



**Audited Financial Statements of the Bank
for the Year ended 31st December 2017**

Statement of Financial Position

As at 31 December	Notes	Bank		Group	
		2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Assets					
Cash and Cash Equivalents	6	6,867,222	4,187,605	6,869,695	4,187,649
Balances with Central Bank of Sri Lanka	7	11,193,266	8,511,509	11,193,266	8,511,509
Reverse Repurchase Agreements	8.1	10,798	14,930	10,798	14,930
Derivative Financial Instruments	9.1	230,217	65,356	230,217	65,356
Financial Assets - Held for Trading	10	521,389	1,574,952	521,389	1,574,952
Financial Assets-Available for Sale	11	38,852,046	22,148,963	38,852,046	22,148,963
Financial Assets - Held to Maturity	12	9,879,390	12,929,523	9,950,433	12,998,988
Other Financial Assets	13	6,797,607	6,860,950	6,797,607	6,860,950
Loans and Advances to Customers	14	186,536,712	148,924,734	186,745,711	149,817,941
Other Assets	15	1,893,474	1,776,550	1,940,988	1,813,688
Investments in Subsidiaries	16	678,710	678,710	-	-
Property, Plant and Equipment	17	2,584,301	1,536,664	3,363,792	1,996,208
Intangible Assets	18	1,148,646	1,180,699	1,153,552	1,188,841
Total Assets		267,193,778	210,391,145	267,629,494	211,179,975
Liabilities					
Due to Banks	19	10,713,864	11,850,888	10,713,864	11,850,888
Repurchase Agreements	8.2	12,319,188	9,850,773	11,940,783	9,261,110
Derivative Financial Instruments	9.2	495,517	130,017	495,517	130,017
Due to Customers	20	194,296,718	151,559,668	194,268,995	151,502,236
Debt Issued and Other Borrowed Funds	21	19,737,574	14,145,105	19,737,574	14,145,105
Current Tax Liabilities		803,249	439,215	847,501	478,011
Other Liabilities	22	6,282,421	5,463,970	6,327,290	5,522,850
Deferred Tax Liabilities	23	1,737,512	970,413	1,827,929	969,154
Total Liabilities		246,386,043	194,410,050	246,159,453	193,859,371
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	1,010,732	796,400	1,010,732	796,400
Retained Earnings	26	13,813,403	10,261,404	14,237,649	11,600,912
Available for Sale Reserve	27.1	207,600	(178,077)	207,600	(178,077)
Revaluation Reserve	27.2	674,631	-	912,691	-
Total Equity		20,807,735	15,981,096	21,470,041	17,320,604
Total Liabilities and Equity		267,193,778	210,391,145	267,629,494	211,179,975
Contingent Liabilities and Commitments	44.2	173,130,996	124,017,916	171,587,167	123,584,888
Net Assets Value per Ordinary Share (LKR.)		87.94	67.54	90.74	73.21

Certification

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

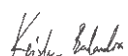


Ajith Akmeemana
Chief Financial Officer

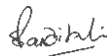
The Notes to the Financial Statements from pages 7 to 106 form an integral part of these Financial Statements.

The Board of Directors is responsible for these Financial Statements.

Signed for and on behalf of the Board of Directors by :



K.N.J. Balendra
Chairman



N. Shalini Panditaratne
Director



Renuka Fernando
Director / CEO



Theja Silva
Company Secretary

Colombo
27th February 2018

Statement of Profit or Loss

For the Year Ended 31 December	Notes	Bank		Group	
		2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Gross Income		36,097,195	25,300,051	35,332,973	25,547,459
Interest Income	28	30,262,250	21,269,532	30,384,940	21,383,877
Interest Expense	29	(18,152,375)	(11,646,713)	(18,096,662)	(11,598,266)
Net Interest Income		12,109,875	9,622,819	12,288,278	9,785,611
Fees and Commission Income	30.1	4,753,996	3,680,228	4,979,084	3,836,765
Fees and Commission Expense	30.2	(322,737)	(245,474)	(322,743)	(238,456)
Net Fees and Commission Income		4,431,259	3,434,754	4,656,341	3,598,309
Net Trading Income / (Loss)	31	(558,453)	(241,381)	(558,453)	(241,381)
Other Operating Income	32	1,639,402	591,672	527,402	568,198
Total Operating Income		17,622,083	13,407,864	16,913,568	13,710,737
Impairment Charge for Loans and Advances and Available for Sale	33	(1,088,404)	(674,810)	(1,088,825)	(690,272)
Individual Impairment		(354,314)	(3,402)	(354,314)	(3,402)
Collective Impairment		(729,554)	(661,066)	(729,975)	(676,528)
Others - Charges Receivable Impairment		(4,536)	(10,342)	(4,536)	(10,342)
Net Operating Income		16,533,679	12,733,054	15,824,743	13,020,465
Personnel Expenses	34	(3,825,570)	(3,301,854)	(3,856,988)	(3,330,970)
Depreciation of Property, Plant and Equipment	17.1	(352,319)	(347,977)	(366,855)	(362,221)
Amortization of Intangible Assets	18.1	(272,581)	(260,292)	(275,817)	(263,495)
Other Operating Expenses	35	(4,276,602)	(3,669,804)	(4,273,394)	(3,663,299)
Total Operating Expenses		(8,727,072)	(7,579,927)	(8,773,054)	(7,619,985)
Operating Profit before Value Added Tax (VAT) and Nations Building Tax (NBT) on Financial Services		7,806,607	5,153,127	7,051,689	5,400,480
Value Added Tax (VAT) and Nations Building Tax (NBT) on Financial Services	36	(1,636,093)	(1,046,211)	(1,658,207)	(1,060,284)
Profit before Income Tax		6,170,514	4,106,916	5,393,482	4,340,196
Income Tax Expense	37	(1,883,873)	(1,395,707)	(2,021,993)	(1,471,110)
Profit for the Year		4,286,641	2,711,209	3,371,489	2,869,086
Earnings Per Share					
Basic / Diluted Earnings Per Share - LKR	38	18.12	11.46	14.25	12.13
Dividend Per Share - LKR	39	2.10	2.10	2.10	2.10

The Notes to the Financial Statements from pages 7 to 106 form an integral part of these Financial Statements.

Statement of Comprehensive Income

For the Period Ended 31 December	Notes	Bank		Group	
		2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Profit for the Year		4,286,641	2,711,209	3,371,489	2,869,086
Other Comprehensive Income / (Expense) to be reclassified to profit or loss in subsequent periods:					
Net gains / (loss) on re-measuring available-for-sale financial assets	27.1	535,663	(138,564)	535,663	(138,564)
Less: Reclassification adjustment to the profit or loss		-	(210,546)	-	(210,546)
Net income tax (charge) / reversal relating to components of re-measuring available-for-sale financial assets	23.2	(149,986)	97,751	(149,986)	97,751
		385,677	(251,359)	385,677	(251,359)
Other Comprehensive Income / (Expense) not to be reclassified to profit or loss in subsequent periods:					
Actuarial gain / (loss) on defined benefit plan	22.2.2	(50,049)	21,299	(50,201)	21,823
Net income tax (charge) / reversal relating to components of defined benefit plan	23.2	14,014	(5,964)	14,056	(6,111)
Gain on Revaluation of Land & Building	27.2	936,988	-	1,267,627	-
Net income tax (charge) / reversal relating to revaluation gain	23.2	(262,357)	-	(354,936)	-
		638,596	15,335	876,546	15,712
Total Other Comprehensive Income / (Expense)		1,024,273	(236,024)	1,262,223	(235,647)
Total Comprehensive Income for the Year, Net of Tax		5,310,914	2,475,185	4,633,712	2,633,439
Attributable to:					
Equity Holders of the Parent		5,310,914	2,475,185	4,633,712	2,633,439

The Notes to the Financial Statements from pages 7 to 106 form an integral part of these Financial Statements.

Statement of Changes in Equity

Bank	Notes	Stated Capital	Retained Earnings	Revaluation Reserve	Available for Sale Reserve	Statutory Reserve Fund	Total
		LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
As at 01 January 2016		5,101,369	8,154,695	-	73,282	660,840	13,990,186
Profit for the year		-	2,711,209	-	-	-	2,711,209
Other Comprehensive Income	27	-	15,335	-	(251,359)	-	(236,024)
Total Comprehensive Income	26	-	2,726,544	-	(251,359)	-	2,475,185
Dividend paid for 2015	26	-	(484,275)	-	-	-	(484,275)
Transfers to the Statutory Reserve Fund	25.2	-	(135,560)	-	-	135,560	-
As at 31 December 2016		5,101,369	10,261,404	-	(178,077)	796,400	15,981,096
Profit for the year		-	4,286,641	-	-	-	4,286,641
Other Comprehensive Income	27	-	(36,035)	674,631	385,677	-	1,024,273
Total Comprehensive Income	26	-	4,250,606	674,631	385,677	-	5,310,914
Dividend paid for 2016	26	-	(484,275)	-	-	-	(484,275)
Transfers to the Statutory Reserve Fund	25.2	-	(214,332)	-	-	(214,332)	-
As at 31 December 2017		5,101,369	13,813,403	674,631	207,600	1,010,732	20,807,735

Group	Notes	Stated Capital	Retained Earnings	Revaluation Reserve	Available for Sale Reserve	Statutory Reserve Fund	Total
		LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
As at 01 January 2016		5,101,369	9,335,949	-	73,282	660,840	15,171,440
Profit for the year		-	2,869,086	-	-	-	2,869,086
Other Comprehensive Income	27	-	15,712	-	(251,359)	-	(235,647)
Total Comprehensive Income	26	-	2,884,798	-	(251,359)	-	2,633,439
Dividend paid for 2015	26	-	(484,275)	-	-	-	(484,275)
Transfers to the Statutory Reserve Fund	25.2	-	(135,560)	-	-	135,560	-
As at 31 December 2016		5,101,369	11,600,912	-	(178,077)	796,400	17,320,604
Profit for the year		-	3,371,489	-	-	-	3,371,489
Other Comprehensive Income	27	-	(36,145)	912,691	385,677	-	1,262,223
Total Comprehensive Income	26	-	3,335,344	912,691	385,677	-	4,633,712
Dividend paid for 2016	26	-	(484,275)	-	-	-	(484,275)
Transfers to the Statutory Reserve Fund	25.2	-	(214,332)	-	-	214,332	-
As at 31 December 2017		5,101,369	14,237,649	912,691	207,600	1,010,732	21,470,041

The Notes to the Financial Statements from pages 7 to 106 form an integral part of these Financial Statements.

Statement of Cash Flows

For the Period Ended 31 December	Notes	Bank		Group	
		2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Cash Flows from Operating Activities					
Receipts of Interest Income		29,783,292	20,395,332	29,905,982	20,635,355
Receipts of Fees and Commission Income		4,752,679	3,676,301	4,977,767	3,855,703
Payments of Interest Expense		(15,894,217)	(10,030,686)	(15,835,132)	(10,108,746)
Payments of Fees and Commission Expense		(322,737)	(245,474)	(322,743)	(232,882)
Net Trading Income		(576,780)	(232,852)	(576,779)	(232,852)
Receipts from Other Operating Income		1,638,709	584,536	526,708	578,783
Gratuity Payments Made	22.2.2	(64,828)	(57,073)	(64,828)	(57,504)
Payments for Operating Expenses		(9,512,903)	(7,753,475)	(9,556,046)	(7,798,626)
Net Cash Flow from Operating Activities before Income Tax (A)		9,803,216	6,336,609	9,054,931	6,639,231
Income Tax paid		(765,268)	(760,145)	(898,794)	(819,584)
Operating Profit before Changes in Operating Assets and Liabilities		9,037,949	5,576,464	8,156,137	5,819,647
(Increase)/Decrease in Operating Assets	40.1	(51,278,577)	(34,524,687)	(50,606,800)	(35,159,359)
Increase/(Decrease) in Operating Liabilities	40.2	45,177,507	18,170,559	45,393,753	18,427,127
Net Cash Flows from Operating Activities		2,936,878	(10,777,664)	2,943,090	(10,912,585)
Cash Flows from Investing Activities					
Purchase of Property, Plant and Equipment	17.1.1	(373,311)	(244,731)	(377,094)	(247,779)
Proceeds from Sale of Property, Plant and Equipment and Intangible Assets		694	7,618	694	7,618
Purchase of Intangible Assets	18	(135,853)	(226,898)	(135,853)	(228,182)
		(508,470)	(464,011)	(512,253)	(468,343)
Cash Flows from Financing Activities					
Net change in other Borrowings		6,469,372	10,530,327	6,469,372	10,669,581
Proceeds from the issue of Debentures		-	5,076,876	-	5,076,876
Repayment of Subordinated Debt		(1,950,297)	(2,084,596)	(1,950,297)	(2,084,596)
Interest paid on Subordinated Debt		(1,153,275)	(761,621)	(1,153,275)	(761,621)
Dividends paid to Equity Holders of the Parent		(484,275)	(484,275)	(484,275)	(484,275)
		2,881,525	12,276,711	2,881,525	12,415,965
Net Increase in Cash and Cash Equivalents		5,309,934	1,035,036	5,312,363	1,035,034
Cash and Cash Equivalents at the beginning of the year		12,604,515	11,569,479	12,604,559	11,569,525
Cash and Cash Equivalents at the end of the year		17,914,449	12,604,515	17,916,922	12,604,559
Reconciliation of Cash and Cash Equivalents					
Cash on Hand	6	5,589,806	3,745,304	5,589,829	3,745,317
Statutory Deposit with the Central Bank of Sri Lanka	7	11,193,266	8,511,509	11,193,266	8,511,509
Balances with Banks		1,277,416	442,301	1,279,866	442,332
Deposits from Other Banks		(146,039)	(94,599)	(146,039)	(94,599)
		17,914,449	12,604,515	17,916,922	12,604,559
A. Reconciliation of Operating Profit					
Profit before Income Tax		6,170,514	4,106,916	5,393,482	4,340,196
(Profit) / Loss on disposal of Property, Plant and Equipment and Intangible Assets		(694)	(7,136)	(694)	(7,136)
Impairment charge / (Reversal) for Loans and Advances		1,088,404	674,812	1,088,825	690,273
Provision for Gratuity		109,772	88,421	111,031	89,435
(Increase) / Decrease in Interest Receivable		133,102	(681,288)	133,102	(681,049)
Increase/ (Decrease) in Interest Payable		2,126,988	1,616,026	2,130,360	1,616,103
Increase / (Decrease) in Financial Guarantee Liabilities		(1,317)	(3,928)	(1,317)	(3,928)
Other Receivables		(8,951)	14,618	(8,951)	8,857
Other Payables		29,452	84,612	35,377	84,612
Other Non cash items	40.3	220,774	500,629	238,544	559,372
Gratuity Payments Made		(64,828)	(57,073)	(64,828)	(57,504)
		9,803,216	6,336,609	9,054,931	6,639,231

Notes to the Financial Statements

1. REPORTING ENTITY

1.1 Corporate information

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.

1.2 Consolidated Financial Statements

The Consolidated Financial Statements of Nations Trust Bank PLC for the year ended 31 December 2017 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.

1.3 Principal Activities and Nature of Operations

Bank

The Bank provides a comprehensive range of financial services encompassing accepting deposits, corporate and retail banking, private banking, project financing, trade finance, leasing, factoring, hire purchase, pawning, treasury, dealing in government securities and investment services, resident and non-resident foreign currency operation, money remittance facilities, travel related services, issuing/acquiring of credit cards and debit cards, electronic banking services such as: telephone banking, internet banking, mobile banking etc.

Subsidiaries

The principal activities of the subsidiary companies are as follows:

Company	Principal activity
Waldock Mackenzie Limited	Carrying out the business of an investment manager including margin trading, fixed income securities and fund & fee based activities
Allied Properties Limited	Renting out premises
Nations Insurance Brokers Limited	Insurance broking

During the year under review, the management decided to cease the margin trading business under Waldock Mackenzie Limited (WML) as a part of the group's decision to focus on its core products and services.

However, the WML's sole shareholder, Nations Trust Bank PLC, will continue to support its operations and funding arrangement, whenever business revival and expansion is required in the future.

2. BASIS OF PREPARATION

2.1 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 Statements is also in compliance with the requirements of the Banking Act No: 30 of 1998.

2.2 Directors' Responsibility Statement

The Board of Directors takes the responsibility for the preparation and presentation of for these Financial Statements. Please refer page 170 for the Statement of the Directors' Responsibility for Financial Reporting in the Annual Report 2017.

The Consolidated Financial Statements of Nations Trust Bank PLC, for the year ended 31 December 2017 was authorized for issue in accordance with the resolution of the Board of Directors on 27 February 2018.

2.3 Comparative information

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 Basis of measurement

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

Notes to the Financial Statements

have been measured at fair value:

- Available for sale investments
- Derivative financial instruments
- Other financial assets held for trading
- Land and buildings which are measured at cost at the time of acquisition subsequently measured at fair values at the date of revaluation (Note 17) (2016 – cost model)
- Liabilities for defined benefit obligations are recognised at the present value of defined benefit obligation

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.

2.5 Functional and Presentation Currency

The Financial Statements of the Group are presented in Sri Lankan Rupees (Rs), which is the currency of the primary economic environment in which the Group operates (Group's functional currency). Financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand unless indicated otherwise. There was no change in the Group's presentation and functional currency during the year under review.

2.6 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.

2.7 Materiality and aggregation

In compliance with Sri Lanka Accounting Standard - LKAS 01 (Presentation of Financial Statements), each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or functions too are presented separately unless they are immaterial. Financial assets and financial liabilities are offset and the net amount reported in the 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 realise the assets and settle the liability simultaneously. Income and expenses are not offset in the statement of Profit or Loss unless required or permitted by an Accounting Standard or Interpretation, and as specifically disclosed in the accounting policies of the Group.

2.8 Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except, the Bank and the Group adopted the revaluation model for measurement of land and buildings. (Note 17)

This has not been retrospectively adjusted as per paragraph 17 of LKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors which indicates that the initial application of a policy to revalue assets in accordance with LKAS 16 Property Plant and Equipment is a change in accounting policy to be dealt with as a revaluation in accordance with LKAS 16, rather than

LKAS 8.

2.9 Significant Accounting Judgements, Estimates and Assumptions

The preparation of the Bank's consolidated financial statements requires management to make judgements, 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.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, 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 judgement 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 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).

Fair Value of Land and Buildings

The Group measures freehold land and buildings at fair value with changes in fair value being recognized in other comprehensive income. The Group engages independent valuation specialists to determine fair value of freehold lands and buildings in terms of the Sri Lanka Accounting Standard –SLFRS 13, (Fair Value Measurement). Lands were valued by reference to market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the property, while buildings were valued based on depreciated replacement cost. Fair value related disclosures for land and buildings measured at fair value are summarized in the Note 17 to the financial statements

The freehold land and buildings of the Group are reflected at fair value at the date of revaluation less any accumulated depreciation and impairment losses. The details of freehold land and buildings including methods of valuation are given in Note 17 to the Financial Statements.

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

Notes to the Financial Statements

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). Transitional provisions under the Inland Revenue Act No 24 of 2017 is yet to be issued on the claimability of tax losses, capital allowances on leasing and future taxing of lease capital. Bank continued to recognize related deferred tax assets and liabilities for the current reporting period.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of consolidation

The Consolidated Financial Statements comprise the Financial Statements of the Bank and its subsidiaries in terms of the Sri Lanka Accounting Standard - SLFRS 10 (Consolidated Financial Statements). The Bank's Financial Statements comprise the amalgamation of the Financial Statements of the Domestic Banking Unit and the Off-shore Banking Unit.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect

those returns through its power over the investee. The 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.

- 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

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, at the date of loss of control.

3.2 Foreign Currency 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 into the functional currency 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.

3.3 Financial Instruments – Initial Recognition and Subsequent Measurement

(i) Date of Recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to

customers, are initially recognised 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. Loans and advances to customers are recognised when funds are transferred to the customers' account. The Bank recognises due to customer balances when funds reach the Bank.

(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 that are directly attributable to acquisition or issue of such financial instruments, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss. Transaction cost in relation to financial assets and financial liabilities at fair value through profit or loss are dealt within the Statement of Profit or Loss.

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

A derivative is a financial instrument or other contract with all three of the following characteristics:

- a) Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to

the contract.

- b) It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- c) It is settled at a future date.

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'.

(iv) Financial Assets Held for Trading

The Bank classifies financial assets as held for trading when they have been purchased primarily for short term profit making through trading activities or form part of a portfolio of financial instruments that are managed together for which there is evidence of a recent pattern of short-term profit taking.

Financial assets held for trading are recorded and measured in the Statement of Financial Position at fair value. Changes in fair value are recognized in 'Net Trading Income'. Assets included in this classification are government 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, that 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 within '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. Debt securities in this category are intended to be held for a definite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions. Equity investments classified as available-for-sale are those which neither classified as held for trading nor designated at FVTPL.

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

Notes to the Financial Statements

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, which takes into account any discount/premium that are an integral part of instrument's yield. Dividends earned whilst holding available-for-sale financial investments are recognised in the income statement as other operating income when the right of the payment has been established. The losses arising from impairment of such investments are recognized in the 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 discount or premium on acquisition and costs that are an integral part of the EIR. The amortization is included in 'Interest Income' in the Profit or Loss. The losses arising from impairment are recognized

in the 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 with the variables including 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 the Statement of Profit or Loss over the tenor of the financial instrument using the effective interest rate method. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in the statement of Profit or Loss when the

inputs become observable, or when the instrument is derecognized.

(x) The effective interest rate method

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate a shorter period, to the net carrying amount of the financial asset or financial liability. The amortised cost of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted amortised cost is calculated based on the original or latest re-estimated EIR and the change in is recorded as 'Interest and similar income' for financial assets and 'Interest and similar expense' for financial liabilities. The accounting policies for the EIR method vary by instruments and are further explained in Notes:

- 11 for 'Available-for-sale instruments'
- 12 for 'Held-to-maturity investments'
- 14 for 'Loans and advances to customers'
- 21 for 'Debt issued and other borrowed funds'
- 10 for 'Financial assets and liabilities designated at fair value through profit or loss'
- 14 & 33 for 'Impairment of financial assets'
- 28 & 29 for 'Recognition of income and expenses'

3.4 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:

- 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 Profit or Loss.

3.5 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.

(i) Financial Assets carried at Amortized Cost

The Bank's impairment methodology for assets carried at amortised costs comprises:

- a) Specific impairment losses for individually significant or specifically identified exposures
- b) Collective impairment of:
 - I. Individually not significant exposures
 - II. Incurred but not yet identified losses (IBNI)
- c) Specific impairment losses for individually significant or specifically identified exposures

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 a 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 by 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

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

(ii) 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.

(iii) 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.

(iii) 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.

(vi) 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.

3.6 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.

3.7 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 Profit or Loss in 'Impairment Charge'. The premium received is recognized in the Profit or Loss in 'Net Fees and Commission Income' on a straight line basis over the life of the guarantee.

3.8 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 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 Profit or Loss net of any reimbursement.

3.9 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.

3.10 Leasing

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

3.10.1 Bank as a lessee

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

3.10.2 Bank as a lessor

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

3.11 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 statement of cash flows 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.

3.12 Standards issued but not yet effective

Certain new accounting standards and amendments /improvements to existing standards have been published. None of those have been early adopted by the Group/Bank.

3.12.1 SLFRS 09 – Financial instruments

SLFRS 9 Financial Instruments will replace LKAS 39 for annual periods on or after 1 January 2018 with early adoption permitted. In 2016 the Bank set up a multidisciplinary implementation team ('the Team') with members from its Risk, Finance and Operations teams to prepare for SLFRS 9 implementation ('the Project'). The Project is sponsored by the Chief Risk and Finance Division.

Bank performed the Diagnostic Phase (Preliminary Impact Assessment exercise) and is currently in the implementation phase on SLFRS 9 Financial Instruments.

Classification & Measurement

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments'

Notes to the Financial Statements

contractual cash flow characteristics.

Business Model Assessment

Bank determines its business model as the test that best reflects how it manages the financial assets to achieve its objectives. The bank's business model is not assessed on an instrument by instrument basis, but at a higher level of aggregated portfolios and is based on observable factors.

The business model assessment is based on reasonably expected scenarios without taking 'Worst case' or 'Stress Case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the bank's original expectation, the bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets.

Contractual Cash flow Characteristics Test

As the second test of the classification process the bank assesses the contractual terms of the financial asset to identify whether they meet solely the Payment of Principle & Interest (SPPI)

Principle' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principle or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make SPPI assessment, the bank applies

judgment and considers relevant factors such as currency in which the financial asset is denominated and the period for which the interest rate is set.

Impairment of Financial Assets

Overview of Expected Credit Loss Principle (ECL)

SLFRS 9 will principally change the bank's loan loss provision method by replacing LKAS 39 Financial Instrument Recognition & Measurement's incurred loss approach with a forward looking ECL Approach.

ECL allowance will be based on credit losses expected to arise over the life of the asset (Lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination in which case the loss allowance will be 12month expected credit loss (12mECL)

12mECL is the portion of LTECL that represent the ECL that results from default events on a financial instrument that are possible within 12months after the reporting date

The bank is in the process of finalizing the policy to perform an assessment, at the end of each reporting period to see whether a financial instrument's credit risk has increased significantly since initial recognition. Based on such process bank groups loans into stage 1, stage 2, stage 3 as described below:

- Stage 1 : When loans are first recognized, the bank recognizes an allowance based on 12mECL. Stage 1 loans also include the facilities where the credit risk has improved and the loans has been re-classified from Stage 2. Assessment of Stage 1 will be performed collectively.

- Stage 2 : When a loan has shown a significant increase in credit risk since origination, the bank records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from stage 3. Assessment of stage 2 will be performed collectively
- Stage 3 : Loan considered to be credit Impaired/contains objective evidence of incurred losses records an allowance for the LTECL. Stage 3 assessment will be performed Individual/Collectively

Significant Increase in Credit Risk

In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the bank shall assess whether there has been a significant increase in credit risk since initial recognition. The bank considers an exposure to have significantly increased in credit risk when the either of the following criteria are met:

- Facilities exceeding 30days past due
- Counterparties/facilities reflected coded any elevated risk industries as per the assessment performed by the Credit Risk Management Team
- Re-structured facilities
- Secondary qualitative indicators triggering a significant increase in credit risk for an asset, such as moving a customer/facility to watch list

Individually Significant Assessment and Not Impaired Individually

Bank will individually assess all customer exposures based on an estimated threshold. Individual assessment will be performed for all the customers with Objective evidence

of incurred losses. Loans which are individually significant but not impaired will be assessed collectively for impairment either under Stage 1 or Stage 2 based on the criteria whether there have been significant credit deterioration since origination.

Grouping financial assets measured on a collective basis

As explained above, bank calculates ECL either on collective or individual basis. Asset classes where bank calculates ECL on an Individual basis includes all individually significant Assets which are belong to stage 3. All assets which belong stage 1 & 2 will be assessed collectively for Impairment.

Bank groups these exposures for smaller homogeneous exposures, based on a combination of internal and external characteristics of the loan as described below:

- Product Type
- Type of Collateral
- Days Past Due

The Calculation of ECL

The bank calculates ECL based on 3 probability weighted scenarios to measure expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculation are outlined below and the key elements are as follows:

- PD : The Probability of Default is an estimate of the likelihood of default over a given time horizon. A

default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio

- EAD : Exposure At Default is the estimate of the exposure at a future default date, taking in to account expected changes in the exposure after the reporting date, including repayments of the principle and interest, whether scheduled by contract or otherwise, expected draw downs on committed facilities.
- LGD : Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lenders would expect to receive, including realization of any collateral. It is usually expressed as a % of the EAD.

When estimating the ECL, Bank considers 3 scenarios (Base Case, Best Case & Worst Case). Each of these scenarios associated with different loss rates. For all products banks considers the maximum period of which the credit losses are determined as the contractual life of a financial instrument.

Forward Looking Information

In its ECL model bank relies on broad range qualitative/quantitative forward looking information as economic input such as:

Quantitative

- GDP Growth
- Inflation
- Unemployment
- Interest Rates
- Exchange Rates

Qualitative

- Government Policies
- Status of the Industry Business
- Regulatory Impact

3.12.2 SLFRS 15 – Revenue from contracts with customers

SLFRS 15 establishes principles for recognizing revenue and will be applicable for all contracts with customers except interest and fee income related to financial instruments and leases which will continue to fall outside the scope of SLFRS 15 and be regulated by other applicable standards. SLFRS 15 replaces existing revenue recognition guidance, including LKAS 18 Revenue, LKAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs. SLFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

Revenue under SLFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers. The entity does not anticipate early adopting SLFRS 15.

A preliminary evaluation of the existing contracts which falls mainly under fee and commission based income of the bank has been performed in relation to the adoption of SLFRS 15. The bank's current assessment has not revealed a significant change to the revenue recognition pattern.

3.12.3 SLFRS 16–Leases

Notes to the Financial Statements

SLFRS 16 will replace Sri Lanka Accounting Standard – LKAS 17 (Leases) and related interpretations. SLFRS 16 sets out the principles for the recognition, measurement, presentation and disclosures of leases and requires lessees to account for all leases under a single on – balance sheet model similar to the accounting for finance leases under LKAS 17. The standard includes two recognition exemptions for lessees – leases of “low- value” assets and short-term leases (leases with a lease term of 12 months or less). At the commencement date of the lease, a lessee will recognize a liability to make lease payments (i.e., lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessee will be required to separately recognize the interest expense on the lease liability and depreciation expense on the right-of-use asset. SLFRS 16 will become effective on 01st January 2019. The impact on the implementation of the above standard will be quantified in the year ahead.

Amendment to Sri Lanka Accounting Standards (SLFRS 2) – Classification and Measurement of Share-based payment Transactions

The institute of Chartered Accountants of Sri Lanka issued amendments to SLFRS 2 “Share Based Payment” that address three main areas: the effects of vesting conditions on the measurement of cash-settled share based payment transaction; the classification of a share based transaction with net settlement features for withholding tax obligations;

and accounting where modification to the terms and conditions of a share – based payment transaction changes its classification from cash settled to equity settled.

On adoption Bank is required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted.

The Group is assessing the potential effect of the amendments on its consolidated financial statements.

4 SEGMENT INFORMATION

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

For management purposes, the Group is organised into operating segments based on customer segments and products, 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.

Consumer Banking: Primary focus of business is deposit mobilization from high net-worth, mass affluent and emerging mass customer segments and providing personal financing including personal, home loans and credit card facilities

SME Banking: Primary focus of business is providing business financing for small and medium customer segment including lending facilities and transactional banking

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.

Notes to the Financial Statements

4 SEGMENT INFORMATION (CONTD.)

4.1 Operating Segments

	Corporate Banking 31.12.2017 Rs. '000	Consumer Banking 31.12.2017 Rs. '000	SME Banking 31.12.2017 Rs. '000	Leasing 31.12.2017 Rs. '000	Treasury Functions 31.12.2017 Rs. '000	Investment Banking 31.12.2017 Rs. '000	Insurance Brokering 31.12.2017 Rs. '000	Property Management 31.12.2017 Rs. '000	Unallocated/ Eliminations 31.12.2017 Rs. '000	Total Group 31.12.2017 Rs. '000
Operating Income	1,631,089	7,737,200	3,758,598	1,723,403	2,357,604	123,389	205,411	118,324	(741,450)	16,913,568
Impairment Charge for Loans and Advances	(48,519)	(639,117)	(384,267)	(14,685)	-	-	-	-	(2,237)	(1,088,825)
Net Operating Income	1,582,569	7,098,083	3,374,331	1,708,718	2,357,604	123,389	205,411	118,324	(743,686)	15,824,743
Extracts of Results										
Interest Income	4,491,780	6,715,234	7,958,571	5,163,789	6,029,903	135,373	19,989	30,098	(159,797)	30,384,940
Inter Segment	(2,651,046)	8,978,123	(3,920,072)	(3,609,490)	1,202,484	-	-	-	-	(0)
Interest Expense	(791,789)	(11,741,491)	(1,384,248)	-	(4,292,940)	(7,145)	-	(839)	121,790	(18,096,662)
Net Interest Income	1,048,945	3,951,866	2,654,252	1,554,299	2,939,447	128,228	19,989	29,260	(38,007)	12,288,278
Fees and Commission Income	430,893	3,607,877	916,323	-	-	2,278	192,962	89,064	(260,313)	4,979,084
Fees and Commission Expense	(17,319)	(198,529)	(46,659)	-	(19,085)	(7,117)	(7,540)	-	(26,494)	(322,743)
Net Fees and Commission Income	413,573	3,409,348	869,664	-	(19,085)	(4,839)	185,422	89,064	(286,807)	4,656,341
Net Trading Income/(Loss)	168,571	76,259	234,682	-	(562,759)	-	-	-	(475,206)	(558,453)
Other Operating Income	-	299,727	-	169,104	-	-	-	-	58,571	527,402
Depreciation of Property, Plant and Equipment	1,946	220,217	1,923	5,772	2,768	-	828	13,708	119,693	366,855
Amortization of Intangible Assets	80	29,560	727	364	13,919	-	3,236	-	227,930	275,817
Segment Profit Before Tax	836,821	1,004,999	1,801,133	738,063	1,541,679	93,844	166,676	72,599	(862,331)	5,393,482
Income Tax Expense	-	-	-	-	(32,666)	-	(46,669)	(10,209)	(1,932,449)	(2,021,993)
Profit for the Year	836,821	1,004,999	1,801,133	738,063	1,541,679	61,178	120,007	62,390	(2,794,780)	3,371,489
Capital Expenditures										
Property, Plant and Equipment	5,917	155,864	4,373	8,736	29,184	-	1,300	2,542	259,054	466,970
Intangible Assets	-	11,509	9,851	-	76,099	-	-	-	143,069	240,528
Total Assets	45,118,446	43,735,313	60,567,491	37,432,910	73,655,325	353,825	126,406	709,099	5,930,679	267,629,494
Total Liabilities	16,474,838	145,848,162	25,220,584	940,358	50,827,829	23,386	40,195	24,223	6,759,878	246,159,453

4 SEGMENT INFORMATION (CONTD.)

4.2 Operating Segments

	Corporate Banking 31.12.2016 Rs. '000	Consumer Banking 31.12.2016 Rs. '000	SME Banking 31.12.2016 Rs. '000	Leasing 31.12.2016 Rs. '000	Treasury Functions 31.12.2016 Rs. '000	Investment Banking 31.12.2016 Rs. '000	Insurance Brokering 31.12.2016 Rs. '000	Property Management 31.12.2016 Rs. '000	Unallocated/ Eliminations 31.12.2016 Rs. '000	Total Group 31.12.2016 Rs. '000
Operating Income	1,393,628	6,678,605	2,302,637	1,540,685	1,974,746	120,422	141,039	108,539	(549,564)	13,710,737
Impairment Charge for Loans and Advances	81,396	(430,691)	(225,272)	11,527	(111,976)				(15,255)	(690,272)
Net Operating Income	1,475,024	6,247,913	2,077,365	1,552,212	1,862,770	120,422	141,039	108,539	(564,819)	13,020,465
Extracts of Results										
Interest Income	3,087,560	5,177,909	4,385,467	4,207,653	4,476,115	129,587	20,919	26,973	(128,306)	21,383,877
Inter Segment	(1,444,191)	5,676,625	(1,668,770)	(2,817,436)	253,772	-	-	-	-	(0)
Interest Expense	(713,682)	(7,501,407)	(999,048)	-	(2,501,515)	(15,242)	-	(370)	132,999	(11,598,266)
Net Interest Income	929,688	3,353,127	1,717,649	1,390,217	2,228,372	114,345	20,919	26,602	4,693	9,785,611
Fees and Commission Income	303,436	3,017,162	430,393	-	1,686	11,966	127,527	81,931	(137,335)	3,836,765
Fees and Commission Expense	(16,523)	(163,559)	(30,637)	-	(14,693)	(5,897)	(7,407)	-	259	(238,456)
Net Fees and Commission Income	286,913	2,853,603	399,756	-	(13,007)	6,069	120,120	81,931	(137,075)	3,598,309
Net Trading Income/(Loss)	177,027	86,451	185,233	-	(240,619)	-	-	-	(449,473)	(241,381)
Other Operating Income	-	385,424	-	150,468	-	8	-	6	32,292	568,198
Depreciation of Property, Plant and Equipment	1,270	231,730	1,607	5,410	1,615	-	703	13,541	106,344	362,221
Amortization of Intangible Assets	80	38,486	20	1,454	12,009	-	3,202	-	208,243	263,495
Segment Profit Before Tax Income Tax Expense	803,496	884,193	886,606	707,731	1,195,283	100,686	105,024	65,595	(408,419)	4,340,196
Profit for the Year	803,496	884,193	886,606	707,731	1,195,283	(32,160)	(29,410)	(9,191)	(1,400,349)	(1,471,110)
Capital Expenditures										
Property, Plant and Equipment	3,083	155,587	1,492	4,252	808	-	-	3,047	79,451	247,720
Intangible Assets	-	39,032	33	588	820	-	1,284	-	186,420	228,177
Total Assets	37,154,068	36,200,508	42,377,246	31,694,688	55,810,743	1,198,246	324,296	801,659	5,618,521	211,179,975
Total Liabilities	12,410,823	119,994,976	20,614,376	1,070,289	34,988,727	250,760	33,086	23,025	4,473,309	193,859,371

Notes to the Financial Statements

5 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

5.1 Bank

As at 31 December	2017						
	HFT at Fair Value	Financial Derivatives at Fair Value	HTM at Amortized Cost	Available for Sale at fair value	L & R at Amortized Cost	Other Financial Liabilities at Amortized Cost	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Assets							
Cash and Cash Equivalents	-	-	-	-	6,867,222	-	6,867,222
Balances with Central Bank of Sri Lanka	-	-	-	-	11,193,266	-	11,193,266
Reverse Repurchase Agreements	-	-	-	-	10,798	-	10,798
Derivative Financial Instruments	-	230,217	-	-	-	-	230,217
Financial Assets - Held for Trading	521,389	-	-	-	-	-	521,389
Financial Assets - Available for Sale	-	-	-	38,852,046	-	-	38,852,046
Financial Assets - Held to Maturity	-	-	9,879,390	-	-	-	9,879,390
Other Financial Assets	-	-	-	-	6,797,607	-	6,797,607
Loans and Advances to Customers	-	-	-	-	186,536,712	-	186,536,712
Total Financial Assets	521,389	230,217	9,879,390	38,852,046	211,405,605	-	260,888,647
Liabilities							
Due to Banks	-	-	-	-	-	10,713,864	10,713,864
Repurchase Agreements	-	-	-	-	-	12,319,188	12,319,188
Derivative Financial Instruments	-	495,517	-	-	-	-	495,517
Due to Customers	-	-	-	-	-	194,296,718	194,296,718
Debt Issued and Other Borrowed Funds	-	-	-	-	-	19,737,574	19,737,574
Total Financial Liabilities	-	495,517	-	-	-	237,067,344	237,562,861

5.2 Group

As at 31 December	2017						
	HFT at Fair Value	Financial Derivatives at Fair Value	HTM at Amortized Cost	Available for Sale at fair value	L & R at Amortized Cost	Other Financial Liabilities at Amortized Cost	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Assets							
Cash and Cash Equivalents	-	-	-	-	6,869,695	-	6,869,695
Balances with Central Bank of Sri Lanka	-	-	-	-	11,193,266	-	11,193,266
Reverse Repurchase Agreements	-	-	-	-	10,798	-	10,798
Derivative Financial Instruments	-	230,217	-	-	-	-	230,217
Financial Assets - Held for Trading	521,389	-	-	-	-	-	521,389
Financial Assets - Available for Sale	-	-	-	38,852,046	-	-	38,852,046
Financial Assets - Held to Maturity	-	-	9,950,433	-	-	-	9,950,433
Other Financial Assets	-	-	-	-	6,797,607	-	6,797,607
Loans and Advances to Customers	-	-	-	-	186,745,711	-	186,745,711
Total Financial Assets	521,389	230,217	9,950,433	38,852,046	211,617,077	-	261,171,162
Liabilities							
Due to Banks	-	-	-	-	-	10,713,864	10,713,864
Repurchase Agreements	-	-	-	-	-	11,940,783	11,940,783
Derivative Financial Instruments	-	495,517	-	-	-	-	495,517
Due to Customers	-	-	-	-	-	194,268,995	194,268,995
Debt Issued and Other Borrowed Funds	-	-	-	-	-	19,737,574	19,737,574
Total Financial Liabilities	-	495,517	-	-	-	236,661,216	237,156,733

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

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

5.3 Bank

As at 31 December	2016						
	HFT at Fair Value	Financial Derivatives at Fair Value	HTM at Amortized Cost	Available for Sale at fair value	L & R at Amortized Cost	Other Financial Liabilities at Amortized Cost	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Assets							
Cash and Cash Equivalents	-	-	-	-	4,187,605	-	4,187,605
Balances with Central Bank of Sri Lanka	-	-	-	-	8,511,509	-	8,511,509
Reverse Repurchase Agreements	-	-	-	-	14,930	-	14,930
Derivative Financial Instruments	-	65,356	-	-	-	-	65,356
Financial Assets - Held for Trading	1,574,952	-	-	-	-	-	1,574,952
Financial Assets-Available for Sale	-	-	-	22,148,963	-	-	22,148,963
Financial Assets - Held to Maturity	-	-	12,929,523	-	-	-	12,929,523
Other Financial Assets	-	-	-	-	6,860,950	-	6,860,950
Loans and Advances to Customers	-	-	-	-	148,924,734	-	148,924,734
Total Financial Assets	1,574,952	65,356	12,929,523	22,148,963	168,499,728	-	205,218,522
Liabilities							
Due to Banks	-	-	-	-	-	11,850,888	11,850,888
Repurchase Agreements	-	-	-	-	-	9,850,773	9,850,773
Derivative Financial Instruments	-	130,017	-	-	-	-	130,017
Due to Customers	-	-	-	-	-	151,559,668	151,559,668
Debt Issued and Other Borrowed Funds	-	-	-	-	-	14,145,105	14,145,105
Total Financial Liabilities	-	130,017	-	-	-	187,406,434	187,536,451

5.4 Group

As at 31 December	2016						
	HFT at Fair Value	Financial Derivatives at Fair Value	HTM at Amortized Cost	Available for Sale at fair value	L & R at Amortized Cost	Other Financial Liabilities at Amortized Cost	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Assets							
Cash and Cash Equivalents	-	-	-	-	4,187,649	-	4,187,649
Balances with Central Bank of Sri Lanka	-	-	-	-	8,511,509	-	8,511,509
Reverse Repurchase Agreements	-	-	-	-	14,930	-	14,930
Derivative Financial Instruments	-	65,356	-	-	-	-	65,356
Financial Assets - Held for Trading	1,574,952	-	-	-	-	-	1,574,952
Financial Assets-Available for Sale	-	-	-	22,148,963	-	-	22,148,963
Financial Assets - Held to Maturity	-	-	12,998,988	-	-	-	12,998,988
Other Financial Assets	-	-	-	-	6,860,950	-	6,860,950
Loans and Advances to Customers	-	-	-	-	149,817,941	-	149,817,941
Total Financial Assets	1,574,952	65,356	12,998,988	22,148,963	169,392,979	-	206,181,238
Liabilities							
Due to Banks	-	-	-	-	-	11,850,888	11,850,888
Repurchase Agreements	-	-	-	-	-	9,261,110	9,261,110
Derivative Financial Instruments	-	130,017	-	-	-	-	130,017
Due to Customers	-	-	-	-	-	151,502,236	151,502,236
Debt Issued and Other Borrowed Funds	-	-	-	-	-	14,145,105	14,145,105
Total Financial Liabilities	-	130,017	-	-	-	186,759,339	186,889,356

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

Notes to the Financial Statements

6 CASH AND CASH EQUIVALENTS

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Cash in Hand	5,589,806	3,745,304	5,589,829	3,745,317
Balances with Banks	1,257,404	442,301	1,259,854	442,332
Money at Call and Short Notice	20,012	-	20,012	-
	6,867,222	4,187,605	6,869,695	4,187,649

7 BALANCES WITH CENTRAL BANK OF SRI LANKA

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Statutory Deposit with Central Bank of Sri Lanka	11,193,266	8,511,509	11,193,266	8,511,509

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 2017, the minimum cash reserve requirement was 7.5% (2016: 7.5%) 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

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

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' or 'Financial Investment available for sale 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.

8.1 Reverse repurchase agreements

As at 31 December Due from;	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
- Other Counterparties	10,798	14,930	10,798	14,930
	10,798	14,930	10,798	14,930

8.2 Repurchase agreements

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
On Government Securities				
Due to;				
- Banks	1,600,989	760,354	1,600,989	760,354
- Other Financial Institutions	6,512,716	4,040,443	6,449,602	4,040,443
- Other Counterparties	2,463,909	1,701,705	2,463,909	1,701,705
	10,577,614	6,502,502	10,514,500	6,502,502
On Other Securities				
Due to;				
- Other Financial Institutions	697,476	269,635	697,476	-
- Other Counterparties	1,044,098	3,078,636	728,807	2,758,608
	1,741,574	3,348,271	1,426,283	2,758,608
Total Repurchase Agreements	12,319,188	9,850,773	11,940,782	9,261,110

The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognized them. In addition, it recognizes 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 10.78 Bn (market value LKR 10.94 Bn) [2016 - face value LKR 10.4Bn (market value - LKR 10.2 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.

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.

Notes to the Financial Statements

9 DERIVATIVE FINANCIAL INSTRUMENTS

The below table 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 nor 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 favourable 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

As at 31 December	Bank / Group		Bank / Group	
	Fair Value of Assets	Contract amount	Fair Value of Assets	Contract amount
	2017 LKR '000	2017 LKR '000	2016 LKR '000	2016 LKR '000
Forward Foreign Exchange Contracts and Currency Swaps	230,217	11,805,671	65,356	14,932,760
	230,217	11,805,671	65,356	14,932,760

9.2 Derivative Liabilities - Held for Trading

At a Loss Position

As at 31 December	Bank / Group		Bank / Group	
	Fair Value of Liabilities	Contract amount	Fair Value of Liabilities	Contract amount
	2017 LKR '000	2017 LKR '000	2016 LKR '000	2016 LKR '000
Forward Foreign Exchange Contracts and Currency Swaps	495,517	26,392,799	130,017	13,349,855
	495,517	26,392,799	130,017	13,349,855

10 FINANCIAL ASSETS - HELD FOR TRADING

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Government Treasury Bills	-	531,522	-	531,522
Government Treasury Bonds	521,389	1,043,430	521,389	1,043,430
	521,389	1,574,952	521,389	1,574,952

11 FINANCIAL ASSETS - AVAILABLE FOR SALE

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Government Treasury Bills	24,351,263	5,196,174	24,351,263	5,196,174
Government Treasury Bonds	14,494,846	16,946,924	14,494,846	16,946,924
Unquoted Equity Shares * (Note 11.1)	5,937	5,865	5,937	5,865
	38,852,046	22,148,963	38,852,046	22,148,963

This includes treasury bills and bonds with a carrying value of LKR 4,596 Mn (2016 : LKR 1,239Mn) which have been given as collateral against repurchase contracts and the counter party has the right to sell or re-pledge the securities.

11.1 Unquoted Equity Shares

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
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	3,222	3,150	3,222	3,150
	5,937	5,865	5,937	5,865

Notes to the Financial Statements

12 FINANCIAL ASSETS HELD TO MATURITY

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Government Treasury Bonds	9,879,390	12,929,523	9,950,433	12,998,988
	9,879,390	12,929,523	9,950,433	12,998,988

This includes treasury bonds with a carrying value of LKR 6,184 Mn (2016 : LKR 5,689Mn) which have been given as collateral against repurchase contacts and the counter party has the right to sell or re-pledge the securities.

13 OTHER FINANCIAL ASSETS

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Sri Lanka Development Bonds (Note 13.1)	4,053,665	3,943,597	4,053,665	3,943,597
Quoted Debentures (Note 13.2)	2,743,942	2,917,353	2,743,942	2,917,353
	6,797,607	6,860,950	6,797,607	6,860,950

13.1 The Investment in Sri Lanka Development Bonds amounts to USD 26 Mn (2016: USD 26 Mn) and mature in years 2018 - 2022.

13.2 Quoted Debentures

Company	Type	No of Debentures		LKR '000	
		2017	2016	2017	2016
Hemas Holdings PLC	Unsecured, Redeemable Debentures	223,900	223,900	23,011	23,011
Peoples' Leasing and Finance Company PLC	Unsecured, Redeemable Debentures	-	1,595,400	-	173,500
Lion Brewery (Ceylon) PLC	Unsecured, Redeemable Debentures	1,686,000	1,686,000	171,936	171,936
Seylan Bank PLC	Unsecured, Redeemable Debentures	3,000,000	3,000,000	300,636	300,636
Alliance Finance Company PLC	Unsecured, Redeemable Debentures	1,365,498	1,365,498	148,940	148,940
Singer (Sri Lanka) PLC	Unsecured, Redeemable Debentures	2,000,000	2,000,000	208,671	208,647
DFCC Vardhana Bank	Unsecured, Redeemable Debentures	1,988,600	1,988,600	209,024	209,024
MTD Walkers PLC	Unsecured, Redeemable Debentures	2,000,000	2,000,000	204,968	204,968
Housing and Development Finance Corporation	Unsecured, Redeemable Debentures	2,500,000	2,500,000	253,021	253,021
Access Engineering PLC	Unsecured, Redeemable Debentures	3,500,000	3,500,000	354,226	354,226
Sanasa Development Bank PLC	Guaranteed, Redeemable Debentures	3,784,500	3,784,500	397,337	397,286
Sanasa Development Bank PLC	Guaranteed, Redeemable Debentures	1,000,000	1,000,000	105,192	105,178
Senkadagala Finance PLC	Unsecured, Redeemable Debentures	611,500	611,500	62,348	62,348
Peoples Leasing & Finance PLC	Unsecured, Redeemable Debentures	3,000,000	3,000,000	304,632	304,632
				2,743,942	2,917,353

13.2.1 This includes quoted debentures with a carrying value of LKR 1,605 Mn (2016 LKR 2,781Mn) which have been given as collateral against repurchase contacts and the counter party has the right to sell or re-pledge the securities.

Notes to the Financial Statements

14 LOANS AND ADVANCES TO CUSTOMERS

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Corporate Loans	45,767,388	37,882,588	45,808,101	38,775,375
Retail, SME and Consumer Lending	100,575,835	77,173,248	100,743,992	77,173,247
Housing Loans	3,202,405	2,497,417	3,202,405	2,497,417
Leases	37,253,690	31,422,446	37,253,690	31,422,446
	186,799,318	148,975,699	187,008,187	149,868,485
Less : Allowance for Impairment Losses	(2,608,915)	(2,278,077)	(2,608,785)	(2,277,656)
	184,190,403	146,697,622	184,399,402	147,590,829
Staff Loans	2,985,412	2,807,963	2,985,412	2,807,963
Less : Allowance for Day 1 Difference	(639,103)	(580,851)	(639,103)	(580,851)
	2,346,309	2,227,112	2,346,309	2,227,112
	186,536,712	148,924,734	186,745,711	149,817,941

14.1 Gross Loans and Advances by Currency

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
By Currency				
Sri Lanka Rupee	174,447,291	145,554,006	174,656,160	146,446,792
United States Dollar	15,137,780	6,128,774	15,137,780	6,128,774
Others	199,659	100,882	199,659	100,882
	189,784,730	151,783,662	189,993,599	152,676,448

14.2 Gross Loans and Advances by Product

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
By Product				
Bills of Exchange	37,337	86,716	37,337	86,716
Overdrafts	36,190,637	30,583,231	36,190,637	30,583,231
Term Loans	77,712,312	60,141,853	77,712,312	60,141,853
Staff Loans	2,985,543	2,807,963	2,985,543	2,807,963
Import Loans	11,076,507	6,654,468	11,076,507	6,654,468
Packing Loans	3,558,705	2,028,229	3,558,705	2,028,229
Leases	37,253,690	31,422,446	37,253,690	31,422,446
Credit Cards	20,185,840	16,282,718	20,185,840	16,282,718
Pawning	279,281	455,544	279,281	455,544
Corporate Debt Securities	325,243	948,429	325,243	948,429
Other Advances	179,635	372,065	388,504	1,264,851
	189,784,730	151,783,662	189,993,599	152,676,448

14 LOANS AND ADVANCES TO CUSTOMERS (CONTD.)

14.3 Impairment Allowance for Loans and Advances to Customers

14.3.1 Bank

As at 31 December	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 2015	193,770	1,258,594	85,907	522,063	2,060,334
AFS impairment transferred during 2016	37,086	-	-	-	37,086
Charge/ (Reversal) for the period	30,275	662,074	(6,112)	(21,769)	664,468
Amounts written off	-	(302,354)	-	(181,457)	(483,811)
As at 31 December 2016	261,131	1,618,314	79,795	318,837	2,278,077
Charge/ (Reversal) for the period	48,827	1,036,293	(13,896)	12,644	1,083,868
Amounts written off	-	(553,291)	-	(199,739)	(753,030)
As at 31 December 2017	309,957	2,101,316	65,899	131,743	2,608,915
Impairment - As at 31 December 2016					
Individual impairment	220,537	471,666	323	10,124	702,650
Collective impairment	40,594	1,146,648	79,472	308,713	1,575,427
	261,131	1,618,314	79,795	318,837	2,278,077
Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance					
- As at 31 December 2016	737,643	3,154,163	13,834	73,348	3,978,988
Impairment - As at 31 December 2017					
Individual impairment	246,817	803,954	-	6,193	1,056,964
Collective impairment	63,140	1,297,362	65,899	125,550	1,551,951
	309,957	2,101,316	65,899	131,743	2,608,915
Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance					
- As at 31 December 2017	1,466,105	3,690,898	-	168,933	5,325,936

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

As at 31 December	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 2015	193,220	1,258,594	85,907	522,063	2,059,784
AFS impairment transferred during 2016	37,086	-	-	-	37,086
Charge/ (Reversal) for the year	45,837	662,074	(6,112)	(21,869)	679,930
Amounts written off	(15,230)	(302,354)	-	(181,457)	(499,041)
As at 31 December 2016	260,913	1,618,314	79,795	318,737	2,277,656
Charge/ (Reversal) for the year	48,940	1,036,500	(13,896)	12,745	1,084,289
Amounts written off	-	(553,421)	-	(199,739)	(753,160)
As at 31 December 2017	309,853	2,101,393	65,899	131,743	2,608,785
Impairment - As at 31 December 2016					
Individual impairment	220,219	471,666	323	10,124	702,650
Collective impairment	40,694	1,146,648	79,472	308,613	1,575,006
	260,913	1,618,314	79,795	318,737	2,277,656
Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance					
- As at 31 December 2016	737,643	3,154,163	13,834	73,348	3,978,988
Impairment - As at 31 December 2017					
Individual impairment	246,817	803,954	-	6,193	1,056,964
Collective impairment	62,933	1,297,439	65,899	125,550	1,551,821
	309,750	2,101,393	65,899	131,743	2,608,785
Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance					
- As at 31 December 2017	1,466,105	3,690,898	-	168,933	5,325,936

14.3.3 Movement in Individual Impairment during the year

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
As at 01 January	702,650	662,162	702,650	662,162
AFS impairment transferred during 2016	-	37,086	-	37,086
Reversal for the year, net of write-off	354,314	3,402	354,314	3,402
As at 31 December	1,056,964	702,650	1,056,964	702,650

14.4 Rental Receivable on Leases

As at 31 December	2017				2016			
	Bank/ Group				Bank/ Group			
	Within 1 year LKR '000	1 - 5 years LKR '000	Over 5 years LKR '000	Total LKR '000	Within 1 year LKR '000	1 - 5 years LKR '000	Over 5 years LKR '000	Total LKR '000
Gross Rentals								
Receivables	17,911,019	29,065,930	557,990	47,534,938	10,679,215	28,488,310	33,544	39,201,069
Less : Unearned Income	4,674,946	5,353,039	248,264	10,281,249	304,440	7,473,740	443	7,778,623
Net Rentals								
Receivables	13,231,073	23,712,891	309,726	37,253,690	10,374,775	21,014,570	33,101	31,422,446
Less : Allowance for Impairment Losses	-	-	-	131,742	-	-	-	318,737
Total Net Rentals								
Receivables	13,231,073	23,712,891	309,726	37,121,948	10,374,775	21,014,570	33,101	31,103,709

15 OTHER ASSETS

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Deposits and Prepayments	600,652	630,004	619,719	641,419
Unamortized Staff Cost	639,103	580,851	639,103	580,851
Other Receivables	653,719	565,695	682,166	591,418
	1,893,474	1,776,550	1,940,988	1,813,688

16 INVESTMENTS IN SUBSIDIARIES

Unquoted	Country of Incorporation	Bank			
		2017 Holding	2016 Holding	2017 Cost	2016 Cost
Name of Company		%	%	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.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following;

- the cost of materials and direct labour
- any other costs directly attributable to bringing the assets to a working condition for their intended use
- when the Group has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located.

Any gain or loss on disposal is recognized in other operating income in profit or loss.

Subsequent expenditure and replacement

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Depreciation

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

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if required.

Revaluation model

The Group applies the revaluation model to the entire class of freehold land and buildings. Such properties are carried at revalued amount, being their fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Freehold land and buildings of the Group are revalued every three years to ensure that the carrying amounts do not differ materially from the fair values at the reporting date. The Group has revalued its freehold land & building during the year 2017 and details of the revaluation are given in Note 17.4.

On revaluation of an asset, any increase in the carrying amount is recognised in 'Other comprehensive income' and accumulated in equity, under revaluation reserve or used to reverse a previous revaluation decrease relating to the same asset, which was charged to the Statement of Profit or Loss. In this circumstance, the increase is recognized as income to the extent of the previous write down. Any decrease in the carrying amount is recognized as an expense in the Statement of Profit or Loss or debited to the other comprehensive income to the extent of any credit balance existing in the capital reserve in respect of that asset.

The decrease recognised in other comprehensive income reduces the amount accumulated in equity under capital reserves. Any balance remaining in the revaluation reserve in respect of an asset is transferred directly to retained earnings on retirement or disposal of the asset.

De-recognition

The carrying amount of an item of property, plant and equipment is de-recognized upon disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from de-recognition of an item of property, plant and equipment is included in profit or loss when item is derecognized.

Leasehold Improvements are 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.

Capital work-in-progress

Capital work-in-progress is stated at cost. These are the expenses of a capital nature directly incurred in the construction of buildings, awaiting capitalization.

17.1 Bank

Gross Carrying Amounts - at Cost	Land - Freehold	Land - Leasehold	Buildings	Motor Vehicles	Office and Electrical 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	LKR '000
At 01 January 2016	559,440	-	115,379	20,899	629,091	1,601,821	712,534	272,632	32,057	3,943,853
Additions	-	-	1,237	21,200	32,546	99,651	44,779	45,260	-	244,673
Disposals	-	-	(20)	(16,100)	(4,499)	(266)	(3,604)	-	-	(24,489)
Capital WIP Additions	-	-	-	-	-	-	-	-	59	59
Capital WIP - Capitalized during the year	-	-	-	-	-	-	-	-	(32,057)	(32,057)
At 31 December 2016	559,440	-	116,596	25,999	657,138	1,701,206	733,709	317,892	59	4,132,039
Additions	-	-	2,528	-	53,470	319,700	42,736	44,684	-	463,128
Disposals	-	-	(11,740)	-	(11,740)	(1,906)	(8,665)	-	-	(22,331)
Revaluation Surplus	842,060	-	94,928	-	-	-	-	-	-	936,988
Capital WIP - Capitalized during the year	-	-	-	-	-	-	-	-	(59)	(59)
At 31 December 2017	1,401,500	-	214,052	25,999	698,868	2,019,010	787,760	362,576	-	5,509,765
Depreciation / Amortization										
At 01 January 2016	-	-	35,236	20,484	370,914	1,241,081	414,853	188,837	-	2,271,405
Charge for the year	-	-	2,647	933	73,446	163,137	74,815	32,999	-	347,977
Disposals	-	-	(13)	(16,100)	(4,498)	(266)	(3,130)	-	-	(24,007)
At 31 December 2016	-	-	37,870	5,317	439,862	1,403,952	486,538	221,836	-	2,595,375
Charge for the year	-	-	2,682	5,350	64,656	176,655	65,938	37,039	-	352,320
Disposals	-	-	-	-	(11,711)	(1,906)	(8,614)	-	-	(22,231)
At 31 December 2017	-	-	40,552	10,667	492,807	1,578,701	543,862	258,875	-	2,925,464
Net Book Value										
At 01 January 2016	559,440	-	80,143	415	258,177	360,740	297,681	83,795	32,057	1,672,448
At 31 December 2016	559,440	-	78,726	20,682	217,276	297,254	267,171	96,055	59	1,536,664
At 31 December 2017	1,401,500	-	173,500	15,332	206,061	440,309	243,898	103,701	-	2,584,301

During the financial year, the Bank acquired Property, Plant and Equipment to the aggregate value of LKR 463 Mn. (2016 - LKR 244.6 Mn.). Cash payments amounting to LKR 373.3 Mn. (2016 - LKR 210.2 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. 1,973 Mn. (2016 - LKR 1,585.5 Mn.).

17.1.1 The carrying amount of Bank's freehold land and buildings, if they were carried at cost less accumulated depreciation would be as follows;

As at 31st December	2017		2016	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
	LKR '000	LKR '000	LKR '000	LKR '000
Freehold Land	559,440	-	559,440	-
Building	119,125	40,553	78,572	37,871
Total	678,565	40,553	638,012	37,871
			676,036	638,165
			559,440	559,440
			116,596	78,725
			37,871	37,871
			638,165	638,165

Notes to the Financial Statements

17.2 Group

Gross Carrying Amounts - at Cost	Land - Freehold	Land - Leasehold	Buildings	Motor Vehicles	Office and Electrical 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	LKR '000
At 01 January 2016	559,440	148,000	561,220	21,069	634,342	1,608,605	715,952	272,631	32,057	4,553,316
Additions	-	-	4,284	21,200	32,546	99,651	44,779	45,260	-	247,720
Disposals	-	-	(20)	(16,100)	(4,951)	(3,836)	(3,798)	-	-	(28,705)
Capital WIP - Additions	-	-	-	-	-	-	-	-	59	59
Capital WIP - Capitalized during the year	-	-	-	-	-	-	-	-	(32,057)	(32,057)
At 31 December 2016	559,440	148,000	565,484	26,169	661,937	1,704,420	756,933	317,891	59	4,740,333
Additions	-	-	3,799	-	54,494	321,010	42,983	44,684	-	466,970
Disposals	-	-	-	-	(11,740)	(1,906)	(8,685)	-	-	(22,331)
Revaluation Surplus	842,060	-	425,567	-	-	-	-	-	-	1,267,627
Capital WIP - Capitalized during the year	-	-	-	-	-	-	-	-	(59)	(59)
At 31 December 2017	1,401,500	148,000	994,850	26,169	704,690	2,023,524	791,231	362,575	-	6,452,540
Depreciation / Amortization										
At 01 January 2016	-	18,776	145,303	20,652	373,977	1,246,655	415,931	188,835	-	2,410,129
Charge for the year	-	1,893	13,862	933	73,787	163,530	75,217	32,999	-	362,221
Disposals	-	-	(13)	(16,100)	(4,951)	(3,836)	(3,325)	-	-	(28,225)
At 31 December 2016	-	20,669	159,152	5,485	442,813	1,406,349	487,823	221,834	-	2,744,125
Charge for the year	-	1,893	14,000	5,350	65,032	177,183	66,357	37,039	-	366,854
Disposals	-	-	-	-	(11,711)	(1,906)	(8,614)	-	-	(22,231)
At 31 December 2017	-	22,562	173,152	10,835	496,134	1,581,626	545,566	258,873	-	3,088,748
Net Book Value										
At 01 January 2016	559,440	129,224	415,917	417	260,365	361,950	300,021	83,796	32,057	2,143,187
At 31 December 2016	559,440	127,331	406,332	20,684	219,124	298,071	269,110	96,057	59	1,996,208
At 31 December 2017	1,401,500	125,438	821,698	15,334	208,557	441,898	245,665	103,702	-	3,363,792

During the financial year, the Group acquired Property, Plant and Equipment to the aggregate value of LKR 466.9 Mn. (2016 - LKR 247.7 Mn.). Cash payments amounting to LKR 377.2 Mn. (2016 - LKR 213.3 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 1,978 Mn. (2016 - LKR 1,589.6 Mn.).

17.2.1 The carrying amount of Group's freehold land and buildings, if they were carried at cost less accumulated depreciation would be as follows:

As at 31st December	2017		2016	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
	LKR '000	LKR '000	LKR '000	LKR '000
Freehold Land	559,440	-	559,440	-
Buildings	569,283	173,152	396,131	159,152
Total	1,128,723	173,152	955,571	159,152
				965,772

17.3 Details of Banks / Group's Land and Building Stated at Valuation

Bank

Location	Date of Valuation	Method of valuation	Net Book Value Before Revaluation			Revaluation amount			Revaluation Gain recognized in OCI		
			Land Rs Mn	Building Rs Mn	Total Rs Mn	Land Rs Mn	Building Rs Mn	Total Rs Mn	Land Rs Mn	Building Rs Mn	Total Rs Mn
Valuer-PB Kalugalagedara											
No.242 Union Place, Colombo 02	30-09-2017	Direct Capital Comparison Method/ Depreciated replacement cost	543.99	68.62	612.61	1,224.00	145.00	1,369.00	680.02	76.38	756.39
No.76 York Street Fort, Colombo 01	30-09-2017	Direct Capital Comparison Method/ Depreciated replacement cost	15.46	9.96	25.42	177.50	28.50	206.00	162.04	18.54	180.58
Total			559.45	78.58	638.03	1,401.50	173.50	1,575.00	842.05	94.92	936.97

Other than properties included in Bank, Group Land and Buildings consist of Allied Properties Limited's properties.

Group

Location	Date of Valuation	Method of valuation	Net Book Value Before Revaluation			Revaluation amount			Revaluation Gain / Loss		
			Land Rs Mn	Building Rs Mn	Total Rs Mn	Land Rs Mn	Building Rs Mn	Total Rs Mn	Land Rs Mn	Building Rs Mn	Total Rs Mn
Valuer-PB Kalugalagedara											
No.46/58 Navam Mawatha, Colombo 02	30-09-2017	Investment method	-	317.57	317.57	-	648.20	648.20	-	330.65	330.63
Total			559.45	396.15	955.60	1,401.50	821.70	2,223.20	842.05	425.55	1,267.60

Notes to the Financial Statements

18 INTANGIBLE ASSETS

Accounting Policy

The Group's intangible assets include the cost of computer software and Licenses. An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following the initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets with finite lives are amortized over the useful economic life. The amortization period and the amortization 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 amortization period or method, as appropriate, and they are treated as changes in accounting estimates. The amortization 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

As at 31 December	Computer Software LKR '000	Other License Fees LKR '000	Total LKR '000
Cost			
At 01 January 2016	1,718,886	331,288	2,050,174
Additions	226,896	-	226,896
At 31 December 2016	1,945,782	331,288	2,277,070
Additions	240,528	-	240,528
At 31 December 2017	2,186,310	331,288	2,517,598
Amortization			
At 01 January 2016	659,393	176,686	836,079
Charge for the year	227,163	33,129	260,292
At 31 December 2016	886,556	209,815	1,096,371
Charge for the year	239,452	33,129	272,581
At 31 December 2017	1,126,008	242,944	1,368,952
Net Book Value			
At 01 January 2016	1,059,493	154,602	1,214,095
At 31 December 2016	1,059,226	121,473	1,180,699
At 31 December 2017	1,060,302	88,344	1,148,646

During the financial year, the Bank acquired Intangible Assets to the aggregate value of LKR.240.5 Mn. (2016- LKR. 226.8 Mn.). Cash payments amounting to LKR.135.9 Mn (2016- LKR. 78.3 Mn.) were made during the year for purchase of Intangible Assets

18.2 Group

As at 31 December	Computer Software LKR '000	Other License Fees LKR '000	Total LKR '000
Cost			
At 01 January 2016	1,740,261	331,288	2,071,549
Additions	228,177	-	228,177
At 31 December 2016	1,968,438	331,288	2,299,726
Additions	240,528	-	240,528
At 31 December 2017	2,208,966	331,288	2,540,254
Amortization			
At 01 January 2016	670,704	176,686	847,390
Charge for the year	230,366	33,129	263,495
At 31 December 2016	901,070	209,815	1,110,885
Charge for the year	242,688	33,129	275,817
At 31 December 2017	1,143,758	242,944	1,386,702
Net Book Value;			
At 01 January 2016	1,069,557	154,602	1,224,159
At 31 December 2016	1,067,368	121,473	1,188,841
At 31 December 2017	1,065,208	88,344	1,153,552

During the financial year, the Group acquired Intangible Assets to the aggregate value of LKR. 240.5 Mn. (2016- LKR. 228.1 Mn.). Cash payments amounting to LKR.135.9 Mn (2016- LKR. 79.6 Mn.) were made during the year for purchase of Intangible Assets

Notes to the Financial Statements

19 DUE TO BANKS

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Money Market Borrowings	10,567,825	11,756,289	10,567,825	11,756,289
Deposits from Other Banks	146,039	94,599	146,039	94,599
	10,713,864	11,850,888	10,713,864	11,850,888

20 DUE TO CUSTOMERS

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000

20.1 Due to Customers - By Product

Demand Deposits	18,026,048	14,067,435	17,998,325	14,010,003
Savings Deposits	36,102,924	28,365,967	36,102,924	28,365,967
Call Deposits	58,575	131,417	58,575	131,417
Fixed Deposits	138,258,169	106,553,799	138,258,169	106,553,799
Certificate of Deposits	1,851,002	2,441,050	1,851,002	2,441,050
	194,296,718	151,559,668	194,268,995	151,502,236

20.2 Due to Customers - By Currency

Sri Lanka Rupee	170,791,494	133,529,178	170,763,771	133,471,746
United States Dollar	18,000,478	13,785,142	18,000,478	13,785,142
Sterling Pound	1,743,184	1,615,662	1,743,184	1,615,662
Others	3,761,562	2,629,686	3,761,562	2,629,686
	194,296,718	151,559,668	194,268,995	151,502,236

21 DEBT ISSUED AND OTHER BORROWED FUNDS

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000

21.1 Senior Debt

US Dollar 15 Mn Loan (Note 21.4)	783,677	1,527,406	783,677	1,527,406
US Dollar 50 Mn Loan (Note 21.4)	7,611,621	-	7,611,621	-
	8,395,298	1,527,406	8,395,298	1,527,406

21.2 Subordinated Debt

US Dollar 13 Mn - Loan 2 (Note 21.4)	-	1,978,310	-	1,978,310
Rated, Unsecured, Redeemable Debentures (Note 21.5)	8,075,351	8,068,388	8,075,351	8,068,388
	8,075,351	10,046,698	8,075,351	10,046,698

21.3 Other Borrowings

21.3.1 Refinance Borrowings

- CBSL Saubagya	58,190	8,380	58,190	8,380
- SME line of credit by ADB via GOSL	643,942	-	643,942	-

21.3.2 Other Borrowings

	2,564,793	2,562,621	2,564,793	2,562,621
	3,266,925	2,571,001	3,266,925	2,571,001
	19,737,574	14,145,105	19,737,574	14,145,105

21 DEBT ISSUED AND OTHER BORROWED FUNDS (CONTD.)

21.4 Senior Debt

These borrowings are from Foreign Development Finance Institutions with an original maturity ranging from 5-10 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		Coupon Rate	Interest Terms	Maturity Date	Amortized Cost - Bank		Amortized Cost - Group		Interest rate of Comparable Government Security	
	2017 LKR '000	2016 LKR '000				2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000	2017 %	2016 %
19-Dec-13	3,000,000	3,000,000	13.00%	Semi-Annually	19-Dec-18	2,995,714	2,991,512	2,995,714	2,991,512	8.90	11.42
8-Nov-16	2,410	2,410	11.61%	Semi-Annually	8-Nov-21	2,445	2,445	2,445	2,445	9.84	12.15
8-Nov-16	3,885,800	3,885,800	12.65%	Semi-Annually	8-Nov-21	3,947,502	3,945,355	3,947,502	3,945,355	9.84	12.15
8-Nov-16	1,111,790	1,111,790	12.80%	Annually	8-Nov-21	1,129,691	1,129,076	1,129,691	1,129,076	9.84	12.15
	8,000,000	8,000,000				8,075,351	8,068,388	8,075,351	8,068,388		

Ratios of Debt

	2017	2016
* Debt / Equity Ratio %	94.86%	62.87%
Interest Cover (Times)	5.89	6.60
Quick Asset Ratio %	112%	87%

* Borrowings over one year original maturity are considered for debt

21.6 All the securities were issued by Nations Trust Bank PLC. The Bank has not had any defaults of principal, interest or other breaches with regard to any liabilities as of 31 December 2017.

Notes to the Financial Statements

22 OTHER LIABILITIES

As at 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Accounts Payable and Sundry Creditors	1,606,292	1,236,806	1,622,830	1,254,616
Obligations under Financial Guarantees (Note 22.1)	101,708	78,460	101,708	78,460
Margin Balances	235,700	179,902	235,700	179,902
Pay Orders	1,040,136	1,073,580	1,040,136	1,073,580
Employee Benefit Liability (Note 22.2)	486,897	394,062	493,044	398,797
Employee Share Appreciation Rights (Note 22.3)	18,078	-	18,078	-
Others	2,793,610	2,501,160	2,815,794	2,537,495
	6,282,421	5,463,970	6,327,290	5,522,850

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

	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
As at 01 January	78,460	33,748	78,460	33,748
Utilized	(23,249)	(190,542)	(23,249)	(190,542)
Arising during the Year	46,497	235,254	46,497	235,254
As at 31 December	101,708	78,460	101,708	78,460

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 promised 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.

Accordingly, the employee benefit liability is based on the actuarial valuation as of 31 December 2017, 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:

As at 31 December	2017 LKR '000	2016 LKR '000
Rate of Discount	10.1%	12.4%
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:

For the Year Ended 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Interest Cost	48,864	38,557	49,451	39,024
Current Service Cost	60,908	49,864	61,580	50,411
	109,772	88,421	111,031	89,435

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

	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
As at 01 January	394,062	385,568	398,797	390,244
Interest Cost	48,864	38,557	49,451	39,024
Current Service Cost	60,909	49,864	61,580	50,411
Gratuity Payable	(2,692)	(1,555)	(2,692)	(1,555)
Benefits Paid	(64,295)	(57,073)	(64,293)	(57,503)
Actuarial (Gain)/ Loss	50,049	(21,299)	50,201	(21,823)
As at 31 December	486,897	394,062	493,044	398,797

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				Group			
2017				2016			
Salary Escalation Rate	Discount Rate	PVDBO LKR '00	Effect on Other Comprehensive Income LKR '000	Salary Escalation Rate	Discount Rate	PVDBO LKR '000	Effect on Other Comprehensive Income LKR '000
8.0%	11.1%	468,966	23,544	8.0%	13.4%	381,226	17,572
8.0%	9.1%	518,461	(25,951)	8.0%	11.4%	418,086	(19,289)
9.0%	10.1%	520,948	(28,438)	9.0%	12.4%	420,516	(21,719)
7.0%	10.1%	466,308	26,202	7.0%	12.4%	378,736	20,061

22.2.4 Average Future working Life Time as per the assumptions made in year 2017: 6.39 years (Year 2016: 6.87 years).

Notes to the Financial Statements

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

Future Working Life Time	Defined Benefit Obligation	
	2017 LKR '000	2016 LKR '000
Within the next 12 months	70,887	73,184
Between 1 - 2 years	115,608	90,299
Between 2 - 5 years	132,292	106,427
Between 5 - 10 years	115,326	84,769
Beyond 10 years	58,931	44,118
	493,044	398,797

Weighted Average duration of Defined Benefit Obligation is 5.50 years (2016 - 5.16 years)

22.3 Employee Share Appreciation Rights (ESAR)

Share Based Payments

Employees (senior executives) of the Group/Bank receive benefit in the form of share- based payments, whereby employees render services are granted share appreciation rights which are settled in cash (Cash-settled transaction). A liability is recognized for the fair value of cash settled transactions. The fair value is measured initially and at each reporting date up to and including the settlement date, with changes in fair value recognized in employee benefits expense. The fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The fair value is determined using binomial model.

Movements in the year	Bank/Group 2017	
	Number of SARs	Value LKR '000
Outstanding at the beginning of the year	-	-
Granted during the year	962,000	18,078
Outstanding at the end of the year	962,000	18,078

The following table lists the inputs to the model used for valuation of the liability under SARs as at 31 December 2017

	2017
Dividend Yield	3.0%
Expected Volatility	19.3%
Risk free Interest rate	10.7%
Expected Life of the Option	4.5 Years
Weighted Average Share Price on grant date	79.29

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

23. TAXES

Accounting Policy

(i) 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%.

(ii) 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

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 (DTA) and liabilities (DTL) 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 and deferred tax liabilities 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.

Notes to the Financial Statements

23.2 DEFERRED TAXATION

Bank	2017					2016				
	01/01/17	Recognised	Recognised	Setoff	31/12/2017	01/01/16	Recognised	Recognised	Set off	31/12/16
	DTL/(DTA)	in P&L	in OCI	Against IT Payable	DTL/(DTA)	DTL/(DTA)	in P&L	in OCI	Against IT Payable	DTL/(DTA)
	LKR '000	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	301,570	35,097	-	-	336,667	257,799	43,771	-	-	301,570
Accelerated depreciation allowances for tax purposes- lease rentals receivable	1,255,584	498,874	-	-	1,754,458	875,571	380,013	-	-	1,255,584
Net gains on re-measuring of available-for-sale financial assets	(69,252)	-	149,986	-	80,734	28,499	-	(97,751)	-	(69,252)
Revaluation gain on Land & Building	-	-	262,357	-	262,357	-	-	-	-	-
Carry forward Tax losses on Lease Business	(406,547)	(153,072)	-	-	(559,619)	(247,506)	(159,041)	-	-	(406,547)
Adjustment due to change in Accounting base and tax base on adopting SLFRS	-	-	-	-	-	(71,278)	-	-	71,278	-
Retirement Benefit Plan -Gratuity	(110,942)	(12,129)	(14,014)	-	(137,085)	(109,532)	(7,374)	5,964	-	(110,942)
Total Timing Difference	970,413	368,770	398,329	-	1,737,512	733,553	257,369	(91,787)	71,278	970,413

Group	2017					2016				
	01/01/17	Recognised	Recognised	Setoff	31/12/2017	01/01/16	Recognised	Recognised	Set off	31/12/16
	DTL/(DTA)	in P&L	in OCI	Against IT Payable	DTL/(DTA)	DTL/(DTA)	in P&L	in OCI	Against IT Payable	DTL/(DTA)
	LKR '000	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	301,025	34,794	-	-	335,819	257,583	43,442	-	-	301,025
Accelerated depreciation allowances for tax purposes- lease rentals receivable	1,255,584	498,874	-	-	1,754,458	875,571	380,013	-	-	1,255,584
Net gains on re-measuring of available-for-sale financial assets	(69,253)	-	149,986	-	80,733	28,498	-	(97,751)	-	(69,253)
Revaluation gain on Land & Building	-	-	354,936	-	354,936	-	-	-	-	-
Carry forward Tax losses on Lease Business	(406,546)	(153,072)	-	-	(559,618)	(247,505)	(159,041)	-	-	(406,546)
Adjustment due to change in Accounting base and tax base on adopting SLFRS	-	-	-	-	-	(71,278)	-	-	71,278	-
Retirement Benefit Plan -Gratuity	(111,656)	(12,687)	(14,056)	-	(138,399)	(110,290)	(7,456)	6,090	-	(111,656)
Total Timing Difference	969,154	367,909	490,866	-	1,827,929	732,579	256,958	(91,661)	71,278	969,154

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

24 STATED CAPITAL

Ordinary Shares	Bank/ Group		Bank/ Group	
	2017 Number	2017 LKR '000	2016 Number	2016 LKR '000
Issued and fully paid				
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	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
As at 01 January	796,400	660,840	796,400	660,840
Transfers during the year (Note 26)	214,332	135,560	214,332	135,560
As at 31 December	1,010,732	796,400	1,010,732	796,400

26 RETAINED EARNINGS

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
As at 01 January	10,261,404	8,154,695	11,600,912	9,335,949
Total Comprehensive Income	4,250,606	2,726,544	3,335,344	2,884,798
Dividend Paid	(484,275)	(484,275)	(484,275)	(484,275)
Transfers to Reserve Fund (Note 25.2)	(214,332)	(135,560)	(214,332)	(135,560)
As at 31 December	13,813,403	10,261,404	14,237,649	11,600,912

Notes to the Financial Statements

27 OTHER RESERVES

27.1 Available for Sale Reserve

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
As at 01 January	(178,077)	73,282	(178,077)	73,282
Net gains / (loss) on re-measuring available-for-sale financial assets	535,663	(138,564)	535,663	(138,564)
Less: Reclassification adjustment to the profit or Loss	-	(210,546)	-	(210,546)
Net income tax (charge) / reversal relating to components of re-measuring available-for-sale financial assets	(149,986)	97,751	(149,986)	97,751
As at 31 December	207,600	(178,077)	207,600	(178,077)

27.2 Revaluation Reserve

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
As at 01 January	-	-	-	-
During the year revaluation of land and buildings	936,988	-	1,267,627	-
Deferred Tax charge / (reversal) relating to revaluation	(262,357)	-	(354,936)	-
As at 31 December	674,631	-	912,691	-

The Group adapted revaluation model for Land and Buildings from 2017 and the details of fair valuation is included in Note 17.2 and 43.2 to the Financial Statements.

Accounting Policy

Recognition of Income and Expenses

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. 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. When 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 three categories:

- (a) 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 deferred over that period. These fees include commission income and asset management fees, custody and other management and advisory fees.
- (b) Fee income from providing financial services are earned on the execution of a significant act
Fees and commissions arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement/participation or negotiation of the lending transactions 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.
- (c) Fee income forming an integral part of the corresponding financial instrument
Fees that the Bank considers to be an integral part of the corresponding financial instruments include: loan origination fees, loan commitment fees for loans that are likely to be drawn down and other credit related fees. The recognition of these fees (together with any incremental costs) form an integral part of the corresponding financial instruments and are recognized as interest income through an adjustment to the EIR. The exception is, when it is unlikely that a loan will be drawn down, the loan commitment fees are recognized as revenue on expiry.

(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

28 INTEREST INCOME

For the Year Ended 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Reverse Repurchase Agreements	170,689	65,625	170,689	65,625
Due from Banks	38,922	90,317	38,922	90,317
Loans and Advances to Customers	24,368,132	16,904,406	24,482,357	17,010,465
Financial Assets - Held for Trading	124,353	226,219	124,353	226,219
Financial Assets - Available for Sale	3,578,771	2,102,562	3,578,771	2,102,562
Financial Assets - Held to Maturity	1,239,069	1,304,375	1,247,534	1,312,661
Other Financial Assets	465,957	436,306	465,957	436,306
Interest Income accrued on Impaired Financial Assets	276,357	139,722	276,357	139,722
	30,262,250	21,269,532	30,384,940	21,383,877

Interest Income from government securities earned during the year 2017 amounts to LKR 5,131 Mn (2016: LKR 3,814 Mn) and the Group LKR 5,139 (2016: LKR 3,821 Mn). The Government Securities represents; Treasury Bills, Treasury Bonds and Sri Lanka Development Bonds.

29 INTEREST EXPENSE

For the Year Ended 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Due to Banks	862,506	531,909	861,407	531,909
Repurchase Agreements	1,311,965	1,202,917	1,256,040	1,169,624
Due to Customers	14,787,785	9,062,070	14,787,785	9,047,472
Debt Issued and Other Borrowed Funds	1,190,119	848,823	1,190,592	847,898
Others	-	994	838	1,363
	18,152,375	11,646,713	18,096,662	11,598,266

30 NET FEES AND COMMISSION INCOME

For the Year Ended 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000

30.1 Fees and Commission Income

Portfolio and Other Management Fees	-	-	2,278	4,651
Credit Card Related Fees and Commissions	2,940,098	2,468,074	2,939,543	2,467,653
Commission on Trade Finance Facilities & Remittances	564,813	403,735	564,813	403,735
Commission on Services-Loans	638,052	263,784	638,052	263,784
Commission on Services-Deposits	434,684	426,442	434,684	426,442
Other Fees	176,349	118,193	399,714	270,500
	4,753,996	3,680,228	4,979,084	3,836,765

30 NET FEES AND COMMISSION INCOME (CONTD.)

For the Year Ended 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000

30.2 Fees and Commission Expenses

Brokerage Fees	(37,580)	(22,008)	(37,580)	(14,693)
Credit Card Related Fees	(285,157)	(223,466)	(285,163)	(223,763)
	(322,737)	(245,474)	(322,743)	(238,456)
Net fees and commission income	4,431,259	3,434,754	4,656,341	3,598,309

31 NET TRADING INCOME/(LOSS)

For the Year Ended 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000

Unrealized Gains / (Losses) on foreign exchange forward contracts	(200,613)	565,444	(200,613)	565,444
Realised Gains / (Losses) on foreign exchange forward contracts	(455,417)	158,430	(455,417)	158,430
Net Gain / (Loss) on retranslation of account balances	(110,823)	(990,765)	(110,823)	(990,765)
Net Foreign Exchange Gains / (Losses)	(766,853)	(266,891)	(766,853)	(266,891)
Profit on Sale of Securities	190,074	34,039	190,074	34,039
Other Trading Gain / (Loss)	18,326	(8,529)	18,326	(8,529)
	(558,453)	(241,381)	(558,453)	(241,381)

Other Trading Income includes the impact of fair value changes due to movement in the financial assets recorded as held for trading. Net Foreign Exchange Gains/(Losses) of Bank/Group includes a loss of LKR 1,268 Mn (2016 - 737 Mn) from interbanks and a gain of LKR 501 Mn (2016 - 470 Mn) from Customers

32 OTHER OPERATING INCOME

For the Year Ended 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000

Dividend Income	443,548	26,754	3,472	3,265
Profit on subsidiary share buy back Note (32.1)	671,925	-	-	-
Non-Trading Foreign Exchange	160,691	63,192	160,691	63,192
Recovery of Loans Written -Off	188,984	161,544	188,984	161,544
Others	174,254	340,182	174,255	340,197
	1,639,402	591,672	527,402	568,198

32.1 During the year the Subsidiary Company (Waldock Mackenzie Limited) repurchased 6,886,598 of its shares from Nations Trust Bank for a total value of LKR 671Mn.

Notes to the Financial Statements

33 IMPAIRMENT CHARGE / (REVERSAL) FOR LOANS AND ADVANCES

For the Year Ended 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Loans and Advances to Customers				
Corporate Loans	48,519	30,375	48,940	45,837
Retail SME and Consumer Lending	1,036,500	662,074	1,036,500	662,074
Housing Loans	(13,896)	(6,112)	(13,896)	(6,112)
Leases	12,745	(21,869)	12,745	(21,869)
	1,083,868	664,468	1,084,289	679,930
Add: Direct Write off on other charges	4,536	10,342	4,536	10,342
	1,088,404	674,810	1,088,825	690,272

34 PERSONNEL EXPENSES

Salaries	2,079,256	1,871,542	2,099,211	1,890,340
Employee Benefits - Defined Contribution Plan	309,917	279,468	312,820	282,238
Employee Benefits - Defined Benefit Plan (Note 22.2.1)	109,772	88,421	111,031	89,435
Amortization of Staff Loan Day 1 Difference	91,502	46,193	91,502	46,193
Other Allowances	1,235,123	1,016,230	1,242,424	1,022,764
	3,825,570	3,301,854	3,856,988	3,330,970

35 OTHER OPERATING EXPENSES

Operating Lease Expenses	380,475	369,522	335,910	324,957
Professional Fees	20,971	52,952	21,441	53,318
Auditors Fees and Expenses	10,178	9,416	11,893	10,886
Non Audit fees and Expenses to Auditors	3,227	3,754	3,357	3,754
Legal Fees	20,845	14,292	20,845	14,292
Transport	208,857	180,698	209,344	181,304
Office Administration & Establishment	3,632,049	3,039,170	3,670,604	3,074,788
	4,276,602	3,669,804	4,273,394	3,663,299

36 VALUE ADDED TAX (VAT) ON FINANCIAL SERVICES / NATION BUILDING TAX (NBT)

For the Year Ended 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Value Added Tax (VAT)	1,438,521	903,736	1,458,558	915,671
Nations Building Tax (NBT)	197,572	142,475	199,649	144,613
	1,636,093	1,046,211	1,658,207	1,060,284

37 INCOME TAX EXPENSE

37.1 Amount recognized in profit or loss

For the Year Ended 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
The component of Income Tax expense for years ended 31 December 2017 & 2016 are :				
Current Tax				
- Current Income Tax on Profit for the Year (Note 37.2)	1,540,332	1,149,976	1,630,431	1,221,149
- 10% Withholding Tax on Subsidiary Dividend	-	-	48,900	2,610
- Over Provision in respect of Prior Years	(25,229)	(11,638)	(25,247)	(9,607)
Deferred Tax				
- Charge for Deferred Tax	368,770	257,369	367,909	256,958
	1,883,873	1,395,707	2,021,993	1,471,110
Effective Income Tax Rate	30.53%	33.98%	37.49%	33.90%

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 2017 and 2016 is as follows:

For the Year Ended 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Accounting Profit (Profit before Taxation)	6,170,514	4,106,916	5,393,482	4,340,196
Add: Disallowable Expenses	22,831,509	16,922,361	22,821,303	16,922,931
	29,002,023	21,029,277	28,214,785	21,263,127
Less: Allowable Expenses	(21,905,961)	(16,235,644)	(21,908,943)	(16,238,795)
Exempt Income	(1,594,875)	(686,573)	(482,873)	(663,084)
Statutory Income	5,501,187	4,107,060	5,822,969	4,361,248
Taxable Income	5,501,187	4,107,060	5,822,969	4,361,248
Current Income Tax Expense	1,540,332	1,149,976	1,630,431	1,221,149

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.

38 BASIC / DILUTED EARNINGS PER SHARE

Basic Earnings Per Share is calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

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

Notes to the Financial Statements

38.1 Earning per share Basic/Diluted

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Amount used as the numerator				
Net profit after tax for the year attributable to equity holders	4,286,641	2,711,209	3,371,489	2,869,086
No of ordinary shares used as the denominator				
Weighted average number of ordinary shares (Note 38.2)	236,602,619	236,602,619	236,602,619	236,602,619
Basic/Diluted Earnings Per Share (Rs.)	18.12	11.46	14.25	12.13

38.2 Weighted average number of ordinary shares

	Weighted Average Number of Ordinary Shares 2017	Weighted Average Number of Ordinary Shares 2016
Number of shares held as at 01 January	230,607,283	230,607,283
Add: Number of shares issued due to scrip dividend 2017	5,995,336	5,995,336
Number of shares held as at 31 December	236,602,619	236,602,619

Except for the scrip dividend 2017 (Note 47 Events after the reporting date), there have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these financial statements that require adjustment of the weighted average number of ordinary shares.

39 DIVIDENDS PAID AND DECLARED

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

	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000

39.1 Declared and Paid During the Year

Dividends on ordinary shares:				
First and Final dividend for 2016 : LKR 2.10 Per Share (2015 : LKR 2.10 per Share)	484,275 484,275	484,275 484,275	484,275 484,275	484,275 484,275

39.2 Declared by the Board of Directors (not recognized as a liability as at 31 December)

Dividends on ordinary shares:				
First and Final dividend for 2017: LKR 2.10 per Share* (2016: LKR 2.10 per share)	568,497	484,275	568,497	484,275

*A dividend of Rs. 2.10 per share in respect of year 2017 is declared by the Board of Directors to be paid in the form of a Scrip dividend in the proportion of 01 share for every 38.4644498 shares for both Ordinary Voting Shares and Convertible Non-Voting Shares (Convertible to Ordinary Voting Shares). Fractions in shares will be paid in cash. (Note 47)

40 CASH FLOW INFORMATION

For the Year Ended 31 December	Bank		Group	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000

40.1 (Increase)/Decrease in Operating Assets

Reverse Repurchase Agreements	3,900	287,631	3,900	(29,793)
Derivative Financial Instruments	(139,750)	488,674	(139,750)	488,674
Financial Assets Held for Trading	1,073,716	461,654	1,073,716	461,654
Financial Assets-Held to Maturity	3,145,812	(341,496)	3,144,234	(342,911)
Financial Assets-Available for Sale	(16,645,792)	(5,814,595)	(16,645,792)	(5,814,595)
Other Financial Assets	58,488	(312,981)	58,488	(434,643)
Loans and Advances to Customers	(38,714,252)	(28,938,440)	(38,030,465)	(29,141,685)
Other Assets	(60,699)	(355,134)	(71,131)	(346,060)
	(51,278,577)	(34,524,687)	(50,606,800)	(35,159,359)

40.2 Increase/(Decrease) in Operating Liabilities

Repurchase Agreements	2,455,070	(3,808,901)	2,662,956	(3,491,478)
Due to Customers	41,661,611	21,508,453	41,691,320	21,533,707
Derivative Financial Instruments	365,499	76,690	365,499	76,690
Other Liabilities	695,327	394,317	673,977	308,208
	45,177,507	18,170,559	45,393,753	18,427,127

40.3 Other Non cash items included in Profit before Tax

Depreciation of Property, Plant and Equipment	352,319	380,034	366,855	418,529
Amortization of Intangible Assets	272,581	260,292	275,817	263,495
Provision for Fair Valuation of Trading Portfolio	(18,326)	8,529	(18,326)	8,232
Interest Income on government securities & Loans	(385,801)	(148,226)	(385,801)	(148,226)
Others	-	-	-	17,342
	220,774	500,629	238,544	559,372

Changes in liabilities arising from financing activities

Bank/Group	1 January 2017 LKR '000	Cashflows LKR '000	Non cash flows LKR '000	31 December 2017 LKR '000
US Dollar 13Mn Loan 2	1,978,310	(1,950,297)	(28,012)	-
US Dollar 15Mn Loan	1,527,406	(732,332)	(11,398)	783,677
US Dollar 50Mn Loan	-	7,675,929	(64,308)	7,611,621
Rated, Unsecured, Redeemable Debentures	8,068,388	-	6,963	8,075,351
SME Line of Credit by ADB via GOSL	-	639,625	4,317	643,942
CBSL Saubhagya	8,380	49,810	-	58,190
Other Borrowings	2,562,621	-	2,172	2,564,793
Total Debt Issued and Other Borrowed Funds	14,145,105	5,682,735	(90,266)	19,737,574
Money Market Borrowings	11,756,289	(1,188,464)	-	10,567,825
Total	25,901,394	4,494,271	(90,266)	30,305,399

Notes to the Financial Statements

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 non 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 and Directors in subsidiary companies.

(a) Compensation to Key Management Personnel

Year Ended 31 December	2017 LKR '000	2016 LKR '000
Key Management Personnel Benefits	53,539	44,042
Post Employment Benefits	14,872	4,200
	68,411	48,242

In addition to the salaries the Group also has arranged non cash benefits such as vehicle & insurance to Executive Director in line with approved benefits plan of the Group. Executive Director is also entitled to 48,387 share appreciation rights.

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

Year Ended 31 December	Key Management Personnel & their Close Family Members (CFM)				Entities in which KMPs and CFMs have control or joint control			
			Maximum Balances				Maximum Balances	
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Items in the Statement of Financial Position								
Assets								
Loans & Advances	15,945	20,079	24,341	20,079	-	-	-	-
Credit Cards	2,756	2,965	3,696	2,965	267	36	276	128
Liabilities								
Due to Customers	125,876	68,122	125,876	84,436	-	-	-	-
Equity								
Dividends paid (Net)	433	433	-	-	-	-	-	-
Commitments								
Undrawn Facilities	18,421	12,967	-	-	733	964	-	-
Items in Statement of Profit or Loss								
Interest Income Earned	1,426	1,657	-	-	-	-	-	-
Interest Expenses Paid	6,589	1,377	-	-	-	-	-	-
Other Income Earned	875	137	-	-	-	-	-	-
Expenses Paid	1,607	788	-	-	-	-	-	-

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 has contributed a sum of LKR 249.50 Mn (2016 - LKR 224.96 Mn) to the Fund during the year.

As at 31 December 2017, the Fund has invested a sum of LKR 1207.38 Mn (2016 - LKR 441.42 Mn) with the Bank.

During the year, the Bank has incurred a sum of LKR 92.27 Mn (2016 - LKR 42.07 Mn) as interest expense to the Fund out of which a sum of LKR 35.95 Mn (2016 - LKR 17.8 Mn) is payable as of 31 December 2017

41.3 Transactions with Related Entities.

Year Ended 31 December	Subsidiaries *			Significant Investors **			Significant Investor Related Entities ***				
	2017 LKR '000	Maximum Balances		2016 LKR '000	Maximum Balances		2016 LKR '000	Maximum Balances			
		2016 LKR '000	2017 LKR '000		2016 LKR '000	2017 LKR '000		2016 LKR '000	2017 LKR '000		
Items in the Statement of Financial Position											
Assets											
Loans & Advances	-	210,297	397,685	210,297	169,261	378,921	436,619	488,036	57,127	308,556	57,127
Corporate Credit Cards	-	-	-	-	-	-	-	-	498	192	530
Derivative Financial Assets	-	-	-	-	-	-	-	-	-	2,974	-
Other Assets	-	-	-	-	-	-	-	-	19,666	13,227	-
Liabilities											
Due to Customers	26,114	54,451	108,238	101,649	1,595,022	636,650	3,301,198	2,645,595	1,703,916	2,178,713	1,703,916
Borrowing & Others	378,405	589,663	764,898	1,701,427	2,942,630	1,766,238	2,946,274	2,207,531	218,122	354,664	768,383
Other Liabilities	-	-	-	-	-	-	-	-	-	273,225	-
Derivative Financial Liabilities	-	-	-	-	-	-	-	-	-	11,346	8
Equity											
Dividends Paid (Net)	-	-	-	-	284,474	284,080	-	-	-	-	-
Commitments											
Undrawn Facilities	1,800,000	1,589,836	-	-	639,880	115,240	-	-	629,725	286,701	-
Letter of Credit / Guarantees	-	-	-	-	225,874	265,854	-	-	484,320	954,134	-
Forward - Foreign Exchange Contracts	-	-	-	-	-	-	-	-	708,931	594,688	-
Items in Income Statement											
Interest Income Earned	5,747	15,242	-	-	22,682	29,448	-	-	4,977	2,133	-
Interest Expenses Paid	57,024	47,891	-	-	528,294	321,406	-	-	153,864	59,282	-
Other Income Earned	14,656	13,304	-	-	3,615	3,643	-	-	14,280	15,582	-
Dividend Received (Gross)	440,100	23,489	-	-	-	-	-	-	-	-	-
Proceeds from sales of shares	671,925	-	-	-	-	-	-	-	-	-	-
Expenses Paid	41,686	41,686	-	-	46,657	48,406	-	-	77,770	53,587	-

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

** Significant Investors include John Keells Holdings PLC, Mackinnon Keells Limited, HMIC 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 3.9 Mn (2016 - LKR 2.5 Mn) and LKR 26.1 Mn (2016 - 18.09 Mn) is accounted in Nations Insurance Brokers Ltd 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.

Notes to the Financial Statements

42 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

As at 31 December 2017	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	6,867,222	-	6,867,222	6,869,695	-	6,869,695
Balances with Central Bank of Sri Lanka	10,819,576	373,691	11,193,266	10,819,522	373,744	11,193,266
Reverse Repurchase Agreements	10,798	-	10,798	10,798	-	10,798
Derivative Financial Instruments	230,217	-	230,217	230,217	-	230,217
Financial Assets - Held for Trading	521,389	-	521,389	521,389	-	521,389
Financial Assets-Available for Sale	38,846,109	5,937	38,852,046	38,846,109	5,937	38,852,046
Financial Assets - Held to Maturity	2,284,037	7,595,353	9,879,390	2,282,969	7,667,464	9,950,433
Other Financial Assets	2,129,727	4,667,880	6,797,607	2,129,727	4,667,880	6,797,607
Loans and Advances to Customers	115,802,516	70,734,196	186,536,712	116,011,515	70,734,196	186,745,711
Other Assets	938,339	955,135	1,893,474	985,663	955,325	1,940,988
Investments in Subsidiaries	-	678,710	678,710	-	-	-
Property, Plant and Equipment	-	2,584,301	2,584,301	-	3,363,792	3,363,792
Intangible Assets	-	1,148,646	1,148,646	-	1,153,552	1,153,552
Total Assets	178,449,930	88,743,848	267,193,778	178,707,604	88,921,890	267,629,494
Liabilities						
Due to Banks	10,713,864	-	10,713,864	10,713,864	-	10,713,864
Repurchase Agreements	12,319,188	-	12,319,188	11,940,782	-	11,940,782
Derivative Financial Instruments	495,517	-	495,517	495,517	-	495,517
Due to Customers	187,810,062	6,486,657	194,296,718	187,782,338	6,486,657	194,268,995
Debt Issued and Other Borrowed Funds	5,654,389	14,083,185	19,737,574	5,654,389	14,083,185	19,737,574
Current Tax Liabilities	803,249	-	803,249	847,501	-	847,501
Other Liabilities	5,412,473	869,948	6,282,421	5,446,629	880,661	6,327,290
Deferred Tax Liabilities	-	1,737,512	1,737,512	-	1,827,929	1,827,929
Total Liabilities	223,208,742	23,177,301	246,386,043	222,881,020	23,278,432	246,159,453
Net	(44,758,812)	65,566,547	20,807,735	(44,173,416)	65,643,457	21,470,041

42 MATURITY ANALYSIS OF ASSETS AND LIABILITIES CONTD.

As at 31 December 2016	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	4,187,605	-	4,187,605	4,187,649	-	4,187,649
Balances with Central Bank of Sri Lanka	8,099,706	411,803	8,511,509	8,099,550	411,959	8,511,509
Reverse Repurchase Agreements	14,930	-	14,930	14,930	-	14,930
Derivative Financial Instruments	65,356	-	65,356	65,356	-	65,356
Financial Assets - Held for Trading	1,574,953	-	1,574,953	1,574,953	-	1,574,953
Financial Assets-Available for Sale	22,143,098	5,865	22,148,962	22,143,098	5,865	22,148,962
Financial Assets - Held to Maturity	5,518,238	7,411,285	12,929,523	5,517,267	7,481,721	12,998,988
Other Financial Assets	2,694,349	4,166,600	6,860,949	2,694,349	4,166,600	6,860,949
Loans and Advances to Customers	93,745,941	55,178,793	148,924,734	94,639,148	55,178,793	149,817,941
Other Assets	1,063,101	713,449	1,776,550	1,100,069	713,619	1,813,688
Investments in Subsidiaries	-	678,710	678,710	-	-	-
Property, Plant and Equipment	-	1,536,664	1,536,664	-	1,996,206	1,996,206
Intangible Assets	-	1,180,700	1,180,700	-	1,188,846	1,188,846
Total Assets	139,107,275	71,283,869	210,391,144	140,036,367	71,143,608	211,179,975
Liabilities						
Due to Banks	11,850,888	-	11,850,888	11,850,888	-	11,850,888
Repurchase Agreements	9,850,773	-	9,850,773	9,261,110	-	9,261,110
Derivative Financial Instruments	130,017	-	130,017	130,017	-	130,017
Due to Customers	144,226,923	7,332,745	151,559,668	144,169,491	7,332,745	151,502,235
Debt Issued and Other Borrowed Funds	2,909,007	11,236,099	14,145,105	2,909,007	11,236,099	14,145,105
Current Tax Liabilities	439,215	-	439,215	478,011	-	478,011
Other Liabilities	4,757,560	706,411	5,463,971	4,807,988	714,861	5,522,849
Deferred Tax Liabilities	-	970,413	970,413	-	969,153	969,153
Total Liabilities	174,164,382	20,245,667	194,410,049	173,606,511	20,252,858	193,859,369
Net	(35,057,107)	51,038,202	15,981,095	(33,570,144)	50,890,750	17,320,606

Notes to the Financial Statements

43 FAIR VALUE OF FINANCIAL INSTRUMENTS

In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as summarized below:

- Level 1 financial instruments - Those where the inputs used in the valuation are unadjusted quoted prices from active markets for identical assets or liabilities that the Bank has access to at the measurement date. The Bank considers markets as active only if there are sufficient trading activities with regards to the volume and liquidity of the identical assets or liabilities and when there are binding and exercisable price quotes available on the reporting date.
- Level 2 financial instruments - Those where the inputs that are used for valuation and are significant, are derived from directly or indirectly observable market data available over the entire period of the instrument's life. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads. In addition, adjustments may be required for the condition or location of the asset or the extent to which it relates to items that are comparable to the valued instrument. However, if such adjustments are based on unobservable inputs which are significant to the entire measurement, the Bank will classify the instruments as Level 3.
- Level 3 financial instruments - Those that include one or more unobservable input that is significant to the measurement as whole.

43.1 Determination of Fair Value

The Bank periodically reviews its valuation techniques including the adopted methodologies and model calibrations. However, the base models may not fully capture all factors relevant to the valuation of the Bank's financial instruments such as credit risk. Therefore, the Bank applies various techniques to estimate the credit risk associated with its financial instruments measured at fair value, which include a portfolio-based approach that estimates the expected net exposure per counterparty over the full lifetime of the individual assets, in order to reflect the credit risk of the individual counterparties for those financial instruments. The Bank estimates the value of its own credit from market observable data, such as secondary prices for its traded debt. The Bank evaluates the levelling at each reporting period on an instrument-by-instrument basis and reclassifies instruments when necessary based on the facts at the end of the reporting period.

43. FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

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 2017	Fair Value Measurement Using					Total LKR '000
	Date of Valuation	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
	LKR '000	LKR '000	LKR '000	LKR '000		
Financial Assets						
Derivative Financial Instruments						
Forward Foreign Exchange Contracts and Currency Swaps	31-Dec-17	-	230,217	-	230,217	
Financial Assets Held for Trading						
Government Treasury Bills	31-Dec-17	-	-	-	-	
Government Treasury Bonds	31-Dec-17	104,664	416,725	-	521,389	
Financial Assets Available for Sale						
Government Treasury Bills	31-Dec-17	24,351,263	-	-	24,351,263	
Government Treasury Bonds	31-Dec-17	12,230,879	2,263,967	-	14,494,846	
Unquoted Equity Shares	31-Dec-17	-	-	5,937	5,937	
Total Financial Assets		36,686,806	2,910,909	5,937	39,603,652	
Non financial assets measured at fair value						
Freehold Land	30-Sep-17	-	-	1,401,500	1,401,500	
Freehold Building	30-Sep-17	-	-	173,500	173,500	
Total non financial assets measured at fair value		-	-	1,575,000	1,575,000	
Financial Liabilities						
Derivative Financial Instruments						
Forward Foreign Exchange Contracts and Currency Swaps	31-Dec-17	-	495,517	-	495,517	
Total Financial Liabilities		-	495,517	-	495,517	

Notes to the Financial Statements

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 2016	Fair Value Measurement Using				Total LKR '000
	Date of Valuation LKR '000	Quoted Prices in Active Markets (Level 1) LKR '000	Significant Observable Inputs (Level 2) LKR '000	Significant Unobservable Inputs (Level 3) LKR '000	
Financial Assets					
Derivative Financial Instruments					
Forward Foreign Exchange Contracts and Currency Swaps	31-Dec-16	-	65,356	-	65,356
Financial Assets Held for Trading					
Government Treasury Bills	31-Dec-16	531,522	-	-	531,522
Government Treasury Bonds	31-Dec-16	997,479	45,952	-	1,043,430
Financial Assets Available for Sale					
Government Treasury Bills	31-Dec-16	5,196,174	-	-	5,196,174
Government Treasury Bonds	31-Dec-16	16,233,097	713,827	-	16,946,924
Unquoted Equity Shares	31-Dec-16	-	-	5,865	5,865
Total Financial Assets		22,958,272	825,135	5,865	23,789,271
Financial Liabilities					
Derivative Financial Instruments					
Forward Foreign Exchange Contracts and Currency Swaps	31-Dec-16	-	130,017	-	130,017
Total Financial Liabilities		-	130,017	-	130,017

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 2017	Fair Value Measurement Using					Total LKR '000
	Date of Valuation	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
	LKR '000	LKR '000	LKR '000	LKR '000		
Financial Assets						
Derivative Financial Instruments						
Forward Foreign Exchange Contracts and Currency Swaps	31-Dec-17	-	230,217	-	230,217	
Financial Assets Held for Trading						
Government Treasury Bills	31-Dec-17	-	-	-	-	
Government Treasury Bonds	31-Dec-17	104,664	416,725	-	521,389	
Financial Assets Available for Sale						
Government Treasury Bills	31-Dec-17	24,351,263	-	-	24,351,263	
Government Treasury Bonds	31-Dec-17	12,230,879	2,263,967	-	14,494,846	
Unquoted Equity Shares	31-Dec-17	-	-	5,937	5,937	
Total Financial Assets		36,686,806	2,910,909	5,937	39,603,652	
Non financial assets measured at fair value						
Freehold Land	30-Sep-17	-	-	1,401,500	1,401,500	
Freehold Building	30-Sep-17	-	-	821,698	821,698	
Total non financial assets measured at fair value		-	-	2,223,198	2,223,198	
Financial Liabilities						
Derivative Financial Instruments						
Forward Foreign Exchange Contracts and Currency Swaps	31-Dec-17	-	495,517	-	495,517	
Total Financial Liabilities		-	495,517	-	495,517	

Notes to the Financial Statements

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 2016	Fair Value Measurement Using					Total LKR '000
	Date of Valuation	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
	LKR '000	LKR '000	LKR '000	LKR '000		
Financial Assets						
Derivative Financial Instruments						
Forward Foreign Exchange Contracts and Currency Swaps	31-Dec-16	-	65,356	-	-	65,356
Financial Assets Held for Trading						
Government Treasury Bills	31-Dec-16	531,522	-	-	-	531,522
Government Treasury Bonds	31-Dec-16	997,479	45,952	-	-	1,043,430
Financial Assets Available for Sale						
Government Treasury Bills	31-Dec-16	5,196,174	-	-	-	5,196,174
Government Treasury Bonds	31-Dec-16	16,233,097	713,827	-	-	16,946,924
Unquoted Equity Shares	31-Dec-16	-	-	5,865	-	5,865
Total Financial Assets		22,958,272	825,135	5,865		23,789,271
Financial Liabilities						
Derivative Financial Instruments						
Forward Foreign Exchange Contracts and Currency Swaps	31-Dec-16	-	130,017	-	-	130,017
Total Financial Liabilities		-	130,017	-		130,017

43. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

43.2 Assets and Liabilities measured at fair value - Fair Value hierarchy Contd.

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

	Bank/Group	
	Assets measured at Level 3	
	Unquoted equity securities	
	2017 LKR '000	2016 LKR '000
Balance as at 01 January	5,865	5,742
Change in value due to exchange rate fluctuation	72	123
Balance as at 31 December	5,937	5,865

Financial Assets "Available for Sale" , classified as "Level 3" in the fair value hierarchy comprises of unquoted equity securities. (Note 11.1)

Reconciliation of the non - financial assets " Freehold Land and Buildings" classified as level 3 in the fair value hierarchy;

	Bank		Group	
	Non-Financial Assets measured at Level 3			
	Freehold Land 2017 LKR '000	Freehold Buildings 2017 LKR '000	Freehold Land 2017 LKR '000	Freehold Buildings 2017 LKR '000
	Balance as at 01 January	559,440	78,726	559,440
Additions during the year	-	2,528	-	3,799
Depreciation charge for the year	-	(2,682)	-	(14,000)
Fair value gain due to revaluation of land and buildings	842,060	94,928	842,060	425,567
Balance as at 31 December	1,401,500	173,500	1,401,500	821,698

Group adopted fair value model to freehold land and buildings in 2017. (Note 17)

Notes to the Financial Statements

43. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

43.2 Assets and Liabilities measured at fair value - Fair Value hierarchy Contd

Unobservable inputs used in Measuring Fair Value

The table below sets out information about significant unobservable inputs used in measuring fair value of the assets categorised under Level 3 of the fair value hierarchy.

Location	Type of Asset	Extent	Bank		Valuation Technique	Significant Unobservable Inputs	Weighted Average Range of estimates for unobservable inputs (Level 3)	Fair Value measurement sensitivity to unobservable inputs
			Fair Value as at 31.12.2017 LKR'000	Fair Value as at 31.12.2017 LKR'000				
No 76, York Street, Fort, Colombo	Land	10.82 P	177,500	177,500	Direct Capital Comparison Method	Price per perch	Rs.17.5 Mn per perch and Rs. 11 Mn per perch (arcade)	positively correlated
	Buildings	8,660 Square feet	28,500	28,500	Depreciated Replacement Cost	Rate per square feet	Rs. 3000- Rs. 5000 per square feet	positively correlated
No 242, Union Place, Colombo 2	Land	77.2 P	1,224,000	1,224,000	Direct Capital Comparison Method	Price per perch	Rs.16 Mn per perch	positively correlated
	Buildings	27,772 square feet	145,000	145,000	Depreciated Replacement Cost	Rate per square feet	Rs. 1,000 per square feet	positively correlated
46/58, Nawam Mawatha, Colombo 2	Buildings	61,300 square feet	648,200	648,200	Investment method	Rate per square feet	Rs. 115/- - Rs. 250/- monthly rental per square feet	positively correlated
			1,575,000	2,223,200				

* Significant increases/(decreases) in any of these inputs in isolation would result in a higher/(lower) fair value

43 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

43.2 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 Banks' / 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	As at 31 December 2017					As at 31 December 2016				
	Fair Value Measurement Using					Fair Value Measurement Using				
	Carrying amount LKR '000	Quoted Prices in Active Markets (Level 1) LKR '000	Significant Observable Inputs (Level 2) LKR '000	Significant Unobservable Inputs (Level 3) LKR '000	Total LKR '000	Carrying amount LKR '000	Quoted Prices in Active Markets (Level 1) LKR '000	Significant Observable Inputs (Level 2) LKR '000	Significant Unobservable Inputs (Level 3) LKR '000	Total LKR '000
Financial Assets										
Financial Assets - Held to Maturity	9,879,390	3,710,799	6,444,980	-	10,155,779	12,929,523	7,266,943	5,196,076	-	12,463,019
Other Financial Assets- Debentures	6,797,607	-	6,739,085	-	6,739,085	6,860,950	-	6,632,591	-	6,632,591
	16,676,997	3,710,799	13,184,065	-	16,894,864	19,790,473	7,266,943	11,828,667	-	19,095,610
Loans and Advances to Customers										
Corporate Loans	45,767,388	-	45,497,375	-	45,497,375	37,882,588	-	37,502,844	-	37,502,844
Retail, SME and Consumer Lending	100,575,835	-	98,206,867	-	98,206,867	77,173,248	-	72,581,999	-	72,581,999
Housing Loans	3,202,405	-	2,828,984	-	2,828,984	2,497,417	-	2,218,949	-	2,218,949
Leases	37,253,690	-	36,365,968	-	36,365,968	31,422,446	-	29,634,784	-	29,634,784
Staff Loans	2,985,412	-	2,332,691	-	2,332,691	2,227,112	-	1,751,261	-	1,751,261
	189,784,730	-	185,231,885	-	185,231,885	151,202,811	-	143,689,837	-	143,689,837
Total Financial Assets	206,461,727	3,710,799	198,415,950	-	202,126,749	170,993,284	7,266,943	155,518,504	-	162,785,447
Financial Liabilities										
Repurchase Agreements	12,319,188	-	12,319,188	-	12,319,188	9,850,773	-	9,850,773	-	9,850,773
Due to Customers	194,296,718	-	194,470,869	-	194,470,869	151,559,668	-	151,296,122	-	151,296,122
Debt Issued and Other Borrowed Funds	19,737,574	-	20,130,177	-	20,130,177	14,145,105	-	14,092,531	-	14,092,531
	226,353,480	-	226,920,234	-	226,920,234	175,555,546	-	175,239,426	-	175,239,426
Total Financial Liabilities	226,353,480	-	226,920,234	-	226,920,234	175,555,546	-	175,239,426	-	175,239,426

Notes to the Financial Statements

43 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.) 43.2 Financial Assets and Financial Liabilities not carried at fair value (Contd.)

Group	As at 31 December 2017					As at 31 December 2016				
	Fair Value Measurement Using					Fair Value Measurement Using				
	Carrying amount LKR '000	Quoted Prices in Active Markets (Level 1) LKR '000	Significant Observable Inputs (Level 2) LKR '000	Significant Unobservable Inputs (Level 3) LKR '000	Total LKR '000	Carrying amount LKR '000	Quoted Prices in Active Markets (Level 1) LKR '000	Significant Observable Inputs (Level 2) LKR '000	Significant Unobservable Inputs (Level 3) LKR '000	Total LKR '000
Financial Assets										
Financial Assets - Held to Maturity	9,950,433	3,710,799	6,518,193	-	10,228,992	12,998,988	7,266,943	5,196,076	-	12,463,019
Other Financial Assets- Debitures	6,797,607	-	6,739,085	-	6,739,085	6,860,949	-	6,632,591	-	6,632,591
	16,748,040	3,710,799	13,257,278	-	16,968,077	19,859,937	7,266,943	11,828,667	-	19,095,610
Loans and Advances to Customers										
Corporate Loans	45,808,101	-	45,538,192	-	45,538,192	38,775,375	-	37,502,844	-	37,502,844
Retail, SME and Consumer Lending	100,743,992	-	98,374,947	-	98,374,947	77,173,248	-	72,581,999	-	72,581,999
Housing Loans	3,202,405	-	2,828,984	-	2,828,984	2,497,417	-	2,218,949	-	2,218,949
Leases	37,253,690	-	36,365,968	-	36,365,968	31,422,446	-	29,634,784	-	29,634,784
Staff Loans	2,985,412	-	2,332,691	-	2,332,691	2,227,122	-	1,751,261	-	1,751,261
	189,993,600	-	185,440,782	-	185,440,782	152,095,598	-	143,689,837	-	143,689,837
Total Financial Assets	206,741,640	3,710,799	198,698,060	-	202,408,859	165,094,582	7,266,943	155,518,504	-	162,785,447
Financial Liabilities										
Repurchase Agreements	11,940,782	-	11,940,782	-	11,940,782	9,261,110	-	9,261,110	-	9,261,110
Due to Customers	194,268,995	-	194,415,422	-	194,415,422	151,502,236	-	151,296,122	-	151,296,122
Debt Issued and Other Borrowed Funds	19,737,574	-	20,130,177	-	20,130,177	14,145,105	-	14,092,531	-	14,092,531
	225,947,351	-	226,486,381	-	226,486,381	174,908,450	-	175,239,426	-	175,356,740
Total Financial Liabilities	225,947,351	-	226,486,381	-	226,486,381	174,908,450	-	175,239,426	-	175,356,740

43. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

43.3 Assets and Liabilities measured at fair value - Fair Value hierarchy (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.

For 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.

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;

Financial Assets	Financial Liabilities
Cash and Cash Equivalents Due to banks	Due to Banks
Balances with Central Bank of Sri Lanka	Repurchase agreements
Reverse Repurchase Agreements	Other borrowed funds
Other Financial Assets-Sri Lanka Development Bonds	

This assumption is also applied to demand deposits, call deposits and savings deposits which does not have a specific maturity. It is also assumed that the amortized cost of floating rate financial instrument approximate the fair value as the amortized 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 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 treasury bills and bonds – HTM portfolio 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 average 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 rate offered to customers as at the reporting date. 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 and Invested

Notes to the Financial Statements

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. In addition, Cyber security threats have emerged as a significant risk to the industry in recent times.

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, models 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 the Bank's stance in the market environment as well as the level of risk that the Bank is willing to accept.

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. A score card based model is used 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

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 Five Million and every customer having an aggregate exposure above that limit is individually assessed for objective evidence of incurred loss (OEIL). The bank applies a risk based approach on its corporate banking portfolio where exposures between Rupees Twenty-Five Million and Rupees Hundred Million are assessed against limited number of OEIL and exposures above Rupees Hundred Million are assessed total list of OEILs. If the Bank finds such customers are having OEIL, those customers are individually impaired taking in to account the estimated value of future cash flows.

Notes to the Financial Statements

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
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
Housing Loans	Based on Time Buckets indicating Days Past Due (DPD) and portfolio is stratified into 2 segments	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)	90 DPD	Probability of advance moving into more than "90 DPD" Bucket	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.

Notes to the Financial Statements

Credit Quality by Class of Financial Assets

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

Qualities 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	
		2017 LKR '000	2016 LKR '000
Investment Grade			
A	Less than 1%	23,176,941	23,112,718
B	1% - 1.5%	49,648,951	39,310,000
Intermediary Grade			
C + and C	1.5% - 2.5%	5,552,830	7,780,434
Speculative Grade			
C-	2.5% - 5.5%	1,842,125	1,888,702
D	Minimum of 13%	22,380	374,722
Past Due - Rated Customers			
	Less than 30 Days	14,359,115	7,668,741
	30 - 90 Days	4,834,989	5,517,280
	More than 90 Days	832,107	657,913
Past Due - Fully Secured by Cash		2,147,903	1,854,078
Individually Impaired - Rated Customers		4,629,555	3,399,860
Sum of Amortized Cost of Rated Customers		107,046,898	91,564,449

It is the Bank policy to maintain accurate and consistent risk ratings across the credit portfolio. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of Obligor Risk. All internal risk ratings are tailored to measure specific default characteristics and risks inherent in various business segments. Shown above is internal credit rating classification of the Corporate, Retail & SME portfolios of the Bank. The attributable risk ratings are assessed and updated regularly.

The exposures of which credit quality is not yet aligned to a bank wide single point indicator rating scale mainly consists of security backed lending and customers evaluated using risk scoring system. Leasing and cash secured lending are the significant security backed portfolios while consumer lending customers are assessed through a credit score system. The bank is in the process of aligning such portfolios under the coverage of the bank wide single point indicator rating scale.

Notes to the Financial Statements

Bank - 31 December 2017	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			
Cash and Cash Equivalents	6,867,222	-	-	-	-	-	-	6,867,222
Balances with Central Bank of Sri Lanka	11,193,266	-	-	-	-	-	-	11,193,266
Reverse Repurchase Agreements	-	-	-	-	10,798	-	-	10,798
Derivative Financial Instruments								
Forward Foreign Exchange Contracts and Currency Swaps	177,688	50,328	-	-	2,201	-	-	230,217
Financial Assets - Held for Trading								
Government Treasury Bills and Bonds	521,389	-	-	-	-	-	-	521,389
Financial Assets-Available for Sale								
Government Treasury Bills and Bonds	38,846,109	-	-	-	-	-	-	38,846,109
Unquoted Equity Shares	-	-	-	-	5,937	-	-	5,937
Financial Assets - Held to Maturity								
Government Treasury Bills and Bonds	9,879,390	-	-	-	-	-	-	9,879,390
Other Financial Assets								
Sri Lanka Development Bonds	4,053,665	-	-	-	-	-	-	4,053,665
Quoted Debentures	509,660	2,234,282	-	-	-	-	-	2,743,942
	4,563,325	2,234,282	-	-	-	-	-	6,797,607
Loans and Advances to Customers (Gross)								
Corporate Loans	-	39,215,198	58,691	134,469	-	4,862,352	1,496,678	45,767,388
Retail, SME and Consumer	-	32,006,746	3,721,192	1,729,163	34,592,862	24,834,973	3,690,899	100,575,835
Housing Loans	-	-	-	-	2,668,317	534,088	-	3,202,405
Leases	-	1,603,948	1,772,948	873	22,466,846	11,240,140	168,934	37,253,690
Staff Loans	-	-	-	-	2,985,412	-	-	2,985,412
	-	72,825,892	5,552,831	1,864,505	62,713,438	41,471,553	5,356,511	189,784,730
Total	72,048,389	75,110,502	5,552,831	1,864,505	62,732,374	41,471,553	5,356,511	264,136,665

Note : Past Due loans include any loan that is in arrears for more than one day. Out of Rs. 41.5 Bn categorized under "past due but not impaired" category Rs. 24.4Bn (59%) is in arrears for less than 30 days, Rs. 14.7Bn (35%) is in arrears for more than 30 days but less than 90 days & Rs. 2.4 Bn (6%) is in arrears for more than 90 Days.

Bank - 31 December 2016	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			
Cash and Cash Equivalents	4,187,605	-	-	-	-	-	-	4,187,605
Balances with Central Bank of Sri Lanka	8,511,509	-	-	-	-	-	-	8,511,509
Reverse Repurchase Agreements	-	-	-	-	14,930	-	-	14,930
Derivative Financial Instruments								
Forward Foreign Exchange Contracts and Currency Swaps	48,640	16,716	-	-	-	-	-	65,356
Financial Assets - Held for Trading								
Government Treasury Bills and Bonds	1,574,953	-	-	-	-	-	-	1,574,953
Financial Assets-Available for Sale								
Government Treasury Bills and Bonds	22,143,098	-	-	-	-	-	-	22,143,098
Unquoted Equity Shares	-	-	-	-	5,865	-	-	5,865
Financial Assets - Held to Maturity								
Government Treasury Bills and Bonds	12,929,523	-	-	-	-	-	-	12,929,523
Other Financial Assets								
Sri Lanka Development Bonds	3,943,597	-	-	-	-	-	-	3,943,597
Quoted Debentures	509,660	2,407,692	-	-	-	-	-	2,917,352
	4,453,256	2,407,692	-	-	-	-	-	6,860,949
Loans and Advances to Customers (Gross)								
Corporate Loans	-	35,569,262	14,107	297,094	-	1,251,776	750,348	37,882,588
Retail, SME and Consumer	-	22,417,843	2,690,410	1,950,184	29,023,458	17,935,842	3,155,510	77,173,248
Housing Loans	-	-	-	-	2,010,054	473,528	13,834	2,497,417
Leases	-	4,435,613	5,075,916	16,146	13,629,590	8,193,180	72,001	31,422,446
Staff Loans	-	-	-	-	2,782,940	25,023	-	2,807,963
	-	62,422,718	7,780,434	2,263,425	47,446,042	27,879,350	3,991,693	151,783,662
Total	53,848,583	64,847,126	7,780,434	2,263,425	47,466,836	27,879,350	3,991,693	208,077,448

Note : Past Due loans include any loan that is in arrears for more than one day. Out of Rs. 27.9Bn categorized under "past due but not impaired" category Rs. 14.7Bn (53%) is in arrears for less than 30 days, Rs. 11.0Bn (39%) is in arrears for more than 30 days but less than 90 days & Rs. 2.2Bn (8%) is in arrears for more than 90 Days.

Notes to the Financial Statements

Group - 31 December 2017	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			
Cash and Cash Equivalents	6,869,695	-	-	-	-	-	-	6,869,695
Balances with Central Bank of Sri Lanka	11,193,266	-	-	-	-	-	-	11,193,266
Reverse Repurchase Agreements	-	-	-	-	10,798	-	-	10,798
Derivative Financial Instruments								
Forward Foreign Exchange Contracts and Currency Swaps	177,688	50,328	-	-	2,201	-	-	230,217
Financial Assets - Held for Trading								
Government Treasury Bills and Bonds	521,389	-	-	-	-	-	-	521,389
Financial Assets-Available for Sale								
Government Treasury Bills and Bonds	38,846,109	-	-	-	-	-	-	38,846,109
Unquoted Equity Shares	-	-	-	-	5,937	-	-	5,937
Financial Assets - Held to Maturity								
Government Treasury Bills and Bonds	9,950,433	-	-	-	-	-	-	9,950,433
Other Financial Assets								
Sri Lanka Development Bonds	4,053,665	-	-	-	-	-	-	4,053,665
Quoted Debentures	509,660	2,234,282	-	-	-	-	-	2,743,942
	4,563,325	2,234,282	-	-	-	-	-	6,797,607
Loans and Advances to Customers (Gross)								
Corporate Loans	-	39,255,911	58,691	134,469	-	4,862,352	1,496,679	45,808,101
Retail, SME and Consumer	-	32,174,903	3,721,192	1,729,163	34,592,862	24,834,973	3,690,898	100,743,992
Housing Loans	-	-	-	-	2,668,317	534,088	-	3,202,405
Leases	-	1,603,948	1,772,948	873	22,466,847	11,240,140	168,933	37,253,690
Staff Loans	-	-	-	-	2,985,412	-	-	2,985,412
	-	73,034,762	5,552,830	1,864,505	62,713,439	41,471,553	5,356,511	189,993,599
Total	72,121,905	75,319,372	5,552,830	1,864,505	62,732,374	41,471,553	5,356,511	264,419,051

Note : Past Due loans include any loan that is in arrears for more than one day. Out of Rs. 41.5 Bn categorized under "past due but not impaired" category Rs. 24.4Bn (59%) is in arrears for less than 30 days, Rs. 14.7Bn (35%) is in arrears for more than 30 days but less than 90 days & Rs. 2.4 Bn (6%) is in arrears for more than 90 Days.

Group - 31 December 2016	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			
Cash and Cash Equivalents	4,187,649	-	-	-	-	-	-	4,187,649
Balances with Central Bank of Sri Lanka	8,511,509	-	-	-	-	-	-	8,511,509
Reverse Repurchase Agreements	-	-	-	-	14,930	-	-	14,930
Derivative Financial Instruments								
Forward Foreign Exchange Contracts and Currency Swaps	48,640	16,716	-	-	-	-	-	65,356
Financial Assets - Held for Trading								
Government Treasury Bills and Bonds	1,574,953	-	-	-	-	-	-	1,574,953
Financial Assets-Available for Sale								
Government Treasury Bills and Bonds	22,143,098	-	-	-	-	-	-	22,143,098
Unquoted Equity Shares	-	-	-	-	5,865	-	-	5,865
Financial Assets - Held to Maturity								
Government Treasury Bills and Bonds	12,998,988	-	-	-	-	-	-	12,998,988
Other Financial Assets								
Sri Lanka Development Bonds	3,943,597	-	-	-	-	-	-	3,943,597
Quoted Debentures	509,660	2,407,692	-	-	-	-	-	2,917,352
	4,453,256	2,407,692	-	-	-	-	-	6,860,949
Loans and Advances to Customers (Gross)								
Corporate Loans	-	35,358,965	14,107	1,037,665	-	1,251,776	750,348	38,412,862
Retail, SME and Consumer	-	22,417,843	2,690,410	2,312,697	29,023,458	17,935,842	3,155,510	77,535,761
Housing Loans	-	-	-	-	2,010,054	473,528	13,834	2,497,417
Leases	-	4,435,613	5,075,916	16,146	13,629,590	8,193,180	72,001	31,422,446
Staff Loans	-	-	-	-	2,782,940	25,023	-	2,807,963
	-	62,212,420	7,780,434	3,366,509	47,446,042	27,879,350	3,991,693	152,676,448
Total	53,918,092	64,636,829	7,780,434	3,366,509	47,466,836	27,879,350	3,991,693	209,039,743

Note : Past Due loans include any loan that is in arrears for more than one day. Out of Rs. 27.9Bn categorized under "past due but not impaired" category Rs. 14.7Bn (53%) is in arrears for less than 30 days, Rs. 11.0Bn (39%) is in arrears for more than 30 days but less than 90 days & Rs. 2.2Bn (8%) is in arrears for more than 90 Days.

Notes to the Financial Statements

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 2017	Maximum Exposure to Credit Risk LKR '000	Net collateral LKR '000	Net exposure LKR '000
Cash and Cash Equivalents	6,867,222	-	6,867,222
Balances with Central Bank of Sri Lanka	11,193,266	-	11,193,266
Reverse Repurchase Agreements	10,798	10,798	-
Derivative Financial Instruments	230,217	-	230,217
Financial Assets - Held for Trading	521,389	-	521,389
Financial Assets-Available for Sale	38,852,046	-	38,852,046
Financial Assets - Held to Maturity	9,879,390	-	9,879,390
Other Financial Assets	6,797,607	526,114	6,271,493
Loans and Advances to Customers (Gross)	189,784,730	82,970,510	106,814,219
Financial Guarantees	273,149	51,798	221,351
Letters of Credit	6,753,029	59,010	6,694,019
Other Commitments	166,104,818	7,337,958	158,766,860
	437,267,661	90,956,188	346,311,472

Bank As at 31 December 2016	Maximum Exposure to Credit Risk LKR '000	Net collateral LKR '000	Net exposure LKR '000
Cash and Cash Equivalents	4,187,605	-	4,187,605
Balances with Central Bank of Sri Lanka	8,511,509	-	8,511,509
Reverse Repurchase Agreements	14,930	14,930	-
Derivative Financial Instruments	65,356	-	65,356
Financial Assets - Held for Trading	1,574,953	-	1,574,953
Financial Assets-Available for Sale	22,148,962	-	22,148,962
Financial Assets - Held to Maturity	12,929,523	-	12,929,523
Other Financial Assets	6,860,949	526,217	6,334,732
Loans and Advances to Customers (Gross)	151,783,662	64,251,470	87,532,192
Financial Guarantees	261,894	18,190	243,704
Letters of Credit	5,407,169	52,506	5,354,663
Other Commitments	118,348,853	5,232,078	113,116,775
	332,095,364	70,095,389	261,999,974

Notes to the Financial Statements

Group - 31 December 2017	Maximum Exposure to Credit Risk LKR '000	Net collateral LKR '000	Net exposure LKR '000
Cash and Cash Equivalents	6,869,695	-	6,869,695
Balances with Central Bank of Sri Lanka	11,193,266	-	11,193,266
Reverse Repurchase Agreements	10,798	10,798	-
Derivative Financial Instruments	230,217	-	230,217
Financial Assets - Held for Trading	521,389	-	521,389
Financial Assets-Available for Sale	38,852,046	-	38,852,046
Financial Assets - Held to Maturity	9,950,433	-	9,950,433
Other Financial Assets	6,797,607	526,114	6,271,493
Loans and Advances to Customers (Gross)	189,993,599	83,179,380	106,814,219
Financial Guarantees	273,149	51,798	221,351
Letters of Credit	6,753,029	59,010	6,694,019
Other Commitments	164,560,989	7,437,749	157,123,240
	436,006,218	91,264,849	344,741,369

Group As at 31 December 2016	Maximum Exposure to Credit Risk LKR '000	Net collateral LKR '000	Net exposure LKR '000
Cash and Cash Equivalents	4,187,649	-	4,187,649
Balances with Central Bank of Sri Lanka	8,511,509	-	8,511,509
Reverse Repurchase Agreements	14,930	14,930	-
Derivative Financial Instruments	65,356	-	65,356
Financial Assets - Held for Trading	1,574,953	-	1,574,953
Financial Assets-Available for Sale	22,148,962	-	22,148,962
Financial Assets - Held to Maturity	12,998,988	-	12,998,988
Other Financial Assets	6,860,949	526,217	6,334,732
Loans and Advances to Customers (Gross)	152,676,448	65,354,554	87,321,895
Financial Guarantees	261,894	18,190	243,704
Letters of Credit	5,407,169	52,506	5,354,663
Other Commitments	117,915,825	5,233,234	112,682,590
	332,624,631	71,199,630	261,425,001

Notes to the Financial Statements

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 2017	Agriculture	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Information Technology
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Cash and Cash Equivalents	-	-	-	-	6,867,222	-	-
Balances with Central Bank of Sri Lanka	-	-	-	-	-	-	-
Reverse Repurchase Agreements	-	-	-	-	-	-	-
Derivative Financial Instruments							
Forward Foreign Exchange Contracts and Currency Swaps	-	-	-	-	228,016	-	-
Financial Assets - Held for Trading							
Government Treasury Bills and Bonds	-	-	-	-	-	-	-
Financial Assets-Available for Sale							
Government Treasury Bills and Bonds	-	-	-	-	-	-	-
Unquoted Equity Shares	-	-	-	-	-	-	-
Financial Assets - Held to Maturity							
Government Treasury Bills and Bonds	-	-	-	-	-	-	-
Other Financial Assets							
Sri Lanka Development Bonds	-	-	-	-	-	-	-
Quoted Debentures	-	231,681	171,936	-	1,781,130	-	-
	-	231,681	171,936	-	1,781,130	-	-
Loans and Advances to Customers							
Corporate Loans	6,823,793	17,135,200	2,855,024	508,935	11,414,398	793,210	445,953
Retail, SME and Consumer	7,983,097	25,494,012	6,419,568	131,035	3,732,670	1,286,998	1,427,831
Housing Loans	5,302	36,080	14,901	-	35,011	2,018	6,847
Leases	4,262,226	8,024,863	4,992,409	204,848	1,442,386	1,541,461	818,151
Staff loans	-	-	-	-	2,346,309	-	-
	19,074,418	50,690,155	14,281,903	844,818	18,970,773	3,623,687	2,698,781
Impairment for Loans and Advances	-	-	-	-	-	-	-
Net Loans and Advances	-	-	-	-	-	-	-
	19,074,418	50,921,837	14,453,839	844,818	27,847,140	3,623,687	2,698,781

Industrials	Materials	Real Estate	Telecommunication Services	Utilities	Other	Zero Risk	Total
LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
-	-	-	-	-	-	-	6,867,222
-	-	-	-	-	-	11,193,266	11,193,266
-	-	-	-	-	10,798	-	10,798
-	-	-	-	-	2,201	-	230,217
-	-	-	-	-	-	521,389	521,389
-	-	-	-	-	-	38,846,109	38,846,109
-	-	-	-	-	5,937	-	5,937
-	-	-	-	-	-	9,879,390	9,879,390
-	-	-	-	-	-	4,053,665	4,053,665
559,195	-	-	-	-	-	-	2,743,942
559,195	-	-	-	-	-	4,053,665	6,797,607
2,788,815	1,219,461	1,153,788	415,100	-	2,153	211,559	45,767,388
16,748,099	2,641,022	2,602,630	776,115	123,304	20,787,292	10,422,162	100,575,835
3,095,448	3,807	-	2,991	-	-	-	3,202,405
13,512,088	1,525,060	330,941	475,228	124,030	-	-	37,253,690
-	-	-	-	-	-	-	2,346,309
36,144,449	5,389,350	4,087,359	1,669,433	247,334	20,789,445	10,633,721	189,145,627
-	-	-	-	-	-	-	(2,608,915)
-	-	-	-	-	-	-	186,536,712
36,703,643	5,389,350	4,087,359	1,669,433	247,334	20,808,381	75,127,541	260,888,646

Notes to the Financial Statements

Bank - 31 December 2016	Agriculture LKR'000	Consumer Discretionary LKR'000	Consumer Staples LKR'000	Energy LKR'000	Financials LKR'000	Health Care LKR'000	Information Technology LKR'000
Cash and Cash Equivalents	-	-	-	-	4,187,605	-	-
Balances with Central Bank of Sri Lanka	-	-	-	-	-	-	-
Reverse Repurchase Agreements	-	-	-	-	-	-	-
Derivative Financial Instruments							
Forward Foreign Exchange Contracts and Currency Swaps	-	106	-	-	62,275	-	-
Financial Assets - Held for Trading							
Government Treasury Bills and Bonds	-	-	-	-	-	-	-
Financial Assets-Available for Sale							
Government Treasury Bills and Bonds	-	-	-	-	-	-	-
Unquoted Equity Shares	-	-	-	-	-	-	-
Financial Assets - Held to Maturity							
Government Treasury Bills and Bonds	-	-	-	-	-	-	-
Other Financial Assets							
Sri Lanka Development Bonds	-	-	-	-	-	-	-
Quoted Debentures	-	208,647	171,936	-	1,954,564	-	-
	-	208,647	171,936	-	1,954,564	-	-
Loans and Advances to Customers							
Corporate Loans	5,840,624	13,857,512	2,630,088	1,006,218	9,436,260	784,329	325,344
Retail, SME and Consumer	4,933,533	19,511,220	3,094,346	57,819	3,481,306	958,048	1,027,870
Housing Loans	12,316	41,962	13,646	-	49,626	4,103	3,902
Leases	3,286,460	7,670,105	4,002,060	147,197	1,247,380	1,370,387	638,264
Staff loans	-	-	-	-	2,227,112	-	-
	14,072,932	41,080,799	9,740,140	1,211,235	16,441,685	3,116,867	1,995,379
Impairment for Loans and Advances	-	-	-	-	-	-	-
Net Loans and Advances	-	-	-	-	-	-	-
	14,072,932	41,289,553	9,912,076	1,211,235	22,646,128	3,116,867	1,995,379

Industrials	Materials	Real Estate	Telecommunication Services	Utilities	Other	Zero Risk	Total
LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
-	-	-	-	-	-	-	4,187,605
-	-	-	-	-	-	8,511,509	8,511,509
-	-	-	-	-	14,930	-	14,930
-	-	-	-	-	2,974	-	65,356
-	-	-	-	-	-	1,574,953	1,574,953
-	-	-	-	-	-	22,143,098	22,143,098
-	-	-	-	-	5,865	-	5,865
-	-	-	-	-	-	12,929,523	12,929,523
-	-	-	-	-	-	3,943,597	3,943,597
354,226	-	-	-	-	227,979	-	2,917,352
354,226	-	-	-	-	227,979	3,943,597	6,860,949
2,855,086	542,290	30,288	419,377	-	67,244	87,928	37,882,588
10,193,173	1,847,506	1,067,924	553,775	70,460	19,646,431	10,729,835	77,173,248
2,361,475	8,683	-	1,703	-	-	-	2,497,417
11,124,818	1,197,092	245,582	410,918	82,183	-	-	31,422,446
-	-	-	-	-	-	-	2,227,112
26,534,552	3,595,571	1,343,794	1,385,773	152,644	19,713,675	10,817,763	151,202,811
-	-	-	-	-	-	-	(2,278,077)
-	-	-	-	-	-	-	148,924,734
26,888,778	3,595,571	1,343,794	1,385,773	152,644	19,965,423	59,920,442	205,218,520

Notes to the Financial Statements

Group - 31 December 2017	Agriculture LKR'000	Consumer Discretionary LKR'000	Consumer Staples LKR'000	Energy LKR'000	Financials LKR'000	Health Care LKR'000	Information Technology LKR'000
Cash and Cash Equivalents	-	-	-	-	6,869,695	-	-
Balances with Central Bank of Sri Lanka	-	-	-	-	-	-	-
Reverse Repurchase Agreements	-	-	-	-	-	-	-
Derivative Financial Instruments							
Forward Foreign Exchange Contracts and Currency Swaps	-	-	-	-	228,016	-	-
Financial Assets - Held for Trading							
Government Treasury Bills and Bonds	-	-	-	-	-	-	-
Financial Assets-Available for Sale							
Government Treasury Bills and Bonds	-	-	-	-	-	-	-
Unquoted Equity Shares	-	-	-	-	-	-	-
Financial Assets - Held to Maturity							
Government Treasury Bills and Bonds	-	-	-	-	-	-	-
Other Financial Assets							
Sri Lanka Development Bonds	-	-	-	-	-	-	-
Quoted Debentures	-	231,681	171,936	-	1,781,130	-	-
	-	231,681	171,936	-	1,781,130	-	-
Loans and Advances to Customers							
Corporate Loans	6,823,793	17,175,912	2,855,024	508,935	11,414,398	793,210	445,953
Retail, SME and Consumer	7,983,097	25,494,012	6,419,568	131,035	3,733,617	1,286,998	1,427,831
Housing Loans	5,302	36,080	14,901	-	35,011	2,018	6,847
Leases	4,262,226	8,024,863	4,992,409	204,848	1,442,386	1,541,461	818,151
Staff loans	-	-	-	-	2,346,309	-	-
	19,074,418	50,730,868	14,281,903	844,818	18,971,720	3,623,687	2,698,781
Impairment for Loans and Advances	-	-	-	-	-	-	-
Net Loans and Advances	-	-	-	-	-	-	-
	19,074,418	50,962,549	14,453,839	844,818	27,850,560	3,623,687	2,698,781

Industrials	Materials	Real Estate	Telecommunication Services	Utilities	Other	Zero Risk	Total
LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
-	-	-	-	-	-	-	6,869,695
-	-	-	-	-	-	11,193,266	11,193,266
-	-	-	-	-	10,798	-	10,798
-	-	-	-	-	2,201	-	230,217
-	-	-	-	-	-	521,389	521,389
-	-	-	-	-	-	38,846,109	38,846,109
-	-	-	-	-	5,937	-	5,937
-	-	-	-	-	-	9,950,433	9,950,433
-	-	-	-	-	-	4,053,665	4,053,665
559,195	-	-	-	-	-	-	2,743,942
559,195	-	-	-	-	-	4,053,665	6,797,607
2,788,815	1,219,461	1,153,788	415,100	-	2,153	211,559	45,808,101
16,748,099	2,641,022	2,602,630	776,115	123,304	20,954,503	10,422,162	100,743,992
3,095,448	3,807	-	2,991	-	-	-	3,202,405
13,512,088	1,525,060	330,941	475,228	124,030	-	-	37,253,690
-	-	-	-	-	-	-	2,346,309
36,144,449	5,389,350	4,087,359	1,669,433	247,334	20,956,655	10,633,721	189,354,497
-	-	-	-	-	-	-	(2,608,786)
-	-	-	-	-	-	-	186,745,711
36,703,643	5,389,350	4,087,359	1,669,433	247,334	20,975,591	75,198,584	261,171,161

Notes to the Financial Statements

Cash and Cash Equivalents	-	-	-	-	4,187,649	-	-
Balances with Central Bank of Sri Lanka	-	-	-	-	-	-	-
Reverse Repurchase Agreements	-	-	-	-	-	-	-
Derivative Financial Instruments							
Forward Foreign Exchange Contracts and Currency Swaps	-	106	-	-	62,275	-	-
Financial Assets - Held for Trading							
Government Treasury Bills and Bonds	-	-	-	-	-	-	-
Financial Assets-Available for Sale							
Government Treasury Bills and Bonds	-	-	-	-	-	-	-
Unquoted Equity Shares	-	-	-	-	-	-	-
Financial Assets - Held to Maturity							
Government Treasury Bills and Bonds	-	-	-	-	-	-	-
Other Financial Assets							
Sri Lanka Development Bonds	-	-	-	-	-	-	-
Quoted Debentures	-	208,647	171,936	-	1,954,564	-	-
	-	208,647	171,936	-	1,954,564	-	-
Loans and Advances to Customers							
Corporate Loans	5,840,624	14,315,599	2,630,088	1,006,218	9,508,447	784,329	325,344
Retail, SME and Consumer	4,933,533	19,545,298	3,094,346	57,819	3,486,685	958,048	1,027,870
Housing Loans	12,316	41,962	13,646	-	49,626	4,103	3,902
Leases	3,286,460	7,670,105	4,002,060	147,197	1,247,380	1,370,387	638,264
Staff loans	-	-	-	-	2,227,112	-	-
	14,072,932	41,572,964	9,740,140	1,211,235	16,519,250	3,116,867	1,995,379
Impairment for Loans and Advances	-	-	-	-	-	-	-
Net Loans and Advances	-	-	-	-	-	-	-
	14,072,932	41,781,718	9,912,076	1,211,235	22,723,737	3,116,867	1,995,379

-	-	-	-	-	-	-	4,187,649
-	-	-	-	-	-	8,511,509	8,511,509
-	-	-	-	-	14,930	-	14,930
-	-	-	-	-	2,974	-	65,356
-	-	-	-	-	-	1,574,953	1,574,953
-	-	-	-	-	-	22,143,098	22,143,098
-	-	-	-	-	5,865	-	5,865
-	-	-	-	-	-	12,998,988	12,998,988
-	-	-	-	-	-	3,943,597	3,943,597
354,226	-	-	-	-	227,979	-	2,917,352
354,226	-	-	-	-	227,979	3,943,597	6,860,949
2,855,086	542,290	30,288	419,377	-	67,244	87,928	38,412,862
10,193,173	1,847,506	1,067,924	553,775	70,460	19,969,488	10,729,835	77,535,761
2,361,475	8,683	-	1,703	-	-	-	2,497,417
11,124,818	1,197,092	245,582	410,918	82,183	-	-	31,422,446
-	-	-	-	-	-	-	2,227,112
26,534,552	3,595,571	1,343,794	1,385,773	152,644	20,036,732	10,817,763	152,095,597
-	-	-	-	-	-	-	(2,277,656)
-	-	-	-	-	-	-	149,817,941
26,888,778	3,595,571	1,343,794	1,385,773	152,644	20,288,479	59,989,907	206,181,235

Notes to the Financial Statements

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.

Bank's Internal Credit Rating	2017		2016	
	Bank LKR '000	Group LKR '000	Bank LKR '000	Group LKR '000
Bonds	13,020,279	13,020,279	9,087,235	9,087,235
Acceptance	4,440,615	4,440,615	2,465,570	2,465,570
Guarantees	273,149	273,149	261,894	261,894
Letters of Credit	6,753,029	6,753,029	5,407,169	5,407,169
Foreign Exchange Contracts **	38,198,470	38,198,470	28,282,615	28,282,615
Forward Contracts to Buy/Sell Government Securities			398,431	398,431
Undrawn Commitments				
Credit Cards	37,084,877	37,084,877	29,780,493	29,780,493
Other	73,360,578	71,816,749	48,334,509	47,901,481
	110,445,455	108,901,626	78,115,003	77,681,975
Total Commitments and Guarantees	173,130,996	171,587,167	124,017,916	123,584,888

** Forward Exchange Contract 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 540Mn as at end of 2017 and LKR 431Mn as at end of 2016 based on a 2.5% price premium movement 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.

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 a standard liquidity facility agreement amounting to LKR 1Bn (Reciprocal agreement). 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.

For the year ended 31 December	2017		2016	
	DBU	FCBU	DBU	FCBU
Liquid Asset Ratio	21.1%	21.8%	21.7%	33.4%

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 7.5% (2016 – 7.5%) of Sri Lanka Rupee customer deposits.

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 2017 under the flow approach.

Notes to the Financial Statements

Bank - As at 31 December 2017	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	6,867,226	-	-	-	-	6,867,226
Balances with Central Bank of Sri Lanka	3,532,895	2,740,464	4,474,723	437,951	7,234	11,193,266
Reverse Repurchase Agreements	-	10,879	-	-	-	10,879
Financial Assets - Held for Trading						
Government Debt Securities - Treasury Bills and Bonds	14,688	3,956	426,269	106,713	-	551,625
Financial Assets-Available for Sale						
Government Debt Securities - Treasury Bills and Bonds	1,091,219	10,408,544	22,351,368	6,730,201	-	40,581,332
Unquoted Equity Shares	-	-	-	-	5,937	5,937
Financial Assets - Held to Maturity						
Government Debt Securities - Treasury Bills and Bonds	119,990	197,400	2,610,557	7,758,272	3,443,000	14,129,218
Other Financial Assets	-	413,565	2,020,481	5,480,386	-	7,914,431
Loans & Advances to Customers	69,543,814	27,988,830	34,027,230	78,354,823	13,603,563	223,518,260
Total Undiscounted Financial Assets	81,169,830	41,763,638	65,910,627	98,868,345	17,059,734	304,772,175
Financial Liabilities						
Due to Banks	3,905,653	6,833,590	-	-	-	10,739,244
Repurchase Agreements	7,620,191	3,094,924	1,685,133	-	-	12,400,248
Due to Customers	63,507,876	49,263,017	80,438,330	7,872,668	130,039	201,211,930
Debt Issued and Other Borrowed Funds	-	503,197	6,754,437	16,724,534	872,768	24,854,936
Total Undiscounted Financial Liabilities	75,033,721	59,694,729	88,877,900	24,597,202	1,002,807	249,206,358
Net Undiscounted Financial Assets/ (Liabilities)	6,136,110	(17,931,091)	(22,967,272)	74,271,143	16,056,927	55,565,817
Gross Settled Derivatives not Held for Trading						
Financial Assets						
Contractual Amounts Receivable	1,095,406	4,004,638	6,705,626	-	-	11,805,671
Contractual Amounts Payable	(1,095,406)	(4,004,638)	(6,705,626)	-	-	(11,805,671)
Financial Liabilities						
Contractual Amounts Receivable	2,180,031	7,297,166	16,915,602	-	-	26,392,799
Contractual Amounts Payable	(2,180,031)	(7,297,166)	(16,915,602)	-	-	(26,392,799)
Total Gross Settled Derivative Assets/(Liabilities) not Held for Trading	-	-	-	-	-	-
Total Net Financial Assets/ (Liabilities)	6,136,110	(17,931,091)	(22,967,272)	74,271,143	16,056,927	55,565,817

Bank - As at 31 December 2016	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	4,187,605	-	-	-	-	4,187,605
Balances with Central Bank of Sri Lanka	2,737,304	2,403,139	2,870,856	500,042	168	8,511,509
Reverse Repurchase Agreements	-	15,021	-	-	-	15,021
Financial Assets - Held for Trading						
Government Debt Securities - Treasury Bills and Bonds	2,650	32,756	894,608	824,020	67,938	1,821,971
Financial Assets-Available for Sale						
Government Debt Securities - Treasury Bills and Bonds	2,992,800	2,105,100	8,362,500	8,985,038	-	22,445,438
Unquoted Equity Shares	-	-	-	-	5,865	5,865
Financial Assets - Held to Maturity						
Government Debt Securities - Treasury Bills and Bonds	115,740	182,025	5,878,516	6,162,743	4,788,179	17,127,203
Other Financial Assets	802	1,268,217	1,701,487	4,792,868	-	7,763,374
Loans & Advances to Customers	58,090,087	20,829,148	26,702,418	61,135,135	9,344,239	176,101,027
Total Undiscounted Financial Assets	68,126,987	26,835,407	46,410,385	82,399,846	14,206,388	237,979,012
Financial Liabilities						
Due to Banks	11,893,855	-	-	-	-	11,893,855
Repurchase Agreements	4,070,015	4,876,825	991,547	-	-	9,938,387
Due to Customers	50,504,924	44,339,389	52,969,044	9,226,078	3,100	157,042,536
Debt Issued and Other Borrowed Funds	-	494,479	3,676,105	14,883,438	-	19,054,022
Total Undiscounted Financial Liabilities	66,468,794	49,710,694	57,636,696	24,109,516	3,100	197,928,800
Net Undiscounted Financial Assets/ (Liabilities)	1,658,193	(22,875,287)	(11,226,312)	58,290,330	14,203,288	40,050,213
Gross Settled Derivatives not Held for Trading						
Financial Assets						
Contractual Amounts Receivable	1,691,636	8,920,929	4,320,196	-	-	14,932,760
Contractual Amounts Payable	(1,691,636)	(8,920,929)	(4,320,196)	-	-	(14,932,760)
Financial Liabilities						
Contractual Amounts Receivable	2,958,088	9,172,906	1,218,861	-	-	13,349,855
Contractual Amounts Payable	(2,958,088)	(9,172,906)	(1,218,861)	-	-	(13,349,855)
Total Gross Settled Derivative Assets/(Liabilities) not Held for Trading	-	-	-	-	-	-
Total Net Financial Assets/ (Liabilities)	1,658,193	(22,875,287)	(11,226,312)	58,290,330	14,203,288	40,050,213

Notes to the Financial Statements

Group - As at 31 December 2017	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	6,869,699	-	-	-	-	6,869,699
Balances with Central Bank of Sri Lanka	3,531,839	2,740,842	4,475,340	438,011	7,235	11,193,266
Reverse Repurchase Agreements	-	10,879	-	-	-	10,879
Financial Assets - Held for Trading						
Government Debt Securities - Treasury Bills and Bonds	14,688	3,956	426,269	106,713	-	551,625
Financial Assets-Available for Sale						
Government Debt Securities - Treasury Bills and Bonds	1,091,219	10,408,544	22,351,368	6,730,201	-	40,581,332
Unquoted Equity Shares	-	-	-	-	5,937	5,937
Financial Assets - Held to Maturity						
Government Debt Securities - Treasury Bills and Bonds	120,086	197,617	2,616,283	7,844,445	3,443,000	14,221,431
Other Financial Assets	-	413,565	2,020,481	5,480,386	-	7,914,431
Loans & Advances to Customers	69,752,770	27,988,830	34,027,230	78,354,823	13,603,563	223,727,216
Total Undiscounted Financial Assets	81,380,300	41,764,233	65,916,970	98,954,579	17,059,735	305,075,817
Financial Liabilities						
Due to Banks	3,905,653	6,833,590	-	-	-	10,739,244
Repurchase Agreements	7,557,025	2,777,672	1,685,133	-	-	12,019,830
Due to Customers	63,480,153	49,263,017	80,438,330	7,872,668	130,039	201,184,206
Debt Issued and Other Borrowed Funds	-	503,197	6,754,437	16,724,534	872,768	24,854,936
Total Undiscounted Financial Liabilities	74,942,831	59,377,476	88,877,900	24,597,202	1,002,807	248,798,216
Net Undiscounted Financial Assets/ (Liabilities)	6,437,469	(17,613,244)	(22,960,929)	74,357,377	16,056,928	56,277,601
Gross Settled Derivatives not Held for Trading						
Financial Assets						
Contractual Amounts Receivable	1,095,406	4,004,638	6,705,626	-	-	11,805,671
Contractual Amounts Payable	(1,095,406)	(4,004,638)	(6,705,626)	-	-	(11,805,671)
Financial Liabilities						
Contractual Amounts Receivable	2,180,031	7,297,166	16,915,602	-	-	26,392,799
Contractual Amounts Payable	(2,180,031)	(7,297,166)	(16,915,602)	-	-	(26,392,799)
Total Gross Settled Derivative Assets/(Liabilities) not Held for Trading	-	-	-	-	-	-
Total Net Financial Assets/ (Liabilities)	6,437,469	(17,613,244)	(22,960,929)	74,357,377	16,056,928	56,277,601

Group - As at 31 December 2016	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	4,187,649	-	-	-	-	4,187,649
Balances with Central Bank of Sri Lanka	2,735,191	2,404,019	2,871,906	500,225	168	8,511,509
Reverse Repurchase Agreements	-	15,021	-	-	-	15,021
Financial Assets - Held for Trading						
Government Debt Securities - Treasury Bills and Bonds	2,650	32,756	894,608	824,020	67,938	1,821,971
Financial Assets-Available for Sale						
Government Debt Securities - Treasury Bills and Bonds	3,086,891	2,320,675	9,171,449	10,233,077	5,865	24,817,957
Unquoted Equity Shares	-	-	-	-	5,865	5,865
Financial Assets - Held to Maturity						
Government Debt Securities - Treasury Bills and Bonds	115,836	182,242	5,884,242	6,252,459	4,790,675	17,225,455
Other Financial Assets	802	1,268,217	1,701,487	4,792,868	-	7,763,374
Loans & Advances to Customers	58,983,202	20,829,148	26,702,418	61,135,135	9,344,239	176,994,143
Total Undiscounted Financial Assets	69,112,222	27,052,078	47,226,110	83,737,785	14,214,749	241,342,943
Financial Liabilities						
Due to Banks	5,552,002	5,954,707	387,147	-	-	11,893,855
Repurchase Agreements	4,070,015	4,276,801	991,547	-	-	9,338,363
Due to Customers	50,447,492	44,339,389	52,969,044	9,226,078	3,100	156,985,103
Debt Issued and Other Borrowed Funds	-	494,479	3,676,105	14,883,438	-	19,054,022
Total Undiscounted Financial Liabilities	60,069,508	55,065,376	58,023,843	24,109,516	3,100	197,271,343
Net Undiscounted Financial Assets/ (Liabilities)	9,042,713	(28,013,298)	(10,797,733)	59,628,269	14,211,649	44,071,600
Gross Settled Derivatives not Held for Trading						
Financial Assets						
Contractual Amounts Receivable	1,691,636	8,920,929	4,320,196	-	-	14,932,760
Contractual Amounts Payable	(1,691,636)	(8,920,929)	(4,320,196)	-	-	(14,932,760)
Financial Liabilities						
Contractual Amounts Receivable	2,958,088	9,172,906	1,218,861	-	-	13,349,855
Contractual Amounts Payable	(2,958,088)	(9,172,906)	(1,218,861)	-	-	(13,349,855)
Total Gross Settled Derivative Assets/(Liabilities) not Held for Trading	-	-	-	-	-	-
Total Net Financial Assets/ (Liabilities)	9,042,713	(28,013,298)	(10,797,733)	59,628,269	14,211,649	44,071,600

Notes to the Financial Statements

Whilst the management understands above contractual maturity gaps, more emphasis is given for the behavioural 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
31 December 2017	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Bonds	855,624	2,947,080	7,274,789	1,933,198	9,588	13,020,279
Acceptance	867,291	2,573,867	999,457	-	-	4,440,615
Guarantees	273,149	-	-	-	-	273,149
Letters of Credit	609,792	5,439,918	703,319	-	-	6,753,029
Foreign Exchange Contracts	3,275,437	11,301,804	23,621,228	-	-	38,198,470
Forward Contracts to Buy/Sell	-	-	-	-	-	-
Government Securities	-	-	-	-	-	-
Undrawn Commitments	110,445,455	-	-	-	-	110,445,455
Total Commitments and Guarantees	116,326,747	22,262,669	32,598,794	1,933,198	9,588	173,130,996

Bank	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
31 December 2016	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Bonds	333,836	1,752,841	4,942,741	2,055,867	1,949	9,087,235
Acceptance	268,554	1,592,810	587,594	16,611	-	2,465,570
Guarantees	261,894	-	-	-	-	261,894
Letters of Credit	640,327	4,343,563	423,279	-	-	5,407,169
Foreign Exchange Contracts	4,649,724	18,093,834	5,539,057	-	-	28,282,615
Forward Contracts to Buy/Sell	-	-	-	-	-	-
Government Securities	-	-	-	398,431	-	398,431
Undrawn Commitments	78,115,003	-	-	-	-	78,115,003
Total Commitments and Guarantees	84,269,338	25,783,049	11,492,671	2,470,909	1,949	124,017,916

Group	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
31 December 2017	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Bonds	855,624	2,947,080	7,274,789	1,933,198	9,588	13,020,279
Acceptance	867,291	2,573,867	999,457	-	-	4,440,615
Guarantees	273,149	-	-	-	-	273,149
Letters of Credit	609,792	5,439,918	703,319	-	-	6,753,029
Foreign Exchange Contracts	3,275,437	11,301,804	23,621,228	-	-	38,198,470
Forward Contracts to Buy/Sell	-	-	-	-	-	-
Government Securities	-	-	-	-	-	-
Undrawn Commitments	108,901,626	-	-	-	-	108,901,626
Total Commitments and Guarantees	114,782,918	22,262,669	32,598,794	1,933,198	9,588	171,587,167

Group	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
31 December 2016	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Bonds	333,836	1,752,841	4,942,741	2,055,867	1,949	9,087,235
Acceptance	268,554	1,592,810	587,594	16,611	-	2,465,570
Guarantees	261,894	-	-	-	-	261,894
Letters of Credit	640,327	4,343,563	423,279	-	-	5,407,169
Foreign Exchange Contracts	4,649,724	18,093,834	5,539,057	-	-	28,282,615
Forward Contracts to Buy/Sell	-	-	-	-	-	-
Government Securities	-	-	-	398,431	-	398,431
Undrawn Commitments	77,681,975	-	-	-	-	77,681,975
Total Commitments and Guarantees	83,836,310	25,783,049	11,492,671	2,470,909	1,949	123,584,888

44.4 Market Risk

Market Risk denotes the risk of losses in the banking book as a result of unfavourable 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 unfavourable 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 unfavourable 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

Notes to the Financial Statements

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).

Bank - As at 31 December 2017	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	18,040,058	-	-	-	-	-	18,040,058
Loans and Advances	186,151,375	71,332,504	35,751,156	31,842,642	38,694,327	3,303,634	5,227,113
Investments	56,599,755	900,000	13,508,370	25,688,829	13,178,950	2,500,000	823,607
Other	46,462,524	5,142,123	11,251,178	22,808,006	-	-	7,261,217
Total Assets	307,253,712	77,374,627	60,510,703	80,339,476	51,873,277	5,803,634	31,351,995
Liabilities							
Deposits	189,846,729	45,016,900	46,668,592	74,250,699	5,805,864	73,716	18,030,959
Borrowings	42,347,478	11,353,365	12,017,580	13,294,319	5,042,590	639,625	-
Other	75,927,815	5,288,757	11,357,663	23,548,805	-	-	35,732,590
Total Shareholder Funds and Liabilities	308,122,022	61,659,021	70,043,835	111,093,823	10,848,454	713,341	53,763,549
Total Interest Sensitivity Gap		15,715,606	(9,533,131)	(30,754,347)	41,024,824	5,090,293	(22,411,554)

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

Bank - As at 31 December 2016	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	12,698,790	-	-	-	-	-	12,698,790
Loans and Advances	148,506,436	60,182,215	25,784,443	25,951,154	31,967,981	2,162,644	2,457,999
Investments	44,074,650	2,992,800	4,070,480	16,519,820	16,230,888	3,532,600	728,063
Other	33,836,176	4,650,811	17,987,322	5,364,353	-	-	5,833,689
Total Assets	239,116,053	67,825,826	47,842,246	47,835,328	48,198,869	5,695,244	21,718,541
Liabilities							
Deposits	148,141,258	36,114,808	42,268,974	49,034,977	6,690,178	3,100	14,029,222
Borrowings	35,424,487	9,508,023	13,677,951	4,234,732	8,003,780	-	-
Other	56,018,944	4,777,312	18,112,114	5,523,314	-	-	27,606,204
Total Shareholder Funds and Liabilities	239,584,689	50,400,143	74,059,039	58,793,023	14,693,958	3,100	41,635,426
Total Interest Sensitivity Gap		17,425,683	(26,216,793)	(10,957,695)	33,504,911	5,692,144	(19,916,885)

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

Group - As at 31 December 2017	Total LKR '000	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	Non-interest bearing LKR '000
Assets							
Cash and balances with Central Bank of Sri Lanka	18,052,834	-	-	-	-	-	18,052,834
Loans and Advances	186,360,245	71,541,374	35,751,156	31,842,642	38,694,327	3,303,634	5,227,113
Investments	55,992,088	900,000	13,508,370	25,688,829	13,254,051	2,500,000	140,838
Other	46,496,714	5,142,123	11,251,178	22,808,006	-	-	7,295,407
Total Assets	306,901,881	77,583,497	60,510,703	80,339,476	51,948,378	5,803,634	30,716,193
Liabilities							
Deposits	189,846,729	45,016,900	46,668,592	74,250,699	5,805,864	73,716	18,030,959
Borrowings	42,206,287	11,290,251	11,939,503	13,294,319	5,042,590	639,625	-
Other	75,717,180	5,288,757	11,357,663	23,548,805	-	-	35,521,955
Total Shareholder Funds and Liabilities	307,770,195	61,595,907	69,965,758	111,093,823	10,848,454	713,341	53,552,914
Total Interest Sensitivity Gap		15,987,590	(9,455,054)	(30,754,347)	41,099,925	5,090,293	(22,836,721)

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

Group - As at 31 December 2016	Total LKR '000	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	Non-interest bearing LKR '000
Assets							
Cash and balances with Central Bank of Sri Lanka	12,714,055	-	-	-	-	-	12,714,055
Loans and Advances	149,399,356	61,075,135	25,784,443	25,951,154	31,967,981	2,162,644	2,457,999
Investments	44,144,115	2,992,800	4,070,480	16,519,820	16,303,589	3,535,000	722,426
Other	33,869,280	4,650,811	17,987,322	5,364,353	-	-	5,866,794
Total Assets	240,126,806	68,718,746	47,842,246	47,835,328	48,271,570	5,697,644	21,761,273
Liabilities							
Deposits	148,141,258	36,114,808	42,268,974	49,034,977	6,690,178	3,100	14,029,222
Borrowings	35,156,487	9,508,023	13,409,951	4,234,732	8,003,780	-	-
Other	57,297,697	4,777,312	18,112,114	5,523,314	-	-	28,884,957
Total Shareholder Funds and Liabilities	240,595,442	50,400,143	73,791,039	58,793,023	14,693,958	3,100	42,914,179
Total Interest Sensitivity Gap		18,318,603	(25,948,793)	(10,957,695)	33,577,612	5,694,544	(21,152,906)

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

Notes to the Financial Statements

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	Increase / (Decrease) in basis points	Sensitivity to Profit (after Tax)	Sensitivity to Equity (after Tax)
Asset/Liabilities	2017	2017	2017
	LKR '000	LKR '000	LKR '000
LKR	+100/-100	+148,572/-150,779	-427,837/+451,684
USD	+50/-50	-8,358/+8,408	-10,545/+10,645

Bank	Increase / (Decrease) in basis points	Sensitivity to Profit (after Tax)	Sensitivity to Equity (after Tax)
Asset/Liabilities	2016	2016	2016
	LKR '000	LKR '000	LKR '000
LKR	+100/-100	+74,538/-75,531	-400,417/+421,091
USD	+50/-50	-1,559/+1,559	-4,400/+4,474

Group	Increase / (Decrease) in basis points	Sensitivity to Profit (after Tax)	Sensitivity to Equity (after Tax)
Asset/Liabilities	2017	2017	2017
	LKR '000	LKR '000	LKR '000
LKR	+100/-100	+148,559/-150,765	-428,869/+452,756
USD	+50/-50	-8,358/+8,408	-10,545/+10,645

Group	Increase / (Decrease) in basis points	Sensitivity to Profit (after Tax)	Sensitivity to Equity (after Tax)
Asset/Liabilities	2016	2016	2016
	LKR '000	LKR '000	LKR '000
LKR	+100/-100	+74,206/-75,194	-401,890/+422,622
USD	+50/-50	-1,559/+1,559	-4,400/+4,474

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 unfavourable 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 2016. 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 % 2017 LKR '000	Change in Currency Rate in % 2016 LKR '000	Effect on Profit after tax 2017 LKR '000	Effect on Profit after tax 2016 LKR '000
USD	+5	+5	(5,820.3)	219.5
GBP	+5	+5	(136.2)	26.4
EUR	+5	+5	50.7	5.0
AUD	+5	+5	(161.0)	(115.6)
JPY	+5	+5	17.0	17.4
Other	+5	+5	397.4	296.5

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 % 2017 LKR '000	Change in Currency Rate in % 2016 LKR '000	Effect on Profit after tax 2017 LKR '000	Effect on Profit after tax 2016 LKR '000
USD	+5	+5	(33,638.0)	(16,439.9)

Notes to the Financial Statements

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 recognized 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 the import or export of goods. Guarantees and standby letters of credit carry a credit risk to similar 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 is 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	
	2017 LKR '000	2016 LKR '000
Capital Commitments for Property, Plant and Equipment		
Approved and Contracted for	135,748	95,502
Approved but not Contracted for	5,319	43,087
	141,067	138,589
Capital Commitments for Intangible Assets		
Approved and Contracted for	252,787	314,473
Approved but not Contracted for	5,261	87,800
	258,048	402,273
	399,115	540,862

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.

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	
	2017 LKR '000	2016 LKR '000
Within one year	280,543	269,199
After one year but not more than five years	569,480	381,145
More than five years	63,489	79,733
	913,512	730,077

45.3.2 Operating Lease Receivable – Group as Lessor

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

	Group	
	2017 LKR '000	2016 LKR '000
Within one year	26,270	36,459
After one year but not more than five years	30,381	23,022
	56,951	59,480

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 maximize 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.

Notes to the Financial Statements

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.

For the Year Ended 31 December	Bank	Bank	Group	Group
	2017 LKR '000	2016 LKR '000	2017 LKR '000	2016 LKR '000
Amount Used as the Numerator:				
Net Assets Attributable to Equity Holders of the Parent	20,807,735	15,981,096	21,470,041	17,320,604
Number of Ordinary Shares Used as the Denominator:				
Weighted Average Number of Ordinary Shares in Issue at the End of the Year	236,602,619	236,602,619	236,602,619	236,602,619
Net Assets Value per Ordinary Share (LKR)	87.94	67.54	90.74	73.21

47 EVENTS AFTER THE REPORTING DATE

No material events have taken place since 31 December 2017 that require disclosure or/and adjustments in these accounts, except for the following:

a) Dividends Declared

A dividend of Rs. 2.10 per share in respect of year 2017 is declared by the Board of Directors to be paid in the form of a Scrip dividend in the proportion of 01 share for every 38.4644498 shares for both Ordinary Voting Shares and Convertible Non-Voting Shares (Convertible to Ordinary Voting Shares). Fractions in shares will be paid in cash.

b) Rights issue

The Board of Directors of the Bank at their meeting held on 31 October 2017 resolved to issue up to 40,105,614 Convertible Non-Voting Shares (Convertible to Ordinary Voting Shares) at a price of Rs. 80 per share in order to raise a sum of up to Rs. 3,208,449,120.

The Shares were issued on 14th February 2018 in the proportion of 4 Convertible Non-Voting Shares for every 23 Ordinary Voting Shares held by the Shareholders in the Register of Shareholders, as at 12th January 2018.

Such issued Convertible Non-Voting Shares shall have the option of convertibility into Ordinary Voting Shares at every calendar quarter at a conversion ratio of 1 Ordinary Voting Share for every 1 Convertible Non-Voting Share.

c) Debenture issue

The Bank intends to raise LKR 3.5 billion BASEL III Compliant, Tier 2, Listed Rated Unsecured Subordinated Redeemable Debentures with non-viability conversion to ordinary shares. The bank has obtained shareholder approval for the proposed Debenture issue which has been rated A- (lka) (EXP) by Fitch Ratings Lanka Limited. The Debentures are expected to be listed on the Colombo Stock Exchange by way of an Offer for Subscription.



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