

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The responsibility of the Directors, in relation to the Financial Statements, is set out in the following statement. The responsibility of the Auditors, in relation to the Financial Statements, is set out in the Report of the Auditors on page 175 of the Report.

The Companies Act No. 07 of 2007, requires that the Directors prepare for each financial year and place before a General Meeting, Financial Statements comprising an Income Statement, which presents a true and fair view of the profit or loss of the Bank and its subsidiaries for the financial year and a Balance Sheet, which presents a true and fair view of the state of affairs of the Bank and its subsidiaries as at the end of the financial year.

The Directors are of the view that, in preparing these Financial Statements:

- i. the appropriate Accounting Policies have been selected and have been applied consistently. Material departures, if any, have been disclosed and explained;
- ii. all applicable Accounting Standards have been followed;
- iii. judgements and estimates have been made which are reasonable and prudent.

The Directors are also of the view that the Bank and its subsidiaries have adequate resources to continue in operation and have applied the going-concern basis in preparing these Financial Statements.

The Directors are responsible for ensuring that the Bank and its subsidiaries maintain sufficient accounting records to be able to disclose, with reasonable accuracy, the financial position of the entities and to be able to ensure that the Financial Statements of the Bank and its subsidiaries meet with the requirements of the Companies Act, the Banking Act and the Listing Rules of the Colombo Stock Exchange.

The Directors are also responsible for taking reasonable steps to safeguard the assets of the Bank and its subsidiaries and, in this regard, to give proper consideration to the establishment of appropriate internal control systems, with a view to preventing and for the detection of fraud and other irregularities.

The Directors are required to prepare Financial Statements and to provide the Auditors with every opportunity to take whatever steps and undertake whatever inspections they consider to be appropriate, for the purpose of enabling them to give their audit report.

The Directors are of the view that they have discharged their responsibilities as set out in this statement.

By Order of the Board



Theja Silva
Company Secretary

Colombo
26 February, 2016

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INDEPENDENT AUDITORS' REPORT



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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NATIONS TRUST BANK PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Nations Trust Bank PLC, (the "Bank"), and the consolidated financial statements of the Bank and its subsidiaries (the "Group"), which comprise the statement of financial position as at 31 December 2015, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and, statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board's Responsibility for the Financial Statements

The Board of Directors (the "Board") is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Bank's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on

the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

As required by Section 163(2) of the Companies Act No. 7 of 2007, we state the following:

- The basis of opinion and scope and limitations of the audit are as stated above.
- In our opinion :
 - We have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Bank,
 - The financial statements of the Bank give a true and fair view of the financial position as at 31 December 2015, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards, and
 - The financial statements of the Bank and the Group, comply with the requirements of sections 151 and 153 of the Companies Act No. 07 of 2007.

Colombo

26 February 2016

STATEMENT OF FINANCIAL POSITION

As at 31 December

	Notes	Bank		Group	
		2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Assets					
Cash and Cash Equivalents	6	6,392,393	6,898,881	6,392,437	6,899,905
Balances with Central Bank of Sri Lanka	7	5,283,866	3,992,118	5,283,866	3,992,118
Reverse Repurchase Agreements	8.1	302,249	11,013,507	302,249	11,013,507
Derivative Financial Instruments	9.1	554,030	128,053	554,030	128,053
Financial Assets - Held for Trading	10	2,044,144	15,648,717	2,044,144	15,700,388
Financial Assets-Available for Sale	11	16,532,917	4,329,449	16,532,917	4,329,449
Financial Assets - Held to Maturity	12	12,675,717	9,586,218	12,743,763	9,653,000
Other Financial Assets	13	6,511,361	3,820,746	6,511,361	3,820,746
Loans and Advances to Customers	14	120,314,568	97,068,259	121,143,065	98,347,049
Other Assets	15	1,339,553	1,350,872	1,386,357	1,419,418
Investments in Subsidiaries	16	678,710	678,710	-	-
Property, Plant and Equipment	17	1,672,448	1,717,856	2,143,187	2,194,425
Intangible Assets	18	1,214,095	1,271,137	1,224,159	1,283,223
Total Assets		175,516,051	157,504,523	176,261,535	158,781,281
Liabilities					
Due to Banks	19	2,275,840	2,922,784	2,275,840	2,922,784
Repurchase Agreements	8.2	10,874,122	15,444,206	10,405,880	15,046,562
Derivative Financial Instruments	9.2	53,327	166,370	53,327	166,370
Due to Customers	20	129,240,876	111,046,446	129,158,190	111,009,668
Debt Issued and Other Borrowed Funds	21	12,972,830	9,685,257	12,973,754	10,189,448
Current Tax Liabilities		396,396	639,359	426,466	666,345
Other Liabilities	22	4,978,921	4,396,493	5,064,059	4,472,104
Deferred Tax Liabilities	23.2	733,553	415,053	732,579	413,475
Total Liabilities		161,525,865	144,715,968	161,090,095	144,886,756
Equity Attributable to Equity Holders of the Parent					
Stated Capital	24	5,101,369	5,101,369	5,101,369	5,101,369
Statutory Reserve Fund	25	660,840	538,205	660,840	538,205
Retained Earnings	26	8,154,695	7,037,084	9,335,949	8,143,054
Available for Sale Reserve	27.1	73,282	111,897	73,282	111,897
Total Equity		13,990,186	12,788,555	15,171,440	13,894,525
Total Liabilities and Equity		175,516,051	157,504,523	176,261,535	158,781,281
Contingent Liabilities and Commitments	44.2	96,818,431	98,688,631	96,791,786	98,799,150
Net Assets Value per Ordinary Share (Rs.)		60.67	55.46	65.79	60.25

Certification

I certify that these Financial Statements comply with the requirements of the Companies Act No.7 of 2007.



Ajith Akmeemana
Chief Financial Officer

The Notes to the Financial Statements from pages 181 to 265 form an integral part of these Financial Statements.
The Board of Directors is responsible for the preparation and presentation of these Financial Statements.
Signed for and on behalf of the Board of Directors by ;



Krishan Balendra
Chairman



N. Shalini Panditaratne
Director



Renuka Fernando
Director / CEO



Theja Silva
Company Secretary

Colombo
26 February 2016

STATEMENT OF PROFIT OR LOSS

For the Year Ended 31 December

	Notes	Bank		Group	
		2015	2014	2015	2014
		LKR '000	LKR '000	LKR '000	LKR '000
Interest Income	29.1	16,511,774	17,267,659	16,628,050	17,452,461
Interest Expense	29.2	(7,543,595)	(8,521,173)	(7,522,866)	(8,512,713)
Net Interest Income		8,968,179	8,746,486	9,105,184	8,939,748
Fees and Commission Income	30.1	3,301,302	2,862,268	3,437,530	3,008,084
Fees and Commission Expense	30.2	(229,843)	(224,576)	(236,255)	(224,576)
Net Fees and Commission Income		3,071,459	2,637,692	3,201,275	2,783,508
Net Trading Income / (Loss)	31	(92,347)	123,639	(93,933)	111,370
Other Operating Income	32	324,358	293,146	306,881	281,897
Total Operating Income		12,271,649	11,800,963	12,519,407	12,116,523
Impairment Charge for Loans and Advances and Available for Sale on Financial Assets	33	985,757	1,181,060	985,478	1,181,739
Individual Impairment - Loans & Advances		278,926	(237,742)	278,926	(237,742)
Collective Impairment - Loans & Advances		636,546	1,394,472	636,267	1,395,151
Others - Available For Sale and Charges Receivable		70,285	24,330	70,285	24,330
Net Operating Income		11,285,892	10,619,903	11,533,929	10,934,784
Personnel Expenses	34	2,856,534	2,665,130	2,883,133	2,700,398
Depreciation of Property, Plant and Equipment		363,065	295,244	377,043	323,753
Amortization of Intangible Assets		236,155	168,557	240,021	171,348
Other Operating Expenses	35	3,396,816	3,166,658	3,361,620	3,167,858
Total Operating Expenses		6,852,570	6,295,589	6,861,817	6,363,357
Operating Profit Before Value Added Tax (VAT) and Nations Building Tax NBT on Financial Services		4,433,322	4,324,314	4,672,112	4,571,427
Value Added Tax (VAT) and Nations Building Tax (NBT) on Financial Services	36	755,030	726,576	766,712	744,474
Profit Before Income Tax		3,678,292	3,597,738	3,905,400	3,826,953
Income Tax Expense	37	1,225,602	1,219,745	1,291,409	1,290,373
Profit for the Year		2,452,690	2,377,993	2,613,991	2,536,580
Earnings Per Share					
Basic / Diluted Earnings Per Share - LKR	38	10.64	10.31	11.34	11.00
Dividend Per Share - LKR	39	2.10	2.10	2.10	2.10

The Notes to the Financial Statements from pages 181 to 265 form an integral part of these Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 31 December

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Profit for the Year	2,452,690	2,377,993	2,613,991	2,536,580
Other Comprehensive Income / (Expense) to be reclassified to profit or loss in subsequent periods:				
Net gains / (loss) on re-measuring of available-for-sale financial assets	(53,632)	155,413	(53,632)	155,413
Net income tax charge / (reversal) relating to components of re-measuring of available-for-sale financial assets	15,017	(43,516)	15,017	(43,516)
	(38,615)	111,897	(38,615)	111,897
Other Comprehensive Income / (Expense) not to be reclassified to profit or loss in subsequent periods:				
Actuarial gain / (loss) on defined benefit plan	7,504	(10,746)	8,755	(10,983)
Net income tax charge / (reversal) relating to components of defined benefit plan	(2,101)	3,009	(2,429)	3,143
	5,403	(7,737)	6,326	(7,840)
Total Other Comprehensive Income / (Expense)	(33,212)	104,160	(32,289)	104,057
Total Comprehensive Income for the Year, Net of Tax	2,419,478	2,482,153	2,581,702	2,640,637
Attributable to:				
Equity Holders of the Parent	2,419,478	2,482,153	2,581,702	2,640,637

The Notes to the Financial Statements from pages 181 to 265 form an integral part of these Financial Statements.

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STATEMENT OF CHANGES IN EQUITY

BANK	Stated Capital LKR '000	Retained Earnings LKR '000	Available for Sale Reserve LKR '000	Statutory Reserve Fund LKR '000	Investment Fund Account LKR '000	Total LKR '000
As at 01 January 2014	5,101,369	4,183,983	-	419,305	1,086,020	10,790,677
Profit for the year	-	2,377,993	-	-	-	2,377,993
Other Comprehensive Income	-	(7,737)	111,897	-	-	104,160
Total Comprehensive Income	-	2,370,256	111,897	-	-	2,482,153
Dividend paid for 2013	-	(484,275)	-	-	-	(484,275)
Transfers from the Investment Fund Account	-	1,086,020	-	-	(1,086,020)	-
Transfers to the Statutory Reserve Fund	-	(118,900)	-	118,900	-	-
As at 31 December 2014	5,101,369	7,037,084	111,897	538,205	-	12,788,555
Charge relating to Super Gain Tax	-	(733,572)	-	-	-	(733,572)
Profit for the year	-	2,452,690	-	-	-	2,452,690
Other Comprehensive Income	-	5,403	(38,615)	-	-	(33,212)
Total Comprehensive Income	-	2,458,093	(38,615)	-	-	2,419,478
Dividend paid for 2014	-	(484,275)	-	-	-	(484,275)
Transfers to the Statutory Reserve Fund	-	(122,635)	-	122,635	-	-
As at 31 December 2015	5,101,369	8,154,695	73,282	660,840	-	13,990,186

GROUP	Stated Capital LKR '000	Retained Earnings LKR '000	Available for Sale Reserve LKR '000	Statutory Reserve Fund LKR '000	Investment Fund Account LKR '000	Total LKR '000
As at 01 January 2014	5,101,369	5,067,107	-	419,305	1,150,382	11,738,163
Profit for the year	-	2,536,580	-	-	-	2,536,580
Other Comprehensive Income	-	(7,840)	111,897	-	-	104,057
Total Comprehensive Income	-	2,528,740	111,897	-	-	2,640,637
Dividend paid for 2013	-	(484,275)	-	-	-	(484,275)
Transfers from the Investment Fund Account	-	1,150,382	-	-	(1,150,382)	-
Transfers to the Statutory Reserve Fund	-	(118,900)	-	118,900	-	-
As at 31 December 2014	5,101,369	8,143,054	111,897	538,205	-	13,894,525
Charge relating to Super Gain Tax	-	(820,512)	-	-	-	(820,512)
Profit for the year	-	2,613,991	-	-	-	2,613,991
Other Comprehensive Income	-	6,326	(38,615)	-	-	(32,289)
Total Comprehensive Income	-	2,620,317	(38,615)	-	-	2,581,702
Dividend paid for 2014	-	(484,275)	-	-	-	(484,275)
Transfers to the Statutory Reserve Fund	-	(122,635)	-	122,635	-	-
As at 31 December 2015	5,101,369	9,335,949	73,282	660,840	-	15,171,440

The Notes to the Financial Statements from pages 181 to 265 form an integral part of these Financial Statements.

STATEMENT OF CASH FLOWS

For the Year Ended 31 December

	Notes	Bank		Group	
		2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Cash Flows from Operating Activities					
Receipts of Interest Income		15,341,128	13,705,157	15,553,713	14,117,853
Receipts of Fees and Commission Income		3,289,984	2,849,584	3,425,246	3,018,049
Payments of Interest Expense		(6,273,715)	(7,608,365)	(6,353,699)	(7,832,288)
Payments of Fees and Commission Expense		(229,843)	(224,576)	(223,583)	(213,008)
Net Trading Income / (Loss)		138,192	(342,800)	138,192	(342,800)
Receipts from Other Operating Income		330,756	292,478	313,635	281,961
Gratuity Payments Made	22.2.2	(50,284)	(22,075)	(50,743)	(25,323)
Payments for Operating Expenses		(6,876,405)	(5,826,411)	(6,896,267)	(5,889,045)
Net Cash Flow from Operating Activities					
Before Income Tax (A)					
Income Tax Paid		(911,088)	(546,321)	(1,056,538)	(634,171)
Super Gain Tax Paid		(733,574)	-	(820,511)	-
Operating Profit Before Changes in Operating Assets and Liabilities					
		4,025,151	2,276,671	4,029,445	2,481,228
(Increase)/Decrease in Operating Assets	40.1	(17,691,144)	(10,683,825)	(17,979,157)	(10,376,205)
Increase/(Decrease) in Operating Liabilities	40.2	13,544,008	13,469,971	13,983,159	13,969,191
Net Cash Flows from / (used in) Operating Activities					
		(121,985)	5,062,817	33,447	6,074,214
Cash Flows from Investing Activities					
Purchase of Property, Plant and Equipment	17.1.1	(283,030)	(467,946)	(291,177)	(470,009)
Proceeds from Sale of Property, Plant and Equipment and Intangible Assets		3,456	941	3,456	941
Purchase of Intangible Assets	18	(223,592)	(774,565)	(225,434)	(774,566)
New Cash Flows used in Investing Activities					
		(503,166)	(1,241,570)	(513,155)	(1,243,634)
Cash Flows from Financing Activities					
Net Change in Debt Issued and Other Borrowed Funds		2,884,412	966,542	2,663,658	(41,806)
Repayment of Subordinated Debt		-	(67,325)	-	(67,325)
Interest Paid on Subordinated Debt		(697,068)	(704,638)	(697,068)	(704,638)
Dividends Paid to Equity Holders of the Parent		(484,275)	(484,275)	(484,275)	(484,275)
Net Cash Flows from/(used in) Financing Activities					
		1,703,069	(289,696)	1,482,315	(1,298,044)
Net Increase in Cash and Cash Equivalents					
		1,077,916	3,531,551	1,002,607	3,532,536
Cash and Cash Equivalents at the Beginning of the year		10,491,563	6,960,012	10,479,982	6,960,051
Cash and Cash Equivalents at the End of the Year		11,569,479	10,491,563	11,482,589	10,492,587
Reconciliation of Cash and Cash Equivalents					
Cash on Hand	6	3,763,144	3,500,746	3,676,222	3,500,759
Statutory Deposit with the Central Bank of Sri Lanka	7	5,283,866	3,992,118	5,283,866	3,992,118
Balances with Banks	6	1,129,002	359,164	1,129,034	360,175
Money at Call and Short Notice	6	1,500,247	3,038,971	1,500,247	3,038,971
Deposits from Other Banks		(106,780)	(399,436)	(106,780)	(399,436)
		11,569,479	10,491,563	11,482,589	10,492,587
A. Reconciliation of Operating Profit Profit Before Income Tax					
		3,678,292	3,597,738	3,905,400	3,826,953
(Profit) on Disposal of Property, Plant and Equipment and Intangible Assets		6,398	(667)	6,398	(667)
Impairment Charge for Loans and Advances		985,757	1,156,730	985,478	1,157,409
Charge / (Reversal) of gratuity		80,160	82,523	81,186	83,527
(Increase) / Decrease in Interest Receivable		(902,432)	(2,918,025)	(899,431)	(2,915,805)
Increase/ (Decrease) in Interest Payable		1,269,879	912,808	1,267,991	911,419
Increase / (Decrease) in Financial Guarantee Liabilities		(11,318)	(12,684)	(11,318)	(12,684)
Other Receivables		(6,121)	(17,906)	(5,697)	(17,172)
Other Payables		12,772	623,366	12,772	623,364
Other Non Cash items	40.3	606,710	(578,816)	614,458	(515,622)
Gratuity Payments Made		(50,284)	(22,075)	(50,743)	(25,323)
		5,669,813	2,822,992	5,906,494	3,115,399

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NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

1.1 General

Nations Trust Bank PLC (the 'Bank') is a licensed commercial bank established under the Banking Act No. 30 of 1988. It is a public limited liability company, incorporated and domiciled in Sri Lanka and listed on the Colombo Stock Exchange. The registered office of the Bank is located at No. 242, Union Place, Colombo 2.

The Consolidated Financial Statements of Nations Trust Bank PLC for the year ended 31 December 2015 comprises the Bank and its subsidiaries: Waldock Mackenzie Limited, Allied Properties Limited and Nations Insurance Brokers Limited (together referred to as the 'Group').

Nations Trust Bank PLC does not have an identifiable parent of its own.

The Consolidated Financial Statements of Nations Trust Bank PLC, for the year ended 31 December 2015 was authorized for issue in accordance with the resolution of the Board of Directors on 26 February 2016.

1.2 Principal Activities and Nature of Operations

Bank

The Bank provides a comprehensive range of financial services encompassing personal, commercial, investment, private banking, trade services, leasing, factoring, pawning, treasury and capital market services.

Subsidiaries

The principal activities of the Bank's subsidiaries namely Waldock Mackenzie Limited, Allied Properties Limited and Nations Insurance Brokers Limited are carrying out money market, fund and fee based activities, property rental and insurance broking respectively.

1.3 Directors' Responsibility Statement

The Board of Directors takes the responsibility for the preparation and presentation of these Financial Statements. Please refer page 178 for the Statement of the Directors' Responsibility for Financial Reporting.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

2.1 Preparation of Financial Statements

The Financial Statements of the Bank and the Group have been prepared on a historical cost basis, except for available for sale investments, derivative financial instruments and other financial assets and liabilities held for trading, all of which have been measured at fair value.

The Consolidated Financial Statements are presented in Sri Lanka Rupees (LKR) which is the Group's functional and presentation currency. All values are rounded to the nearest Thousand Rupees ('000), except when otherwise indicated.

2.2 Statement of compliance

The Financial Statements of the Bank and the Group have been prepared in accordance with Sri Lanka Accounting Standards (commonly referred by the term "SLFRS") as issued by the Institute of Chartered Accountants of Sri Lanka.

The preparation and presentation of these Consolidated Financial Statements are in compliance with the requirements of the Companies Act No.07 of 2007. The presentation of this Financial Statement is also in compliance with the requirements of the Banking Act No: 30 of 1998.

2.3 Prior year figures and phrases

Certain prior year figures and phrases have been rearranged whenever necessary for better presentation and to conform to the current year's presentation.

2.4 Presentation of Financial Statements

The Bank and the Group present its Statement of Financial Position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 42.

Each material class of similar items is presented separately in the Consolidated 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 consolidated Statement of Financial Position 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 liability simultaneously. Income and expenses are not offset in the Consolidated Statement of Profit or Loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

2.5 Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year.

2.6 Basis of consolidation

The Consolidated Financial Statements comprise the Financial Statements of the Bank and its subsidiaries as at 31 December 2015. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee

NOTES TO THE FINANCIAL STATEMENTS

and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Profit or loss and each component of Other Comprehensive Income (OCI) are attributed to the equity holders of the parent of the Group. When necessary, adjustments are made to the Financial Statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

2.7 Foreign Currency Translation

Transactions and balances

Transactions in foreign currencies are initially recorded at the spot middle rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot middle rate of exchange at the reporting date. All differences arising on non-trading activities are taken to 'Other Operating Income' in the Profit or Loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition.

3. GENERAL ACCOUNTING POLICIES

3.1 Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Bank's Consolidated Financial Statements requires management to make judgments, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the Consolidated Financial Statements:

Taxation

The Group is subject to Income Taxes and other taxes including VAT on Financial Services. Uncertainties exist, with respect to the interpretation of the applicability of tax laws, at the time of the preparation of these Financial Statements. Accordingly, the Group has exercised judgment in determining the tax effect due to the change in the accounting base and the tax base due to first time adoption of Sri Lanka Accounting Standards. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income and deferred tax amounts in the period in which the determination is made.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the Consolidated Financial Statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances

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beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Going Concern

The Bank's management 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, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on the going concern basis.

Fair Value of Financial Instruments

Where the fair values of financial assets and financial liabilities recorded in the Statement of Financial Position cannot be derived from active markets, 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, judgment is required to establish fair values. The judgments include considerations of liquidity and inputs such as discount rates. The valuation of financial instruments is described in more detail in Note 43.

Impairment Losses on Loans and Advances

The Group reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in Profit or Loss. In particular, 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 advances 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, to determine whether 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 account of data from the loan portfolio (such as levels of arrears, credit utilization, loan-to-collateral ratios, etc.) and judgments on the effect of concentrations of risks and economic data (including levels of unemployment, inflation, GDP growth rate and the performance of different individual groups).

The impairment loss on loans and advances is disclosed in more detail in Note 14 and Note 33.

Impairment of Available-for-Sale Investments

The Group reviews its debt and equity securities classified as Available-for-Sale Investments at each reporting date to assess

whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances. Note 11

Deferred Tax Assets

Deferred tax assets are recognized in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilized. 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. Note 23

Employee Benefit Liability – Gratuity

The cost of the defined benefit plan – gratuity is determined using an actuarial valuation. Actuarial valuation involves making assumptions about inter-alia discount rates, future salary increases, remaining working life of employees and mortality rates. Due to the long term nature of these obligations, such estimates are subject to significant uncertainty. Description of employee benefits is given in Note 22.2

3.2 Financial Instruments – Initial Recognition and Subsequent Measurement

(i) Date of Recognition

All financial assets and liabilities are initially recognized on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. This includes 'regular way trades': 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.

(ii) 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.

(iii) Derivatives Recorded at Fair Value through Profit or Loss

The Bank uses derivatives such as cross-currency swaps, forward foreign exchange contracts and options on foreign currencies. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in 'Net Trading Income.'

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fairvalue if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held

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for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognized in the Profit or Loss.

(iv) Financial Assets Held for Trading

Financial assets held for trading are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognized in 'Net Trading Income'. Included in this classification are debt securities that have been acquired principally for the purpose of selling or repurchasing in the near term.

(v) Held to Maturity Financial Assets

Held to maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Group has the intention and ability to hold to maturity. After initial measurement, held to maturity financial assets are subsequently measured at amortized cost using the Effective Interest Rate (EIR) less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'Interest Income' in the Statement of Profit or Loss. The losses arising from impairment of such investments are recognized in the Statement of Profit or Loss line 'impairment charge'.

If the Group were to sell or reclassify more than an insignificant amount of held to maturity assets 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 Group would be prohibited from classifying any financial asset as held to maturity during the following two years.

(vi) Available for Sale Financial Investments

Available for sale investments include debt and equity securities. 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 Group has 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 through 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 Profit or Loss in 'Other Operating Income'. Where the Group holds 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 EIR. The losses arising from impairment of such investments are recognized in the Profit or Loss in 'Impairment losses on financial investments' and removed from the 'Available for Sale Reserve'.

(vii) Due from Banks and Loans and advances to customers

'Due from Banks' and 'Loans and Advances to Customers' includes non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

After initial measurement, 'Loans and Advances to Customers' are subsequently measured at amortized cost using the EIR, less allowance for impairment. Amortized cost is calculated by taking into account any fees and costs that are an integral part of the EIR. 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 in 'Impairment Charge'.

(viii) Debt issued and Other Borrowed Funds

Financial instruments issued by the Group are classified as liabilities under 'Debt issued and Other Borrowed Funds', where the substance of the contractual arrangement results in 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.

After initial measurement, debt issued and other borrowings are subsequently measured at amortized cost using the EIR. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

An analysis of the Group's issued debt is disclosed in Note 21.

(ix) 'Day 1' Profit or Loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognizes the difference between the transaction price and fair value (a 'Day 1' profit or loss) in 'Net Trading Income' except for loans granted to staff of the Bank at concessionary rates of interest.

3.3 De-recognition of Financial Assets and Financial Liabilities

(i) 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:

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- The rights to receive cash flows from the asset have expired or;
- The Group has transferred substantially all the risks and rewards of the asset

(ii) Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. 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 de-recognition 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.

(iii) Impairment of Financial Assets

The Group assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is 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 financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty; the probability that they will enter bankruptcy or other financial re-organization; default or delinquency in interest or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(iv) Financial Assets carried at Amortized Cost

For financial assets carried at amortized cost (such as, loans and advances to customers as well as held to maturity investments), the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the 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. The interest income is recorded as part of 'Interest income'.

Loans together with the associated allowance are written-off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is recognized in the 'Other Operating 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 interest rate prevailed at the last reprising date.

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.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system that considers credit risk characteristics such as asset type, industry and past-due status and other relevant factors. 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 property prices, payment status or other factors that are indicative of incurred losses in the Group and their magnitude). The methodology and assumptions used

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for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(v) Available-for-Sale Financial Investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment is impaired. In the case of debt instruments classified as available-for-sale, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the Profit or Loss. Future interest income is based 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. The interest income is recorded as part of interest income. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the Profit or Loss.

(vi) Rescheduled Loans

Where possible, the Group seeks to reschedule loans 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. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

(vii) Collateral Valuation

The Group seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, receivables, inventories and other non-financial assets such as immovable and moveable properties. The fair value of collateral is generally assessed, at a minimum, at inception and subsequently as and when required.

To the extent possible, the Group uses 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 immovable property, is valued based on data provided by third parties such as qualified valuers and other independent sources.

(iv) Collateral Repossessed The Group's policy is to sell the repossessed assets at the earliest possible opportunity.

Such collateral repossessed are held on a memorandum basis without derecognizing the underlying receivable.

3.4 Offsetting 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 asset and settle the liability simultaneously.

3.5 Impairment of Non-Financial Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or Cash Generating Unit's (CGU's) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU 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, and other available fair value indicators.

3.6 Financial Guarantees

In the ordinary course of business, the Bank gives 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 initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the 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 'Impairment Charge'. The premium received is recognized in the Statement of Profit or Loss in 'Net Fees and Commission Income' on a straight line basis over the life of the guarantee.

3.7 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic

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benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the Statement of Profit or Loss net of any reimbursement.

3.8 Fiduciary Assets

The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity are not reported in the Financial Statements, as they are not the assets of the Group.

3.9 Statement of Cash Flows

The Statement of Cash Flows has been prepared by using the 'Direct Method' in accordance with LKAS 7 on Statement of Cash Flows, whereby gross cash receipts and gross cash payments of operating activities, financing activities and investing activities have been recognized. Cash and cash equivalents as referred to in the Cash Flow Statement comprises of cash on hand, balances with the Central Bank of Sri Lanka, amounts due from banks on demand or with original maturity of three months or less net of amount due to banks.

3.10 Standards issued but not yet effective

Certain new accounting standards and amendments / improvements to existing standards have been published, that are not mandatory for 31 December 2015 reporting period. None of those have been early adopted by the Group/Bank.

SLFRS 9 Financial Instruments

SLFRS 9 replaces the existing guidance in LKAS 39 Financial Instruments: Recognition and Measurement. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from LKAS 39. SLFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

SLFRS 14 Regulatory Deferral Accounts

SLFRS 14 is an interim standard which provides relief for first time -adopters of SLFRS in relation to the accounting for certain balances that arise from rate-regulated activities ('regulatory deferral accounts'). The standard permits these entities to continue to apply their previous GAAP accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral accounts. SLFRS 14 is effective for annual periods beginning on or after 1 January 2016.

SLFRS 15 Revenue from Contracts with Customers

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 Revenue, LKAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. SLFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

Management believes that the SLFRS 14 would not be applicable for the Group, as it is an existing SLFRS preparer / does not involve in rate regulatory activities. Pending the completion of the detailed impact analysis, possible impact from SLFRS 9 and SLFRS 15 is not reasonably estimable as of the reporting date.

The following amendments and improvements are not expected to have a significant impact on the Bank's / Group's consolidated financial statements.

- Accounting for Acquisitions of Interests in Joint Operations (Amendments to SLFRS11)
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to LKAS 16 and LKAS 38).
- Equity Method in Separate Financial Statements (Amendments to LKAS 27).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to SLFRS 10 and LKAS 28).
- Annual Improvements to SLFRSs 2012–2014 Cycle – various standards.
- Investment Entities: Applying the Consolidation Exception (Amendments to SLFRS 10, SLFRS 12 and LKAS 28)
- Disclosure Initiative (Amendments to LKAS 1)

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4 SEGMENT INFORMATION

The Group's segmental reporting is based on the following operating segments: SME and Consumer Banking, Corporate Banking, Leasing, Treasury functions, Investment Banking, Insurance Broking and Property Management.

For management purposes, the Group is organised into operating segments based on products and services, as follows:

Corporate Banking: Primary focus of business is providing loans and other credit facilities and mobilizing deposit and current accounts from top to mid tier corporate and institutional customers.

SME and Consumer Banking : Primary focus of business is deposit mobilization from individual and SME customer segments and providing facilities such as loans, overdraft and credit card facilities to this segment.

Leasing : Primary focus of business is providing finance leases and hire purchase facilities.

Treasury Function: Primary focus of business operations includes foreign exchange trading, fixed income security trading, assets & liabilities gapping management.

Investment Banking: Primary focus on margin trading, money market operations and fund and fee based activities.

Insurance Broking: Primary focus on insurance broking.

Property Management: Primary focus on renting out premises.

Management monitors the operating results of its business units separately for the purpose of making decisions on resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses which, are measured differently from operating profits or losses in the consolidated financial statements. A fund transfer pricing mechanism is adopted for sourcing and utilizing of funds.

The following table presents income and expenses and certain asset and liability information regarding the Group's operating segments.

4 SEGMENT INFORMATION (CONTD.)

4.1 Operating Segments

31 December 2015	Corporate Banking		Consumer Banking		Leasing		Treasury Functions		Investment Banking		Insurance Brokering		Property Management		Unallocated/ Eliminations		Total Group	
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Operating Income	908,792	7,918,037	1,264,210	2,241,521	105,951	135,386	92,765	(147,255)	12,519,407									
Impairment Charge for Loans and Advances and Available For Sale on Financial Assets	40,345	685,990	222,336	37,086	-	-	-	(279)	985,478									
Net Operating Income	868,446	7,232,047	1,041,875	2,204,435	105,951	135,386	92,765	(146,977)	11,533,929									
Extracts of Results																		
Interest Income	1,798,576	6,949,890	4,090,517	3,742,173	137,056	11,194	16,677	(118,034)	16,628,050									
Inter Segment	(1,021,982)	3,175,238	(2,926,072)	772,815	-	-	-	-	-									
Interest Expense	(244,040)	(5,508,998)	-	(1,795,397)	(28,097)	-	(1,178)	54,846	(7,522,866)									
Net Interest Income	532,554	4,616,130	1,164,445	2,719,591	108,959	11,194	15,499	(63,188)	9,105,184									
Fees and Commission Income	247,593	3,096,060	-	-	4,779	130,892	77,266	(119,060)	3,437,530									
Fees and Commission Expense	-	(194,563)	(6,644)	(9,838)	(6,202)	(6,700)	-	(12,308)	(236,255)									
Net Fees and Commission Income	247,593	2,901,497	(6,644)	(9,838)	(1,423)	124,192	77,266	(131,368)	3,201,275									
Net Trading Income/(Loss)	128,645	246,575	-	(476,543)	(1,586)	-	-	8,977	(93,933)									
Other Operating Income	-	153,835	106,409	8,311	-	-	-	38,325	306,881									
Depreciation of Property, Plant and Equipment	2,145	180,778	5,823	1,188	-	657	13,320	173,131	377,043									
Amortization of Intangible Assets	110	122,565	1,377	12,111	-	3,866	-	99,992	240,021									
Segment Profit Before Tax	189,498	1,643,838	280,004	1,627,652	82,544	96,509	49,887	(64,532)	3,905,400									
Income Tax Expense	189,498	1,643,838	280,004	1,627,652	54,457	66,955	43,672	(1,292,084)	2,613,991									
Profit for the Year																		
Capital Expenditures																		
Property, Plant and Equipment	1,693	122,006	3,472	3,887	-	-	-	118,385	249,443									
Intangible Assets	473	78,229	30	-	-	-	-	158,410	237,141									
Total Assets	31,162,094	61,613,890	29,521,137	49,688,786	1,250,668	253,440	752,858	2,018,661	176,261,535									
Total Liabilities	13,123,696	117,617,190	1,107,215	30,486,329	362,762	27,014	24,702	(1,658,811)	161,090,095									

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4 SEGMENT INFORMATION (CONTD.)

4.2 Operating Segments

31 December 2014

	Corporate Banking LKR '000	Consumer Banking LKR '000	Leasing LKR '000	Treasury Functions LKR '000	Investment Banking LKR '000	Insurance Brokering LKR '000	Property Management LKR '000	Unallocated/ Eliminations LKR '000	Total Group LKR '000
Operating Income	1,182,227	6,923,600	1,152,571	2,548,878	149,855	130,801	87,032	(58,442)	12,116,523
Impairment Charge for Loans and Advances and Available For Sale on Financial Assets	172,894	541,748	466,417	-	-	-	-	680	1,181,739
Net Operating Income	1,009,332	6,381,853	686,154	2,548,878	149,855	130,801	87,032	(59,122)	10,934,784
Extracts of Results									
Interest Income	2,067,645	6,677,462	4,230,078	4,447,975	279,614	8,628	15,358	(274,300)	17,452,461
Inter Segment	(936,853)	3,580,921	(3,124,299)	480,231	-	-	-	-	-
Interest Expense	(352,757)	(5,953,590)	-	(2,237,325)	(109,003)	-	(1,337)	141,299	(8,512,713)
Net Interest Income	778,035	4,304,794	1,105,779	2,690,881	170,612	8,628	14,021	(133,001)	8,939,748
Fees and Commission Income	277,625	2,462,365	-	-	3,229	116,571	73,010	75,284	3,008,084
Fees and Commission Expense	-	(166,368)	(38,868)	(16,267)	(5,851)	(263)	-	3,042	(224,576)
Net Fees and Commission Income	277,625	2,295,997	(38,868)	(16,267)	(2,622)	116,308	73,010	78,325	2,783,508
Net Trading Income/(Loss)	99,799	153,150	-	(130,963)	(18,135)	5,866	-	1,653	111,370
Other Operating Income	26,768	169,660	85,661	5,228	-	-	-	(5,419)	281,897
Depreciation of Property, Plant and Equipment	1,986	167,662	5,635	972	-	541	12,979	133,978	323,753
Amortization of Intangible Assets	88	54,947	1,365	12,280	-	2,791	-	99,877	171,348
Segment Profit Before Tax Income Tax Expense	256,669	1,383,160	49,217	1,922,367	122,487	76,356	41,414	(24,718)	3,826,953
Profit for the Year	256,669	1,383,160	49,217	1,922,367	83,232	51,993	35,654	(1,245,714)	2,536,580
Capital Expenditures									
Property, Plant and Equipment	2,904	327,683	5,823	361	-	-	-	134,110	470,882
Intangible Assets	89	752,182	177	-	-	-	-	22,116	774,564
Total Assets	25,525,070	47,624,615	26,915,334	56,940,682	1,594,029	209,318	726,194	(753,961)	158,781,281
Total Liabilities	7,983,800	104,918,704	804,880	31,059,688	708,266	27,184	24,800	(640,567)	144,886,756

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5 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

5.1 Bank

31 December 2015	HFT at Fair Value	Financial Derivatives at Fair Value	HTM at Amortised Cost	Available for Sale	L & R at Amortised Cost	Other Financial Liabilities at Amortised Cost	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Assets							
Cash and Cash Equivalents	-	-	-	-	6,392,393	-	6,392,393
Balances with Central Bank of Sri Lanka	-	-	-	-	5,283,866	-	5,283,866
Reverse Repurchase Agreements	-	-	-	-	302,249	-	302,249
Derivative Financial Instruments	-	554,030	-	-	-	-	554,030
Financial Assets - Held for Trading	2,044,144	-	-	-	-	-	2,044,144
Financial Assets-Available for Sale	-	-	-	16,532,917	-	-	16,532,917
Financial Assets - Held to Maturity	-	-	12,675,717	-	-	-	12,675,717
Other Financial Assets	-	-	-	-	6,511,361	-	6,511,361
Loans and Advances to Customers	-	-	-	-	120,314,568	-	120,314,568
Total Financial Assets	2,044,144	554,030	12,675,717	16,532,917	138,804,437	-	170,611,245
Liabilities							
Due to Banks	-	-	-	-	-	2,275,840	2,275,840
Repurchase Agreements	-	-	-	-	-	10,874,122	10,874,122
Derivative Financial Instruments	-	53,327	-	-	-	-	53,327
Due to Customers	-	-	-	-	-	129,240,876	129,240,876
Debt Issued and Other Borrowed Funds	-	-	-	-	-	12,972,830	12,972,830
Total Financial Liabilities	-	53,327	-	-	-	155,363,668	155,416,995

5.2 Group

31 December 2015	HFT at Fair Value	Financial Derivatives at Fair Value	HTM at Amortised Cost	Available for Sale	L & R at Amortised Cost	Other Financial Liabilities at Amortised Cost	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Assets							
Cash and Cash Equivalents	-	-	-	-	6,392,437	-	6,392,437
Balances with Central Bank of Sri Lanka	-	-	-	-	5,283,866	-	5,283,866
Reverse Repurchase Agreements	-	-	-	-	302,249	-	302,249
Derivative Financial Instruments	-	554,030	-	-	-	-	554,030
Financial Assets - Held for Trading	2,044,144	-	-	-	-	-	2,044,144
Financial Assets-Available for Sale	-	-	-	16,532,917	-	-	16,532,917
Financial Assets - Held to Maturity	-	-	12,743,763	-	-	-	12,743,763
Other Financial Assets	-	-	-	-	6,511,361	-	6,511,361
Loans and Advances to Customers	-	-	-	-	121,143,065	-	121,143,065
Total Financial Assets	2,044,144	554,030	12,743,763	16,532,917	139,632,978	-	171,507,832
Liabilities							
Due to Banks	-	-	-	-	-	2,275,840	2,275,840
Repurchase Agreements	-	-	-	-	-	10,405,880	10,405,880
Derivative Financial Instruments	-	53,327	-	-	-	-	53,327
Due to Customers	-	-	-	-	-	129,158,190	129,158,190
Debt Issued and Other Borrowed Funds	-	-	-	-	-	12,973,754	12,973,754
Total Financial Liabilities	-	53,327	-	-	-	154,813,664	154,866,991

HFT - Held for Trading HTM - Held to Maturity L&R - Loans and Receivables AFS - Available for Sale

NOTES TO THE FINANCIAL STATEMENTS

5 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS (CONTD.)

5.3 Bank

31 December 2014

	HFT at Fair Value	Financial Derivatives at Fair Value	HTM at Amortised Cost	Available for Sale	L & R at Amortised Cost	Other Financial Liabilities at Amortised Cost	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Assets							
Cash and Cash Equivalents	-	-	-	-	6,898,881	-	6,898,881
Balances with Central Bank of Sri Lanka	-	-	-	-	3,992,118	-	3,992,118
Reverse Repurchase Agreements	-	-	-	-	11,013,507	-	11,013,507
Derivative Financial Instruments	-	128,053	-	-	-	-	128,053
Financial Assets - Held for Trading	15,648,717	-	-	-	-	-	15,648,717
Financial Assets-Available for Sale	-	-	-	4,329,449	-	-	4,329,449
Financial Assets - Held to Maturity	-	-	9,586,218	-	-	-	9,586,218
Other Financial Assets	-	-	-	-	3,820,746	-	3,820,746
Loans and Advances to Customers	-	-	-	-	97,068,259	-	97,068,259
Total Financial Assets	15,648,717	128,053	9,586,218	4,329,449	122,793,511	-	152,485,948
Liabilities							
Due to Banks	-	-	-	-	-	2,922,784	2,922,784
Repurchase Agreements	-	-	-	-	-	15,444,206	15,444,206
Derivative Financial Instruments	-	166,370	-	-	-	-	166,370
Due to Customers	-	-	-	-	-	111,046,446	111,046,446
Debt Issued and Other Borrowed Funds	-	-	-	-	-	9,685,257	9,685,257
Total Financial Liabilities	-	166,370	-	-	-	139,098,693	139,265,063

5.4 Group

31 December 2014

	HFT at Fair Value	Financial Derivatives at Fair Value	HTM at Amortised Cost	Available for Sale	L & R at Amortised Cost	Other Financial Liabilities at Amortised Cost	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Assets							
Cash and Cash Equivalents	-	-	-	-	6,899,905	-	6,899,905
Balances with Central Bank of Sri Lanka	-	-	-	-	3,992,118	-	3,992,118
Reverse Repurchase Agreements	-	-	-	-	11,013,507	-	11,013,507
Derivative Financial Instruments	-	128,053	-	-	-	-	128,053
Financial Assets - Held for Trading	15,700,388	-	-	-	-	-	15,700,388
Financial Assets-Available for Sale	-	-	-	4,329,449	-	-	4,329,449
Financial Assets - Held to Maturity	-	-	9,653,000	-	-	-	9,653,000
Other Financial Assets	-	-	-	-	3,820,746	-	3,820,746
Loans and Advances to Customers	-	-	-	-	98,347,049	-	98,347,049
Total Financial Assets	15,700,388	128,053	9,653,000	4,329,449	124,073,325	-	153,884,215
Liabilities							
Due to Banks	-	-	-	-	-	2,922,784	2,922,784
Repurchase Agreements	-	-	-	-	-	15,046,562	15,046,562
Derivative Financial Instruments	-	166,370	-	-	-	-	166,370
Due to Customers	-	-	-	-	-	111,009,668	111,009,668
Debt Issued and Other Borrowed Funds	-	-	-	-	-	10,189,448	10,189,448
Total Financial Liabilities	-	166,370	-	-	-	139,168,462	139,334,832

HFT - Held for Trading HTM - Held to Maturity L&R - Loans and Receivables AFS - Available for Sale

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6 CASH AND CASH EQUIVALENTS

	Bank		Group	
	2015	2014	2015	2014
	LKR '000	LKR '000	LKR '000	LKR '000
Cash in Hand	3,763,144	3,500,746	3,763,157	3,500,759
Balances with Banks	1,129,002	359,164	1,129,033	360,175
Money at Call and Short Notice	1,500,247	3,038,971	1,500,247	3,038,971
	6,392,393	6,898,881	6,392,437	6,899,905

7 BALANCES WITH CENTRAL BANK OF SRI LANKA

	Bank		Group	
	2015	2014	2015	2014
	LKR '000	LKR '000	LKR '000	LKR '000
Statutory Deposit with the Central Bank of Sri Lanka	5,283,866	3,992,118	5,283,866	3,992,118

As required by the provisions of section 93 of the Monetary Law Act, a cash balance is required to be maintained with the Central Bank of Sri Lanka.

As at 31 December 2015, the minimum cash reserve requirement was 6% (2014: 6%) of the rupee deposit liabilities of Domestic Banking Unit. There is no reserve requirement for foreign currency deposit liabilities in Domestic Banking Unit and the deposit liabilities in Foreign Currency Banking Unit.

8 TRANSFERRED FINANCIAL ASSETS

Reverse Repurchase /Repurchase Agreements

Accounting Policy

Securities sold under agreements to repurchase at a specified future date are not derecognized from the Statement of Financial Position as the Group retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognized in the Consolidated Statement of Financial Position as an asset with a corresponding obligation to return it, including accrued interest as a liability within 'Repurchase Agreements', reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR. When the counterparty has the right to sell or re-pledge the securities, the Group reclassifies those securities in its Statement of Financial Position to 'Financial Assets Held for Trading Pledged as Collateral' or to 'Financial Investments Held to Maturity Pledged as Collateral', as appropriate.

Conversely, securities purchased under agreements to resell at a specified future date are not recognized in the Statement of Financial Position. The consideration paid, including accrued interest, is recorded in the Statement of Financial Position, within 'Reverse Repurchase Agreements', reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in Interest Income' and is accrued over the life of the agreement using the EIR.

NOTES TO THE FINANCIAL STATEMENTS

8 TRANSFERRED FINANCIAL ASSETS (CONTD.)

8.1 Reverse repurchase agreements

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Due from Banks	300,835	11,003,449	300,835	11,003,449
Due from Other Counterparties	1,414	10,058	1,414	10,058
	302,249	11,013,507	302,249	11,013,507

8.2 Repurchase agreements

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Due to Banks	-	2,014,498	-	2,014,498
Due to Other Financial Institutions	6,474,034	5,849,490	6,474,034	5,849,490
Due to Other Counterparties	4,400,088	7,580,218	3,931,846	7,182,574
	10,874,122	15,444,206	10,405,880	15,046,562

The Group has a programme to sell securities under agreements to repurchase ('repos') and to purchase securities under agreements to resell ('reverse repos').

The securities sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange. The counterparty is allowed to sell or repledge those securities sold under repurchase agreements in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract. These transactions are conducted under the terms based on the applicable International Swaps and Derivative Association (ISDA) Collateral Guidelines.

The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. In addition, it recognises a financial liability for cash received.

Similarly, the Group may sell or re-pledge any securities borrowed or purchased under agreements to resell, but has an obligation to return the securities and the counterparty retains substantially all the risks and rewards of ownership. Consequently, the securities are not recognized by the Group, which instead records a separate asset for the collateral provided.

As the counterparty of securities lending and repurchase agreement is allowed to sell or repledge the securities in the absence of default by the Bank, those securities, for a total face value of LKR 12.09 Bn (market value LKR 12.2 Bn) [2014 - face value LKR 17.1 Bn (market value - LKR 17.2 Bn)] are presented in the Statement of Financial Position under the caption of financial assets held for trading, held to maturity and available for sale.

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9 DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair values of derivative financial instruments recorded as assets or liabilities, together with their notional (contract) amounts.

Settlement of these contracts against customer is on delivery against payment basis which eliminates credit risks. Settlements against Bank is on a gross basis subject to approved credit limits.

The notional amounts indicate the volume of transactions outstanding at the year end are indicative of neither the market risk not the credit risk.

This transaction type is exposed to market risks due to fluctuation of market rates.

The Bank may take positions with the expectation of profiting from favorable movements in rates. Derivatives entered into for risk management purposes that do not meet the hedge accounting criteria are also included under this classification.

9.1 Derivative Assets- Held for Trading

At a Gain Position

	Bank / Group		Bank / Group	
	Fair Value of	Contract	Fair Value of	Contract
	Assets	amount	Assets	amount
	2015		2014	
	LKR '000	LKR '000	LKR '000	LKR '000
Forward Foreign Exchange Contracts and Currency Swaps	554,030	16,897,676	128,053	16,801,235
	554,030	16,897,676	128,053	16,801,235

9.2 Derivative Liabilities - Held for Trading

At a Loss Position

	Bank / Group		Bank / Group	
	Fair Value of	Contract	Fair Value of	Contract
	Liabilities	amount	Liabilities	amount
	2015		2014	
	LKR '000	LKR '000	LKR '000	LKR '000
Forward Foreign Exchange Contracts and Currency Swaps	53,327	3,711,545	166,370	12,503,904
	53,327	3,711,545	166,370	12,503,904

NOTES TO THE FINANCIAL STATEMENTS

10 FINANCIAL ASSETS - HELD FOR TRADING

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Government Treasury Bills	1,549,414	6,618,490	1,549,414	6,618,490
Government Treasury Bonds	494,730	9,030,227	494,730	9,081,898
	2,044,144	15,648,717	2,044,144	15,700,388

11 FINANCIAL ASSETS AT AVAILABLE FOR SALE

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Government Treasury Bills	6,362,143	2,861,780	6,362,143	2,861,780
Government Treasury Bonds	10,011,297	1,308,791	10,011,297	1,308,791
Unquoted Equity Shares (Note 11.1)	196,563	158,878	196,563	158,878
	16,570,003	4,329,449	16,570,003	4,329,449
Impairment Allowance for Losses	(37,086)	-	(37,086)	-
	16,532,917	4,329,449	16,532,917	4,329,449

11.1 Unquoted Equity Shares

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
MasterCard Incorporated 13,590 Class B Common Stock	190,821	153,390	190,821	153,390
Lanka Clear (Private) Limited 150,000 Ordinary Shares of LKR 10/- each	1,500	1,500	1,500	1,500
Credit Information Bureau (CRIB) 9,000 Ordinary Shares of LKR 10/- each	90	90	90	90
Lanka Financial Services Bureau 112,500 Ordinary Shares of LKR 10/- each	1,125	1,125	1,125	1,125
Society of Worldwide Interbank Financial Telecommunication (SWIFT) 5 Ordinary Shares	3,027	2,773	3,027	2,773
	196,563	158,878	196,563	158,878

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12 FINANCIAL ASSETS - HELD TO MATURITY

	Bank		Group	
	2015	2014	2015	2014
	LKR '000	LKR '000	LKR '000	LKR '000
Government Treasury Bonds	12,675,717	9,586,218	12,743,763	9,653,000
	12,675,717	9,586,218	12,743,763	9,653,000

13 OTHER FINANCIAL ASSETS

	Bank		Group	
	2015	2014	2015	2014
	LKR '000	LKR '000	LKR '000	LKR '000
Sri Lanka Development Bonds (Note 13.1)	3,784,984	2,669,818	3,784,984	2,669,818
Quoted Debentures (Note 13.2)	2,672,254	951,039	2,672,254	951,039
Unquoted Debentures (Note 13.3)	54,123	199,889	54,123	199,889
	6,511,361	3,820,746	6,511,361	3,820,746

13.1 The Investment in Sri Lanka Development Bonds amounts to USD 26 Mn (2014: USD 20 Mn) and matures in years 2017, 2018, 2019.

13.2 Quoted Debentures

Company	Type	Par Value LKR	No of Debentures		LKR '000	
			2015	2014	2015	2014
Housing and Development Finance Corporation	Secured, Redeemable Debentures	100/-	779,400	779,400	80,789	80,789
ABANS PLC	Unsecured, Redeemable Debentures	100/-	720,700	720,700	77,156	77,156
Hemas Holdings PLC	Unsecured, Redeemable Debentures	100/-	223,900	223,900	23,011	23,011
Peoples' Leasing and Finance Company PLC	Unsecured, Redeemable Debentures	100/-	1,595,400	1,595,400	173,500	163,326
Lion Brewery(Ceylon) PLC	Unsecured, Redeemable Debentures	100/-	1,686,000	1,686,000	171,926	169,470
Seylan Bank PLC -Colombo	Unsecured, Redeemable Debentures	100/-	3,000,000	3,000,000	300,636	300,636
Alliance Finance Company PLC	Unsecured, Redeemable Debentures	100/-	1,365,498	1,365,498	136,651	136,651
Singer (Sri Lanka) PLC	Unsecured, Redeemable Debentures	100/-	2,000,000	-	208,670	-
DFCC Vardhana Bank	Unsecured, Redeemable Debentures	100/-	1,988,600	-	209,023	-
MTD Walkers PLC	Unsecured, Redeemable Debentures	100/-	2,000,000	-	204,967	-
Housing and Development Finance Corporation	Unsecured, Redeemable Debentures	100/-	2,500,000	-	253,021	-
Access Engineering PLC	Unsecured, Redeemable Debentures	100/-	3,500,000	-	354,324	-
Sanasa Development Bank PLC	Guaranteed, Redeemable Debentures	100/-	3,784,500	-	378,552	-
Sanasa Development Bank PLC	Guaranteed, Redeemable Debentures	100/-	1,000,000	-	100,028	-
					2,672,254	951,039

NOTES TO THE FINANCIAL STATEMENTS

13 OTHER FINANCIAL ASSETS (CONTD.)

13.3 Unquoted Debentures

Company	Type	Par Value LKR	No of Debentures		LKR '000	
			2015	2014	2015	2014
Peoples' Leasing and Finance Company PLC	Unsecured, Redeemable Debentures	1,000/-	-	37,500	-	37,521
Senkadagala Finance PLC	Secured, Redeemable Debentures	1,000/-	50,000	150,000	54,123	162,368
					54,123	199,889

14 LOANS AND ADVANCES TO CUSTOMERS

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Corporate Loans	30,571,614	24,035,973	31,399,562	25,314,493
Retail, SME and Consumer Lending	59,464,335	46,157,688	59,464,334	46,157,687
Housing Loans	1,376,117	1,310,648	1,376,117	1,310,648
Leases	28,936,324	25,695,994	28,936,324	25,695,994
	120,348,390	97,200,303	121,176,337	98,478,822
Less : Allowance for Impairment Losses	(2,060,334)	(1,936,597)	(2,059,784)	(1,936,326)
	118,288,056	95,263,706	119,116,553	96,542,496
Staff Loans	2,596,464	2,491,861	2,596,464	2,491,861
Less : Allowance for Day 1 Difference	(569,952)	(687,308)	(569,952)	(687,308)
	2,026,512	1,804,553	2,026,512	1,804,553
	120,314,568	97,068,259	121,143,065	98,347,049

14.1 Gross Loans and Advances by Currency

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
By Currency				
Sri Lanka Rupee	118,939,511	94,658,368	119,767,458	95,936,888
United States Dollar	3,891,630	4,924,891	3,891,630	4,924,891
Others	113,713	108,905	113,713	108,904
	122,944,854	99,692,164	123,772,801	100,970,683

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14 LOANS AND ADVANCES TO CUSTOMERS (CONTD.)

14.2 Gross Loans and Advances by Product

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
By Product				
Bills of Exchange	39,050	46,132	39,050	46,132
Overdrafts	24,213,353	19,230,866	24,213,353	19,230,866
Term Loans	42,952,414	30,801,884	43,780,362	32,080,405
Staff Loans	2,596,464	2,491,861	2,596,464	2,491,861
Import Loans	6,105,279	4,117,463	6,105,279	4,117,463
Packing Loans	1,782,633	2,313,360	1,782,633	2,313,360
Leases	28,936,324	25,695,994	28,936,324	25,695,994
Credit Cards	13,960,650	12,066,137	13,960,650	12,066,137
Pawning	655,734	1,261,819	655,734	1,261,819
Corporate Debt Securities	1,427,994	1,531,212	1,427,994	1,531,212
Other Advances	274,959	135,436	274,958	135,434
	122,944,854	99,692,164	123,772,801	100,970,683

14.3 Impairment Allowance for Loans and Advances to Customers

14.3.1 Bank

	Corporate Loans LKR '000	Retail, SME and Consumer Lending LKR '000	Housing Loans LKR '000	Leases LKR '000	Total LKR '000
As at 01 January 2014	563,190	903,856	89,286	218,862	1,775,194
Charge/ (Reversal) for the period	151,596	548,391	14,654	442,089	1,156,730
Amounts written off	(342,649)	(545,372)	(8,862)	(98,444)	(995,327)
As at 31 December 2014	372,137	906,875	95,078	562,507	1,936,597
Charge/ (Reversal) for the period	33,753	701,754	(9,171)	189,136	915,472
Amounts written off	(212,120)	(350,035)	-	(229,580)	(791,735)
As at 31 December 2015	193,770	1,258,594	85,907	522,063	2,060,334
Impairment - As at 31 December 2014					
Individual impairment	249,296	79,466	21,274	33,201	383,237
Collective impairment	122,841	827,409	73,804	529,306	1,553,360
	372,137	906,875	95,078	562,507	1,936,597
Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance					
- As at 31 st December 2014	881,548	1,744,776	100,423	532,513	3,259,260
Impairment - As at 31 December 2015					
Individual impairment	126,730	511,693	21,153	2,586	662,162
Collective impairment	67,040	746,901	64,754	519,477	1,398,172
	193,770	1,258,594	85,907	522,063	2,060,334
Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance					
- As at 31 st December 2015	1,888,153	1,578,775	21,153	93,050	3,581,131

NOTES TO THE FINANCIAL STATEMENTS

14 LOANS AND ADVANCES TO CUSTOMERS (CONTD.)

14.3 Impairment Allowance for Loans and Advances to Customers (Contd.)

14.3.2 Group

	Corporate Loans	Retail, SME and Consumer Lending	Housing Loans	Leases	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
As at 01 January 2014	562,239	903,856	89,286	218,862	1,774,243
Charge/ (Reversal) for the year	152,276	548,390	14,655	442,088	1,157,409
Amounts written off	(342,649)	(545,372)	(8,862)	(98,443)	(995,326)
As at 31 December 2014	371,866	906,874	95,079	562,507	1,936,326
Charge/ (Reversal) for the year	33,474	701,754	(9,171)	189,136	915,193
Amounts written off	(212,120)	(350,035)	-	(229,580)	(791,735)
As at 31 December 2015	193,220	1,258,593	85,908	522,063	2,059,784
Impairment - As at 01 January 2014					
Individual impairment	249,296	79,466	21,275	33,200	383,237
Collective impairment	122,570	827,408	73,804	529,307	1,553,089
	371,866	906,874	95,079	562,507	1,936,326
Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance					
- As at 31 December 2014	881,548	1,744,776	100,423	532,513	3,259,260
Impairment - As at 31 December 2015					
Individual impairment	126,730	511,693	21,153	2,586	662,162
Collective impairment	66,490	746,900	64,755	519,477	1,397,622
	193,220	1,258,593	85,908	522,063	2,059,784
Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance					
- As at 31 December 2015	1,888,153	1,578,775	21,153	93,050	3,581,131

14.3.3 Movement in Individual impairment during the year

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
As at 01 January	383,237	620,978	383,237	620,978
Charge/(Reversal) for the year, net of write-off	278,925	(237,741)	278,925	(237,741)
As at 31 December	662,162	383,237	662,162	383,237

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14 LOANS AND ADVANCES TO CUSTOMERS (CONTD.)

14.4 Rental Receivable on Leases

As at 31 December

	2015				2014			
	Bank / Group				Bank / Group			
	Within 1 year	1 - 5 years	Over 5 years	Total	Within 1 year	1 - 5 years	Over 5 years	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Gross Rentals Receivables	9,798,239	25,835,691	14,570	35,648,500	9,073,355	23,598,388	11,221	32,682,964
Less : Unearned Income	276,990	6,435,020	166	6,712,176	284,481	6,702,198	291	6,986,970
Net Rentals Receivables	9,521,248	19,400,671	14,404	28,936,324	8,788,874	16,896,190	10,930	25,695,994
Less : Allowance for Impairment Losses	-	-	-	522,063	-	-	-	562,507
Total Net Rentals Receivables	9,521,248	19,400,671	14,404	28,414,260	8,788,874	16,896,190	10,930	25,133,487

15 OTHER ASSETS

	Bank		Group	
	2015	2014	2015	2014
	LKR '000	LKR '000	LKR '000	LKR '000
Deposits and Prepayments	427,391	382,926	426,572	375,596
Unamortised Staff Cost	569,952	687,308	569,952	687,308
Other Receivables	342,210	280,638	389,833	356,514
	1,339,553	1,350,872	1,386,357	1,419,418

In the Last year, Items in transit balance represented the unrealized cheques where as the corresponding balance were classified under Other Liabilities. However, in the current year these have been netted off for better presentation, The comparative figures were adjusted accordingly.

16 INVESTMENTS IN SUBSIDIARIES

Unquoted

Name of Company	Country of Incorporation	Bank			
		2015	2014	2015	2014
		Holding	Holding	Cost	Cost
		%	%	LKR '000	LKR '000
Waldock Mackenzie Limited	Sri Lanka	99.99	99.99	-	-
Allied Properties Limited	Sri Lanka	99.99	99.99	652,907	652,907
Nations Insurance Brokers Limited	Sri Lanka	99.99	99.99	25,803	25,803
Net Carrying Amount				678,710	678,710

NOTES TO THE FINANCIAL STATEMENTS

17 PROPERTY, PLANT AND EQUIPMENT

Accounting Policy

Property, plant and equipment is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

The Group reviews its assets' residual values, useful lives and method of depreciation at each reporting date. Judgment by the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

Depreciation is calculated using the straight-line method to write down the cost of property, plant and equipment to their residual values over their estimated useful lives. Lands are not depreciated. The estimated useful lives are as follows:

Buildings	40 years
Motor Vehicles	04 years
Other Equipment	04 -08 years
Computer Hardware	04 years
Furniture and Fittings	08 years
Leasehold Improvements	Over the lease period

Property, plant and equipment is derecognized on disposal or when no future economic benefits are expected from its use. 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 recognized in 'Other Operating Income' or 'Other Operating Expenses' as appropriate in the Statement of Profit or Loss in the year the asset is derecognised.

17 PROPERTY, PLANT AND EQUIPMENT (CONTD.)

17.1

Bank	Land - Freehold		Buildings	Motor Vehicles	Other Equipments	Computer hardware	Furniture, Fixtures and Fittings		Leasehold improvements	Capital Work-In Progress	Total
	LKR. '000	LKR. '000					LKR. '000	LKR. '000			
Gross Carrying Amounts at Cost:											
At 01 January 2014	559,440	-	107,316	25,963	452,325	1,260,548	572,350	214,252	-	-	3,192,194
Additions	-	-	5,161	199	127,231	203,543	102,358	30,326	-	-	468,818
Disposals	-	-	-	(2,225)	-	(2,627)	(733)	-	-	-	(5,585)
Reclassification *	-	-	-	-	-	277	126	(126)	-	-	277
At 31 December 2014	559,440	-	112,477	23,937	579,556	1,461,741	674,101	244,452	-	-	3,655,704
Additions	-	-	2,902	-	50,029	119,598	40,328	28,180	-	-	241,037
Disposals	-	-	-	(3,038)	(477)	(24,264)	(1,895)	-	-	-	(29,674)
Reclassification *	-	-	-	-	-	44,576	-	-	-	-	44,576
Transfer	-	-	-	-	(17)	170	-	-	-	-	153
Capital WIP Additions	-	-	-	-	-	-	-	-	32,057	-	32,057
At 31 December 2015	559,440	-	115,379	20,899	629,091	1,601,821	712,534	272,632	32,057	-	3,943,853
Depreciation											
At 01 January 2014	-	-	30,212	18,956	233,271	951,467	275,243	137,619	-	-	1,646,768
Charge for the year	-	-	2,430	4,058	62,766	134,175	67,044	24,771	-	-	295,244
Disposals	-	-	-	(2,225)	-	(2,570)	(518)	-	-	-	(5,313)
Reclassification *	-	-	2	-	-	1,149	-	(2)	-	-	1,149
At 31 December 2014	-	-	32,644	20,789	296,037	1,084,221	341,769	162,388	-	-	1,937,848
Charge for the year	-	-	2,592	2,733	75,351	179,450	74,899	26,449	-	-	361,474
Disposals	-	-	-	(3,038)	(474)	(24,261)	(1,815)	-	-	-	(29,588)
Reclassification *	-	-	-	-	-	1,591	-	-	-	-	1,591
Transfer	-	-	-	-	-	80	-	-	-	-	80
At 31 December 2015	-	-	35,236	20,484	370,914	1,241,081	414,853	188,837	-	-	2,271,405
Net book value:											
At 01 January 2014	559,440	-	77,104	7,007	219,054	309,081	297,107	76,633	-	-	1,545,426
At 31 December 2014	559,440	-	79,833	3,148	283,519	377,520	332,332	82,064	-	-	1,717,856
At 31 December 2015	559,440	-	80,143	415	258,177	360,740	297,681	83,795	32,057	-	1,672,448

During the financial year, the Bank acquired Property, Plant and Equipment to the aggregate value of LKR. 241 Mn (2014 - LKR 468.8 Mn). Cash payments amounting to LKR 291 Mn (2014 - LKR 479.6 Mn) were made during the year for purchase of Property, Plant and Equipment.

Property, Plant and Equipment includes fully depreciated assets having a gross carrying amount of LKR 1,340.4 Mn (2014 - LKR 1,116.89 Mn).

* During the year items were reclassified under Computer Hardware from Computer Software

NOTES TO THE FINANCIAL STATEMENTS

17 PROPERTY, PLANT AND EQUIPMENT (CONTD.)

17.2 Group	Land - Freehold	Land - Leasehold	Buildings	Motor Vehicles	Other Equipments	Computer hardware	Furniture, Fixtures and Fittings	Leasehold Improvements	Capital Work-In Progress	Total
	LKR. '000	LKR. '000	LKR. '000	LKR. '000	LKR. '000	LKR. '000	LKR. '000	LKR. '000	LKR. '000	LKR. '000
Gross Carrying Amounts at Cost:										
At 01 January 2014	707,440	-	548,373	26,133	453,828	1,268,529	573,818	214,251	-	3,792,372
Additions	-	-	6,369	199	127,327	204,293	102,368	30,326	-	470,882
Disposals	-	-	-	(2,225)	-	(2,627)	(735)	-	-	(5,587)
Reclassification *	(148,000)	148,000	-	-	-	277	126	(126)	-	277
At 31 December 2014	559,440	148,000	554,742	24,107	581,155	1,470,472	675,577	244,451	-	4,257,944
Additions	-	-	7,146	-	51,988	120,402	41,693	28,180	-	249,409
Disposals	-	-	-	(3,038)	(1,265)	(24,294)	(1,920)	-	-	(30,517)
Reclassification *	-	-	(668)	-	2,447	42,195	602	-	-	44,576
Transfer	-	-	-	-	17	(170)	-	-	-	(153)
Capital WIP Additions	-	-	-	-	-	-	-	-	32,057	32,057
At 31 December 2015	559,440	148,000	561,220	21,069	634,342	1,608,605	715,952	272,631	32,057	4,553,316
Depreciation										
At 01 January 2014	-	-	118,093	19,124	234,512	958,731	275,852	137,617	-	1,743,929
Charge for the year	-	16,883	13,477	4,058	62,805	134,560	67,199	24,771	-	323,753
Disposals	-	-	-	(2,225)	-	(2,570)	(518)	-	-	(5,313)
Reclassification *	-	-	2	-	-	1,149	-	(2)	-	1,149
At 31 December 2014	-	16,883	131,572	20,957	297,317	1,091,870	342,533	162,386	-	2,063,518
Charge for the year	-	1,893	13,731	2,733	75,605	179,802	75,238	26,449	-	375,451
Disposals	-	-	-	(3,038)	(1,262)	(24,371)	(1,840)	-	-	(30,511)
Reclassification *	-	-	-	-	2,317	(726)	-	-	-	1,591
Transfer	-	-	-	-	-	80	-	-	-	80
At 31 December 2015	-	18,776	145,303	20,652	373,977	1,246,655	415,931	188,835	-	2,410,129
Net book value:										
At 01 January 2014	707,440	-	430,280	7,009	219,316	309,797	297,966	76,634	-	2,048,442
At 31 December 2014	559,440	131,117	423,170	3,150	283,838	378,602	333,044	82,065	-	2,194,425
At 31 December 2015	559,440	129,224	415,917	417	260,365	361,950	300,021	83,796	32,057	2,143,187

During the financial year, the Group acquired Property, Plant and Equipment to the aggregate value of LKR 249.4 Mn (2014- LKR 470.9 Mn). Cash payments amounting to LKR 307 Mn (2014- LKR 474.8 Mn) were made during the year for purchase of Property, Plant and Equipment.
Property, Plant and Equipment includes fully depreciated assets having a gross carrying amount of LKR 1,348.7 Mn (2014- LKR 1,125.17 Mn).

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18 INTANGIBLE ASSETS

Accounting Policy

The Group's intangible assets include the cost of computer software and Licenses.

An intangible asset is recognised 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 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 amortisation and any accumulated impairment losses.

Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is presented as a separate line item in the Profit or Loss.

Amortization is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives of 7-10 years, for computer software and license fees.

18.1 Bank

	Computer Software LKR '000	Other License Fees LKR '000	Total LKR '000
Cost			
At 01 January 2014	984,549	486,793	1,471,342
Additions	774,563	-	774,563
Disposals	(180,976)	(155,505)	(336,481)
Reclassifications	(277)	-	(277)
At 31 December 2014	1,577,859	331,288	1,909,147
Additions	235,300	-	235,300
Disposals	(49,697)	-	(49,697)
Reclassifications*	(44,576)	-	(44,576)
At 31 December 2015	1,718,886	331,288	2,050,174
Amortisation			
At 01 January 2014	540,279	265,933	806,212
Disposals	135,428	33,129	168,557
Charge for the year	(180,976)	(155,505)	(336,481)
Reclassifications	(277)	-	(277)
At 31 December 2014	494,454	143,557	638,011
Charge for the year	204,617	33,129	237,746
Disposals	(38,087)	-	(38,087)
Reclassifications	(1,591)	-	(1,591)
At 31 December 2015	659,393	176,686	836,079
Net Book Value			
At 01 January 2014	444,270	220,860	665,130
At 31 December 2014	1,083,405	187,731	1,271,137
At 31 December 2015	1,059,493	154,602	1,214,095

During the financial year, the Bank acquired Intangible Assets to the aggregate value of LKR 235.3 Mn (2014- LKR 774.6 Mn). Cash payments amounting to LKR 322 Mn (2014- LKR 858.9 Mn) were made during the year for purchase of Intangible Assets.

NOTES TO THE FINANCIAL STATEMENTS

18 INTANGIBLE ASSETS (CONTD.)

18.2 Group

	Computer Software	Other License Fees	Total
	LKR '000	LKR '000	LKR '000
Cost			
At 01 January 2014	1,004,079	486,793	1,490,872
Additions	774,565	-	774,565
Disposals	(180,976)	(155,505)	(336,481)
Reclassifications	(277)	-	(277)
At 31 December 2014	1,597,391	331,288	1,928,679
Additions	237,143	-	237,143
Disposals	(49,697)	-	(49,697)
Reclassifications*	(44,576)	-	(44,576)
At 31 December 2015	1,740,261	331,288	2,071,549
Amortisation			
At 01 January 2014	544,934	265,933	810,867
Disposals	138,219	33,129	171,348
Charge for the year	(180,976)	(155,505)	(336,481)
Reclassifications	(277)	-	(277)
At 31 December 2014	501,900	143,557	645,457
Charge for the year	208,482	33,129	241,611
Disposals	(38,087)	-	(38,087)
Reclassifications	(1,591)	-	(1,591)
At 31 December 2015	670,704	176,686	847,390
Net Book Value			
At 01 January 2014	459,145	220,860	680,005
At 31 December 2014	1,095,491	187,731	1,283,223
At 31 December 2015	1,069,557	154,602	1,224,159

During the financial year, the Group acquired Intangible Assets to the aggregate value of LKR 237.1 Mn (2014- LKR 774.6 Mn). Cash payments amounting to LKR 325 Mn (2014- LKR 858.9 Mn) were made during the year for purchase of Intangible Assets.

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19 DUE TO BANKS

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Money Market Borrowing	2,169,060	2,523,348	2,169,060	2,523,348
Deposits from Other Banks	106,780	399,436	106,780	399,436
	2,275,840	2,922,784	2,275,840	2,922,784

20 DUE TO CUSTOMERS

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
20.1 Due to Customers - By Products				
Demand Deposits	15,014,444	16,018,845	14,931,758	15,982,067
Savings Deposits	26,758,717	21,056,451	26,758,717	21,056,451
Call Deposits	275,130	365,849	275,130	365,849
Fixed Deposits	84,800,820	71,846,374	84,800,820	71,846,374
Certificate of Deposits	2,391,765	1,758,927	2,391,765	1,758,927
	129,240,876	111,046,446	129,158,190	111,009,668
20.2 Due to Customers - By Currency				
Sri Lanka Rupee	113,124,574	93,784,974	113,041,888	93,748,195
United States Dollar	12,171,177	13,496,457	12,171,177	13,496,457
Sterling Pound	1,824,662	1,887,759	1,824,662	1,887,759
Others	2,120,463	1,877,256	2,120,463	1,877,257
	129,240,876	111,046,446	129,158,190	111,009,668

21 DEBT ISSUED AND OTHER BORROWED FUNDS

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
21.1 Senior Debt				
US Dollar 15 Mn (US Dollar 7.5 Mn - 2014) Loan (Note 21.4)	2,183,069	992,618	2,183,069	992,618
	2,183,069	992,618	2,183,069	992,618
21.2 Subordinated Debt				
US Dollar 13 Mn - Loan 2 (Note 21.4)	1,892,023	1,727,760	1,892,023	1,727,760
Rated, Unsecured, Redeemable Debentures (Note 21.5)	5,076,108	5,067,273	5,077,032	5,069,548
	6,968,131	6,795,033	6,969,055	6,797,308
21.3 Other Borrowings				
Refinance Borrowings	10,570	760	10,570	760
Other Short Term Borrowings	3,811,060	1,896,846	3,811,060	2,398,762
	3,821,630	1,897,606	3,821,630	2,399,522
	12,972,830	9,685,257	12,973,754	10,189,448

NOTES TO THE FINANCIAL STATEMENTS

21 DEBT ISSUED AND OTHER BORROWED FUNDS (CONTD.)

21.4 Senior / Subordinated Debt

These borrowings are from Foreign Development Finance Institutions with an original maturity of 5 years. Interest is payable on a variable base with a fixed spread.

21.5 Details of Subordinated Debentures Issued by the Bank

Issued Date	Face Value 2015 / 2014 LKR '000	Coupon Rate	Interest Terms	Maturity Date	Amortised Cost Bank		Amortised Cost Group		Interest rate of Comparable Government Security	
					2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000	2015 %	2014 %
29-Aug-11	1,525,000	11.50%	Semi - Annually	29-Aug-16	1,593,927	1,588,884	1,594,851	1,591,159	6.84	6.42
29-Aug-11	200,000	11.00%	Semi - Annually	29-Aug-16	209,041	209,452	209,041	209,452	6.84	6.42
29-Aug-11	275,000	11.50%	Semi - Annually	29-Aug-16	285,830	285,830	285,830	285,830	6.84	6.42
19-Dec-13	3,000,000	13.00%	Semi - Annually	19-Dec-18	2,987,310	2,983,107	2,987,310	2,983,107	9.03	7.14
	5,000,000				5,076,108	5,067,273	5,077,032	5,069,548		

Ratios of Debt - Bank

	2015	2014
* Debt / Equity Ratio %	49.81%	52.53%
Interest Cover (Times)	6.16	6.08

*Debt includes only the subordinated debt as at 31 December 2015.

21.6 All the liabilities were issued by Nations Trust Bank PLC, except when otherwise indicated. The Bank has not had any defaults of principal, interest or other breaches with regard to any liabilities as of 31 December 2015.

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22 OTHER LIABILITIES

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Accounts Payable and Sundry Creditors	1,131,081	1,174,862	1,141,564	1,189,113
Obligations under Financial Guarantees (Note 22.1)	33,748	43,612	33,748	43,612
Margin Balances	287,380	391,548	287,380	391,548
Pay Orders	1,452,627	1,036,849	1,452,627	1,439,878
Employee Benefit Liability (Note 22.2)	385,568	368,816	390,244	374,175
Others	1,688,517	1,380,806	1,758,496	1,033,778
	4,978,921	4,396,493	5,064,059	4,472,104

In the Last year, Items in transit balance represented the unrealized cheques where as the corresponding balance were classified under Other Liabilities. However in the current year these have been netted off for better presentation, The comparative figures were adjusted accordingly.

22.1 The movement in 'Obligations under Financial Guarantees' during the year is as follows:

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
As at 01 January	43,612	29,247	43,612	29,247
Arising during the Year	(189,088)	(162,038)	(189,088)	(162,038)
Utilized	179,224	176,403	179,224	176,403
As at 31 December	33,748	43,612	33,748	43,612

22.2 Employee Benefit Liability

Accounting Policy

(i) Defined Contribution Plans - Employees' Provident Fund and Employees' Trust Fund

Employees are eligible for Employees' Provident Fund and Employees' Trust Fund contributions in line with respective statutes and regulations.

The Bank and its subsidiaries except for Nations Insurance Brokers Limited contribute 12% of gross emoluments of employees to an approved private Provident Fund managed by Nations Trust Bank PLC and 3% gross emoluments of employees to the Employees' Trust Fund respectively.

Nations Insurance Brokers Limited contributes 12% and 3% of gross emoluments of employees to the Employees' Provident Fund and the Employees' Trust Fund respectively.

(ii) Defined Benefit Plan - Gratuity

The Group measures the present value of the retirement benefits of gratuity which is a defined benefit plan using the projected unit credit method as recommended by revised LKAS 19 "Employee benefits" and resulting actuarial gain/loss is recognized in full in the Other Comprehensive Income (OCI).

The actuarial valuation involves making assumptions about discount rate, expected rates of return on assets, future salary increases and mortality rates due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

NOTES TO THE FINANCIAL STATEMENTS

22 OTHER LIABILITIES (CONTD.)

22.2 Employee Benefit Liability (Contd.)

Accordingly, the employee benefit liability is based on the actuarial valuation as of 31 December 2015, carried out by Messrs' Actuarial and Management Consultants (Private) Limited, actuaries.

The gratuity liability is not externally funded.

The key assumptions used by the actuary include the following:

	2015	2014
Rate of Interest	10.0%	8.5%
Rate of Salary Increase	8.0%	8.0%
Retirement Age	55-60 years	55-60 years

22.2.1 Net benefit expense categorized under personnel expenses:

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Interest Cost	31,349	33,431	31,805	34,191
Current Service Cost	48,811	49,092	49,382	49,798
	80,160	82,523	81,187	83,989

22.2.2 Changes in the present value of the Retirement Benefit Plan are as follows:

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
As at 01 January	368,816	303,921	374,175	310,825
Interest Cost	31,349	33,431	31,805	34,191
Current Service Cost	48,811	49,092	49,382	49,798
Gratuity Payable	(5,620)	(6,299)	(5,620)	(6,299)
Benefits Paid	(50,284)	(22,075)	(50,743)	(25,323)
Actuarial Loss/(Gains)	(7,504)	10,746	(8,755)	10,983
As at 31 December	385,568	368,816	390,244	374,175

22.2.3 In order to illustrate the significance of the salary escalation rates and discount rates assumed in this valuation a sensitivity analysis for all employees assuming the above is as follows:

Group 2015				Group 2014			
Salary Escalation Rate	Discount Rate	PVDBO LKR '000	Effect on Other Comprehensive Income LKR '000	Salary Escalation Rate	Discount Rate	PVDBO LKR '000	Effect on Other Comprehensive Income LKR '000
8.0%	11.0%	370,762	19,482	8.0%	9.5%	352,791	21,384
8.0%	9.0%	411,866	(21,622)	8.0%	7.5%	398,182	(24,007)
9.0%	10.0%	413,787	(23,543)	9.0%	8.5%	399,781	(25,605)
7.0%	10.0%	368,717	21,527	7.0%	8.5%	350,996	23,179

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22 OTHER LIABILITIES (CONTD.)

22.2 Employee Benefit Liability (Contd.)

22.2.4 Average Future working Life Time as per the assumptions made in year 2015: 5.58 years (Year 2014: 7.11 years).

22.2.5 Group Maturity Profile of the Defined Benefit Obligation as at 31 December 2015

Future Working Life Time	Defined Benefit Obligation LKR '000
Within the next 12 months	60,860
Between 1 - 2 years	89,999
Between 2 - 5 years	89,498
Between 5 - 10 years	91,450
Beyond 10 years	58,437
	390,244

Weighted Average duration of Defined Benefit Obligation is 3.36 years.

23. TAXES

Accounting Policy

23.1 Current Tax

Current tax assets and liabilities for the current and prior year are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Nations Trust Bank PLC

Income tax on profit from the Domestic Banking Unit and on-shore operations of the Foreign Currency Banking Unit is calculated at the rate of 28%.

Subsidiary - Waldock Mackenzie Limited

Income tax on profit from operations is calculated at the rate of 28%.

Subsidiary - Allied Properties Limited

In terms of a BOI Agreement, the Company enjoys a concessionary tax rate of 2% on its turnover for a period of 15 years commencing from 01 April 2007. Income tax on profit from other sources of income is calculated at 28%.

Subsidiary - Nations Insurance Brokers Limited

Income tax on profit from operations is calculated at the rate of 28%.

23.2 Deferred tax

Deferred tax is provided on temporary differences at the reporting date 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 deferred tax liability arises from the initial recognition of goodwill or 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.
- in respect of taxable temporary differences associated with investments in subsidiaries, 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.

NOTES TO THE FINANCIAL STATEMENTS

23 TAXES (CONTD.)

23.2 Deferred tax (Contd.)

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 profit 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;
- in respect of deductible temporary differences associated with investments in subsidiaries, 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 profit 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 profit 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 profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in 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 reporting date.

Deferred tax assets (DTA) and deferred tax liabilities (DTL) are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Bank	2015				2014			
	01/01/15	Recognised	Recognised	31/12/2015	01/01/14	Recognised	Recognised	31/12/2014
	DTL/(DTA)	in P&L	in OCI	DTL/(DTA)	DTL/(DTA)	in P&L	in OCI	DTL/(DTA)
LKR. '000	LKR. '000	LKR. '000	LKR. '000	LKR. '000	LKR. '000	LKR. '000	LKR. '000	LKR. '000
Accelerated depreciation allowances for tax purposes-property plant and equipment and Intangible assets	214,868	42,931	-	257,799	135,981	78,887	-	214,868
Accelerated depreciation allowances for tax purposes- lease rentals receivable	531,464	344,107	-	875,571	362,158	169,306	-	531,464
Net gains on re-measuring of available -for-sale financial assets	43,516	-	(15,017)	28,499	-	-	43,516	43,516
Carry forward Tax losses on Lease Business	(83,417)	(164,089)	-	(247,506)	-	(83,417)	-	(83,417)
Adjustment due to change in Accounting base and tax base on adopting SLFRS	(71,278)	-	-	(71,278)	(71,278)	-	-	(71,278)
Retirement Benefit Plan -Gratuity	(105,032)	(6,601)	2,101	(109,532)	(85,098)	(16,925)	(3,009)	(105,032)
Specific provision for loans & advances & lease rentals receivables	(115,068)	115,068	-	-	-	(115,068)	-	(115,068)
Total Timing Difference	415,053	331,416	(12,916)	733,553	341,763	32,783	40,507	415,053

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23 TAXES (CONTD.)

23.2 Deferred tax (Contd.)

Group	2015				2014			
	01/01/15	Recognised	Recognised	31/12/2015	01/01/14	Recognised	Recognised	31/12/2014
	DTL/(DTA)	in P&L	in OCI	DTL/(DTA)	DTL/(DTA)	in P&L	in OCI	DTL/(DTA)
	LKR. '000	LKR. '000	LKR. '000	LKR. '000	LKR. '000	LKR. '000	LKR. '000	LKR. '000
Accelerated depreciation allowances for tax purposes-property plant and equipment and Intangible assets	214,623	42,960	-	257,583	135,912	78,711	-	214,623
Accelerated depreciation allowances for tax purposes- lease rentals receivable	531,464	344,107	-	875,571	362,157	169,307	-	531,464
Net gains on re-measuring of available -for-sale financial assets	43,515	-	(15,017)	28,498	-	-	43,515	43,515
Carry forward Tax losses on Lease Business	(83,417)	(164,088)	-	(247,505)	-	(83,417)	-	(83,417)
Adjustment due to change in Accounting base and tax base on adopting SLFRS	(71,278)	-	-	(71,278)	(71,278)	-	-	(71,278)
Retirement Benefit Plan -Gratuity	(106,364)	(6,355)	2,429	(110,290)	(86,195)	(17,027)	(3,142)	(106,364)
Specific provision for loans & advances & lease rentals receivables	(115,068)	115,068	-	-	-	(115,068)	-	(115,068)
Total Timing Difference	413,475	331,692	(12,588)	732,579	340,596	32,506	40,373	413,475

23.3 Deferred tax has been determined based on the effective tax rate of 28% .

24 STATED CAPITAL

Ordinary Shares	Bank /Group		Bank /Group	
	2015		2014	
Issued and fully paid	Number	LKR '000	Number	LKR '000
As at 01 January	230,607,283	5,101,369	230,607,283	5,101,369
As at 31 December	230,607,283	5,101,369	230,607,283	5,101,369

25 STATUTORY RESERVE FUND

25.1 Statutory reserve fund is maintained as per the requirement in terms of Section 20 of the Banking Act No 30 of 1988. Accordingly, a sum equivalent to 5% of profit after tax is transferred to the reserve fund until reserve fund is equal to 50% of the Bank's Stated Capital. Thereafter a further 2% of profits will be transferred until the said reserve fund is equal to the Bank's stated Capital.

25.2 Movement in Statutory Reserve Fund

	Bank		Group	
	2015	2014	2015	2014
	LKR '000	LKR '000	LKR '000	LKR '000
As at 01 January	538,205	419,305	538,205	419,305
Transfers during the year (Note 26)	122,635	118,900	122,635	118,900
As at 31 December	660,840	538,205	660,840	538,205

NOTES TO THE FINANCIAL STATEMENTS

26 RETAINED EARNINGS

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
As at 01 January	7,037,084	4,183,983	8,143,054	5,067,107
Charge relating to Super Gain Tax (Note 47)	(733,572)	-	(820,512)	-
Total Comprehensive Income	2,458,093	2,370,256	2,620,317	2,528,740
Dividend Paid	(484,275)	(484,275)	(484,275)	(484,275)
Transfers from Investment Fund Account (Note 27.2.2)	-	1,086,020	-	1,150,382
Transfers to Reserve Fund (Note 25.2)	(122,635)	(118,900)	(122,635)	(118,900)
As at 31 December	8,154,695	7,037,084	9,335,949	8,143,054

27 OTHER RESERVES

27.1 Available for Sale Reserve

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
As at 01 January	111,897	-	111,897	-
Net unrealized gain / (loss) on available-for-sale financial instruments	(38,615)	111,897	(38,615)	111,897
As at 31 December	73,282	111,897	73,282	111,897

27.2 Investment Fund Account (IFA Reserve)

27.2.1 Investment Fund Account is established and operated based on the Guidelines on the Operations of the Investment Fund Account issued by the Central Bank of Sri Lanka on 29 April 2011 with the concurrence of the Commissioner - General of Inland Revenue. However, the operations of Investment Fund Account (IFA) was ceased from 01 October 2014. Accordingly, as per Central Bank guidelines dated 31 July 2014 the remaining balance in IFA account was transferred to retained earnings through the Statement of Changes in Equity.

27.2.2 Tax saving on the reduction of tax rates are transferred to the Investment Fund as per the guidelines issued by Central Bank of Sri Lanka. Loans amounting to LKR 660 Mn (2014 : 988 Mn) were outstanding under this scheme.

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
As at 01 January	-	1,086,020	-	1,150,382
Transfers during the year	-	(1,086,020)	-	(1,150,382)
As at 31 December	-	-	-	-

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28 REVENUE RECOGNITION

Accounting Policy

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

(i) Interest Income and Expense

For all financial instruments interest income or expense is recorded using the EIR. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest Income' for financial assets and 'Interest Expense' for financial liabilities.

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

(ii) Fee and Commission Income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Credit related fees are deferred and recognized as an adjustment to the EIR of the loan.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

(iii) Dividend Income

Dividend income is recognized when the Group's right to receive the payment is established which is generally when the shareholders approve the dividend.

(iv) Net Trading Income

Results arising from trading activities include all gains and losses from changes in fair value.

(v) Rental Income

Rental income is recognized on an accrual basis.

(vi) Other Income

Other income is recognized on an accrual basis.

(vii) Other Expenses

All other expenses have been recognized in the Financial Statements as they are incurred in the period to which they relate. All expenditure incurred in the operation of the business and in maintaining the capital assets in a state of efficiency has been charged to revenue in arriving at the Group's profit for the year.

NOTES TO THE FINANCIAL STATEMENTS

29 INTEREST INCOME AND INTEREST EXPENSE

29.1 Interest Income

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Reverse Repurchase Agreements	214,343	216,360	214,343	216,360
Due from Banks	42,561	4,282	42,561	4,282
Loans and Advances to Customers	13,029,182	12,462,564	13,133,826	12,599,168
Financial Assets - Held for Trading	718,786	1,883,705	722,302	1,924,170
Financial Assets - Available for Sale	951,885	33,988	951,885	33,988
Financial Assets - Held to Maturity	1,151,099	2,074,059	1,159,214	2,081,792
Other Financial Assets	274,864	180,742	274,864	180,742
Interest Income accrued on Impaired Financial Assets	129,054	411,959	129,055	411,959
	16,511,774	17,267,659	16,628,050	17,452,461

Interest Income from government securities earned during the year 2015 amounts to LKR 2,964 Mn (2014: LKR 4,092 Mn) and the Group LKR 2,975 Mn (2014: LKR 4,193 Mn). These Government Securities include; Treasury Bills, Treasury Bonds and Sri Lanka Development Bonds.

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
29.2 Interest Expense				
Due to Banks	64,725	24,764	64,725	24,764
Repurchase Agreements	807,773	1,182,890	779,901	1,217,196
Due to Customers	5,719,352	6,405,093	5,719,352	6,399,475
Debt Issued and Other Borrowed Funds	951,744	907,405	957,710	868,920
Others	1	1,021	1,178	2,358
	7,543,595	8,521,173	7,522,866	8,512,713

30 NET FEES AND COMMISSION INCOME

30.1 Fees and Commission Income

Portfolio and Other Management Fees	-	23,759	4,779	26,988
Credit Card Related Fees and Commissions	2,229,160	1,876,051	2,228,864	1,875,788
Commission on Trade Finance Facilities & Remittances	388,713	363,407	388,713	363,407
Commission on Services-Loans	337,335	313,642	337,335	313,642
Commission on Services-Deposits	259,473	240,284	259,473	240,284
Other Fees	86,621	45,125	218,366	187,975
	3,301,302	2,862,268	3,437,530	3,008,084

30.2 Fees and Commission Expenses

Brokerage Fees	(16,482)	(40,002)	(16,482)	(40,002)
Credit Related Fees	(213,361)	(184,574)	(219,773)	(184,574)
	(229,843)	(224,576)	(236,255)	(224,576)
	3,071,459	2,637,692	3,201,275	2,783,508

31 NET TRADING INCOME / (LOSS)

	Bank		Group	
	2015	2014	2015	2014
	LKR '000	LKR '000	LKR '000	LKR '000
Unrealized -Gains on Foreign exchange forward contracts	538,925	473,797	538,925	473,797
Realised Gains on Foreign exchange forward contracts	(212,587)	(578,685)	(212,587)	(578,685)
Net Gain/(Loss) on retranslation of account balances	(187,080)	133,957	(187,080)	133,957
Net Foreign Exchange Gains	139,258	29,069	139,258	29,069
Profit /(Losses) on Sale of Securities	(1,066)	101,927	(1,066)	101,927
Other Trading	(230,539)	(7,357)	(232,125)	(19,626)
	(92,347)	123,639	(93,933)	111,370

Other Trading includes the impact of fair value changes due to movement in the financial assets recorded as held for trading.

32 OTHER OPERATING INCOME

	Bank		Group	
	2015	2014	2015	2014
	LKR '000	LKR '000	LKR '000	LKR '000
Dividend Income	19,377	12,521	1,827	1,271
Non-Trading Foreign Exchange Income	7,183	33,318	7,183	33,318
Recovery of Loans Written -Off	139,358	146,721	139,358	146,721
Others	158,440	100,586	158,513	100,587
	324,358	293,146	306,881	281,897

33 IMPAIRMENT CHARGE FOR LOANS AND ADVANCES AND AVAILABLE FOR SALE ON FINANCIAL ASSETS

	Bank		Group	
	2015	2014	2015	2014
	LKR '000	LKR '000	LKR '000	LKR '000
Loans and Advances to Customers				
Corporate Loans	33,753	151,595	33,474	152,274
Retail SME and Consumer Lending	701,754	548,390	701,754	548,390
Housing Loans	(9,171)	14,656	(9,171)	14,656
Leases	189,136	442,089	189,136	442,089
	915,472	1,156,730	915,193	1,157,409
Direct Write off on others				
- Available for Sale and charges receivable	70,285	24,330	70,285	24,330
	985,757	1,181,060	985,478	1,181,739

NOTES TO THE FINANCIAL STATEMENTS

34 PERSONNEL EXPENSES

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Salaries	1,628,307	1,443,599	1,647,962	1,466,031
Employee Benefits - Defined Contribution Plan	241,867	215,488	244,698	218,686
Employee Benefits - Defined Benefit Plan	80,160	82,523	81,187	83,989
Amortisation of Staff Loan Day 1 Difference	49,882	66,823	49,882	66,823
Other Allowances	856,318	856,697	859,404	864,869
	2,856,534	2,665,130	2,883,133	2,700,398

35 OTHER OPERATING EXPENSES

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Operating Lease Expenses	316,223	262,110	245,510	221,160
Professional Fees	25,877	19,359	26,294	19,792
Auditors Fees and Expenses	9,332	8,433	11,175	10,234
Non Audit fees and Expenses to Auditors	3,780	1,118	3,780	1,118
Legal Fees	12,287	10,257	12,287	10,257
Transport	151,463	152,710	152,539	154,170
Office Administration & Establishment	2,877,854	2,712,671	2,910,035	2,751,127
	3,396,816	3,166,658	3,361,620	3,167,858

36 VALUE ADDED TAX (VAT) AND NATIONS BUILDING TAX (NBT) ON FINANCIAL SERVICES

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Value Added Tax (VAT)	636,257	619,071	646,061	634,357
Nations Building Tax (NBT)	118,773	107,505	120,651	110,117
	755,030	726,576	766,712	744,474

37 INCOME TAX EXPENSE

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
37.1 Amounts recognised in profit or loss				
The component of Income Tax expense for years ended 31 December 2015 & 2014 are ;				
Current Tax				
Current Income Tax on Profit for the Year (Note 37.2)	1,009,254	1,186,962	1,072,835	1,256,617
10% Withholding Tax on Subsidiary Dividend	-	-	1,950	1,250
Over Provision in Respect of Prior Years	(115,068)	-	(115,068)	-
Deferred Tax				
Charge for Deferred Tax	331,416	32,783	331,692	32,506
	1,225,602	1,219,745	1,291,409	1,290,373
Effective Income Tax Rate	33.32%	33.90%	33.07%	33.72%

37.2 Reconciliation of Accounting Profit and Taxable Income

A reconciliation between the tax expense and the accounting profit multiplied by Government of Sri Lanka's tax rate for the years ended 31 December 2015 and 2014 is as follows.

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Accounting Profit (Profit before Taxation)	3,678,292	3,597,738	3,905,400	3,826,953
Add: Disallowable Expenses	12,625,590	10,195,838	12,642,641	10,218,315
	16,303,882	13,793,576	16,548,041	14,045,268
Less: Allowable Expenses	(12,369,642)	(9,348,508)	(12,404,276)	(9,362,682)
Less: Exempt Income	(329,760)	(205,918)	(312,211)	(194,668)
Statutory Income	3,604,480	4,239,150	3,831,554	4,487,918
Taxable Income	3,604,480	4,239,150	3,831,554	4,487,918
Current Income Tax Expense for the year	1,009,254	1,186,962	1,072,835	1,256,617

The Group Tax expense is based on the taxable profit of each Company, since at present the tax laws do not provide for Group Taxation.

NOTES TO THE FINANCIAL STATEMENTS

38 BASIC / DILUTED EARNINGS PER SHARE

Basic Earnings Per Share is calculated by dividing the net profit for the year attributable to Ordinary Shareholders of the Bank by the weighted average number of Ordinary Shares in issue during the year.

The following table shows the income and share data used in the basic earnings per share calculation.

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
Amount Used as the Numerator:				
Net Profit Attributable to Ordinary Shareholders (LKR '000)	2,452,690	2,377,993	2,613,991	2,536,580
Number of Ordinary Shares Used as the Denominator:				
Ordinary Shares at the beginning of the year	230,607,283	230,607,283	230,607,283	230,607,283
Weighted Average Number of Ordinary Shares in Issue at the End of the Year	230,607,283	230,607,283	230,607,283	230,607,283
Basic / Diluted Earnings per Ordinary Share - Basic (LKR)	10.64	10.31	11.34	11.00

39 DIVIDENDS PAID AND PROPOSED

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Bank's shareholders. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
39.1 Declared and Paid During the Year				
Dividends on ordinary shares:				
First and Final dividend for 2014 : LKR 2.10 Per Share (2013 : LKR 2.10 per Share)	484,275	484,275	484,275	484,275
	484,275	484,275	484,275	484,275
39.2 Proposed for approval at Annual General Meeting (not recognized as a liability as at 31 December)				
Dividends on ordinary shares:				
First and Final dividend for 2015: LKR 2.10 per Share (2014: LKR 2.10 per share)	484,275	484,275	484,275	484,275

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40 CASH FLOW INFORMATION

	Bank		Group	
	2015 LKR '000	2014 LKR '000	2015 LKR '000	2014 LKR '000
40.1 (Increase)/Decrease in Operating Assets				
Reverse Repurchase Agreements	10,635,826	(9,478,187)	10,196,982	(9,987,629)
Derivative Financial Instruments	(425,977)	(6,562)	(425,977)	(6,562)
Financial Assets-Held for Trading	13,207,746	8,859,817	13,256,330	9,882,306
Financial Assets-Held to Maturity	(2,606,006)	11,784,725	(2,607,273)	11,777,136
Financial Assets-Available for Sale	(12,010,429)	(4,168,576)	(12,010,430)	(4,168,576)
Other Financial Assets	(2,647,131)	(1,610,120)	(2,719,131)	(1,717,111)
Loans and Advances to Customers	(23,961,736)	(16,458,248)	(23,789,092)	(16,521,155)
Other Assets	116,563	393,326	119,434	365,386
	(17,691,144)	(10,683,825)	(17,979,157)	(10,376,205)
40.2 Increase/(Decrease) in Operating Liabilities				
Repurchase Agreements	(4,585,845)	(862,471)	(4,147,000)	(353,029)
Due to Customers	17,684,209	14,938,936	17,652,131	14,952,766
Derivative Financial Instruments	(113,043)	(467,255)	(113,043)	(467,255)
Other Liabilities	558,687	(139,239)	591,071	(163,291)
	13,544,008	13,469,971	13,983,159	13,969,191
40.3 Other Non cash items included in Profit before Tax				
Depreciation of Property, Plant and Equipment	363,065	295,241	358,815	323,160
Amortisation of Intangible Assets	236,155	168,555	236,155	171,348
Provision for Fair Valuation of Trading Portfolio	230,539	(466,439)	232,124	(466,440)
Amortisation of Income generated from Government Securities	(93,994)	(164,213)	(93,994)	(153,686)
Interest Income Accrued on Impaired Financial Assets	(129,055)	(411,960)	(129,055)	(411,960)
Others	-	-	10,413	21,956
	606,710	(578,816)	614,458	(515,622)

41 RELATED PARTY DISCLOSURES

The Bank has carried out transactions with related parties as defined in LKAS 24 - Related Party Disclosures. The pricing applicable to such transactions were based on the assessment of risk and pricing model of the Bank and was comparable with what was applied to transactions between the Bank and such related parties.

41.1 Transactions with Key Management Personnel

Key Management Personnel (KMP) include the Board of Directors of the Bank, Chief Executive Officer of the Bank.

(a) Compensation to Key Management Personnel

	2015 LKR '000	2014 LKR '000
Directors' remuneration and other financial benefits	50,421	65,787
Post Employment Benefits	3,794	6,489
	54,215	72,276

In addition to the salaries the Group also has arranged non cash benefits such as vehicle & insurance to Key Management Personnel in line with approved benefits plan of the Group.

NOTES TO THE FINANCIAL STATEMENTS

41 RELATED PARTY DISCLOSURES (CONTD.)

41.1 Transactions with Key Management Personnel (Contd.)

(b) Transactions, Arrangements and Agreements involving Key Management Personnel

	Key Management Personnel & their Close Family Members (CFM)				Entities in which KMPs and CFMs have control or joint control			
			Maximum Balances				Maximum Balances	
	2015	2014	2015	2014	2015	2014	2015	2014
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Items in the Statement of Financial Position								
Assets								
Loans & Advances	14,141	14,704	16,591	18,218	-	-	-	-
Credit Cards	1,715	1,394	2,483	1,967	-	-	-	-
Liabilities								
Due to Customers	57,504	88,769	57,504	128,943	-	-	-	2,411
Repurchase Agreements	-	35,822	-	35,822	-	-	-	-
Equity								
Dividends paid (Net)	1,073	722	-	-	-	-	-	-
Commitments								
Undrawn Facilities	19,319	3,450	-	-	-	-	-	-
Items in Statement of Profit or Loss								
Interest Income Earned	1,164	1,611	-	-	-	-	-	-
Interest Expenses Paid	625	4,243	-	-	-	60	-	-
Other Income Earned	43	122	-	-	-	-	-	-

41.2 Post-Employment Benefits Plan

The Employees' Private Provident Fund of the Bank is managed by a Committee of Trustees appointed by the members.

The Bank and its subsidiaries have contributed a sum of LKR 195.46 Mn (2014 - LKR 178.07 Mn) to the Fund during the year.

As at 31 December 2015, the Fund has invested a sum of LKR 553.40 Mn (2014 - LKR 409.62 Mn) with the Bank.

During the year, the Bank has incurred a sum of LKR 46.18 Mn (2014 - LKR 29.63 Mn) as interest expense to the Fund out of which a sum of LKR 6.7 Mn (2014 - LKR 6.1 Mn) is payable as of 31 December 2015.

41 RELATED PARTY DISCLOSURES (CONTD.)

41.3 Transactions with Related Entities

Items in the Statement of Financial Position	Subsidiaries *					Significant Investors **					Significant Investor Related Entities ***				
	Maximum Balances					Maximum Balances					Maximum Balances				
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	
LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	
Assets															
Loans & Advances	274,958	135,435	742,639	787,942	423,412	-	423,412	47	-	817	35,007	85,700	42,487	19	
Corporate Credit Cards	-	-	-	-	-	-	-	-	-	-	19	817	-	-	
Reverse Repurchase Agreements	-	-	-	943,862	-	-	-	-	-	-	-	-	-	-	
Derivative Financial Assets	-	-	-	-	-	-	-	-	-	22,708	2,177	-	-	-	
Other Assets	5,922	5,922	-	-	-	-	-	-	-	5,722	37,235	-	-	-	
Liabilities															
Due to Customers	-	-	-	-	2,592,369	34,140	3,226,830	320,994	364,491	286,834	513,308	2,577,867			
Borrowing & Others	548,537	430,975	579,694	710,292	1,543,977	2,104,446	2,918,150	3,882,234	589,315	803,624	681,333	1,132,659			
Other Liabilities/Financial Guarantees	-	-	-	-	-	-	-	-	3,512	3,430	-	-	-	-	
Derivative Financial Liabilities	-	-	-	-	-	-	-	-	162	3,304	-	-	-	-	
Equity															
Dividends paid (Net)	-	-	-	-	283,651	227,231	-	-	-	-	-	-	-	-	
Commitments															
Undrawn Facilities	1,525,098	1,664,565	-	-	189,340	693,106	-	-	150,014	100,347	-	-	-	-	
Letter of Credit / Guarantees	-	-	-	-	230,215	56,894	-	-	26,369	39,147	-	-	-	-	
Forward - Foreign Exchange Contracts	-	-	-	-	-	-	-	-	678,370	488,036	-	-	-	-	
Items in Statement of Profit or Loss															
Interest Income Earned	20,781	94,812	-	-	17,699	108	-	-	3,345	3,219	-	-	-	-	
Interest Expenses Paid	27,872	23,986	-	-	29,589	104,427	-	-	7,144	90,030	-	-	-	-	
Other Income Earned	6,490	6,114	-	-	2,981	2,012	-	-	3,690	37,999	-	-	-	-	
Dividend Received (Gross)	17,550	11,250	-	-	-	-	-	-	-	-	-	-	-	-	
Expenses Paid	41,893	38,364	-	-	40,770	34,650	-	-	58,418	56,865	-	-	-	-	

* Subsidiaries of the Group includes Waldock Maceznie Limited, Allied Properties Limited and Nations Insurance Brokers Limited.

** Significant Investors include John Keells Holdings PLC, Mackinnon Keells Limited, HWIC Asia Fund, Central Finance Company PLC, CF Growth Fund Limited and CF Insurance Brokers (Pvt) Ltd.

*** Significant investor related entities include entities controlled and/or jointly controlled by the significant investors of the Bank and private provident funds of such significant investors.

In addition to the above, the bank has carried out various promotional activities with related entities during the year.

Furthermore, a sum of LKR 5.2 Mn (2014 - LKR 5.5 Mn) and LKR 237 Mn (2014 - 24.8 Mn) is accounted in Nations Insurance Brokers Limited as a receivable and commission income respectively from a subsidiary of a significant investor. This is the only related party transaction at the group level.

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42. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

42.1 As at 31 December 2015

	Bank			Group		
	Within 12 Months LKR'000	After 12 Months LKR'000	Total LKR'000	Within 12 Months LKR'000	After 12 Months LKR'000	Total LKR'000
Assets						
Cash and Cash Equivalents	6,392,393	-	6,392,393	6,392,437	-	6,392,437
Balances with Central Bank of Sri Lanka	5,283,866	-	5,283,866	5,283,866	-	5,283,866
Reverse Repurchase Agreements	302,249	-	302,249	302,249	-	302,249
Derivative Financial Instruments	554,030	-	554,030	554,030	-	554,030
Financial Assets - Held for Trading	2,044,144	-	2,044,144	2,044,144	-	2,044,144
Financial Assets-Available for Sale	16,336,355	196,563	16,532,917	16,336,355	196,563	16,532,917
Financial Assets - Held to Maturity	1,489,160	11,186,556	12,675,717	1,488,273	11,255,490	12,743,763
Other Financial Assets	297,251	6,214,110	6,511,361	297,251	6,214,110	6,511,361
Loans and Advances to Customers	74,685,197	45,629,371	120,314,568	75,513,694	45,629,371	121,143,065
Other Assets	714,197	625,355	1,339,553	761,002	625,355	1,386,357
Investments in Subsidiaries	-	678,710	678,710	-	-	-
Property, Plant and Equipment	-	1,672,448	1,672,448	-	2,143,187	2,143,187
Intangible Assets	-	1,214,095	1,214,095	-	1,224,159	1,224,159
Total Assets	108,098,843	67,417,208	175,516,051	108,973,301	67,288,234	176,261,535
Liabilities						
Due to Banks	2,275,840	-	2,275,840	2,275,840	-	2,275,840
Repurchase Agreements	10,874,122	-	10,874,122	10,405,880	-	10,405,880
Derivative Financial Instruments	53,327	-	53,327	53,327	-	53,327
Due to Customers	119,619,693	9,621,183	129,240,876	119,537,007	9,621,183	129,158,190
Debt Issued and Other Borrowed Funds	5,668,914	7,303,916	12,972,830	5,669,838	7,303,916	12,973,754
Current Tax Liabilities	396,396	-	396,396	426,466	-	426,466
Other Liabilities	4,291,118	687,803	4,978,921	4,361,096	702,963	5,064,059
Deferred Tax Liabilities	-	733,553	733,553	-	732,579	732,579
Total Liabilities	143,179,410	18,346,455	161,525,865	142,729,454	18,360,641	161,090,095
Net	(35,080,569)	49,070,753	13,990,186	(33,756,153)	48,927,593	15,171,440

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42. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTD.)

42.2 As at 31 December 2014

	Bank			Group		
	Within 12 Months LKR'000	After 12 Months LKR'000	Total LKR'000	Within 12 Months LKR'000	After 12 Months LKR'000	Total LKR'000
Assets						
Cash and Cash Equivalents	6,898,881	-	6,898,881	6,899,905	-	6,899,905
Balances with Central Bank of Sri Lanka	3,992,118	-	3,992,118	3,992,118	-	3,992,118
Reverse Repurchase Agreements	11,013,507	-	11,013,507	11,013,507	-	11,013,507
Derivative Financial Instruments	128,053	-	128,053	128,053	-	128,053
Financial Assets - Held for Trading	15,648,717	-	15,648,717	15,700,388	-	15,700,388
Financial Assets-Available for Sale	4,323,960	5,488	4,329,449	4,323,960	5,488	4,329,449
Financial Assets - Held to Maturity	1,310,024	8,276,194	9,586,218	1,310,879	8,342,120	9,653,000
Other Financial Assets	883,976	2,936,770	3,820,746	883,977	2,936,770	3,820,747
Loans and Advances to Customers	62,631,504	34,436,756	97,068,259	63,910,022	34,437,027	98,347,049
Other Assets	-	678,710	678,710	-	-	-
Investments in Subsidiaries	1,597,212	840,593	2,437,804	1,665,758	840,593	2,506,350
Property, Plant and Equipment	-	1,717,856	1,717,856	-	2,194,425	2,194,425
Intangible Assets	-	1,271,137	1,271,137	-	1,283,223	1,283,223
Total Assets	108,427,951	50,163,505	158,591,455	109,828,567	50,039,646	159,868,214
Liabilities						
Due to Banks	2,922,784	-	2,922,784	2,922,784	-	2,922,784
Repurchase Agreements	14,441,926	1,002,280	15,444,206	14,044,282	1,002,280	15,046,562
Derivative Financial Instruments	166,370	-	166,370	166,370	-	166,370
Due to Customers	102,615,522	8,430,924	111,046,446	102,578,744	8,430,924	111,009,668
Debt Issued and Other Borrowed Funds	2,180,155	7,505,101	9,685,257	2,684,346	7,505,101	10,189,448
Current Tax Liabilities	639,359	-	639,359	666,345	-	666,345
Other Liabilities	4,884,128	599,297	5,483,425	4,954,381	604,656	5,559,037
Deferred Tax Liabilities	-	415,053	415,053	-	413,475	413,475
Total Liabilities	127,850,244	17,952,655	145,802,900	128,017,252	17,956,437	145,973,689
Net	(19,422,293)	32,210,850	12,788,555	(18,188,685)	32,083,209	13,894,525

NOTES TO THE FINANCIAL STATEMENTS

43 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value related disclosures for financial instruments that are measured at fair value or where fair values are disclosed, are summarized below:

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The principal or the most advantageous market must be accessible by the Group.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the Financial Statements are categorized within the fair value hierarchy described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the Financial Statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The management determines the policies and procedures for both recurring fair value measurement, such as unquoted AFS financial assets, and for non-recurring measurement.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

43.1 Determination of Fair Value

The fair value for financial instruments traded in active markets at the reporting date is based on their average quoted market price or average dealer price quotations without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison with similar instruments for which market observable prices exist and other relevant valuation models.

43 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

43.2 Assets and Liabilities measured at fair value - Fair Value Hierarchy

The following table shows an analysis of assets and liabilities recorded at fair value by level of the fair value hierarchy in to which the fair value measurement is categorized. The amounts are based on the value recognized in the Statement of Financial Position in the Financial Statements.

Bank	As At 31 December	2015					2014				
		Fair Value Measurement Using					Fair Value Measurement Using				
		Date of Valuation	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Date of Valuation	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000		LKR '000	LKR '000	LKR '000	LKR '000	
Financial Assets											
Derivative Financial Instruments											
	Forward Foreign Exchange Contracts and Currency Swaps	31-Dec-15	-	554,030	-	554,030	31-Dec-14	-	128,053	-	128,053
Financial Assets Held for Trading											
	Government Treasury Bills	31-Dec-15	1,549,415	-	-	1,549,415	31-Dec-14	6,618,490	-	-	6,618,490
	Government Treasury Bonds	31-Dec-15	230,563	264,167	-	494,730	31-Dec-14	8,167,437	862,791	-	9,030,228
Financial Assets Available for Sale											
	Government Treasury Bills	31-Dec-15	6,362,143	-	-	6,362,143	31-Dec-14	2,861,780	-	-	2,861,780
	Government Treasury Bonds	31-Dec-15	9,774,375	199,836	-	9,974,211	31-Dec-14	1,308,791	-	-	1,308,791
	Unquoted Equity Shares	31-Dec-15	-	190,821	5,742	196,563	31-Dec-14	-	153,390	5,488	158,878
	Total Financial Assets		17,916,496	1,208,854	5,742	19,131,092		18,956,498	1,144,234	5,488	20,106,220
Financial Liabilities											
Derivative Financial Instruments											
	Forward Foreign Exchange Contracts and Currency Swaps	31-Dec-15	-	53,327	-	53,327	31-Dec-14	-	166,370	-	166,370
	Total Financial Liabilities		-	53,327	-	53,327		-	166,370	-	166,370

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43 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.) 43.2 Assets and Liabilities measured at fair value - Fair Value Hierarchy (Contd.)

Group	As At 31 December	2015					2014				
		Date of Valuation	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Date of Valuation	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
		LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets											
Derivative Financial Instruments											
	Forward Foreign Exchange Contracts and Currency Swaps	31-Dec-15	-	554,030	-	554,030	31-Dec-14	-	128,053	-	128,053
Financial Assets Held for Trading											
	Government Treasury Bills	31-Dec-15	1,549,415	-	-	1,549,415	31-Dec-14	6,618,490	-	-	6,618,490
	Government Treasury Bonds	31-Dec-15	230,563	264,167	-	494,730	31-Dec-14	8,219,108	862,791	-	9,081,899
Financial Assets Available for Sale											
	Government Treasury Bills	31-Dec-15	6,362,143	-	-	6,362,143	31-Dec-14	2,861,780	-	-	2,861,780
	Government Treasury Bonds	31-Dec-15	9,774,375	199,836	-	9,974,211	31-Dec-14	1,308,791	-	-	1,308,791
	Unquoted Equity Shares	31-Dec-15	-	190,821	5,742	196,563	31-Dec-14	-	153,390	5,488	158,878
Total Financial Assets			17,916,496	1,208,854	5,742	19,131,092		19,008,169	1,144,234	5,488	20,157,891
Financial Liabilities											
Derivative Financial Instruments											
	Forward Foreign Exchange Contracts and Currency Swaps	31-Dec-15	-	53,327	-	53,327	31-Dec-14	-	166,370	-	166,370
Total Financial Liabilities			-	53,327	-	53,327		-	166,370	-	166,370

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43 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

43.2 Assets and Liabilities measured at fair value - Fair Value Hierachy (Contd.)

Reconciliation of the financial assets Available-for-Sale ,classified as "Level 3 " in the fair value hierarchy.

	Bank / Group 2015 LKR '000	Bank / Group 2014 LKR '000
Balance as at 01st January	5,488	5,460
Change in value due to exchange rate fluctuation	254	28
Balance as at 31st December	5,742	5,488

Financial Assets Available for sale , classified as "Level 3" in the fair value hierarchy comprises of Unquoted Equity Shares.
Further details are given in Note 11.1

NOTES TO THE FINANCIAL STATEMENTS

43 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

43.3 Financial Assets and Financial Liabilities not carried at Fair Value

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

Bank	2015										2014														
	Fair Value Measurement Using					Fair Value Measurement Using					Fair Value Measurement Using					Fair Value Measurement Using									
	Quoted		Significant		Significant	Quoted		Significant		Significant	Quoted		Significant		Significant	Quoted		Significant		Significant					
As at 31 December	Prices	in Active	Markets	(Level 1)	(Level 2)	(Level 3)	Prices	in Active	Markets	(Level 1)	(Level 2)	(Level 3)	Prices	in Active	Markets	(Level 1)	(Level 2)	(Level 3)	Prices	in Active	Markets	(Level 1)	(Level 2)	(Level 3)	
	Carrying amount	Inputs	Inputs	Inputs	Inputs	Inputs	Carrying amount	Inputs	Inputs	Inputs	Inputs	Inputs	Carrying amount	Inputs	Inputs	Inputs	Inputs	Inputs	Carrying amount	Inputs	Inputs	Inputs	Inputs	Inputs	
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	
Financial Assets																									
Financial Assets - Held to Maturity	12,675,715	8,636,414	3,784,174	-	12,420,588	-	9,586,218	8,599,060	1,522,989	-	10,122,049	-	10,122,049	-	10,122,049	-	10,122,049	-	10,122,049	-	10,122,049	-	10,122,049	-	
Loans and Advances to Customers																									
Corporate Loans	30,571,614	-	30,121,006	-	30,121,006	-	23,664,107	-	23,654,599	-	23,654,599	-	23,654,599	-	23,654,599	-	23,654,599	-	23,654,599	-	23,654,599	-	23,654,599	-	
Retail, SME and Consumer Lending	59,464,335	-	57,744,443	-	57,744,443	-	45,250,813	-	44,985,706	-	44,985,706	-	44,985,706	-	44,985,706	-	44,985,706	-	44,985,706	-	44,985,706	-	44,985,706	-	
Housing Loans	1,376,117	-	1,319,855	-	1,319,855	-	1,215,296	-	1,221,145	-	1,221,145	-	1,221,145	-	1,221,145	-	1,221,145	-	1,221,145	-	1,221,145	-	1,221,145	-	
Leases	28,936,324	-	28,662,985	-	28,662,985	-	25,133,488	-	24,536,984	-	24,536,984	-	24,536,984	-	24,536,984	-	24,536,984	-	24,536,984	-	24,536,984	-	24,536,984	-	
Staff Loans	2,026,512	-	2,596,464	-	2,596,464	-	1,804,552	-	2,456,165	-	2,456,165	-	2,456,165	-	2,456,165	-	2,456,165	-	2,456,165	-	2,456,165	-	2,456,165	-	
	122,374,902	-	120,444,753	-	120,444,753	-	97,068,256	-	96,854,599	-	96,854,599	-	96,854,599	-	96,854,599	-	96,854,599	-	96,854,599	-	96,854,599	-	96,854,599	-	
Total Financial Assets	135,050,617	8,636,414	124,228,927	-	145,541,056	-	106,654,474	8,599,060	98,377,588	-	106,976,648	-	106,976,648	-	106,976,648	-	106,976,648	-	106,976,648	-	106,976,648	-	106,976,648	-	
Financial Liabilities																									
Repurchase Agreements	10,874,122	-	10,874,138	-	10,874,138	-	15,444,206	-	15,383,749	-	15,383,749	-	15,383,749	-	15,383,749	-	15,383,749	-	15,383,749	-	15,383,749	-	15,383,749	-	
Due to Customers	129,240,876	-	128,829,852	-	128,829,852	-	111,046,446	-	109,778,337	-	109,778,337	-	109,778,337	-	109,778,337	-	109,778,337	-	109,778,337	-	109,778,337	-	109,778,337	-	
Debt Issued and Other Borrowed Funds	12,972,830	-	13,086,800	-	13,086,800	-	9,685,257	-	9,503,984	-	9,503,984	-	9,503,984	-	9,503,984	-	9,503,984	-	9,503,984	-	9,503,984	-	9,503,984	-	
Total Financial Liabilities	153,087,828	-	152,790,790	-	152,790,790	-	136,175,909	-	134,666,070	-	134,666,070	-	134,666,070	-	134,666,070	-	134,666,070	-	134,666,070	-	134,666,070	-	134,666,070	-	

43 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

43.3 Financial Assets and Financial Liabilities not carried at Fair Value (Contd.)

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

Group	2015										2014					
	Fair Value Measurement Using					Fair Value Measurement Using					Fair Value Measurement Using					
	Quoted		Significant		Significant	Quoted		Significant		Significant	Quoted		Significant		Total	
As at 31 December	Carrying amount	Prices in Active Markets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	in Active Markets (Level 1)	Prices in Active Markets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Carrying amount	Prices in Active Markets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	in Active Markets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets																
Financial Assets - Held to Maturity	12,743,763	8,636,414	3,856,220	-	12,492,634	8,599,060	1,522,989	-	9,586,218	8,599,060	1,522,989	-	10,122,049			
	12,743,763	8,636,414	3,856,220	-	12,492,634	8,599,060	1,522,989	-	9,586,218	8,599,060	1,522,989	-	10,122,049			
Loans and Advances to Customers																
Corporate Loans	31,399,562	-	30,121,006	-	30,121,006	23,664,107	-	23,654,599	-	23,654,599	-	-	23,654,599			
Retail, SME and Consumer Lending	59,464,334	-	57,744,443	-	57,744,443	45,250,813	-	44,985,706	-	44,985,706	-	-	44,985,706			
Housing Loans	1,376,117	-	1,319,855	-	1,319,855	1,215,296	-	1,221,145	-	1,221,145	-	-	1,221,145			
Leases	28,936,324	-	28,662,985	-	28,662,985	25,133,488	-	24,536,984	-	24,536,984	-	-	24,536,984			
Staff Loans	2,026,512	-	1,456,560	-	1,456,560	1,804,552	-	2,456,165	-	2,456,165	-	-	2,456,165			
	123,202,849	-	119,304,849	-	119,304,849	97,068,256	-	96,854,599	-	96,854,599	-	-	96,854,599			
Total Financial Assets	135,946,612	8,636,414	123,161,069	-	131,797,483	106,654,474	8,599,060	98,377,588	-	106,654,474	8,599,060	98,377,588	-	106,976,648		
Financial Liabilities																
Repurchase Agreements	10,405,880	-	10,874,138	-	10,874,138	15,444,206	-	15,383,749	-	15,383,749	-	-	15,383,749			
Due to Customers	129,158,190	-	128,829,852	-	128,829,852	111,046,446	-	109,778,337	-	109,778,337	-	-	109,778,337			
Debt Issued and Other Borrowed Funds	12,973,754	-	13,086,800	-	13,086,800	9,685,257	-	9,503,984	-	9,503,984	-	-	9,503,984			
Total Financial Liabilities	152,537,824	-	152,790,791	-	152,790,791	136,175,909	-	134,666,070	-	134,666,070	-	-	134,666,070			

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NOTES TO THE FINANCIAL STATEMENTS

43 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

43.3 Financial Assets and Financial Liabilities not carried at Fair Value (Contd.)

Fair Value of Financial Assets and Liabilities not Carried at Fair Value

The following describes the methodologies and assumptions used to determine the 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 (original maturities less than a year), it is assumed that the carrying amounts approximate their fair values.

The following is a list of financial instruments whose carrying amount is a reasonable approximation of fair value because, for example, they are short-term in nature to reprice to current market rates frequently;

Assets	Liabilities
Cash and Cash Equivalents	Due to banks
Balances with Central Bank of Sri Lanka	
Reverse Repurchase Agreements	
Other Financial Assets	

This assumption is also applied to demand deposits, call deposits and savings deposits without a specific maturity. It is also assumed that the amortised cost of floating rate financial instrument approximate the fair value as the amortised cost represent most recent fair value.

Long term deposits accepted from customers for which periodical interest is paid and loans and advances granted to customers with a variable rate are also considered to be carried at fair value in the books.

Fixed Rate Financial Instruments

Carrying amounts are considered as fair values for short term credit facilities. There is a significant difference between carrying value and fair value of Reverse Repurchase Agreements and Repurchase Agreements with original tenors above one year. In fair valuing held to maturity securities, rates published by the CBSL for similar trading securities were used. Loans and Advances with fixed interest rates were fair valued using market rates at which fresh loans were granted during the fourth quarter of the reporting year. Conversely, fixed deposits with original tenors above one year and interest paid at maturity were discounted using current market rates offered to customers during the fourth quarter of the reporting year. Interest rates based on Treasury Bond rates with similar tenors with an adjustment for premium have been used to arrive at the fair value of Debentures Issued.

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44. FINANCIAL RISK MANAGEMENT

44.1 Introduction

Risks inherent in the Bank's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability. The Bank is primarily exposed to credit risk, liquidity risk, market risk and operational risks.

The objective of the Risk Management Framework at the Bank is to establish a process to effectively identify, measure, manage, control and monitor risks faced by the Bank. The goal is to manage these risks to enhance the risk-return profile of the Bank

The Board of Directors is responsible for establishing the overall Risk Management Framework within the Bank. This consists of approval of a risk governance structure and approval of detailed risk management policies and procedures with risk appetite and tolerance limits.

The Board delegates specific oversight of all risk management activities in the Bank to the Board Integrated Risk Management Committee (BIRMC). It reviews risk goals, department risk grids and material risk issues highlighted by different executive risk committees. It also monitors compliance with Bank policies and regulations.

The Board has appointed the Executive Risk Management Committee (ERMC) which has the overall responsibility for overseeing the establishment and implementation of frameworks, policies and limits for various risk exposures. The ERMC is assisted by the Assets and Liability Management Committee (ALCO) which specifically focus on market risk management and liquidity risk management whilst Head Office Credit Committee focuses on the credit risk management.

The Integrated Risk Management Department (IRMD), headed by the Chief Risk Officer (CRO), is responsible for developing and implementing the Bank's Risk Management Framework. It acts as the second line of defense in managing risks. Responsibilities of the IRMD include the following:

Monitor

- Formulation of Risk policies & procedures
- Compliance with Risk policies & procedures
- Bank's overall risk profile & changes in overall risk positions
- Risk across business units and escalate risk and control issues to management

Develop and Report

- Risk management standards and measurement tools
- Aggregate risk profile of the Bank in relation to capital

Support

- Banks' risk culture through development of a common risk language and Bank wide training
- Interpretation of risk related regulations / leading practices to business units

Risk Measurement and Reporting Systems

The Bank uses appropriate risk measurement techniques and industry best practices to evaluate its various risk exposures. Such risks identified are managed through establishment of limits. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept.

NOTES TO THE FINANCIAL STATEMENTS

44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.1 Introduction (Contd.)

The Bank also carries out a detail stress testing exercise, which is a key component of the internal capital adequacy assessment process (ICAAP) as well as the risk management framework. This exercise measures the extent of risks the Bank is exposed to when variables associated with its risks are simulated considering plausible changes in the external/internal environment.

The risk so measured is presented to relevant board committees & heads of each business division at regular intervals.

Risk Mitigation

As part of its overall risk management, the Bank uses derivatives to manage exposures resulting from changes in foreign currencies. The Bank also accepts various types of collateral as a credit risk mitigant whilst insurance is used to transfer operational types of risks.

Excessive Risk Concentration

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

44.2 Credit Risk

Credit risk is the risk that the Bank will incur a loss resulting from its customers or counterparties failing to or delaying meeting their contractual obligations. This arises from loans and receivables and investments in debt instruments forming direct funding exposures (on Balance Sheet exposure) or indirect liabilities such as Letters of Credit and guarantees (off Balance Sheet exposure).

The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for industry concentrations and by monitoring exposures in relation to such limits and by taking appropriate collateral.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. A scientifically developed internal risk rating mechanism has been implemented via a work-flow based software covering various types of customer segments of the Bank excluding consumer products. Such 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. During the year the Bank implemented a score card model to evaluate credit risk of consumer products as these were not evaluated through the established internal risk rating system.

Impairment Assessment

For financial reporting purposes, the Bank uses an incurred loss model for recognition of losses on impaired financial assets. This means that losses can only be recognized when objective evidence of a specific loss event has been observed. Triggering events include the following:

- Significant financial difficulty of the customer
- A breach of contract such as a default of payment where the Bank grants the customer a concession due to the customer experiencing financial difficulty
- It becomes probable that the customer faces bankruptcy or other financial reorganization
- Observable data that suggests that there is a decrease in the estimated future cash flows

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44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.2 Credit Risk (Contd.)

Individually Assessed Allowances

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis above a predetermined threshold limit. 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 if bankruptcy happens, the availability of other financial support, the realizable value and timing of collateral and expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention. The Bank has currently set Individually Significant Threshold at Rupees Twenty Million and every customer having an aggregate exposure above that limit is individually assessed for objective evidence of incurred loss (OEIL). If the Bank finds such customers are having OEIL, those customers are individually impaired taking into account the estimated value of future cash flows.

Collectively Assessed Allowances

Allowances are assessed collectively for losses on loans and advances that are not individually significant and for individually significant loans and advances that have been assessed individually and found to be not requiring an impairment provision.

The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether allowance 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 loan portfolio such as historical losses on the portfolio, levels of arrears and expected receipts and recoveries once impaired.

The Bank generally bases its analysis on historical experience. However, when there are significant market developments, the Bank also include macro- economic factors within its assessments. These factors include, depending on the characteristics of the individual or collective assessment: unemployment rates, levels of bad debts and delinquency trends, Inflation, movements in Gross Domestic Product (GDP), macro environment stability in financial industry, revisions in the Interest rates, changes in regulatory environment and other available consumer data. The Bank uses aforementioned factors as appropriate to adjust the impairment allowances.

Description of approaches and statistical methods followed for Collective impairment is given below.

Business Segment	Further Segmentation	Default Point	PD Represents	Statistical Method	Classification for Financial Reporting Purposes
Corporate Banking	Based on Internal Risk Rating	"Loss Category"	Probability of Loan moving into "Loss" category	A combination of Rating Migration Matrix and Net Flow Rate method	Corporate Loans
SME & Retail Banking	Based on Internal Risk Rating	"Loss Category"	Probability of Loan moving into "Loss" category	A combination of Rating Migration Matrix and Net Flow Rate method	Retail SME and Consumer
Factoring	Based on Internal Risk Rating	"Loss Category"	Probability of Loan moving into "Loss" category	Rating Migration Matrix	Classified as "Corporate Loans" or "Retail, SME and Consumer" as per customer type
Leasing	Based on Time Buckets indicating Days Past Due (DPD) and Portfolio is stratified into 5 segments	Number Down 6.0	Probability of Lease moving into No. Down "6.01 - 7.00"	Net Flow Rate Method	Leases

NOTES TO THE FINANCIAL STATEMENTS

44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.2 Credit Risk (Contd.)

Business Segment	Further Segmentation	Default Point	PD Represents	Statistical Method	Classification for Financial Reporting Purposes
Housing Loans	Based on Time Buckets indicating Days Past Due (DPD)	360 DPD	Probability of Loan moving into "361 - 391DPD" Bucket	Net Flow Rate Method	Housing Loans
Personal Loans	Based on Time Buckets indicating Days Past Due (DPD)	240 DPD	Probability of Loan moving into "240 - 269DPD" Bucket	Net Flow Rate Method	Retail SME and Consumer
Vehicle Loans	Based on Time Buckets indicating Days Past Due (DPD)	240 DPD	Probability of Loan moving into "240 - 269DPD" Bucket	Net Flow Rate Method	Retail SME and Consumer
Credit Cards	Based on Time Buckets indicating Days Past Due (DPD) and Portfolio is stratified into 4 segments	240 DPD	Probability of Loan moving into "240 - 269DPD" Bucket	Net Flow Rate Method	Retail SME and Consumer
Pawning	Based on Time Buckets indicating Days Past Due (DPD)	03 Months Overdue	Probability of advance moving into more than 03 months overdue	Net Flow Rate Method	Classified as "Retail, SME and Consumer" or "Housing Loans" as per purpose of the borrower

In order to assess impairment provision at appropriate granular level, the Bank has stratified certain collective portfolios further reflecting grouping of similar risk customer profiles. Such stratification of the portfolios has helped the Bank to make an accurate assessment of required impairment provisions as it focuses on avoiding generalization of possible potential loss indicative parameters.

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44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.2 Credit Risk (Contd.)

Credit Quality by Class of Financial Assets

The Bank manages the credit quality of Corporate, Retail and SME, Leasing and Factoring customers through a credit rating mechanism. Customers in Consumer lending portfolio have not been rated.

Quality of Financial Assets are categorized in to five categories as described below.

Credit Quality Category	Definition	Description
High Grade	Very High Safety	The exposure to the government, Banks and Reverse Repurchase transactions backed by Government Securities are identified as 'High Grade'. The external rating of the Banks have not been considered in this regard as these exposures are highly liquid and are of self liquidating nature. Chances of default are negligible and highly unlikely. The obligor/counterparty is likely to honour its commitments even under adverse business/market conditions.
Investment Grade (A+ & B-)	High Safety	The ability to honour the terms of trade is high or fully secured by cash. The obligor/counterparty is likely to honour its commitments even under adverse business conditions. There would be insignificant likelihood of default associated with adverse economic events of significant scale.
Intermediary Grade (C+ and C)	Moderate Safety	The ability to honour the terms of trade is strong, but not as strong as in Investment Grade. The obligor/counterparty may take longer than anticipated/planned to honour its commitments under adverse business conditions. There is a moderate likelihood of default.
Speculative Grade (C- and D)	Low Safety	The ability to honour the terms of trade is low. Any adverse changes in the business/economic conditions may impair the obligor's/counterparty's ability to honour its commitments.
Customers whose credit quality is not yet finalized	Safe	The ability to honour the terms of trade is assumed acceptable but yet to be confirmed by way of a finalized rating.

Credit Risk exposure for each internal credit risk rating

Bank's Internal Credit Rating	Historical Default Rates		Amortized Cost	
	2015 %	2014 %	2015 LKR'000	2014 LKR'000
Investment Grade				
A	Less than 1%	Less than 1%	18,690,001	13,270,292
B	Less than 1.5%	Less than 4.5%	24,831,099	15,600,562
Intermediary Grade				
C + and C	Less than 2.5%	Less than 6.5%	7,505,972	1,193,679
Speculative Grade				
C-	Less than 5.5%	Less than 7.5%	2,304,350	5,755,413
D	Minimum of 13%	Minimum of 23%	552,721	110,572
Past Due - Rated Customers			8,576,018	5,134,990
Past Due - Fully Secured by Cash			2,729,399	
Individually Impaired - Rated Customers			3,082,929	2,025,529
Sum of Amortized Cost of Rated Customers			68,272,487	43,091,037

Past Due loans include any loan that is in arrears for more than one day. Segregation of fully cash backed portfolio was done in 2015 for the first time.

Further, in 2015, historical default rates were callibrated combining Risk Migration and the Net Flow Rate methods. New default rates are more reflective of the Bank's existing loan portfolio.

NOTES TO THE FINANCIAL STATEMENTS

44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.2 Credit Risk (Contd.)

Bank - As at 31 December 2015	Neither past due nor impaired					Past due but not impaired	Individually impaired	Total
	High Grade	Investment Grades	Intermediary Grades	Speculative Grades	Customers whose credit rating is not yet finalized			
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Cash and Cash Equivalents	6,392,393	-	-	-	-	-	-	6,392,393
Balances with Central Bank of Sri Lanka	5,283,866	-	-	-	-	-	-	5,283,866
Reverse Repurchase Agreements	-	300,834	-	-	1,414	-	-	302,249
Derivative Financial Instruments								
Forward Foreign Exchange Contrats and Currency Swaps	526,912	3,969	-	-	23,149	-	-	554,030
Financial Assets - Held for Trading								
Government Treasury Bills and Bonds	2,044,144	-	-	-	-	-	-	2,044,144
Financial Assets-Available for Sale								
Government Treasury Bills and Bonds	16,336,355	-	-	-	-	-	-	16,336,355
Unquoted Equity Shares	-	190,821	-	5,742	-	-	-	196,563
Financial Assets - Held to Maturity								
Government Treasury Bills and Bonds	12,675,717	-	-	-	-	-	-	12,675,717
Other Financial Assets								
Sri Lanka Development Bonds	3,784,984	-	-	-	-	-	-	3,784,984
Quoted Debentures	509,658	2,162,596	-	-	-	-	-	2,672,254
Unquoted Debentures	-	54,123	-	-	-	-	-	54,123
	4,294,642	2,216,719	-	-	-	-	-	6,511,361
Loans and Advances to Customers (Gross)								
Corporate Loans	-	26,116,979	115,645	1,007,006	-	1,443,981	1,888,153	30,571,763
Retail, SME and Consumer	-	15,123,824	2,311,307	1,834,826	26,272,117	12,343,241	1,578,875	59,464,190
Housing Loans	-	-	-	-	960,976	393,988	21,153	1,376,117
Leases	-	2,270,533	5,079,019	15,239	12,763,083	8,715,398	93,050	28,936,324
Staff Loans	-	-	-	-	2,576,773	19,690	-	2,596,464
	-	43,511,337	7,505,972	2,857,070	42,572,949	22,916,298	3,581,231	122,944,857
Total	47,554,029	46,223,679	7,505,972	2,862,812	42,597,513	22,916,298	3,581,231	173,241,535

Past Due loans include any loan that is in arrears for more than one day. Out of Rs. 22.9 Bn categorized under "past due but not impaired" category Rs. 9.2 Bn (40%) is in arrears for less than 30 days, Rs. 11.3 Bn (49%) is in arrears for more than 30 days but less than 90 days & Rs. 2.4 Bn (11%) is in arrears for more than 90 Days.

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44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.2 Credit Risk (Contd.)

Bank - As at 31 December 2014	Neither past due nor impaired						Past due but not impaired	Individually impaired	Total
	High Grade	Investment Grades	Intermediary Grades	Speculative Grades	Customers whose credit rating is not yet finalized				
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000			
Cash and Cash Equivalents	6,898,887	-	-	-	-	-	-	6,898,887	
Balances with Central Bank of Sri Lanka	3,992,118	-	-	-	-	-	-	3,992,118	
Reverse Repurchase Agreements	11,003,449	-	-	-	10,058	-	-	11,013,507	
Derivative Financial Instruments									
Forward Foreign Exchange Contrats and Currency Swaps	65,603	30,537	-	-	31,914	-	-	128,053	
Financial Assets - Held for Trading									
Government Treasury Bills and Bonds	15,648,717	-	-	-	-	-	-	15,648,717	
Financial Assets-Available for Sale									
Government Treasury Bills and Bonds	4,170,571	-	-	-	-	-	-	4,170,571	
Unquoted Equity Shares	-	-	-	158,878	-	-	-	158,878	
Financial Assets - Held to Maturity									
Government Treasury Bills and Bonds	9,586,218	-	-	-	-	-	-	9,586,218	
Other Financial Assets									
Sri Lanka Development Bonds	2,669,818	-	-	-	-	-	-	2,669,818	
Quoted Debentures	300,636	650,403	-	-	-	-	-	951,039	
Unquoted Debentures	-	199,889	-	-	-	-	-	199,889	
	2,970,454	850,293	-	-	-	-	-	3,820,747	
Loans and Advances to Customers (Gross)									
Corporate Loans	-	21,953,136	92,992	358,011	-	772,157	866,771	24,043,068	
Retail, SME and Consumer	-	6,917,718	1,100,687	5,507,974	19,543,195	11,328,562	1,759,553	46,157,688	
Housing Loans	-	-	-	-	731,002	479,224	100,423	1,310,648	
Leases	-	-	-	-	15,526,537	9,636,944	532,513	25,695,994	
Staff Loans	-	-	-	-	2,418,053	73,808	-	2,491,861	
	-	28,870,854	1,193,679	5,865,985	38,218,787	22,290,695	3,259,260	99,699,259	
Total	54,336,006	29,751,683	1,193,679	6,024,863	38,260,759	22,290,695	3,259,260	155,116,944	

Past Due loans include any loan that is in arrears for more than one day. Out of LKR 22.3 Bn categorized under "past due but not impaired" category LKR 8.5 Bn (38%) is in arrears for less than 30 days, LKR 10.9 Bn (49%) is in arrears for more than 30 days but less than 90 days & LKR 2.9 Bn (13%) is in arrears for more than 90 Days.

NOTES TO THE FINANCIAL STATEMENTS

44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.2 Credit Risk (Contd.)

Group - As at 31 December 2015	Neither past due nor impaired						Past due but not impaired	Individually impaired	Total
	High Grade	Investment Grades	Intermediary Grades	Speculative Grades	Customers whose credit rating is not yet finalized				
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	
Cash and Cash Equivalents	6,392,437	-	-	-	-	-	-	6,392,437	
Balances with Central Bank of Sri Lanka	5,283,866	-	-	-	-	-	-	5,283,866	
Reverse Repurchase Agreements	-	300,834	-	-	-	1,414	-	302,249	
Derivative Financial Instruments									
Forward Foreign Exchange Contrats and Currency Swaps	526,912	3,969	-	-	-	23,149	-	554,030	
Financial Assets - Held for Trading									
Government Treasury Bills and Bonds	2,044,144	-	-	-	-	-	-	2,044,144	
Financial Assets-Available for Sale									
Government Treasury Bills and Bonds	16,336,355	-	-	-	-	-	-	16,336,355	
Unquoted Equity Shares	-	190,821	-	5,742	-	-	-	196,563	
Financial Assets - Held to Maturity									
Government Treasury Bills and Bonds	12,743,763	-	-	-	-	-	-	12,743,763	
Other Financial Assets									
Sri Lanka Development Bonds	3,784,984	-	-	-	-	-	-	3,784,984	
Quoted Debentures	509,658	2,162,596	-	-	-	-	-	2,672,254	
Unquoted Debentures	-	54,123	-	-	-	-	-	54,123	
	4,294,642	2,216,719	-	-	-	-	-	6,511,361	
Loans and Advances to Customers (Gross)									
Corporate Loans	-	25,842,020	115,645	1,710,978	-	1,443,981	1,888,153	31,000,778	
Retail, SME and Consumer	-	15,123,824	2,311,307	2,233,759	26,272,117	12,343,241	1,578,875	59,863,123	
Housing Loans	-	-	-	-	960,976	393,988	21,153	1,376,117	
Leases	-	2,270,533	5,079,019	15,239	12,763,083	8,715,398	93,050	28,936,324	
Staff Loans	-	-	-	-	2,576,773	19,690	-	2,596,464	
	-	43,236,378	7,505,972	3,959,977	42,572,949	22,916,298	3,581,231	123,772,805	
Total	47,622,120	45,948,721	7,505,972	3,965,719	42,597,513	22,916,298	3,581,231	174,137,573	

Past Due loans include any loan that is in arrears for more than one day. Out of Rs. 22.9 Bn categorized under "past due but not impaired" category Rs. 9.2 Bn (40%) is in arrears for less than 30 days, Rs. 11.3 Bn (49%) is in arrears for more than 30 days but less than 90 days & Rs. 2.4 Bn (11%) is in arrears for more than 90 Days.

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44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.2 Credit Risk (Contd.)

Group - As at 31 December 2014	Neither past due nor impaired						Past due but not impaired	Individually impaired	Total
	High Grade	Investment Grades	Intermediary Grades	Speculative Grades	Customers whose credit rating is not yet finalized				
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000			
Cash and Cash Equivalents	6,899,901	-	-	-	-	-	-	6,899,901	
Balances with Central Bank of Sri Lanka	3,992,118	-	-	-	-	-	-	3,992,118	
Reverse Repurchase Agreements	11,003,449	-	-	-	10,058	-	-	11,013,507	
Derivative Financial Instruments									
Forward Foreign Exchange Contracts and Currency Swaps	65,603	30,537	-	-	31,914	-	-	128,053	
Financial Assets - Held for Trading									
Government Treasury Bills and Bonds	15,700,388	-	-	-	-	-	-	15,700,388	
Financial Assets-Available for Sale									
Government Treasury Bills and Bonds	4,170,571	-	-	-	-	-	-	4,170,571	
Unquoted Equity Shares	-	-	-	158,878	-	-	-	158,878	
Financial Assets - Held to Maturity									
Government Treasury Bills and Bonds	9,653,000	-	-	-	-	-	-	9,653,000	
Other Financial Assets									
Sri Lanka Development Bonds	2,669,818	-	-	-	-	-	-	2,669,818	
Quoted Debentures	300,636	650,403	-	-	-	-	-	951,039	
Unquoted Debentures	-	199,889	-	-	-	-	-	199,889	
	2,970,454	850,293	-	-	-	-	-	3,820,747	
Loans and Advances to Customers (Gross)									
Corporate Loans	-	21,817,701	92,992	919,708	-	772,157	866,771	24,469,329	
Retail, SME and Consumer	-	6,917,718	1,100,687	6,360,233	19,543,195	11,328,562	1,759,553	47,009,947	
Housing Loans	-	-	-	-	731,002	479,224	100,423	1,310,648	
Leases	-	-	-	-	15,526,537	9,636,944	532,513	25,695,994	
Staff Loans	-	-	-	-	2,418,053	73,808	-	2,491,861	
	-	28,735,418	1,193,679	7,279,941	38,218,787	22,290,695	3,259,260	100,977,779	
Total	54,455,483	29,616,248	1,193,679	7,438,819	38,260,759	22,290,695	3,259,260	156,514,942	

Past Due loans include any loan that is in arrears for more than one day. Out of Rs. 22.8 Bn categorized under "past due but not impaired" category Rs. 8.3 Bn (38%) is in arrears for less than 30 days, Rs. 10.9 Bn (50%) is in arrears for more than 30 days but less than 90 days & Rs. 2.3 Bn (13%) is in arrears for more than 90 Days.

NOTES TO THE FINANCIAL STATEMENTS

44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.2 Credit Risk (Contd.)

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral.

Management monitors the market value of collateral, and requests additional collateral in accordance with the underlying agreement. It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim.

Bank - As at 31 December 2015	Maximum Exposure to Credit Risk LKR'000	Net collateral LKR'000	Net exposure LKR'000
Cash and Cash Equivalents	6,392,393	-	6,392,393
Balances with Central Bank of Sri Lanka	5,283,866	-	5,283,866
Reverse Repurchase Agreements	302,249	302,249	-
Derivative Financial Instruments	554,030	-	554,030
Financial Assets - Held for Trading	2,044,144	-	2,044,144
Financial Assets-Available for Sale	16,532,917	-	16,532,917
Financial Assets - Held to Maturity	12,675,717	-	12,675,717
Other Financial Assets	6,511,361	216,781	6,294,581
Loans and Advances to Customers (Gross)	122,944,857	61,429,775	61,526,552
Financial Guarantees	406,918	46,424	360,494
Letters of Credit	3,801,772	242,341	3,559,431
Other Commitments	92,609,742	7,391,144	85,218,597
	270,059,966	69,628,713	200,442,722

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44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.2 Credit Risk (Contd.)

Bank - As at 31 December 2014

	Maximum Exposure to Credit Risk LKR'000	Net collateral LKR'000	Net exposure LKR'000
Cash and Cash Equivalents	6,898,881	-	6,898,881
Balances with Central Bank of Sri Lanka	3,992,118	-	3,992,118
Reverse Repurchase Agreements	11,013,507	11,013,507	-
Derivative Financial Instruments	128,053	-	128,053
Financial Assets - Held for Trading	15,648,717	-	15,648,717
Financial Assets-Available for Sale	4,329,449	-	4,329,449
Financial Assets - Held to Maturity	9,586,218	-	9,586,218
Other Financial Assets	3,820,747	243,157	3,577,590
Loans and Advances to Customers (Gross)	99,692,164	53,587,897	44,640,356
Financial Guarantees	105,716	11,180	94,536
Letters of Credit	4,043,903	299,775	3,744,129
Other Commitments	94,539,012	13,246,478	81,292,534
	253,798,484	78,401,993	173,932,579

NOTES TO THE FINANCIAL STATEMENTS

44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.2 Credit Risk (Contd.)

Group - As at 31 December 2015

	Maximum Exposure to Credit Risk LKR'000	Net collateral LKR'000	Net exposure LKR'000
Cash and Cash Equivalents	6,392,437	-	6,392,437
Balances with Central Bank of Sri Lanka	5,283,866	-	5,283,866
Reverse Repurchase Agreements	302,249	302,249	-
Derivative Financial Instruments	554,030	-	554,030
Financial Assets - Held for Trading	2,044,144	-	2,044,144
Financial Assets-Available for Sale	16,532,917	-	16,532,917
Financial Assets - Held to Maturity	12,743,763	-	12,743,763
Other Financial Assets	6,511,361	742,997	5,768,364
Loans and Advances to Customers (Gross)	123,772,805	62,532,681	61,251,593
Financial Guarantees	406,918	46,424	360,494
Letters of Credit	3,801,772	242,341	3,559,431
Other Commitments	92,583,096	7,391,144	85,191,952
	270,929,358	71,257,836	199,682,992

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44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.2 Credit Risk (Contd.)

Group - As at 31 December 2014

	Maximum Exposure to Credit Risk LKR'000	Net collateral LKR'000	Net exposure LKR'000
Cash and Cash Equivalents	6,899,905	-	6,899,905
Balances with Central Bank of Sri Lanka	3,992,118	-	3,992,118
Reverse Repurchase Agreements	11,013,507	11,013,507	-
Derivative Financial Instruments	128,053	-	128,053
Financial Assets - Held for Trading	15,700,388	-	15,700,388
Financial Assets-Available for Sale	4,329,449	-	4,329,449
Financial Assets - Held to Maturity	9,653,000	-	9,653,000
Other Financial Assets	3,820,747	243,157	3,577,590
Loans and Advances to Customers (Gross)	100,970,684	55,001,852	44,504,920
Financial Guarantees	105,716	11,180	94,536
Letters of Credit	4,043,903	299,775	3,744,129
Other Commitments	94,649,530	13,246,478	81,403,053
	255,307,000	79,815,949	174,027,139

NOTES TO THE FINANCIAL STATEMENTS

44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.2 Credit Risk (Contd.)

Analysis of Risk Concentration

The Bank's concentrations of risk are managed by industry sector. The following table shows the risk concentration by industry for the components of the Statement of Financial Position. Assets concentrated as "Other" include Consumer Loans, Credit Cards and Leases. A major portion of the leases consist of leases granted to individuals for the purpose of facilitating their small/micro level business activities which cannot be directly attributable to a single identified sector, hence classified under "Other".

Bank - As at 31 December 2015	Agriculture & Fishing LKR'000	Financial Services LKR'000	Government LKR'000	Trading LKR'000	Construction & Housing LKR'000	Manufacturing LKR'000	Services LKR'000	Other LKR'000	Total LKR'000
Cash and Cash Equivalents	-	6,392,393	-	-	-	-	-	-	6,392,393
Balances with Central Bank of Sri Lanka	-	-	5,283,866	-	-	-	-	-	5,283,866
Reverse Repurchase Agreements	-	301,891	-	-	-	-	-	358	302,249
Derivative Financial Instruments									
Forward Foreign Exchange Contracts and Currency Swaps	-	530,715	-	-	-	-	22,680	634	554,030
Financial Assets - Held for Trading									
Government Treasury Bills and Bonds	-	-	2,044,144	-	-	-	-	-	2,044,144
Financial Assets-Available for Sale									
Government Treasury Bills and Bonds	-	-	16,336,355	-	-	-	-	-	16,336,355
Unquoted Equity Shares	-	-	-	-	-	-	5,742	190,821	196,563
Financial Assets - Held to Maturity									
Government Treasury Bills and Bonds	-	-	12,675,717	-	-	-	-	-	12,675,717
Other Financial Assets									
Sri Lanka Development Bonds	-	-	3,784,984	-	-	-	-	-	3,784,984
Quoted Debentures	-	1,632,198	-	285,827	559,293	171,927	-	23,009	2,672,254
Unquoted Debentures	-	54,123	-	-	-	-	-	-	54,123
	-	1,686,321	3,784,984	285,827	559,293	171,927	-	23,009	6,511,361
Loans and Advances to Customers									
Corporate Loans	9,896,054	5,135,056	-	5,500,047	626,058	5,801,796	2,605,226	1,007,527	30,571,763
Retail, SME and Consumer Housing Loans	2,756,265	768,322	-	2,497,247	2,768,444	1,622,241	2,757,426	46,294,245	59,464,190
Leases	-	-	-	-	1,376,117	-	-	-	1,376,117
Staff loans	1,664,902	858,113	-	655,950	1,340,936	2,644,999	10,749,777	11,021,643	28,936,320
	-	2,026,512	-	-	-	-	-	-	2,026,512
	14,317,221	8,788,002	-	8,653,244	6,111,555	10,069,036	16,112,428	58,323,415	122,374,902
Impairment for Loans and Advances	-	-	-	-	-	-	-	-	(2,060,334)
Net Loans and Advances	-	-	-	-	-	-	-	-	120,314,568
	14,317,221	17,699,322	40,125,066	8,939,071	6,670,848	10,240,963	16,140,851	58,538,238	170,611,245

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44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.2 Credit Risk (Contd.)

Bank - As at 31 December 2014	Agriculture & Fishing LKR'000	Financial Services LKR'000	Government LKR'000	Trading LKR'000	Construction & Housing LKR'000	Manufacturing LKR'000	Services LKR'000	Other LKR'000	Total LKR'000
Cash and Cash Equivalents	-	6,898,877	-	-	-	-	-	-	6,898,877
Balances with Central Bank of Sri Lanka	-	-	3,992,118	-	-	-	-	-	3,992,118
Reverse Repurchase Agreements	-	-	11,003,449	-	-	-	-	10,058	11,013,507
Derivative Financial Instruments									
Forward Foreign Exchange Contracts and Currency Swaps	208,583.33	122,937	-	-	1,846	2,179	882	-	128,053
Financial Assets - Held for Trading									
Government Treasury Bills and Bonds	-	-	15,648,717	-	-	-	-	-	15,648,717
Financial Assets-Available for Sale									
Government Treasury Bills and Bonds	-	-	4,170,571	-	-	-	-	-	4,170,571
Unquoted Equity Shares	-	-	-	-	-	-	5,488	153,390	158,878
Financial Assets - Held to Maturity									
Government Treasury Bills and Bonds	-	-	9,586,218	-	-	-	-	-	9,586,218
Other Financial Assets									
Sri Lanka Development Bonds	-	-	2,669,818	-	-	-	-	-	2,669,818
Quoted Debentures	-	681,402	-	269,637	-	-	-	-	951,039
Unquoted Debentures	-	199,889	-	-	-	-	-	-	199,889
	-	881,291	2,669,818	269,637	-	-	-	-	3,820,747
Loans and Advances to Customers									
Corporate Loans	8,066,391	4,035,947	-	3,803,574	339,267	6,373,617	1,366,064	51,113	24,035,973
Retail, SME and Consumer Housing Loans	2,043,511	362,557	-	4,734,550	1,042,461	1,753,826	2,106,597	34,114,186	46,157,688
Leases	-	-	-	-	1,310,648	-	-	-	1,310,648
Staff loans	1,444,795	93,597	-	970,871	1,092,022	690,771	3,448,932	17,955,007	25,695,994
	-	1,804,552	-	-	-	-	-	-	1,804,552
	11,554,696	6,296,654	-	9,508,994	3,784,399	8,818,213	6,921,594	52,120,306	99,004,856
Impairment for Loans and Advances	-	-	-	-	-	-	-	-	(1,936,597)
Net Loans and Advances	-	-	-	-	-	-	-	-	97,068,259
	11,554,905	14,199,763	47,070,890	9,778,632	3,784,399	8,820,059	6,929,261	52,284,636	152,485,948

NOTES TO THE FINANCIAL STATEMENTS

44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.2 Credit Risk (Contd.)

Group - As at 31 December 2015	Agriculture & Fishing LKR'000	Financial Services LKR'000	Government LKR'000	Trading LKR'000	Construction & Housing LKR'000	Manufacturing LKR'000	Services LKR'000	Other LKR'000	Total LKR'000
Cash and Cash Equivalents	-	6,392,437	-	-	-	-	-	-	6,392,437
Balances with Central Bank of Sri Lanka	-	-	5,283,866	-	-	-	-	-	5,283,866
Reverse Repurchase Agreements	-	301,891	-	-	-	-	-	358	302,249
Derivative Financial Instruments									
Forward Foreign Exchange Contracts and Currency Swaps	-	530,715	-	-	-	-	22,680	634	554,030
Financial Assets - Held for Trading									
Government Treasury Bills and Bonds	-	-	2,044,144	-	-	-	-	-	2,044,144
Financial Assets-Available for Sale									
Government Treasury Bills and Bonds	-	-	16,336,355	-	-	-	-	-	16,336,355
Unquoted Equity Shares	-	-	-	-	-	-	5,742	190,821	196,563
Financial Assets - Held to Maturity									
Government Treasury Bills and Bonds	-	-	12,743,763	-	-	-	-	-	12,743,763
Other Financial Assets									
Sri Lanka Development Bonds	-	-	3,784,984	-	-	-	-	-	3,784,984
Quoted Debentures	-	1,632,198	-	285,827	559,293	171,927	-	23,009	2,672,254
Unquoted Debentures	-	54,123	-	-	-	-	-	-	54,123
	-	1,686,321	3,784,984	285,827	559,293	171,927	-	23,009	6,511,361
Loans and Advances to Customers									
Corporate Loans	9,896,054	5,116,733	-	5,897,573	626,058	5,801,796	2,655,037	1,007,527	31,000,778
Retail ,SME and Consumer Housing Loans	2,756,265	774,138	-	2,534,109	2,768,444	1,622,241	2,758,730	46,649,197	59,863,123
Leases	-	-	-	-	1,376,117	-	-	-	1,376,117
Staff loans	1,664,902	858,113	-	655,950	1,340,936	2,644,999	10,749,777	11,021,643	28,936,320
	-	2,026,512	-	-	-	-	-	-	2,026,512
	14,317,221	8,775,496	-	9,087,631	6,111,555	10,069,036	16,163,544	58,678,367	123,202,849
Impairment for Loans and Advances	-	-	-	-	-	-	-	-	(2,059,784)
Net Loans and Advances	-	-	-	-	-	-	-	-	121,143,065
	14,317,221	17,686,860	40,193,112	9,373,458	6,670,848	10,240,963	16,191,966	58,893,189	171,507,833

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44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.2 Credit Risk (Contd.)

Group - As at 31 December 2014	Agriculture & Fishing LKR'000	Financial Services LKR'000	Government LKR'000	Trading LKR'000	Construction & Housing LKR'000	Manufacturing LKR'000	Services LKR'000	Other LKR'000	Total LKR'000
Cash and Cash Equivalents	-	6,899,901	-	-	-	-	-	-	6,899,901
Balances with Central Bank of Sri Lanka	-	-	3,992,118	-	-	-	-	-	3,992,118
Reverse Repurchase Agreements	-	-	11,003,449	-	-	-	-	10,058	11,013,507
Derivative Financial Instruments									
Forward Foreign Exchange Contracts and Currency Swaps	209	122,937	-	-	-	1,846	2,179	882	128,053
Financial Assets - Held for Trading									
Government Treasury Bills and Bonds	-	-	15,700,388	-	-	-	-	-	15,700,388
Financial Assets-Available for Sale									
Government Treasury Bills and Bonds	-	-	4,170,571	-	-	-	-	-	4,170,571
Unquoted Equity Shares	-	-	-	-	-	-	5,488	153,390	158,878
Financial Assets - Held to Maturity									
Government Treasury Bills and Bonds	-	-	9,653,000	-	-	-	-	-	9,653,000
Other Financial Assets									
Sri Lanka Development Bonds	-	-	2,669,818	-	-	-	-	-	2,669,818
Quoted Debentures	-	681,402	-	269,637	-	-	-	-	951,039
Unquoted Debentures	-	199,889	-	-	-	-	-	-	199,889
	-	881,291	2,669,818	269,637	-	-	-	-	3,820,747
Loans and Advances to Customers									
Corporate Loans	8,066,391	3,915,012	-	4,287,793	339,267	6,373,617	1,429,041	51,113	24,462,234
Retail, SME and Consumer Housing Loans	2,043,511	850,309	-	4,782,091	1,042,461	1,753,826	2,107,505	34,430,245	47,009,947
Leases	-	-	-	-	1,310,648	-	-	-	1,310,648
Staff loans	1,444,795	93,597	-	970,871	1,092,022	690,771	3,448,932	17,955,007	25,695,994
	-	1,804,552	-	-	-	-	-	-	1,804,552
	11,554,696	6,663,471	-	10,040,754	3,784,399	8,818,213	6,985,478	52,436,365	100,283,376
Impairment for Loans and Advances	-	-	-	-	-	-	-	-	(1,936,326)
Net Loans and Advances	-	-	-	-	-	-	-	-	98,347,051
	11,554,905	14,567,604	47,189,343	10,310,392	3,784,399	8,820,059	6,993,145	52,600,695	153,884,216

NOTES TO THE FINANCIAL STATEMENTS

44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.2 Credit Risk (Contd.)

Commitments and Guarantees

To meet the financial needs of customers, the Bank enters into various commitments and contingent liabilities. Even though these obligations may not be recognized on the Statement of Financial Position, they do contain credit risk and are therefore part of the overall risk of the Bank.

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

	2015		2014	
	Bank LKR'000	Group LKR'000	Bank LKR'000	Group LKR'000
Bonds	5,924,297	5,924,297	5,756,180	5,756,180
Acceptance	2,051,537	2,051,537	2,176,265	2,176,265
Guarantees	406,918	406,918	105,716	105,716
Letters of Credit	3,801,772	3,801,772	4,043,903	4,043,903
Foreign Exchange Contracts **	20,653,370	20,653,370	29,330,449	29,330,449
Undrawn Commitments				
Credit Cards	25,323,210	25,323,210	22,192,040	22,192,040
Other	38,657,327	38,630,681	35,084,078	35,194,597
	63,980,537	63,953,891	57,276,118	57,386,637
Total Commitments and Guarantees	96,818,431	96,791,786	98,688,631	98,799,150

** Forward Exchange Contracts amounts shown above are the total of gross purchase and sales contracts with the counter parties. However, the net exposure on these contracts are estimated at LKR 348Mn as at end of 2015 and LKR 262Mn as at end of 2014 based on a 2.5% price premium on 6 month forward exchange rate as at end of each year.

The maximum exposure to credit risk relating to a financial guarantee is the maximum amount the Bank would have to pay if the guarantee is called upon. Undrawn commitments mainly consist of unutilized credit card limits and facilities granted to corporate customers where the Bank reserves the right to unconditionally cancel or recall the facility at its discretion.

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44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.3 Liquidity Risk and Funding Management

Liquidity risk is the inability to meet the financial obligations of the Bank in a timely and cost effective manner. Liquidity risk arises from various factors including those outside the Bank's control. The Bank manages liquidity risk according to the liquidity risk management policy. In accordance with the Bank's policy, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. Maturity gap analysis is one of the techniques used by the management to monitor liquidity risk.

The Bank performs liquidity stress testing on a regular basis, to evaluate the effect of both industry-wide and Bank-specific stress events on the Bank's liquidity position.

The Bank maintains a liquidity contingency plan that specifies an approach for analyzing and responding to potential liquidity crisis events. In order to manage the same the Bank is having two standard liquidity facility agreements amounting to LKR 1Bn (Reciprocal agreement) and LKR 500Mn. The plan outlines an appropriate governance structure for the management and monitoring of liquidity events, processes for effective internal and external communication and identifies potential counter measures to be considered at various stages of an event.

The Bank actively manages the diversification of its deposit liabilities by source and type of deposit

The Bank maintains a pool of highly liquid, unencumbered assets that can be readily sold or pledged to secure borrowings under stressed market conditions or due to Bank-specific events.

	2015		2014	
	DBU	FCBU	DBU	FCBU
Liquid Asset Ratio	21.8%	33.2%	23.2%	58.5%

Liquid assets mainly consist of cash, short-term Bank deposits, standing deposit facilities and government securities. In addition, the Bank maintains a statutory deposit with the Central Bank of Sri Lanka equal to 6% of Sri Lanka Rupee customer deposits.(Changed to 7.5% from 15 January 2016).

While the general market risk is monitored according to the board approved risk parameters on daily basis (some of the parameters are monitored online), the market risk management unit perform stress testing on the trading book periodically. Probable adverse macro-economic scenarios are considered while designing the stress testing framework and the results of the stress testing are presented to Integrated Risk Management Committee of the Bank.

Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

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

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44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.3 Liquidity Risk and Funding Management (Contd.)

Bank - As at 31 December 2015	On demand (Less than 15 days) LKR'000	16 days to 3 months LKR'000	3 to 12 months LKR'000	1 to 5 years LKR'000	Over 5 years LKR'000	Total LKR'000
Financial Assets						
Cash and Cash Equivalents	6,392,393	-	-	-	-	6,392,393
Balances with Central Bank of Sri Lanka	5,283,866	-	-	-	-	5,283,866
Reverse Repurchase Agreements	301,460	1,214	-	-	-	302,674
Financial Assets - Held for Trading						
Government Debt Securities - Treasury Bills and Bonds	12,075	1,121,827	658,502	351,725	-	2,144,129
Financial Assets-Available for Sale						
Government Debt Securities - Treasury Bills and Bonds	241,097	2,823,713	6,077,162	8,903,737	-	18,045,708
Unquoted Equity Shares	-	-	-	-	196,563	196,563
Financial Assets - Held to Maturity						
Government Debt Securities - Treasury Bills and Bonds	115,840	98,775	2,048,282	9,972,511	4,249,042	16,484,449
Other Financial Assets	54,275	53,948	512,891	7,036,884	-	7,657,998
Loans & Advances to Customers	45,646,243	18,608,264	20,385,472	48,320,074	5,336,463	138,296,515
Total Undiscounted Financial Assets	58,047,249	22,707,741	29,682,308	74,584,930	9,782,067	194,804,295
Financial Liabilities						
Due to Banks	1,987,964	289,635	-	-	-	2,277,599
Repurchase Agreements	5,015,945	5,224,168	689,632	-	-	10,929,744
Due to Customers	47,743,715	29,910,215	44,194,581	12,215,025	-	134,063,535
Debt Issued and Other Borrowed Funds	1,170,195	2,079,136	3,197,647	8,549,108	-	14,996,085
Total Undiscounted Financial Liabilities	55,917,819	37,503,153	48,081,859	20,764,133	-	162,266,964
Net Undiscounted Financial Assets/ (Liabilities)	2,129,430	(14,795,412)	(18,399,551)	53,820,798	9,782,067	32,537,331
Gross Settled Derivatives not Held for Trading						
Financial Assets						
Contractual Amounts Receivable	2,300,580	9,265,559	5,331,536	-	-	16,897,676
Contractual Amounts Payable	(2,300,580)	(9,265,559)	(5,331,536)	-	-	(16,897,676)
Financial Liabilities						
Contractual Amounts Receivable	1,442,223	2,024,211	245,112	-	-	3,711,545
Contractual Amounts Payable	(1,442,223)	(2,024,211)	(245,112)	-	-	(3,711,545)
Total Gross Settled Derivative Assets/(Liabilities) not Held for Trading						
Total Net Financial Assets/ (Liabilities)	2,129,430	(14,795,412)	(18,399,551)	53,820,798	9,782,067	32,537,331

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44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.3 Liquidity Risk and Funding Management (Contd.)

Bank - As at 31 December 2014	On demand (Less than 15 days) LKR'000	16 days to 3 months LKR'000	3 to 12 months LKR'000	1 to 5 years LKR'000	Over 5 years LKR'000	Total LKR'000
Financial Assets						
Cash and Cash Equivalents	6,899,170	-	-	-	-	6,899,170
Balances with Central Bank of Sri Lanka	3,992,118	-	-	-	-	3,992,118
Reverse Repurchase Agreements	2,019,587	9,040,084	171	-	-	11,059,842
Financial Assets - Held for Trading						
Government Debt Securities - Treasury Bills and Bonds	1,163,450	6,078,275	3,788,425	5,599,075	133,600	16,762,825
Financial Assets-Available for Sale						
Government Debt Securities - Treasury Bills and Bonds	-	-	3,253,750	1,240,250	-	4,494,000
Unquoted Equity Shares	-	-	-	-	158,878	158,878
Financial Assets - Held to Maturity						
Government Debt Securities - Treasury Bills and Bonds	121,240	22,500	1,848,932	9,031,336	914,363	11,938,371
Other Financial Assets	12,825	336,808	694,700	3,318,038	-	4,362,372
Loans & Advances to Customers	40,164,095	14,732,777	17,694,193	36,943,208	3,620,385	113,154,658
Total Undiscounted Financial Assets	54,372,484	30,210,444	27,280,171	56,131,908	4,827,226	172,822,233
Financial Liabilities						
Due to Banks	1,272,146	1,652,567	-	-	-	2,924,713
Repurchase Agreements	8,832,630	4,778,498	874,336	1,098,340	-	15,583,803
Due to Customers	45,461,453	25,642,921	34,770,658	11,320,209	-	117,195,241
Debt Issued and Other Borrowed Funds	295,625	1,539,092	827,214	9,354,319	-	12,016,249
Total Undiscounted Financial Liabilities	55,861,854	33,613,077	36,472,208	21,772,868	-	147,720,006
Net Undiscounted Financial Assets/ (Liabilities)	(1,489,369)	(3,402,633)	(9,192,037)	34,359,040	4,827,226	25,102,227
Gross Settled Derivatives not Held for Trading						
Financial Assets						
Contractual Amounts Receivable	4,392,944	3,984,302	8,423,989	-	-	16,801,235
Contractual Amounts Payable	(4,392,944)	(3,984,302)	(8,423,989)	-	-	(16,801,235)
Financial Liabilities						
Contractual Amounts Receivable	5,840,204	4,448,849	2,214,851	-	-	12,503,904
Contractual Amounts Payable	(5,840,204)	(4,448,849)	(2,214,851)	-	-	(12,503,904)
Total Gross Settled Derivative Assets/(Liabilities) not Held for Trading	-	-	-	-	-	-
Total Net Financial Assets/ (Liabilities)	(1,489,369)	(3,402,633)	(9,192,037)	34,359,040	4,827,226	25,102,227

NOTES TO THE FINANCIAL STATEMENTS

44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.3 Liquidity Risk and Funding Management (Contd.)

Group - As at 31 December 2015	On demand (Less than 15 days) LKR'000	16 days to 3 months LKR'000	3 to 12 months LKR'000	1 to 5 years LKR'000	Over 5 years LKR'000	Total LKR'000
Financial Assets						
Cash and Cash Equivalents	6,392,437	-	-	-	-	6,392,437
Balances with Central Bank of Sri Lanka	5,283,866	-	-	-	-	5,283,866
Reverse Repurchase Agreements	301,460	1,214	-	-	-	302,674
Financial Assets - Held for Trading						
Government Debt Securities - Treasury Bills and Bonds	12,075	1,121,827	658,502	351,725	-	2,144,129
Financial Assets-Available for Sale						
Government Debt Securities - Treasury Bills and Bonds	241,097	2,823,713	6,077,162	8,903,737	-	18,045,708
Unquoted Equity Shares	-	-	-	-	196,563	196,563
Financial Assets - Held to Maturity						
Government Debt Securities - Treasury Bills and Bonds	115,936	98,992	2,054,008	10,051,667	4,268,137	16,588,740
Other Financial Assets	54,275	53,948	512,891	7,036,884	-	7,657,998
Loans & Advances to Customers	46,474,191	18,608,264	20,385,472	48,320,074	5,336,463	139,124,463
Total Undiscounted Financial Assets	58,875,337	22,707,958	29,688,034	74,664,087	9,801,163	195,736,578
Financial Liabilities						
Due to Banks	1,987,964	289,635	-	-	-	2,277,599
Repurchase Agreements	4,545,602	5,224,168	689,632	-	-	10,459,402
Due to Customers	47,661,028	29,910,215	44,194,581	12,215,025	-	133,980,849
Debt Issued and Other Borrowed Funds	1,170,195	2,079,136	3,197,647	8,549,108	-	14,996,085
Total Undiscounted Financial Liabilities	55,364,790	37,503,153	48,081,859	20,764,133	-	161,713,935
Net Undiscounted Financial Assets/ (Liabilities)	3,510,547	(14,795,195)	(18,393,825)	53,899,954	9,801,163	34,022,643
Gross Settled Derivatives not Held for Trading						
Financial Assets						
Contractual Amounts Receivable	2,300,580	9,265,559	5,331,536	-	-	16,897,676
Contractual Amounts Payable	(2,300,580)	(9,265,559)	(5,331,536)	-	-	(16,897,676)
Financial Liabilities						
Contractual Amounts Receivable	1,442,223	2,024,211	245,112	-	-	3,711,545
Contractual Amounts Payable	(1,442,223)	(2,024,211)	(245,112)	-	-	(3,711,545)
Total Gross Settled Derivative Assets/(Liabilities) not Held for Trading	-	-	-	-	-	-
Total Net Financial Assets/ (Liabilities)	3,510,547	(14,795,195)	(18,393,825)	53,899,954	9,801,163	34,022,643

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44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.3 Liquidity Risk and Funding Management (Contd.)

Group - As at 31 December 2014	On demand (Less than 15 days) LKR'000	16 days to 3 months LKR'000	3 to 12 months LKR'000	1 to 5 years LKR'000	Over 5 years LKR'000	Total LKR'000
Financial Assets						
Cash and Cash Equivalents	6,900,194	-	-	-	-	6,900,194
Balances with Central Bank of Sri Lanka	3,992,118	-	-	-	-	3,992,118
Reverse Repurchase Agreements	2,019,587	9,040,084	171	-	-	11,059,842
Financial Assets - Held for Trading						
Government Debt Securities - Treasury Bills and Bonds	1,165,075	6,078,275	3,840,050	5,599,075	133,600	16,816,075
Financial Assets-Available for Sale						
Government Debt Securities - Treasury Bills and Bonds	-	-	3,253,750	1,240,250	-	4,494,000
Unquoted Equity Shares	-	-	-	-	158,878	158,878
Financial Assets - Held to Maturity						
Government Debt Securities - Treasury Bills and Bonds	121,336	22,717	1,854,658	9,055,492	994,498	12,048,701
Other Financial Assets	12,825	336,808	694,700	3,318,038	-	4,362,372
Loans & Advances to Customers	41,442,616	14,732,777	17,694,193	36,943,208	3,620,385	114,433,179
Total Undiscounted Financial Assets	55,653,750	30,210,661	27,337,522	56,156,064	4,907,361	174,265,358
Financial Liabilities						
Due to Banks	1,272,146	1,652,567	-	-	-	2,924,713
Repurchase Agreements	8,832,630	4,377,734	874,336	1,098,340	-	15,183,039
Due to Customers	45,424,674	25,642,921	34,770,658	11,320,209	-	117,158,462
Debt Issued and Other Borrowed Funds	798,674	1,539,092	827,214	9,354,319	-	12,519,299
Total Undiscounted Financial Liabilities	56,328,124	33,212,313	36,472,208	21,772,868	-	147,785,513
Net Undiscounted						
Financial Assets/ (Liabilities)	(674,374)	(3,001,652)	(9,134,686)	34,383,196	4,907,361	26,479,845
Gross Settled Derivatives not Held for Trading						
Financial Assets						
Contractual Amounts Receivable	4,392,944	3,984,302	8,423,989	-	-	16,801,235
Contractual Amounts Payable	(4,392,944)	(3,984,302)	(8,423,989)	-	-	(16,801,235)
Financial Liabilities						
Contractual Amounts Receivable	5,840,204	4,448,849	2,214,851	-	-	12,503,904
Contractual Amounts Payable	(5,840,204)	(4,448,849)	(2,214,851)	-	-	(12,503,904)
Total Gross Settled Derivative Assets/(Liabilities) not Held for Trading						
Total Net Financial Assets/ (Liabilities)	(674,374)	(3,001,652)	(9,134,686)	34,383,196	4,907,361	26,479,845

NOTES TO THE FINANCIAL STATEMENTS

44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.3 Liquidity Risk and Funding Management (Contd.)

Whilst the management understands above contractual maturity gaps, more emphasis is given for the behavioral nature of these cash flows when managing the overall liquidity profile. Management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing asset growth with liquidity in mind whilst monitoring future cash flows and liquidity.

In accordance with the Bank's policy, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

Bank	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
As at 31 December 2015	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Bonds	597,606	1,411,857	3,342,802	572,032	-	5,924,297
Acceptance	412,105	1,343,973	295,459	-	-	2,051,537
Guarantees	406,918	-	-	-	-	406,918
Letters of Credit	595,103	2,841,265	365,404	-	-	3,801,772
Foreign Exchange Contracts	3,768,981	11,307,741	5,576,648	-	-	20,653,370
Undrawn Commitments	63,980,537	-	-	-	-	63,980,537
Total Commitments and Guarantees	69,761,251	16,904,835	9,580,313	572,032	-	96,818,431

Bank	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
As at 31 December 2014	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Bonds	464,275	1,098,943	3,180,154	1,012,807	-	5,756,180
Acceptance	385,708	1,474,314	316,243	-	-	2,176,265
Guarantees	105,716	-	-	-	-	105,716
Letters of Credit	396,605	3,316,991	328,554	1,754	-	4,043,903
Foreign Exchange Contracts	10,258,459	8,433,151	10,638,839	-	-	29,330,449
Undrawn Commitments	57,276,118	-	-	-	-	57,276,118
Total Commitments and Guarantees	68,886,881	14,323,399	14,463,790	1,014,561	-	98,688,631

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44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.3 Liquidity Risk and Funding Management (Contd.)

Group	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
As at 31 December 2015	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Bonds	597,606	1,411,857	3,342,802	572,032	-	5,924,297
Acceptance	412,105	1,343,973	295,459	-	-	2,051,537
Guarantees	406,918	-	-	-	-	406,918
Letters of Credit	595,103	2,841,265	365,404	-	-	3,801,772
Foreign Exchange Contracts	3,768,981	11,307,741	5,576,648	-	-	20,653,370
Undrawn Commitments	63,953,891	-	-	-	-	63,953,891
Total Commitments and Guarantees	69,734,605	16,904,835	9,580,313	572,032	-	96,791,786

Group	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
As at 31 December 2014	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Bonds	464,275	1,098,943	3,180,154	1,012,807	-	5,756,180
Acceptance	385,708	1,474,314	316,243	-	-	2,176,265
Guarantees	105,716	-	-	-	-	105,716
Letters of Credit	396,605	3,316,991	328,554	1,754	-	4,043,903
Foreign Exchange Contracts	10,258,459	8,433,151	10,638,839	-	-	29,330,449
Undrawn Commitments	57,386,637	-	-	-	-	57,386,637
Total Commitments and Guarantees	68,997,399	14,323,399	14,463,790	1,014,561	-	98,799,150

NOTES TO THE FINANCIAL STATEMENTS

44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.4 Market Risk

Market Risk denotes the risk of losses in the banking book as a result of unfavorable movements in market indices such as interest rates, foreign exchange rates, credit spreads, equity prices and commodity prices. The values of these indices are set in public market and the risk cannot be eliminated through diversification.

The Bank manages the market risk on both trading and non-trading portfolios through a comprehensive market risk management framework. The objective of such framework is to reduce the exposure to the aforementioned unfavorable movements and mitigate the impact on the economic income and cash flows.

The Bank sets market risk limits for both trading and non-trading portfolios which carries the concurrence of the board of directors. These limits are reviewed periodically and all revisions and amendments are subject to Board approval. A daily report summarizes the Bank's market risk exposure against approved limits and same being scrutinized by the relevant members in the management team which includes the Chief Executive Officer as well.

Types of Market Risk

Both trading and non-trading activities of the Bank are exposed to unfavorable movements in the market indices which reflect in the profit and losses. Bank identifies two types of market risks which directly influence the banking book.

- Interest Rate Risk
- Currency Risk

Interest Rate Risk

Interest rate risk (IRR) arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Any mismatches in the cash flows (fixed rate assets or liabilities) or re-pricing dates (floating rate assets or liabilities) expose the Banks' Net Interest Income to variations. The Board has established limits on the interest rate gaps. The Bank's policy is to monitor positions on a monthly basis and to ensure positions are maintained within the established limits.

IRR exposure is primarily managed with Repricing Gap analysis that distributes interest rate sensitive assets, liabilities and off-balance sheet positions at carrying amount into a number of pre-defined time-bands according to their residual term to maturity (fixed rate) or residual term for their next re-pricing (floating rate).

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44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.4 Market Risk (Contd.)

Bank - As at 31 December 2015	Total	On demand (Less than 15 days)	16 days to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Assets							
Cash and balances with Central Bank of Sri Lanka	9,047,010	-	-	-	-	-	9,047,010
Loans and Advances	120,510,409	45,539,083	23,786,538	19,924,554	27,511,802	2,045,565	1,702,866
Investments	37,857,166	589,200	5,692,477	9,331,770	18,588,390	3,106,950	548,379
Other	32,198,495	5,827,137	11,469,762	5,642,168	-	-	9,259,429
Total Assets	199,613,080	51,955,420	40,948,777	34,898,492	46,100,192	5,152,515	20,557,683
Liabilities							
Deposits	126,825,303	32,548,149	28,893,711	41,196,382	9,014,697	-	15,172,364
Borrowings	25,879,843	8,035,657	9,077,289	5,639,456	3,008,380	-	119,060
Other	50,824,464	4,285,949	11,192,770	5,501,083	-	-	29,844,662
Total Shareholder Funds and Liabilities	203,529,610	44,869,755	49,163,771	52,336,921	12,023,077	-	45,136,086
Total Interest Sensitivity Gap		7,085,665	(8,214,994)	(17,438,429)	34,077,116	5,152,515	(24,578,402)

** The Classifications are based on the way that ALCO monitors repricing gaps.

Bank - As at 31 December 2014	Total	On demand (Less than 15 days)	16 days to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Assets							
Cash and balances with Central Bank of Sri Lanka	7,492,864	-	-	-	-	-	7,492,864
Loans and Advances	96,667,470	35,586,041	20,293,472	13,267,546	21,454,363	3,901,996	2,164,053
Investments	44,430,444	3,096,176	16,678,706	8,889,240	14,593,990	806,950	365,382
Other	40,912,983	13,876,430	7,962,526	10,446,358	-	-	8,627,669
Total Assets	189,503,761	52,558,647	44,934,704	32,603,144	36,048,352	4,708,946	18,649,967
Liabilities							
Deposits	109,199,600	27,064,930	24,695,951	32,866,217	8,172,085	-	16,400,416
Borrowings	27,457,817	10,963,002	7,727,536	2,753,934	6,003,040	-	10,306
Other	57,637,681	10,745,002	8,007,834	10,481,873	-	-	28,402,971
Total Shareholder Funds and Liabilities	194,295,097	48,772,934	40,431,321	46,102,025	14,175,125	-	44,813,693
Total Interest Sensitivity Gap		3,785,713	4,503,383	(13,498,880)	21,873,228	4,708,946	(26,163,726)

** The Classifications are based on the way that ALCO monitors repricing gaps.

NOTES TO THE FINANCIAL STATEMENTS

44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.4 Market Risk (Contd.)

Group - As at 31 December 2015	Total	On demand (Less than 15 days)	16 days to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Assets							
Cash and balances with Central Bank of Sri Lanka	9,047,071	-	-	-	-	-	9,047,071
Loans and Advances	121,338,357	46,367,031	23,786,538	19,924,554	27,511,802	2,045,565	1,702,866
Investments	37,925,212	589,200	5,692,477	9,331,770	18,645,390	3,125,051	541,324
Other	32,203,399	5,827,137	11,469,762	5,642,168	-	-	9,264,332
Total Assets	200,514,039	52,783,368	40,948,777	34,898,492	46,157,192	5,170,616	20,555,593
Liabilities							
Deposits	126,825,303	32,548,149	28,893,711	41,196,382	9,014,697	-	15,172,364
Borrowings	25,879,843	8,035,657	9,077,289	5,639,456	3,008,380	-	119,060
Other	51,725,423	4,285,949	11,192,770	5,501,083	-	-	30,745,620
Total Shareholder Funds and Liabilities	204,430,569	44,869,755	49,163,771	52,336,921	12,023,077	-	46,037,044
Total Interest Sensitivity Gap		7,913,613	(8,214,994)	(17,438,429)	34,134,116	5,170,616	(25,481,451)

** The Classifications are based on the way that ALCO monitors repricing gaps.

Group - As at 31 December 2014	Total	On demand (Less than 15 days)	16 days to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Assets							
Cash and balances with Central Bank of Sri Lanka	7,492,864	-	-	-	-	-	7,492,864
Loans and Advances	97,945,991	36,864,562	20,293,472	13,267,546	21,454,363	3,901,996	2,164,053
Investments	44,548,897	3,096,176	16,678,706	8,939,240	14,593,990	882,051	358,733
Other	40,919,205	13,876,430	7,962,526	10,446,358	-	-	8,633,891
Total Assets	190,906,956	53,837,168	44,934,704	32,653,144	36,048,352	4,784,047	18,649,541
Liabilities							
Deposits	109,199,600	27,064,930	24,695,951	32,866,217	8,172,085	-	16,400,416
Borrowings	27,959,710	11,464,895	7,727,536	2,753,934	6,003,040	-	10,306
Other	58,539,039	10,745,002	8,007,834	10,481,873	-	-	29,304,330
Total Shareholder Funds and Liabilities	195,698,349	49,274,827	40,431,321	46,102,025	14,175,125	-	45,715,051
Total Interest Sensitivity Gap		4,562,341	4,503,383	(13,448,880)	21,873,228	4,784,047	(27,065,510)

** The Classifications are based on the way that ALCO monitors repricing gaps.

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44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.4 Market Risk (Contd.)

The ALCO monitors the above gaps and the sensitivity on the Profit or Loss and equity for Sri Lanka Rupee and US Dollar denominated assets and liabilities on a Bank and Group basis against the set limits. The sensitivity of the Profit or Loss and equity is measured by calculating the change in the present value of above interest rate sensitive gaps, based on assumed changes in interest rates along the yield curve.

The following table demonstrates the sensitivity of the Bank's Profit or Loss to a reasonably possible parallel shift in the interest rate yield curve, with all other variables held constant.

Bank Asset/Liabilities	Increase /(Decrease) in basis points 2015	Sensitivity to Profit after Tax 2015 LKR'000	Sensitivity to Equity after Tax 2015 LKR'000
LKR	+100/-100	+93,765/-95,210	-482,748/+510,468
USD	+50/-50	-2,935/+2,947	-7,032/+7,202

Bank Asset/Liabilities	Increase /(Decrease) in basis points 2014	Sensitivity to Profit after Tax 2014 LKR'000	Sensitivity to Equity after Tax 2014 LKR'000
LKR	+100/-100	+54,342/-55,183	-350,603/+372,167
USD	+50/-50	-8,815/+8,894	-18,220/+18,658

Group Asset/Liabilities	Increase /(Decrease) in basis points 2015	Sensitivity to Profit after Tax 2015 LKR'000	Sensitivity to Equity after Tax 2015 LKR'000
LKR	+100/-100	+93,538/-94,981	-484,478/+512,291
USD	+50/-50	-2,935/+2,947	-7,032/+7,202

Group Asset/Liabilities	Increase /(Decrease) in basis points 2014	Sensitivity to Profit after Tax 2014 LKR'000	Sensitivity to Equity after Tax 2014 LKR'000
LKR	+100/-100	+53,888/-54,722	-352,659/+374,350
USD	+50/-50	-8,815/+8,894	-18,220/+18,658

NOTES TO THE FINANCIAL STATEMENTS

44. FINANCIAL RISK MANAGEMENT (CONTD.)

44.4 Market Risk (Contd.)

Exposure to market risk in the trading book is separately monitored and measured by setting limits on products, maturity profile of the portfolio, cut-loss limits and by setting sub-limits within above interest rate sensitive gap analysis.

Currency Risk

Currency risk is the potential risk of loss due to unfavorable movements in foreign exchange rates when the bank has foreign currency denominated assets, liabilities or trading positions. Exposure to each currency is arrived at by calculating the Net Asset or Liability position including the spot and forward contracts of the relevant currency.

The Board has set following limits to mitigate against currency risk exposures;

- Exposure on currencies on individual and an aggregate basis
- Exposure for each currency by maturity for forward currency contracts
- Dealer and counter-party Limits
- Overnight and Intra-day Limits
- Stop-loss limits

Treasury Middle Office (TMO) monitors the above positions on a daily basis to ensure positions are maintained within established limits.

The table below indicates the currencies to which the Bank had material exposures at 31 December 2015. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Sri Lankan Rupee, with all other variables held constant, on the Profit or Loss. A negative amount in the table reflects a potential net reduction in Profit or Loss, while a positive amount reflects a net potential increase. An equivalent decrease in each of the below currencies against the Sri Lankan Rupee would have resulted in an equivalent but opposite impact. The sensitivity related to trading position in the Domestic Banking Unit is given below.

Currency	Change in Currency Rate in % 2015	Change in Currency Rate in % 2014	Effect on Profit after tax 2015 LKR'000	Effect on Profit after tax 2014 LKR'000
USD	+5	+5	(1,352.0)	(5,549.8)
GBP	+5	+5	101.1	(63.2)
EUR	+5	+5	88.6	84.0
AUD	+5	+5	(95.7)	(29.8)
JPY	+5	+5	5.6	6.5
Other	+5	+5	425.6	332.3

In addition to above trading exposures, the Bank carries a structural position arising from the negative US dollar reserves accumulated in Foreign Currency Banking Unit books. The sensitivity to Profit or Loss from this exposure is as follows;

Currency	Change in Currency Rate in % 2015	Change in Currency Rate in % 2014	Effect on Profit after tax 2015 LKR'000	Effect on Profit after tax 2014 LKR'000
USD	+5	+5	(15,243.4)	(12,281.5)

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45 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend.

Even though these obligations may not be recognised on the Statement of Financial Position, they do contain credit risk and are therefore part of the overall risk of the Bank. (Note 44)

Letters of credit and guarantees commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

45.1 Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing.

45.2 Capital Commitments

The commitment for acquisition of Property, Plant and Equipment and Intangible Assets incidental to the ordinary course of business as at 31 December are as follows;

	Bank/Group	
	2015 LKR '000	2014 LKR '000
Capital Commitments for Property, Plant and Equipment		
Approved and Contracted for	233,786	82,067
Approved but not Contracted for	58,380	20,054
	292,166	102,121
Capital Commitments for Intangible Assets		
Approved and Contracted for	359,645	99,114
Approved but not Contracted for	8,468	5,800
	368,113	104,914
	660,279	207,035

45.3 Lease Arrangements

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as a lessor

Leases where the Group does not transfer substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

NOTES TO THE FINANCIAL STATEMENTS

45 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS (CONTD.)

45.3 Lease Arrangements (Contd.)

Group as a lessee

Leases that do not transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognized as an expense in the Profit or Loss on a straight-line basis over the lease term. Contingent rental payable is recognized as an expense in the period in which they are incurred.

45.3.1 Operating Lease Commitments – Bank as Lessee

The Bank has entered into commercial leases for premises. These leases have an average life of ten years with no renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum lease payments under non-cancellable operating leases as at 31 December are, as follows:

	Bank	
	2015	2014
	LKR '000	LKR '000
Within one year	212,687	182,771
After one year but not more than five years	395,279	362,070
More than five years	75,600	8,304
	683,566	553,145

45.3.2 Operating Lease Receivable – Group as Lessor

The table below provides an analysis of finance lease receivables for leases of certain property in which the Group is the lessor.

	Group	
	2015	2014
	LKR '000	LKR '000
Within one year	26,902	18,414
After one year but not more than five years	43,217	5,959
	70,119	24,373

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46 CAPITAL

The Bank maintains an actively managed capital base to cover risks inherent in the business and meet the capital adequacy requirements of the Central Bank of Sri Lanka. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS) and adopted by the Central Bank of Sri Lanka in supervising the Bank.

46.1 Capital Management

The primary objectives of the Bank's capital management policy are to ensure that the bank complies with externally imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder value.

Regulatory capital consists of Tier 1 Capital, which comprises share capital, share premium, retained earnings including current year profit. The other component of regulatory capital is Tier II Capital, which includes subordinated long term debt.

46.2 Net Assets Value per Ordinary Share

Net Assets Value per Ordinary Share is calculated by dividing the Equity Attributable to Equity Holders of the Parent by the weighted average number of Ordinary Shares as at the reporting date.

	Bank		Group	
	2015	2014	2015	2014
Amount Used as the Numerator:				
On Attributable to Equity Holders of the Parent (LKR '000)	13,990,186	12,788,555	15,171,440	13,894,525
Number of Ordinary Shares Used as the Denominator:				
Ordinary Shares at the beginning of the year	230,607,283	230,607,283	230,607,283	230,607,283
Number of Ordinary Shares in Issue at the End of the Year	230,607,283	230,607,283	230,607,283	230,607,283
Net Assets Value per Ordinary Share (LKR)	60.67	55.46	65.79	60.25

47 SUPER GAIN TAX

As per the provisions of Part III of the Finance Act, No. 10 of 2015 which was certified on 30 October 2015, the Bank paid Super Gain Tax of Rs. 733 Mn (Group - Rs. 820 Mn). According to the Act, the Super Gain Tax shall be deemed to be an expenditure in the financial statements relating to the year of assessment which commenced on 1 April 2013. The Act supersedes the requirements of the Sri Lanka Accounting Standards, hence the expense of Super Gain Tax is accounted in accordance with the requirements of the said Act as recommended by the Statement of Alternative Treatment (SoAT) on Accounting for Super Gain Tax issued by the Institute of Chartered Accountants of Sri Lanka, dated 24 November 2015.

48 EVENTS AFTER THE REPORTING DATE

No material events have taken place since 31 December 2015 that require disclosure or/and adjustments in these accounts, except for the following;

a) Proposed dividends

Subject to approval of the shareholders at the forthcoming Annual General Meeting, the Directors recommended a payment of a first and final dividend of LKR 2.10 per share for the year ended 31 December 2015.

DETAILS OF FREEHOLD LAND & BUILDINGS

No.	Building	Extent (perches)	Cost of Land	Land - Value	Cost of Building	Building - Value	Total Cost	Total Accumilated Value Depreciation	Net Book Value - 2015	Net Book Value - 2014	
		LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	
01	Head Office 242, Union Place, Colombo 02	77.20	543,985	567,750	142,805	226,050	686,790	793,800	51,884	634,906	640,098
02	City Office 76, York Street, Colombo 01	10.82	15,455	81,150	31,323	24,615	46,778	105,765	16,939	29,840	24,603

The freehold land and buildings of the bank was revalued during 2014, by a professionally qualified independent valuer. The revaluation was carried out by taking into account the prices in property markets or recent market transactions on arm's length basis. The revaluation gains have not been booked.