

Financial Risk Management

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.

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.

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.

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 has 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 honor 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	Amortized Cost	
	Default Rates	2017	2016
	%	LKR'000	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
<i>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.</i>			
<i>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.</i>			

	Neither past due nor impaired							
Bank - 31 December 2017	High Grade	Investment Grades	Intermediary Grades	Speculative Grades	Customers whose credit rating is not yet finalized	Past due but not impaired	Individually impaired	Total
	LKR'000	LKR'000	LKR'000	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 Contratscs 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
Unquoted Debentures	-	-	-	-	-	-	-	-
	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	1,496,679	45,767,388
Retail ,SME and Consumer Housing Loans	-	32,006,746	3,721,192	1,729,163	34,592,862	24,834,973	3,690,898	100,575,835
Leases	-	-	-	-	2,668,317	534,088	-	3,202,405
Staff Loans	-	1,603,948	1,772,948	873	22,466,847	11,240,140	168,933	37,253,690
	-	-	-	-	2,985,412	-	-	2,985,412
	-	72,825,892	5,552,830	1,864,505	62,713,439	41,471,553	5,356,511	189,784,730
Total	72,048,389	75,110,502	5,552,830	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. 41.5Bn 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. 2.4Bn (6%) is in arrears for more than 90 Days.

[illegible]

[illegible]

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 - 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

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

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 - 31 December 2017	Agriculture	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Information Technology	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	LKR'000	LKR'000	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 Contrats and Currency Swaps	-	-	-	-	228,016	-	-	-	-	-	-	-	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	-	231,681	171,936	-	1,781,130	-	-	559,195	-	-	-	-	-	-	2,743,942
	-	231,681	171,936	-	1,781,130	-	-	559,195	-	-	-	-	-	4,053,665	6,797,607
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	2,788,815	1,219,461	1,153,788	415,100	-	2,153	211,559	45,767,388
Retail ,SME and Consumer Housing Loans	7,983,097	25,494,012	6,419,568	131,035	3,732,670	1,286,998	1,427,831	16,748,099	2,641,022	2,602,630	776,115	123,304	20,787,292	10,422,162	100,575,835
Leases	5,302	36,080	14,901	-	35,011	2,018	6,847	3,095,448	3,807	-	2,991	-	-	-	3,202,405
Staff loans	4,262,226	8,024,863	4,992,409	204,848	1,442,386	1,541,461	818,151	13,512,088	1,525,060	330,941	475,228	124,030	-	-	37,253,690
	-	-	-	-	2,346,309	-	-	-	-	-	-	-	-	-	2,346,309
	19,074,418	50,690,155	14,281,903	844,818	18,970,773	3,623,687	2,698,781	36,144,449	5,389,350	4,087,359	1,669,433	247,334	20,789,445	10,633,721	189,145,626
Impairment for Loans and Advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,608,915)
Net Loans and Advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	186,536,711
	19,074,418	50,921,837	14,453,839	844,818	27,847,140	3,623,687	2,698,781	36,703,643	5,389,350	4,087,359	1,669,433	247,334	20,808,381	75,127,541	260,888,646

Bank - 31 December 2016	Agriculture	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Information Technology	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	LKR'000	LKR'000	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 Contrats and Currency Swaps	-	106	-	-	62,275	-	-	-	-	-	-	-	2,974	-	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	-	208,647	171,936	-	1,954,564	-	-	354,226	-	-	-	-	227,979	-	2,917,352
Unquoted Debentures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	208,647	171,936	-	1,954,564	-	-	354,226	-	-	-	-	227,979	3,943,597	6,860,949
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	2,855,086	542,290	30,288	419,377	-	67,244	87,928	37,882,588
Retail ,SME and Consumer Housing Loans	4,933,533	19,511,220	3,094,346	57,819	3,481,306	958,048	1,027,870	10,193,173	1,847,506	1,067,924	553,775	70,460	19,646,431	10,729,835	77,173,248
Leases	12,316	41,962	13,646	-	49,626	4,103	3,902	2,361,475	8,683	-	1,703	-	-	-	2,497,417
Staff loans	3,286,460	7,670,105	4,002,060	147,197	1,247,380	1,370,387	638,264	11,124,818	1,197,092	245,582	410,918	82,183	-	-	31,422,446
	-	-	-	-	2,227,112	-	-	-	-	-	-	-	-	-	2,227,112
	14,072,932	41,080,799	9,740,140	1,211,235	16,441,685	3,116,867	1,995,379	26,534,552	3,595,571	1,343,794	1,385,773	152,644	19,713,675	10,817,763	151,202,811
Impairment for Loans and Advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,278,077)
Net Loans and Advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	148,924,734
	14,072,932	41,289,553	9,912,076	1,211,235	22,646,128	3,116,867	1,995,379	26,888,778	3,595,571	1,343,794	1,385,773	152,644	19,965,423	59,920,442	205,218,520

Group - 31 December 2017	Agriculture	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Information Technology	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	LKR'000	LKR'000	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 Contrats and Currency Swaps	-	-	-	-	228,016	-	-	-	-	-	-	-	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	-	231,681	171,936	-	1,781,130	-	-	559,195	-	-	-	-	-	-	2,743,942
	-	231,681	171,936	-	1,781,130	-	-	559,195	-	-	-	-	-	4,053,665	6,797,607
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	2,788,815	1,219,461	1,153,788	415,100	-	2,153	211,559	45,808,101
Retail ,SME and Consumer Housing Loans	7,983,097	25,494,012	6,419,568	131,035	3,733,617	1,286,998	1,427,831	16,748,099	2,641,022	2,602,630	776,115	123,304	20,954,503	10,422,162	100,743,992
Leases	5,302	36,080	14,901	-	35,011	2,018	6,847	3,095,448	3,807	-	2,991	-	-	-	3,202,405
Staff loans	4,262,226	8,024,863	4,992,409	204,848	1,442,386	1,541,461	818,151	13,512,088	1,525,060	330,941	475,228	124,030	-	-	37,253,690
	-	-	-	-	2,346,309	-	-	-	-	-	-	-	-	-	2,346,309
	19,074,418	50,730,868	14,281,903	844,818	18,971,720	3,623,687	2,698,781	36,144,449	5,389,350	4,087,359	1,669,433	247,334	20,956,655	10,633,721	189,354,496
Impairment for Loans and Advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,608,786)
Net Loans and Advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	186,745,710
	19,074,418	50,962,549	14,453,839	844,818	27,850,560	3,623,687	2,698,781	36,703,643	5,389,350	4,087,359	1,669,433	247,334	20,975,591	75,198,584	261,171,161

Group - 31 December 2016	Agriculture	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Information Technology	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	LKR' 000	LKR' 000	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 Contratscs and Currency Swaps	-	106	-	-	62,275	-	-	-	-	-	-	-	2,974	-	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	-	208,647	171,936	-	1,954,564	-	-	354,226	-	-	-	-	227,979	-	2,917,352
Unquoted Debentures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	208,647	171,936	-	1,954,564	-	-	354,226	-	-	-	-	227,979	3,943,597	6,860,949
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	2,855,086	542,290	30,288	419,377	-	67,244	87,928	38,412,862
Retail ,SME and Consumer Housing Loans	4,933,533	19,545,298	3,094,346	57,819	3,486,685	958,048	1,027,870	10,193,173	1,847,506	1,067,924	553,775	70,460	19,969,488	10,729,835	77,535,761
Leases	12,316	41,962	13,646	-	49,626	4,103	3,902	2,361,475	8,683	-	1,703	-	-	-	2,497,417
Staff loans	3,286,460	7,670,105	4,002,060	147,197	1,247,380	1,370,387	638,264	11,124,818	1,197,092	245,582	410,918	82,183	-	-	31,422,446
	-	-	-	-	2,227,112	-	-	-	-	-	-	-	-	-	2,227,112
	14,072,932	41,572,964	9,740,140	1,211,235	16,519,250	3,116,867	1,995,379	26,534,552	3,595,571	1,343,794	1,385,773	152,644	20,036,732	10,817,763	152,095,597
Impairment for Loans and Advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,277,656)
Net Loans and Advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	149,817,941
	14,072,932	41,781,718	9,912,076	1,211,235	22,723,737	3,116,867	1,995,379	26,888,778	3,595,571	1,343,794	1,385,773	152,644	20,288,479	59,989,907	206,181,235

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.

	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.

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.

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

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

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

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

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

Bank	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
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	-	-	-	398,431	-	398,431
Government Securities	-	-	-	-	-	-
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	-	-	-	398,431	-	398,431
Government Securities	-	-	-	-	-	-
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

Market Risk

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

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

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

Types of Market Risk

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

- Interest Rate Risk
- Currency Risk

Interest Rate Risk

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

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

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	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	18,052,834	-	-	-	-	-	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	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	12,714,055	-	-	-	-	-	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.

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 LKR'000	2017 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 LKR'000	2016 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 LKR'000	2017 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 LKR'000	2016 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 unfavorable movements in foreign exchange rates when the Bank has foreign currency denominated assets, liabilities or trading positions. Exposure to each currency is arrived at by calculating the Net Asset or Liability position including the spot and forward contracts of the relevant currency.

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

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

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

The table below indicates the currencies to which the Bank had material exposures at 31 December 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	Change in Currency Rate in % 2016	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	Change in Currency Rate in % 2016	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)