2.1 Qualitative Disclosures

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from Bank's loans and advances to customers and other banks and investment in debt securities. Management of credit risk includes the following elements:

1. Formulating credit policies in consultation with business units covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.
2. Establishing the authorisation structure for the approval and renewal of credit facilities.
3. Limiting concentration of exposures to counterparties and industries.
4. Developing and maintaining Bank's risk grading models in order to categorise exposures according to the degree of risk of financial loss and to focus management on the attendant risks.
5. Independent risk assessment, monitoring, recommending and reporting by the IRMD.
6. Reviewing compliance through regular audits by internal audit.

60.2.2 Quantitative Disclosures

	BANK		GROUP	
As at	**31.12.2016 LKR 000**	31.12.2015 LKR 000	**31.12.2016 LKR 000**	31.12.2015 LKR 000
60.2.2.1 Loans to and Receivables from Other Customers				
Individually Impaired				
Gross amount	**6,010,399**	5,771,086	**6,010,399**	5,771,086
Allowance for impairment	**(4,778,752)**	(4,240,756)	**(4,778,752)**	(4,240,756)
Carrying amount	**1,231,647**	1,530,330	**1,231,647**	1,530,330
Collectively Impaired				
Gross amount	**2,628,487**	2,782,651	**2,628,487**	2,782,651
Allowance for impairment	**(1,890,798)**	(1,924,882)	**(1,890,798)**	(1,924,882)
Carrying amount	**737,689**	857,769	**737,689**	857,769
Past Due But Not Impaired				
Gross amount	**60,879,323**	41,042,121	**60,879,323**	41,042,121
Allowance for impairment	–	–	–	–
Carrying amount	**60,879,323**	41,042,121	**60,879,323**	41,042,121
Neither Past Due Nor Impaired				
Gross amount	**122,936,320**	116,915,310	**122,936,320**	116,912,935
Allowance for impairment	–	–	–	–
Carrying amount*	**122,936,320**	116,915,310	**122,936,320**	116,912,935
Carrying amount – amortised cost	**185,784,979**	160,345,530	**185,784,979**	160,343,155

As at	BANK 31.12.2016 LKR 000	BANK 31.12.2015 LKR 000	GROUP 31.12.2016 LKR 000	GROUP 31.12.2015 LKR 000

60.2.2.2 Loans to and Receivables from Banks

	BANK 31.12.2016 LKR 000	BANK 31.12.2015 LKR 000	GROUP 31.12.2016 LKR 000	GROUP 31.12.2015 LKR 000
Neither Past Due Nor Impaired				
Gross amount	**12,300,398**	4,574,319	**12,300,398**	4,602,263
Allowance for impairment	**–**	–	**–**	–
Carrying amount	**12,300,398**	4,574,319	**12,300,398**	4,602,263

60.2.2.3 Analysis of Security Values of Loans to and Receivables from Other Customers

	BANK				GROUP			
	Gross loan balance 31.12.2016 LKR 000	**Security value 31.12.2016 LKR 000**	Gross loan balance 31.12.2015 LKR 000	Security value 31.12.2015 LKR 000	**Gross loan balance 31.12.2016 LKR 000**	**Security value 31.12.2016 LKR 000**	Gross loan balance 31.12.2015 LKR 000	Security value 31.12.2015 LKR 000
Against Individually Impaired								
Mortgages over property, plant and machinery	**1,612,896**	**1,449,450**	1,622,358	1,626,016	**1,612,896**	**1,449,450**	1,622,358	1,626,016
Others	**596,865**	**510,898**	770,027	9,687	**596,865**	**510,898**	770,027	9,687
Unsecured	**3,714,601**	**–**	3,278,338	–	**3,714,601**	**–**	3,278,338	–
Against Collectively Impaired								
Mortgages over property, plant and machinery	**1,060,924**	**2,319,203**	1,140,430	2,242,249	**1,060,924**	**2,319,203**	1,140,430	2,242,249
Others	**218,186**	**14,665**	321,167	78,682	**218,186**	**14,665**	321,167	78,682
Unsecured	**1,239,662**	**–**	1,107,808	–	**1,239,662**	**–**	1,107,808	–
Against Past Due But Not Impaired								
Mortgages over property, plant and machinery	**30,660,982**	**70,102,950**	18,215,022	40,442,389	**30,660,982**	**70,102,950**	18,215,022	40,442,389
Others	**17,520,717**	**5,618,646**	11,299,513	3,874,642	**17,520,717**	**5,618,646**	11,299,513	3,874,642
Unsecured	**6,965,357**	**–**	5,790,641	–	**6,965,357**	**–**	5,790,641	–
Against Neither Past Due Nor Impaired								
Mortgages over property, plant and machinery	**41,775,571**	**100,725,378**	43,204,836	95,750,255	**41,775,571**	**100,725,378**	43,204,836	95,750,255
Treasury guarantee	**5,874,580**	**7,180,759**	3,656,813	5,235,669	**5,874,580**	**7,180,759**	3,656,813	5,235,669
Debt securities	**517,500**	**517,500**	940,000	94,000	**517,500**	**517,500**	940,000	94,000
Equity	**1,767,950**	**1,937,591**	1,382,047	1,465,100	**1,767,950**	**1,937,591**	1,382,047	1,465,100
Others	**37,513,754**	**9,480,430**	31,009,977	9,237,347	**37,513,754**	**9,480,430**	31,009,977	9,237,347
Unsecured	**25,505,832**	**–**	27,336,036	–	**25,505,832**	**–**	27,336,036	–
Total	**176,545,377**	**199,857,470**	151,075,013	160,056,036	**176,545,377**	**199,857,470**	151,075,013	160,056,036

The above analysis does not include balances relating to lease rentals receivable.

60.3 Liquidity Risk

60.3.1 Qualitative Disclosures

Liquidity risk is the risk that the Bank will not have sufficient financial resources to meet Bank's obligations as they fall due. This risk arises from mismatches in the timing of cash flows.

Management of liquidity risk includes the following elements:

a. Taking steps to ensure, as far as possible, that it will always have sufficient financial resources to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the bank's reputation.

b. The Asset and Liability Committee (ALCO) is mandated to execute liquidity management policies, procedures and practices approved by the Board of Directors, effectively.

c. Monitoring of potential liquidity requirements and availability using the maturity analysis and cash flow forecast under normal and stressed conditions using a flow approach.

d. Monitoring the Group's liquidity through the Liquid Assets Ratio (statutory minimum is currently 20%) using a stock approach.

e. Effecting threshold limits relevant for liquidity management as part of the overall risk limits system of the Bank.

	Year ended 31 December 2016
60.3.2 Quantitative Disclosures	
60.3.2.1 Liquidity Risk Position	
Liquid Asset Ratio as at reporting date	**27.19**
Average for the year	**25.30**
Minimum for the year	**23.27**
Maximum for the year	**27.19**

As at	**31.12.2016 %**
Gross advances to deposit ratio	**137**
Gross advances to deposit ratio (including credit lines and international notes)	**116**

60.3.2.2 Liquidity Coverage Ratios

As at	31.12.2016 %
Liquidity coverage ratio – Rupee only	197.3
Liquidity coverage ratio – All currencies	168.8

The ratio has been maintained above the statutory limit of 70% throughout the period.

60.3.2.3 Maturity Profile of Financial Liabilities of the Bank

As at 31 December 2016	Carrying Amount	Total	Up to 3 months		3 to 12 months		1 to 3 years		3 to 5 years		>5 years	
	LKR 000	LKR 000	LKR 000	%	LKR 000	%	LKR 000	%	LKR 000	%	LKR 000	%
Liabilities with Contractual Maturity (Interest-Bearing Liabilities)												
Due to banks	18,094,655	18,101,872	10,954,907	61	664,798	4	6,482,167	36	–	–	–	–
Due to other customers	135,590,792	135,755,425	55,766,689	41	46,392,657	34	7,454,781	5	6,062,235	4	20,079,063	15
Other Borrowing	40,802,490	40,805,021	13,430,270	33	11,082,577	27	–	–	16,292,174	40	–	–
Subordinated term debt	9,205,637	9,213,275	–	–	231,203	3	–	–	2,944,268	32	6,037,804	66
Debt securities issued	29,179,185	29,209,360	5,745,437	20	5,503,970	19	14,962,529	51	2,997,424	10	–	–
	232,872,759	233,084,953	85,897,303	–	63,875,205	–	28,899,477	–	28,296,101	–	26,116,867	–
Other Liabilities (Non-Interest-Bearing Liabilities)												
Due to banks	8,932	8,932	8,932	100	–	–	–	–	–	–	–	–
Derivative financial instruments	105,741	105,741	105,741	100	–	–	–	–	–	–	–	–
Due to other customers	4,923,581	4,923,581	2,065,407	42	1,695,832	34	–	–	–	–	1,162,342	24
Current tax payable	607,333	485,698	–	–	–	–	–	–	–	–	–	–
Deferred tax liability	851,662	929,025			–	–	–	–	–	–	929,025	100
Government Grant – deferred Income	701,665	701,665	–	–	701,665	100	–	–	–	–	–	–
Other liabilities	4,190,675	3,751,818	2,063,803	55	901,971	24	43,297	1	43,297	1	699,450	19
Total equity	45,849,666	44,747,289	–	–	–	–	–	–	–	–	44,747,289	100
	57,239,255	55,653,749	4,729,581	–	3,299,468	–	43,297	–	43,297	–	47,538,106	–
Total equity and liabilities	290,112,014	288,738,702	90,626,884	–	67,174,673	–	28,942,774	–	28,339,398	–	73,654,973	–

60.3.2.4 Maturity Profile of Financial Liabilities of the Group

As at 31 December 2016	Carrying Amount	Total	Up to 3 months		3 to 12 months		1 to 3 years		3 to 5 years		>5 years	
	LKR 000	LKR 000	LKR 000	%	LKR 000	%	LKR 000	%	LKR 000	%	LKR 000	%
Liabilities with Contractual Maturity (Interest-Bearing Liabilities)												
Due to banks	18,094,655	18,101,872	10,954,907	61	664,798	4	6,482,167	36	–	–	–	–
Due to other customers	135,296,291	135,460,923	55,472,188	41	46,392,657	34	7,454,781	5	6,062,235	4	20,079,062	15
Other Borrowing	40,787,444	40,789,977	13,415,226	33	11,082,577	27	–	–	16,292,174	40	–	–
Subordinated term debt	9,205,637	9,213,275	–	–	231,203	3	–	–	2,944,268	32	6,037,804	66
Debt securities issued	29,179,185	29,209,360	5,745,437	20	5,503,970	19	14,962,529	51	2,997,424	10	–	–
	232,563,212	232,775,407	85,587,758	–	63,875,205	–	28,899,477	–	28,296,101	–	26,116,866	–
Other Liabilities (Non-Interest-Bearing Liabilities)												
Due to banks	8,932	8,932	8,932	100	–	–	–	–	–	–	–	–
Derivative financial instruments	105,741	105,741	105,741	100	–	–	–	–	–	–	–	–
Due to other customers	4,923,581	4,923,581	2,065,407	42	1,695,832	34	–	–	–	–	1,162,342	24
Current tax payable	626,470	504,835	504,835	100	–	–	–	–	–	–	–	–
Deferred tax liability	873,912	951,875	–	–	–	–	–	–	–	–	951,875	100
Government Grant – Deferred Income	701,665	701,665	–	–	701,665	100	–	–	–	–	–	–
Other liabilities	4,352,331	3,913,474	2,225,459	57	901,971	23	43,297	1	43,297	1	699,450	18
Total equity	47,109,719	43,543,309	–	–	–	–	–	–	–	–	43,543,309	100
	58,702,622	54,653,412	4,910,374	–	3,299,468	–	43,297	–	43,297	–	46,356,976	–
Total equity and liabilities	291,265,834	287,428,819	90,498,132	–	67,174,673	–	28,942,774	–	28,339,398	–	72,473,842	–

60.4 Market Risk

60.4.1 Qualitative Disclosures

Market risk is the possibility of losses arising from changes in the value of a financial instrument as a result of changes in market variables, such as interest rates, equity prices, foreign exchange rates and commodity prices which will affect the Bank's income or the value of its holdings of financial instruments. The objective of the Bank' s market risk management is to manage and control market risk exposures within acceptable parameters, in order to ensure the Bank' s solvency and the income growth, while optimising the return on risk.

60.4.1.1 Management of Market Risks

The following policy frameworks stipulate the policies and practices for management, monitoring and reporting of market risk.

a. Market risk management framework
b. ALCO charter
c. Treasury trading guidelines and limits system
d. Treasury manual
e. Overall risk limits for market risk management
f. New product development policy

Overall authority for managing market risk is vested with the Board of Directors through the Board Integrated Risk Management Committee (BIRMC). The operational authority for managing market risk is vested with ALCO. Foreign exchange risk is managed within approved limits and segregation of reporting responsibilities of Treasury Front Office, Middle Office and Back Office.

Exposure to market risk arises from two sources viz trading portfolios from positions arising from market-making activities, and non-trading portfolios from positions arising from financial investments designated as available-for-sale (AFS) and held-to-maturity and from derivatives held-for-risk management purposes.

60.4.2 Quantitative Disclosures

In the case of interest and forex risk the following analysis is in respect of DFCC Bank PLC.

60.4.2.1 Interest Rate Risk – DFCC

60.4.2.1.1 Duration Analysis as at 31 December 2016

Portfolio	Face value LKR 000	Mark-to-market value LKR 000	Duration	Interpretation of duration
Government Securities trading portfolio	–	–		
Treasury Securities AFS portfolio	31,256,817	29,690,593	0.76	Portfolio value will decline approximately by 0.76% as a result of 1% increase in the interest rates.

Market risk exposure for interest rate risk in the trading portfolio is nil as of 31 December 2016. Market risk exposure for interest rate risk in the AFS portfolio as at 31 December 2016 is depicted by duration of 0.76%. This level of interest rate risk exposure in the AFS portfolio can be interpreted as a possible potential loss in the mark-to-market value amounting to LKR 224.4 million, as at 31 December 2016 in case, the market interest rates mark a parallel upward shift of 1%.

60.4.2.1.2 Potential Impact to NII Due to Change in Market Interest Rates

Overall up to the 12-month time bucket, DFCC carried an asset sensitive position. This asset sensitivity will vary for each time bucket up to the 12-month period. The interest rate risk exposure as at 31 December 2016 is quantified based on the assumed change in the interest rates for each time period and is given in table below:

	0 to 1 month LKR 000	Over 1 - up to 3 months LKR 000	Over 3 - up to 6 months LKR 000	Over 6 - up to 12 months LKR 000
Total interest-bearing assets	131,950,229	12,162,436	25,874,901	14,374,802
Total interest-bearing liabilities	69,965,182	36,851,421	37,352,683	25,949,809
Net rate sensitive assets (liabilities)	61,985,047	(24,688,985)	(11,477,782)	(11,575,007)
Assumed change in interest rates (%)	0.50%	1.00%	1.50%	2.00%
Impact	309,925	(226,316)	(129,125)	(115,750)
Total net impact if interest rates increase				(161,266)
Total net impact if interest rates decline				161,266

We have assumed that the assets and liabilities are re-priced at the beginning of each time bucket and have also taken into account the remaining time from the re-pricing date up to one year.

60.4.2.2 Forex Risk in Net Open Position (NOP)/Unhedged Position of DFCC

The following table indicates the DFCC's exchange rate risk exposure based on its size of the NOP/unhedged positions in the foreign currency assets/liabilities. By 31 December 2016, DFCC carried a USD equivalent net open/unhedged 'Oversold' position of LKR 0.46 billion. The impact of exchange rate risk is given below:

	Amount
Net exposure – USD equivalent	(3,075,000)
Value of position in LKR '000	(461,558)
Exchange rate (USD/LKR) as at 31 December 2016	150.10
Possible potential gain/(loss) to DFCC Bank – LKR '000	
If exchange rate (USD/LKR) depreciates by 1%	(4,616)
If exchange rate depreciates by 10%	(46,156)
If exchange rate depreciates by 15%	(69,234)

The estimated potential exchange loss is off set by the interest gain due to interest differential between Sri Lankan Rupee and the respective foreign currencies.

60.4.2.3 Equity Price Risk

Equity prices risk is part of market risk which is defined as the risk of possible losses arising from the equity market investments due to changes in the market prices of the invested shares. The Bank is exposed to equity prices risk through its investments in the equity market which has been shown in the AFS portfolio.

Parameter	**Position as at 31 December 2016 LKR 000**	Position as at 31 December 2015 LKR 000
Marked-to-market value of the total quoted equity portfolio	**18,797,639**	18,123,603
Value-at-risk (under 99% probability for a quarterly time horizon)	**10.03%**	16.60%
Maximum possible loss of value in the marked-to-market value of the portfolio as indicated by the VAR over a quarterly period	**1,885,403**	3,008,518
Unrealised gains in the AFS equity portfolio reported in the fair value reserve	**14,580,102**	14,159,681

Equity price risk is quantified using the Value at Risk (VAR) approach based on the Historical Loss Method. Historical two-year portfolio returns is adopted to compute VAR as a measure of the equity prices risk exposure by DFCC Bank. This VAR computation for the equity AFS portfolio considers a quarterly time horizon.

60.4.2.4 Market Risk Exposures of DFCC Group for Regulatory Capital Assessment as at 31 December 2016

Under the Standardised Approach of Basel II with effect from January 2008, market risk exposures are quantified for regulatory capital purposes. The computation results as at 31 December 2016 are as follows:

	Risk-weighted assets LKR 000	**Quantified possible exposure LKR 000**
Interest rate risk	**2,622,162**	**262,216**
Equity prices risk	**55,709**	**5,571**
Foreign exchange and gold risk	**491,392**	**49,139**
Total	**3,169,263**	**316,926**

60.5 Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank relating to processes, personnel, technology and infrastructure, and from external factors such as those arising from legal and regulatory requirements.

DFCC Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness whilst avoiding control procedures that restrict initiative and creativity.

The following are included in the process of the operational risk management in DFCC Bank.

a. Monitoring of the Key Risk Indicators (KRIs) for the departments/functions under the defined threshold limits using a traffic light system. Develop risk and control Self-Assessments to identify the risk exposure of all processes.

b. Operational risk incident reporting system and the independent analysis of the incidents by the IRMD, and recognise necessary improvements in the systems, processes and procedures.

c. Trend analysis on operational risk incidents and review at the Operational Risk Management Committee (ORMC) and the BIRMC.

d. Analyse downtime of the critical systems, attrition information, exit interview comments and complaints to identify risks and recommend mitigating controls. The key findings of the analysis are evaluated at the ORMC and the BIRMC in an operational risk perspective.

The primary responsibility for the development and implementation of controls to address operational risk lies with IRMD whilst implementation is assigned to senior management within each business unit. This responsibility is supported by the development of overall standards for management of operational risk in the following areas:

a. Requirements for appropriate segregation of duties, including independent authorisation of transactions,
b. Requirements for reconciliation and monitoring of transactions,
c. Compliance with regulatory and other legal requirements,
d. Documentation of controls and procedures,
e. Requirements for periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified,
f. Requirements for reporting of operational losses and proposed remedial action,
g. Development of contingency plans,
h. Training and professional development,
i. Ethical and business standards, and
j. Insurance covering risk due to threats arising from external and other events.

Compliance with the Bank's standards is supported by a programme of periodic reviews undertaken by internal audit. The results of internal audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management.

60.6 Capital Management

60.6.1 Qualitative Disclosures

DFCC Bank PLC manages its capital at Bank and Group level considering both regulatory requirement and risk exposures. Its regulatory capital position is analysed by the BIRMC on a quarterly basis and recommendations and decisions are made accordingly. The Group capital management goals are as follows:

a. Ensure regulatory minimum capital adequacy requirements are not compromised.
b. Bank to maintain its international and local credit rating and to ensure that no downgrading occurs as a result of deterioration of risk capital of the Bank.
c. Ensure above industry average Capital Adequacy Ratio for the banking sector is maintained.
d. Ensure maintaining of quality capital.
e. Ensure capital impact of business decisions are properly assessed and taken into consideration during product planning and approval process.
f. Ensure capital consumption by business actions are adequately priced.
g. Ensure Bank's average long-term dividend pay-out ratio is maintained.

Central Bank of Sri Lanka sets and monitors regulatory capital requirement on both consolidated and solo basis. The Bank is required to comply with the provisions of the Basel II and Basel III in respect of regulatory capital. The Bank currently uses the standardised approach for credit risk and market risk and basic indicator approach for operational risk.

The Basel III capital regulations, which are planned to be implemented on a phased in basis by 2019 starting from mid 2017, will continue to be based on the three-mutually reinforcing Pillars introduced under Basel II, i.e., minimum capital requirement, supervisory review process and market discipline. Basel III focuses on increasing the quality and quantity of capital especially the Core Capital, through redefining the common equity capital and introducing new capital buffers such as the Capital Conversation Buffer and a Capital Surcharge on Domestic Systematically Important Banks. DFCC Bank started performing parallel computations under the Basel III requirements in 2016 in preparation for reporting under Basel III once implemented in 2017.

Regulatory capital comprises Tier I capital and Tier II capital. The Bank's policy is to maintain a strong capital base so as to ensure investor, creditor and market confidence to sustain future development of the business.

DFCC Bank and its Group have complied with the minimum capital requirements imposed by the Central Bank of Sri Lanka throughout the period.

As at	Notes	**31.12.2016 Basel II LKR 000**	31.12.2015 Basel II LKR 000
60.6.2 Group Quantitative Disclosures			
Tier I Capital			
Stated capital	50	**4,715,814**	4,715,814
Statutory reserve fund	51	**2,004,275**	1,834,275
Retained earnings	52	**14,231,009**	11,506,206
General and other reserves	53	**13,779,839**	13,779,839
Non-controlling interests		**259,900**	252,426
Less: deductions			
Goodwill	40	**156,226**	156,226
Net deferred tax asset	42	**628**	1,536
Intangible assets	39	**208,382**	247,945
50% investments in the capital of other banks and financial institutions		**3,297,761**	3,188,652
Total Tier I Capital		**31,327,840**	28,494,201
Tier II Capital			
Qualifying subordinated liabilities		**8,600,000**	2,318,000
General provision		**843,388**	735,424
Less: deductions			
50% investments in the capital of other banks and financial institutions		**3,297,761**	3,188,652
		37,473,467	28,358,973
Tier I capital adequacy ratio		**14.60%**	15.39%
Total capital adequacy ratio		**17.47%**	15.32%