

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

1.1 Reporting Entity

The National Development Bank of Sri Lanka was incorporated under the National Development Bank of Sri Lanka Act No. 02 of 1979. In 2005, pursuant to the provisions of the National Development Bank of Sri Lanka (consequential provisions) Act No. 01 of 2005, a company by the name of 'National Development Bank Ltd.' was incorporated for the purpose of taking over the business of National Development Bank of Sri Lanka. Accordingly, on 15 June 2005, the National Development Bank Ltd., was incorporated and with effect from that date, the National Development Bank of Sri Lanka Act No. 02 of 1979 was repealed except for certain provisions contained therein.

In terms of the new Companies Act No. 07 of 2007, the name of the Bank was changed as 'National Development Bank PLC' ('The Bank'). The Bank was re-registered in terms of the new Companies Act on 4 July 2007 and was assigned with PQ 27 as the new Registration Number.

The Bank is listed on the Colombo Stock Exchange. The Registered Office of the Bank and its principal place of business are situated at No. 40, Navam Mawatha, Colombo 2.

The number of branches of the Bank as at 31 December 2015 was 93 (2014 – 83) and the number of staff employed as at 31 December 2015 was 1,960 (2014 – 1,744).

1.2 Principal Activities of the Bank and the Group

Bank

The principal activities of the Bank consist of retail banking, small and medium enterprise (SME) banking, corporate banking, project and infrastructure financing, investment banking, leasing, housing finance, cash management, correspondent banking, remittance services, margin trading, pawning, treasury and investment services, bancassurance and card operations.

Group

The principal activities of the Group companies comprising of the subsidiaries and the associate companies are summarised below:

Entity	Country of Incorporation	Principal Activities	Holding % - 2015		Holding % - 2014	
			Direct	Indirect	Direct	Indirect
Subsidiaries						
NDB Capital Holdings Ltd	Sri Lanka	Full service investment banking	99.9	–	99.6	–
NDB Investment Bank Ltd.	Sri Lanka	Investment banking	–	99.9	–	99.6
NDB Wealth Management Ltd.	Sri Lanka	Wealth management	–	99.9	–	99.6
NDB Securities (Pvt) Ltd.	Sri Lanka	Investment advisory and securities trading	–	99.9	–	99.6
Development Holdings (Pvt) Ltd.	Sri Lanka	Property management	58.7	–	58.7	–
NDB Capital Ltd.	Bangladesh	Investment banking	77.8	–	77.8	–
NDB Zephyr Partners Ltd.	Mauritius	Management of private equity funds	–	60.0	–	–
NDB Zephyr Partners Lanka (Private) Ltd.	Sri Lanka	Management of private equity funds	–	60.0	–	–
Associate Companies						
Ayojana Fund (Pvt) Ltd. (under liquidation)	Sri Lanka	Venture capital	50.0	–	50.0	–
NDB Venture Investments (Pvt) Ltd. (under liquidation)	Sri Lanka	Venture capital	50.0	–	50.0	–

1.3 Consolidated Financial Statements

The Consolidated Financial Statements for the year ended 31 December 2015 comprise of the Bank (parent company) and the subsidiaries and associate companies.

The Bank does not have an identifiable parent company and is the ultimate parent of the NDB Group.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

2.1 Statement of Compliance

The Consolidated Financial Statements of the Group and the separate Financial Statements of the Bank as at 31 December 2015 which comprise the Statement of Financial Position, Statement of Profit or Loss, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flow, Accounting Policies and Notes, have been prepared in accordance with Sri Lanka Accounting Standards (SLFRs and LKASs, hereinafter referred to as 'SLFRSs') issued by The Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007. The presentation of Financial Statements is also in compliance with the requirements of the Banking Act No. 30 of 1988 and amendments thereto. These Financial Statements also provide appropriate disclosures

as required by the Listing Rules of the Colombo Stock Exchange.

2.2 Functional and Presentation Currency

The Financial Statements of the Bank and the Group are presented in Sri Lankan Rupees which is the currency of the primary economic environment in which the Bank and the Group operates. Financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand unless indicated otherwise.

2.3 Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and presentation of the Financial Statements of the Bank and the Group, in compliance with the provisions of the Companies Act No. 07 of 2007 and SLFRSs.

The Board of Directors acknowledge their responsibility as set out in the 'Annual Report of the Board of Directors', 'Statement of Directors Responsibilities on Financial Reporting' and the certification given on the 'Statement of Financial Position' on pages 204 to 205 and page 302 respectively.

These Financial Statements Include

- The Statement of Profit or Loss and a Statement of Comprehensive Income providing information on the performance for the year under review (Refer pages 300 and 301).

- Statement of Financial Position providing the information on the financial position of the Bank and the Group as at the year end (Refer page 302).
- Statement of Changes in Equity providing the movement in the shareholders' funds during the year ended under review for the Bank and the Group.
- Statement of Cash Flow providing the information to the users, on the ability of the Bank and the Group to generate cash and cash equivalents and the needs for entities to utilize those cash flows (refer pages 305 and 306); and
- Notes to the Financial Statements, which comprise of the Accounting Policies and other explanatory notes and information (Refer pages 307 to 411).

2.4 Approval of the Financial Statements

The Financial Statements of the Bank and the Group for the year ended 31 December 2015 (including the comparative figures) have been approved and authorised for issue by the Board of Directors in accordance with the resolution of the Directors on 12 February 2016.

2.5 Basis of Measurement

The Financial Statements of the Bank and the Group have been prepared on a historical cost basis, except for the following material items in the Statement of Financial Position:

Item	Basis of Measurement	Note Numbers	Pages
Derivative Financial instruments	Fair value	22	327
Financial Assets – Held-for-Trading	Fair value	23	330
Financial Investment – Available-for-Sale	Fair value	27	338
Investment Property	Fair value	32	342
Freehold land and building	Measured at cost at the time of acquisition and subsequently measured at revalued amounts which represented the fair value at the date of revaluation .	34	344
Employee benefit liabilities	Recognized at the present value of the defined benefit obligations less the fair value of the assets of the plan.	40	354

2.6 Presentation of Financial Statements

The Bank and the Group present their Statement of Financial Position broadly in order of liquidity. An analysis regarding the recoveries and settlements within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 50 to the Financial Statements.

2.7 Materiality and Aggregation

In compliance with Sri Lanka Accounting Standards – LKAS 01 on 'Presentation of Financial Statements', each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or functions are presented separately, unless they are immaterial.

Financial assets and financial liabilities are offset and the net amount is reported in the Statement of Financial Position of the Bank and the Group only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Income and expenses are not offset in the Statement of Profit or Loss of the Bank and the Group unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the Notes to the Financial Statements of the Bank and the Group.

2.8 Comparative Information

The comparative information is reclassified wherever necessary to conform to the current year's presentation the details of which are given in Note 54.

2.9 Basis of Consolidation

The Consolidated Financial Statements comprise the Financial Statements of the Bank and its subsidiaries and associates

for the year ended 31 December 2015. The Financial Statements of the Bank's subsidiaries are prepared for the same reporting year as the Bank, using consistent Accounting Policies.

All intra-group balances, income and expenses and unrealized gains and losses resulting from intra-group transactions are eliminated in full in preparing the Consolidated Financial Statements.

Subsidiaries are fully consolidated from the date on which, control is transferred to the Bank.

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Bank.

Non-controlling interests are presented separately in the Consolidated Statement of Profit or Loss and within equity in the Consolidated Statement of Financial Position, but separate from the equity of the parent.

2.10 Foreign Currency Translation

All foreign currency transactions are translated into the functional currency, which is Sri Lankan Rupees, using the exchange rates prevailing at the dates, the transactions were effected.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the middle exchange rate of the functional currency ruling, at the date of the Statement of Financial Position. The resulting gains and losses are accounted for in the Statement of Profit or Loss.

(a) Non-monetary assets and liabilities that are measured on a historical cost basis in foreign currency are translated using the exchange rates prevailing at that date. Non-monetary assets and liabilities measured at fair value in a foreign currency are

translated using the exchange rates at the date when the fair value was determined.

- (b) Transactions of the Foreign Currency Banking Unit have been recorded in accordance with Note (a) above. Net gains and losses are dealt within the Statement of Profit or Loss.
- (c) Forward exchange contracts are valued at the forward market rates prevailing at the date of the Statement of Financial Position. Profits or losses on such transactions are dealt within the Statement of Profit or Loss.
- (d) As at the reporting date, the assets and liabilities of overseas subsidiaries/associates are translated into the Bank's presentation currency at the rate of exchange ruling at the date of the Statement of Financial Position and their profits and losses are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity.
- (e) On disposal of a foreign subsidiary/associate, the deferred cumulative amount recognized in equity relating to that particular foreign subsidiary/associate is recognized in the Statement of Profit or Loss in 'other operating expenses' or 'other operating income', respectively.

3. GENERAL ACCOUNTING POLICIES

Given below are the general accounting policies adopted in the presentation of Financial Statements. The specific accounting policies and the basis of measurement adopted by the Bank for each item in the Statement of Profit or Loss and each class of assets and liabilities in the Statement of Financial Position are presented along with the notes to the Financial Statement.

3.1 Significant Accounting Judgments, Estimates and Assumptions

In the process of applying the accounting policies of the Bank and the Group the management is required to make judgments, which may have significant effects on the amounts recognized in the Financial Statements. Further, the management is also required to consider key assumptions concerning the future and other key sources of estimation of uncertainty at the date of the Statement of the Financial Position that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Actual results may differ from these estimates.

The key significant accounting judgments, estimates and assumptions involving uncertainty for each type of assets, liabilities, income and expenses along with the respective carrying amounts of such items are given in the Notes to the Financial Statements, on pages 307 to 411.

3.2 Going Concern

The Board of Directors of the Bank and its Group companies has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the Board of Directors is not aware of any material uncertainties that may cast significant doubt upon the ability of the Bank and its Group companies to continue as a going concern. Therefore, the Financial Statements of the Bank and the Group continue to be prepared on the going concern basis.

3.3 Financial Instruments

Initial Recognition Date

All financial assets and liabilities are initially recognized on the trade

date, i.e., the date that the Bank and the Group become a party to the contractual provisions of the instrument. This includes purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Initial Measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss as per LKAS 39 on 'Financial Instruments: Recognition and Measurement'.

Classification and Subsequent Measurement of Financial Assets

At inception, a financial asset is classified into one of the following categories:

- At fair value through profit or Loss
 - Held-for-trading; or
 - Designated at fair value through profit or loss
- Loans and Receivables
- Available-for-Sale or
- Held to Maturity

The subsequent measurement of the financial assets depends on their classifications.

Financial Liabilities at Fair Value Through Profit or Loss

Financial liabilities at fair value through profit or loss include financial liabilities held-for-trading and financial liabilities designated upon initial recognition at fair value through profit or loss. Financial liabilities are classified as 'Held-for-Trading' if they are acquired principally for the purpose of selling or

repurchasing in the near term or holds as a part of a portfolio that is managed together for short-term profit or position taking. This category includes derivative financial instruments entered into by the Bank and the Group that are not designated as hedging instruments in hedge relationships as defined in LKAS 39 on 'Financial Instruments: Recognition and Measurement'.

Gains or losses on liabilities held-for-trading are recognized in the Statement of Comprehensive Income.

The Bank and the Group has not designated any financial liabilities upon recognition, at fair value through profit or loss.

Other Financial Liabilities

Financial instruments issued by the Bank and the Group that are not designated at fair value through profit or loss, are classified as 'other financial liabilities', where the substance of the contractual arrangement results in the Bank and the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

Other financial liabilities include, amounts due to banks, due to other customers, debt securities and other borrowed funds and subordinate debts.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the Effective Interest Rate (EIR).

Effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

The calculation of effective interest rate takes into account all contractual terms of the financial instruments (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instruments and are an integral part of the effective interest rate, but not future credit losses.

Derecognition of Financial Assets and Financial Liabilities

(a) Financial Assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when –

The Bank and the Group have transferred their rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either,

- The Bank and the Group have transferred substantially all the risks and rewards of the asset, or
- The Bank and the Group have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

When the Bank and the Group have transferred their rights to receive cash flows from an asset or have entered into a pass-through arrangement, and have neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group’s continuing involvement in the asset. In that case, the Bank and the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank and the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset

is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank and the Group could be required to repay.

(b) Financial Liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in the Statement of Profit or Loss.

Re-classification of Financial Assets and Liabilities

The Bank and the Group reclassify non-derivative financial assets out of the ‘held-for-trading’ category and into the ‘available-for-sale’, ‘loans and receivables’, or ‘held-to maturity’ categories as permitted by the Sri Lanka Accounting Standard - LKAS 39 on ‘Financial Instruments: Recognition and Measurement’. Further, in certain circumstances, the Bank and the Group are permitted to reclassify financial instruments out of the ‘available-for-sale’ category and into the ‘loans and receivables’ category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortized cost.

For a financial asset with a fixed maturity, which has been reclassified out of the ‘available-for-sale’ category, any previous gain or loss on that asset that has been recognized in Equity is amortized to the Statement of Profit or Loss over the remaining life of the asset

using the EIR. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the EIR. In the case of a financial asset that does not have a fixed maturity, the gain or loss is recognized in the Statement of profit or loss when such financial asset is sold or disposed of. If the financial asset is subsequently determined to be impaired, then the amount recorded in Equity is recycled to the Statement of Comprehensive Income.

The Bank and the Group may reclassify a non-derivative trading asset out of the ‘held-for-trading’ category and into the ‘loans and receivables’ category if it meets the definition of loans and receivables and the Bank and the Group have the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Bank and the Group subsequently increase their estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognized as an adjustment to the EIR from the date of the change in estimate. Reclassification is at the election of management, and is determined on an instrument-by-instrument basis.

The Bank and the Group do not reclassify any financial instrument into the fair value through profit or loss category after initial recognition. Further, the Bank and the Group do not reclassify any financial instrument out of the fair value through profit or loss category if upon initial recognition it was designated as at fair value through profit or loss.

3.4 Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position

if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Income and expenses are presented on a net basis only when permitted under SLFRSs, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

3.5 Impairment of Non-Financial Assets Other than Goodwill

The Bank and the Group assess at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank and the Group make an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Bank and the Group estimate the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the Statement of Profit or Loss.

3.6 Business Combinations and Goodwill

Investments in subsidiary companies are accounted for using the purchase method of accounting in the Consolidated Financial Statements. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition (negative goodwill) is recognized directly in the Statement of Profit or Loss in the year of acquisition.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the

Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Bank's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

Where goodwill forms part of a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Carrying amount of the goodwill arising on acquisition of subsidiaries is presented as an intangible asset and the goodwill on an acquisition of an equity accounted investment in investment in associates is included in the carrying value of the investment.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and unamortized goodwill is recognized in the Statement of Profit or Loss.

3.7 Standards issued but not yet Effective as at 31 December 2015

The following Sri Lanka Accounting standards have been issued by the Institute of Chartered Accountants of Sri Lanka which are not yet effective as at 31 December 2015.

(i) SLFRS 14 – Regulatory Deferral Accounts

The Objective of this Standards is to specify the financial reporting requirements for regulatory deferral account balances that arise when an entity provides goods or services to customers at a price or rate that is subjected to rate regulation.

SLFRS 14 will become effective on 1 January 2016. The impact on the implementation of the above standard has not been quantified yet.

(ii) SLFRS 15 – Revenue from Contracts with Customers

The Objective of this standard is to establish the principles that an entity shall apply to report useful information to users of Financial Statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.

SLFRS 15 will become effective on 1 January 2018. The impact on the implementation of the above standard has not been quantified yet.

(iii) SLFRS 9 – Financial Instruments: Classification and Measurement

This standard will replace Sri Lanka Accounting Standard – LKAS 39 on 'Financial Instruments: Recognition and Measurement'. The improvements introduced by SLFRS 9 includes a logical model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting which are detailed below:

Item	Basis of Measurement
Phase 1: Classification and Measurement	Classification determines how financial assets and financial liabilities are accounted for in the Financial Statements and, in particular, how they are measured on an ongoing basis. SLFRS 9 introduces a logical approach for the classification of financial assets driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements that are complex and difficult to apply.
Phase 2: Impairment	SLFRS 9 introduces a new, expected loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standards requires entities to account for expected credit losses from when financial instruments are first recognized and it lowers the threshold for recognition of full lifetime expected losses.
Phase 3: Hedge Accounting	SLFRS 9 introduces a substantially-reformed model for hedge accounting with enhanced disclosure about risk management activity. The new model represents a substantial overhaul of hedge accounting that aligns the accounting treatment with risk management activities, enabling entities to better reflect these actives in their Financial Statements. In addition, as a result of these changes, users of the Financial Statements will be provided with better information about risk management and the effect of hedge accounting on the Financial Statements.

SLFRS 9 will become effective on 1 January 2018. The impact on the implementation of the above standard has not been quantified yet.

4. GROSS INCOME

ACCOUNTING POLICY

Gross income is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the Group and the revenue can be reliably measured. The specific recognition criteria, for each type of gross income, are given under the respective notes.

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Interest Income	21,167,848	20,974,578	21,431,932	21,151,976
Fee and commission income	2,016,260	1,866,242	3,156,841	2,564,095
Net gains/(losses) from trading	1,088,464	910,027	1,088,464	910,027
Net gains/(losses) from financial investments	262,048	716,507	493,739	1,250,884
Other operating income	1,320,691	494,591	744,887	327,644
Total	25,855,311	24,961,945	26,915,863	26,204,626

5. NET INTEREST INCOME

ACCOUNTING POLICY

For all financial instruments measured at amortized cost and interest-bearing financial assets classified as available-for-sale, interest income or expense is recorded using the Effective Interest Rate (EIR).

Effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

The calculation of effective interest rate takes into account all contractual terms of the financial instruments (for example, prepayment option) and includes any fees or incremental costs that are directly attributed to the instruments and are an integral part of the effective interest rate, but not future credit losses.

The carrying amount of financial assets or financial liabilities is adjusted if the Bank and the Group revise their estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR. The amortized cost is calculated by taking into account any discount or premium on an acquisition and fees and costs that are an integral part of the EIR. The change in the carrying amount is recorded as 'interest income' for financial assets and 'interest expenses' for financial liabilities.

In line with requirement of the Sri Lanka Accounting Standard – LKAS 18 on 'Revenue', the Bank discontinued the re-cognition of interest income of loan facilities if the arrears position is equal or more than three instalments. The basis was decided upon after a comprehensive review of the risk profile and the assets quality of the Bank's loans and receivables to other customers. The change in the basis was effective from 1 July 2015 and did not result in retrospective adjustments as the amount involved is not material.

Once the recorded value of financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the rate of interest used to discount future cash flows for the purpose of measuring the impairment loss.

5.1 Interest Income

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Loans and receivables – to banks	16,276	36,175	16,276	36,175
Loans and receivables – to other customers	17,155,338	16,771,450	17,157,607	16,738,861
Placements with banks	263,415	139,101	269,815	147,687
Financial assets – held-for-trading	89,785	397,010	89,785	397,010
Financial investments – held-to-maturity	622,183	725,817	685,926	870,688
Financial investments – available-for-sale	1,458,884	890,669	1,458,884	890,669
Financial investments – loans and receivables	1,444,981	1,759,359	1,636,653	1,759,359
Other interest income	116,986	254,997	116,986	311,527
Total Interest Income (a)	21,167,848	20,974,578	21,431,932	21,151,976

5.2 Interest Expenses

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Due to banks	475,242	204,532	475,242	216,832
Due to other customers	8,157,526	8,748,429	8,137,635	8,730,048
Debt securities issued and other borrowed funds	3,120,546	2,794,957	3,118,967	2,739,632
Subordinated term debts	1,892,711	1,552,059	1,892,711	1,552,059
Total Interest Expenses (b)	13,646,025	13,299,977	13,624,555	13,238,571
Net Interest Income (a)-(b)	7,521,823	7,674,601	7,807,377	7,913,405

5.3 Interest Income from Sri Lanka Government Securities

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Interest income	3,732,743	3,397,890	3,732,743	3,397,890

Notional Tax Credit on Secondary Market Transactions

Any company which derives income from secondary market transactions involving any security or Treasury Bonds or Treasury Bills on which the income tax has been deducted at the rate of 10% at the time of issue of such security, is entitled to a national tax credit at 10% of the grossed up amount of net interest income from such secondary market transactions to an amount of one-ninth of the same. Accordingly, the net interest income earned by the Bank from such transactions has been grossed up in the Financial Statements for the year ended 31 December 2015 and the notional tax credit amounted to LKR 196.9 million (2014 – LKR 293.8 million).

5.4 Interest Income on Impaired Financial Assets

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Interest income on impaired loans and receivables to other customers	316,636	217,067	316,636	217,067

6. FEE AND COMMISSION INCOME

ACCOUNTING POLICY

Income From Financial Guarantees

In the ordinary course of business, the Bank and the Group issue financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the Financial Statements (within 'other liabilities') at fair value, being the premium received.

Subsequent to the initial recognition, the liability of the Bank and the Group under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the Statement of Profit or Loss and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in the Statement of Profit or Loss in 'Fee and Commission Income' on a straight-line basis over the lifetime of the guarantee.

Income from Fee-based Activities

Fees for underwriting, advisory work, loan syndication, management of funds and all other fees and commissions are recognized on an accrual basis.

Rental Income

The rental income is recognized on an accrual basis.

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Cards	135,144	74,322	135,144	74,322
Due to other customers	140,521	133,983	140,521	133,983
Guarantees	270,927	267,216	270,925	267,216
Loans and receivables to other customers	580,078	522,602	580,078	522,602
Remittances	200,793	195,189	200,793	195,189
Trade finance	544,292	567,054	544,292	567,054
Bancassurance	68,885	64,622	68,885	64,622
Fees related to investment banking and wealth management	–	–	757,518	411,026
Brokerage	–	–	136,926	130,119
Rental income	11,215	10,040	166,071	143,529
Others	64,405	31,214	155,688	54,433
Total	2,016,260	1,866,242	3,156,841	2,564,095

7. NET GAINS/(LOSSES) FROM TRADING

ACCOUNTING POLICY

Net gains/(losses) from trading represent income from foreign exchange and include gains and losses from spot and forward contracts and other currency derivatives.

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Income from foreign exchange				
- With Banks	753,437	591,484	753,437	591,484
- With Customers	335,027	318,543	335,027	318,543
Total	1,088,464	910,027	1,088,464	910,027

8. NET GAINS/(LOSSES) FROM FINANCIAL INVESTMENTS

ACCOUNTING POLICY

All gains and losses from changes in fair value and dividend income from investments 'held-for-trading' or as 'available-for-sale' are included under Net gain/(losses) from Financial Investments.

Income from Equities – includes the results of buying and selling, and changes in the fair value of equity securities.

Income from Debt Securities – includes the realized and unrealized gains of debt securities.

Income from Unit Trusts – includes the change in the fair value of unit trust investments.

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Financial Investments – Held-for-Trading				
Equities	–	–	16,293	231,718
Debt Securities	886	63,999	15,404	63,999
Unit Trusts	154,318	147,934	309,853	450,593
Sub Total	155,204	211,933	341,550	746,310
Financial Investments – Available-for-Sale				
Equities	34,725	–	34,725	–
Debt Securities	72,119	504,574	117,464	504,574
Sub Total	106,844	504,574	152,189	504,574
Total	262,048	716,507	493,739	1,250,884

9. OTHER OPERATING INCOME

ACCOUNTING POLICY

Other operating income includes capital gains/(losses), dividend income, foreign exchange gains, gains from property, plant & equipment and gains from investment properties.

Dividend Income

Dividend income from group investments in subsidiary companies and associate companies and other investments in shares held for other than trading purposes, are recognized when the Bank's and the Group's right to receive the payment, is established.

Capital Gains/(Losses)

Capital gains/(losses) from the sale of securities and from the sale of group investments represent the difference between the sales proceeds from sale of such investments and the carrying value of such investments.

The change in exchange rate differences arising from the valuation of the retained profits held in foreign currency is included under 'foreign exchange gains'.

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Dividend income from securities				
– Quoted investments	–	348	–	348
– Non-quoted investments	12,643	17,637	12,643	17,637
Dividend income from group investments				
– Quoted investments	–	275,767	–	–
– Non-quoted investments	894,925	46,200	–	–
Capital gains from sales of securities	23,758	7,500	41,793	87,023
Capital gains from sale of group investments	–	96,125	164,397	–
Foreign exchange gains	381,339	33,494	381,339	33,494
Gains on sale of property, plant & equipment	4,356	15,951	10,150	19,451
Gains on investment properties	–	–	126,307	162,000
Others	3,670	1,569	8,258	7,691
Total	1,320,691	494,591	744,887	327,644

10. IMPAIRMENT FOR LOANS AND RECEIVABLES AND OTHER LOSSES

ACCOUNTING POLICY

The Bank and the Group recognize the changes in the impairment provisions for loans and receivables to banks and other customers, which are assessed as per the LKAS 39 – 'Financial Instruments: Recognition and Measurement'. The methodology adopted by the Bank and the Group is explained in Note 25.5 to these Financial Statements. The Bank also makes provisions/write-backs for impairment of investments in subsidiary and associate companies and other financial assets when there is a permanent diminution in the carrying value of these investments.

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Loans and receivables				
– To other customers	677,605	464,839	684,209	464,839
– Capital write-offs	34,228	63,869	27,624	63,869
	711,833	528,708	711,833	528,708
Investments in subsidiaries	–	37,295	34,312	–
Total	711,833	566,003	746,145	528,708

11. PERSONNEL EXPENSES

ACCOUNTING POLICY

Personnel expenses include salaries and bonus, terminal benefit charges, share-based payments and other related expenses. The provisions for bonus is recognized when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made on the amount of the obligation.

Employees' Provident Fund and Employees' Trust Fund

Employees are eligible for Employees' Provident Fund contributions and Employees' Trust Fund contributions in accordance with the respective statutes and regulations. The Bank contributes 15% and 3% of gross salaries of employees to the Bank's Employees' Provident Fund and the Employees' Trust Fund respectively. Group Companies contribute 12% and 3% to the Central Bank of Sri Lanka for eligible employees for Employees' Provident Fund contributions and Employees' Trust Fund contributions respectively.

Defined Benefit Plans

Contributions to defined benefit plans are recognized in the Statement of Profit or Loss based on an actuarial valuation carried out for the gratuity liability and the pension fund of the Bank in accordance with LKAS 19 – 'Employee Benefits'.

Share Based Payments

Share-based payments represent the Bank's cost on the Equity Linked Compensation Plan and the Employee Share Option Plan, which are more fully described in Notes 43.2 and 46.3 to these Financial Statements.

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Salary and bonus	2,520,980	2,212,888	2,902,328	2,481,803
Contribution to Employees' Provident Fund	214,509	187,917	224,695	200,146
Contribution to Employees' Trust Fund	42,902	37,583	44,193	38,702
Contribution to defined benefit plan				
– Pension Fund [Note 40.2 (a)]	15,284	7,163	15,284	7,163
– Gratuity (Note 40.1)	53,988	44,101	62,199	53,487
Share-based payments	36,248	46,504	36,248	46,504
Others	320,317	336,582	348,680	344,582
Total	3,204,228	2,872,738	3,633,627	3,172,387

12. OTHER EXPENSES

ACCOUNTING POLICY

Operating expenses are recognized in the Statement of Profit or Loss on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant & equipment in a state of efficiency has been charged to the Statement of Profit or Loss in arriving at the profit for the year. Other expenses excluding depreciation of property, plant & equipment and amortization of intangible assets are recognised on an accrual basis.

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Directors' emoluments	27,905	32,360	35,166	36,870
Auditors' remuneration	8,853	8,388	10,508	10,872
Non-audit fees to auditors	8,338	6,262	8,338	6,262
Professional and legal expenses	85,181	58,571	99,142	72,051
Office administration and establishment expenses	1,075,859	1,000,622	1,173,140	1,176,810
Depreciation of property, plant & equipment	284,744	246,400	317,798	291,140
Amortization of intangible assets	85,673	77,190	103,598	94,050
Deposit insurance expenses	155,397	127,935	155,397	127,935
Others	1,113,400	878,726	1,293,166	922,238
Total	2,845,350	2,436,454	3,196,253	2,738,228

Directors' emoluments include fees paid to Non-Executive Directors. Remunerations paid to Executive Directors are included under salary and bonus in Note 11.

13. TAX ON FINANCIAL SERVICES

ACCOUNTING POLICY

Taxes on financial services include Value Added Tax and Nation Building Tax on financial services. The base for the computation of Value Added Tax on financial services is the accounting profit before emoluments paid to employees and income tax, which is adjusted for the depreciation computed on the prescribed rates. The current regulatory tax rate is 11% (2014 – 12%).

The same base is also applied for the computation of the Nation Building Tax on financial services which was effective from 1 January 2014 and the regulatory tax rate is 2%.

	BANK & GROUP	
	2015 LKR '000	2014 LKR '000
Value Added Tax on financial services	770,441	882,444
National Building Tax on financial services	140,001	146,806
Total	910,442	1,029,250

14. SHARE OF ASSOCIATE COMPANIES' PROFITS/(LOSSES)

The Group's share of profit/(loss) of an investment in an associate company which is recognized as per the equity method, is shown on the face of the Statement of Profit or Loss. This is the profit/(loss) attributable to equity holders of the associate company and, therefore, is profit/(loss) after tax and non-controlling interests of the subsidiary companies and the associate, if any.

	Percentage Holding 2015/2014	GROUP	
		2015 LKR '000	2014 LKR '000
Maldives Finance Leasing Co. (Pvt) Ltd. (Note 14.1)	35.00%	–	97,274
Resus Energy PLC (Note 14.2) (Equity accounted profit up to 17 September 2015)	32.40%	77,818	–
Total		77,818	97,274

14.1 The Board of Directors of NDB, at its meeting held on 20 March 2014, approved the divestiture of its investment in 224,875 shares amounting to 35% of the shares in Maldives Finance Leasing Company (Pvt) Ltd. to Tree Top Investments (Pvt) Ltd., a company incorporated in the Republic of Maldives. Accordingly, the divestment took place during April 2014. The net realized gain by the Bank on the divestment amounted to LKR 97 million.

14.2 In April 2015, Resus Energy PLC was accounted as an Investment in Associate which was a 32% owned associate company of NDB Capital Holdings Ltd. However, NDB Capital Holdings Ltd. divested part of its 32% owned investment in Resus Energy PLC on 17 September 2015 and subsequently the investment was reclassified as 'Available for Sale' Investments in September 2015. As such the LKR 77.8 million was recognized as an equity accounted profit for the period in which the investment was accounted as an Investment in Associate.

15. TAXATION

ACCOUNTING POLICY

As per the Sri Lanka Accounting Standard – LKAS 12 – 'Income Taxes', the tax expense/tax income is the aggregate amount included in the determination of profits or loss for the year in respect of income tax and deferred tax. The tax expense/income is recorded in the Statement of Profit or Loss except to the extent that it relates to items recognized directly in Equity in which case it is recognized in Other Comprehensive Income.

The tax rates and laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. The regulatory income tax rate for the year was 28% (2014 – 28%).

The components of the income tax expense for the years ended 31 December 2015 and 2014 are:

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Income tax expense				
Current year	676,943	1,128,858	841,929	1,171,176
Adjustment in respect of current income tax of prior years	194,714	83,708	196,314	72,265
	a.	871,657	1,212,566	1,038,243
Deferred tax expense				
Origination and reversal of temporary differences	c.	154,345	126,893	174,321
Total tax charged to the Statement of Profit or Loss		1,026,002	1,339,459	1,212,564
Effective tax rate (including deferred tax)		19%	23%	21%
Effective tax rate (excluding deferred tax)		16%	21%	18%

(a) Reconciliation of the Accounting Profit to Income Tax Expense

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Operating profit before tax on financial services	5,447,875	5,786,773	5,715,283	6,526,732
Income tax for the year (accounting profit @ applicable tax rate)	1,525,404	1,620,260	1,764,835	1,838,144
Tax effect of exempt income	(606,978)	(446,132)	(744,446)	(661,795)
Adjustment in respect of current income tax of the prior year	194,714	83,708	196,314	72,265
Add: Tax effect of expenses that are not deductible for tax purposes	1,602,917	1,138,532	1,684,243	1,180,876
Less: Tax effect of expenses that are deductible for tax purposes	(1,968,908)	(1,186,083)	(1,973,240)	(1,198,531)
Tax effect of leasing/tax losses	124,508	2,281	110,537	12,482
Income tax expense for the year	871,657	1,212,566	1,038,243	1,243,441

(b) Applicable Income Tax Rates

The applicable income tax rates of the Bank and the subsidiary companies for the years 2015 and 2014 are as follows:

	GROUP	
	2015 %	2014 %
National Development Bank PLC	28	28
NDB Capital Holdings Ltd.	28	28
Development Holdings (Pvt) Ltd.	2 on turnover	2 on turnover
	28	28
NDB Investment Bank Ltd.	28	28
NDB Securities (Pvt) Ltd.	28	28
NDB Wealth Management Ltd.	10	10
	28	10
NDB Zephyr Partners Ltd.*	15	15
NDB Capital Ltd.	0.3	0.3

*The Company is however, entitled to a tax credit equivalent to the higher of actual foreign tax suffered or 80% of the Mauritius tax chargeable on its foreign source income.

(c) Deferred Tax

The following table shows the deferred tax expense recorded in the Statement of Profit or Loss and the Other Comprehensive Income due to the changes in the deferred tax assets and liabilities:

	Deferred Tax Assets	Deferred Tax Liabilities	Statement of Profit or Loss	Other Comprehensive Income	Deferred Tax Assets	Deferred Tax Liabilities	Statement of Profit or Loss	Other Comprehensive Income
	2015	2015	2015	2015	2014	2014	2014	2014
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
BANK								
Provisions	(298)	–	6,157	–	(6,455)	–	34,988	–
Revaluation of financial investments available-for-sale	(70,968)	–	–	(78,759)	–	7,791	–	(33,691)
Other temporary differences	(234,273)	1,007,917	148,188	7,326	(146,304)	764,434	91,905	213,832
Total	(305,539)	1,007,917	154,345	(71,433)	(152,759)	772,225	126,893	180,141
GROUP								
Provisions	(298)	–	6,157	–	(6,455)	–	34,988	–
Revaluation of financial investments available-for-sale	(70,968)	17,090	–	(78,759)	–	24,881	–	(33,691)
Other temporary differences	(250,211)	1,017,210	168,164	7,326	(176,234)	767,742	70,355	213,832
Total	(321,477)	1,034,300	174,321	(71,433)	(182,689)	792,623	105,343	180,141

16. EARNINGS PER SHARE ON PROFIT**ACCOUNTING POLICY**

The Group presents Basic and Diluted Earnings per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting both the profit or loss attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees as required by the Sri Lanka Accounting Standard No. 33 (LKAS 33) – 'Earnings per Share':

	GROUP	
	2015	2014
Amount used as the numerator		
Profit attributable to equity holders of the parent (LKR '000)	3,542,040	4,133,932
Amount used as the denominator		
Ordinary shares in issue for basic EPS calculation	164,674,334	164,600,914
Weighted average number of ordinary shares as at the date of the Statement of Financial Position for basic EPS calculation	164,644,829	164,469,003
Weighted average basic Earnings per Share (LKR)	21.51	25.14
Weighted average number of ordinary shares as at the date of the Statement of Financial Position for basic EPS calculation	164,644,829	164,469,003
Effect of outstanding share option schemes	56,971	148,971
Number of ordinary shares including share options	164,701,800	164,617,974
Weighted average number of ordinary shares as at the date of the Statement of Financial Position for diluted EPS calculation	164,701,800	164,617,974
Weighted average diluted Earnings per Share (LKR)	21.51	25.11

17. DIVIDEND PER SHARE

	BANK & GROUP			
	Dividend per Share LKR	2015 LKR '000	Dividend per Share LKR	2014 LKR '000
Final dividend paid for the prior year	4.00	660,376	5.00	824,245
Interim dividend paid for the current year	7.00	1,156,171	7.00	1,155,587
Gross dividends paid during the year	11.00	1,816,547	12.00	1,979,832
Reversal of dividends declared in prior years	–	(1,097)	–	(2,297)
		1,815,450		1,977,535

The Board of Directors of the Bank has recommended the payment of a final dividend of LKR 4.00 per share for the year ended 31 December 2015.

	2015 LKR	2014 LKR
Total dividend per share	11.00	11.00

18. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

As at 31 December 2015	BANK				
	Held-for-Trading	Held-to-Maturity	Loans and Receivables	Available-for-Sale	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Assets					
Cash and cash equivalents	–	–	11,821,503	–	11,821,503
Balances with the Central Bank of Sri Lanka	–	–	6,999,898	–	6,999,898
Placements with banks	–	–	1,153,619	–	1,153,619
Derivative financial instruments	1,903,573	–	–	–	1,903,573
Financial assets held-for-trading	2,985,262	–	–	–	2,985,262
Loans and receivables to banks	–	–	102,632	–	102,632
Loans and receivables to other customers	–	–	209,602,069	–	209,602,069
Financial investments – loans and receivables	–	–	35,830,311	–	35,830,311
Financial investments – available-for-sale	–	–	–	28,501,518	28,501,518
Financial investments – held-to-maturity	–	4,436,973	–	–	4,436,973
Total Financial Assets	4,888,835	4,436,973	265,510,032	28,501,518	303,337,358

	Held-for-Trading LKR '000	Amortized Cost LKR '000	Total LKR '000
Liabilities			
Due to banks	–	11,620,003	11,620,003
Derivative financial instruments	639,272	–	639,272
Due to other customers	–	184,933,230	184,933,230
Debt Securities issued and other borrowed funds	–	60,527,844	60,527,844
Subordinated term debts	–	19,573,883	19,573,883
Other financial liabilities	–	2,889,783	2,889,783
Total Financial Liabilities	639,272	279,544,743	280,184,015

As at 31 December 2015

	GROUP				
	Held-for-Trading	Held-to-Maturity	Loans and Receivables	Available-for-Sale	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Assets					
Cash and cash equivalents	–	–	11,848,575	–	11,848,575
Balances with the Central Bank of Sri Lanka	–	–	6,999,898	–	6,999,898
Placements with banks	–	–	1,153,619	–	1,153,619
Derivative financial instruments	1,903,573	–	–	–	1,903,573
Financial assets held-for-trading	5,229,493	–	–	–	5,229,493
Loans and receivables to banks	–	–	102,632	–	102,632
Loans and receivables to other customers	–	–	209,665,561	–	209,665,561
Financial investments – loans and receivables	–	–	37,368,705	–	37,368,705
Financial investments – available-for-sale	–	–	–	28,964,820	28,964,820
Financial investments – held-to-maturity	–	5,660,868	–	–	5,660,868
Total Financial Assets	7,133,066	5,660,868	267,138,990	28,964,820	308,897,744

	Held-for-Trading	Amortized Cost	Total
	LKR '000	LKR '000	LKR '000
Liabilities			
Due to banks	–	11,620,003	11,620,003
Derivative financial instruments	639,272	–	639,272
Due to other customers	–	184,152,280	184,152,280
Debt securities issued and other borrowed funds	–	60,497,844	60,497,844
Subordinated term debts	–	19,573,883	19,573,883
Other financial liabilities	–	2,893,671	2,893,671
Total Financial Liabilities	639,272	278,737,681	279,376,953

As at 31 December 2014

	BANK				
	Held-for-Trading	Held-to-Maturity	Loans and Receivables	Available-for-Sale	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Assets					
Cash and cash equivalents	–	–	3,104,391	–	3,104,391
Balances with the Central Bank of Sri Lanka	–	–	6,740,590	–	6,740,590
Placements with banks	–	–	2,721,891	–	2,721,891
Derivative financial instruments	1,903,781	–	–	–	1,903,781
Financial assets held-for-trading	2,785,277	–	–	–	2,785,277
Loans and receivables to banks	–	–	311,144	–	311,144
Loans and receivables to other customers	–	–	175,175,203	–	175,175,203
Financial investments – loans and receivables	–	–	38,302,428	–	38,302,428
Financial investments – available-for-sale	–	–	–	17,060,302	17,060,302
Financial investments – held-to-maturity	–	8,970,963	–	–	8,970,963
Other financial assets	–	–	54,450	–	54,450
Total Financial Assets	4,689,058	8,970,963	226,410,097	17,060,302	257,130,420

	Held-for-Trading LKR '000	Amortized Cost LKR '000	Total LKR '000
Liabilities			
Due to banks	–	7,029,342	7,029,342
Derivative financial instruments	663,186	–	663,186
Due to other customers	–	151,823,715	151,823,715
Debt securities issued and other borrowed funds	–	61,955,460	61,955,460
Subordinated term debts	–	11,149,439	11,149,439
Other financial liabilities	–	2,423,677	2,423,677
Total Financial Liabilities	663,186	234,381,633	235,044,819

As at 31 December 2014	GROUP				
	Held-for-Trading LKR '000	Held-to-Maturity LKR '000	Loans and Receivables LKR '000	Available-for-Sale LKR '000	Total LKR '000
Assets					
Cash and cash equivalents	–	–	3,274,036	–	3,274,036
Balances with the Central Bank of Sri Lanka	–	–	6,740,590	–	6,740,590
Placements with banks	–	–	2,721,891	–	2,721,891
Derivative financial instruments	1,903,781	–	–	–	1,903,781
Financial assets held-for-trading	6,028,558	–	–	–	6,028,558
Loans and receivables to banks	–	–	311,144	–	311,144
Loans and receivables to other customers	–	–	175,235,906	–	175,235,906
Financial investments – loans and receivables	–	–	38,683,476	–	38,683,476
Financial investments – available-for-sale	–	–	–	18,057,852	18,057,852
Financial investments – held-to-maturity	–	10,167,325	–	–	10,167,325
Other financial assets	–	–	54,450	–	54,450
Total Financial Assets	7,932,339	10,167,325	227,021,493	18,057,852	263,179,009

	Held-for-Trading LKR '000	Amortized Cost LKR '000	Total LKR '000
Liabilities			
Due to banks	–	7,029,342	7,029,342
Derivative financial instruments	663,186	–	663,186
Due to other customers	–	151,485,201	151,485,201
Debt Securities issued and other borrowed funds	–	61,925,802	61,925,802
Subordinated term debts	–	11,149,439	11,149,439
Other financial liabilities	–	2,423,677	2,423,677
Total Financial Liabilities	663,186	234,013,461	234,676,647

19. CASH AND CASH EQUIVALENTS**ACCOUNTING POLICY**

Cash and cash equivalents for the purpose of reporting in the Statement of Financial Position, comprise of cash in hand and balances with banks. The cash in hand comprises both local currency and foreign currency.

The balances of the cash in hand are recorded at book value and the balances with banks are carried at amortised cost in the Statement of Financial Position. For the purpose of the Statement of Cash Flow, cash and cash equivalents consist of cash and short-term deposits as defined above, net of unfavourable Nostro balances.

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Local currency in hand	2,504,536	1,775,925	2,504,620	1,776,011
Foreign currency in hand	91,841	68,510	91,860	68,518
Balances with banks	9,225,126	1,259,956	9,252,095	1,429,507
Total	11,821,503	3,104,391	11,848,575	3,274,036

20. BALANCES WITH THE CENTRAL BANK OF SRI LANKA

Balances with the Central Bank of Sri Lanka includes the cash balance that is required as per the provisions of Section 93 of the Monetary Law Act.

The minimum cash reserve requirement was 6.0% of the rupee deposit liabilities as at 31 December 2015 (6.0% as at 31 December 2014). This reserve requirement is not applicable for the foreign currency deposit liabilities of the Domestic Banking Unit and the deposit liabilities of the Foreign Currency Banking Unit.

The current reserve requirement was revised to 7.5% by the Central Bank of Sri Lanka with effect from 16 January 2016.

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Statutory balances with the Central Bank of Sri Lanka	6,999,898	6,740,590	6,999,898	6,740,590
Total	6,999,898	6,740,590	6,999,898	6,740,590

21. PLACEMENTS WITH BANKS**ACCOUNTING POLICY**

Placements with banks include short-term deposits placed in banks and are subjected to insignificant risk of changes in fair value, and are used by the Bank and the Group in the management of its short-term commitments. They are recorded in the Financial Statements at their face values or the gross values, where appropriate.

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Placements – within Sri Lanka	1,153,619	2,721,891	1,153,619	2,721,891
Total	1,153,619	2,721,891	1,153,619	2,721,891

22. DERIVATIVE FINANCIAL INSTRUMENTS

ACCOUNTING POLICY

Derivatives are financial instruments that derive their values in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and indices. Derivatives are categorized as 'trading' unless they are designated as hedging instruments.

The Bank and the Group use derivatives such as currency SWAPs, forward foreign exchange contracts and currency options. Derivatives are recorded at fair value and are recorded as assets when their fair value is positive and as liabilities when their fair value is negative. The derivatives are valued using valuation techniques which consider current market interest rates, forward interest rates and spot and forward exchange rates. Where the initially recognized fair value of a derivative contract is based on a valuation model that uses inputs that are not observable in the market, it follows the accounting policy used for initial recognition, as for other financial assets and liabilities.

The changes in the fair value of derivatives are included in 'Net gains/(losses) from financial investments'.

It is assumed that the SWAP arrangement that the Bank has, with the Central Bank of Sri Lanka, would be renewed annually.

All derivatives are initially recognized and subsequently measured at fair value with all revaluation gains recognized in the Statement of Profit or Loss (except where the cash flow of the net investment hedging has been achieved in which case the effective portion of changes in fair value is recognized within Other Comprehensive Income).

The method of recognizing the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument and if so, the nature of the item being hedged. The Bank only has hedges of highly probable future cash flows attributable to a recognized asset or liability or a forecast transaction (cash flow hedge).

Hedge Accounting

Hedge accounting is used for derivatives designated in this way, provided certain criteria are met. At the inception, the Bank and the Group document the transaction, the relationship between hedging instruments and hedged items as well as its risk management objective and strategy for undertaking various hedge transactions. The Bank and the Group also document their assessment, both at the inception of the hedge and on an ongoing basis, if the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Cash Flow Hedge

The effective portion of the changes in the fair value of derivatives that are designated and qualify as cash flow hedging instruments are recognized in equity. The gain or loss relating to the ineffective portion is recognized immediately in the Statement of Profit or Loss.

The amounts accumulated in equity are reclassified to the Statement of Profit or Loss in the periods in which the hedged items, affect, Profit or Loss. When a hedging instrument is expired or is sold, or when a hedge, no longer meets the criteria for hedge accounting. Any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the Statement of Profit or Loss. When a forecast transaction is no longer expected to occur, the cumulative gains or losses that were reported in equity are immediately transferred to the Statement of Profit or Loss.

The changes in the fair value of any derivative instrument which do not qualify for hedge accounting are recognized immediately in the Statement of Profit or Loss.

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amounts indicate the volume of transactions outstanding as at 31 December 2015 and are indicative of neither the market risk nor the credit risk.

		BANK & GROUP					
		Financial Assets 2015 LKR '000	Financial Liabilities 2015 LKR '000	Notional Amount 2015 LKR '000	Financial Assets 2014 LKR '000	Financial Liabilities 2014 LKR '000	Notional Amount 2014 LKR '000
Currency options	- Sales	–	1,912	550,752	–	1,556	579,708
	- Purchases	1,912	–	550,752	1,556	–	579,708
Forward foreign exchange contracts	- Sales	68,106	600,722	79,090,652	782,496	78,599	83,183,409
	- Purchases	992,142	36,638	79,472,936	125,701	530,554	83,573,782
Currency SWAPs	- Sales	–	–	–	–	–	–
	- Purchases	841,413	–	5,400,000	994,028	52,477	17,311,875
Total		1,903,573	639,272	165,065,092	1,903,781	663,186	185,228,482

22.1 Currency SWAPS

The Bank raised USD 125 million on 16 April 2014 through foreign borrowings for a period of one year and 7 years, against for which a SWAP arrangement was entered into with the Central Bank of Sri Lanka for 75% of the borrowing value.

The Bank also raised USD 75 million on 21 July 2014 through foreign borrowings for a period of seven years, against which a SWAP arrangement (SWAP Agreement 02) was entered into with the Central Bank of Sri Lanka for 50% of the borrowing value with the same maturity on 15 July 2021.

As per Sri Lanka Accounting Standard – LKAS 39 'Financial Instruments: Recognition and Measurement', the Bank identified this particular transaction as a 'Cash Flow Hedge' after documenting the hedge relationship.

The objective of the hedge was to reduce the variability of the cash flows of a foreign currency denominated above mentioned borrowing (only the capital portion) attributable to changes in LKR/USD exchange rate.

A brief description of the SWAP arrangements are given below:

22.1 (a) SWAP Agreement – 01

Details	Description of the Hedge
Hedged instrument	SWAP contract Counterparty – Central Bank of Sri Lanka Notional Amount – USD 93.75 million – 75% of the total hedge items.
Hedged item	1 year USD denominated borrowing – USD 105 million with an option to roll over for a maximum 12 months period. Capital is repayable in full on 31 March 2015. 7 year USD denominated borrowing – USD 20 million with a grace period of 5 years, repayment periods are as follows:
	15 July 2019 USD 5 million
	15 January 2020 USD 5 million
	15 July 2020 USD 5 million
	15 January 2021 USD 5 million

Details	Description of the Hedge	
The periods when the cash flows are expected to occur	16 April 2015	
The amount recognized in Other Comprehensive Income during the year	–	LKR 299 million credited to the cash flow hedge reserve during the year 2014
Fair value of the hedged item as at 31 December 2015	–	LKR 16,487 million as at 31 December 2014
Fair value of the hedged instrument as at 31 December 2015	–	LKR 116.29 million as at 31 December 2014
Any forecast transaction for which hedge accounting had previously been used but which is no longer expected to occur	None	
The amount that was reclassified from equity to profit or loss as a reclassification adjustment	None	

The above SWAP arrangement was cancelled on 31 March 2015, as the Bank opted to repay the 1 year USD denominated borrowing of USD 105 million, which had a roll over option for a maximum period of 12 months.

22.1 (b) SWAP Agreement – 02

Details	Description of the Hedge	
Hedged instrument	SWAP contract – Renewable every year Counterparty – Central Bank of Sri Lanka Notional Amount – USD 37.5 million. 50% of the total hedge items.	
Hedged item	7 year USD denominated borrowing – USD 15 million with a grace period of 3.5 years. Repayment periods are as follows:	
	15 January 2018	USD 1.875 million
	15 July 2018	USD 1.875 million
	15 January 2019	USD 1.875 million
	15 July 2019	USD 1.875 million
	15 January 2020	USD 1.875 million
	15 July 2020	USD 1.875 million
	15 January 2021	USD 1.875 million
	15 July 2021	USD 1.875 million
	7 year USD denominated borrowing – USD 60 million with a grace period of 5 years. Repayment periods are as follows:	
	15 July 2019	USD 15 million
	15 January 2020	USD 15 million
	15 July 2020	USD 15 million
	15 January 2021	USD 15 million
The periods when the cash flows are expected to occur	As given above	
The amount recognized in Other Comprehensive Income during the year	LKR 287.6 million debit to the cash flow hedge reserve	
Fair value of the hedged item as at 31 December 2015	LKR 10,800 million	
Fair value of the hedged instrument as at 31 December 2015	LKR 841.4 million	
Any forecast transaction for which hedge accounting had previously been used but which is no longer expected to occur	None	
The amount that was reclassified from equity to profit or loss as a reclassification adjustment	None	

22.1 (c) Total Amount Recognized in the Other Comprehensive Income Relating to the Currency SWAPs

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
SWAP Agreement 01 [Note 22.1 (a)]	–	299,016	–	299,016
SWAP Agreement 02 [Note 22.1 (b)]	(287,692)	98,836	(287,692)	98,836
Total	(287,692)	397,852	(287,692)	397,852

22.1 (d) The Expected Impact to the Statement of Profit or Loss on the Hedge is as Follows:

	Less than One Year LKR million	More than One Year LKR million
Forecast receivable cash flow	5,370	–
Forecast payable cash flow	(710)	(15,840)
	4,660	(15,840)

23. FINANCIAL ASSETS – HELD-FOR-TRADING

ACCOUNTING POLICY

Financial assets held-for-trading consist of quoted Equity Securities, Unit Trust Investments and Government Debt Securities, that have been acquired principally for the purpose of selling or repurchasing in the near term, and are recorded at fair values using assumptions that a market participant would make, when valuing such instruments. The quoted Equity Securities and the Unit Trust Investments are valued using the market prices published by the Colombo Stock Exchange. Government Securities are valued using discounted cash flow techniques which incorporate market interest rates for investments in Government Securities.

The changes in the fair value are recognized in 'Net gains/(losses) from financial investments'. Dividend income is recorded in 'Net Gains/(Losses) from financial investments' according to the terms of the contract, or when the right to receive the payment has been established.

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Sri Lanka Government Securities – Treasury Bills	969	51,534	969	51,534
Sri Lanka Government Securities – Treasury Bonds	576,964	480,732	576,964	480,732
Equity Securities	–	–	336,769	713,868
Investment in Unit Trusts	2,407,329	2,253,011	4,314,791	4,782,424
Total	2,985,262	2,785,277	5,229,493	6,028,558

There were no securities purchased under Resale Agreements which were pledged as collateral for borrowings under repurchase agreements as at 31 December 2015 (2014 – LKR 532 million).

24. LOANS AND RECEIVABLES TO BANKS

ACCOUNTING POLICY

Loans and receivables to banks include refinance lending to other banks with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables to banks are subsequently measured at amortized cost using the EIR, less allowance for impairment. The amortization is included in 'interest income' in the Statement of Profit or Loss. The losses arising from impairment are recognized in the Statement of Profit or Loss as 'impairment for loans and receivables and other losses'.

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Gross loans and receivables – Refinance loans in local currency	102,632	311,144	102,632	311,144
Less: Allowance for impairment charges for loans and receivables to banks	-	-	-	-
Net loans and receivables – Refinance loans in local currency	102,632	311,144	102,632	311,144

25. LOANS AND RECEIVABLES TO OTHER CUSTOMERS

ACCOUNTING POLICY

Loans and receivables to other customers include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Bank and the Group intend to sell immediately or in the near term and those that the Bank and the Group, upon initial recognition, designate as at fair value through profit or loss.
- Those that the Bank and the Group, upon initial recognition, designate as available-for-sale.
- Those for which the Bank and the Group may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, 'loans and receivables to other customers' are subsequently measured at amortized cost using the EIR, less allowance for impairment. The amortization is included in 'interest income' in the Statement of Profit or Loss. The losses arising from impairment are recognized in the Statement of Profit or Loss as 'impairment for loans and receivables and other losses'.

Write-off of Loans and Receivables to Other Customers

Loans and Receivables (and the related impairment allowance accounts) 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 realization of security.

Rescheduled Loan Facilities

Where possible, the Bank and the Group seek to restructure loans and receivables rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered as 'past due'. The management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

Collateral Valuation

The Bank and the Group seek to use collateral, where possible, to mitigate their risks on loans and receivables to other customers. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and other credit enhancements.

To the extent possible, the Bank and the Group use active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as independent valuers, Audited Financial Statements and other independent sources.

Leasing and Hire Purchases

Assets leased to customers under agreements that transfer substantially all the risks and rewards associated with ownership other than legal title, are classified as finance leases. Lease and hire purchase rentals receivable in the Statement of Financial Position include total lease and hire purchase payments due net of unearned interest income not accrued to revenue and allowance for impairment.

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Gross loans and receivables to other customers	215,012,449	180,189,406	215,075,941	180,250,109
Less: Allowance for impairment charges for loans and receivables to other customers [Note 25.5 (a)]	(5,410,380)	(5,014,203)	(5,410,380)	(5,014,203)
Net loans and receivables to other customers	209,602,069	175,175,203	209,665,561	175,235,906

25.1 Gross Loans and Receivables to Other Customers – By Product

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Long-term loans	47,867,326	39,723,175	47,867,326	39,723,697
Medium and short-term loans	56,920,084	43,261,887	56,920,084	43,261,887
Overdrafts	25,868,746	24,275,911	25,866,356	24,259,447
Trade finance loans	31,041,387	34,177,923	31,041,387	34,177,923
Consumer loans	23,565,859	18,934,195	23,565,859	18,934,195
Leasing and hire purchases (Note 25.6)	17,692,190	11,612,539	17,692,190	11,612,539
Housing loans	8,308,954	6,403,174	8,308,954	6,403,174
Pawning	208,024	416,594	208,024	416,594
Staff loans	1,235,347	1,052,993	1,301,229	1,129,638
Islamic loans	2,304,532	331,015	2,304,532	331,015
Total	215,012,449	180,189,406	215,075,941	180,250,109

25.2 Gross Loans and Receivables to Other Customers – By Currency

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Sri Lanka Rupee	159,620,705	135,682,065	159,684,197	135,742,768
United States Dollar	54,720,377	43,330,879	54,720,377	43,330,879
Great Britain Pound	5,247	5,213	5,247	5,213
Euro	666,120	1,146,721	666,120	1,146,721
Australian Dollar	–	1,798	–	1,798
Others	–	22,730	–	22,730
Total	215,012,449	180,189,406	215,075,941	180,250,109

25.3 Gross Loans and Receivables to Other Customers – By Industry

	BANK			
	2015 LKR '000	%	2014 LKR '000	%
Food, beverages and tobacco	8,168,057	3.9	7,352,472	4.1
Agriculture, agro-business and fisheries	24,953,670	11.6	25,825,680	14.3
Textiles and garments	25,146,732	11.7	18,576,296	10.3
Wood and paper products	2,071,006	1.0	1,712,788	1.0
Leather and plastic products	2,867,901	1.3	3,421,065	1.9
Metals, chemicals and engineering	13,495,659	6.3	9,951,950	5.5
Hotels and tourism	7,820,940	3.6	5,637,670	3.1
Utilities	10,983,028	5.1	9,707,923	5.4
Constructions and housing finance	19,643,386	9.1	18,950,619	10.5
Services	32,055,355	14.9	24,338,304	13.5
Transport	5,933,805	2.8	5,137,648	2.9
Consumer	40,687,899	18.9	33,568,891	18.6
Trading	21,133,366	9.8	15,958,787	8.9
Others	51,645	0.0	49,313	0.0
Total	215,012,449	100.0	180,189,406	100

25.4 Gross Loans and Receivables to Other Customers – By Province

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Western Province	184,679,731	157,093,779	184,743,223	157,154,482
Southern Province	7,309,362	4,985,666	7,309,362	4,985,666
North-Western Province	5,605,710	4,266,750	5,605,710	4,266,750
Central Province	6,339,923	4,372,669	6,339,923	4,372,669
Northern Province	1,305,200	3,151,333	1,305,200	3,151,333
Sabaragamuwa Province	3,636,529	2,741,651	3,636,529	2,741,651
North-Central Province	2,779,375	1,447,569	2,779,375	1,447,569
Eastern Province	1,624,097	1,022,989	1,624,097	1,022,989
Uva Province	1,732,522	1,107,000	1,732,522	1,107,000
Total	215,012,449	180,189,406	215,075,941	180,250,109

The province-wise disclosure is made based on the location of the branch from which the facilities have been disbursed.

25.5 Allowance for Impairment Charges for Loans and Receivables to Other Customers

Accounting Policy

The Bank and the Group assess at each reporting date, whether there is any objective evidence that loans and receivables to other customers are impaired. Loans and receivables to other customers are deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the loans and receivables that can be reliably estimated.

The Bank and the Group review their individually-significant loans and receivables to other customers at each reporting date to assess whether an impairment loss should be recorded in the Statement of Profit or Loss. In particular, the management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and receivables to other customers that have been assessed individually and found not to be impaired are assessed together with all individually insignificant loans and advances in groups of assets with similar risk characteristics. This is to determine whether a provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes into account data from the loan portfolio such as, loan ownership types, levels of arrears, industries etc. and judgments on the effect of concentrations of risks and economic data (including levels of unemployment, inflation rate, interest rates, and exchange rates).

Individually Assessed Loans and Receivables to Other Customers

The criteria used to determine that there is such objective evidence includes:

- known cash flow difficulties experienced by the borrower;
- past due contractual payments of either principal or interest;
- breach of loan covenants or conditions;
- the probability that the borrower will enter bankruptcy or other financial realization; and
- a significant downgrading in credit rating by an external credit rating agency.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the Statement of Profit or Loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Such income is recorded as part of 'interest income'.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Collectively Assessed Loans and Receivables to Other Customers

For the purpose of a collective evaluation of impairment, loans and receivables to other customers are grouped on the basis of the credit risk characteristics such as asset type, industry, past-due status and other relevant factors.

Impairment is assessed on a collective basis in two circumstances:

- to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment; and
- for homogeneous groups of loans that is not considered individually significant.

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

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

25.5 (a) Allowance for Impairment Charges for Loans and Receivables to Other Customers

	BANK & GROUP										
	Long-term Loans	Medium and Short-term Loans	Overdrafts	Trade Finance Loans	Consumer Loans	Leasing & Hire Purchases	Housing Loans	Pawning	Islamic Banking	Staff Loans	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
As at 1 January 2015	1,304,096	1,203,015	1,300,513	410,404	535,360	149,383	32,425	69,378	-	9,629	5,014,203
Charges/(reversals) for the year	26,242	901,599	187,673	205,492	(97,322)	93,377	12,799	(54,649)	691	(5,370)	1,270,532
Amounts written-off	(88,942)	(104,859)	(470,229)	(147,264)	(63,061)	-	-	-	-	-	(874,355)
As at 31 December 2015	1,241,396	1,999,755	1,017,957	468,632	374,977	242,760	45,224	14,729	691	4,259	5,410,380
Individual impairment	309,331	1,634,915	343,229	305,481	-	15,676	-	9,000	-	3,711	2,621,343
Collective impairment	932,065	364,840	674,728	163,151	374,977	227,084	45,224	5,729	691	548	2,789,037
Total	1,241,396	1,999,755	1,017,957	468,632	374,977	242,760	45,224	14,729	691	4,259	5,410,380
Gross amount of loans individually determined to be impaired, before deduction of individually assessed impairment allowances	3,394,490	7,296,870	1,988,631	7,368,552	-	92,048	-	19,318	-	3,711	20,163,620
Gross amount of loans individually impaired, before deduction of individually assessed impairment allowances	1,474,979	3,040,103	403,712	827,472	-	15,676	-	19,318	-	3,711	5,784,971
Gross amount of loans individually impaired, after deduction of individually assessed impairment allowances	1,165,648	1,405,188	60,483	521,991	-	-	-	10,318	-	-	3,163,628

	BANK & GROUP										
	Long-term Loans	Medium and Short-term Loans	Overdrafts	Trade Finance Loans	Consumer Loans	Leasing & Hire Purchases	Housing Loans	Pawning	Staff Loans	Total	
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	
As at 1 January 2014	803,478	913,571	1,231,378	620,062	359,588	84,441	36,698	128,688	9,568	4,187,472	
Charges/(reversals) for the year	500,618	289,444	91,205	(209,658)	175,772	64,942	(4,273)	(59,310)	61	848,801	
Amounts written-off	-	-	(22,070)	-	-	-	-	-	-	(22,070)	
As at 31 December 2014	1,304,096	1,203,015	1,300,513	410,404	535,360	149,383	32,425	69,378	9,629	5,014,203	
Individual impairment	268,304	910,763	788,786	261,757	-	1,085	-	49,741	9,154	2,289,590	
Collective impairment	1,035,792	292,252	511,727	148,647	535,360	148,298	32,425	19,637	475	2,724,613	
Total	1,304,096	1,203,015	1,300,513	410,404	535,360	149,383	32,425	69,378	9,629	5,014,203	
Gross amount of loans individually determined to be impaired, before deduction of individually assessed impairment allowances	3,222,626	6,341,040	1,880,602	5,849,401	-	191,551	-	179,955	9,154	17,674,329	
Gross amount of loans individually impaired, before deduction of individually assessed impairment allowances	1,450,046	1,753,998	896,769	1,141,446	-	7,370	-	128,766	9,154	5,387,549	
Gross amount of loans individually impaired, after deduction of individually assessed impairment allowances	1,181,742	843,235	107,983	879,689	-	6,285	-	79,025	-	3,097,959	

25.5 (b) Movements in the Allowances for Individual and Collective Impairment Charges During the Year for Loans and Receivables to Other Customers

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Individual Impairment				
As at 1 January	2,289,590	1,828,065	2,289,590	1,828,065
Charge/(reversals) for the year	1,119,859	461,525	1,119,859	461,525
Write-off during the year	(788,106)	–	(788,106)	–
As at 31 December	2,621,343	2,289,590	2,621,343	2,289,590
Collective Impairment				
As at 1 January	2,724,613	2,359,407	2,724,613	2,359,407
Charge/(reversals) for the year	150,673	387,276	150,673	387,276
Write-off during the year	(86,249)	(22,070)	(86,249)	(22,070)
As at 31 December	2,789,037	2,724,613	2,789,037	2,724,613
Total	5,410,380	5,014,203	5,410,380	5,014,203

25.6 Leasing and Hire Purchases

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Gross lease and hire purchase rentals receivables	19,305,434	14,671,685	19,305,434	14,671,685
Less: Unearned income	(1,613,247)	(3,059,146)	(1,613,247)	(3,059,146)
Total lease and hire purchase rentals receivables	17,692,187	11,612,539	17,692,187	11,612,539
Less: Allowance for impairment charges [Note 25.6.(a)]	(242,760)	(149,383)	(242,760)	(149,383)
Total	17,449,427	11,463,156	17,449,427	11,463,156

25.6 (a) Allowance for Impairment Charges

	BANK & GROUP	
	2015 LKR '000	2014 LKR '000
As at 1 January	149,383	84,441
Charges/(reversals) for the year	93,377	64,942
As at 31 December	242,760	149,383
Individual impairment	15,676	1,085
Collective impairment	227,084	148,298
Total	242,760	149,383
Gross amount of loans individually determined to be impaired, before deduction of the individually assessed impairment allowance	92,048	191,551
Gross amount of loans individually impaired, before deduction of the individually assessed impairment allowance	15,676	7,370
Gross amount of loans individually impaired, after deduction of the individually assessed impairment allowance	–	6,285

25.6 (b) Movements in Individual and Collective Impairment Provision during the Year for Lease and Hire Purchase Rentals Receivables

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Individual Impairment				
As at 1 January	1,085	3,233	1,085	3,233
Charge/(reversals) for the year	14,591	(2,148)	14,591	(2,148)
As at 31 December	15,676	1,085	15,676	1,085
Collective Impairment				
As at 1 January	148,298	81,208	148,298	81,208
Charge/(reversals) for the year	78,786	67,090	78,789	67,090
As at 31 December	227,084	148,298	227,087	148,298
Total	242,760	149,383	242,763	149,383

25.7 Maturity of Leasing and Hire Purchases

25.7 (a) Gross Lease and Hire Purchase Rentals Receivables within One Year

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Total rental receivables	743,391	602,767	743,391	602,767
Less: Allowance for impairment charges	(150,370)	(48,123)	(150,370)	(48,123)
Interest in suspense	(99,817)	(82,559)	(99,817)	(82,559)
Unearned income	(27,218)	(22,829)	(27,218)	(22,829)
Net rentals receivables within one year	465,986	449,256	465,986	449,256

25.7 (b) Gross Lease and Hire Purchase Rentals Receivables after One Year

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Total rental receivables	18,709,351	14,197,184	18,709,351	14,197,184
Less: Allowance for impairment charges	(92,390)	(101,260)	(92,390)	(101,260)
Interest in suspense	(47,491)	(45,707)	(47,491)	(45,707)
Unearned income	(1,586,029)	(3,036,317)	(1,586,029)	(3,036,317)
Net rentals receivables after one year	16,983,441	11,013,900	16,983,441	11,013,900
Total	17,449,427	11,463,156	17,449,427	11,463,156

26. FINANCIAL INVESTMENTS – LOANS AND RECEIVABLES**ACCOUNTING POLICY**

Financial investments – Loans and receivables include Government Securities, unquoted Debt Instruments and Securities purchased under resale agreements and quoted debentures. After initial measurement, these are subsequently measured at amortized cost using the EIR, less provision for impairment. The amortization is included in interest income in the Statement of Profit or Loss. The losses arising from impairment are recognized in the Statement of Profit or Loss as impairment for loans and receivables and other losses.

Securities Purchased Under Resale Agreements

The Bank and the Group purchase a financial asset and simultaneously enter into an agreement to resell the asset (or similar asset) at a fixed price at a future date. The arrangement is accounted for as a financial asset in the Financial Statements of the Bank and the Group, reflecting the transactions economic substance as a loan granted by the Bank and the Group. Subsequent to initial recognition, these are measured at their amortized cost using the EIR method with the corresponding interest receivable being recognized in the Statement of Profit or Loss.

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Sri Lanka Development Bonds	21,298,039	13,662,172	21,298,039	13,662,172
Redeemable cumulative preference shares	–	69,421	–	69,421
Quoted debentures	–	–	1,538,395	381,048
Securities purchased under resale agreements	14,532,272	24,570,835	14,532,271	24,570,835
Investment in private equity fund	–	–	53,691	–
Less: Allowance for impairment of investment	–	–	(53,691)	–
Total	35,830,311	38,302,428	37,368,705	38,683,476

The securities purchased under resale agreements which were pledged as collateral for borrowings under repurchase agreements amounted to LKR 12,831 million as at 31 December 2015 (2014 – Nil).

27. FINANCIAL INVESTMENTS – AVAILABLE-FOR-SALE**ACCOUNTING POLICY**

Available-for-sale investments include equity and Government Securities. Equity investments classified as available-for-sale are those which are neither classified as held-for-trading nor designated at fair value through profit or loss.

Government Securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions.

The Bank and the Group have not designated any loans or receivables as available-for-sale. After initial measurement, available-for-sale financial investments are subsequently measured at fair value.

Unrealized gains and losses are recognized directly in equity (Other Comprehensive Income) in the 'Available-for-Sale Reserve'. When the investment is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the Statement of Profit or Loss in 'net gains/(losses) from financial investments'. Where the Bank and the Group hold more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the effective interest rate (EIR).

Dividends earned whilst holding available-for-sale financial investments are recognized in the Statement of Profit or Loss as 'other operating income' when the right of the payment has been established. The losses arising from impairment of such investments are recognized in the Statement of Profit or Loss in 'impairment for loans and receivables and other losses' and is removed from the 'Available-for-Sale Reserve'.

Impairment of Financial Investments – Available-for-Sale

The Bank and the Group review their debt securities classified as available-for-sale investments to assess whether they are impaired by performing a counter party risk assessment at each reporting date.

The Bank and the Group also record impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Bank and the Group identify facilities which have been impaired for more than six months and consider impairment adjustments if the impairment is more than 20% of the carrying value of the investment.

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Sri Lanka Government Securities – Treasury Bills	12,981,321	5,068,917	12,981,321	5,068,917
Sri Lanka Government Securities – Treasury Bonds	13,936,379	11,891,025	13,936,379	11,891,025
Quoted ordinary shares	1,568,673	85,215	1,846,975	897,765
Non-quoted ordinary shares	15,145	15,145	200,145	200,145
Total	28,501,518	17,060,302	28,964,820	18,057,852

Financial investments available-for-sale, pledged as collateral for borrowings under repurchase agreements amounted to LKR 12,791 million as at 31 December 2015 (2014 – LKR 16,960 million).

The majority of non-quoted ordinary shares include share investments that have been made primarily for regulatory purposes. Such investments are recorded at cost due to the unavailability of information to value such investments at fair value.

28. FINANCIAL INVESTMENTS – HELD-TO-MATURITY

ACCOUNTING POLICY

Financial investments – held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank and the Group have the intention and ability to hold up to maturity. After initial measurement, financial investments – held-to-maturity are subsequently recorded at amortized cost using the EIR, less impairment. The amortization is included as 'interest income' in the Statement of Profit or Loss.

If the Bank and the Group were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as 'available-for-sale'. Furthermore, the Bank and the Group would be prohibited from classifying any financial asset as 'held-to-maturity' during the following two years.

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Sri Lanka Government Securities – Treasury Bonds	1,044,602	7,052,992	1,044,602	7,052,992
Quoted Debentures	3,392,371	1,917,971	4,616,266	3,114,333
Total	4,436,973	8,970,963	5,660,868	10,167,325

Financial investments held-to-maturity, pledged as collateral for borrowings under repurchase agreements amounted to LKR 1,044 million as at 31 December 2015 (2014 – LKR 7,052 million).

29. INVESTMENTS – HELD-FOR-SALE**ACCOUNTING POLICY**

Non-current assets and disposal groups (including both the assets and liabilities of the disposal groups) are classified as Investments – ‘held-for-sale’ when their carrying amounts will be recovered principally through sale, they are available-for-sale in their present condition and their sale is highly probable. Non-current assets held-for-sale and disposal groups are measured at the lower of their carrying amount and fair value less cost to sell, except for those assets and liabilities that are not within the scope of the measurement requirements of SLFRS 5 - ‘Non-current Assets Held-for-Sale and Discontinued Operations’ such as deferred taxes, financial instruments, investment properties, insurance contracts and assets and liabilities arising from employee benefits.

These are measured in accordance with the accounting policies described above. Immediately before the initial classification as ‘held-for-sale’, the carrying amounts of the asset (or assets and liabilities in the disposal group) are measured in accordance with applicable SLFRSs. On subsequent remeasurement of a disposal group, the carrying amounts of the assets and liabilities noted above that are not within the scope of the measurement requirements of SLFRS 5 are remeasured in accordance with applicable SLFRSs before the fair value less costs to sell of the disposal group is determined.

Investments – held-for-sale includes the investment in NDB Venture Investment (Pvt) Ltd., an associate company, which is under liquidation. A special resolution was passed by the Board of Directors of the Company to wind-up the affairs voluntarily and appointed a liquidator, for the distribution of the assets.

The amount shown in the Statement of Financial Position is the fair value of the investment which the Bank will receive at the time of concluding the liquidation process and an impairment provision has not been made as sufficient liquid assets are available in the Financial Statements of the Company based on the liquidation Financial Statements prepared as at 31 December 2015.

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
NDB Venture Investments (Pvt) Ltd.	18,526	18,526	33,302	33,302
Total	18,526	18,526	33,302	33,302

30. INVESTMENTS IN SUBSIDIARY COMPANIES**ACCOUNTING POLICY**

Investments in subsidiary companies are accounted at cost less allowance for impairment in the Financial Statements of the Bank. The net assets of each subsidiary company are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of the investment is estimated and the impairment loss is recognized to the extent of its loss in net assets.

	Corporate Status	BANK			
		Percentage Holding %	2015 Cost LKR '000	Percentage Holding %	2014 Cost LKR '000
NDB Capital Holdings Ltd.	Non-quoted	99.9	1,802,089	99.6	1,748,141
Development Holdings (Pvt) Ltd.	Non-quoted	58.7	228,150	58.7	228,150
NDB Capital Ltd. (Bangladesh)	Non-quoted	77.8	180,552	77.8	130,673
Less: Allowance for impairment of investments (Note 30.2)			(106,674)		(106,674)
Total			2,104,117		2,000,290

NDB Capital Holdings Ltd. (previously known as NDB Capital Holding PLC) was officially de-listed from the Colombo Stock Exchange on 26 January 2015.

30.1 Movement in the Allowance for Impairment of Investments

	2015 LKR '000	2014 LKR '000
As at 1 January	106,674	69,380
Charge to Statement of Profit or Loss	–	37,294
As at 31 December	106,674	106,674

30.2 Summarized Financial Information of the NDB Group's Investments in Subsidiaries

	Total	NDB Zephyr Partners Ltd. LKR '000	NDB Investment Bank Ltd. LKR '000	NDB Capital Ltd. LKR '000	NDB Capital Holdings Ltd. LKR '000	NDB Securities (Pvt) Ltd. LKR '000	Development Holdings (Pvt) Ltd. LKR '000	NDB Wealth Management Ltd. LKR '000
2015								
Total assets	10,313,315	132,790	752,126	131,902	5,771,546	455,281	2,344,419	725,251
Total liabilities	484,384	20,837	115,294	23,677	76,452	122,081	68,478	57,565
Net assets	9,828,931	111,953	636,832	108,225	5,695,093	333,200	2,275,941	667,687
Gross income	2,099,313	116,178	374,743	92,269	617,716	176,507	323,483	398,417
Profits	1,151,020	16,873	169,315	15,474	495,601	18,183	277,282	158,292
2014								
Total assets	10,082,798	–	564,784	47,917	6,167,361	516,325	2,215,899	570,512
Total liabilities	437,375	–	32,378	17,555	70,187	201,212	69,004	47,039
Net assets	9,645,423	–	532,406	30,362	6,097,174	315,113	2,146,895	523,473
Gross income	1,797,518	–	169,912	22,872	755,126	166,539	335,746	347,323
Profits	1,159,406	–	60,329	-51,901	664,864	25,555	288,449	172,110

30.3 NDB Capital Holdings Ltd. entered into a shareholders' agreement with NDB Zephyr Partners Ltd. on 15 December 2014 to invest LKR 49.61 million in 60% ordinary shares and 60% redeemable preference shares in NDB Zephyr Partners Ltd., a management company based in Mauritius. Accordingly, the equity investment took place on 2 January 2015.

31. INVESTMENTS IN ASSOCIATE COMPANIES

ACCOUNTING POLICY

The Group's investments in its associate companies are accounted for by using the equity method. An associate is an entity in which the Group has significant influence. Under the equity method, the investment in the associate is carried in the Statement of Financial Position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The Statement of Profit or Loss reflects the Group's share of the results of operations of the associate. When there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the Statement of Changes in Equity. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The Financial Statements of the associate companies are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the Accounting Policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on its investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the 'share of associate companies profits/(losses)' in the Statement of Profit or Loss.

Upon loss of significant influence over the associate, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon the loss of significant influence and the fair value of the retained investment and proceeds from disposal are recognized in the Statement of Profit or Loss.

	Corporate Status	Percentage Holding %	BANK		
			2015	2014	
			LKR '000	LKR '000	
Ayojana Fund (Pvt) Ltd.	Under liquidation	50	100	50	100
Less: Allowance for impairment of investments			(100)		(100)
Total			-		-

32. INVESTMENT PROPERTY

ACCOUNTING POLICY

Distinction Between Investment Properties and Owner-Occupied Properties

The Bank and the Group determine whether a property qualifies as an investment property by considering whether the property generates cash flows largely independently of the other assets held by the entity. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions can be sold separately (or leased out separately under a finance lease), the Bank and the Group account for the portions separately. If the portions cannot be sold separately, the property is accounted for as an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. The Bank and the Group consider each property separately in making its judgment.

Valuation of Investment Properties

The Land and Building of Development Holdings (Pvt) Ltd., which is held to earn rental income and for capital appreciation has been classified as an 'investment property', and is reflected at fair value.

Investment properties are initially recognized at cost. Subsequent to the initial recognition, the investment properties are stated at fair values. The Bank and the Group engaged an External Independent Valuer, having appropriate recognized professional qualifications and recent experience in the location and category of property being valued, to determine the fair value of land and building. In estimating the fair values, the Independent Valuer considers current market prices of similar assets, so as to reflect market conditions at the reporting date. Gains or losses arising from changes in the fair values are included in the Statement of Profit or Loss, in the year in which they arise.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use.

Owner occupied portion of an Investment property is recognized and measured in line with the accounting policy used for property, plant & equipment of the Bank and the Group and are presented under 'Property, Plant & Equipment' in the Financial Statements.

Investment properties are derecognized when disposed of or permanently withdrawn from use because no future economic benefits are expected. Any gains or losses on retirement or disposal are recognized in the Statement of Profit or Loss in the year of retirement or disposal.

Basis of Valuation

Investment properties are stated at fair value, which has been determined based on valuations performed by a Professional Valuer A A M Fathihu, B.Sc. (Hons.), EMV, FIV Sri Lanka.

The income approach using the current market rent including passing rents has been used as the methodology by the valuer to value the Investment Property as recommended by SLFRS 13 – ‘Fair Value Measurements’.

Significant Assumptions Used for the Valuation

- Outgoing at 40% of estimated rent (2014 – 40%)
- Capitalize YP at 16% (2014 – 16%)

	GROUP	
	2015 LKR '000	2014 LKR '000
As at 1 January	1,545,693	1,383,693
Change in the fair value during the year	150,000	162,000
Less: Fair value of the owner occupied portion	(23,693)	–
As at 31 December	1,672,000	1,545,693

33. INTANGIBLE ASSETS

The intangible assets of the Bank and the Group include the value of computer software and software under development. An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank and the Group.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following the initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets are amortized using the straight-line method to write down the cost over its estimated useful economic lives and the useful life for the years ended 31 December 2015 and 2014 are given below:

	Period	% per Annum
Computer software	5 years	20

Intangible assets are derecognized on disposal or when no future economic benefits are expected. Any gain or loss arising on derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset and is included in the Statement of Profit or Loss in the year in which the asset is derecognized.

33.1 Computer Software

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Cost/Valuation				
As at 1 January	565,006	507,344	653,162	572,407
Additions during the year	35,032	67,330	43,529	92,138
Disposals during the year	–	(4,129)	–	(5,844)
Transfers/adjustments	–	(5,539)	–	(5,539)
As at 31 December	600,038	565,006	696,691	653,162
Depreciation/Amortization				
As at 1 January	365,352	292,128	409,570	320,938
Charge for the year	85,673	77,190	103,596	94,050
Disposals during the year	–	(3,966)	–	(5,418)
Transfers/adjustments	–	–	–	–
As at 31 December	451,025	365,352	513,166	409,570
Net book value as at 31 December (a)	149,013	199,654	183,525	243,592

33.2 Software Under Development

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Cost/Valuation				
As at 1 January	53,478	45,209	53,478	45,209
Additions during the year	46,212	63,621	46,212	63,621
Transfers/adjustments	(8,469)	(55,352)	(8,469)	(55,352)
As at 31 December (b)	91,221	53,478	91,221	53,478
Net book value of total intangible assets (a) + (b)	240,234	253,132	274,746	297,070

34. PROPERTY, PLANT & EQUIPMENT**ACCOUNTING POLICY****Basis of Recognition**

Property, plant & equipment are recognized, if it is probable that future economic benefits associated with the asset will flow to the Bank and the Group and the cost or the fair value of the asset can be reliably measured.

Basis of Measurement

An item of property, plant & equipment excluding freehold land and buildings that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the assets and subsequent cost as explained below. The cost of self-constructed assets includes the cost of the materials and direct labour, any other cost directly attributable to bringing the assets to a working condition for its intended use and cost of dismantling and removing the old items and restoring site on which they are located. Purchased software which is integral to the functionality of the related equipment is capitalized as part of computer equipment.

Cost Model

The Bank and the Group apply the 'Cost Model' to all property, plant & equipment other than freehold land and buildings and record at cost of purchase together with any incidental expenses thereon, less accumulated depreciation and any accumulated impairment losses.

Revaluation Model

The Bank and the Group adopted the revaluation model for the entire class of freehold land and buildings for measurement during the year 2014. Such properties are carried at revalued amounts, being their fair value at the reporting date, less any subsequent accumulated depreciation on land and buildings and any accumulated impairment losses charged subsequent to the date of the valuation.

Freehold land and buildings of the Bank and the Group are revalued every three years or more frequently if the fair values are substantially different from their carrying amounts to ensure that the carrying amounts do not differ from the fair values at the reporting date.

The Bank and the Group engaged an Independent Valuer to determine the fair value of freehold land and buildings. In estimating the fair values, the Independent Valuer considered current market prices of similar assets. The valuation was carried out as at 31 December 2015 and 31 December 2014 by professional valuer Mr. A A M Fathihz, B.Sc (Hons.) EMV, FIV Sri Lanka.

Subsequent Cost

There are costs that are recognized in the carrying amount of an item if it is probable that the future economic benefits embodied within that part will flow to the Bank and the Group and it can be reliably measured.

Derecognition

An item of property, plant & equipment is derecognized upon disposal or when no future economic benefits are expected. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Statement of Profit or Loss in the year, in which the asset is derecognized.

Useful Life Time of Property, Plant & Equipment and Depreciation

Depreciation is calculated on a straight-line basis over the useful life of the assets, commencing from the date when the assets are available for use, since this method closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets.

The Bank and the Group review the residual values, useful lives and methods of depreciation of property, plant & equipment at each reporting date. Judgement of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

The estimated useful lives of the assets for the year ended 31 December 2015 and 2014, are as follows:

Class of Assets	Period	% Per Annum
Freehold buildings	20 years	5
Leasehold buildings	5 Years	20
Motor vehicles	4 years	25
Office Equipment and Furniture	5 years	20
Computer equipment	5 years	20

The depreciation rates are determined separately for each significant part of the assets and depreciation is provided proportionately for the completed number of months for which the asset is in use, if it is purchased or sold during the financial year.

Depreciation methods, useful lives and residual values are reassessed at each reporting date and is adjusted, as appropriate.

Leasehold buildings are amortized over the lower of the useful life and the lease period of the respective assets.

34.1 The Movement in Property, Plant & Equipment – Bank

	Freehold Land	Freehold Buildings	Leasehold Buildings	Computer Equipment	Motor Vehicles	Office Equipment & Furniture	Capital Work-in-Progress	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
(a) Cost or Valuation								
As at 1 January 2014	165,016	431,683	237,033	591,610	204,066	531,964	3,423	2,164,795
Additions during the year	–	2,787	28,126	89,567	198	81,566	59,802	262,046
Disposals during the year	–	(1,429)	–	(7,543)	(19,159)	(6,066)	–	(34,197)
Revaluation adjustment during the year	266,484	817,701	–	–	–	–	–	1,084,185
Transfers/adjustments	–	(301,216)	–	–	–	–	(44,173)	(345,389)
As at 31 December 2014	431,500	949,526	265,159	673,634	185,105	607,464	19,052	3,131,440
Additions during the year	–	12,864	42,794	169,773	98,901	83,285	105,929	513,546
Disposals during the year	–	–	–	(10,791)	(30,689)	(2,708)	–	(44,188)
Transfers/adjustments	–	–	–	–	–	–	(114,831)	(114,831)
As at 31 December 2015	431,500	962,390	307,953	832,616	253,317	688,041	10,150	3,485,967
(b) Depreciation/Amortization								
As at 1 January 2014	–	287,668	159,442	385,348	106,075	353,372	–	1,291,905
Charge for the year	–	28,194	29,167	80,525	39,896	68,618	–	246,400
On disposals	–	(605)	–	(7,526)	(19,159)	(5,855)	–	(33,145)
Transfers/adjustments	–	(301,216)	–	–	–	–	–	(301,216)
As at 31 December 2014	–	14,041	188,609	458,347	126,812	416,135	–	1,203,944
Charge for the year	–	35,118	34,887	96,539	40,939	77,261	–	284,744
On disposals	–	–	–	(10,769)	(19,250)	(2,707)	–	(32,726)
As at 31 December 2015	–	49,159	223,496	544,117	148,501	490,689	–	1,455,962
Net book value as at 31 December 2015	431,500	913,231	84,457	288,499	104,816	197,352	10,150	2,030,005
Net book value as at 31 December 2014	431,500	935,485	76,550	215,287	58,293	191,329	19,052	1,927,496

34.2 Details of Revalued Freehold Land and Buildings

Location	Extent (Perches)	Revaluation of Land (LKR '000)	Buildings (Square Feet)	Revaluation of Buildings (LKR '000)	Total Value (LKR '000)	Accumulated Depreciation (LKR '000)	Net Book Value (LKR '000)	As a % of Total Cost
Head Office – Dharmapala Mawatha No. 103A, Dharmapala Mawatha, Colombo 7	20.00	420,000	41,143	324,852	744,852	13,381	731,471	54.40
Head Office – Navam Mawatha No. 40, Navam Mawatha, Colombo 02	1.43	11,500	95,343	637,538	649,038	35,778	613,260	45.60
	21.43	431,500	136,486	962,390	1,393,890	49,159	1,344,731	100.00

34.3 Freehold Land and Buildings on a Cost Basis

The carrying amount of the Bank's revalued freehold land and buildings that would have been included in the Financial Statements at cost less depreciation is as follows:

Class of assets	Cost	Accumulated	Net Book	Cost	Accumulated	Net Book
	2015	Depreciation	Value	2014	Depreciation	Value
	LKR '000					
Freehold land	165,016	–	165,016	165,016	–	165,016
Freehold buildings	446,863	372,632	74,231	435,344	310,140	125,204
Total	611,879	372,632	239,247	600,360	310,140	290,220

34.4 The Movement in Property, Plant & Equipment – Group

	Freehold Land	Freehold Buildings	Leasehold Buildings	Computer Equipment	Motor Vehicles	Office Equipment & Furniture	Capital Work-in-Progress	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
(a) Cost or Valuation								
As at 1 January 2014	165,016	736,183	237,033	638,199	265,330	669,675	3,423	2,714,859
Additions during the year	–	2,787	28,126	98,210	41,424	93,768	59,802	324,117
Disposals during the year	–	(1,429)	–	(10,816)	(19,159)	(4,506)	–	(35,910)
Revaluation adjustment during the year	266,484	817,701	–	–	–	–	–	1,084,185
Transfers/adjustments	–	(301,216)	–	–	–	–	(44,173)	(345,389)
As at 31 December 2014	431,500	1,254,026	265,159	725,593	287,595	758,937	19,052	3,741,862
Additions during the year	–	12,864	42,794	174,885	109,092	94,209	105,929	539,773
Disposals during the year	–	(193)	–	(12,515)	(48,402)	(57,311)	–	(118,421)
Revaluation adjustment during the year*	–	95,339	–	–	–	–	–	95,339
Transfers/adjustments	–	–	–	–	–	–	(114,831)	(114,831)
As at 31 December 2015	431,500	1,362,036	307,953	887,963	348,285	795,835	10,150	4,143,722
(b) Depreciation/Amortization								
As at 1 January 2014	–	287,851	159,442	424,288	144,779	522,008	–	1,538,368
Charge for the year	–	48,419	29,167	86,019	51,965	75,570	–	291,140
On disposals	–	(605)	–	(10,731)	(20,339)	(7,402)	–	(39,077)
Transfers/adjustments	–	(301,216)	–	–	–	–	–	(301,216)
As at 31 December 2014	–	34,449	188,609	499,576	176,405	590,176	–	1,489,215
Charge for the year	–	35,118	34,887	103,889	60,428	83,476	–	317,798
On disposals	–	(193)	–	(19,294)	(45,491)	(53,196)	–	(118,174)
As at 31 December 2015	–	69,374	223,496	584,171	191,342	620,456	–	1,688,839
Net book value as at 31 December 2015	431,500	1,292,662	84,457	303,792	156,943	175,379	10,150	2,454,883
Net book value as at 31 December 2014	431,500	1,219,577	76,550	226,017	111,190	168,761	19,052	2,252,647

* Revaluation adjustment includes the revaluation gain of the owner occupied portion of the property, which has been accounted and classified as 'Investment Property' (Note 32).

34.5 Cost of Fully Depreciated Property, Plant & Equipment and Intangible Assets

The initial cost of fully depreciated property, plant & equipment and intangible assets as at 31 December 2015, which are still in use as at 31 December 2015, are as follows:

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Computer equipment	292,703	247,999	305,170	278,814
Freehold buildings	138	138	138	138
Leasehold buildings	138,826	119,218	138,826	119,218
Motor vehicles	64,561	37,050	64,895	45,882
Office equipment and furniture	276,214	256,062	327,958	353,140
Computer software	207,372	136,135	211,650	136,135
Total	979,814	796,602	1,048,637	933,327

35. OTHER ASSETS**ACCOUNTING POLICY**

The Bank and the Group classify all their other assets as 'other financial assets' and 'other non-financial assets'. Other assets mainly comprise of deposits and prepayments, unamortized staff costs and sundry receivables. Deposits are carried at historical cost less provision for impairment. Prepayments are amortized during the period in which they are utilized and are carried at historical cost less provision for impairment.

As all staff loans granted at below market interest rates, are recognized at fair value, the difference between the fair value and the amount disbursed was treated as a day 1 difference. The Day 1 difference is classified as 'unamortized staff cost' and is amortized over the loan period by using the EIR. The staff loans are subsequently measured at amortized costs.

Other financial assets and other non-financial assets included under other assets are summarised below:

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Other financial assets (Note 35.1)	–	54,450	–	54,450
Other non-financial assets (Note 35.2)	1,427,365	1,399,282	2,021,058	1,821,884
Total	1,427,365	1,453,732	2,021,058	1,876,334

35.1 Other Financial Assets

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Investment control account	–	54,450	–	54,450
	–	54,450	–	54,450

35.2 Other Non-Financial Assets

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Sundry receivables	550,850	635,310	1,057,834	994,923
Deposits and prepayments	279,432	232,286	344,079	273,269
Unamortized staff cost (Note 35.3)	596,381	529,883	618,439	551,889
Others	702	1,803	706	1,803
Total	1,427,365	1,399,282	2,021,058	1,821,884

35.3 Unamortized Staff Cost

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
As at 1 January	529,883	541,525	551,889	565,249
Add: Adjustment for new grants and settlements	140,769	66,059	147,360	68,757
Charged to personnel expenses	(74,271)	(77,701)	(80,810)	(82,117)
As at 31 December	596,381	529,883	618,439	551,889

36. DUE TO BANKS

ACCOUNTING POLICY

Due to banks, include call money borrowings and unfavourable balances in Nostro accounts. Subsequent to initial recognition, these are measured at their amortized cost using the EIR method. Interest paid/payable on these dues are recognized in the Statement of Profit or Loss under 'Interest Expenses'.

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Borrowings from local banks	6,553,426	6,498,487	6,553,426	6,498,487
Borrowings from foreign banks	5,049,686	395,733	5,049,686	395,733
Unfavourable balances in Nostro accounts	16,891	135,122	16,891	135,122
Total	11,620,003	7,029,342	11,620,003	7,029,342

36.1 Due to Banks – By Currency

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Local currency	5,692,115	3,450,598	5,692,115	3,450,598
Foreign currency	5,927,888	3,578,744	5,927,888	3,578,744
Total	11,620,003	7,029,342	11,620,003	7,029,342

37. DUE TO OTHER CUSTOMERS

ACCOUNTING POLICY

Due to other customers include non-interest bearing deposits, savings deposits, term deposits, margin deposits and other deposits. Subsequent to initial recognition, deposits are measured at their amortized cost using the EIR method. Interest paid/payable on deposits are recognized in the Statement of Profit or Loss under 'Interest Expenses'.

37.1 Due to Other Customers – By Product

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Savings deposits	30,983,005	24,056,643	30,983,005	24,056,642
Time deposits	137,018,391	115,167,079	136,262,411	114,866,084
Demand deposits	16,384,842	12,291,825	16,359,872	12,254,307
Margin deposits	462,935	237,751	462,935	237,751
Other deposits	84,057	70,417	84,057	70,417
Total	184,933,230	151,823,715	184,152,280	151,485,201

37.2 Due to Other Customers – By Currency

	BANK				GROUP			
	2015 LKR '000	%	2014 LKR '000	%	2015 LKR '000	%	2014 LKR '000	%
Local Currency Deposits								
Savings deposits	24,032,428	13	18,291,268	12	24,032,427	13	18,291,268	12
Time deposits	97,558,696	53	86,689,126	57	96,802,717	53	86,388,131	57
Demand deposits	11,770,327	6	10,073,086	7	11,745,357	6	10,035,568	7
Margin deposits	425,098	–	181,050	–	425,098	–	181,050	–
Other deposits	36,097	–	29,031	–	36,097	–	29,030	–
Sub Total	133,822,646	72	115,263,561	76	133,041,696	72	114,925,047	76
Foreign Currency Deposits								
Savings deposits	6,950,576	4	5,765,375	4	6,950,576	4	5,765,375	4
Time deposits	39,459,695	21	28,477,953	19	39,459,695	21	28,477,953	19
Demand deposits	4,614,516	3	2,218,739	1	4,614,516	3	2,218,739	1
Margin deposits	37,837	–	56,701	–	37,837	–	56,701	–
Other deposits	47,960	–	41,386	–	47,960	–	41,386	–
Sub total	51,110,584	28	36,560,154	24	51,110,584	28	36,560,154	24
Total	184,933,230	100	151,823,715	100	184,152,280	100	151,485,201	100

37.3 Due to Other Customers – By Province

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Western Province	168,208,584	137,661,581	167,427,634	137,323,068
North-Western Province	3,595,126	3,400,871	3,595,126	3,400,871
Southern Province	3,481,097	2,681,806	3,481,097	2,681,806
Central Province	3,412,002	2,683,919	3,412,002	2,683,919
Sabaragamuwa Province	2,606,505	2,596,387	2,606,505	2,596,387
Northern Province	1,164,815	850,963	1,164,815	850,963
Eastern Province	992,615	671,416	992,615	671,416
North-Central Province	624,467	524,847	624,467	524,847
Uva Province	848,019	751,925	848,019	751,924
Total	184,933,230	151,823,715	184,152,280	151,485,201

38. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS

ACCOUNTING POLICY

Debt securities issued and other borrowed funds represent the funds borrowed by the Bank and the Group for long-term and short-term liquidity funding requirements and include borrowings from concessionary credit lines, institutional borrowings, securities sold under repurchase agreements and non-quoted debentures. Subsequent to initial recognition, these are measured at their amortized cost using the EIR method. Interest paid/payable on debt securities and borrowed funds are recognized in the Statement of Profit or Loss, under 'Interest Expenses'.

Securities Sold Under Repurchase Agreements

The Bank and the Group sell a financial asset and simultaneously enter into an agreement to repurchase the asset (or similar asset) at a fixed price at a future date. Such an arrangement is accounted for as a financial liability and the underlying asset continues to be recognized in the Financial Statements of the Bank and the Group, as the Bank and the Group retain substantially all risks and rewards of ownership. Subsequent to initial recognition, these are measured at their amortized cost using the EIR method with the corresponding interest paid/payable being recognized in the Statement of Profit or Loss, under 'Interest Expenses'.

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Concessionary credit lines	1,839,337	2,343,544	1,839,337	2,343,544
Refinance borrowings	3,208,678	3,398,459	3,208,678	3,398,459
Foreign borrowings	28,412,489	31,155,496	28,412,489	31,155,496
Securities sold under repurchase agreements	26,667,250	24,630,586	26,667,250	24,630,928
Local borrowings	–	27,290	–	27,290
Non-quoted debentures (Note 38.1)	400,090	400,085	370,090	370,085
Total	60,527,844	61,955,460	60,497,844	61,925,802

38.1 Non-Quoted Debentures

Non-quoted debentures consist of 400,000 unlisted unsecured redeemable debentures of LKR 1,000/- each issued by the Bank in 2011 of which details are given below:

	Interest Payable Frequency	Issue Date	Maturity Date	BANK		GROUP	
				2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Floating Rate Debenture							
2011-2016 – 3 month TB rate (Gross) +1% p.a.	Quarterly	30.06.2011	30.06.2016	110,000	110,000	110,000	110,000
2011-2016 – 3 month TB rate (Gross) +1% p.a.	Quarterly	22.07.2011	30.06.2016	290,090	290,085	260,090	260,085
				400,090	400,085	370,090	370,085

39. DEFERRED TAX LIABILITIES/ASSETS

ACCOUNTING POLICY

Deferred tax is provided on temporary differences at the date of the Statement of Financial Position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profits will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply for the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of the Statement of Financial Position.

Significant Accounting Estimates & Assumptions

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

Deferred Tax Liabilities/Assets Recorded in the Statement of Financial Position

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Deferred Tax Liabilities				
Accelerated depreciation for tax purposes	74,753	80,670	84,046	83,977
Revaluation surplus on freehold buildings	230,729	230,729	230,729	230,729
Finance leases	702,435	453,037	702,435	453,037
Gains on financial investments – available-for-sale	–	7,791	17,090	24,881
Total (a)	1,007,917	772,227	1,034,300	792,624
Deferred Tax Assets				
Defined benefit plans	70,791	69,273	82,895	76,577
Carry forward losses on leasing business	151,442	64,929	151,442	64,929
Losses on other operations	–	–	3,834	22,625
Deferred expenses to be claimed in income tax liability of future years	12,040	12,103	12,040	12,103
Losses on financial investments – available-for-sale	70,968	–	70,968	–
Allowance for impairment charges	298	6,455	298	6,455
Total (b)	305,539	152,760	321,477	182,689
Net deferred tax liability (a) - (b)	702,378	619,467	712,823	609,935

Deferred Tax Charge/(Reversal) to the Statement of Profit or Loss and Other Comprehensive Income

	Statement of Profit or Loss				Other Comprehensive Income			
	BANK		GROUP		BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Deferred Tax Liabilities								
Accelerated depreciation for tax purposes	(5,917)	9,167	69	10,643	–	–	–	–
Revaluation surplus on freehold buildings	–	–	–	–	–	230,729	–	230,729
Finance leases	249,398	102,298	249,398	102,298	–	–	–	–
Gains on financial investments – available-for-sale	–	–	–	–	(7,791)	(33,691)	(7,791)	(33,691)
Total (a)	243,481	111,465	249,467	112,941	(7,791)	197,038	(7,791)	197,038
Deferred Tax Assets								
Defined benefit plans	(8,844)	(4,772)	(13,643)	(12,765)	7,326	(16,897)	7,326	(16,897)
Carry forward losses on leasing business	(86,513)	(2,686)	(86,513)	(2,686)	–	–	–	–
Losses on other operations	–	–	18,789	(15,033)	–	–	–	–
Deferred expenses to be claimed in income tax liability of future years	64	(12,102)	64	(12,102)	–	–	–	–
Losses on financial investments – available-for-sale	–	–	–	–	(70,968)	–	(70,968)	–
Allowance for impairment charges	6,157	34,988	6,157	34,988	–	–	–	–
Total (b)	(89,136)	15,428	(75,146)	(7,598)	(63,642)	(16,897)	(63,642)	(16,897)
Net impact (a) - (b)	154,345	126,893	174,321	105,343	(71,433)	180,141	(71,433)	180,141

40. EMPLOYEE BENEFIT LIABILITIES

ACCOUNTING POLICY

Employee benefit liabilities include the provisions made for retirement gratuity and pension funds.

Retirement Gratuity

The costs of retirement gratuities are determined by a qualified actuary using projected unit credit method. Actuarial gains and losses are recognized as income or expense in the Statement of Comprehensive Income during the financial year in which it arose.

Pension Fund

The Bank operates an approved employee non-contributory pension fund for the payment of pensions to members of its permanent staff, who qualify for such payments when retiring. Employees who joined since 1999 are not covered under the said pension scheme. These employees are entitled to retirement gratuity. Up to 31 December 2002, annual contributions to the pension fund was payable by the Bank, based on a percentage of gross salaries, as stipulated in the pension deed. However, following the formulation of a revised pension deed, which has been approved by the Department of Inland Revenue, the contributions in subsequent years are determined on the basis of an actuarial valuation carried out each year.

Basis of Measurement

The cost of the defined benefit plans (retirement gratuity and pension fund) is determined using an actuarial valuation. The actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainties. All assumptions are reviewed at each reporting date. The assumptions used to arrive at the defined benefit obligation, is given in Notes 40.1 (b) and 40.2 (b).

In determining the appropriate discount rate, the Management considers the interest rates of Sri Lanka Government Bonds with extrapolated maturities, corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Future salary increases are based on expected future inflation rates and the Bank's and the Group's policies on salary revisions.

40.1 Provision for Retirement Gratuity

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
As at 1 January	247,011	170,008	301,219	214,830
Provision made during the year				
Statement of Profit or Loss [Note 40.1 (a)]	53,988	44,101	62,199	53,487
Other Comprehensive Income [Note 40.1 (a)]	(26,160)	60,348	(31,238)	60,348
Contribution made for retirement gratuity	27,828	104,449	30,961	113,835
Benefits paid by the plan	(22,014)	(27,446)	(35,028)	(27,446)
As at 31 December	252,825	247,011	297,152	301,219
40.1 (a) Contributions Made for Retirement Gratuity				
Current service cost	31,757	25,400	36,259	25,400
Interest cost	22,231	18,701	25,940	28,087
Amount recognised in the Statement of Profit or Loss	53,988	44,101	62,199	53,487
Recognition of transitional liability/(asset)	–	38,540	(5,782)	38,540
Liability experience losses/(gains)	(7,337)	21,808	(1,969)	21,808
Liability loss/(gain) due to changes in assumptions	(18,823)	–	(23,487)	–
Amount recognised in the Other Comprehensive Income	(26,160)	60,348	(31,238)	60,348

40.1 (b) Assumptions and the Sensitivity of the Assumptions Used for the Provision of Retirement Gratuity

An actuarial valuation of the retirement gratuity liability was carried out as at 31 December 2015 and 31 December 2014 by Messrs Piyal S Goonetilleke and Associates, a professional Actuary.

The valuation method used by the Actuary to value the Liability was the 'Projected Unit Credit Actuarial Cost Method', recommended by LKAS 19 – 'Employee Benefits'.

	31 December 2015	31 December 2014
Actuarial Assumptions		
Discount rate	10.75%	9%
Salary increment rate	8%	7%
Mortality	UP 1984 Mortality Table	UP 1984 Mortality Table
Retirement age	Normal retirement age or age on valuation date, if greater	Normal retirement age or age on valuation date, if greater

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 sensitivity of the Statement of Profit or Loss and the Statement of Financial Position is the effect of the assumed changes in discount rate and salary increment rate on the profit or loss and employment benefit obligation for the year.

		BANK			
		2015		2014	
Increase/ (Decrease) in Discount Rate %	Increase/ (Decrease) in Salary Increment Rate %	Sensitivity Effect on the Statement of Profit or Loss Increase/(Reduction) in Results for the Year LKR million	Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in the Liability LKR million	Sensitivity Effect on Statement of Profit or Loss Increase/(Reduction) in Results for the Year LKR million	Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in the Liability LKR million
1		21.83	(21.83)	21.79	(21.79)
(-1)		(25.23)	25.23	(25.27)	25.27
	1	(24.92)	24.92	(24.78)	24.78
	(-1)	21.94	(21.94)	21.76	(21.76)

40.1 (c) The Expected Benefit Payout in the Future Years for Retirement Gratuity

	2015 LKR '000	2014 LKR '000
Within the next 12 months	38,521	18,052
Between 2 and 5 years	188,656	176,414
Beyond 5 years	412,265	325,703

The expected benefits are estimated, based on the same assumptions used to measure the benefit obligation of the Bank and the Group, at the end of the year and include benefits attributable to estimated future employee service.

The average duration of the defined benefit obligation is 12.5 years (2014 – 12.5 years).

40.2 Pension Fund

The amount recognized in the Statement of Financial Position is as follows:

	BANK & GROUP	
	2015 LKR '000	2014 LKR '000
Present value of the funded obligation as at 31 December	616,578	604,818
Fair value of plan assets as at 31 December	(724,713)	(670,398)
Retirement Benefit (Asset)/Liability*	(108,135)	(65,580)

* The overpayment is recognized as prepaid expenses in Other Assets.

40.2 (a) Contribution Made to the Pension Fund

	BANK & GROUP	
	2015 LKR '000	2014 LKR '000
Current service cost	19,613	18,753
Interest cost	(4,329)	(11,590)
Amount recognized in the Statement of Profit or Loss	15,284	7,163
Assets loss/(gain) arising during the year	20,985	23,508
Liability experience loss	38,908	10,612
Liability loss/(gain) due to changes in assumptions	(66,089)	16,751
Difference between the return on plan assets and interest income on plan assets	(19,443)	(6,391)
Effect of net assets recognition in the pension fund	(42,554)	34,907
Amount recognised in the Other Comprehensive Income	(68,193)	79,387

40.2 (b) Assumptions and the Sensitivity of the Assumptions Used for the Pension Fund

An actuarial valuation of the Pension Fund was carried out as at 31 December 2015 and 31 December 2014 by Messrs Piyal S Goonetilleke Associates, a professional Actuary.

The valuation method used by the Actuary to value the Fund is the 'Projected Unit Credit Actuarial Cost Method', recommended by LKAS 19 – 'Employee Benefits'.

	31 December 2015	31 December 2014
Actuarial Assumptions		
Discount rate	11.80%	10%
Salary increment	8%	6%
Annual return on assets rate	6%	7%
Mortality	UP 1984 Mortality Table	UP 1984 Mortality Table
Retirement age	Normal retirement age	Normal retirement age

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 sensitivity of the Statement of Profit or Loss and the Statement of Financial Position is the effect of the assumed changes in discount rate and salary increment rate on the profit or loss and employment benefit obligation for the year.

BANK					
		2015		2014	
Increase/(Decrease) in Discount Rate %	Increase/(Decrease) in Salary Increment Rate %	Sensitivity Effect on the Statement of Profit or Loss Increase/(Reduction) in Results for the Year LKR million	Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in the Liability LKR million	Sensitivity Effect on Statement of Profit or Loss Increase/(Reduction) in Results for the Year LKR million	Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in the Liability LKR million
1		50.29	(50.29)	54.73	(54.73)
(-1)		(58.24)	58.24	(64.26)	64.26
	1	(19.86)	19.86	(21.03)	21.03
	(-1)	18.60	(18.60)	19.57	(19.57)

		2015		2014	
Increase/(Decrease) in Life Expectancy		Sensitivity Effect on the Statement of Profit or Loss Increase/(Reduction) in Results for the Year LKR million	Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in the Liability LKR million	Sensitivity Effect on Statement of Profit or Loss Increase/(Reduction) in Results for the Year LKR million	Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in the Liability LKR million
+1 Year		(6.79)	6.79	(7.81)	7.81
-1 Year		7.08	(7.08)	8.10	(8.10)

The fair value of the total plan assets are as follows:

	2015 LKR '000	2014 LKR '000
Investment in Government Securities	35,000	537,270
Investment in Fixed Deposits	123,459	113,500
	158,459	650,770

40.2 (c) The Expected Benefit Payout from the Pension Fund in Future Years

	2015 LKR '000	2014 LKR '000
Within the next 12 months	41,804	32,866
Between 2 and 5 years	210,926	202,991
Beyond 5 years	506,011	432,625

The expected benefits are based on the same assumptions used to measure the Bank's benefit obligation at the end of the year and include benefits attributable to estimated future employee service.

The average duration of the defined benefit obligation was 24 years as at 31 December 2015 (2014 – 24 years).

40.2 (d) The Total Amount Recognized in the Other Comprehensive Income Relating to the Employee Benefit Liabilities

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Retirement Gratuity [Note 40.1 (a)]	(26,160)	60,348	(31,238)	60,348
Pension Fund [Note 40.2 (a)]	(68,193)	79,387	(68,193)	79,387
Total	(94,353)	139,735	(99,431)	139,735

41. OTHER LIABILITIES

ACCOUNTING POLICY

Other liabilities include other financial liabilities and other non-financial liabilities. Other non-financial liabilities include fees, expenses and amounts payable for deposit insurance, dividend payable and other provisions. These liabilities are recorded at amounts expected to be payable at the reporting date.

Provisions are recognized when the Bank and the Group have a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Board of Directors.

Other financial liabilities and other non-financial liabilities included under other liabilities are summarized below:

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Other financial liabilities (Note 41.1)	2,889,782	2,423,677	2,893,671	2,423,677
Other non-financial liabilities (Note 41.2)	4,831,027	3,752,970	5,042,068	3,937,165
Total	7,720,809	6,176,647	7,935,739	6,360,842

41.1 Other Financial Liabilities

Unpresented cheques/pay orders	2,883,208	2,387,210	2,887,096	2,387,210
Others	6,574	36,467	6,575	36,467
Total	2,889,782	2,423,677	2,893,671	2,423,677

41.2 Other Non-Financial Liabilities

Accrued expenses	616,237	571,246	829,498	772,639
Provision for deposit insurance	42,417	34,250	42,417	34,250
Dividend payable (Note 41.3)	60,014	51,428	60,014	51,428
Other liabilities [Note 41.2 (a)]	4,112,359	3,096,046	4,110,139	3,078,848
Total	4,831,027	3,752,970	5,042,068	3,937,165

41.2. (a) Other liabilities include the amounts due to the staff Pension Fund and Sundry Creditors.

41.3 Dividend Payable

	BANK & GROUP	
	2015 LKR '000	2014 LKR '000
Balance as at 1 January	51,428	40,657
Final dividend declared for the prior year	660,376	824,245
Interim dividend declared for the current year	1,156,171	1,155,587
Reversal of dividends declared in prior years [Note 41.3 (a)]	(1,098)	(2,299)
Dividend paid	(1,806,863)	(1,966,762)
As at 31 December	60,014	51,428

41.3 (a) Reversal of Dividends Declared in Prior Years

Reversal of dividends declared in previous years, represent unclaimed dividends which are written back after six years.

42. SUBORDINATED TERM DEBTS

ACCOUNTING POLICY

Subordinated term debts represent the funds borrowed by the Bank and the Group for long-term and short-term funding requirements and include foreign institutional borrowings and quoted debentures. Subsequent to initial recognition, these are measured at their amortized cost using the EIR. Interest paid/payable on subordinated debts are recognized in the Statement of Profit or Loss. The direct costs attributable to these term debts are amortized over the term of the loan and are offset, in the presentation of the subordinate term debts in the Statement of Financial Position.

	BANK & GROUP	
	2015 LKR '000	2014 LKR '000
As at 1 January	11,149,439	11,682,674
Additions during the year	8,922,617	–
Redemptions during the year	(511,650)	(563,082)
Balance before adjusting for amortized interest	19,560,406	11,119,592
Net effect on amortized interest payable	13,477	29,847
As at 31 December (Note 42.1)	19,573,883	11,149,439

42.1 Subordinated Term Debts – by Product

	Repayment Terms	Issued Date	Maturity Date	Rate of Interest %	Amount In FCY	BANK & GROUP	
						2015 LKR '000	2014 LKR '000
42.1 (a) Term Loans							
Nederland's Financierings Maatschappij Voor Ontwikkelingslanden N.V. (FMO)							
FMO Loan I	Semi Annually	20 Jan. 2006	Fully settled on Feb. 2015	AWDR 6 months +5%	EUR 7,500,000	–	190,797
FMO Loan II	Semi Annually	18 Dec. 2007	15 Oct. 2017	Avg. (6 months AWDR, 6 months T Bill rate) + 3%	USD 15,000,000	666,877	1,000,911
Total (a)						666,877	1,191,708

	Interest Payable Frequency	Issued Date	Maturity Date	BANK & GROUP	
				2015 LKR '000	2014 LKR '000
42.1 (b) Debentures					
Fixed Rate Debenture Issuance – December 2013					
Type A – 13.0% – (60 Months)	Semi Annually	19 December 2013	18 December 2018	1,238,493	1,242,526
Type B – 13.40% – (60 Months)	Annually	19 December 2013	18 December 2018	1,523,517	1,522,148
Type C – 13.90% – (120 Months)	Annually	19 December 2013	18 December 2023	3,621,915	3,620,874
Type D – 14.00% – (144 Months)	Annually	19 December 2013	18 December 2025	3,572,947	3,572,183
Total (b)				9,956,872	9,957,731
Fixed Rate Debenture Issuance – June 2015					
Type A – 9.40% – (60 Months)	Annually	24 June 2015	24 June 2020	6,958,142	–
Type B – Zero coupon – (60 months)	9.40% Annual compounding on the Issue Price of LKR 63.8136 payable on the Date of Redemption	24 June 2015	24 June 2020	1,991,992	–
Total (c)				8,950,134	–
Total subordinated term debts (a)+(b)+(c)				19,573,883	11,149,439
The maturity of the subordinated term debts are given below:					
Due within one year				340,177	511,650
Due after one year				19,233,706	10,637,789
				19,573,883	11,149,439

43. CAPITAL

	BANK				GROUP			
	Number of Shares	2015 LKR '000	Number of Shares	2014 LKR '000	Number of Shares	2015 LKR '000	Number of Shares	2014 LKR '000
Issued and fully paid	165,093,922	1,225,162	164,693,034	1,172,904	164,600,914	1,145,353	160,559,308	943,746
Adjustment on Employee Share Ownership Plan	–	–	–	–	–	–	4,131,850	229,158
Adjustment on Equity Linked Compensation Plan	–	–	–	–	–	–	(491,132)	(79,809)
Transfer from share based payment reserve	–	5,653	–	–	–	5,653	–	–
Issue of shares under the Equity Linked Compensation Plan [Note 43.2 (d)]	73,420	11,957	400,888	52,258	73,420	11,957	400,888	52,258
Total	165,167,342	1,242,772	165,093,922	1,225,162	164,674,334	1,162,963	164,600,914	1,145,353

	BANK & GROUP			
	Number of Shares	2015 LKR '000	Number of Shares	2014 LKR '000
43.1 Stated Capital	165,167,342	1,242,772	165,093,922	1,225,162

43.2 Issue of Shares Under the Equity Linked Compensation Plan (ELCP)

The Bank obtained approval of the shareholders at an Extraordinary General Meeting held in April 2010, to enable the management staff in the rank of Assistant Vice-President and above of the Bank to take part in the voting ordinary share capital of the Bank, subject to certain limits, terms and conditions. Accordingly, the ELCP created a maximum of 3% of the ordinary voting shares, half of such shares are to be awarded as share options and the other half as share grants in equal proportions. Each of the five tranches would amount to a maximum of 0.6% of the voting shares.

43.2 (a) The details of the share grants and the share options made available to the relevant staff members are given below:

	2015	2014
Share Grant		
Award 01 – (1 July 2010) – vested on 30 June 2014		
Number of ordinary shares awarded and vested	–	–
Award 04 – (1 July 2013) – to be vested on 30 June 2016		
Number of ordinary shares awarded and to be vested	491,132	491,132
Share Option		
Award 01 – (1 July 2010) – exercised during 1 July 2011 to 30 June 2014		
Number of ordinary shares allocated at a price of LKR 124.21	–	491,132
Number of ordinary shares exercised at a price of LKR 124.21	–	337,146
Number of ordinary shares cancelled	–	153,986
Award 04 – (1 July 2013) – exercisable from 1 July 2014 to 30 June 2017		
Number of ordinary shares exercisable as at 1 January	427,390	491,132
Number of ordinary shares exercised at a price of LKR 162.86	73,420	63,742
Number of ordinary shares to be exercised	353,970	427,390
43.2 (b) Expense Arising from ELCP Recognised in the Statement of Profit or Loss	27,248	46,504
43.2 (c) The Following Tables List the Inputs to the Models used for the Award 04 (Option Plan):		
Expected volatility (%)	2	
Risk-free interest rate (%)	7.50	
Expected life of share options (years)	3	
Exercise share price (LKR)	162.86	

43.2 (d) Number of ordinary shares issued to the eligible staff members during the year as per the ELCP is given below:

	BANK & GROUP			
	Number of Shares	2015 LKR '000	Number of Shares	2014 LKR '000
Award 01 – (1 July 2010)	–	–	337,146	41,877
Award 04 – (1 July 2014)	73,420	11,957	63,742	10,381
	73,420	11,957	400,888	52,258

44. STATUTORY RESERVE FUND

The Statutory Reserve Fund is maintained as per the requirements under Section 20 (1) of the Banking Act No. 30 of 1988. Accordingly, the fund is built up by allocating a sum equivalent to not less than 5% of the profit after tax, but before declaring any dividend or any profits that are transferred to elsewhere until the reserve is equal to 50% of the Bank's stated capital and thereafter a further sum equivalent to 2% of such profit until the amount of said reserve fund is equal to the stated capital of the Bank.

The balance in the Statutory Reserve Fund will be used only for the purposes specified in the Section 20 (2) of the Banking Act No. 30 of 1988.

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
As at 1 January	1,010,785	958,527	1,010,785	958,527
Transferred from retained earnings (Note 45)	231,987	52,258	231,987	52,258
As at 31 December	1,242,772	1,010,785	1,242,772	1,010,785

45. RETAINED EARNINGS

	2015			2014		
	General Reserve LKR '000	Retained Earnings LKR '000	Total LKR '000	General Reserve LKR '000	Retained Earnings LKR '000	Total LKR '000
BANK						
As at 1 January	5,805,707	12,819,737	18,625,444	5,805,707	9,847,553	15,653,260
Super Gain Tax	-	(732,081)	(732,081)	-	-	-
Adjusted opening balance as at 1 January	5,805,707	12,087,656	17,893,363	5,805,707	9,847,553	15,653,260
Total comprehensive income for the year	-	3,598,459	3,598,459	-	3,295,226	3,295,226
Transferred from investment fund account	-	-	-	-	1,706,751	1,706,751
Transferred to statutory reserve fund	-	(231,987)	(231,987)	-	(52,258)	(52,258)
Dividends to equity holders	-	(1,815,450)	(1,815,450)	-	(1,977,535)	(1,977,535)
As at 31 December	5,805,707	13,638,678	19,444,385	5,805,707	12,819,737	18,625,444

	2015			2014		
	General Reserve LKR '000	Retained Earnings LKR '000	Total LKR '000	General Reserve LKR '000	Retained Earnings LKR '000	Total LKR '000
GROUP						
As at 1 January	5,805,707	18,440,117	24,245,824	5,805,707	14,926,094	20,731,801
Super Gain Tax	-	(833,548)	(833,548)	-	-	-
Adjusted opening balance as at 1 January	5,805,707	17,606,569	23,412,276	5,805,707	14,926,094	20,731,801
Total comprehensive income for the year	-	3,644,798	3,644,798	-	4,011,426	4,011,426
Transferred from investment fund account	-	-	-	-	1,706,751	1,706,751
Adjustment due to changes in group companies	-	(33,662)	(33,662)	-	-	-
Adjustment on employee share ownership plan	-	-	-	-	(161,059)	(161,059)
Adjustment on equity linked compensation plan	-	-	-	-	(13,302)	(13,302)
Transferred to statutory reserve fund	-	(231,987)	(231,987)	-	(52,258)	(52,258)
Dividends to equity holders	-	(1,815,450)	(1,815,450)	-	(1,977,535)	(1,977,535)
As at 31 December	5,805,707	19,170,268	24,975,975	5,805,707	18,440,117	24,245,824

46. OTHER RESERVES

Current Year 2015	BANK			GROUP		
	Opening Balance LKR '000	Movement/ Transfers LKR '000	Closing Balance LKR '000	Opening Balance LKR '000	Movement/ Transfers LKR '000	Closing Balance LKR '000
Revaluation reserve (Note 46.1)	853,456	–	853,456	853,456	95,339	948,795
Available-for-sale reserve (Note 46.2)	105,250	(312,527)	(207,277)	162,355	(301,914)	(139,559)
Share based payment reserve (Note 46.3)	20,243	(5,653)	14,590	60,148	20,950	81,098
Cash flow hedge reserve [Note 22.1 (c)]	397,852	(287,692)	110,160	397,852	(287,692)	110,160
Total	1,376,801	(605,872)	770,929	1,473,811	(473,317)	1,000,494

Previous Year 2014	BANK			GROUP		
	Opening Balance LKR '000	Movement/ Transfers LKR '000	Closing Balance LKR '000	Opening Balance LKR '000	Movement/ Transfers LKR '000	Closing Balance LKR '000
Revaluation reserve (Note 46.1)	–	853,456	853,456	–	853,456	853,456
Available-for-sale reserve (Note 46.2)	106,669	(1,419)	105,250	150,614	11,741	162,355
Investment fund account	1,706,751	(1,706,751)	–	1,706,751	(1,706,751)	–
Share based payment reserve (Note 46.3)	22,367	(2,124)	20,243	22,367	37,781	60,148
Cash flow hedge reserve [Note 22.1 (c)]	–	397,852	397,852	–	397,852	397,852
Total	1,835,787	(458,986)	1,376,801	1,879,732	(405,921)	1,473,811

46.1 Revaluation Reserve

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
As at 1 January	853,456	–	853,456	–
Surplus on revaluation of freehold land and building	–	1,084,185	–	1,084,185
Adjustment for revaluation of owner occupied portion of investment property	–	–	95,339	–
Deferred tax effect on revaluation surplus of freehold building	–	(230,729)	–	(230,729)
As at 31 December	853,456	853,456	948,795	853,456

The Bank carried out a revaluation of all its freehold lands and buildings as at 31 December 2014 and the resulting revaluation surplus was LKR 1,084 million as at 31 December 2015 (Note 34).

46.2 Available-for-Sale Reserve

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
As at 1 January	105,250	106,669	162,355	150,614
Net gains/(losses) on re-measuring financial investments – available-for-sale	(363,461)	459,062	(380,673)	472,222
Fair value gains/(losses) realised and reclassified to the Statement of Profit or Loss during the year	(27,825)	(494,172)	–	(494,172)
Add: Tax effect on available-for-sale reserve	78,759	33,691	78,759	33,691
	(312,527)	(1,419)	(301,914)	11,741
As at 31 December	(207,277)	105,250	(139,559)	162,355

The available-for-sale reserve comprises the cumulative net change in fair value of financial investments available-for-sale, until such investments are derecognized or impaired.

46.3 Share Based Payment Reserve

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
As at 1 January	20,243	22,367	60,148	22,367
Adjustments	–	(2,124)	26,603	37,781
Capitalisation of the fair value of the options exercised	(5,653)	–	(5,653)	–
As at 31 December	14,590	20,243	81,098	60,148

The share based payment reserve represents the fair value of the options available as per the Equity Linked Compensation Plan (Note 43.2).

47. NON-CONTROLLING INTERESTS

ACCOUNTING POLICY

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned directly or indirectly by the Bank. Any losses applicable to the non-controlling interests are allocated against the interests of the non-controlling interests even if it is a deficit balance. Acquisitions of non-controlling interests are accounted for using the parent entity extension method, whereby the difference between the consideration and the fair value of the share of net assets acquired is recognized as equity. Therefore, no goodwill is recognized as a result of such transactions.

	GROUP	
	2015 LKR '000	2014 LKR '000
Balance as at 1 January	922,646	847,848
Super Gain Tax	(21,123)	–
Adjusted opening balance as at 1 January 2015	901,523	847,848
Profit for the year	128,055	112,040
Other comprehensive income, net of tax	5,573	149
Adjustment due to changes in group companies	24,645	–
Dividends to equity holders	(41,283)	(37,391)
Balance as at 31 December	1,018,513	922,646

48. COMMITMENTS AND CONTINGENCIES

ACCOUNTING POLICY

All discernible risks are accounted for in determining the amount of all known liabilities. Commitments and contingencies represent possible obligations whose existence will be confirmed only by uncertain future events or present obligations, where the transfer of economic benefit is not probable or cannot be reliably measured.

To meet the financial needs of customers, the Bank and the Group enter into various irrevocable commitments and contingent liabilities. These consist of the financial guarantees, letters of credit and forward foreign exchange contracts and other undrawn commitments to lend. The letters of credit and guarantees commit the Bank and the Group to make payments on behalf of customers in the event of a specific act, generally related to import or export of goods. The guarantees and standby letters of credit carry a similar credit risk of that loans/contingent liabilities and are not recognized in the Statement of Financial Position but are disclosed unless they are remote.

48.1 Business Commitments

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Contingencies				
Guarantees	18,270,312	15,584,522	17,435,312	15,586,541
Performance bonds	8,614,302	6,503,688	8,614,302	6,503,688
Documentary credits	8,132,261	7,521,595	8,132,261	7,521,595
Other contingencies (Refer Note 48 .1 (a))	92,081,612	107,596,800	92,081,612	107,596,800
Commitments				
Undrawn commitments	110,649,926	93,937,028	112,326,086	93,940,238
Total	237,748,413	231,143,633	238,589,573	231,148,862

48.1 (a) Other Contingencies

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Forward exchange contracts	79,090,652	83,183,409	79,090,652	83,183,409
Interest rate Swap agreements	5,370,000	17,264,625	5,370,000	17,264,625
Acceptances	7,620,960	7,148,766	7,620,960	7,148,766
Sub Total	92,081,612	107,596,800	92,081,612	107,596,800

48.2 Capital Commitments

The capital expenditure approved by the Board of Directors for which provision has not been made in the Financial Statements is as follows:

	BANK		GROUP	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Commitments in relation to property, plant & equipment				
Approved and contracted for	64,680	41,040	64,680	41,040
Approved and not contracted for	144,620	104,160	144,620	104,160
Sub Total	209,300	145,200	209,300	145,200
Commitments in relation to intangible assets				
Approved and contracted for	103,300	44,200	103,300	44,200
Total	312,600	189,400	312,600	189,400

48.3 Litigation Against the Bank

In the normal course of business, the Bank is a party to various types of litigation, including litigation with borrowers who are in default in terms of their loan agreements. As at the date of the Statement of Financial Position, twenty-four clients have filed cases against the Bank. The Bank's legal counsel is of the opinion that litigation which is currently pending will not have a material impact on the reported financial results or the future operations of the Bank.

48.4 Tax Assessments Against the Bank/Group Companies

The following tax assessments are outstanding, against which the Bank/Group Companies have duly appealed.

1. The income tax assessment received by the Bank for the Year of Assessment 2010-2011, which was determined by the Commissioner General of Inland Revenue amounting to LKR 108.1 million will be forwarded to the Tax Appeal Commission for their determination.
2. The assessments on income tax received by the Bank for the Years of Assessments 2011-2012 and 2012-2013 amounting to LKR 620.5 million and the assessments on VAT on financial services for the years 2012 and 2013 amounting to LKR 302.6 million are to be determined by the Commissioner General of Inland Revenue.
3. The assessments on VAT on financial services issued to NDB Capital Holdings Ltd. for the years 2012 and 2013 amounting to LKR 183.8 million. The Company has taken up the position that it is not in the business of provision of loans, and thereby do not carry out financial services, as charged in the assessments.

The Bank and the Group Companies are of the view that the above assessments will not have any material adverse impact on the Financial Statements.

49. NET ASSETS VALUE PER ORDINARY SHARE

	BANK		GROUP	
	2015	2014	2015	2014
Amount used as the Numerator:				
Total equity attributable to equity holders of the Bank (LKR '000)	22,700,858	22,238,192	28,382,204	27,875,773
Number of ordinary shares used as the Denominator:				
Total number of shares ('000)	165,167,342	165,093,922	164,674,334	164,600,914
Net assets value per share (LKR)	137.44	134.70	172.35	169.35

50. MATURITY GAP ANALYSIS

An analysis of the assets and liabilities based on the remaining period as at the date of the Statement of Financial Position to the respective contractual maturity dates, are as follows:

As at 31 December 2015	BANK		Total LKR '000
	Within 12 Months LKR '000	After 12 Months LKR '000	
Assets			
Cash and cash equivalents	11,821,503	–	11,821,503
Balance with the Central Bank of Sri Lanka	6,805,961	193,937	6,999,898
Placements with banks	1,153,619	–	1,153,619
Derivative financial instruments	1,903,573	–	1,903,573
Financial assets held-for-trading	2,985,262	–	2,985,262
Loans and receivables to banks	64,397	38,235	102,632
Loans and receivables to other customers	121,569,050	88,033,019	209,602,069
Financial investments - loans and receivables	35,830,311	–	35,830,311
Financial investments – available-for-sale	28,501,518	–	28,501,518
Financial investments – held-to-maturity	1,388,981	3,047,992	4,436,973
Investments – held-for-sale	18,526	–	18,526
Investments in subsidiary companies	–	2,104,117	2,104,117
Intangible assets	–	240,234	240,234
Property, plant & equipment	–	2,030,005	2,030,005
Other assets	705,770	721,595	1,427,365
Total Assets	212,748,471	96,409,134	309,157,605
Liabilities			
Due to banks	11,620,003	–	11,620,003
Derivative financial instruments	639,272	–	639,272
Due to other customers	179,809,515	5,123,715	184,933,230
Debt securities issued and other borrowed funds	30,367,708	30,160,136	60,527,844
Tax liabilities	486,503	–	486,503
Deferred tax liabilities	–	702,378	702,378
Employee benefit liabilities	–	252,825	252,825
Other liabilities	5,190,512	2,530,297	7,720,809
Subordinated term debts	304,815	19,269,068	19,573,883
Total Liabilities	228,418,328	58,038,419	286,456,747
Net	(15,669,857)	38,370,715	22,700,858

As at 31 December 2014	BANK		
	Within 12 Months LKR '000	After 12 Months LKR '000	Total LKR '000
Assets			
Cash and cash equivalents	3,104,391	–	3,104,391
Balance with the Central Bank of Sri Lanka	6,474,384	266,206	6,740,590
Placements with banks	2,721,891	–	2,721,891
Derivative financial instruments	1,903,781	–	1,903,781
Financial assets held-for-trading	2,785,277	–	2,785,277
Loans and receivables to banks	219,900	91,244	311,144
Loans and receivables to other customers	112,326,853	62,848,350	175,175,203
Financial investments – loans and receivables	38,302,428	–	38,302,428
Financial investments – available-for-sale	17,060,302	–	17,060,302
Financial investments – held-to-maturity	5,974,947	2,996,016	8,970,963
Investments – held-for-sale	18,526	–	18,526
Investments in subsidiary companies	–	2,000,290	2,000,290
Intangible assets	–	253,132	253,132
Property, plant & equipment	–	1,927,496	1,927,496
Other assets	661,901	791,831	1,453,732
Total Assets	191,554,581	71,174,565	262,729,146
Liabilities			
Due to banks	7,029,342	–	7,029,342
Derivative financial instruments	663,186	–	663,186
Due to other customers	145,201,892	6,621,823	151,823,715
Debt securities issued and other borrowed funds	41,013,490	20,941,970	61,955,460
Tax liabilities	826,687	–	826,687
Deferred tax liabilities	–	619,467	619,467
Employee benefit liabilities	–	247,011	247,011
Other liabilities	4,397,536	1,779,111	6,176,647
Subordinated term debts	538,460	10,610,979	11,149,439
Total Liabilities	199,670,593	40,820,361	240,490,954
Net	(8,116,012)	30,354,204	22,238,192

As at 31 December 2015	GROUP		
	Within 12 Months LKR '000	After 12 Months LKR '000	Total LKR '000
Assets			
Cash and cash equivalents	11,848,575	–	11,848,575
Balance with the Central Bank of Sri Lanka	6,805,961	193,937	6,999,898
Placements with banks	1,153,619	–	1,153,619
Derivative financial instruments	1,903,573	–	1,903,573
Financial assets held-for-trading	5,229,493	–	5,229,493
Loans and receivables to banks	64,397	38,235	102,632
Loans and receivables to other customers	121,561,396	88,104,165	209,665,561
Financial investments – loans and receivables	35,875,665	1,493,040	37,368,705
Financial investments – available-for-sale	28,964,820	–	28,964,820
Financial investments – held-to-maturity	1,874,998	3,785,870	5,660,868
Investments – held-for-sale	33,302	–	33,302
Investments Property	–	1,672,000	1,672,000
Intangible assets	–	274,746	274,746
Property, plant & equipment	–	2,454,883	2,454,883
Other assets	1,299,463	721,595	2,021,058
Total Assets	216,615,262	98,738,471	315,353,733
Liabilities			
Due to banks	11,620,003	–	11,620,003
Derivative financial instruments	639,272	–	639,272
Due to other customers	179,028,565	5,123,715	184,152,280
Debt securities issued and other borrowed funds	30,337,708	30,160,136	60,497,844
Tax liabilities	524,020	–	524,020
Deferred tax liabilities	–	712,823	712,823
Employee benefit liabilities	–	297,152	297,152
Other liabilities	5,405,442	2,530,297	7,935,739
Subordinated term debts	304,815	19,269,068	19,573,883
Total Liabilities	227,859,825	58,093,191	285,953,016
Net	(11,244,563)	40,645,280	29,400,717

As at 31 December 2014	GROUP		
	Within 12 Months LKR '000	After 12 Months LKR '000	Total LKR '000
Assets			
Cash and cash equivalents	3,274,036	–	3,274,036
Balance with the Central Bank of Sri Lanka	6,474,384	266,206	6,740,590
Placements with banks	2,721,891	–	2,721,891
Derivative financial instruments	1,903,781	–	1,903,781
Financial assets held-for-trading	6,028,558	–	6,028,558
Loans and receivables to banks	219,900	91,244	311,144
Loans and receivables to other customers	112,348,461	62,887,445	175,235,906
Financial investments – loans and receivables	38,302,428	381,048	38,683,476
Financial investments – available-for-sale	18,057,852	–	18,057,852
Financial investments – held-to-maturity	6,078,758	4,088,567	10,167,325
Investments – held-for-sale	33,302	–	33,302
Investment Property	–	1,545,693	1,545,693
Intangible assets	–	297,070	297,070
Property, plant & equipment	–	2,252,647	2,252,647
Other assets	1,084,507	791,827	1,876,334
Total Assets	196,527,858	72,601,747	269,129,605
Liabilities			
Due to banks	7,029,342	–	7,029,342
Derivative financial instruments	663,186	–	663,186
Due to other customers	144,863,378	6,621,823	151,485,201
Debt securities issued and other borrowed funds	41,013,831	20,911,971	61,925,802
Tax liabilities	806,220	–	806,220
Deferred tax liabilities	–	609,935	609,935
Employee benefit liabilities	–	301,219	301,219
Other liabilities	4,581,732	1,779,110	6,360,842
Subordinated term debts	538,460	10,610,979	11,149,439
Total Liabilities	199,496,149	40,835,037	240,331,186
Net	(2,968,291)	31,766,710	28,798,419

51. SEGMENTAL ANALYSIS – GROUP

ACCOUNTING POLICY

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Senior Management to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

For management purposes, the Group has identified four operating segments based on products and services, as follows:

- Banking
- Capital Markets
- Property Investment
- Others

Income taxes are managed on a group basis and are not allocated to operating segments. Interest income is reported net, as management primarily relies on net interest revenue as a performance measure, not the gross income and expense. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2015 and 2014.

For the period ended 31 December	Banking		Capital Markets		Property Investment		Others		Consolidated	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Revenue										
Interest Income	21,167,848	20,974,578	242,616	177,398	-	-	-	-	21,410,464	21,151,976
Net Fee and Commission Income	2,016,260	1,866,242	858,034	509,825	124,355	90,080	116,178	-	3,114,827	2,466,147
Foreign exchange profit	1,088,464	910,027	-	-	-	-	-	-	1,088,464	910,027
Net gain/(loss) from financial investments	262,048	716,507	231,691	176,377	-	-	-	-	493,739	892,884
Other Income	425,767	328,197	192,813	195,447	126,307	162,000	-	-	744,887	685,644
Total revenue from external customers	24,960,387	24,795,551	1,525,154	1,059,047	250,662	252,080	116,178	-	26,852,381	26,106,678
Inter-segment Revenue	-	-	14,405	56,130	49,077	41,818	-	-	63,482	97,948
Total Revenue	24,960,387	24,795,551	1,539,559	1,115,177	299,739	293,898	116,178	-	26,915,863	26,204,626
Impairment (charge)/reversal for loans & other losses	(711,833)	(566,003)	(34,312)	-	-	-	-	-	(746,145)	(566,003)
Segment expenses	(19,674,136)	(18,510,469)	(767,152)	(560,674)	(13,147)	(40,748)	-	-	(20,454,435)	(19,111,891)
Total segment expenses	(20,385,969)	(19,076,472)	(801,464)	(560,674)	(13,147)	(40,748)	-	-	(21,200,580)	(19,677,894)
Segment Results	4,574,418	5,719,079	738,095	554,503	286,592	253,150	116,178	-	5,715,283	6,526,732
Share of associate companies' profit before taxation	-	-	-	-	-	-	77,818	97,274	77,818	97,274
Taxation	-	-	-	-	-	-	-	-	(1,212,564)	(1,348,784)
Tax on financial services	-	-	-	-	-	-	-	-	(910,442)	(1,029,250)
Profit after taxation	-	-	-	-	-	-	-	-	3,670,095	4,245,972
Other Information										
Segment assets	308,629,425	262,689,237	4,800,410	4,796,767	1,821,766	1,610,299	68,830	-	315,320,431	269,096,303
Investments – Held-for-sale	-	-	-	-	-	-	33,302	33,302	33,302	33,302
Consolidated total assets	-	-	-	-	-	-	-	-	315,353,733	269,129,605
Segment liabilities	286,118,047	240,111,004	(182,918)	155,925	11,411	64,257	6,476	-	285,953,016	240,331,186
Consolidated total liabilities	-	-	-	-	-	-	-	-	285,953,016	240,331,186
Segmental Cash Flows										
Cash flows from operating activities	3,722,421	(9,321,209)	(212,671)	15,158	75,219	123,558	(31,363)	-	3,553,606	(9,182,493)
Cash flows from investing activities	(5,761,439)	(17,240,344)	22,087	6,939	17,760	(7,830)	(5,396)	-	(5,726,988)	(17,241,235)
Cash flows from financing activities	9,565,397	30,915,369	56,026	62,211	(97,310)	(87,578)	33,075	-	9,557,188	30,890,002

52. RELATED PARTY DISCLOSURES

52.1 Parent and Ultimate Controlling Party

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

52.2 Terms and Conditions

The Bank carries out transactions with Key Management Personnel and their related concerns and other related entities in the ordinary course of its business on an arms length basis at commercial rates except, the loans that the key management have availed under the loan schemes which are uniformly applicable to all the staff.

52.3 Key Management Personnel (KMPs) of the Bank and the Group

KMPs of the Bank

Related parties include Key Management Personnel defined as persons having authority and responsibility for planning, directing and controlling the activities of the Bank. Key Management Personnel include the members of the Board of Directors of the Bank (including the Executive and Non-Executive) and the Group Chief Financial Officer.

KMPs of the Group

The Bank is the ultimate parent of the subsidiaries listed out on page 307. The Board of Directors of the Bank has the authority and responsibility for planning, directing and controlling the activities of the Group directly or indirectly. Accordingly, the Board of Directors of the Bank (including Executive and Non-Executive) and the Group Chief Financial Officer are also KMPs of the Group.

52.3.1 Compensation to Key Management Personnel of the Bank and the Group.

	2015 LKR '000	2014 LKR '000
Short-term employee benefits	81,819	55,500
Directors' fees and allowances	27,905	32,360
Post-employment benefits (defined benefit plan)	7,086	4,968
	116,810	92,828

The amounts disclosed above are the amounts recognised as an expense during the reporting period relating to Key Management Personnel.

In addition to the remuneration, the Bank has also provided non-cash benefits to Key Management Personnel in line with the approved benefit plan of the Bank.

52.3.2 Share Based Payments to Key Management Personnel of the Bank.

	2015	2014
Share Grant		
Award 04 – (1 July 2013)		
No. of ordinary shares awarded and to be vested	23,452	23,452

Share Option

Share options held by Key Management Personnel under the Equity Linked Compensation Plan (ELCP) to purchase ordinary shares have the following expiry dates and exercise prices.

	Issue date	Expiry date	Exercise Price	2015	2014
Award 04					
No. of shares allocated and outstanding	01.07.2013	30.06.2017	162.86	23,452	23,452

52.3.3 Key Management Personnel of the Bank and their Close Family Members had the following related party transactions during the year.

	Limit		Outstanding Balance		Average Balance	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Items in the Statement of Financial Position						
Assets						
Loans and receivables	4,559	–	4,559	–	3,437	3
Credit cards	1,500	1,000	236	–	158	65
	6,059	1,000	4,795	–	3,595	68
Liabilities						
Deposits			280,535	222,346	247,825	187,543
Debt securities and other borrowings			52,432	82,936	105,657	58,190
			332,967	305,282	353,482	245,733
Items in the Statement of Profit or Loss						
Interest income			114	–		
Interest expenses			24,718	30,142		
Fee and commission income			103	16		
Dividends paid			44,060	47,939		

Share investments in the Bank, by the Key Management Personnel of the Bank and their Close Family Members are given below:

	Number Outstanding	
	2015	2014
Investments in ordinary shares (including the shares held in the slash account)	4,004,974	3,994,906

52.3.4 Transactions involving entities which are controlled/jointly controlled by the Key Management Personnel of the Bank and their Close Family Members.

	Outstanding Balance		Average Balance	
	2015 LKR'000	2014 LKR'000	2015 LKR'000	2014 LKR'000
Items in the Statement of Financial Position				
Assets				
Loans and receivables	1	35	173	26,732
Liabilities				
Deposits	13,436	343,123	51,657	264,476
Debt securities and other borrowings	120,000	232,500	47,426	68,292
	133,436	575,623	99,083	332,768
Items in the Statement of Profit or Loss				
Interest income	75	7,804		
Interest expenses	3,323	34,431		
Fee and commission income	225	607		
Capital expenditure and services rendered	83,137	75,846		
Dividends paid	121,486	132,530		

Share investments in the Bank, by the entities which are controlled/jointly controlled by the Key Management Personnel of the Bank and their Close Family Members are given below:

	Number Outstanding	
	2015	2014
Investments in ordinary shares	11,044,177	11,044,177

52.4 Transactions with the Government of Sri Lanka and its Related Entities

The Bank enters into transactions, arrangements and agreements with the Government of Sri Lanka and its related entities.

52.4.1 The financial dealings carried out with the Government of Sri Lanka and its related entities for the year and as of the date of the Statement of Financial Position are disclosed on a collective basis as follows.

	Outstanding Balance		Average Balance	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Items in the Statement of Financial Position				
Assets				
Loans and receivables	4,758,986	4,214,129	4,209,193	3,421,419
Liabilities				
Deposits	6,678,149	3,621,031	4,569,477	2,441,659
Debt securities and other borrowings	20,305,950	13,471,978	12,478,110	11,195,621
	26,984,099	17,093,009	17,047,587	13,637,280
Commitments and Contingencies				
Guarantees and letters of credit	104,891	286,422	128,339	134,022
Forward exchange contracts	1,726,600	902,029	2,298,467	2,457,811
Commitments	2,561,921	4,205,485	3,803,151	3,240,617
	4,393,412	5,393,936	6,229,957	5,832,450
Items in the Statement of Profit or Loss				
Interest income	1,393,786	1,848,069		
Interest expenses	1,064,600	989,889		
Other income	3,121	10,338		
Dividends paid	616,159	709,755		

52.4.2 Further transactions as detailed below, relating to the ordinary course of business, are entered into with the Government of Sri Lanka and its related entities:

- Investments in Treasury Bills, Treasury Bonds, Development Bonds and money market placements
- Payment of statutory rates and taxes
- Payment for utilities mainly comprising of telephone, electricity and water
- Payment for employment retirement benefits – ETF

52.4.3 Individually Significant Transactions

The Bank uses an internal assessments methodology in order to identify significant transactions with the Government of Sri Lanka and Government related entities in accordance with the disclosure requirements of LKAS 24. Accordingly the individually significant transactions for the year ended 31 December 2015 are as follows.

52.4.3.1 The Bank raised USD 125 million on 16 April 2014 through foreign borrowings for a period of 1 year and 7 years, against which a SWAP arrangement has been entered into with the Central Bank of Sri Lanka for 75% of the borrowing value. However, the Bank opted to repay the 1 year USD 105 million on 31 March 2015 and hence the aforesaid SWAP arrangement was cancelled on 31 March 2015. The Bank has also raised USD 75 million on 21 July 2014 through foreign borrowings for a period of seven years, against which a SWAP arrangement has been entered into with the Central Bank of Sri Lanka for 50% of the borrowing value. The SWAP arrangement will be renewed annually over the tenor of the borrowing.

52.4.3.2 The Bank has approved a term loan facility of LKR 8,353 million to the Road Development Authority which is Guaranteed by the Government Treasury of Sri Lanka and the Capital outstanding balance of the facility as at the reporting date was LKR 5,983 million.

52.4.3.3 The Bank utilized the approval given by the Central Bank of Sri Lanka for licensed commercial banks to borrow up to USD 50 million and the specific approval given to the National Development Bank PLC to borrow up to USD 250 million in excess of the 15% of the Bank's capital by direction dated 17 April 2013, circular Ref 2/19/150/0104/001. Accordingly the Bank raised a total of USD 299 million during 2014 and 2015, and the balance outstanding as at 31 December 2015 was USD 191 million.

52.5 Transactions with Related Entities

52.5.1 The Bank had the undermentioned financial dealings during the year and as of the date of the Statement of Financial Position with the subsidiaries and associates of the Bank as follows:

Items in the Statement of Financial Position	Subsidiaries of the Bank*				Associates of the Bank*			
	Outstanding Balance		Average Balance		Outstanding Balance		Average Balance	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Assets								
Loans and receivables	64	1	5,190	4	-	-	45,834	-
Investments	2,407,328	2,253,011	2,300,569	1,811,415	-	-	-	-
Group company receivables	705	1,804	413,511	24,435	-	-	-	-
Investment in ordinary shares net of allowance for impairment	2,104,117	2,000,290	2,066,707	2,030,019	18,526	18,526	18,526	53,873
Liabilities								
Deposits	783,638	427,689	794,363	334,099	-	-	-	-
Debt securities and other borrowings	30,000	30,000	31,309	32,017	-	-	-	-
Other payables	-	-	-	-	2,403	-	2,403	1,802
Commitments and Contingencies								
Guarantees	835,000	-	46,212	-	-	-	-	-

* Refer Note 30 and Note 31 for details of subsidiary and associate companies.

Items in the Statement of Profit or Loss	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Gross income received/(paid) – Net	(17,581)	(61,406)	1,424	-
Rent and utilities received/(paid)	(17,204)	1,898	-	-
Expenses and fees paid	43,467	4,834	-	-
Dividends received	894,925	321,967	-	-
Capital gains	-	-	164,397	96,125

- The Board of Directors of the Bank, at its meeting held on 20 March 2014, approved the divestiture of its investment in 224,875 shares amounting to 35% of the shares in Maldives Finance Leasing Company (Private) Ltd. to Tree Top Investments (Private) Ltd., a company incorporated in the Republic of Maldives. Accordingly, the divestment took place during April 2014, and the net realised gain to the Bank amounted to LKR 96 million.
- NDB Capital Holdings Ltd. entered into a shareholders agreement with NDB Zephyr Partners Ltd. on 15 December 2014 to invest LKR 49.61 million in 60% ordinary shares and 60% redeemable preference shares in NDB Zephyr Partners Ltd, the Management Company based in Mauritius. Accordingly, the equity investment took place on 2 January 2015.
- The Bank's 99.89% owned subsidiary, NDB Capital Holdings Ltd. divested part of its 32% owned investment in Resus Energy PLC on 17 September 2015. Accordingly the investment which was accounted as an Investment in Associates, was reclassified as 'Available for Sale' Investments on 30 September 2015. The transaction resulted in a capital gain of LKR 164 million to the NDB Group.

52.5.2 The contribution made by the Bank and the employees for EPF is managed as a separate fund by the Bank. The Bank had the undermentioned financial dealings during the year with the NDB Provident Fund.

	2015 LKR '000	2014 LKR '000
Deposits	53,930	40,264
Interest paid on deposits during the year	6,170	2,938
Contribution made by the Bank	214,508	187,974

52.5.3 NDB Wealth Management Ltd., a subsidiary of the Bank had the undermentioned financial dealings with the NDB Provident Fund.

	2015 LKR '000	2014 LKR '000
Portfolio under management	1,705,719	1,574,818

52.5.4 The Bank had the undermentioned financial dealings with the NDB Pension Fund during the year.

	2015 LKR '000	2014 LKR '000
Deposits	123,460	113,500
Interest paid on deposits during the year	11,131	11,977
Contribution made by the Bank	(10,355)	51,644

52.5.5 The Bank had the undermentioned financial dealings with the NDB Employee Share Ownership Plan during the year.

	2015 LKR '000	2014 LKR '000
No of ordinary shares held	1,876	4,133,726
Distribution of ESOP shares to eligible Bank's employees	1,876	4,131,850
No of ordinary shares pending transfer to an eligible employee	-	1,876
Dividends paid by the Bank (LKR '000)	-	20,718

The Colombo Stock Exchange (CSE), by Listing Rule 5.6 has amended the rules relating to Employee Share Option Schemes (ESOS) and Employee Share Purchase Schemes (ESPS), by mandating that such schemes should result in the shares being offered to eligible employees for 'purchase' or 'subscription' in the case of ESOS and 'acquisition' in the case of ESPS, specifically prohibiting open ended schemes. In compliance with this ruling and the Transitional Provisions thereto, the Board of Directors of National Development Bank PLC (NDB) approved the dissolution of the NDB Employee Share Ownership Plan and the distribution of the ESOP shares amounting to 4,133,726 to the eligible employees of the Bank in the year of 2014.

53. EVENTS OCCURRING AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION

(a) On 12 February 2016 the Bank declared a final dividend of LKR 4.00 per share for the financial year 2015 (2014 – final dividend of LKR 4.00 per share). Out of the final dividend LKR 3.79 per share will be liable to a dividend tax at 10%, and the balance LKR 0.21 per share will be paid out of dividend income.

(b) As per the Government Budget 2016 passed in the Parliament, the banks are required to cease leasing business with effect from 1 June 2016. However, this will be effective after the same will be legally enacted by the Government.

54. COMPARATIVE INFORMATION

The classification of the following items in the Statement of Profit or Loss and the Statement of Financial Position were amended to ensure proper presentation in the Financial Statements:

As reported Previously	Current Presentation	Note	BANK	GROUP	BANK	GROUP
			2015 LKR '000	2015 LKR '000	2014 LKR '000	2014 LKR '000
Profit or Loss						
Net gains/(losses) from Trading	Net gains/(losses) from financial investments	8	–	–	716,507	1,250,884
Assets						
Investments in associates	Investments – held-for-sale	29	–	–	18,526	33,302
Freehold building	Leasehold buildings (Net Book Value)	34	84,457	84,457	76,550	76,550

55. FAIR VALUE OF FINANCIAL INSTRUMENTS AND NON-FINANCIAL INSTRUMENTS

ACCOUNTING POLICY

The following is a description of how fair values are determined for financial instruments and non-financial instruments which are recorded at fair value using valuation techniques. These incorporate the Bank's and the Group's estimate of assumptions that a market participant would make when valuing such instruments.

Significant Accounting Estimates and Assumptions

Where the fair values of financial assets and financial liabilities recorded on the Statement of Financial Position cannot be derived from active market, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values.

Financial Instruments

Derivatives – Assets and Liabilities

Derivative products are foreign exchange contracts and foreign exchange options which are valued using market observable inputs.

Financial Assets – Held-for-Trading

Financial assets – held-for-trading are measured at fair value and include Government Securities, equity securities and investments in unit trusts. The Government securities are valued based on the market rates published by the money brokers. For equity securities, the Bank uses quoted market prices in active markets as at the reporting date. The unit trust investments are valued at unit prices published in active markets.

Financial Investments – Available-for-Sale

Financial investments – Available-for-Sale, consist of non-quoted equities and Government debt securities. The Government debt securities are valued based on the market rates of the money brokers as at the reporting date and non-quoted equities are valued using valuation techniques available for similar investments.

Non-Financial Instruments

Property, Plant & Equipment

Valuation Model

The fair value of the freehold land and buildings presented in the Financial Statements are provided by an independent valuer based on the valuations carried out at the reporting date.

Freehold land – valuations are performed by the valuer are based on the market approach (direct comparison method), for similar properties in the same location and conditions (Note 34).

Freehold buildings – valuations are performed by the valuer are based on the cost approach (current replacement cost – Note 34).

Investment Property – valuations are performed based on the income approach using the current market rents by the valuer to value the Investment Property (Income approach – Note 32).

Valuation Framework

Fair values of financial instruments and non-financial instruments are determined according to the following hierarchy:

- Level 1 – quoted market price (unadjusted): Financial instruments with quoted prices in active markets.
- Level 2 – valuation techniques using observable inputs: Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments are valued using models where all significant inputs are observable.
- Level 3 – valuation techniques with significant unobservable inputs: This category includes all instruments valued using valuation techniques where one or more significant inputs are unobservable.

The freehold land and buildings of the Bank and the Group are revalued every three years to ensure that the carrying amount does not differ materially from the fair values at the reporting date.

55. (a) Determination of Fair Value of Financial Instruments and Non-Financial Instruments by Hierarchy

The following table shows an analysis of financial instruments and non-financial instruments recorded at fair value in the Statement of Financial Position by the level of the fair value hierarchy in accordance with disclosure requirements LKAS 13:

31 December 2015	BANK			Total LKR '000
	Fair Value Measurement Using			
	Quoted Prices in Active Markets Level 1 LKR '000	Significant Observable Inputs Level 2 LKR '000	Significant Unobservable Inputs Level 3 LKR '000	
Financial Assets				
Derivative Financial Instruments				
Currency options	–	1,912	–	1,912
Forward foreign exchange contracts	–	1,060,248	–	1,060,248
Currency SWAP	–	–	841,413	841,413
Financial Assets – Held-for-Trading				
Treasury Bills	969	–	–	969
Treasury Bonds	576,964	–	–	576,964
Investment in unit trusts	2,407,329	–	–	2,407,329
Financial Investments – Available-for-Sale				
Treasury Bills	12,981,321	–	–	12,981,321
Treasury Bonds	13,936,379	–	–	13,936,379
Quoted ordinary shares	1,568,673	–	–	1,568,673
Non-quoted ordinary shares	–	15,145	–	15,145
Total Financial Assets	31,471,635	1,077,305	841,413	33,390,353
Non-Financial Assets				
Freehold land	–	–	431,500	431,500
Freehold buildings	–	–	913,231	913,231
Total Non-Financial Assets	–	–	1,344,731	1,344,731
Financial Liabilities				
Derivative Financial Instruments				
Currency options	–	1,912	–	1,912
Forward foreign exchange contracts	–	637,360	–	637,360
Total Financial Liabilities	–	639,272	–	639,272

31 December 2014	BANK			Total LKR '000
	Fair Value Measurement Using			
	Quoted Prices in Active Markets Level 1 LKR '000	Significant Observable Inputs Level 2 LKR '000	Significant Unobservable Inputs Level 3 LKR '000	
Financial Assets				
Derivative Financial Instruments				
Currency options	–	1,556	–	1,556
Forward foreign exchange contracts	–	908,198	–	908,198
Currency SWAP	–	–	994,028	994,028
Financial Assets – Held-for-Trading				
Treasury Bills	51,534	–	–	51,534
Treasury Bonds	480,732	–	–	480,732
Investment in unit trusts	2,253,011	–	–	2,253,011
Financial Investments – Available-for-Sale				
Treasury Bills	5,068,917	–	–	5,068,917
Treasury Bonds	11,891,025	–	–	11,891,025
Quoted ordinary shares	85,215	–	–	85,215
Non-quoted ordinary shares	–	15,145	–	15,145
Total Financial Assets	19,830,434	924,899	994,028	21,749,361
Non-Financial Assets				
Freehold land	–	–	431,500	431,500
Freehold buildings	–	–	935,485	935,485
Total Non-Financial Assets	–	–	1,366,985	1,366,985
Financial Liabilities				
Derivative Financial Instruments				
Currency options	–	1,556	–	1,556
Forward foreign exchange contracts	–	609,153	–	609,153
Currency SWAP	–	–	52,477	52,477
Total Financial Liabilities	–	610,709	52,477	663,186

31 December 2015	GROUP				Total LKR '000
	Fair Value Measurement Using				
	Quoted Prices in Active Markets Level 1 LKR '000	Significant Observable Inputs Level 2 LKR '000	Significant Unobservable Inputs Level 3 LKR '000		
Financial Assets					
Derivative Financial Instruments					
Currency options	–	1,912	–	–	1,912
Forward foreign exchange contracts	–	1,060,248	–	–	1,060,248
Currency SWAP	–	–	841,413	–	841,413
Financial Assets – Held-for-Trading					
Treasury Bills	969	–	–	–	969
Treasury Bonds	576,964	–	–	–	576,964
Equity securities	336,769	–	–	–	336,769
Investment in unit trusts	4,314,791	–	–	–	4,314,791
Financial Investments – Available-for-Sale					
Treasury Bills	12,981,321	–	–	–	12,981,321
Treasury Bonds	13,936,379	–	–	–	13,936,379
Quoted ordinary shares	1,846,977	–	–	–	1,846,977
Non-quoted ordinary shares	–	15,145	185,000	–	200,145
Total Financial Assets	33,994,170	1,077,305	1,026,413	–	36,097,887
Non-Financial Assets					
Freehold land	–	–	431,500	–	431,500
Freehold buildings	–	–	1,292,662	–	1,292,662
Investment property	–	–	1,672,000	–	1,672,000
Total Non-Financial Assets	–	–	3,396,162	–	3,396,162
Financial Liabilities					
Derivative Financial Instruments					
Currency options	–	1,912	–	–	1,912
Forward foreign exchange contracts	–	637,360	–	–	637,360
Total Financial Liabilities	–	639,272	–	–	639,272

31 December 2014	GROUP			Total LKR '000
	Quoted Prices in Active Markets Level 1 LKR '000	Significant Observable Inputs Level 2 LKR '000	Significant Unobservable Inputs Level 3 LKR '000	
Financial Assets				
Derivative Financial Instruments				
Currency options	–	1,556	–	1,556
Forward foreign exchange contracts	–	908,198	–	908,198
Currency SWAP	–	–	994,028	994,028
Financial Assets – Held-for-Trading				
Treasury Bills	51,534	–	–	51,534
Treasury Bonds	480,732	–	–	480,732
Equity securities	713,868	–	–	713,868
Investment in unit trusts	4,782,424	–	–	4,782,424
Financial Investments – Available-for-Sale				
Treasury Bills	5,068,917	–	–	5,068,917
Treasury Bonds	11,891,025	–	–	11,891,025
Quoted ordinary shares	897,765	–	–	897,765
Non-quoted ordinary shares	–	15,145	185,000	200,145
Total Financial Assets	23,886,265	924,899	1,179,028	25,990,192
Non-Financial Assets				
Freehold land	–	–	431,500	431,500
Freehold buildings	–	–	1,219,577	1,219,577
Investment property	–	–	1,545,693	1,545,693
Total Non-Financial Assets	–	–	3,196,770	3,196,770
Financial Liabilities				
Derivative Financial Instruments				
Currency options	–	1,556	–	1,556
Forward foreign exchange contracts	–	609,153	–	609,153
Currency SWAP	–	–	52,477	52,477
Total Financial Liabilities	–	610,709	52,477	663,186

55. (b) Movements in Level 3 Financial Instruments and Non-Financial Instruments Measured at Fair Value

The level of the fair value hierarchy of financial instruments and non-financial instruments is determined at the beginning of each reporting period. The following table shows a reconciliation of the opening and closing amounts of Level 3 financial instruments and non-financial instruments which are recorded at fair value.

		BANK					
31 December 2015	Included in	As at 1 January 2015	Additions/ Disposals during the Year	Total gains/(losses) Recorded in Statement of Profit or Loss	Total gains/ (losses) Recorded in Equity	As at 31 December 2015	
		LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	
Financial Assets							
Currency SWAP	Derivative financial instruments	994,028	135,077	–	(287,692)	841,413	
Non-Financial Assets							
Freehold land	Property, plant & equipment	431,500	–	–	–	431,500	
Freehold buildings (Note 34)	Property, plant & equipment	935,485	(22,254)	–	–	913,231	
		2,361,013	112,823	–	(287,692)	2,186,144	
Financial Liabilities							
Currency SWAP	Derivative financial instruments	52,477	(52,477)	–	–	–	
		52,477	(52,477)	–	–	–	

		GROUP					
31 December 2015	Included in	As at 1 January 2015	Additions/ Disposals during the Year	Total gains/(losses) Recorded in Statement of Profit or Loss	Total gains/ (losses) Recorded in Equity	As at 31 December 2015	
		LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	
Financial Assets							
Currency SWAP	Derivative financial instruments	994,028	135,077	–	(287,692)	841,413	
Non-quoted ordinary shares	Financial investments – Available-for-sale	185,000	–	–	–	185,000	
Non-Financial Assets							
Freehold land	Property, plant & equipment	431,500	–	–	–	431,500	
Freehold buildings (Note 34)	Property, plant & equipment	1,219,577	(22,254)	–	95,339	1,292,662	
Investment property	Investment property	1,545,693	–	126,307	–	1,672,000	
		4,375,798	112,823	126,307	(192,353)	4,422,575	
Financial Liabilities							
Currency SWAP	Derivative financial instruments	52,477	(52,477)	–	–	–	
		52,477	(52,477)	–	–	–	

		BANK					
31 December 2014	Included in	As at 1 January 2014	Additions/ Disposals during the Year	Total gains/(losses) Recorded in Statement of Profit or Loss	Total gains/(losses) Recorded in Equity	As at 31 December 2014	
		LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	
Financial Assets							
Currency SWAP	Derivative financial instruments	–	596,176	–	397,852	994,028	
Non-Financial Assets							
Freehold land	Property, plant & equipment	165,016	–	–	266,484	431,500	
Freehold buildings (Note 34)	Property, plant & equipment	144,015	(26,231)	–	817,701	935,485	
		309,031	569,945	–	1,482,037	2,361,013	
Financial Liabilities							
Currency SWAP	Derivative Financial instruments	–	52,477	–	–	52,477	
		–	52,477	–	–	52,477	

		GROUP					
31 December 2014	Included in	As at 1 January 2014	Additions/ Disposals during the Year	Total gains/(losses) Recorded in Statement of Profit or Loss	Total gains/(losses) Recorded in Equity	As at 31 December 2014	
		LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	
Financial Assets							
Currency SWAP	Derivative financial instruments	–	596,176	–	397,852	994,028	
Non-quoted ordinary shares	Financial investments – Available-for-sale	185,000	–	–	–	185,000	
Non-Financial Assets							
Freehold land	Property, plant & equipment	165,016	–	–	266,484	431,500	
Freehold buildings (Note 34)	Property, plant & equipment	448,332	(46,456)	–	817,701	1,219,577	
Investment property	Investment property	1,383,693	–	162,000	–	1,545,693	
		2,182,041	549,720	162,000	1,482,037	4,375,798	
Financial Liabilities							
Currency SWAP	Derivative Financial instruments	–	52,477	–	–	52,477	
		–	52,477	–	–	52,477	

55. (c) Unobservable Inputs Used in Measuring the Fair Value of Non-Financial Instruments

The tables below set out information about significant unobservable inputs used as at 31 December 2015 and as at 31 December 2014 in measuring the non-financial instruments categorized as Level 3 in the fair value hierarchy:

BANK					
Type of Instrument	Fair Values at 31 December 2015	Valuation Technique	Significant Unobservable Inputs	Range of Estimates (Weighted Average) for Unobservable Inputs	Fair Value Measurement Sensitivity to Unobservable Inputs
Navam Mawatha					
Freehold Land	LKR 11.5 million	Direct comparison method	Per perch value	Per perch – LKR 8 million	Positive impact to the fair value
Freehold Building	LKR 621.5 million	Current replacement cost	Replacement cost/ depreciation factor rate	LKR 13,500 per square feet and discount factor – 0.48	Positive impact to the fair value from both factors
Dharmapala Mawatha					
Freehold Land	LKR 420 million	Direct comparison method	Per perch value	Per perch – LKR 7 million	Positive impact to the fair value
Freehold Building	LKR 320 million	Current replacement cost	Replacement cost/ depreciation factor rate	LKR 12,500 per square feet and discount factor – 0.62	Positive impact to the fair value from both factors

GROUP					
Type of Instrument	Fair Values at 31 December 2015	Valuation Technique	Significant Unobservable Inputs	Range of Estimates (Weighted Average) for Unobservable Inputs	Fair Value Measurement Sensitivity to Unobservable Inputs
Navam Mawatha					
Freehold Land	LKR 11.5 million	Direct comparison method	Per perch value	Per perch – LKR 8 million	Positive impact to the fair value
Freehold Building	LKR 621.5 million	Current replacement cost	Replacement cost/ depreciation factor rate	LKR 13,500 per square feet and discount factor – 0.48	Positive impact to the fair value from both factors
Dharmapala Mawatha					
Freehold Land	LKR 420 million	Direct comparison method	Per perch value	Per perch – LKR 7 million	Positive impact to the fair value
Freehold Building	LKR 320 million	Current replacement cost	Replacement cost/ depreciation factor rate	LKR 12,500 per square feet and discount factor – 0.62	Positive impact to the fair value from both factors
Navam Mawatha					
Investment Property	LKR 2,000 million (Including the fair value of owner occupied portion of LKR 328 million)	Income approach	Rent per square feet	Rentable area at LKR 160/- Non-rentable area at LKR 95/-	Positive impact to the fair value

BANK					
Type of Instrument	Fair Values at 31 December 2014	Valuation Technique	Significant Unobservable Inputs	Range of Estimates (Weighted Average) for Unobservable Inputs	Fair Value Measurement Sensitivity to Unobservable Inputs
Navam Mawatha					
Freehold Land	LKR 11.5 million	Direct comparison method	Per perch value	Per perch – LKR 8 million	Positive impact to the fair value
Freehold Building	LKR 621.5 million	Current replacement cost	Replacement cost/ depreciation factor rate	LKR 13,500 per square feet and discount factor – 0.48	Positive impact to the fair value from both factors
Dharmapala Mawatha					
Freehold Land	LKR 420 million	Direct comparison method	Per perch value	Per perch – LKR 7 million	Positive impact to the fair value
Freehold Building	LKR 320 million	Current replacement cost	Replacement cost/ depreciation factor rate	LKR 12,500 per square feet and discount factor – 0.62	Positive impact to the fair value from both factors

GROUP					
Type of Instrument	Fair Values at 31 December 2014	Valuation Technique	Significant Unobservable Inputs	Range of Estimates (Weighted Average) for Unobservable Inputs	Fair Value Measurement Sensitivity to Unobservable Inputs
Navam Mawatha					
Freehold Land	LKR 11.5 million	Direct comparison method	Per perch value	Per perch – LKR 8 million	Positive impact to the fair value
Freehold Building	LKR 621.5 million	Current replacement cost	Replacement cost/ depreciation factor rate	LKR 13,500 per square feet and discount factor – 0.48	Positive impact to the fair value from both factors
Dharmapala Mawatha					
Freehold Land	LKR 420 million	Direct comparison method	Per perch value	Per perch – LKR 7 million	Positive impact to the fair value
Freehold Building	LKR 320 million	Current replacement cost	Replacement cost/ depreciation factor rate	LKR 12,500 per square feet and discount factor – 0.62	Positive impact to the fair value from both factors
Navam Mawatha					
Investment Property	LKR 1,850 million (Including the fair value of owner occupied portion of LKR 328 million)	Income approach	Rent per square feet	Rentable area at LKR 148/- Non-rentable area at LKR 88.50	Positive impact to the fair value

55. (d) Fair Value of the Financial Assets and Financial Liabilities that are not Carried at Fair Value in the Financial Statements

Set out below is a comparison, by class, of the carrying amounts and fair values of the Bank's financial assets and financial liabilities that are not carried at fair value in the Statement of Financial Position. This table does not include the fair values of non-financial assets and non-financial liabilities.

BANK					
	Fair Value Classification	2015		2014	
		Carrying Amount LKR '000	Fair Value LKR '000	Carrying Amount LKR '000	Fair Value LKR '000
Financial Assets					
Cash and cash equivalents	Note 55 (e)	11,821,503	11,821,503	3,104,391	3,104,391
Balances with the Central Bank of Sri Lanka	Note 55 (e)	6,999,898	6,999,898	6,740,590	6,740,590
Placements with banks	Note 55 (e)	1,153,619	1,153,619	2,721,891	2,721,891
Loans and receivables to banks	Level 2	102,632	102,714	311,144	313,781
Loans and receivables to other customers	Level 2	209,602,069	210,444,878	175,175,203	177,054,711
Financial investments – loans and receivable	Level 2	35,830,311	35,792,766	38,302,428	37,954,272
Financial investments – held-to-maturity	Level 1	4,436,973	4,572,341	8,970,963	8,693,340
Total Financial Assets		269,947,005	270,887,719	235,326,610	236,582,976
Financial Liabilities					
Due to banks	Note 55 (e)	11,620,003	11,620,003	7,029,342	7,029,342
Due to other customers	Level 2	184,933,230	184,889,633	151,823,715	149,393,839
Debt securities issued and other borrowed funds	Level 2	60,527,844	60,527,844	61,955,460	61,955,460
Subordinated term debts	Level 2	19,573,883	22,004,203	11,149,439	13,434,176
Other financial liabilities	Note 55 (e)	2,889,782	2,889,783	2,423,677	2,423,677
Total Financial Liabilities		279,544,742	281,931,466	234,381,633	234,236,494

GROUP					
	Fair Value Classification	2015		2014	
		Carrying Amount LKR '000	Fair Value LKR '000	Carrying Amount LKR '000	Fair Value LKR '000
Financial Assets					
Cash and cash equivalents	Note 55 (e)	11,848,575	11,848,575	3,274,036	3,274,036
Balances with the Central Bank of Sri Lanka	Note 55 (e)	6,999,898	6,999,898	6,740,590	6,740,590
Placements with banks	Note 55 (e)	1,153,619	1,153,619	2,721,891	2,721,891
Loans and receivables to banks	Level 2	102,632	102,714	311,144	313,781
Loans and receivables to other customers	Level 2	209,665,561	210,522,603	175,235,906	176,994,008
Financial investments – loans and receivable	Level 2	37,368,705	37,390,608	38,683,476	38,335,320
Financial investments – held-to-maturity	Level 1	5,660,868	6,036,352	10,167,325	9,889,702
Total Financial Assets		272,799,858	274,054,369	237,134,368	238,269,328
Financial Liabilities					
Due to banks	Note 55 (e)	11,620,003	11,620,003	7,029,342	7,029,342
Due to other customers	Level 2	184,152,280	185,671,700	151,485,201	149,055,326
Debt securities issued and other borrowed funds	Level 2	60,497,844	60,497,844	61,925,802	61,925,802
Subordinated term debts	Level 2	19,573,883	22,004,203	11,149,439	13,434,176
Other financial liabilities	Note 55 (e)	2,893,671	2,893,671	2,423,677	2,423,677
Total Financial Liabilities		278,737,681	282,687,421	234,013,461	233,868,323

55. (e) Basis of Measurement for the Fair Value of Financial Assets and Financial Liabilities not Carried at Fair Value

Given below are the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the Financial Statements:

Assets for which Fair Value Approximates Carrying Value

For financial assets and financial liabilities that have a short-term maturity (less than three months), it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Fixed Rate Financial Instruments

The fixed rate financial instruments include the Loans and receivables to banks and other customers, Financial Investments – loans and receivables and Financial investments – held-to-maturity, Due to other customers, Due to banks, Debt securities issued and other borrowed funds and Subordinated term debts.

The fair value of fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates when they were first recognized with current market rates for similar financial instruments. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt instruments issued, the fair values are determined based on quoted market prices. For instruments issued where quoted market prices are not available, a discounted cash flow model is used, based on a current interest rate yield curve appropriate for the remaining term to maturity and credit spreads. For other variable rate instruments, an adjustment is also made to reflect the change in required credit spread since the instrument was first recognized.

Financial Investments Held-to-Maturity

The fair value of financial investments held-to-maturity is estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments.

56. RISK MANAGEMENT DISCLOSURES

Introduction

The following disclosures are made in accordance with the SLFRS 7 – ‘Financial Instruments Disclosures’.

Taking risks is inherent in any bank’s strategic plan but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The Bank’s risk strategy focuses on managing principal risks faced by the Bank while, striking a fair balance between the risk return trade-off and the efficient capital allocation across risk exposures.

The Bank is mainly exposed to credit risk, liquidity risk, market risk and operational risk. Market risk could be further subdivided into trading and non-trading risks. Exposure to country risk and any risks due to changes in environment, technology and industry is managed through the Bank’s strategic planning process.

Risk Management Framework of the Bank

The Board of Directors has overall responsibility for the establishment and oversight of the Bank’s Risk Management Framework. The Board has delegated its authority to the Integrated Risk Management Committee (IRMC) for the overall Risk Management approach and for approving the risk management strategies and principles. IRMC meets quarterly to review and assess the Bank’s overall risks and to focus on policy recommendations and strategies in an integrated manner and the Board of Directors are duly updated of its activities.

The Bank’s risk management policies are established to identify and analyze the risks faced by the Bank/Group to set appropriate risk limits and controls and to monitor adherence to established limits.

The Bank’s Assets and Liabilities Committee (ALCO) reviews all market and liquidity related exposures, excesses on a monthly basis and decisions are made to facilitate the business requirements. These decisions are further reviewed at IRMC and by the Board.

The Credit and Market Risk Policy Committee and Operational Risk Policy Committee are in operation to formulate policies and to focus more clearly on defined risk areas. The membership of these committees comprises the CEO, CFO, the Heads of Business Units, Treasury and representatives of Group Risk Management.

The Committees meet regularly to review the Bank’s risk policy framework, overall performance and the potential risks faced by specific lines of business and support functions.

The Bank’s Treasury is responsible for managing the Bank’s assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

Risk Measurement and Reporting

Monitoring and controlling risks is primarily performed based on limits established by the Bank, which reflects the business strategy and market environment of the Bank as well as the Bank’s risk appetite.

Information compiled is examined and processed in order to analyze, control and identify risks on a timely basis. The compiled information is presented to the IRMC, Credit and Market Risk Policy Committee and the Board of Directors receives a risk report once a quarter, which covers all necessary information to assess and conclude on the risks of the Bank. The information analyzed include the following:

- Portfolio quality analysis covering, product and business line wise concentration, group/single borrower concentrations, sector concentrations, NPL analysis, main impaired accounts, watch listed portfolio, details of facilities rescheduled/restructured.
- Reports on decisions taken by the respective management committees such as Credit Committees, ALCO, Operational Risk Policy Committee, Credit and Market Risk Policy Committee.
- Market and liquidity risk analysis.

Risk Mitigation

As part of its overall risk management, the Bank obtains various types of collateral and establishes maximum prudential limits.

56.1 Credit Risk

Credit Risk is the risk that the Bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual/group counterparties and for geographical and industry concentrations and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties. Counterparty limits are established by the use of an internally designed Credit Risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process aims to allow the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Credit risk management verifies and manages the credit process from origination to collection. The Bank has a credit policy approved by the Board of Directors. It defines the –

- credit culture of the Bank
- specifies target markets for lending
- specifies prohibited lending which the Bank under no circumstances will entertain
- sets acceptable risk parameters
- sets remedial and recovery actions

Impairment Assessment

Impairment of Financial Assets

The Bank has in place a detailed impairment policy, which was approved by the Board of Directors.

For accounting purposes, the Bank uses an incurred loss model for the recognition of losses on impaired financial assets. At each reporting date the Bank/Group assess whether there is objective evidence of a specific loss event.

Individually Assessed Impairment Allowances

The Bank determines the allowances appropriate for each individually significant loan or receivable on an individual basis, if there is any objective evidence of a loss based on the above. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance if it is in a financial difficulty, projected receipts and the expected payout should bankruptcy arise, the availability of other financial support, the realizable value of collateral and the timing of the expected cash flows.

Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively Assessed Impairment Allowances

Allowances are assessed collectively for losses on loans and receivables that are not individually significant (including personal loans, leases and pawning) and for individually significant loans and receivables that have been assessed individually and found not to be impaired.

The Bank generally bases its analysis on historical experience and market factors. These factors include, depending on the characteristics of the individual or collective assessment: unemployment rates, current levels of bad debts, changes in laws, changes in regulations and other relevant consumer data. The Bank may use the aforementioned factors as appropriate to adjust the impairment allowances.

Allowances for impairment are evaluated separately at each reporting date with each portfolio. The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether a provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in the individual loans assessments. The collective assessment takes account of data from the loans and receivables (such as loan types, industry codes and level of arrears).

As at 31 December 2014	GROUP								
	Neither Past Due nor Impaired	Past Due but not Impaired						Individually Impaired	Total
		Less than 1 Month	1-3 Months	3-6 Months	6-12 Months	12-18 Months	More than 18 Months		
LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	
Products									
Cash and cash equivalents	3,274,036	-	-	-	-	-	-	-	3,274,036
Balances with the Central Bank of Sri Lanka	6,740,590	-	-	-	-	-	-	-	6,740,590
Placements with banks	2,721,891	-	-	-	-	-	-	-	2,721,891
Derivative financial instruments	1,903,781	-	-	-	-	-	-	-	1,903,781
Financial assets – held-for-trading	6,028,558	-	-	-	-	-	-	-	6,028,558
Loans and receivables to banks	311,144	-	-	-	-	-	-	-	311,144
Loans and receivables to other customers	137,111,521	18,215,777	11,612,326	584,913	377,622	1,884,382	2,351,406	3,097,959	175,235,906
Financial investments – loans and receivables	38,683,476	-	-	-	-	-	-	-	38,683,476
Financial investments – available-for-sale	18,057,852	-	-	-	-	-	-	-	18,057,852
Financial investments – held-to-maturity	10,167,325	-	-	-	-	-	-	-	10,167,325
Other financial assets	54,450	-	-	-	-	-	-	-	54,450

56.1 (b) Maximum Exposure to Credit Risk

The following table shows the maximum exposure to credit risk and net exposure to credit risk by class of financial asset.

As at 31 December 2015	BANK	
	Maximum Exposure to Credit Risk LKR '000	Exposure Net of Collateral LKR '000
Balances with the Central Bank of Sri Lanka	6,999,898	6,999,898
Placements with banks	1,153,619	1,153,619
Derivative financial instruments	1,903,573	1,903,573
Financial assets – held-for-trading	2,985,262	2,985,262
Loans and receivables to banks	102,632	102,632
Loans and receivables to other customers (net)		
Corporate lending	120,646,375	62,367,197
Branch lending	29,778,809	8,450,093
Consumer lending	47,852,802	35,961,558
Residential mortgages	8,758,937	-
Others	2,565,146	1,539,260
	209,602,069	108,318,108
Financial investments – loans and receivables	35,830,311	21,298,039
Financial investments – available-for-sale	28,501,518	28,501,518
Financial investments – held-to-maturity	4,436,973	4,436,973

As at 31 December 2014	BANK	
	Maximum Exposure to Credit Risk LKR '000	Exposure Net of Collateral LKR '000
Balances with the Central Bank of Sri Lanka	6,740,590	6,740,590
Placements with banks	2,721,891	2,721,891
Derivative financial instruments	1,903,781	1,903,781
Financial assets – held-for-trading	2,785,277	2,785,277
Loans and receivables to banks	311,144	311,144
Loans and receivables to other customers (net)		
Corporate lending	105,745,797	51,597,695
Branch lending	22,798,330	4,259,230
Consumer lending	36,695,622	26,961,574
Residential mortgages	6,351,011	–
Others	3,584,443	1,612,297
	175,175,203	84,430,796
Financial investments – loans and receivables	38,302,428	13,731,594
Financial investments – available-for-sale	17,060,302	17,060,302
Financial investments – held-to-maturity	8,970,963	8,970,963
Other financial assets	54,450	54,450

As at 31 December 2015	GROUP	
	Maximum Exposure to Credit Risk LKR '000	Exposure Net of Collateral LKR '000
Balances with the Central Bank of Sri Lanka	6,999,898	6,999,898
Placements with banks	1,153,619	1,153,619
Derivative financial instruments	1,903,573	1,903,573
Financial assets – held-for-trading	5,229,493	5,229,493
Loans and receivables to banks	102,632	102,632
Loans and receivables to other customers (net)		
Corporate lending	120,646,375	62,367,197
Branch lending	29,778,809	8,450,093
Consumer lending	47,852,802	35,961,558
Residential mortgages	8,758,937	–
Others	2,628,638	1,602,752
	209,665,561	108,381,600
Financial investments – loans and receivables	37,368,705	22,836,434
Financial investments – available-for-sale	28,964,820	28,964,820
Financial investments – held-to-maturity	5,660,868	5,660,868

As at 31 December 2014	GROUP	
	Maximum Exposure to Credit Risk LKR '000	Exposure Net of Collateral LKR '000
Balances with the Central Bank of Sri Lanka	6,740,590	6,740,590
Placements with banks	2,721,891	2,721,891
Derivative financial instruments	1,903,781	1,903,781
Financial assets – held-for-trading	6,028,558	6,028,558
Loans and receivables to banks	311,144	311,144
Loans and receivables to other customers (net)		
Corporate lending	105,745,797	51,597,695
Branch lending	22,798,330	4,259,230
Consumer lending	36,695,622	26,961,574
Residential mortgages	6,351,011	–
Others	3,645,146	1,612,297
	175,235,906	84,430,796
Financial investments – loans and receivables	38,683,476	14,112,642
Financial investments – available-for-sale	18,057,852	18,057,852
Financial investments – held-to-maturity	10,167,325	10,167,325
Other financial assets	54,450	54,450

56.1 (c) Concentrations of Credit Risk

Concentration by Sector

The Bank monitors concentration of credit risk by sector. An analysis of risk concentration by industry for the financial assets is given below:

As at 31 December 2015	BANK									
	Agriculture & Fishing	Food & Beverages	Trading	Metals, Chemicals & Engineering	Retail	Services	Textiles & Garments	Government*	Others	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and cash equivalents	–	–	–	–	–	11,821,503	–	–	–	11,821,503
Balances with the Central Bank of Sri Lanka	–	–	–	–	–	–	–	6,999,898	–	6,999,898
Placements with banks	–	–	–	–	–	1,153,619	–	–	–	1,153,619
Derivative financial instruments	–	–	–	–	–	1,903,573	–	–	–	1,903,573
Financial assets – held-for-trading	–	–	–	–	–	2,407,328	–	577,934	–	2,985,262
Loans and receivables to banks	–	–	–	–	–	102,632	–	–	–	102,632
Loans and receivables to other customers (net)	24,612,175	7,670,692	20,124,022	12,980,130	40,138,496	36,622,318	24,027,169	–	43,427,067	209,602,069
Financial investments – loans and receivables	–	–	–	–	–	–	–	35,830,311	–	35,830,311
Financial investments – available-for-sale	–	–	–	–	–	1,483,458	–	26,917,700	100,359	28,501,518
Financial investments – held-to-maturity	–	797,980	196,000	–	–	1,328,650	–	1,044,602	1,069,741	4,436,973

*Government refers to the investments held with the Central Bank of Sri Lanka.

As at 31 December 2014	BANK									
	Agriculture & Fishing	Food & Beverages	Trading	Metals, Chemicals & Engineering	Retail	Services	Textiles & Garments	Government*	Others	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and cash equivalents	-	-	-	-	-	3,104,391	-	-	-	3,104,391
Balances with the Central Bank of Sri Lanka	-	-	-	-	-	-	-	6,740,590	-	6,740,590
Placements with banks	-	-	-	-	-	2,721,891	-	-	-	2,721,891
Derivative financial instruments	-	-	-	-	-	1,903,781	-	-	-	1,903,781
Financial assets – held-for-trading	-	-	-	-	-	-	-	526,888	2,258,389	2,785,277
Loans and receivables to banks	-	-	-	-	-	311,144	-	-	-	311,144
Loans and receivables to other customers (net)	24,152,261	7,257,860	15,753,429	9,823,887	40,273,565	28,792,112	18,337,256	-	30,784,833	175,175,203
Financial investments – loans and receivables	-	-	-	-	-	-	-	38,233,007	69,421	38,302,428
Financial investments – available-for-sale	-	-	-	-	-	-	-	16,655,702	404,600	17,060,302
Financial investments – held-to-maturity	-	833,521	204,729	-	-	879,721	-	7,052,992	-	8,970,963
Other Financial Assets	-	-	-	-	-	-	-	-	54,450	54,450

*Government refers to the investments held with the Central Bank of Sri Lanka and the current account balance with the Central Bank of Sri Lanka.

As at 31 December 2015	GROUP									
	Agriculture & Fishing	Food & Beverages	Trading	Metals, Chemicals & Engineering	Retail	Services	Textiles & Garments	Government*	Others	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and cash equivalents	-	-	-	-	-	11,848,575	-	-	-	11,848,575
Balances with the Central Bank of Sri Lanka	-	-	-	-	-	-	-	6,999,898	-	6,999,898
Placements with banks	-	-	-	-	-	1,153,619	-	-	-	1,153,619
Derivative financial instruments	-	-	-	-	-	1,903,573	-	-	-	1,903,573
Financial assets – held-for-trading	-	6,794	55,527	2,910	-	2,671,240	1,775	577,933	1,913,314	5,229,493
Loans and receivables to banks	-	-	-	-	-	102,632	-	-	-	102,632
Loans and receivables to other customers (net)	24,612,175	7,670,692	20,124,022	12,980,130	40,138,496	36,622,318	24,027,169	-	43,490,559	209,665,561
Financial investments – loans and receivables	-	-	83,221	-	-	857,045	-	35,830,311	598,128	37,368,705
Financial investments – available-for-sale	-	-	-	-	-	1,483,458	-	26,917,700	563,662	28,964,820
Financial investments – held-to-maturity	-	797,980	528,940	-	-	1,976,197	-	1,044,602	1,313,149	5,660,868

*Government refers to the investments held with the Central Bank of Sri Lanka.

As at 31 December 2014	GROUP									
	Agriculture & Fishing	Food & Beverages	Trading	Metals, Chemicals & Engineering	Retail	Services	Textiles & Garments	Government*	Others	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and cash equivalents	-	-	-	-	-	3,274,036	-	-	-	3,274,036
Balances with the Central Bank of Sri Lanka	-	-	-	-	-	-	-	6,740,590	-	6,740,590
Placements with banks	-	-	-	-	-	2,721,891	-	-	-	2,721,891
Derivative financial instruments	-	-	-	-	-	1,903,781	-	-	-	1,903,781
Financial assets – held-for-trading	-	-	-	-	-	-	-	526,888	5,501,670	6,028,558
Loans and receivables to banks	-	-	-	-	-	311,144	-	-	-	311,144
Loans and receivables to other customers (net)	24,152,261	7,257,860	15,753,429	9,823,887	40,273,565	28,792,112	18,337,256	-	30,845,536	175,235,906
Financial investments – loans and receivables	-	-	-	-	-	-	-	38,233,007	450,469	38,683,476
Financial investments – available-for-sale	-	-	-	-	-	-	-	16,655,702	1,402,150	18,057,852
Financial investments – held-to-maturity	-	833,521	204,729	-	-	879,721	-	7,052,991	1,196,363	10,167,325
Other Financial Assets	-	-	-	-	-	-	-	-	54,450	54,450

*Government refers to the investments held with the Central Bank of Sri Lanka and the current account balance with the Central Bank of Sri Lanka.

56.1 (d) Commitments and Contingencies

The table below shows the Bank's and the Group's maximum credit risk exposure for commitments and contingencies.

The maximum exposure to credit risk relating to a financial guarantees and contingencies is the maximum amount the Bank has to pay if the guarantees and commitments are called upon.

As at 31 December	BANK	
	2015 LKR '000	2014 LKR '000
Guarantees and bonds	21,862,258	17,719,368
Shipping guarantees	4,058,389	3,503,056
Advance documents endorsed	963,966	865,787
Letters of credit	8,132,261	7,521,595
Acceptances	7,620,960	7,148,766
Undrawn overdrafts and credit cards	14,836,720	10,745,651
Commitments	95,813,207	83,191,376
Forward foreign exchange contracts	84,460,652	100,448,034
Total	237,748,413	231,143,633

As at 31 December	GROUP	
	2015 LKR '000	2014 LKR '000
Guarantees and bonds	21,027,258	17,721,386
Shipping guarantees	4,058,389	3,503,056
Advance documents endorsed	963,966	865,787
Letters of credit	8,132,261	7,521,595
Acceptances	7,620,960	7,148,766
Undrawn overdrafts and credit cards	14,836,720	10,745,651
Commitments	97,489,367	83,194,587
Forward foreign exchange contracts	84,460,652	100,448,034
Total	238,589,573	231,148,862

56.1 (e) Offsetting of Financial Assets and Liabilities

Financial assets and financial liabilities are offset and the net amount is presented in the Statement of Financial Position when the Group has the right to set off the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial Assets and Liabilities Not Subject to Offsetting

Amounts that do not qualify for offsetting in the Statement of Financial Position include netting arrangements that only permit outstanding transactions with the same counterparty to be offset in an event of default or occurrence of their predetermined events. Such netting arrangements include repurchase agreements and other similar secured lending and borrowing arrangements.

The amount of the financial collateral received or pledged subject to netting arrangements but not qualified for offsetting are disclosed below:

As at 31 December	BANK & GROUP					
	2015			2014		
	Gross Amounts LKR '000	Amount Subject to Netting but do not Qualify for Offsetting LKR '000	Net Amount LKR '000	Gross Amounts LKR '000	Amount Subject to Netting but do not Qualify for Offsetting LKR '000	Net Amount LKR '000
Financial Assets						
Loans and receivables from other customers	40,846,345	19,423,046	21,423,299	33,740,730	14,000,506	19,740,224
Financial Liabilities						
Securities sold under repurchase agreements	26,667,251	26,667,251	–	24,276,840	24,276,840	–

56.2 Market Risk

Market Risk function is attached to the Group Risk Management Unit and operates within a well-defined Policy framework, which ensures that the Bank operates within the pre defined risk appetite of the Bank. Guided by these policies and Regulatory directions; we have set internal prudential limits, taking in to account the balance sheet size, structure and the business model; thereby business units optimize the risk and reward relationship without exposing the Bank to unexpected losses.

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, equity and commodity prices. The Bank's market risk exposures are classified into trading and non-trading portfolios and are managed separately. Sensitivity analysis of portfolios is carried out together with mark to market valuations and duration analysis that reflects the portfolio sensitivity to the market volatility. Whilst the Trading portfolios are fair valued through the Statement of Profit or Loss; AFS (available-for-sale) portfolios are fair valued through the Other Comprehensive Income, of which realised capital gains/losses are recognised in the Statement of Profit or Loss.

56.2 (a) Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board has established limits on trading and non-trading books of the Bank. The Bank's policy is to monitor positions on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates of fixed income securities (Treasury Bills and Bonds), with all other variables held constant of the Bank's Statement of Financial Profit or Loss.

56.2 (b) Sensitivity of the Financial Assets Held-for-Trading of Fixed Income Securities

2015	BANK			
	Portfolio Size LKR. '000	Increase/ Decrease in Basis Points	Sensitivity of Profit or Loss Bank LKR. '000	Sensitivity of Profit or Loss Group LKR. '000
Held-for-Trading Portfolio	560,908	+100/(100)	(7,377)/7,377	(7,377)/7,377

2014	BANK			
	Portfolio Size LKR. '000	Increase/ Decrease in Basis Points	Sensitivity of Profit or Loss Bank LKR. '000	Sensitivity of Profit or Loss Group LKR. '000
Held-for-Trading Portfolio	504,799	+100/(100)	(846)/846	(846)/846

Fair value of the AFS portfolio is recognized in the Other Comprehensive Income – OCI (Reserves) until the asset is derecognized in which case the price sensitivity does not have a direct impact to the Bank's Statement of Profit or Loss.

Sensitivity of the Financial Investments – Available-for-Sale of Fixed Income Securities

2015	BANK			
		Increase/ Decrease in Basis Points	Sensitivity on Bank LKR. '000	Sensitivity on Group LKR. '000
Available-for-Sale Portfolio	26,997,647	+100/(100)	(281,080)/281,080	(281,080)/281,080

2014	BANK			
	Portfolio Size LKR. '000	Increase/ Decrease in Basis Points	Sensitivity on Bank LKR. '000	Sensitivity on Group LKR. '000
Available-for-Sale Portfolio	16,345,863	+100/(100)	(226,776)/226,776	(226,776)/226,776

The sensitivity of the Statement of Profit or Loss is the effect of the assumed changes in interest rates on the profit or loss for a year, based on the interest rate sensitive assets and liabilities as at 31 December 2015.

56.2 (c) Interest Rates Sensitivity Analysis

The tables below analyse the Bank's and the Group's interest rate risk exposure on financial assets and liabilities as at 31 December 2015.

As at 31 December 2015	BANK						
	On Demand LKR'000	Less than 3 Months LKR'000	3-12 Months LKR'000	1-5 Years LKR'000	Over 5 Years LKR'000	Non-Interest Bearing LKR'000	Carrying Amount LKR'000
Assets							
Cash and cash equivalents	-	-	-	-	-	11,821,503	11,821,503
Balances with the Central Bank of Sri Lanka	-	-	-	-	-	6,999,898	6,999,898
Placements with banks	1,619	1,152,000	-	-	-	-	1,153,619
Financial assets held-for-trading	2,985,262	-	-	-	-	-	2,985,262
Loans and receivables to banks	3,469	40,169	20,759	38,235	-	-	102,632
Loans and receivables to other customers	33,178,038	61,409,854	26,981,158	66,305,160	21,727,859	-	209,602,069
Financial assets – loans and receivables	274,039	29,220,272	6,336,000	-	-	-	35,830,311
Financial assets – available-for-sale	26,917,702	-	-	-	-	1,583,816	28,501,518
Financial assets – held-to-maturity	145,761	-	1,243,220	3,047,992	-	-	4,436,973
Total Financial Assets	63,505,890	91,822,295	34,581,137	69,391,387	21,727,859	20,405,217	301,433,785
Liabilities							
Due to banks	49,366	11,127,600	443,037	-	-	-	11,620,003
Due to other customers	34,765,742	72,410,382	55,701,557	3,917,124	1,206,591	16,931,834	184,933,230
Debt securities issued and other borrowed funds	658,115	25,924,483	3,785,111	23,656,543	6,503,592	-	60,527,844
Subordinated term debts	-	-	304,815	12,012,698	7,256,370	-	19,573,883
Other financial liabilities	2,889,783	-	-	-	-	-	2,889,783
Total Financial Liabilities	38,363,006	109,462,465	60,234,520	39,586,365	14,966,553	16,931,834	279,544,743
Total Interest Sensitivity Gap	25,142,884	(17,640,170)	(25,653,383)	29,805,022	6,761,306	3,473,383	21,889,042

As at 31 December 2014	BANK						
	On Demand LKR '000	Less than 3 Months LKR '000	3 - 12 Months LKR '000	1-5 Years LKR '000	Over 5 Years LKR '000	Non-Interest Bearing LKR '000	Carrying Amount LKR '000
Assets							
Cash and cash equivalents	-	-	-	-	-	3,104,391	3,104,391
Balances with the Central Bank of Sri Lanka	-	-	-	-	-	6,740,590	6,740,590
Placements with banks	-	2,721,891	-	-	-	-	2,721,891
Financial assets held-for-trading	2,785,277	-	-	-	-	-	2,785,277
Loans and receivables to banks	6,601	61,023	152,275	91,245	-	-	311,144
Loans and receivables to other customers	33,811,194	56,653,959	21,861,701	48,127,074	14,721,275	-	175,175,203
Financial assets – loans and receivables	-	37,304,647	997,781	-	-	-	38,302,428
Financial assets – available-for-sale	16,959,942	-	-	-	-	100,360	17,060,302
Financial assets – held-to-maturity	-	2,502,329	3,472,619	2,996,015	-	-	8,970,963
Other financial assets	54,450	-	-	-	-	-	54,450
Total Financial Assets	53,617,464	99,243,849	26,484,376	51,214,334	14,721,275	9,945,341	255,226,639
Liabilities							
Due to banks	-	7,029,342	-	-	-	-	7,029,342
Due to other customers	26,815,563	43,909,914	62,228,206	6,621,823	-	12,248,209	151,823,715
Debt securities issued and other borrowed funds	6,033,773	24,169,613	10,810,104	9,535,818	11,406,152	-	61,955,460
Subordinated term debts	-	-	538,460	3,424,990	7,185,989	-	11,149,439
Other financial liabilities	2,423,677	-	-	-	-	-	2,423,677
Total Financial Liabilities	35,273,013	75,108,869	73,576,770	19,582,631	18,592,141	12,248,209	234,381,633
Total Interest Sensitivity Gap	18,344,451	24,134,980	(47,092,394)	31,631,703	(3,870,866)	(2,302,868)	20,845,006

As at 31 December 2015	GROUP						
	On Demand LKR '000	Less than 3 Months LKR '000	3 -12 Months LKR '000	1-5 Years LKR '000	Over 5 Years LKR '000	Non-Interest Bearing LKR '000	Carrying Amount LKR '000
Assets							
Cash and cash equivalents	-	-	-	-	-	11,848,575	11,848,575
Balances with the Central Bank of Sri Lanka	-	-	-	-	-	6,999,898	6,999,898
Placements with banks	1,619	1,152,000	-	-	-	-	1,153,619
Loans and receivables to banks	5,229,493	-	-	-	-	-	5,229,493
Financial assets – held-for-trading	3,468	40,169	20,759	38,235	-	-	102,632
Loans and receivables to other customers	33,154,376	61,414,552	26,992,468	66,353,399	21,750,766	-	209,665,561
Financial assets – loans and receivables	319,393	29,220,272	6,336,000	1,408,317	84,724	-	37,368,705
Financial assets – available-for-sale	26,917,700	-	-	-	-	2,047,120	28,964,820
Financial assets – held-to-maturity	201,448	-	1,673,550	3,785,870	-	-	5,660,868
Total Financial Assets	65,827,497	91,826,993	35,022,777	71,585,821	21,835,490	20,895,593	306,994,171
Liabilities							
Due to banks	49,366	11,127,600	443,037	-	-	-	11,620,003
Due to other customers	34,660,880	71,759,264	55,701,557	3,917,124	1,206,591	16,906,864	184,152,280
Debt securities issued and other borrowed funds	658,115	25,924,483	3,755,111	23,656,543	6,503,592	-	60,497,844
Subordinated term debts	-	-	304,815	12,012,698	7,256,370	-	19,573,883
Other financial liabilities	2,893,671	-	-	-	-	-	2,893,671
Total Financial Liabilities	38,262,032	108,811,347	60,204,520	39,586,365	14,966,553	16,906,864	278,737,681
Total Interest Sensitivity Gap	27,565,465	(16,984,354)	(25,181,743)	31,999,456	6,868,937	3,988,729	28,256,490

As at 31 December 2014	GROUP						
	On Demand LKR '000	Less than 3 Months LKR '000	3 -12 Months LKR '000	1-5 Years LKR '000	Over 5 Years LKR '000	Non-Interest Bearing LKR '000	Total LKR '000
Assets							
Cash and cash equivalents	-	-	-	-	-	3,274,036	3,274,036
Balances with Central Bank of Sri Lanka	-	-	-	-	-	6,740,590	6,740,590
Placements with banks	-	2,721,891	-	-	-	-	2,721,891
Financial assets held-for-trading	6,028,558	-	-	-	-	-	6,028,558
Loans and receivables to banks	6,601	61,023	152,275	91,245	-	-	311,144
Loans and receivables to other customers	33,811,194	56,670,911	21,866,104	48,130,280	14,757,417	-	175,235,906
Financial assets – loans and receivables	-	37,304,647	997,781	381,048	-	-	38,683,476
Financial assets – available-for-sale	16,959,942	-	-	-	-	1,097,910	18,057,852
Financial assets – held-to-maturity	-	2,502,328	3,576,430	4,088,567	-	-	10,167,325
Other financial assets	54,450	-	-	-	-	-	54,450
Total Financial Assets	56,860,745	99,260,800	26,592,590	52,691,140	14,757,417	11,112,536	261,275,228
Financial Liabilities							
Due to banks	-	7,029,342	-	-	-	-	7,029,342
Due to other customers	31,771,208	38,371,906	62,228,206	6,621,823	-	12,492,058	151,485,201
Debt securities issued and other borrowed funds	6,034,114	24,169,614	10,810,104	9,505,818	11,406,152	-	61,925,802
Subordinated term debts	-	-	538,460	3,424,990	7,185,989	-	11,149,439
Other financial liabilities	2,423,677	-	-	-	-	-	2,423,677
Total Financial Liabilities	40,228,999	69,570,862	73,576,770	19,552,631	18,592,141	12,492,058	234,013,461
Total Interest Sensitivity Gap	16,631,746	29,689,938	(46,984,180)	33,138,509	(3,834,724)	(1,379,522)	21,261,767

56.2 (d) Mark-to-Market Valuation

Trading and AFS (available-for-sale) portfolios of Fixed Income Securities (Treasury Bills/Bonds), Foreign Exchange positions and Foreign Currency Options are subject to mark to market exercise on a daily basis to derive the economic value of portfolios and are monitored against the set stop loss limits. Prompt management action is taken where necessary to ensure minimum loss situations to the portfolios.

Mark-to-Market results are being monitored against the Board approved stop-loss limits on a daily basis and reviewed at monthly ALCO and the IRMC on a quarterly basis, to assess the portfolio performance and investment decisions.

56.2 (e) Currency Risk

Currency risk is the risk that the value of a financial instrument denominated in foreign currency, will fluctuate due to the changes in exchange rates other than the functional currency in which they are measured. Board approved limits are in place on currency positions and are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

The table below indicate, the currencies to which the Bank had significant exposure as at 31 December 2015 and 31st December 2014 on its currency exposures. The analysis calculates the sensitivity of each currency position to the increase in the exchange rate against the Sri Lankan Rupees (functional currency) with all other variables held constant on the Statement of Profit or Loss and equity. A negative amount in the table reflects a potential net reduction in the Statement of Profit or Loss or equity, while a positive amount reflects a net potential increase depending on the side of the currency position.

With regard to the Group companies, there are no direct open exposures in foreign currency other than in functional currency. An equivalent decrease in below currencies against the Sri Lankan Rupees would have resulted in an equivalent but opposite impact.

Change in Currency Rates in %

Currency	Spot Rate Shock %	Effect on Profit	Effect on Equity	Effect on Profit	Effect on Equity
		2015 LKR '000	2015 LKR '000	2014 LKR '000	2014 LKR '000
United States Dollar	2.50	3,996	3,996	3,050	3,050
Great Britain Pound	2.50	10	10	144	144
Euro	2.50	(236)	(236)	275	275
Japanese Yen	2.50	(1,749)	(1,749)	(3,297)	(3,297)
Australian Dollar	2.50	(20)	(20)	11	11

56.2 (f) Price Risk

Equity Price Risk

Equity price risk is the risk that the fair value of equity decreases as a result of changes in the level of equity indices and individual stocks. The Bank did not hold an equity trading portfolio for the year concerned. The non-trading equity price risk exposure arises from equity securities classified as available for sale.

The following table demonstrates the sensitivity to a reasonably possible change in quoted equity indices, with all other variables held constant of the Bank's and the Group's Statement of Profit or Loss:

2015 Entity	Magnitude of Shock and the Fall in Value of Equities - LKR '000			
	Portfolio Value	Scenario 1 5%	Scenario 2 10%	Scenario 3 15%
Bank	1,458,609	72,930	145,861	218,791
Group	2,073,681	103,224	206,448	309,673

2014 Entity	Magnitude of Shock and the Fall in Value of Equities - LKR '000			
	Portfolio Value	Scenario 1 5%	Scenario 2 10%	Scenario 3 15%
Bank	-	-	-	-
Group	1,526,419	72,346	144,692	283,253

Sensitivity of the Unit Trust Investments

The Bank's and the Group's investments in Unit trust fund could have the following impact due to an adverse impact in the Unit trust prices. The impact is monitored under three scenarios-mid-moderate and adverse conditions.

2015	Magnitude of Shock and the Fall in Value of Equities - LKR '000				
	Entity	Portfolio Value	Scenario 1 5%	Scenario 2 10%	Scenario 3 15%
Bank		2,407,804	120,390	240,780	361,171
Group		4,315,266	215,763	431,527	647,290

2014	Magnitude of Shock and the Fall in Value of Equities - LKR '000				
	Entity	Portfolio Value	Scenario 1 5%	Scenario 2 10%	Scenario 3 15%
Bank		2,253,417	112,671	225,342	338,013
Group		4,782,830	239,141	478,283	717,424

56.2 (g) Commodity Price Risk

The Bank's investment on the gold buffer stock could have the following impact due to an adverse impact in the gold prices in the market. The mark-to-market impact on the Statement of Profit or Loss is monitored and the sensitivity of the portfolio is monitored under three scenarios mid moderate and adverse conditions:

2015	BANK				
	Item	No. of Units	Change in Value due to Decrease in Market Price – LKR '000		
			Present Value at Market Price	Scenario 1 2%	Scenario 2 5%
Coin	395	15,076	14,775	14,322	13,870
Biscuit	113	55,507	54,397	52,732	51,067

2014	BANK				
	Item	No. of Units	Change in Value due to Decrease in Market Price – LKR '000		
			Present Value at Market Price	Scenario 1 2%	Scenario 2 5%
Coin	411	16,019	15,699	15,219	14,738
Biscuit	106	53,173	52,110	50,515	48,919

56.2 (h) Country Risk

Country risk is the risk that an occurrence within a country could have an adverse effect on the Bank directly by impairing the value of the Bank or indirectly through an obligor's ability to meet its obligations to the Bank. Generally these occurrences relate, but are not limited to: sovereign events such as defaults or restructuring; political events such as contested elections; restrictions on currency movements; non-market currency convertibility; regional conflicts; economic contagion from other events such as sovereign default issues or regional turmoil; banking and currency crisis and natural disasters.

Concentration by Country

Geographical Analysis

31 December 2015	BANK							Total LKR '000
	Sri Lanka	Europe	America	Asia	Middle East	Australia- New Zealand		
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000		
Cash and cash equivalents	2,773,122	1,539,976	7,008,139	434,738	7,708	57,820	11,821,503	
Balances with the Central Bank of Sri Lanka	6,999,898	–	–	–	–	–	6,999,898	
Placements with banks	1,153,619	–	–	–	–	–	1,153,619	
Derivative financial instruments	1,903,573	–	–	–	–	–	1,903,573	
Financial assets – held-for-trading	2,985,262	–	–	–	–	–	2,985,262	
Loans and receivables to banks	102,632	–	–	–	–	–	102,632	
Loans and receivables to other customers	209,602,069	–	–	–	–	–	209,602,069	
Financial Investments – loans and receivables	35,830,311	–	–	–	–	–	35,830,311	
Financial Investments – available-for-sale	28,501,518	–	–	–	–	–	28,501,518	
Financial Investments – held-to-maturity	4,436,973	–	–	–	–	–	4,436,973	
Total Financial Assets	294,288,977	1,539,976	7,008,139	434,738	7,708	57,820	303,337,358	

31 December 2014	BANK							Total LKR '000
	Sri Lanka	Europe	America	Asia	Middle East	Australia- New Zealand		
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000		
Cash and cash equivalents	1,927,075	314,878	386,484	395,711	6,686	73,557	3,104,391	
Balances with the Central Bank of Sri Lanka	6,740,590	–	–	–	–	–	6,740,590	
Placements with banks	2,721,891	–	–	–	–	–	2,721,891	
Derivative financial instruments	1,903,781	–	–	–	–	–	1,903,781	
Financial assets held-for-trading	2,785,277	–	–	–	–	–	2,785,277	
Loans and receivables to banks	311,144	–	–	–	–	–	311,144	
Loans and receivables to other customers	175,175,203	–	–	–	–	–	175,175,203	
Financial Investments – loans and receivables	38,302,428	–	–	–	–	–	38,302,428	
Financial Investments – available-for-sale	17,060,302	–	–	–	–	–	17,060,302	
Financial Investments – held-to-maturity	8,970,963	–	–	–	–	–	8,970,963	
Other financial assets	54,450	–	–	–	–	–	54,450	
Total Financial Assets	255,953,104	314,878	386,484	395,711	6,686	73,557	257,130,420	

Geographical Analysis

31 December 2015	GROUP						
	Sri Lanka	Europe	America	Asia	Middle East	Australia- New Zealand	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and cash equivalents	2,800,194	1,539,976	7,008,139	434,738	7,708	57,820	11,848,575
Balances with the Central Bank of Sri Lanka	6,999,898	-	-	-	-	-	6,999,898
Placements with banks	1,153,619	-	-	-	-	-	1,153,619
Derivative financial instruments	1,903,573	-	-	-	-	-	1,903,573
Financial assets held-for-trading	5,229,493	-	-	-	-	-	5,229,493
Loans and receivables to banks	102,632	-	-	-	-	-	102,632
Loans and receivables to other customers	209,665,561	-	-	-	-	-	209,665,561
Financial Investments – loans and receivables	37,368,705	-	-	-	-	-	37,368,705
Financial Investments – available-for-sale	28,964,820	-	-	-	-	-	28,964,820
Financial Investments – held-to-maturity	5,660,868	-	-	-	-	-	5,660,868
Total Financial Assets	299,849,363	1,539,976	7,008,139	434,738	7,708	57,820	308,897,744

31 December 2014	GROUP						
	Sri Lanka	Europe	America	Asia	Middle East	Australia- New Zealand	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and cash equivalents	2,096,720	314,878	386,484	395,711	6,686	73,557	3,274,036
Balances with the Central Bank of Sri Lanka	6,740,590	-	-	-	-	-	6,740,590
Placements with banks	2,721,891	-	-	-	-	-	2,721,891
Derivative financial instruments	1,903,781	-	-	-	-	-	1,903,781
Financial assets held-for-trading	6,028,558	-	-	-	-	-	6,028,558
Loans and receivables to banks	311,144	-	-	-	-	-	311,144
Loans and receivables to other customers	175,235,906	-	-	-	-	-	175,235,906
Financial Investments – loans and receivables	38,683,476	-	-	-	-	-	38,683,476
Financial Investments – available-for-sale	18,057,852	-	-	-	-	-	18,057,852
Financial Investments – held-to-maturity	10,167,325	-	-	-	-	-	10,167,325
Other financial assets	54,450	-	-	-	-	-	54,450
Total Financial Assets	262,001,693	314,878	386,484	395,711	6,686	73,557	263,179,009

56.2 (i) Liquidity Risk

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due under both normal and stress circumstances.

The Bank has set forth policies on Liquidity Risk Management and Liquidity Contingency Funding Plan approved by the Board for effective management of liquidity. In addition to the Regulatory limits on liquidity, the Bank's internal prudential limit framework ensures that the exposures are managed and monitored at prudent levels.

In accordance with the Bank's risk management policy, the liquidity position is assessed/stressed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market and specific to the Bank. This ensures the maintenance of the liquid asset ratio at required levels. Liquid assets consist of cash, short-term bank deposits and liquid debt securities available for immediate sale. The Bank is in possession of reciprocal Liquidity Contingency Funding Agreements signed up with Licensed Commercial Banks to deal in crisis situations.

Liquidity Risk

The table below summarizes the maturity profile of the undiscounted cash flows of the Bank's and the Group's financial assets and liabilities as at 31 December 2015 and 31 December 2014.

As at 31 December 2015	BANK						Total LKR '000
	On Demand LKR '000	Trading Derivatives LKR '000	Less than 3 Months LKR '000	3 -12 Months LKR '000	1-5 Years LKR '000	Over 5 Years LKR '000	
Financial Assets							
Cash and cash equivalents	11,821,503	-	-	-	-	-	11,821,503
Balances with the Central Bank of Sri Lanka	6,999,898	-	-	-	-	-	6,999,898
Less: Restricted balance	(6,999,898)	-	-	-	-	-	(6,999,898)
Placements with banks	-	-	1,154,104	-	-	-	1,154,104
Derivative financial instruments	-	1,903,573	-	-	-	-	1,903,573
Financial assets held-for-trading	2,985,262	-	-	-	-	-	2,985,262
Loans and receivables to banks	3,468	-	41,401	22,943	40,783	-	108,595
Loans and receivables to other customers	33,030,237	-	62,783,612	30,642,200	85,289,432	32,496,643	244,242,124
Other financial assets classified as loans and receivables	-	-	29,516,807	6,478,074	-	-	35,994,881
Financial assets – available-for-sale	28,501,518	-	-	-	-	-	28,501,518
Financial assets – held-to-maturity	-	-	89,654	1,594,061	3,905,614	-	5,589,329
Total Undiscounted Financial Assets	76,341,988	1,903,573	93,585,578	38,737,278	89,235,829	32,496,643	332,300,889
Financial Liabilities							
Due to banks	16,891	-	11,172,037	452,538	-	-	11,641,466
Derivative financial instruments	-	639,272	-	-	-	-	639,272
Due to other customers	48,792,521	-	74,538,114	59,192,048	5,313,208	1,636,588	189,472,479
Debt securities issued and other borrowed funds	-	-	26,672,790	5,106,707	27,483,576	9,339,611	68,602,684
Subordinated term debts	-	-	-	2,418,040	20,179,192	11,260,126	33,857,358
Other financial liabilities	2,889,783	-	-	-	-	-	2,889,783
Total Undiscounted Financial Liabilities	51,699,195	639,272	112,382,941	67,169,333	52,975,976	22,236,325	307,103,042
Net Undiscounted Financial Assets and Liabilities	24,642,793	1,264,301	(18,797,363)	(28,432,055)	36,259,853	10,260,318	25,197,847

31 December 2014	BANK							Total LKR '000
	On Demand	Trading Derivatives	Less than 3 Months	3-12 Months	1-5 Years	Over 5 Years		
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000		
Financial Assets								
Cash and cash equivalents	3,104,391	-	-	-	-	-	3,104,391	
Balances with the Central Bank of Sri Lanka	6,740,590	-	-	-	-	-	6,740,590	
Less: restricted balance	(6,740,590)	-	-	-	-	-	(6,740,590)	
Placements with banks	1,514	-	2,722,129	-	-	-	2,723,643	
Derivative financial instruments	-	1,903,781	-	-	-	-	1,903,781	
Financial assets held-for-trading	2,802,515	-	-	-	-	-	2,802,515	
Loans and receivables to banks	6,601	-	65,999	160,919	98,842	-	332,361	
Loans and receivables to other customers	33,287,108	-	60,564,939	29,523,471	63,603,525	29,298,052	216,277,095	
Other financial assets classified as loans and receivables	-	-	37,520,022	1,013,643	-	-	38,533,665	
Financial assets – held-to-maturity	-	-	2,812,753	3,746,953	3,541,716	2,303	10,103,725	
Financial assets – available-for-sale	18,032,271	-	-	-	-	-	18,032,271	
Other financial assets	54,450	-	-	-	-	-	54,450	
Total Undiscounted Financial Assets	57,288,850	1,903,781	103,685,842	34,444,986	67,244,083	29,300,355	293,867,897	
Financial Liabilities								
Due to banks	135,123	-	6,885,049	11,757	-	-	7,031,929	
Derivative financial instruments	-	663,186	-	-	-	-	663,186	
Due to other customers	38,954,053	-	43,293,873	63,132,602	7,688,653	-	153,069,181	
Debt securities issued and other borrowed funds	-	-	30,349,058	12,064,680	13,976,722	12,475,550	68,866,010	
Subordinated term debts	-	-	687,381	1,305,658	8,822,023	12,268,598	23,083,660	
Other financial liabilities	2,423,677	-	-	-	-	-	2,423,677	
Total Undiscounted Financial Liabilities	41,512,853	663,186	81,215,361	76,514,697	30,487,398	24,744,148	255,137,643	
Net Undiscounted Financial Assets and Liabilities	15,775,997	1,240,595	22,470,481	(42,069,711)	36,756,685	4,556,207	38,730,254	

As at 31 December 2015	GROUP							Total LKR '000
	On Demand LKR '000	Trading Derivatives LKR '000	Less than 3 Months LKR '000	3 -12 Months LKR '000	1-5 Years LKR '000	Over 5 Years LKR '000		
Financial Assets								
Cash and cash equivalents	11,848,575	-	-	-	-	-	-	11,848,575
Balances with the Central Bank of Sri Lanka	6,999,898	-	-	-	-	-	-	6,999,898
Less: Restricted balance	(6,999,898)	-	-	-	-	-	-	(6,999,898)
Placements with banks	-	-	1,154,104	-	-	-	-	1,154,104
Derivative financial instruments	-	1,903,573	-	-	-	-	-	1,903,573
Financial assets held-for-trading	5,229,493	-	-	-	-	-	-	5,229,493
Loans and receivables to banks	3,468	-	41,401	22,943	40,783	-	-	108,595
Loans and receivables to other customers	33,027,847	-	62,788,334	30,653,678	85,341,281	32,522,158	-	244,333,298
Other financial assets classified as loans and receivables	-	-	29,516,807	6,478,074	2,164,910	156,655	-	38,316,446
Financial assets – available-for-sale	28,964,820	-	-	-	-	-	-	28,964,820
Financial assets – held-to-maturity	-	-	89,654	2,221,544	5,061,213	-	-	7,372,411
Total Undiscounted Financial Assets	79,074,203	1,903,573	93,590,300	39,376,239	92,608,187	32,678,813	-	339,231,315
Financial Liabilities								
Due to banks	16,891	-	11,172,037	452,538	-	-	-	11,641,466
Derivative financial instruments	-	639,272	-	-	-	-	-	639,272
Due to other customers	48,663,526	-	73,879,166	59,192,048	5,313,208	1,636,588	-	188,684,536
Debt securities issued and other borrowed funds	-	-	26,672,121	5,076,039	27,483,576	9,339,611	-	68,571,347
Subordinated term debts	-	-	-	2,418,040	20,179,192	11,260,126	-	33,857,358
Other financial liabilities	2,893,671	-	-	-	-	-	-	2,893,671
Total Undiscounted Financial Liabilities	51,574,088	639,272	111,723,324	67,138,665	52,975,976	22,236,325	-	306,287,650
Net Undiscounted Financial Assets and Liabilities	27,500,115	1,264,301	(18,133,024)	(27,762,426)	39,632,211	10,442,488	-	32,943,665

31 December 2014	GROUP							Total LKR '000
	On Demand	Trading Derivative	Less than 3 Months	3-12 Months	1-5 Years	Over 5 Years		
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000		
Financial Assets								
Cash and cash equivalents	3,274,036	-	-	-	-	-	3,274,036	
Balances with Central Bank of Sri Lanka	6,740,590	-	-	-	-	-	6,740,590	
Less: restricted balance	(6,740,590)	-	-	-	-	-	(6,740,590)	
Placements with banks	1,514	-	2,722,129	-	-	-	2,723,643	
Derivative financial instruments	-	1,903,781	-	-	-	-	1,903,781	
Financial assets held-for-trading	6,045,796	-	-	-	-	-	6,045,796	
Loans and receivables to banks	6,601	-	65,999	160,919	98,842	-	332,361	
Loans and receivables to other customers	33,287,108	-	60,582,233	29,525,642	63,605,667	29,301,063	216,301,713	
Other financial assets classified as loans and receivables	-	-	37,520,022	1,013,643	-	222,838	38,756,503	
Financial assets – held-to-maturity	-	-	2,812,753	3,746,953	3,645,527	664,816	10,870,049	
Financial assets – available-for-sale	18,047,046	-	-	-	-	-	18,047,046	
Other financial assets	54,450	-	-	-	-	-	54,450	
Total Undiscounted Financial Assets	60,716,551	1,903,781	103,703,136	34,447,157	67,350,036	30,188,717	298,309,378	
Financial Liabilities								
Due to banks	135,123	-	6,885,049	11,757	-	-	7,031,929	
Derivative financial instruments	-	663,186	-	-	-	-	663,186	
Due to other customers	38,615,539	-	43,293,873	63,132,602	7,688,653	-	152,730,667	
Debt securities issued and other borrowed funds	341	-	30,349,058	12,064,680	13,976,722	12,445,550	68,836,351	
Subordinated term debts	-	-	687,381	1,305,658	8,822,023	12,268,598	23,083,660	
Other financial liabilities	2,423,677	-	-	-	-	-	2,423,677	
Total Undiscounted Financial Liabilities	41,174,680	663,186	81,215,361	76,514,697	30,487,398	24,714,148	254,769,470	
Net Undiscounted Financial Assets and Liabilities	(19,541,871)	1,240,595	22,487,775	(42,067,540)	36,862,638	5,474,569	43,539,908	

56.2 (j) Contractual Maturities for Commitments and Contingencies

The table below summarises the maturity profile of the Bank's and the Group's commitments and contingencies as at 31 December 2015 and 31 December 2014.

31 December 2015	BANK						Total LKR '000
	On Demand	Less than 3 Months	3-12 Months	1-5 Years	Over 5 Years		
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000		
Undisbursed financing commitments	110,649,926	-	-	-	-	110,649,926	
Guarantees	-	5,201,238	8,841,725	7,814,944	5,026,707	26,884,614	
Commitments on account of letters of credit	-	5,925,841	1,742,216	464,204	-	8,132,261	
Forward foreign exchange contracts	-	51,558,561	32,758,091	144,000	-	84,460,652	
Acceptances	-	5,106,522	2,514,438	-	-	7,620,960	
	110,649,926	67,792,162	45,856,470	8,423,148	5,026,707	237,748,413	

31 December 2014	BANK					
	On Demand	Less than 3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Undisbursed financing commitments	93,937,028	–	–	–	–	93,937,028
Guarantees	452,895	7,638,665	9,138,647	4,853,652	4,351	22,088,210
Commitments on account of letters of credit	329,071	6,551,102	641,422	–	–	7,521,595
Forward foreign exchange contracts	–	51,856,305	48,432,484	159,245	–	100,448,034
Acceptances	–	4,956,445	2,164,754	27,567	–	7,148,766
	94,718,994	71,002,517	60,377,307	5,040,464	4,351	231,143,633

31 December 2015	GROUP					
	On Demand	Less than 3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Undisbursed financing commitments	112,326,086	–	–	–	–	112,326,086
Guarantees	–	4,366,238	8,841,725	7,814,944	5,026,707	26,049,614
Commitments on account of letters of credit	–	5,925,841	1,742,216	464,204	–	8,132,261
Forward foreign exchange contracts	–	51,558,561	32,758,091	144,000	–	84,460,652
Acceptances	–	5,106,522	2,514,438	–	–	7,620,960
	112,326,086	66,957,162	45,856,470	8,423,148	5,026,707	238,589,573

31 December 2014	GROUP					
	On Demand	Less than 3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Undisbursed financing commitments	93,940,238	–	–	–	–	93,940,238
Guarantees	454,914	7,638,665	9,138,647	4,853,652	4,351	22,090,229
Commitments on account of letters of credit	329,070	6,551,102	641,423	–	–	7,521,595
Forward foreign exchange contracts	–	51,856,304	48,432,484	159,246	–	100,448,034
Acceptances	–	4,956,445	2,164,754	27,567	–	7,148,766
	94,724,222	71,002,516	60,377,308	5,040,465	4,351	231,148,862

56.3 Capital Management

The Group realizes the importance of managing capital as it restricts the business growth unlike any other commercial organizations. All large credit proposals are evaluated with the capital charge and lending decisions are taken on the basis of sufficient return on capital. Even the expansion projects, in terms of new buildings and software purchases, are evaluated against sufficient return on capital. The Bank always maintains a relatively higher level of free capital which will be utilized for lending activities, thereby improving the net interest income of the Group. Further, the Group also maintains an effective balance between dividend payment and retention of profits, ensuring sufficient plough back of profits.

The detailed capital adequacy computation for the Bank and the Group as at 31 December 2015 and 31 December 2014 is given on page 255 to 259.