

## NOTES TO THE FINANCIAL STATEMENTS

### 1. CORPORATE INFORMATION

#### 1.1 Reporting Entity

The National Development Bank of Sri Lanka was incorporated under the National Development Bank of Sri Lanka Act No. 2 of 1979. In 2005, pursuant to the provisions of the National Development Bank of Sri Lanka (consequential provisions) Act No. 1 of 2005, a company by the name of 'National Development Bank Ltd.' was incorporated for the purposes of taking over the business of National Development Bank of Sri Lanka. Accordingly, on 15 June 2005, the National Development Bank Ltd. was incorporated and with effect from that date, the National Development Bank of Sri Lanka Act No. 2 of 1979 was repealed except for certain provisions contained therein.

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

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

The number of branches of the Bank as at 31 December 2016 was 104 (2015 – 93) and the number of staff employed as at 31 December 2016 was 2,109 (2015 – 1,960).

#### 1.2 Principal Activities of the Bank and the Group Bank

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

#### Group

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

Entity	Country of Incorporation	Principal Activities	Holding % – 2016		Holding % – 2015	
			Direct	Indirect	Direct	Indirect
<b>Subsidiaries</b>						
NDB Capital Holdings Ltd.	Sri Lanka	Full service investment banking	99.9	–	99.9	–
NDB Investment Bank Ltd.	Sri Lanka	Investment banking	–	99.9	–	99.9
NDB Wealth Management Ltd.	Sri Lanka	Wealth management	–	99.9	–	99.9
NDB Securities (Pvt) Ltd.	Sri Lanka	Investment advisory and securities trading	–	99.9	–	99.9
Development Holdings (Pvt) Ltd.	Sri Lanka	Property management	58.7	–	58.7	–
NDB Capital Ltd.	Bangladesh	Investment banking	77.8	–	77.8	–
NDB Zephyr Partners Ltd.	Mauritius	Management of private equity funds	–	60.0	–	60.0
NDB Zephyr Partners Lanka (Pvt) Ltd.	Sri Lanka	Management of private equity funds	–	60.0	–	60.0
<b>Associate Companies</b>						
Ayojana Fund (Pvt) Ltd. (under liquidation)	Sri Lanka	Venture capital	50.0	–	50.0	–
NDB Venture Investments (Pvt) Ltd. (under liquidation)	Sri Lanka	Venture capital	50.0	–	50.0	–

### 1.3 Consolidated Financial Statements

The Consolidated Financial Statements for the year ended 31 December 2016 comprise of the Bank (parent company) and the subsidiaries and associate companies.

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

## 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

### 2.1 Statement of Compliance

The Consolidated Financial Statements of the Group and the separate Financial Statements of the Bank as at 31 December 2016 which comprise the Statement of Financial Position, Statement of Profit or Loss, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows, Accounting Policies and Notes, have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs and LKASs, hereinafter referred to as 'SLFRSs') issued by The Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007. The presentation of Financial Statements is also in compliance with the requirements of the Banking Act No. 30 of 1988 and amendments thereto. These Financial Statements also provide appropriate disclosures as required by the listing rules of the Colombo Stock Exchange.

### 2.2 Functional and Presentation Currency

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

### 2.3 Responsibility for the Financial Statements

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

The Board of Directors acknowledge their responsibility as set out in the 'Annual Report of the Board of Directors', 'Statement of Directors Responsibilities on Financial Reporting' and the certification given on the 'Statement of Financial Position' on pages 274 to 275 and page 289 respectively.

### These Financial Statements include –

- The Statement of Profit or Loss and a Statement of Comprehensive Income providing information on the performance for the year under review (Refer pages 287 and 288);

- Statement of Financial Position providing the information on the financial position of the Bank and the Group as at the year end (Refer page 289);
- Statement of Changes in Equity providing the movement in the shareholders' funds during the year ended under review for the Bank and the Group;
- Statement of Cash Flows providing the information to the users, on the ability of the Bank and the Group to generate cash and cash equivalents and the needs for entities to utilize those cash flows (refer pages 294 and 295); and
- Financial Statements, which comprise of the Accounting Policies and other explanatory Notes and information (Refer pages 296 to 400).

### 2.4 Approval of the Financial Statements

The Financial Statements of the Bank and the Group for the year ended 31 December 2016 (including the comparative figures) have been approved and authorized for issue by the Board of Directors in accordance with the resolution of the Directors on 21 February 2017.

### 2.5 Basis of Measurement

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

Item	Basis of Measurement	Note Numbers	Pages
Derivative financial instruments	Fair value	22	318
Financial assets and liabilities – Held-for-trading	Fair value	23	321
Financial investments – Available-for-sale	Fair value	27	329
Investment property	Fair value	32	333
Freehold land and building	Measured at cost at the time of acquisition and subsequently measured at revalued amounts, which represented the fair value at the date of revaluation.	34	335
Employee benefit liabilities	Recognized at the present value of the defined benefit obligations less the fair value of the assets of the plan.	40	345

## 2.6 Presentation of Financial Statements

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

## 2.7 Materiality and Aggregation

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

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

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

## 2.8 Comparative Information

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

## 2.9 Basis of Consolidation

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

31 December 2016. The Financial Statements of the Bank's subsidiaries are prepared for the same reporting year as the Bank, using consistent Accounting Policies.

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

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

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

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

## 2.10 Foreign Currency Translation

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

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

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

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

## 3. GENERAL ACCOUNTING POLICIES

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

### 3.1 Significant Accounting Judgments, Estimates and Assumptions

In the process of applying the accounting policies of the Bank and the Group, the management is required

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

The key significant accounting judgments, estimates and assumptions involving uncertainty for each type of assets, liabilities, income and expenses along with the respective carrying amounts of such items are given in the Notes to the Financial Statements, on pages 296 to 400.

### 3.2 Going Concern

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

### 3.3 Financial Instruments Initial Recognition Date

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

### Initial Measurement of Financial Instruments

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

### Classification and Subsequent Measurement of Financial Assets

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

- At fair value through profit or Loss
  - Held-for-trading; or
  - Designated at fair value through profit or loss
- Loans and receivables
- Available-for-sale or
- Held-to-maturity

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

### Classification and Subsequent Measurement of Financial Liabilities at Fair Value Through Profit or Loss

Financial liabilities at fair value through profit or loss include financial liabilities held-for-trading and financial liabilities designated upon initial recognition at fair value through profit or loss.

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

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

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

### Classification and Subsequent Measurement of Other Financial Liabilities

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

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

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

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

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

## Derecognition of Financial Assets and Financial Liabilities

### (a) Financial Assets

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

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

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

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

### (b) Financial Liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is

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

### Reclassification of Financial Assets and Liabilities

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

For a financial asset with a fixed maturity, which has been reclassified out of the 'available-for-sale' category, any previous gain or loss on that asset that has been recognized in Equity is amortized to the Statement of Profit or Loss over the remaining life of the asset using the EIR. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the EIR. In the case of a financial asset that does not have a fixed maturity, the gain or loss is recognized in the Statement of Profit or Loss when such financial asset is sold or disposed of. If the financial asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to the Statement of Comprehensive Income.

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

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

### 3.4 Offsetting of Financial Assets and Liabilities

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

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

### 3.5 Impairment of Non-Financial Assets Other than Goodwill

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

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

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

carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the Statement of Profit or Loss.

### 3.6 Business Combinations and Goodwill

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

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

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

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

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

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

### 3.7 Standards Issued but not yet Effective as at 31 December 2016

The following Sri Lanka Accounting Standards have been issued by The Institute of Chartered Accountants of Sri Lanka which are not yet effective as at 31 December 2016.

#### (i) SLFRS 15 – Revenue from Contracts with Customers

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

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

## (ii) SLFRS 9 – Financial Instruments: Classification and Measurement

### Introduction

SLFRS 9 – Financial Instruments, the standard that will replace LKAS 39 – Financial Instruments Recognition and Measurement for annual period on or after 1 January 2018, with early adoption permitted.

The initial assessment, the gap analysis between the two standards and policy statements on financial assets and financial liabilities were completed during the year 2016. The initial assessments on impairment is being evaluating with an external consultant at present.

### Classification and 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' contractual cash flow characteristics. The LKAS 39 measurement categories will be replaced by: fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI) and amortized cost. SLFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortized cost or fair value through OCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistently. Equity instruments that are not held-for-trading may be irrevocably designated as FVOCI, with no subsequently reclassification of gains or losses to the Statement of Profit or Loss.

The accounting for financial liabilities will largely be the same as the requirement of LKAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements will be presented in OCI with no subsequent reclassification to the Statement of Profit or Loss, unless

an accounting mismatch in profit or loss would arise.

Having completed its initial assessment, the Bank is in the view that:

- The majority of loans and receivables to banks, loans and receivables to other customers and securities purchased under resale agreements that are classified as loans and receivables under LKAS 39 are expected to be measured at amortized cost under SLFRS 9.
- Financial assets held-for-trading are expected to be continued to be measured at FVPL.
- The majority of the debt securities classified as available-for-sale under LKAS 39 are expected to be measured at FVOCI.
- Debt securities classified as held-to-maturity are expected to continue to be measured at amortized cost.

### Impairment of Financial Assets

SLFRS 9 will also fundamentally change the loan loss impairment methodology. The standard will replace LKAS 39's incurred loss approach with a forward-looking expected loss (ECL) approach. The Bank will be required to record an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

The Bank is in the process of quantifying the potential impact on impairment by implementing SLFRS 9 with the assistance of an external consultant.

### SLFRS 16 – Leases

This standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees

and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of Financial Statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

An entity shall apply this Standard for annual reporting periods beginning on or after 1 January 2019. The impact on the implementation of the above Standard has not been quantified yet .

### Amendments and improvements to the standards but not effective as at 31 December 2016 are given below:

#### LKAS 7 – Disclosure Initiative – Amendments to LKAS 7

The amendments to LKAS 7 – Statement of Cash Flows are part of the ICASL's Disclosure Initiative and require an entity to provide disclosures that enable users of Financial Statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted.

Additional Disclosure will be made as per the requirements of the Amended Standards.

#### LKAS 12 – Recognition of Deferred Tax Assets for Unrealized Losses – Amendments to LKAS 12

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. These amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. The Bank and the Group are in the process of assessing the impact to the Financial Statements.

### **SLFRS 2 – Classification and Measurement of Share-based Payment Transactions – Amendments to SLFRS 2**

The ICASL issued amendments to SLFRS 2 – Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are 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. This Standard will become applicable if the Bank implements a new share-based plan in the future.



## 4. GROSS INCOME

### ACCOUNTING POLICY

The Gross Income represents the Interest Income and the Non-Interest Income earned by the Bank and the Group during the year.

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

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Interest income	28,618,247	21,167,848	28,960,606	21,431,932
Fee and commission income	2,253,226	2,016,260	3,046,132	3,156,841
Net gains/(losses) from trading	982,123	1,088,464	982,123	1,088,464
Net gains/(losses) from financial investments	211,370	262,048	440,748	493,739
Other operating income	1,216,770	1,320,691	347,296	744,887
<b>Total</b>	<b>33,281,736</b>	<b>25,855,311</b>	<b>33,776,905</b>	<b>26,915,863</b>

## 5. NET INTEREST INCOME

### ACCOUNTING POLICY

The Net Interest Income represents the Gross Interest Income earned from financial assets, after set off of interest expenses incurred on financial liabilities by the Bank and the Group during the year.

The Bank and the Group use the Effective Interest Rate (EIR) for Financial Assets and Financial Liabilities that are measured at amortized cost, held for trading or classified as available-for-sale.

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 a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

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

### 5.1 Interest Income

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Loans and receivables – to banks	4,261	16,276	4,261	16,276
Loans and receivables – to other customers	23,164,985	17,155,338	23,176,018	17,157,607
Placements with banks	220,582	263,415	279,962	269,815
Financial assets – held-for-trading	81,833	89,785	107,981	89,785
Financial investments – held-to-maturity	499,370	622,183	499,386	685,926
Financial investments – available-for-sale	2,381,242	1,458,884	2,381,242	1,458,884
Financial investments – loans and receivables	2,044,211	1,444,981	2,289,993	1,636,653
Other interest income	221,763	116,986	221,763	116,986
<b>Total Interest Income (a)</b>	<b>28,618,247</b>	<b>21,167,848</b>	<b>28,960,606</b>	<b>21,431,932</b>

## 5.2 Interest Expenses

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Due to banks	1,226,752	475,242	1,226,752	475,242
Due to other customers	12,362,362	8,157,526	12,331,264	8,137,635
Debt securities issued and other borrowed funds	4,250,672	3,120,546	4,250,672	3,118,967
Subordinated term debts	2,291,149	1,892,711	2,291,149	1,892,711
<b>Total Interest Expenses (b)</b>	<b>20,130,935</b>	<b>13,646,025</b>	<b>20,099,837</b>	<b>13,624,555</b>
<b>Net Interest Income (a)-(b)</b>	<b>8,487,312</b>	<b>7,521,823</b>	<b>8,860,769</b>	<b>7,807,377</b>

## 5.3 Interest Income from Sri Lanka Government Securities

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Interest income	3,875,945	3,732,743	3,875,945	3,732,743

## 5.4 Interest Income on Impaired Financial Assets

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Interest income on impaired loans and receivables to other customers	267,141	316,636	267,141	316,636

## Notional Tax Credit on Secondary Market Transactions

Any company which derives income from secondary market transactions involving any security or Treasury Bonds or Treasury Bills, on which the income tax has been deducted at the rate of 10% at the time of issue of such security, is entitled to a notional tax credit at 10% of the grossed up amount of Net Interest Income from such secondary market transactions, to an amount of one ninth of the same. Accordingly, the Net Interest Income earned by the Bank and the Group from such transactions has been grossed up in the Financial Statements for the year ended 31 December 2016 and the notional tax credit amounted to LKR 279.4 million (2015 – LKR 197.1 million).

## 6. FEE AND COMMISSION INCOME

### ACCOUNTING POLICY

#### Income from Fee-based Activities

Fees and commission income that are earned from financial assets and financial liabilities, are recognized at the EIR and is accounted in the Statement of Profit or Loss over the life of the instrument.

Other fees and commission income on account servicing fees, investment management, fees for underwriting, advisory work, loan syndication and all other fees and commissions earned during the normal course of the business of the Bank and Group, are recognized as the related services are performed on an accrual basis. If a loan commitment is not expected to result in the drawdown of a loan, then the related loan commitment fees are recognized on a straight-line basis over the commitment period.

## Income from Financial Guarantees

The Bank and Group issue financial guarantees, consisting of letters of credit, guarantees and acceptances, in the normal course of its business activities. Financial guarantees are initially recognized in the Statement of Financial Position as a contingent liability at the guarantee value.

The premium received is recognized in the Statement of Profit or Loss on a straight-line basis over the life time of the guarantee and the balance amount to be amortized to the Statement of Profit or Loss after the reporting date, is recognized in the Statement of Financial Position, as Other Liabilities.

## Rental Income

The rental income earned by renting out premises is recognized on an accrual basis.

	BANK		GROUP	
	2016 LKR '000	2015 LKR '000	2016 LKR '000	2015 LKR '000
<b>Fees and commission income on</b>				
Cards	185,861	135,144	185,861	135,144
Due to other customers	211,466	140,521	211,466	140,521
Guarantees	347,499	270,927	347,499	270,925
Loans and receivables to other customers	580,959	580,078	580,959	580,078
Remittances	203,795	200,793	203,795	200,793
Trade finance	548,065	544,292	548,065	544,292
Bancassurance	81,838	68,885	81,838	68,885
Investment banking and wealth management	–	–	521,000	757,518
Brokerage	–	–	82,495	136,926
Other financial services	82,168	64,405	140,023	155,688
Rental income	11,575	11,215	143,131	166,071
<b>Total</b>	<b>2,253,226</b>	<b>2,016,260</b>	<b>3,046,132</b>	<b>3,156,841</b>

## 7. NET GAINS/(LOSSES) FROM TRADING

### ACCOUNTING POLICY

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

	BANK		GROUP	
	2016 LKR '000	2015 LKR '000	2016 LKR '000	2015 LKR '000
Income from foreign exchange				
– With Banks	643,878	753,437	643,878	753,437
– With Customers	338,245	335,027	338,245	335,027
<b>Total</b>	<b>982,123</b>	<b>1,088,464</b>	<b>982,123</b>	<b>1,088,464</b>

## 8. NET GAINS/(LOSSES) FROM FINANCIAL INVESTMENTS

### ACCOUNTING POLICY

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

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

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

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

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
<b>Financial Investments – Held-for-Trading</b>				
Equities	–	–	58,008	16,293
Debt Securities	76,694	886	76,694	15,404
Unit Trusts	96,263	154,318	271,596	309,853
<b>Sub total</b>	<b>173,957</b>	<b>155,204</b>	<b>406,298</b>	<b>341,550</b>
<b>Financial Investments – Available-for-Sale</b>				
Equities	38,413	34,725	34,450	34,725
Debt Securities	–	72,119	–	117,464
<b>Sub total</b>	<b>38,413</b>	<b>106,844</b>	<b>34,450</b>	<b>152,189</b>
<b>Total</b>	<b>211,370</b>	<b>262,048</b>	<b>440,748</b>	<b>493,739</b>

## 9. OTHER OPERATING INCOME

### ACCOUNTING POLICY

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

#### Dividend Income

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

#### Capital Gains/(Losses)

Capital gains/(losses) from the sale of securities and from the sale of group investments represent the difference between the sales proceeds from sale of such investments and the carrying value of such investments at the time of disposal. This is recognized as an item of other income in the year, in which significant risk and rewards of the ownership are transferred to the buyer.

#### Foreign Exchange Gains

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

#### Gains on Sale of Property, Plant & Equipment

Gains on sale of property, plant & equipment represent the difference between the sales proceeds and the net book value of property, plant & equipment that are disposed during the year.

#### Gains on Investment Properties

Gains from investment properties arise from the changes in the fair values of investment properties and are included in the Statement of Profit or Loss, in the year in which they arise.

	BANK		GROUP	
	2016 LKR '000	2015 LKR '000	2016 LKR '000	2015 LKR '000
Dividend income from securities				
– Non-quoted investments	9,646	12,643	15,025	12,643
Dividend income from group investments				
– Non-quoted investments	981,893	894,925	–	–
Capital gains from sale of securities	260	23,758	228	41,793
Capital gains from sale of group investments	–	–	–	164,397
Foreign exchange gains	203,242	381,339	203,242	381,339
Gains on sale of property, plant & equipment	9,109	4,356	11,883	10,150
Gains on investment properties	–	–	104,000	126,307
Others	12,620	3,670	12,918	8,258
<b>Total</b>	<b>1,216,770</b>	<b>1,320,691</b>	<b>347,296</b>	<b>744,887</b>

## 10. IMPAIRMENT FOR LOANS AND RECEIVABLES AND OTHER LOSSES

### ACCOUNTING POLICY

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

	BANK		GROUP	
	2016 LKR '000	2015 LKR '000	2016 LKR '000	2015 LKR '000
<b>Loans and receivables</b>				
– To other customers				
Charge/(write-back) to the Statement of Profit or Loss – Impairment on individually significant loans [Note 25.5 (b)]	1,116,072	526,932	1,116,072	526,932
Charge/(Write-back) to the Statement of Profit or Loss – Impairment on collective loan portfolio [Note 25.5 (b)]	277,097	150,673	277,097	150,673
– Capital write-offs/(recoveries)	(14,483)	34,228	(14,483)	34,228
	1,378,686	711,833	1,378,686	711,833
Provision/(reversal) of investments in subsidiaries	(11,733)	–	45,887	34,312
<b>Total</b>	<b>1,366,953</b>	<b>711,833</b>	<b>1,424,573</b>	<b>746,145</b>

## 11. PERSONNEL EXPENSES

### ACCOUNTING POLICY

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

## Defined Contribution Plans

A defined contribution plan is a post employment benefit plan under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current and prior periods, as defined in the Sri Lanka Accounting Standard – LKAS 19 (Employee Benefits).

## Employees' Provident Fund and Employees' Trust Fund

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

The above expenses are identified as contributions to 'Defined Contribution Plans' as defined in the Sri Lanka Accounting Standard – LKAS 19.

## Defined Benefit Plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. Accordingly, the pension fund and staff gratuity were considered as defined benefit plans as per Sri Lanka Accounting Standard – LKAS 19 (Employee Benefits).

The contributions to the defined benefit plans are recognized in the Statement of Profit or Loss, based on an actuarial valuation carried out for the gratuity liability and the pension fund of the Bank and the Group in accordance with the LKAS 19.

The assumptions used in actuarial valuations are given in detail in Note 40 to these Financial Statements.

## Share Based Payments

Share-based payments represent the Bank's cost on the Equity Linked Compensation Plan (ELCP) which is more fully described in Note 43.2 and 46.3 to these Financial Statements.

	BANK		GROUP	
	2016 LKR '000	2015 LKR '000	2016 LKR '000	2015 LKR '000
Salary and bonus	2,695,598	2,529,980	3,008,876	2,902,328
Contribution to Employees' Provident Fund	253,722	214,509	263,190	224,695
Contribution to Employees' Trust Fund	50,744	42,902	52,365	44,193
Contribution to defined benefit plan				
– Pension Fund [Note 40.2 (a)]	16,927	15,284	16,927	15,284
– Gratuity [Note 40.1 (a)]	62,754	53,988	77,927	62,199
Share-based payments	13,505	27,248	13,505	36,248
Others	341,300	320,317	359,800	348,680
<b>Total</b>	<b>3,434,550</b>	<b>3,204,228</b>	<b>3,792,590</b>	<b>3,633,627</b>

## 12. OTHER EXPENSES

### ACCOUNTING POLICY

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

	BANK		GROUP	
	2016 LKR '000	2015 LKR '000	2016 LKR '000	2015 LKR '000
Directors' emoluments	29,330	27,905	33,572	35,166
Auditors' remuneration	7,770	7,260	10,133	9,568
Fees for other audit services	2,945	2,796	2,945	2,796
Non-audit fees to auditors	6,886	7,135	9,049	8,560
Professional and legal expenses	46,768	85,181	60,561	99,142
Office administration and establishment expenses	1,284,654	1,075,859	1,540,979	1,173,140
Depreciation of property, plant & equipment	329,327	284,744	364,909	317,798
Amortization of intangible assets	105,464	85,673	126,077	103,598
Deposit insurance expenses	211,492	155,397	211,492	155,397
Others	989,658	1,113,400	1,006,642	1,291,088
<b>Total</b>	<b>3,014,294</b>	<b>2,845,350</b>	<b>3,366,359</b>	<b>3,196,253</b>

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

### 13. TAX ON FINANCIAL SERVICES

#### ACCOUNTING POLICY

Tax on Financial Services include Value Added Tax and Nation Building Tax on Financial Services. The base for the computation of Value Added Tax on Financial Services is the accounting profit before emoluments paid to employees and income tax, which is adjusted for the depreciation computed on the prescribed rates. The regulatory tax rate for the period from 2 May 2016 to 11 July 2016 and from 1 November 2016 to 31 December 2016 was 15%. The rate for the balance period of the current year was 11% (2015 – 11%).

The same base is also applied for the computation of the Nation Building Tax on Financial Services and the regulatory tax rate is 2%.

	BANK & GROUP	
	2016 LKR '000	2015 LKR '000
Value Added Tax on financial services	903,500	770,441
Nation Building Tax on financial services	144,500	140,001
<b>Total</b>	<b>1,048,000</b>	<b>910,442</b>

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

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

	Percentage Holding 2015 %	GROUP	
		2016 LKR '000	2015 LKR '000
Resus Energy PLC (Note 14.1) (Equity accounted profit up to 17 September 2015)	32.40	–	77,818
<b>Total</b>		<b>–</b>	<b>77,818</b>

**14.1** In April 2015, Resus Energy PLC was accounted as an Investment in Associate, which was a 32% owned associate company of NDB Capital Holdings Ltd. However NDB Capital Holdings Ltd. divested part of its 32% owned investment in Resus Energy PLC on 17 September 2015 and subsequently the investment was reclassified as 'Available-for-Sale' Investments on 30 September 2015. As such, the LKR 77.8 million was recognized as an equity accounted profit for the period in which the Investment was accounted as an Investment in Associate.

## 15. TAXATION

### ACCOUNTING POLICY

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

The tax rates and laws used to compute the amount are those that are enacted or substantively enacted by the Reporting date.

The components of the income tax expense for the years ended 31 December 2016 and 2015 are:

	BANK		GROUP	
	2016 LKR '000	2015 LKR '000	2016 LKR '000	2015 LKR '000
<b>Current Tax Expense</b>				
Taxation based on the profit for the year	781,128	676,943	911,851	841,929
Adjustment in respect of current income tax of the prior years	221,872	194,714	241,872	196,314
<b>Total current tax expense (Note 15.1)</b>	<b>1,003,000</b>	<b>871,657</b>	<b>1,153,723</b>	<b>1,038,243</b>
<b>Deferred Tax Expense</b>				
Origination and reversal of temporary differences (Note 15.3)	113,733	154,345	76,864	174,321
<b>Total income tax charged to the Statement of Profit or Loss</b>	<b>1,116,733</b>	<b>1,026,002</b>	<b>1,230,587</b>	<b>1,212,564</b>
Effective tax rate (including deferred tax) (%)	21	19	24	21
Effective tax rate (excluding deferred tax) (%)	19	16	23	18

### 15.1 Reconciliation of the Accounting Profit to Current Tax Expense

	BANK		GROUP	
	2016 LKR '000	2015 LKR '000	2016 LKR '000	2015 LKR '000
<b>Operating profit before tax on financial services</b>	<b>5,335,004</b>	<b>5,447,875</b>	<b>5,093,546</b>	<b>5,715,283</b>
Income tax for the year (accounting profit @ applicable tax rate)	1,492,965	1,525,404	1,660,292	1,764,835
Tax effect of exempt income	(697,178)	(606,978)	(839,733)	(744,446)
Adjustment in respect of current income tax of the prior years	221,872	194,714	241,872	196,314
Tax effect of expenses that are not deductible for tax purposes	2,182,186	1,602,917	2,300,656	1,684,243
Tax effect of expenses that are deductible for tax purposes	(2,098,799)	(1,968,908)	(2,111,318)	(1,973,240)
Tax effect of leasing/tax losses	(98,046)	124,508	(98,046)	110,537
<b>Current tax expense for the year</b>	<b>1,003,000</b>	<b>871,657</b>	<b>1,153,723</b>	<b>1,038,243</b>



## 15.2 Applicable Income Tax rates

The applicable income tax rates of the Bank and the subsidiary companies for the years 2016 and 2015 are as follows:

	GROUP	
	2016	2015
	%	%
National Development Bank PLC	28	28
NDB Capital Holdings Ltd.	28	28
Development Holdings (Pvt) Ltd.	On rental income	2 on turnover
	On other income	28
NDB Investment Bank Ltd.	28	28
NDB Securities (Pvt) Ltd.	28	28
NDB Wealth Management Ltd.	On unit trust income	10
	On other income	28
NDB Zephyr Partners Lanka (Pvt) Ltd.	Tax exempted	–
NDB Zephyr Partners Ltd.* (Mauritius)	15	15
NDB Capital Ltd. (Bangladesh)	0.3	0.3

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

## 15.3 Deferred Tax

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

	Deferred Tax Assets	Deferred Tax Liabilities	Statement of Profit or Loss	Other Comprehensive Income	Deferred Tax Assets	Deferred Tax Liabilities	Statement of Profit or Loss	Other Comprehensive Income
	2016	2016	2016	2016	2015	2015	2015	2015
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
<b>BANK</b>								
Provisions	–	–	298	–	(298)	–	6,157	–
Revaluation of financial investments available-for-sale	(84,744)	–	–	(13,776)	(70,968)	–	–	(78,759)
Other temporary differences	(121,906)	998,441	113,435	(10,544)	(234,273)	1,007,917	148,188	7,325
<b>Total</b>	<b>(206,650)</b>	<b>998,441</b>	<b>113,733</b>	<b>(24,320)</b>	<b>(305,539)</b>	<b>1,007,917</b>	<b>154,345</b>	<b>(71,434)</b>
<b>GROUP</b>								
Provisions	–	–	298	–	(298)	–	6,157	–
Revaluation of financial investments available-for-sale	(87,156)	–	–	(33,277)	(70,968)	17,090	–	(78,759)
Other temporary differences	(172,647)	1,004,683	76,566	(11,529)	(250,211)	1,017,210	168,164	7,325
<b>Total</b>	<b>(259,803)</b>	<b>1,004,683</b>	<b>76,864</b>	<b>(44,806)</b>	<b>(321,477)</b>	<b>1,034,300</b>	<b>174,321</b>	<b>(71,434)</b>

## 16. EARNINGS PER SHARE ON PROFIT

### ACCOUNTING POLICY

The Bank and the Group present the Basic and Diluted Earnings per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is determined by adjusting both the profit or loss attributable to the equity holders of the parent and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees as required by the Sri Lanka Accounting Standard – 33 (LKAS 33) – ‘Earnings per Share’:

	BANK		GROUP	
	2016	2015	2016	2015
<b>Amount Used as the Numerator</b>				
Profit attributable to equity holders of the parent (LKR '000)	3,170,271	3,511,431	2,691,014	3,542,040
<b>Amount Used as the Denominator</b>				
Ordinary shares in issue for basic EPS calculation	165,185,506	165,167,342	165,185,506	164,676,210
Weighted average number of ordinary shares as at the date of the Statement of Financial Position for basic EPS calculation	165,173,413	165,137,837	165,173,413	164,646,705
Weighted average basic Earnings per Share (LKR)	19.19	21.26	16.29	21.51
Weighted average number of ordinary shares as at the date of the Statement of Financial Position for basic EPS calculation	165,173,413	165,137,837	165,173,413	164,646,705
Effect of outstanding share option schemes	–	56,971	–	56,971
Number of ordinary shares including share options	165,173,413	165,194,808	165,173,413	164,703,676
Weighted average number of ordinary shares as at the date of the Statement of Financial Position for diluted EPS calculation	165,173,413	165,194,808	165,173,413	164,703,676
Weighted average diluted Earnings per Share (LKR)	19.19	21.26	16.29	21.51

## 17. DIVIDEND PER SHARE

### ACCOUNTING POLICY

Interim and final dividends are recognized and accrued when the dividends are recommended and declared by the Board of Directors in accordance with the Companies Act No. 07 of 2007.

The Board of Directors of the Bank has recommended the payment of a total final dividend of LKR 8.00 per share comprising of a cash dividend of LKR 2.00 per share and a scrip dividend of LKR 6.00 per share for the year ended 31 December 2016.

	BANK & GROUP	
	2016	2015
	LKR	LKR
<b>Total dividend per share</b>	<b>8.00</b>	<b>11.00</b>

### Dividend Paid during the Year

	BANK & GROUP			
	Dividend per Share	2016	Dividend per Share	2015
	LKR	LKR '000	LKR	LKR '000
Final dividend paid for the prior year	4.00	660,669	4.00	660,376
Interim dividend paid for the current year	–	–	7.00	1,156,171
Gross dividends paid during the year	4.00	660,669	11.00	1,816,547
Reversal of dividends declared in prior years	–	(6,715)	–	(1,097)
Dividends to equity holders		653,954		1,815,450

## 18. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

Financial instruments in the Statement of Financial Position are measured on an ongoing basis either at fair value or at amortized cost. The Accounting Policies describe how each category of financial instrument is measured and how income and expenses, including fair value gains and losses are recognized. The following tables analyze the carrying amount of the financial instruments by category as defined in Sri Lanka Accounting Standard – LKAS 39 – 'Financial Instruments: Recognition and Measurement' under headings of the Statement of Financial Position:

As at 31 December 2016	BANK				Total LKR '000
	Held-for-Trading	Held-to-Maturity	Loans and Receivables	Available-for-Sale	
	LKR '000	LKR '000	LKR '000	LKR '000	
<b>Assets</b>					
Cash and cash equivalents	–	–	5,018,438	–	5,018,438
Balances with the Central Bank of Sri Lanka	–	–	11,815,277	–	11,815,277
Placements with banks	–	–	3,297,262	–	3,297,262
Derivative financial instruments	1,544,621	–	–	–	1,544,621
Financial assets held-for-trading	832,694	–	–	–	832,694
Loans and receivables to banks	–	–	37,032	–	37,032
Loans and receivables to other customers	–	–	227,639,844	–	227,639,844
Financial investments – loans and receivables	–	–	41,992,533	–	41,992,533
Financial investments – available-for-sale	–	–	–	31,500,020	31,500,020
Financial investments – held-to-maturity	–	4,137,601	–	–	4,137,601
Other financial assets	–	–	570,115	–	570,115
<b>Total financial assets</b>	<b>2,377,315</b>	<b>4,137,601</b>	<b>290,370,501</b>	<b>31,500,020</b>	<b>328,385,437</b>

	Held-for-Trading	Amortized Cost	Total
	LKR '000	LKR '000	LKR '000
<b>Liabilities</b>			
Due to banks	–	17,124,944	17,124,944
Derivative financial instruments	474,770	–	474,770
Due to other customers	–	203,866,547	203,866,547
Debt securities issued and other borrowed funds	–	59,233,264	59,233,264
Subordinated term debts	–	19,446,501	19,446,501
Other financial liabilities	–	2,777,519	2,777,519
<b>Total financial liabilities</b>	<b>474,770</b>	<b>302,448,775</b>	<b>302,923,545</b>

As at 31 December 2016	GROUP				
	Held-for-Trading	Held-to-Maturity	Loans and Receivables	Available-for-Sale	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
<b>Assets</b>					
Cash and cash equivalents	–	–	5,139,389	–	5,139,389
Balances with the Central Bank of Sri Lanka	–	–	11,815,277	–	11,815,277
Placements with banks	–	–	3,297,262	–	3,297,262
Derivative financial instruments	1,544,621	–	–	–	1,544,621
Financial assets held-for-trading	3,661,530	–	–	–	3,661,530
Loans and receivables to banks	–	–	37,032	–	37,032
Loans and receivables to other customers	–	–	227,679,939	–	227,679,939
Financial investments – loans and receivables	–	–	43,896,593	–	43,896,593
Financial investments – available-for-sale	–	–	–	31,899,259	31,899,259
Financial investments – held-to-maturity	–	4,946,120	–	–	4,946,120
Other financial assets	–	–	418,456	–	418,456
<b>Total financial assets</b>	<b>5,206,151</b>	<b>4,946,120</b>	<b>292,283,948</b>	<b>81,899,259</b>	<b>334,335,478</b>

	Held-for-Trading	Amortized Cost	Total
	LKR '000	LKR '000	LKR '000
<b>Liabilities</b>			
Due to banks	–	17,124,944	17,124,944
Derivative financial instruments	474,770	–	474,770
Due to other customers	–	203,515,828	203,515,828
Debt securities issued and other borrowed funds	–	59,233,264	59,233,264
Subordinated term debts	–	19,446,501	19,446,501
Other financial liabilities	–	3,516,073	3,516,073
<b>Total financial liabilities</b>	<b>474,770</b>	<b>302,836,610</b>	<b>303,311,380</b>

As at 31 December 2015	BANK				
	Held-for-Trading	Held-to-Maturity	Loans and Receivables	Available-for-Sale	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
<b>Assets</b>					
Cash and cash equivalents	–	–	11,821,503	–	11,821,503
Balances with the Central Bank of Sri Lanka	–	–	6,999,898	–	6,999,898
Placements with banks	–	–	1,153,619	–	1,153,619
Derivative financial instruments	1,903,573	–	–	–	1,903,573
Financial assets held-for-trading	2,985,262	–	–	–	2,985,262
Loans and receivables to banks	–	–	102,632	–	102,632
Loans and receivables to other customers	–	–	209,602,069	–	209,602,069
Financial investments – loans and receivables	–	–	35,830,311	–	35,830,311
Financial investments – available-for-sale	–	–	–	28,501,518	28,501,518
Financial investments – held-to-maturity	–	4,436,973	–	–	4,436,973
Other financial assets	–	–	3,091	–	3,091
<b>Total financial assets</b>	<b>4,888,835</b>	<b>4,436,973</b>	<b>265,513,123</b>	<b>28,501,518</b>	<b>303,340,449</b>

	Held-for-Trading LKR '000	Amortized Cost LKR '000	Total LKR '000
<b>Liabilities</b>			
Due to banks	–	11,620,003	11,620,003
Derivative financial instruments	639,272	–	639,272
Due to other customers	–	184,933,230	184,933,230
Debt securities issued and other borrowed funds	–	60,527,844	60,527,844
Subordinated term debts	–	19,573,883	19,573,883
Other financial liabilities	–	2,960,063	2,960,063
<b>Total financial liabilities</b>	<b>639,272</b>	<b>279,615,023</b>	<b>280,254,295</b>

As at 31 December 2015	GROUP				Total LKR '000
	Held-for-Trading LKR '000	Held-to-Maturity LKR '000	Loans and Receivables LKR '000	Available-for-Sale LKR '000	
<b>Assets</b>					
Cash and cash equivalents	–	–	11,848,575	–	11,848,575
Balances with the Central Bank of Sri Lanka	–	–	6,999,898	–	6,999,898
Placements with banks	–	–	1,153,619	–	1,153,619
Derivative financial instruments	1,903,573	–	–	–	1,903,573
Financial assets held-for-trading	5,229,493	–	–	–	5,229,493
Loans and receivables to banks	–	–	102,632	–	102,632
Loans and receivables to other customers	–	–	209,665,561	–	209,665,561
Financial investments – loans and receivables	–	–	37,368,705	–	37,368,705
Financial investments – available-for-sale	–	–	–	28,964,820	28,964,820
Financial investments – held-to-maturity	–	5,660,868	–	–	5,660,868
Other financial assets	–	–	580,723	–	580,723
<b>Total financial assets</b>	<b>7,133,066</b>	<b>5,660,868</b>	<b>267,719,713</b>	<b>28,964,820</b>	<b>309,478,467</b>

	Held-for-Trading LKR '000	Amortized Cost LKR '000	Total LKR '000
<b>Liabilities</b>			
Due to banks	–	11,620,003	11,620,003
Derivative financial instruments	639,272	–	639,272
Due to other customers	–	184,152,280	184,152,280
Debt Securities issued and other borrowed funds	–	60,497,844	60,497,844
Subordinated term debts	–	19,573,883	19,573,883
Other financial liabilities	–	3,194,279	3,194,279
<b>Total Financial Liabilities</b>	<b>639,272</b>	<b>279,038,289</b>	<b>279,677,561</b>

## 19. CASH AND CASH EQUIVALENTS

### ACCOUNTING POLICY

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

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

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Local currency in hand	2,543,219	2,504,536	2,543,306	2,504,620
Foreign currency in hand	121,320	91,841	121,339	91,860
Balances with banks	2,353,899	9,225,126	2,474,744	9,252,095
<b>Total</b>	<b>5,018,438</b>	<b>11,821,503</b>	<b>5,139,389</b>	<b>11,848,575</b>

## 20. BALANCES WITH THE CENTRAL BANK OF SRI LANKA

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

The minimum cash reserve requirement was 7.5% of the Rupee deposit liabilities as at 31 December 2016 (6.0% as at 31 December 2015). This reserve requirement is not applicable for the foreign currency deposit liabilities of the Domestic Banking Unit and the Foreign Currency Banking Unit.

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Statutory balances with the Central Bank of Sri Lanka	11,815,277	6,999,898	11,815,277	6,999,898
<b>Total</b>	<b>11,815,277</b>	<b>6,999,898</b>	<b>11,815,277</b>	<b>6,999,898</b>

## 21. PLACEMENTS WITH BANKS

### ACCOUNTING POLICY

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

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Placements – in Sri Lanka	3,297,262	1,153,619	3,297,262	1,153,619
<b>Total</b>	<b>3,297,262</b>	<b>1,153,619</b>	<b>3,297,262</b>	<b>1,153,619</b>

## 22. DERIVATIVE FINANCIAL INSTRUMENTS

### ACCOUNTING POLICY

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

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

The changes in the fair value of derivatives are included in 'Net Gains/(Losses) from trading except the currency SWAP entered with the Central Bank of Sri Lanka.

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

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

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

### Hedge Accounting

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

### Cash Flow Hedge

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

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

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

	BANK & GROUP			
	Financial Assets	Financial Liabilities	Financial Assets	Financial Liabilities
	2016	2016	2015	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Currency options	331	331	1,912	1,912
Forward foreign exchange contracts	401,670	474,439	1,060,248	637,360
Currency SWAP	1,142,620	–	841,413	–
<b>Total</b>	<b>1,544,621</b>	<b>474,770</b>	<b>1,903,573</b>	<b>639,272</b>

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amounts indicate the volume of transactions outstanding as at 31 December 2016 and are indicative of neither the market risk nor the credit risk:

		Assets	Liabilities	Notional Amount	Assets	Liabilities	Notional Amount
		2016	2016	2016	2015	2015	2015
		LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Currency options	– Sales	–	331	55,623	–	1,912	550,752
	– Purchases	331	–	55,623	1,912	–	550,752
Forward foreign exchange contracts	– Sales	212,632	117,551	72,365,808	68,106	600,723	79,090,652
	– Purchases	189,038	356,888	72,388,358	992,142	36,637	79,472,936
Currency SWAP	– Sales	–	–	–	–	–	–
	– Purchases	1,142,620	–	5,617,500	841,413	–	5,400,000
<b>Total</b>		<b>1,544,621</b>	<b>474,770</b>	<b>150,482,912</b>	<b>1,903,573</b>	<b>639,272</b>	<b>165,065,092</b>

## 22.1 Currency SWAP

The Bank raised USD 75 million on 21 July 2014 through foreign borrowings for a period of seven years, against which a SWAP arrangement was entered into with the Central Bank of Sri Lanka for 50 per cent of the borrowing value. The SWAP arrangement will be renewed annually over the tenor of the borrowing.

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

The objective of the hedge was to reduce the variability of the capital portion of cash flows of a foreign currency denominated borrowings attributable to changes in LKR/USD exchange rate.

A brief description of the hedge is give below:



## 22.1 (a) SWAP Agreement

Details	Description of the Hedge
Hedged instrument	SWAP contract – Renewable every year Counterparty – Central Bank of Sri Lanka
	Notional Amount – USD 37.5 million. 50% of the total borrowing that is hedged.
Hedged item	Seven-year USD denominated borrowing – USD 15 million with a grace period of 3.5 years. Repayment periods are as follows:
	15 January 2018 USD 1.875 million
	15 July 2018 USD 1.875 million
	15 January 2019 USD 1.875 million
	15 July 2019 USD 1.875 million
	15 January 2020 USD 1.875 million
	15 July 2020 USD 1.875 million
	15 January 2021 USD 1.875 million
	15 July 2021 USD 1.875 million
	Seven-year USD denominated borrowing – USD 60 million with a grace period of 5 years. Repayment periods are as follows:
	15 July 2019 USD 15 million
	15 January 2020 USD 15 million
	15 July 2020 USD 15 million
	15 January 2021 USD 15 million
The periods when the cash flows are expected to occur	As given above
The amount recognized in Other Comprehensive Income during the year	LKR 54 million debit to the cash flow hedge reserve
Fair Value of the Hedged item as at 31 December 2016	LKR 11,235 million
Fair Value of the Hedged instrument as at 31 December 2016	LKR 1,142.6 million
Any forecast transaction for which hedge accounting had previously been used but which is no longer expected to occur	None
The amount that was reclassified from equity to profit or loss as a reclassification adjustment	None

## 22.1 (b) Total Amount Recognized in the Statement of Comprehensive Income Relating to the Currency SWAP

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Gains/(losses) on adjustment of fair value [Note 55(b)]	301,207	(100,138)	301,207	(100,138)
Amortization adjustment of day one difference on the SWAP transaction	(355,219)	(187,554)	(355,219)	(187,554)
<b>Total</b>	<b>(54,012)</b>	<b>(287,692)</b>	<b>(54,012)</b>	<b>(287,692)</b>

## 22.1 (c) The expected impact to the Statement of Financial Position on the Hedge is as follows:

	Less than One Year LKR million	More than One Year LKR million
Forecast receivable cash flow	5,576	–
Forecast payable cash flow	(5,972)	(10,800)
	(396)	(10,800)

The expected impact to the Statement of Financial Position is forecasted with the assumption that the currency SWAP with Central Bank of Sri Lanka is renewed annually.

## 23. FINANCIAL ASSETS HELD-FOR-TRADING

### ACCOUNTING POLICY

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

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

	BANK		GROUP	
	2016 LKR '000	2015 LKR '000	2016 LKR '000	2015 LKR '000
Sri Lanka Government Securities – treasury bills	–	969	–	969
Sri Lanka Government Securities – treasury bonds	832,694	576,964	832,694	576,964
Equity Securities	–	–	392,944	336,769
Investment in Unit Trusts	–	2,407,329	2,435,892	4,314,791
<b>Total</b>	<b>832,694</b>	<b>2,985,262</b>	<b>3,661,530</b>	<b>5,229,493</b>

## 24. LOANS AND RECEIVABLES TO BANKS

### ACCOUNTING POLICY

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

	BANK		GROUP	
	2016 LKR '000	2015 LKR '000	2016 LKR '000	2015 LKR '000
Gross loans and receivables – Refinance loans in local currency	37,032	102,632	37,032	102,632
Less: Allowance for impairment charges for loans and receivables to banks	–	–	–	–
<b>Net loans and receivables – Refinance loans in local currency</b>	<b>37,032</b>	<b>102,632</b>	<b>37,032</b>	<b>102,632</b>

## 25. LOANS AND RECEIVABLES TO OTHER CUSTOMERS

### ACCOUNTING POLICY

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

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

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

### Write-off of Loans and Receivables to Other Customers

Loans and receivables (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, loans and receivables are written off after receipt of any proceeds from the realization of security.

### Rescheduled Loan Facilities

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

### Collateral Valuation

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

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

### Leasing and Hire Purchases

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

	BANK		GROUP	
	2016 LKR '000	2015 LKR '000	2016 LKR '000	2015 LKR '000
Gross loans and receivables to other customers	233,679,116	215,012,449	233,719,211	215,075,941
Less: Allowance for impairment charges for loans and receivables to other customers [Note 25.5 (a)]	6,039,272	5,410,380	6,039,272	5,410,380
<b>Net loans and receivables to other customers</b>	<b>227,639,844</b>	<b>209,602,069</b>	<b>227,679,939</b>	<b>209,665,561</b>

## 25.1 Loans and Receivables to Other Customers – By Product

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Long-term loans	61,889,700	47,867,326	61,889,701	47,867,326
Medium and short-term loans	49,899,671	56,920,084	49,899,671	56,920,084
Overdrafts	35,871,840	25,868,746	35,826,355	25,866,356
Trade finance loans	32,678,627	31,041,387	32,678,627	31,041,387
Consumer loans	23,648,777	23,565,859	23,648,777	23,565,859
Leasing and hire purchases (Note 25.6)	15,834,304	17,692,190	15,834,304	17,692,190
Housing loans	9,460,115	8,308,954	9,460,115	8,308,954
Pawning	122,755	208,024	122,755	208,024
Staff loans	1,453,984	1,235,347	1,539,563	1,301,229
Islamic loans	2,819,343	2,304,532	2,819,343	2,304,532
<b>Total</b>	<b>233,679,116</b>	<b>215,012,449</b>	<b>233,719,211</b>	<b>215,075,941</b>

## 25.2 Loans and Receivables to Other Customers – By Currency

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Sri Lanka Rupee	180,001,419	159,620,705	180,041,514	159,684,197
United States Dollar	53,340,765	54,720,377	53,340,765	54,720,377
Great Britain Pound	4,522	5,247	4,522	5,247
Euro	327,975	666,120	327,975	666,120
Others	4,435	–	4,435	–
<b>Total</b>	<b>233,679,116</b>	<b>215,012,449</b>	<b>233,719,211</b>	<b>215,075,941</b>

## 25.3 Loans and Receivables to Other Customers – By Industry

	BANK			
	2016		2015	
	LKR '000	%	LKR '000	%
Food, beverages and tobacco	11,371,240	5	8,986,494	4
Agriculture, agro-business and fisheries	25,325,854	11	25,383,947	12
Textiles and garments	19,120,305	8	27,065,745	13
Wood and paper products	2,390,848	1	2,097,711	1
Leather and plastic products	4,614,673	2	2,885,304	1
Metals, chemicals and engineering	23,765,894	10	15,402,842	7
Hotels and tourism	12,101,861	5	8,121,353	4
Utilities	10,907,963	5	12,096,518	6
Constructions and housing finance	24,178,744	10	20,645,692	10
Services	49,222,685	21	44,350,044	21
Transport	5,704,590	2	6,436,058	3
Consumer	17,667,666	8	17,898,807	8
Trading	27,276,542	12	23,618,606	10
Others	30,251	–	23,328	–
<b>Total</b>	<b>233,679,116</b>	<b>100</b>	<b>215,012,449</b>	<b>100</b>

## 25.4 Loans and Receivables to Other Customers – By Province

	BANK		GROUP	
	2016 LKR '000	2015 LKR '000	2016 LKR '000	2015 LKR '000
Western Province	196,837,459	184,679,731	196,877,554	184,743,223
Southern Province	8,480,695	7,309,362	8,480,695	7,309,362
North-Western Province	7,217,048	5,605,710	7,217,048	5,605,710
Central Province	7,010,183	6,339,923	7,010,183	6,339,923
Northern Province	2,113,306	1,305,200	2,113,306	1,305,200
Sabaragamuwa Province	4,172,942	3,636,529	4,172,942	3,636,529
North-Central Province	3,184,195	2,779,375	3,184,195	2,779,375
Eastern Province	2,324,920	1,624,097	2,324,920	1,624,097
Uva Province	2,338,368	1,732,522	2,338,368	1,732,522
<b>Total</b>	<b>233,679,116</b>	<b>215,012,449</b>	<b>233,719,211</b>	<b>215,075,941</b>

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

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

### ACCOUNTING POLICY

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

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

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

### Individually Assessed Loans and Receivables to Other Customers

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

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

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

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

### Collectively Assessed Loans and Receivables to Other Customers

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

Impairment is assessed on a collective basis in two circumstances:

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

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

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

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

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

	BANK & GROUP										
	Long-term Loans	Medium and Short-term Loans	Overdrafts	Trade Finance Loans	Consumer Loans	Leasing & Hire Purchases	Housing Loans	Pawning	Islamic Banking	Staff Loans	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
As at 1 January 2016	1,241,396	1,999,755	1,017,957	468,632	374,977	242,760	45,224	14,729	691	4,259	5,410,380
Charges/(reversals) for the Year	64,903	899,963	231,045	70,422	127,607	7,171	2,756	(10,103)	155	(750)	1,393,169
Amounts written off	(171,960)	(205,128)	(229,928)	(102,944)	–	(54,317)	–	–	–	–	(764,277)
As at 31 December 2016	1,134,339	2,694,590	1,019,074	436,110	502,584	195,614	47,980	4,626	846	3,509	6,039,272
Individual impairment	332,349	2,166,540	303,449	208,561	–	10,944	–	4,225	–	2,866	3,028,934
Collective impairment	801,990	528,050	715,625	227,549	502,584	184,670	47,980	401	846	643	3,010,338
<b>Total</b>	<b>1,134,339</b>	<b>2,694,590</b>	<b>1,019,074</b>	<b>436,110</b>	<b>502,584</b>	<b>195,614</b>	<b>47,980</b>	<b>4,626</b>	<b>846</b>	<b>3,509</b>	<b>6,039,272</b>
Gross amount of loans individually determined to be impaired, before deduction of individually assessed impairment allowances	4,004,540	9,221,455	3,891,346	9,401,745	–	195,571	–	16,669	–	2,866	26,734,192
Gross amount of loans individually impaired, before deduction of individually assessed impairment allowances	1,300,588	3,063,481	458,315	308,572	–	16,472	–	16,669	–	2,866	5,166,963
Gross amount of loans individually impaired, after deduction of individually assessed impairment allowances	968,239	896,941	154,866	100,011	–	5,528	–	12,444	–	–	2,138,029

	BANK & GROUP										
	Long-term Loans	Medium and Short-term Loans	Overdrafts	Trade Finance Loans	Consumer Loans	Leasing & Hire Purchases	Housing Loans	Pawning	Islamic Banking	Staff Loans	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
As at 1 January 2015	1,304,096	1,203,015	1,300,513	410,404	535,360	149,383	32,425	69,378	–	9,629	5,014,203
Charges/(reversals) for the year	(147,015)	822,728	34,066	72,092	(152,882)	74,110	8,909	(29,724)	691	(5,370)	677,605
Other movement	173,257	78,871	153,607	133,400	55,560	19,267	3,890	(24,925)	–	–	592,927
Amounts written off	(88,942)	(104,859)	(470,229)	(147,264)	(63,061)	–	–	–	–	–	(874,355)
<b>As at 31 December 2015</b>	<b>1,241,396</b>	<b>1,999,755</b>	<b>1,017,957</b>	<b>468,632</b>	<b>374,977</b>	<b>242,760</b>	<b>45,224</b>	<b>14,729</b>	<b>691</b>	<b>4,259</b>	<b>5,410,380</b>
Individual impairment	309,331	1,634,915	343,229	305,481	–	15,676	–	9,000	–	3,711	2,621,343
Collective impairment	932,065	364,840	674,728	163,151	374,977	227,084	45,224	5,729	691	548	2,789,037
<b>Total</b>	<b>1,241,396</b>	<b>1,999,755</b>	<b>1,017,957</b>	<b>468,632</b>	<b>374,977</b>	<b>242,760</b>	<b>45,224</b>	<b>14,729</b>	<b>691</b>	<b>4,259</b>	<b>5,410,380</b>
Gross amount of loans individually determined to be impaired, before deduction of individually assessed impairment allowances	3,394,490	7,296,870	1,988,631	7,368,552	–	92,048	–	19,318	–	3,711	20,163,620
Gross amount of loans individually impaired, before deduction of individually assessed impairment allowances	1,474,979	3,040,103	403,712	827,472	–	15,676	–	19,318	–	3,711	5,784,971
Gross amount of loans individually impaired, after deduction of individually assessed impairment allowances	1,165,648	1,405,188	60,483	521,991	–	–	–	10,318	–	–	3,163,628

## 25.5 (b) Movements in the Allowances for Individual and Collective Impairment Charges during the year for Loans and Receivables to Other Customers

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
<b>Individual Impairment</b>				
As at 1 January	2,621,343	2,289,590	2,621,343	2,289,590
Charges/(reversals) for the year	1,116,072	526,932	1,116,072	526,932
Other movement	–	592,927	–	592,927
Amounts written off	(708,481)	(788,106)	(708,481)	(788,106)
As at 31 December	3,028,934	2,621,343	3,028,934	2,621,343
<b>Collective Impairment</b>				
As at 1 January	2,789,037	2,724,613	2,789,037	2,724,613
Charges/(reversals) for the year	277,097	150,673	277,097	150,673
Amounts written off	(55,796)	(86,249)	(55,796)	(86,249)
As at 31 December	3,010,338	2,789,037	3,010,338	2,789,037
<b>Total</b>	<b>6,039,272</b>	<b>5,410,380</b>	<b>6,039,272</b>	<b>5,410,380</b>

## 25.6 Leasing and Hire Purchases

	BANK & GROUP	
	2016	2015
	LKR '000	LKR '000
Gross lease and hire purchase rental receivables	16,484,743	19,305,434
Less: Unearned income	650,439	1,613,244
Total lease and hire purchase rental receivables	15,834,304	17,692,190
Less: Allowance for impairment charges [Note 25.6.(a)]	195,614	242,760
<b>Total</b>	<b>15,638,690</b>	<b>17,449,430</b>

### 25.6 (a) Allowance for Impairment Charges

	BANK & GROUP	
	2016	2015
	LKR '000	LKR '000
As at 1 January	242,760	149,383
Charges/(reversals) for the year	7,171	74,110
Other movement	–	19,267
Amounts written off	(54,317)	–
As at 31 December [Note 25.6 (b)]	195,614	242,760
Individual impairment	10,944	15,676
Collective impairment	184,670	227,084
<b>Total</b>	<b>195,614</b>	<b>242,760</b>
Gross amount of loans individually determined to be impaired, before deduction of the individually assessed impairment allowance	195,571	92,048
Gross amount of loans individually impaired, before deduction of the individually assessed impairment allowance	16,472	15,676
Gross amount of loans individually impaired, after deduction of the individually assessed impairment allowance	5,528	–

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

	BANK & GROUP	
	2016	2015
	LKR '000	LKR '000
<b>Individual Impairment</b>		
As at 1 January	15,676	1,085
Charges/(reversals) for the year	(4,732)	(4,676)
Other movement	–	19,267
As at 31 December	10,944	15,676
<b>Collective Impairment</b>		
As at 1 January	227,084	148,298
Charge/(reversals) for the year	11,903	78,786
Amounts written off	(54,317)	–
As at 31 December	184,670	227,084
<b>Total</b>	<b>195,614</b>	<b>242,760</b>



## 25.7 Maturity of Leasing and Hire Purchases

	BANK & GROUP	
	2016	2015
	LKR '000	LKR '000
<b>25.7 (a) Gross Lease and Hire Purchase Rentals Receivables within One Year</b>		
Total rental receivables	812,781	743,391
Less: Allowance for impairment charges	83,394	150,370
Interest in suspense	95,331	99,817
Unearned income	25,533	27,218
<b>Net rentals receivables within one year</b>	<b>608,523</b>	<b>465,986</b>
<b>25.7 (b) Gross Lease and Hire Purchase Rentals Receivables after One Year</b>		
Total rental receivables	15,784,593	18,709,351
Less: Allowance for impairment charges	112,220	92,390
Interest in suspense	17,300	47,491
Unearned income	624,906	1,586,026
<b>Net rentals receivables after one year</b>	<b>15,030,167</b>	<b>16,983,444</b>

## 26. FINANCIAL INVESTMENTS – LOANS AND RECEIVABLES

### ACCOUNTING POLICY

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

### Securities Purchased Under Resale Agreements

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

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Sri Lanka Development Bonds	22,183,671	21,298,039	22,183,671	21,298,039
Quoted debentures	–	–	1,689,506	1,538,395
Securities purchased under resale agreements	19,808,862	14,532,272	19,808,863	14,532,271
Investment in private equity fund	–	–	311,170	53,691
Less: Allowance for impairment of investments	–	–	96,617	53,691
<b>Total</b>	<b>41,992,533</b>	<b>35,830,311</b>	<b>43,896,593</b>	<b>37,368,705</b>

## 27. FINANCIAL INVESTMENTS – AVAILABLE-FOR-SALE

### ACCOUNTING POLICY

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

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

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

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

Dividends earned whilst holding available-for-sale financial investments are recognized in the Statement of Profit or Loss as 'other operating income' when the right of the payment has been established.

### Impairment of Financial Investments – Available-for-Sale

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

The Bank and the Group also record impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Bank and the Group identify facilities which have been impaired for more than six months and considers impairment adjustments if the impairment is more than 20% of the carrying value of the investment. The losses arising from impairment of such investments are recognized in the Statement of Profit or Loss in 'impairment for loans and receivables and other losses' and is removed from the 'Available-for-Sale Reserve'.

	BANK		GROUP	
	2016 LKR '000	2015 LKR '000	2016 LKR '000	2015 LKR '000
Sri Lanka Government Securities – treasury bills	7,865,451	12,981,321	7,865,451	12,981,321
Sri Lanka Government Securities – treasury bonds	22,122,394	13,936,379	22,122,394	13,936,379
Quoted ordinary shares	1,497,030	1,568,673	1,746,271	1,846,975
Non-quoted ordinary shares	15,145	15,145	165,143	200,145
<b>Total</b>	<b>31,500,020</b>	<b>28,501,518</b>	<b>31,899,259</b>	<b>28,964,820</b>

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

## 28. FINANCIAL INVESTMENTS – HELD-TO-MATURITY

### ACCOUNTING POLICY

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

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

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Sri Lanka Government Securities – treasury bonds	891,918	1,044,602	891,918	1,044,602
Quoted Debentures	3,245,683	3,392,371	4,054,202	4,616,266
<b>Total</b>	<b>4,137,601</b>	<b>4,436,973</b>	<b>4,946,120</b>	<b>5,660,868</b>

## 29. INVESTMENTS – HELD-FOR-SALE

### ACCOUNTING POLICY

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

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

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

The amount shown in the Statement of Financial Position is the fair value of the investment which the Bank will receive at the time of concluding the liquidation process and an impairment provision has not been made as sufficient liquid assets are available in the Financial Statements of the Company based on the liquidation Financial Statements prepared as at 31 December 2016.

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
NDB Venture Investments (Pvt) Ltd.	18,526	18,526	33,302	33,302
<b>Total</b>	<b>18,526</b>	<b>18,526</b>	<b>33,302</b>	<b>33,302</b>

## 30. INVESTMENTS IN SUBSIDIARY COMPANIES

### ACCOUNTING POLICY

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

	Corporate Status	2016		2015	
		Percentage Holding	Cost	Percentage Holding	Cost
		%	LKR '000	%	LKR '000
NDB Capital Holdings Ltd.	Non-quoted	99.9	1,802,089	99.9	1,802,089
Development Holdings (Pvt) Ltd.	Non-quoted	58.7	228,150	58.7	228,150
NDB Capital Ltd. (Bangladesh)	Non-quoted	77.8	180,552	77.8	180,552
Less: Allowance for impairment of investments (Note 30.1)			94,941		106,674
<b>Total</b>			<b>2,115,850</b>		<b>2,104,117</b>

### 30.1 Movement in the Allowance for Impairment of Investments

	2016	2015
	LKR '000	LKR '000
As at 1 January	106,674	106,674
Charge/(release) to Statement of Profit or Loss	(11,733)	–
<b>As at 31 December</b>	<b>94,941</b>	<b>106,674</b>

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

	Total	NDB Zephyr Partners Ltd. (Group) (Held through NCAP)	NDB Investment Bank Ltd. (Held through NCAP)	NDB Capital Ltd.	NDB Capital Holdings Ltd. (NCAP)	NDB Securities (Pvt) Ltd. (Held through NCAP)	Development Holdings (Pvt) Ltd.	NDB Wealth Management Ltd. (Held through NCAP)
<b>2016</b>								
Total assets	10,262,685	95,501	756,345	129,987	5,569,606	410,843	2,517,599	782,804
Total liabilities	890,849	11,704	53,587	19,603	623,139	84,970	71,434	26,412
Net assets	9,371,836	83,797	702,758	110,384	4,946,467	325,872	2,446,165	756,393
Gross income	1,618,161	124,797	283,667	60,669	381,858	136,580	316,695	313,895
Profits	824,917	32,417	122,840	(4,622)	302,072	(4,691)	267,534	109,367
<b>2015</b>								
Total assets	10,313,315	132,790	752,126	131,902	5,771,546	455,281	2,344,419	725,251
Total liabilities	484,384	20,837	115,294	23,677	76,452	122,081	68,478	57,565
Net assets	9,828,931	111,953	636,832	108,225	5,695,093	333,200	2,275,941	667,687
Gross income	2,099,313	116,178	374,743	92,269	617,716	176,507	323,483	398,417
Profits	1,151,020	16,873	169,315	15,474	495,601	18,183	277,282	158,292

## 31. INVESTMENTS IN ASSOCIATE COMPANIES

### ACCOUNTING POLICY

An associate is an entity in which the Group has significant influence, but not control, over the variable returns through its power over the investee. Significant influence is presumed to exist when the Group holds 20% or more of the voting power of another entity.

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

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

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

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

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

### 31.1 Bank

	Corporate Status	2016		2015	
		Percentage Holding %	Cost LKR '000	Percentage Holding %	Cost LKR '000
Ayojana Fund (Pvt) Ltd.	Under liquidation	50	100	50	100
Less: Allowance for impairment of investments			100		100
<b>Total</b>			-		-

## 32. INVESTMENT PROPERTY

### ACCOUNTING POLICY

#### Distinction Between Investment Properties and Owner-Occupied Properties

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

#### Valuation of Investment Properties

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

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

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

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

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

#### Basis of Valuation

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

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

#### Significant Assumptions Used for the Valuation

- Outgoing at 40% of estimated rent (2015 – 40%)
- Capitalize YP at 16% (2015 – 16%)

	Group	
	2016 LKR '000	2015 LKR '000
As at 1 January	1,672,000	1,545,693
Change in the fair value during the year	125,000	150,000
Less: Fair value of the owner-occupied portion	21,000	23,693
<b>As at 31 December</b>	<b>1,776,000</b>	<b>1,672,000</b>

## Statement of Income and Expenditure of the Investment Property.

	2016	2015
	LKR '000	LKR '000
Rental income derived from investment properties	162,932	154,856
Direct operating expenses (including repair and maintenance) generating rental income	(28,857)	(24,009)
Direct operating expenses (including repair and maintenance) that did not generate rental income	(18,068)	(13,879)
<b>Profit arising from investment properties carried at fair value</b>	<b>116,007</b>	<b>116,968</b>

The Group has no restrictions on the realisability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancement.

Fair value hierarchy disclosures for investment properties are given in Note 55 (a).

## 33. INTANGIBLE ASSETS

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

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

Intangible assets are amortized using the straight-line method to write down the cost over its estimated useful economic lives and the useful life for the years ended 31 December 2016 and 2015 are given below:

Class of Assets	Period	% per Annum
Computer software	5 years	20

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

### 33.1 Computer Software

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
<b>Cost</b>				
As at 1 January	600,038	565,006	696,691	653,162
Additions during the year	217,525	35,032	220,285	43,529
Disposals during the year	–	–	(3,257)	–
Transfers/adjustments	(1,340)	–	(1,340)	–
<b>As at 31 December</b>	<b>816,223</b>	<b>600,038</b>	<b>912,379</b>	<b>696,691</b>
<b>Depreciation/Amortization</b>				
As at 1 January	451,025	365,352	513,166	409,570
Charge for the year	105,464	85,673	126,077	103,596
Disposals during the year	–	–	(3,257)	–
<b>As at 31 December</b>	<b>556,489</b>	<b>451,025</b>	<b>635,986</b>	<b>513,166</b>
<b>Net book value as at 31 December (a)</b>	<b>259,734</b>	<b>149,013</b>	<b>276,393</b>	<b>183,525</b>

### 33.2 Software Under Development

	BANK		GROUP	
	2016	2015	2016	2015
Cost	LKR '000	LKR '000	LKR '000	LKR '000
As at 1 January	91,221	53,478	91,221	53,478
Additions during the year	159,257	46,212	159,257	46,212
Transfers/adjustments	(142,129)	(8,469)	(142,129)	(8,469)
<b>As at 31 December (b)</b>	<b>108,349</b>	<b>91,221</b>	<b>108,349</b>	<b>91,221</b>
<b>Net book value of total intangible assets (a) + (b)</b>	<b>368,083</b>	<b>240,234</b>	<b>384,742</b>	<b>274,746</b>

## 34. PROPERTY, PLANT & EQUIPMENT

### ACCOUNTING POLICY

#### Revaluation of Freehold Land and Buildings

The Bank and the Group reassessed their accounting policy for property, plant & equipment with respect to measurement of certain classes of property, plant & equipment after initial recognition. The Bank and Group have previously measured all property, plant & equipment using the 'cost model' as set out LKAS 16, whereby after initial recognition of the asset classified as property, plant & equipment, the asset was carried at cost less accumulated depreciation and accumulated impairment losses.

However, during 2014, the Bank and the Group elected to change the method of accounting for freehold land and buildings classified under property, plant & equipment to the 'revaluation model', since the Bank and Group believe that the revaluation model, more effectively demonstrates the financial position of freehold land and buildings.

After the initial recognition, the Bank and the Group use the revaluation model, whereby, land and buildings will be measured at fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The Bank and the Group applied the exemptions in LKAS 8 – 'Accounting Policies and Changes in Accounting Estimates and Errors', which exempts this change in accounting policy from retrospective application and extensive disclosure requirements.

#### Basis of Recognition

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

#### Basis of Measurement

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

#### Cost Model

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

#### Revaluation Model

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



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

The Bank and the Group engaged an Independent Professional Valuer A A M Fathihu, B.Sc. (Hons.) EMV, FIV Sri Lanka to determine the fair value of freehold land and buildings. In estimating the fair values, the Independent Valuer considered current market prices of similar assets.

### Subsequent Cost

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

Ongoing repairs and maintenance are expensed as incurred.

### Capital Work-in-Progress

These are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, waiting capitalisation. These are stated in the Statement of Financial Position at cost. Capital work-in-progress is transferred to the relevant asset when it is completed and converted into a usable condition as expected by the Management of the Bank and the Group.

### Derecognition

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

### Useful Life Time of Property, Plant & Equipment and Depreciation

Depreciation is calculated on a straight-line basis over the useful life of the assets, commencing from the date when the assets are available for use, since this method closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets. No depreciation is charged in the month of disposal of the asset and the Bank and the Group do not charge depreciation on freehold land. The depreciation rates are determined separately for each significant part of the assets.

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

The estimated useful lives of the assets for the year ended 31 December 2016 and 2015, are as follows:

Class of Assets	Period (Years)	% per Annum
Freehold buildings	50	2
Leasehold buildings	5	20
Motor vehicles	4	25
Office equipment and furniture	5	20
Computer equipment	5	20

### 34.1 The Movement in Property, Plant & Equipment – Bank

	Freehold Land	Freehold Buildings	Leasehold Buildings	Computer Equipment	Motor Vehicles	Office Equipment & Furniture	Capital Work-in-Progress	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
<b>(a) Cost or Valuation</b>								
As at 1 January 2015	431,500	949,526	265,159	673,634	185,105	607,464	19,052	3,131,440
Additions during the year	–	12,864	42,794	169,773	98,901	83,285	105,929	513,546
Disposals during the year	–	–	–	(10,791)	(30,689)	(2,708)	–	(44,188)
Transfers/adjustments	–	–	–	–	–	–	(114,831)	(114,831)
<b>As at 31 December 2015</b>	<b>431,500</b>	<b>962,390</b>	<b>307,953</b>	<b>832,616</b>	<b>253,317</b>	<b>688,041</b>	<b>10,150</b>	<b>3,485,967</b>
Additions during the year	–	29,301	53,179	159,482	26,800	110,370	115,101	494,233
Disposals during the year	–	–	(423)	(17,299)	(33,793)	(7,625)	–	(59,140)
Transfers/adjustments	–	740	(2,016)	–	–	(466)	(113,149)	(114,891)
<b>As at 31 December 2016</b>	<b>431,500</b>	<b>992,431</b>	<b>358,693</b>	<b>974,799</b>	<b>246,324</b>	<b>790,320</b>	<b>12,102</b>	<b>3,806,169</b>
<b>(b) Depreciation/Amortization</b>								
As at 1 January 2015	–	14,041	188,609	458,347	126,812	416,135	–	1,203,944
Charge for the year	–	35,118	34,887	96,539	40,939	77,261	–	284,744
On disposals	–	–	–	(10,769)	(19,250)	(2,707)	–	(32,726)
<b>As at 31 December 2015</b>	<b>–</b>	<b>49,159</b>	<b>223,496</b>	<b>544,117</b>	<b>148,501</b>	<b>490,689</b>	<b>–</b>	<b>1,455,962</b>
Charge for the year	–	42,409	36,765	115,221	46,266	88,666	–	329,327
On disposals	–	–	(268)	(17,051)	(33,792)	(6,579)	–	(57,690)
<b>As at 31 December 2016</b>	<b>–</b>	<b>91,568</b>	<b>259,993</b>	<b>642,287</b>	<b>160,975</b>	<b>572,776</b>	<b>–</b>	<b>1,727,599</b>
<b>Net book value as at 31 December 2016</b>	<b>431,500</b>	<b>900,863</b>	<b>98,700</b>	<b>332,512</b>	<b>85,349</b>	<b>217,544</b>	<b>12,102</b>	<b>2,078,570</b>
<b>Net book value as at 31 December 2015</b>	<b>431,500</b>	<b>913,231</b>	<b>84,457</b>	<b>288,499</b>	<b>104,816</b>	<b>197,352</b>	<b>10,150</b>	<b>2,030,005</b>

### 34.2 Details of Revalued Freehold Land and Buildings – Bank

Location	Extent (Perches)	Revaluation of Land (LKR '000)	Buildings (Square Feet)	Revaluation of Buildings (LKR '000)	Total Value (LKR '000)	Accumulated Depreciation (LKR '000)	Written Down Value (LKR '000)	As a % of Total Cost
Head Office No. 103A, Dharmapala Mawatha, Colombo 7	20	420,000	41,143	327,148	747,148	24,005	723,143	54.28
Head Office No. 40, Navam Mawatha, Colombo 02	1.43	11,500	95,343	665,283	676,783	67,563	609,220	45.72
	21.43	431,500	136,486	992,431	1,423,931	91,568	1,332,363	100.00

### 34.3 Freehold Land and Buildings on the Cost Basis – Bank

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

Class of assets	2016			2015		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Freehold land	165,016	–	165,016	165,016	–	165,016
Freehold buildings	475,946	397,872	78,074	446,863	372,632	74,231
<b>Total</b>	<b>640,962</b>	<b>397,872</b>	<b>243,090</b>	<b>611,879</b>	<b>372,632</b>	<b>239,247</b>

### 34.4 The Movement in Property, Plant & Equipment – Group

	Freehold Land	Freehold Buildings	Leasehold Buildings	Computer Equipment	Motor Vehicles	Office Equipment & Furniture	Capital Work-in-Progress	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
<b>(a) Cost or Valuation</b>								
<b>As at 1 January 2015</b>	431,500	1,254,026	265,159	725,593	287,595	758,937	19,052	3,741,862
Additions during the year	–	12,864	42,794	174,885	109,092	94,209	105,929	539,773
Disposals during the year	–	(193)	–	(12,515)	(48,402)	(57,311)	–	(118,421)
Revaluation of owner occupied portion of freehold buildings	–	95,339	–	–	–	–	–	95,339
Transfers/adjustments	–	–	–	–	–	–	(114,831)	(114,831)
<b>As at 31 December 2015</b>	<b>431,500</b>	<b>1,362,036</b>	<b>307,953</b>	<b>887,963</b>	<b>348,285</b>	<b>795,835</b>	<b>10,150</b>	<b>4,143,722</b>
Additions during the year	–	29,301	53,179	160,810	32,603	136,092	116,009	527,994
Disposals during the year	–	–	(423)	(18,537)	(38,826)	(15,084)	–	(72,870)
Revaluation of owner occupied portion of freehold buildings	–	21,000	–	–	–	–	–	21,000
Transfers/adjustments	–	740	(2,016)	–	–	5,534	(113,149)	(108,891)
<b>As at 31 December 2016</b>	<b>431,500</b>	<b>1,413,077</b>	<b>358,693</b>	<b>1,030,236</b>	<b>342,062</b>	<b>922,377</b>	<b>13,010</b>	<b>4,510,955</b>
<b>(b) Depreciation/Amortization</b>								
As at 1 January 2015	–	34,449	188,609	499,576	176,405	590,176	–	1,489,215
Charge for the year	–	35,118	34,887	103,889	60,428	83,476	–	317,798
On disposals	–	(193)	–	(19,294)	(45,491)	(53,196)	–	(118,174)
<b>As at 31 December 2015</b>	<b>–</b>	<b>69,374</b>	<b>223,496</b>	<b>584,171</b>	<b>191,342</b>	<b>620,456</b>	<b>–</b>	<b>1,688,839</b>
Charge for the year	–	48,194	36,765	121,556	59,269	99,125	–	364,909
On disposals	–	–	(268)	(18,159)	(38,825)	(13,799)	–	(71,051)
<b>As at 31 December 2016</b>	<b>–</b>	<b>117,568</b>	<b>259,993</b>	<b>687,568</b>	<b>211,786</b>	<b>705,782</b>	<b>–</b>	<b>1,982,697</b>
<b>Net book value as at 31 December 2016</b>	<b>431,500</b>	<b>1,295,509</b>	<b>98,700</b>	<b>342,668</b>	<b>130,276</b>	<b>216,595</b>	<b>13,010</b>	<b>2,528,258</b>
<b>Net book value as at 31 December 2015</b>	<b>431,500</b>	<b>1,292,662</b>	<b>84,457</b>	<b>303,792</b>	<b>156,943</b>	<b>175,379</b>	<b>10,150</b>	<b>2,454,883</b>

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

The initial cost of fully depreciated property, plant & equipment and intangible assets as at 31 December 2016, which are still in use as at 31 December 2016 are as follows:

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Freehold buildings	492	138	492	138
Leasehold building	179,360	138,826	179,360	138,826
Motor vehicles	93,036	64,561	93,535	64,895
Office equipment and furniture	381,587	276,214	432,842	327,958
Computer equipment	434,833	292,703	478,183	305,170
Computer software	394,591	207,372	457,033	211,650
<b>Total</b>	<b>1,483,899</b>	<b>979,814</b>	<b>1,641,445</b>	<b>1,048,637</b>

## 35. OTHER ASSETS

### ACCOUNTING POLICY

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

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

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

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Other financial assets (Note 35.1)	570,115	3,091	418,456	580,723
Other non-financial assets (Note 35.2)	1,578,269	1,424,274	1,673,988	1,440,335
<b>Total</b>	<b>2,148,384</b>	<b>1,427,365</b>	<b>2,092,444</b>	<b>2,021,058</b>

### 35.1 Other Financial Assets

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Dividend receivable from Group companies	548,496	–	–	–
Others	21,619	3,091	418,456	580,723
	570,115	3,091	418,456	580,723

### 35.2 Other Non-Financial Assets

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Sundry receivables	630,236	548,461	626,902	477,817
Deposits and prepayments	257,968	279,432	333,238	344,079
Unamortized staff cost (Note 35.3)	690,065	596,381	713,848	618,439
<b>Total</b>	<b>1,578,269</b>	<b>1,424,274</b>	<b>1,673,988</b>	<b>1,440,335</b>

### 35.3 Unamortized Staff Cost

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
As at 1 January	596,381	529,883	618,439	551,889
Add: Adjustment for new grants and settlements	175,162	140,769	177,255	147,360
Charged to personnel expenses	(81,478)	(74,271)	(81,846)	(80,810)
<b>As at 31 December</b>	<b>690,065</b>	<b>596,381</b>	<b>713,848</b>	<b>618,439</b>

## 36. DUE TO BANKS

### ACCOUNTING POLICY

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

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Borrowings from local banks	11,331,625	6,553,426	11,331,625	6,553,426
Borrowings from foreign banks	5,793,319	5,049,686	5,793,319	5,049,686
Unfavourable balances in Nostro accounts	–	16,891	–	16,891
<b>Total</b>	<b>17,124,944</b>	<b>11,620,003</b>	<b>17,124,944</b>	<b>11,620,003</b>

### 36.1 Due to Banks – By Currency

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Local currency	8,291,077	5,692,115	8,291,077	5,692,115
Foreign currency	8,833,867	5,927,888	8,833,867	5,927,888
<b>Total</b>	<b>17,124,944</b>	<b>11,620,003</b>	<b>17,124,944</b>	<b>11,620,003</b>

## 37. DUE TO OTHER CUSTOMERS

### ACCOUNTING POLICY

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

### 37.1 Due to Other Customers – By Product

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Savings deposits	30,477,137	30,983,005	30,474,472	30,983,005
Time deposits	157,124,992	137,018,391	156,787,035	136,262,411
Demand deposits	15,838,949	16,384,842	15,828,852	16,359,872
Margin deposits	307,529	462,935	307,529	462,935
Other deposits	117,940	84,057	117,940	84,057
<b>Total</b>	<b>203,866,547</b>	<b>184,933,230</b>	<b>203,515,828</b>	<b>184,152,280</b>

### 37.2 Due to Other Customers – By Currency

	BANK				GROUP			
	2016		2015		2016		2015	
	LKR '000	%	LKR '000	%	LKR '000	%	LKR '000	%
<b>Local Currency Deposits</b>								
Savings deposits	21,810,521	11	24,032,428	13	21,807,856	11	24,032,427	13
Time deposits	124,893,885	61	97,558,696	53	124,555,927	61	96,802,717	53
Demand deposits	12,170,167	6	11,770,327	6	12,160,071	6	11,745,357	6
Margin deposits	263,284	–	425,098	–	263,284	–	425,098	–
Other deposits	32,622	–	36,097	–	32,622	–	36,097	–
<b>Sub total</b>	<b>159,170,479</b>	<b>78</b>	<b>133,822,646</b>	<b>72</b>	<b>158,819,760</b>	<b>78</b>	<b>133,041,696</b>	<b>72</b>
<b>Foreign Currency Deposits</b>								
Savings deposits	8,666,616	4	6,950,576	4	8,666,616	4	6,950,576	4
Time deposits	32,231,107	16	39,459,695	21	32,231,107	16	39,459,695	21
Demand deposits	3,668,781	2	4,614,516	3	3,668,781	2	4,614,516	3
Margin deposits	44,245	–	37,837	–	44,245	–	37,837	–
Other deposits	85,319	–	47,960	–	85,319	–	47,960	–
<b>Sub total</b>	<b>44,696,068</b>	<b>22</b>	<b>51,110,584</b>	<b>28</b>	<b>44,696,068</b>	<b>22</b>	<b>51,110,584</b>	<b>28</b>
<b>Total</b>	<b>203,866,547</b>	<b>100</b>	<b>184,933,230</b>	<b>100</b>	<b>203,515,828</b>	<b>100</b>	<b>184,152,280</b>	<b>100</b>

### 37.3 Due to Other Customers – By Province

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Western Province	179,760,166	168,208,584	179,409,447	167,427,634
North-Western Province	5,597,539	3,595,126	5,597,539	3,595,126
Southern Province	4,030,982	3,481,097	4,030,982	3,481,097
Central Province	4,877,216	3,412,002	4,877,216	3,412,002
Sabaragamuwa Province	3,416,804	2,606,505	3,416,804	2,606,505
Northern Province	1,952,309	1,164,815	1,952,309	1,164,815
Eastern Province	1,518,806	992,615	1,518,806	992,615
North-Central Province	1,360,680	624,467	1,360,680	624,467
Uva Province	1,352,045	848,019	1,352,045	848,019
<b>Total</b>	<b>203,866,547</b>	<b>184,933,230</b>	<b>203,515,828</b>	<b>184,152,280</b>

## 38. DEBT SECURITIES ISSUED AND OTHER BORROWED FUNDS

### ACCOUNTING POLICY

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

### Securities Sold Under Repurchase Agreements

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

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Concessionary credit lines	3,531,478	1,839,337	3,531,478	1,839,337
Refinance borrowings	3,618,396	3,208,678	3,618,396	3,208,678
Foreign borrowings	27,611,833	28,412,489	27,611,833	28,412,489
Securities sold under repurchase agreements	24,471,557	26,667,250	24,471,557	26,667,250
Non-quoted debentures – (Note 38.1)	–	400,090	–	370,090
<b>Total</b>	<b>59,233,264</b>	<b>60,527,844</b>	<b>59,233,264</b>	<b>60,497,844</b>

### 38.1 Non-Quoted Debentures

Non-quoted debentures consisted of 400,000 unlisted unsecured redeemable debentures of LKR 1,000/- each issued by the Bank in 2011. These debentures matured during the year and given below are the features of the non-quoted debentures:

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

## 39. DEFERRED TAX LIABILITIES

### ACCOUNTING POLICY

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

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

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable 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; and
- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable 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 income tax assets and liabilities are measured at the tax rates that are expected to apply for the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of the Statement of Financial Position.

### Significant Accounting Estimates and Assumptions

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



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

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
<b>Deferred Tax Liabilities</b>				
Accelerated depreciation for tax purposes	55,858	74,753	62,100	84,046
Revaluation surplus on freehold buildings	230,729	230,729	230,729	230,729
Finance leases	711,854	702,435	711,854	702,435
Gains on financial investments – available-for-sale	–	–	–	17,090
<b>Total (a)</b>	<b>998,441</b>	<b>1,007,917</b>	<b>1,004,683</b>	<b>1,034,300</b>
<b>Deferred Tax Assets</b>				
Defined benefit plans	92,739	70,791	107,667	82,895
Carry forward losses on leasing business	29,167	151,442	29,167	151,442
Losses on other operations	–	–	35,813	3,834
Deferred expenses to be claimed in income tax liability of future years	–	12,040	–	12,040
Losses on financial investments – available-for-sale	84,744	70,968	87,156	70,968
Allowance for impairment charges	–	298	–	298
<b>Total (b)</b>	<b>206,650</b>	<b>305,539</b>	<b>259,803</b>	<b>321,477</b>
<b>Net deferred tax liability (a)-(b)</b>	<b>791,791</b>	<b>702,378</b>	<b>744,880</b>	<b>712,823</b>

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

	Statement of Profit or Loss				Other Comprehensive Income			
	BANK		GROUP		BANK		GROUP	
	2016	2015	2016	2015	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
<b>Deferred Tax Liabilities</b>								
Accelerated depreciation for tax purposes	(18,895)	(5,917)	(21,946)	69	–	–	–	–
Finance leases	9,419	249,398	9,419	249,398	–	–	–	–
Gains on financial investments – available-for-sale	–	–	–	–	–	(7,791)	(17,090)	(7,791)
<b>Total</b>	<b>(9,476)</b>	<b>243,481</b>	<b>(12,527)</b>	<b>249,467</b>	<b>–</b>	<b>(7,791)</b>	<b>(17,090)</b>	<b>(7,791)</b>
<b>Deferred Tax Assets</b>								
Defined benefit plans	(11,404)	(8,844)	(13,243)	(13,643)	(10,544)	7,325	(11,529)	7,325
Carry forward losses on leasing business	122,275	(86,513)	122,275	(86,513)	–	–	–	–
Losses on other operations	–	–	(31,979)	18,789	–	–	–	–
Deferred expenses to be claimed in income tax liability of future years	12,040	64	12,040	64	–	–	–	–
Losses on financial investments – available-for-sale	–	–	–	–	(13,776)	(70,968)	(16,187)	(70,968)
Allowance for impairment charges	298	6,157	298	6,157	–	–	–	–
<b>Total</b>	<b>123,209</b>	<b>(89,136)</b>	<b>89,391</b>	<b>(75,146)</b>	<b>(24,320)</b>	<b>(63,643)</b>	<b>(27,716)</b>	<b>(63,643)</b>
<b>Net impact</b>	<b>113,733</b>	<b>154,345</b>	<b>76,864</b>	<b>174,321</b>	<b>(24,320)</b>	<b>(71,434)</b>	<b>(44,806)</b>	<b>(71,434)</b>

## 40. EMPLOYEE BENEFIT LIABILITIES

### ACCOUNTING POLICY

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

### Retirement Gratuity

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

### Pension Fund

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

### Basis of Measurement

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

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

### 40.1 Provision for Retirement Gratuity

	BANK		GROUP	
	2016 LKR '000	2015 LKR '000	2016 LKR '000	2015 LKR '000
As at 1 January	252,825	247,011	297,152	301,219
Provision made during the year				
Statement of Profit or Loss [Note 40.1 (a)]	62,754	53,988	77,927	62,199
Other Comprehensive Income [Note 40.1 (a)]	37,658	(26,160)	44,037	(31,238)
<b>Contribution made for retirement gratuity</b>	<b>100,412</b>	<b>27,828</b>	<b>121,964</b>	<b>30,961</b>
Benefits paid by the plan	(22,026)	(22,014)	(24,450)	(35,028)
<b>As at 31 December</b>	<b>331,211</b>	<b>252,825</b>	<b>394,666</b>	<b>297,152</b>

### 40.1 (a) Contribution made for Retirement Gratuity

	BANK		GROUP	
	2016 LKR '000	2015 LKR '000	2016 LKR '000	2015 LKR '000
Current service cost	35,575	31,757	50,256	36,259
Interest cost	27,179	22,231	27,671	25,940
<b>Amount recognized in the Statement of Profit or Loss</b>	<b>62,754</b>	<b>53,988</b>	<b>77,927</b>	<b>62,199</b>
Recognition of transitional liability/(asset)	–	–	–	(5,782)
Liability experience loss/(gain)	16,143	(7,337)	22,700	(1,969)
Liability loss/(gain) due to changes in assumptions	21,515	(18,823)	21,337	(23,487)
<b>Amount recognized in the Other Comprehensive Income</b>	<b>37,658</b>	<b>(26,160)</b>	<b>44,037</b>	<b>(31,238)</b>

## 40.1 (b) Assumptions and the Sensitivity of the Assumptions used for the Provision of Retirement Gratuity – Bank

An actuarial valuation of the retirement gratuity liability was carried out as at 31 December 2016 and 31 December 2015 by Messrs. Piyal S Goonetilleke and Associates, a professional Actuary.

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

	31 December 2016	31 December 2015
<b>Actuarial Assumptions</b>		
Discount rate	12.00%	10.75%
Salary increment rate	10%	8%
Mortality	UP 1984 Mortality Table	UP 1984 Mortality Table
Retirement age	Normal retirement age or age on valuation date, if greater	Normal retirement age or age on valuation date, if greater

### Sensitivity of Assumptions used in the Actuarial Valuation

Reasonably possible changes at the reporting date to one of the significant actuarial assumptions, holding other assumptions constant, would have affected the provision for retirement gratuity and Other Comprehensive Income by the amounts shown below.

	BANK				
	2016		2015		
Increase/ (Decrease) in Discount Rate %	Increase/ (Decrease) in Salary Increment Rate %	Sensitivity Effect on the Other Comprehensive Income Increase/(Decrease) in Comprehensive Income for the Year LKR million	Sensitivity Effect on Provision for Retirement Gratuity Increase/(Decrease) in Liability LKR million	Sensitivity Effect on the Other Comprehensive Income Increase/(Decrease) in Comprehensive Income for the Year LKR million	Sensitivity Effect on Provision for Retirement Gratuity Increase/(Decrease) in Liability LKR million
1		28.51	(28.51)	21.83	(21.83)
(-1)		(32.93)	32.93	(25.23)	25.23
	1	(32.27)	32.27	(24.92)	24.92
	(-1)	28.45	(28.45)	21.94	(21.94)

### 40.1 (c) The expected Benefit Payout in the future years for Retirement Gratuity

	BANK	
	2016	2015
	LKR '000	LKR '000
Within next 12 months	35,320	38,521
Between 2 and 5 years	206,889	188,656
Beyond 5 years	660,562	412,265

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

The average duration of the defined benefit obligation is 12.5 years (2015 – 12.5 years).

## 40.2 Pension Fund

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

	BANK & GROUP	
	2016	2015
	LKR '000	LKR '000
Present value of the funded obligation as at 31 December	678,741	616,578
Fair value of plan assets as at 31 December	(803,919)	(724,713)
<b>Retirement Benefit (Asset)/Liability*</b>	<b>(125,178)</b>	<b>(108,135)</b>

\* The over payment is recognized as prepaid expenses in Other Assets.

### 40.2 (a) Contribution made to the Pension Fund

	BANK & GROUP	
	2016	2015
	LKR '000	LKR '000
Current service cost	20,604	19,613
Interest cost	(9,860)	(4,329)
Immediate recognition of loss arising during the year	6,183	–
<b>Amount recognized in the Statement of Profit or Loss</b>	<b>16,927</b>	<b>15,284</b>
Assets loss/(gain) arising during the year	17,149	20,985
Liability experience loss	22,698	38,908
Actuarial loss/(gain) due to changes in assumptions	(14,708)	(66,089)
Difference between the return on plan assets and interest income on plan assets	–	(19,443)
Effect of net assets recognition in the pension fund	10,354	(42,554)
<b>Amount recognized in the Other Comprehensive Income</b>	<b>35,493</b>	<b>(68,193)</b>

### 40.2 (b) Defined Benefit Obligation Reconciliation

	BANK & GROUP	
	2016	2015
	LKR '000	LKR '000
Defined Benefit Obligation as at 1 January	616,578	604,818
Current service cost	20,604	19,613
Increase in pension for current retirees	6,183	–
Interest cost	72,756	60,482
Actual benefits paid from plan	(45,370)	(41,154)
Actuarial (gain)/loss due to changes in assumptions	(14,708)	(66,089)
Actuarial (gain)/loss due to experience adjustments	22,698	38,908
Defined Benefit Obligation as at 31 December	678,741	616,578

#### 40.2 (c) Fair Value of Plan Assets Reconciliation

	BANK & GROUP	
	2016	2015
	LKR '000	LKR '000
Fair value of plan assets as at 1 January	724,713	670,398
Expected return on assets	82,616	64,811
Actual employer contributions	59,109	51,643
Actual benefit paid from plan	(45,370)	(41,154)
Actuarial (loss)/gain from plan assets	(17,149)	(20,985)
Fair Value of plan assets as at 31 December	803,919	724,713

#### 40.2 (d) Assumptions and the sensitivity of the assumptions used for the Pension Fund

An actuarial valuation of the Pension Fund was carried out as at 31 December 2016 and 31 December 2015 by Messrs Piyal S Goonetilleke Associates, a professional Actuary.

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

	BANK	
	2016	2015
<b>Actuarial Assumptions</b>		
Discount rate	12.75%	11.80%
Salary increment	10%	8%
Annual return on assets rate	8.45%	6%
Mortality	UP 1984 Mortality Table	UP 1984 Mortality Table
Retirement age	Normal retirement age	Normal retirement age

#### Sensitivity of Assumptions used in the Actuarial Valuation

Reasonably possible changes at the reporting date to one of the significant actuarial assumptions, holding other assumptions constant, would have affected the pension liability and Other Comprehensive Income by the amounts shown below:

Increase/ (Decrease) in Discount Rate	Increase/(Decrease) in Salary Increment Rate	BANK			
		2016		2015	
%	%	Sensitivity Effect on the Other Comprehensive Income Increase/(Decrease) in Comprehensive Income for the Year LKR million	Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in Net Pension Liability LKR million	Sensitivity Effect on the Other Comprehensive Income Increase/(Decrease) in Comprehensive Income for the Year LKR million	Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in Net Pension Liability LKR million
1		51.81	(51.81)	50.29	(50.29)
(-1)		(59.59)	59.59	(58.24)	58.24
	1	(20.30)	20.30	(19.86)	19.86
	(-1)	19.14	(19.14)	18.60	(18.60)

Increase/(Decrease) in Life Expectancy	BANK			
	2016		2015	
	Sensitivity Effect on the Other Comprehensive Income Increase/(Decrease) in Comprehensive Income for the Year LKR million	Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in Net Pension Liability LKR million	Sensitivity Effect on the Other Comprehensive Income Increase/(Decrease) in Comprehensive Income for the Year LKR million	Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in Net Pension Liability LKR million
+1 Year	(6.94)	6.94	(6.79)	6.79
- 1 Year	7.25	(7.25)	7.08	(7.08)

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

	BANK & GROUP	
	2016	2015
	LKR '000	LKR '000
Investments in Government Securities	627,662	35,000
Investment in Time Deposits	130,275	123,459
	757,937	158,459

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

	BANK & GROUP	
	2016	2015
	LKR '000	LKR '000
Within next 12 months	55,262	41,804
Between 2 and 5 years	231,692	210,926
Beyond 5 years	567,112	506,011

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

The average duration of the defined benefit obligation is 24 years as at 31 December 2016 (2015 – 24 years).

#### 40.2 (f) The total amount recognized in the Other Comprehensive Income relating to Employee Benefit liabilities

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Retirement Gratuity [Note 40.1 (a)]	37,658	(26,160)	44,037	(31,238)
Pension Fund [Note 40.2 (a)]	35,493	(68,193)	35,493	(68,193)
<b>Total</b>	<b>73,151</b>	<b>(94,353)</b>	<b>79,530</b>	<b>(99,431)</b>

## 41. OTHER LIABILITIES

### ACCOUNTING POLICY

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

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

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

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

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Other financial liabilities (Note 41.1)	2,777,519	2,960,063	3,516,073	3,194,279
Other non-financial liabilities (Note 41.2)	4,907,478	4,760,746	4,415,092	4,741,460
<b>Total</b>	<b>7,684,997</b>	<b>7,720,809</b>	<b>7,931,165</b>	<b>7,935,739</b>

### 41.1 Other Financial Liabilities

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Unpresented cheques/pay orders	2,702,988	2,883,208	2,702,988	2,887,097
Unpresented cheques – Dividend Payable (Note 41.3)	49,933	60,014	49,933	60,014
Others	24,598	16,841	763,152	247,168
<b>Total</b>	<b>2,777,519</b>	<b>2,960,063</b>	<b>3,516,073</b>	<b>3,194,279</b>

### 41.2 Other Non-Financial Liabilities

	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Accrued expenses	602,040	616,237	644,054	829,498
Provision for deposit insurance	55,269	42,416	55,269	42,416
Other liabilities	4,250,169	4,102,093	3,715,769	3,869,546
<b>Total</b>	<b>4,907,478</b>	<b>4,760,746</b>	<b>4,415,092</b>	<b>4,741,460</b>

### 41.3 Dividend Payable

	BANK & GROUP	
	2016	2015
	LKR '000	LKR '000
Balance as at 1 January	60,014	51,429
Final dividend declared for the prior year	660,669	660,376
Interim dividend declared for the current year	–	1,156,171
Reversal of dividends declared in prior years [Note 41.3 (a)]	(6,715)	(1,097)
Dividend paid	(664,035)	(1,806,865)
<b>As at 31 December</b>	<b>49,933</b>	<b>60,014</b>

#### 41.3 (a) Reversal of Dividends declared in Prior Years

Reversal of dividends declared in previous years represents unclaimed dividends which are written back to equity after six years.

## 42. SUBORDINATED TERM DEBTS

### ACCOUNTING POLICY

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

	BANK & GROUP	
	2016	2015
	LKR '000	LKR '000
As at 1 January	19,573,883	11,149,439
Additions during the year	–	8,922,617
Redemptions during the year	(326,700)	(511,650)
<b>Balance before adjusting for amortized interest</b>	<b>19,247,183</b>	<b>19,560,406</b>
Net effect on amortized interest payable	199,318	13,477
<b>As at 31 December (Note 42.1)</b>	<b>19,446,501</b>	<b>19,573,883</b>

### 42.1 Subordinated Term Debts – by Products

#### 42.1 (a) Term Loans

	Repayment Terms	Issued Date	Maturity Date	Rate of Interest %	BANK & GROUP	
					2016	2015
					LKR '000	LKR '000
Nederland's Financierings Maatschappij Voor Ontwikkelingslanden N.V. (FMO)						
FMO Loan II	Semi-Annually	18 Dec. 2007	15 Oct. 2017	Avg. (6 months AWDR, 6 months T Bill rate) + 3%	334,432	666,877
<b>Total (a)</b>					<b>334,432</b>	<b>666,877</b>

#### 42.1 (b) Debentures

	Interest Payable Frequency	Issued Date	Maturity Date	Effective Annual Yield %	BANK & GROUP	
					2016	2015
					LKR '000	LKR '000
<b>Fixed Rate Debenture Issuance – December 2013</b>						
Type A – 13.0% – (60 Months)	Semi-Annually	19 Dec. 2013	18 Dec. 2018	12.79	1,239,726	1,238,493
Type B – 13.40% – (60 Months)	Annually	19 Dec. 2013	18 Dec. 2018	12.77	1,525,097	1,523,517
Type C – 13.90% – (120 Months)	Annually	19 Dec. 2013	18 Dec. 2023	13.17	3,623,167	3,621,915
Type D – 14.00% – (144 Months)	Annually	19 Dec. 2013	18 Dec. 2025	13.26	3,573,890	3,572,947
<b>Total (b)</b>					<b>9,961,880</b>	<b>9,956,872</b>
<b>Fixed Rate Debenture Issuance – June 2015</b>						
Type A – 9.40% – (60 Months)	Annually	24 Jun. 2015	24 Jun. 2020	9.19	6,967,467	6,958,142
Type B – Zero coupon – (60 Months)	9.40% Annual compounding on the Issue Price of Rs. 63.8136 payable on the Date of Redemption	24 Jun. 2015	24 Jun. 2020	9.18	2,182,722	1,991,992
<b>Total (c)</b>					<b>9,150,189</b>	<b>8,950,134</b>
Total subordinated term debts (a)+(b)+(c)					<b>19,446,501</b>	<b>19,573,883</b>
The maturity of the subordinated term debts are given below:						
Due within one year					<b>334,432</b>	<b>340,177</b>
Due after one year					<b>19,112,069</b>	<b>19,233,706</b>
					<b>19,446,501</b>	<b>19,573,883</b>



## 43. CAPITAL

	BANK				GROUP			
	Number of Shares	2016 LKR '000	Number of Shares	2015 LKR '000	Number of Shares	2016 LKR '000	Number of Shares	2015 LKR '000
Issued and fully paid	165,167,342	1,242,772	165,093,922	1,225,162	164,676,210	1,162,963	164,602,790	1,145,353
Adjustment on Equity Linked Compensation Plan	-	-	-	-	491,132	79,809	-	-
Issue of shares under the Equity Linked Compensation Plan [Note 43.2]	18,164	3,707	73,420	17,610	18,164	3,707	73,420	17,610
<b>Total</b>	<b>165,185,506</b>	<b>1,246,479</b>	<b>165,167,342</b>	<b>1,242,772</b>	<b>165,185,506</b>	<b>1,246,479</b>	<b>164,676,210</b>	<b>1,162,963</b>

	BANK & GROUP			
	Number of Shares	2016 LKR '000	Number of Shares	2015 LKR '000
<b>43.1 Stated Capital</b>	165,185,506	1,246,479	165,167,342	1,242,772

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

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

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

	BANK & GROUP	
	2016	2015
<b>Share Grant</b>		
<b>Award 04 – (1 July 2013) – to be vested on 30 June 2016</b>		
Number of ordinary shares awarded and to be vested	-	491,132
Number of ordinary shares awarded and vested	491,132	-
<b>Share Option</b>		
<b>Award 04 – (1 July 2013) – exercisable from 1 July 2014 to 30 June 2017</b>		
Number of ordinary shares exercisable as at 01 January	353,970	427,390
Number of ordinary shares exercised at a price of LKR 162.86	18,164	73,420
Number of ordinary shares to be exercised	335,806	353,970

	2016	2015
	<b>43.2 (b)</b> Expense arising from ELCP recognized in the Statement of Profit or Loss	13,505

**43.2 (c)** The following tables list the inputs to the models used for the award 4 (option plan):

Expected volatility (%)	2
Risk-free interest rate (%)	7.50
Expected life of share options (years)	3
Exercise share price	162.86

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

	BANK & GROUP			
	Number of Shares	2016 LKR '000	Number of Shares	2015 LKR '000
Award 04 – (1 July 2014)	18,164	3,707	73,420	17,610
	18,164	3,707	73,420	17,610

## 44. STATUTORY RESERVE FUND

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

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

	BANK		GROUP	
	2016 LKR '000	2015 LKR '000	2016 LKR '000	2015 LKR '000
As at 1 January	1,242,772	1,010,785	1,242,772	1,010,785
Transferred from retained earnings (Note 45)	3,707	231,987	3,707	231,987
<b>As at 31 December</b>	<b>1,246,479</b>	<b>1,242,772</b>	<b>1,246,479</b>	<b>1,242,772</b>

## 45. RETAINED EARNINGS

	2016			2015		
	General Reserve LKR '000	Retained Earnings LKR '000	Total LKR '000	General Reserve LKR '000	Retained Earnings LKR '000	Total LKR '000
<b>Bank</b>						
As at 01 January	5,805,707	13,638,678	19,444,385	5,805,707	12,819,737	18,625,444
Super Gain Tax	–	–	–	–	(732,081)	(732,081)
Adjusted Opening Balance as at 1 January	5,805,707	13,638,678	19,444,385	5,805,707	12,087,656	17,893,363
Total comprehensive income for the year	–	3,107,664	3,107,664	–	3,598,459	3,598,459
Transferred to the Statutory Reserve Fund	–	(3,707)	(3,707)	–	(231,987)	(231,987)
Dividends to equity holders	–	(653,954)	(653,954)	–	(1,815,450)	(1,815,450)
<b>As at 31 December</b>	<b>5,805,707</b>	<b>16,088,681</b>	<b>21,894,388</b>	<b>5,805,707</b>	<b>13,638,678</b>	<b>19,444,385</b>

	2016			2015		
	General Reserve LKR '000	Retained Earnings LKR '000	Total LKR '000	General Reserve LKR '000	Retained Earnings LKR '000	Total LKR '000
<b>Group</b>						
As at 01 January	5,805,707	19,170,268	24,975,975	5,805,707	18,440,117	24,245,824
Super Gain Tax	–	–	–	–	(833,548)	(833,548)
Adjusted Opening Balance as at 1 January	5,805,707	19,170,268	24,975,975	5,805,707	17,606,569	23,412,276
Total comprehensive income for the year	–	2,628,118	2,628,118	–	3,644,798	3,644,798
Adjustment due to changes in group companies	–	–	–	–	(33,662)	(33,662)
Transferred to Statutory Reserve Fund	–	(3,707)	(3,707)	–	(231,987)	(231,987)
Dividends paid to equity holders	–	(653,954)	(653,954)	–	(1,815,450)	(1,815,450)
<b>As at 31 December</b>	<b>5,805,707</b>	<b>21,140,725</b>	<b>26,946,432</b>	<b>5,805,707</b>	<b>19,170,268</b>	<b>24,975,975</b>

## 46. OTHER RESERVES

Current Year 2016	BANK			GROUP		
	Opening Balance LKR '000	Movement/ Transfers LKR '000	Closing Balance LKR '000	Opening Balance LKR '000	Movement/ Transfers LKR '000	Closing Balance LKR '000
Revaluation reserve (Note 46.1)	853,456	–	853,456	948,795	21,000	969,795
Available-for-sale reserve (Note 46.2)	(207,277)	(358,464)	(565,741)	(139,559)	(403,028)	(542,587)
Share based payment reserve (Note 46.3)	14,590	(749)	13,841	81,098	(67,257)	13,841
Cash flow hedge reserve [Note 22.1 (b)]	110,160	(54,012)	56,148	110,160	(54,012)	56,148
<b>Total</b>	<b>770,929</b>	<b>(413,225)</b>	<b>357,704</b>	<b>1,000,494</b>	<b>(503,297)</b>	<b>497,197</b>

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

### 46.1 Revaluation Reserve

Revaluation reserve represents the fair value changes of freehold land and buildings net of deferred tax effect on revaluation surplus as at the date of revaluation.

	BANK		GROUP	
	2016 LKR '000	2015 LKR '000	2016 LKR '000	2015 LKR '000
As at 1 January	853,456	853,456	948,795	853,456
Adjustment for revaluation of owner occupied portion of Investment Property	–	–	21,000	95,339
<b>As at 31 December</b>	<b>853,456</b>	<b>853,456</b>	<b>969,795</b>	<b>948,795</b>

### 46.2 Available-for-Sale Reserve

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

	BANK		GROUP	
	2016 LKR '000	2015 LKR '000	2016 LKR '000	2015 LKR '000
As at 1 January	(207,277)	105,250	(139,559)	162,355
Net gains/(losses) on re-measuring financial investments – available-for-sale	(597,874)	(363,461)	(661,939)	(352,848)
Fair value gains/(losses) realized and reclassified to the Statement of Profit or Loss during the year	225,634	(27,825)	225,634	(27,825)
Tax effect on available-for-sale reserve	13,776	78,759	33,277	78,759
	(358,464)	(312,527)	(403,028)	(301,914)
<b>As at 31 December</b>	<b>(565,741)</b>	<b>(207,277)</b>	<b>(542,587)</b>	<b>(139,559)</b>

### 46.3 Share-Based Payment Reserve

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

	BANK		GROUP	
	2016 LKR '000	2015 LKR '000	2016 LKR '000	2015 LKR '000
As at 01 January	14,590	20,243	81,098	60,148
Adjustments	–	–	(66,508)	26,603
Capitalisation of the fair value of the options exercised	(749)	(5,653)	(749)	(5,653)
<b>As at 31 December</b>	<b>13,841</b>	<b>14,590</b>	<b>13,841</b>	<b>81,098</b>

## 47. NON-CONTROLLING INTERESTS

### ACCOUNTING POLICY

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

	GROUP	
	2016	2015
	LKR '000	LKR '000
Balance as at 1 January	1,018,513	922,646
Super gain tax	–	(21,123)
Adjusted opening balance as at 1 January	1,018,513	901,523
Profit for the year	123,945	128,055
Other comprehensive income, net of tax	2,432	5,573
Adjustment due to changes in group companies	(17,976)	24,645
Dividends to equity holders	(50,205)	(41,283)
<b>Balance as at 31 December</b>	<b>1,076,709</b>	<b>1,018,513</b>

## 48. COMMITMENTS AND CONTINGENCIES

### ACCOUNTING POLICY

All discernible risks are accounted for in determining the amount of all known liabilities. Commitments and contingencies represent possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured, as defined in the Sri Lanka Accounting Standard – LKAS 37 on 'Provisions, Contingent Liabilities and Contingent Assets'.

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

### 48.1 Business Commitments

As at December 31	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
<b>Contingencies</b>				
Guarantees	19,693,607	18,270,312	19,693,607	17,435,312
Performance Bonds	10,022,804	8,614,302	10,022,804	8,614,302
Documentary Credits	8,406,120	8,132,261	8,406,120	8,132,261
Other Contingencies [Refer Note 48 .1 (a)]	85,262,702	92,081,612	85,262,702	92,081,612
<b>Commitments</b>				
Undrawn commitments	110,835,816	110,649,926	111,745,240	112,326,086
<b>Total</b>	<b>234,221,049</b>	<b>237,748,413</b>	<b>235,130,473</b>	<b>238,589,573</b>

## 48.1 (a) Other Contingencies

	BANK		GROUP	
	2016 LKR '000	2015 LKR '000	2016 LKR '000	2015 LKR '000
Forward Exchange Contracts	72,365,808	79,090,652	72,365,808	79,090,652
Interest Rate Swap Agreements	5,576,250	5,370,000	5,576,250	5,370,000
Acceptances	7,320,644	7,620,960	7,320,644	7,620,960
<b>Sub total</b>	<b>85,262,702</b>	<b>92,081,612</b>	<b>85,262,702</b>	<b>92,081,612</b>

## 48.2 Capital Commitments

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

	BANK		GROUP	
	2016 LKR '000	2015 LKR '000	2016 LKR '000	2015 LKR '000
<b>Commitments in relation to Property, Plant &amp; Equipment</b>				
Approved and contracted for	–	64,680	–	64,680
Approved and not contracted for	105,160	144,620	105,160	144,620
<b>Sub total</b>	<b>105,160</b>	<b>209,300</b>	<b>105,160</b>	<b>209,300</b>
<b>Commitments in relation to intangible assets</b>				
Approved and contracted for	127,570	103,300	127,570	103,300
<b>Total</b>	<b>232,730</b>	<b>312,600</b>	<b>232,730</b>	<b>312,600</b>

## 48.3 Litigation Against the Bank

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

## 48.4 Tax Assessments Against the Bank/Group Companies

The following tax assessments are outstanding, against which the Bank/group companies have duly appealed:

1. The Income Tax assessments received by the Bank for the Years of Assessment 2010/2011 and 2011/2012 amounting to LKR 461 million and the assessments on VAT on Financial Services for the years of 2012 and 2013 amounting to LKR 302.6 million, which were determined by the Commissioner General of Inland Revenue as payable have been forwarded to the Tax Appeals Commission for their determination.
2. The assessment on Income Tax received by the Bank for the Year of Assessment 2012/2013 amounting to LKR 321.6 million is to be determined by the Commissioner General of Inland Revenue. The Income Tax Assessment for the Year of Assessment 2013/2014 amounting to LKR 487.8 million is pending hearing by the Appeal Unit of the Department of Inland Revenue.
3. The assessments on VAT on Financial Services issued to NDB Capital Holdings Ltd. for the years 2012 and 2013 amounting to LKR 183.8 million are pending determination by the Commissioner General of Inland Revenue. The Company has taken up the position that it is not in the business of provision of loans, as charged in the assessments.
4. The Income Tax assessment received by NDB Capital Holdings Ltd. for the Year of Assessment 2013/2014 amounting to LKR 80.1 million is pending hearing by the Appeal Unit of the Department of Inland Revenue.

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

## 49. NET ASSETS VALUE PER ORDINARY SHARE

	BANK		GROUP	
	2016	2015	2016	2015
<b>Amount used as the Numerator:</b>				
Total equity attributable to equity holders of the Bank (LKR '000)	24,745,050	22,700,858	29,936,587	28,382,204
<b>Number of Ordinary Shares used as the Denominator:</b>				
Total number of shares	165,185,506	165,167,342	165,185,506	164,676,210
<b>Net Assets value per share (LKR)</b>	<b>149.80</b>	<b>137.44</b>	<b>181.23</b>	<b>172.35</b>

## 50. MATURITY ANALYSIS

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

As at 31 December 2016	BANK		Total LKR '000
	Within 12 Months LKR '000	After 12 Months LKR '000	
<b>Assets</b>			
Cash and cash equivalents	5,018,438	–	5,018,438
Balances with the Central Bank of Sri Lanka	11,176,909	638,368	11,815,277
Placements with banks	3,297,262	–	3,297,262
Derivative financial instruments	1,544,621	–	1,544,621
Financial assets held-for-trading	832,694	–	832,694
Loans and receivables to banks	21,030	16,002	37,032
Loans and receivables to other customers	129,915,745	97,724,099	227,639,844
Financial investments – loans and receivables	25,364,733	16,627,800	41,992,533
Financial investments – available-for-sale	31,500,020	–	31,500,020
Financial investments – held-to-maturity	750,460	3,387,141	4,137,601
Investments – held-for-sale	18,526	–	18,526
Investments in subsidiary companies	–	2,115,850	2,115,850
Intangible assets	–	368,083	368,083
Property, plant & equipment	–	2,078,570	2,078,570
Other assets	1,248,029	900,355	2,148,384
<b>Total Assets</b>	<b>210,688,467</b>	<b>123,856,268</b>	<b>334,544,735</b>
<b>Liabilities</b>			
Due to banks	17,124,944	–	17,124,944
Derivative financial instruments	474,770	–	474,770
Due to other customers	192,851,838	11,014,709	203,866,547
Debt securities issued and other borrowed funds	45,988,047	13,245,217	59,233,264
Tax liabilities	417,023	428,637	845,660
Deferred tax liabilities	–	791,791	791,791
Employee benefit liabilities	35,320	295,891	331,211
Other liabilities	4,660,833	3,024,164	7,684,997
Subordinated term debts	334,432	19,112,069	19,446,501
<b>Total Liabilities</b>	<b>261,887,207</b>	<b>47,912,478</b>	<b>309,799,685</b>
<b>Net</b>	<b>(51,198,740)</b>	<b>75,943,790</b>	<b>24,745,050</b>

As at 31 December 2016	GROUP		
	Within 12 Months LKR '000	After 12 Months LKR '000	Total LKR '000
<b>Assets</b>			
Cash and cash equivalents	5,139,389	–	5,139,389
Balances with the Central Bank of Sri Lanka	11,176,909	638,368	11,815,277
Placements with banks	3,297,262	–	3,297,262
Derivative financial instruments	1,544,621	–	1,544,621
Financial assets held-for-trading	3,661,530	–	3,661,530
Loans and receivables to banks	21,030	16,002	37,032
Loans and receivables to other customers	129,869,121	97,810,818	227,679,939
Financial investments – loans and receivables	25,480,892	18,415,701	43,896,593
Financial investments – available-for-sale	31,899,259	–	31,899,259
Financial investments – held-to-maturity	1,045,989	3,900,131	4,946,120
Investments – held-for-sale	33,302	–	33,302
Investment Property	–	1,776,000	1,776,000
Intangible assets	–	384,742	384,742
Property, plant & equipment	–	2,528,258	2,528,258
Other assets	1,192,090	900,354	2,092,444
<b>Total Assets</b>	<b>214,361,394</b>	<b>126,370,374</b>	<b>340,731,768</b>
<b>Liabilities</b>			
Due to banks	17,124,944	–	17,124,944
Derivative financial instruments	474,770	–	474,770
Due to other customers	192,501,119	11,014,709	203,515,828
Debt securities issued and other borrowed funds	45,988,047	13,245,217	59,233,264
Tax liabilities	403,817	448,637	852,454
Deferred tax liabilities	–	744,880	744,880
Employee benefit liabilities	35,320	359,346	394,666
Other liabilities	4,907,003	3,024,162	7,931,165
Subordinated term debts	334,432	19,112,069	19,446,501
<b>Total Liabilities</b>	<b>261,769,452</b>	<b>47,949,020</b>	<b>309,718,472</b>
<b>Net</b>	<b>(47,408,058)</b>	<b>78,421,354</b>	<b>31,013,296</b>

The Bank classified LKR 18 billion of its total debt securities and other borrowed funds within 12 months in the maturity disclosure as there were few financial covenants that were not met during the period in relation to three debt agreements.

However, the Bank obtained a formal waiver letter for one of the credit facilities (LKR 16 billion) subsequent to the reporting date. The Bank is in the process of obtaining formal waivers for the other two credit facilities.



As at 31 December 2015	BANK		
	Within 12 Months LKR '000	After 12 Months LKR '000	Total LKR '000
<b>Assets</b>			
Cash and cash equivalents	11,821,503	–	11,821,503
Balances with the Central Bank of Sri Lanka	6,805,961	193,937	6,999,898
Placements with banks	1,153,619	–	1,153,619
Derivative financial instruments	1,903,573	–	1,903,573
Financial assets held-for-trading	2,985,262	–	2,985,262
Loans and receivables to banks	64,397	38,235	102,632
Loans and receivables to other customers	121,569,050	88,033,019	209,602,069
Financial investments – loans and receivables	35,830,311	–	35,830,311
Financial investments – available-for-sale	28,501,518	–	28,501,518
Financial investments – held-to-maturity	1,388,981	3,047,992	4,436,973
Investments – held-for-sale	18,526	–	18,526
Investments in subsidiary companies	–	2,104,117	2,104,117
Intangible assets	–	240,234	240,234
Property, plant & equipment	–	2,030,005	2,030,005
Other assets	705,770	721,595	1,427,365
<b>Total Assets</b>	<b>212,748,471</b>	<b>96,409,134</b>	<b>309,157,605</b>
<b>Liabilities</b>			
Due to banks	11,620,003	–	11,620,003
Derivative financial instruments	639,272	–	639,272
Due to other customers	179,809,515	5,123,715	184,933,230
Debt securities issued and other borrowed funds	30,367,708	30,160,136	60,527,844
Tax liabilities	76,923	409,580	486,503
Deferred tax liabilities	–	702,378	702,378
Employee benefit liabilities	38,521	214,304	252,825
Other liabilities	5,190,512	2,530,297	7,720,809
Subordinated term debts	340,177	19,233,706	19,573,883
<b>Total Liabilities</b>	<b>228,082,631</b>	<b>58,374,116</b>	<b>286,456,747</b>
<b>Net</b>	<b>(15,334,160)</b>	<b>38,035,018</b>	<b>22,700,858</b>

As at 31 December 2015	GROUP		
	Within 12 Months LKR '000	After 12 Months LKR '000	Total LKR '000
<b>Assets</b>			
Cash and cash equivalents	11,848,575	–	11,848,575
Balances with the Central Bank of Sri Lanka	6,805,961	193,937	6,999,898
Placements with banks	1,153,619	–	1,153,619
Derivative financial instruments	1,903,573	–	1,903,573
Financial assets held-for-trading	5,229,493	–	5,229,493
Loans and receivables to banks	64,397	38,235	102,632
Loans and receivables to other customers	121,561,396	88,104,165	209,665,561
Financial investments – loans and receivables	35,875,665	1,493,040	37,368,705
Financial investments – available-for-sale	28,964,820	–	28,964,820
Financial investments – held-to-maturity	1,874,998	3,785,870	5,660,868
Investments – held-for-sale	33,302	–	33,302
Investment Property	–	1,672,000	1,672,000
Intangible assets	–	274,746	274,746
Property, plant & equipment	–	2,454,883	2,454,883
Other assets	1,299,463	721,595	2,021,058
<b>Total Assets</b>	<b>216,615,262</b>	<b>98,738,471</b>	<b>315,353,733</b>
<b>Liabilities</b>			
Due to banks	11,620,003	–	11,620,003
Derivative financial instruments	639,272	–	639,272
Due to other customers	179,028,565	5,123,715	184,152,280
Debt securities issued and other borrowed funds	30,337,708	30,160,136	60,497,844
Tax liabilities	114,440	409,580	524,020
Deferred tax liabilities	–	712,823	712,823
Employee benefit liabilities	38,521	258,631	297,152
Other liabilities	5,405,442	2,530,297	7,935,739
Subordinated term debts	340,177	19,233,706	19,573,883
<b>Total Liabilities</b>	<b>227,524,128</b>	<b>58,428,888</b>	<b>285,953,016</b>
<b>Net</b>	<b>(10,908,866)</b>	<b>40,309,583</b>	<b>29,400,717</b>

## 51. SEGMENTAL ANALYSIS – GROUP

### ACCOUNTING POLICY

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

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

- Banking
- Capital Markets
- Property Investment
- Others

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

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2016 or 2015.

For the period ended 31 December	Banking		Capital Markets		Property Investment		Others		Consolidated	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
<b>Revenue</b>										
Interest Income	28,618,247	21,167,848	311,260	242,615	–	–	–	–	28,929,507	21,410,463
Fee and Commission Income	2,253,226	2,016,260	388,337	858,034	131,377	124,355	124,797	116,178	2,897,737	3,114,827
Net gains/(losses) from trading	982,123	1,088,464	–	–	–	–	–	–	982,123	1,088,464
Net gains/(losses) from financial investments	211,370	262,048	229,378	231,691	–	–	–	–	440,748	493,739
Other operating Income	234,877	425,767	112,419	192,813	104,000	126,307	–	–	451,296	744,887
Total revenue from external customers	32,299,843	24,960,387	1,041,394	1,525,153	235,377	250,662	124,797	116,178	33,701,411	26,852,380
Inter-segment revenue	–	–	15,176	14,406	60,318	49,077	–	–	75,494	63,483
Total Revenue	32,299,843	24,960,387	1,056,570	1,539,559	295,695	299,739	124,797	116,178	33,776,905	26,915,863
Impairment for loans and receivables and other losses	(1,378,686)	(711,833)	(45,887)	(34,312)	–	–	–	–	(1,424,573)	(746,145)
Segment expenses	(26,548,680)	(19,576,116)	(608,339)	(767,152)	(11,834)	(13,147)	(89,933)	(98,020)	(27,258,786)	(20,454,435)
Total segment expenses	(27,927,366)	(20,287,949)	(654,226)	(801,464)	(11,834)	(13,147)	(89,933)	(98,020)	(28,683,359)	(21,200,580)
Segment results	4,372,477	4,672,438	402,344	738,095	283,861	286,592	34,864	18,158	5,093,546	5,715,283
Share of associate companies' profit before taxation	–	–	–	–	–	–	–	77,818	–	77,818
Taxation									(1,230,587)	(1,212,564)
Tax on financial services									(1,048,000)	(910,442)
<b>Profit after taxation</b>									<b>2,814,959</b>	<b>3,670,095</b>
<b>Other information</b>										
Segment assets	333,992,991	308,629,425	4,688,678	4,800,410	1,953,451	1,821,766	63,346	68,830	340,698,466	315,320,431
Investments – Held-for-sale	–	–	–	–	–	–	33,302	33,302	33,302	33,302
<b>Consolidated total assets</b>									<b>340,731,768</b>	<b>315,353,733</b>
Segment liabilities	309,441,098	285,603,172	205,827	280,623	69,243	62,745	2,304	6,476	309,718,472	285,953,016
<b>Consolidated total liabilities</b>									<b>309,718,472</b>	<b>285,953,016</b>
<b>Segmental Cash flows</b>										
Cash flows from operating activities	3,569,590	3,273,773	295,225	276,036	66,436	42,198	95,576	(38,401)	4,026,827	3,553,606
Cash flows from investing activities	(7,343,549)	(5,761,439)	(48,941)	22,087	(13,445)	17,760	22,410	(5,396)	(7,383,525)	(5,726,988)
Cash flows from financing activities	3,669,402	9,565,397	8,760	56,026	(45,977)	(97,310)	(8,760)	33,075	3,623,425	9,557,188

## 52. RELATED PARTY DISCLOSURES

### 52.1 Parent and Ultimate Controlling Party

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

### 52.2 Terms and Conditions

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

### 52.3 Key Management Personnel (KMP) of the Bank and the Group

#### KMP of the Bank

Related parties include Key Management Personnel defined as persons having authority and responsibility for planning, directing and controlling the activities of the Bank. Key Management Personnel include the members of the Board of Directors of the Bank (including the Executive and Non-Executive), Chief Operating Officer (Resigned w.e.f. 31 October 2016) and the Group Chief Financial Officer.

#### KMP of the Group

The Bank is the ultimate parent of the subsidiaries listed out on page 296. The KMP of the Bank has the authority and responsibility for planning, directing and controlling the activities of the Group directly or indirectly. Accordingly, the Board of Directors of the Bank (including the Executive and Non-Executive), Chief Operating Officer (Resigned w.e.f. 31 October 2016) and the Group Chief Financial Officer represent the KMP of the Group.

#### 52.3 (a) Compensation to KMP

	2016	2015
	LKR '000	LKR '000
Short-term employee benefits	81,714	81,819
Directors' emoluments	29,330	27,905
Post-employment benefits (defined benefit plans)	32,099	7,086
Share-based payments [Note 52.3 (b)]	10,041	–
	153,184	116,810

The amounts disclosed above are the amounts recognized as expenses during the reporting period relating to KMP.

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

#### 52.3 (b) Share-based payments

	Number of Shares	
	2016	2015
<b>Share Grant</b>		
<b>Award 04 – (1 July 2013)</b>		
Shares awarded and to be vested	–	23,452
Shares awarded and vested	64,363	–

## Share Option

Share option held by KMP under the Equity-Linked Compensation Plan (ELCP) to purchase ordinary shares have the following expiry date and exercise price.

	Issue date	Expiry date	Exercise price	Number of Shares	
				2016	2015
<b>Award 04</b>	01.07.2013	30.06.2017	162.86		
Shares allocated and outstanding				46,424	23,452

### 52.3 (c) KMP and their Close Family Members had the following related party transactions during the year:

	Limit		Outstanding Balance		Average Balance	
	2016	2015	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
<b>Items in the Statement of Financial Position</b>						
<b>Assets</b>						
Loans and receivables to other customers	9,890	6,059	9,280	4,795	10,394	3,595
	9,890	6,059	9,280	4,795	10,394	3,595
<b>Liabilities</b>						
Due to other customers			35,620	280,535	270,548	247,825
Debt securities issued and other borrowed funds			–	52,432	34,099	105,657
			35,620	332,967	304,647	353,482

	During the Year	
	2016	2015
	LKR '000	LKR '000
<b>Items in the Statement of Profit or Loss excluding compensation to KMP</b>		
Interest income	284	114
Interest expenses	26,055	24,718
Fee and commission income	77	103
Dividends paid	16,020	44,060

Share investments in the Bank, by the KMP and their Close Family Members are given below:

	Number Outstanding	
	2016	2015
Investments in Ordinary shares (including the shares held in the slash account)	4,037,862	4,004,974

**52.3 (d)** Transactions involving entities which are controlled/ jointly controlled by the KMP and their Close Family Members.

	Outstanding Balance		Average Balance	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
<b>Items in the Statement of Financial Position</b>				
<b>Assets</b>				
Loans and receivables to other customers	1	1	1,357	173
	1	1	1,357	173
<b>Liabilities</b>				
Due to other customers	8,339	13,436	13,070	51,657
Debt securities issued and other borrowed funds	8,004	120,000	25,381	47,426
	16,343	133,436	38,451	99,083

	During the Year	
	2016	2015
	LKR '000	LKR '000
<b>Items in the Statement of Profit or Loss</b>		
Interest income	349	75
Interest expenses	1,886	3,323
Fee and commission income	254	225
Other expenses	74,154	83,137
Dividends paid	44,179	121,486

Share investments in the Bank by the entities which are controlled/ jointly controlled by the KMP and their Close Family Members are given below:

	Number Outstanding	
	2016	2015
Investments in ordinary shares	11,109,898	11,044,177

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

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

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

	Outstanding Balance		Average Balance	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
<b>Items in the Statement of Financial Position</b>				
<b>Assets</b>				
Loans and receivables	8,007,819	4,758,986	6,877,562	4,209,193
	8,007,819	4,758,986	6,877,562	4,209,193
<b>Liabilities</b>				
Due to other customers	2,452,554	6,678,149	6,561,402	4,569,477
Debt securities issued and other borrowed funds	16,179,664	20,305,950	17,369,838	12,478,110
	18,632,218	26,984,099	23,931,240	17,047,587
<b>Commitments and Contingencies</b>				
Guarantees and letters of credit	126,269	104,891	97,605	128,339
Forward exchange contracts	3,264,944	1,726,600	2,498,491	2,298,467
Commitments	2,329,674	2,561,921	3,697,443	3,803,151
	5,720,887	4,393,412	6,293,539	6,229,957

	During the Year	
	2016	2015
	LKR '000	LKR '000
<b>Items in the Statement of Profit or Loss</b>		
Interest income	1,837,033	1,393,786
Interest expenses	1,975,966	1,064,600
Fee and commission income	108,268	2,580
Net gains/(losses) from trading	814	541
Dividends paid	225,062	616,159

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

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

### 52.4 (c) Individually Significant Transactions

The Bank uses an internal assessments methodology in order to identify significant transactions with the Government of Sri Lanka and Government-related entities in accordance with the disclosure requirements of LKAS 24. Accordingly the individually significant transactions for the year ended 31 December 2016 are as follows:

**52.4 (c) (i)** The Bank raised USD 75 million on 21 July 2014 through foreign borrowings for a period of 7 years, against which a SWAP arrangement was entered into with the Central Bank of Sri Lanka for 50% of the borrowing value. The SWAP arrangement will be renewed annually over the tenor of the borrowing.

**52.4 (c) (ii)** The Bank has approved a term loan facility of LKR 8,353 million to the Road Development Authority which is Guaranteed by the Government Treasury of Sri Lanka and the total outstanding balance of the facility as at the reporting date was LKR 8,045 million.

**52.4 (c) (iii)** The Bank utilized the approval given by the Central Bank of Sri Lanka for licensed commercial banks to borrow up to USD 50 million and the specific approval given to the National Development Bank PLC to borrow up to USD 250 million in excess of the 15% of the Bank's capital by direction dated 17 April 2013, circular Ref 2/19/150/0104/001. Accordingly the Bank raised a total of USD 299 million during 2014 and 2015, and the balance outstanding as at 31 December 2016 was USD 182.23 million.

## 52.5 Transactions with Related Entities

**52.5 (a)** The Bank had the undermentioned financial dealings during the year and as of the date of the Statement of Financial Position, with the Subsidiaries and Associates of the Bank as follows:

	Limit 2016 LKR '000	Subsidiaries of the Bank*				Associates of the Bank*			
		Outstanding Balance		Average Balance		Outstanding Balance		Average Balance	
		2016 LKR '000	2015 LKR '000	2016 LKR '000	2015 LKR '000	2016 LKR '000	2015 LKR '000	2016 LKR '000	2015 LKR '000
<b>Items in the Statement of Financial Position</b>									
<b>Assets</b>									
Loans and receivables to other customers	100,000	30,405	64	27,702	5,190	–	–	–	45,834
Financial assets held-for-trading		–	2,407,328	1,179,336	2,300,569	–	–	–	–
Other assets		551,952	705	183,925	413,511	–	–	–	–
Investments in subsidiary companies		2,115,850	2,104,117	2,119,447	2,066,707	–	–	–	–
Investments held-for-sale		–	–	–	–	18,526	18,526	18,526	18,526
<b>Liabilities</b>									
Due to other customers		335,458	783,638	381,292	794,363	–	–	–	–
Debt securities issued and other borrowed funds		2,301	30,000	4,325	31,309	–	–	–	–
Other liabilities		17	–	17	–	–	2,403	–	2,403
<b>Commitments and Contingencies</b>									
Guarantees	500,000	–	835,000	192,857	46,212	–	–	–	–

	During the Year		During the Year	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
<b>Items in the Statement of Profit or Loss</b>				
Interest income	2,210	1,508	–	1,412
Interest expense	32,469	23,726	–	12
Fee and commission income	21,371	12,915	–	–
Net gains/(losses) from trading	619	208	–	–
Other operating income	981,893	894,925	–	164,397
Other expenses	28,503	69,158	–	–

The Bank's 99.89% owned subsidiary, NDB Capital Holdings Ltd. divested part of its 32% owned investment in Resus Energy PLC on 17 September 2015. Accordingly, the investment which was accounted as an Investment in Associates, was reclassified as 'Available-for-Sale' Investments on 30 September 2015. The transaction resulted in a capital gain of LKR 164 million to the Group during the year 2015.

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



**52.5 (b)** The contribution made by the Bank and the employees for EPF, is managed as a separate fund by the Bank. The Bank had the under mentioned financial dealings during the year with the NDB Provident Fund.

	2016	2015
	LKR '000	LKR '000
Due to other customers	18,864	53,930
Interest paid on deposits during the year	8,609	6,170
Contribution by the Bank	253,713	214,508

**52.5 (c)** NDB Wealth Management Ltd., a subsidiary of the Bank, had the undermentioned financial dealings with the NDB Provident Fund.

	2016	2015
	LKR '000	LKR '000
Portfolio under management	1,847,828	1,705,719

**52.5 (d)** The Bank had the undermentioned financial dealings with the NDB Pension Fund during the year.

	2016	2015
	LKR '000	LKR '000
Due to other customers	130,275	123,460
Interest paid on deposits during the year	20,345	11,131
Contribution by the Bank	59,109	51,643

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

### Non-Adjusting Events

(a) On 21 February 2017, the Bank declared a final total dividend of LKR 8.00 per share comprising of a cash dividend of LKR 2.00 per share and a scrip dividend of LKR 6.00 per share for the financial year ended 31 December 2016. Out of the final dividend LKR 1.76 per share will be liable to a dividend tax at 10% and the balance LKR 6.24 per share will be paid out of dividend income.

Accordingly, the Stated Capital of the Bank will be increased to LKR 2,209 million (LKR 1,246 million as at 31 December 2016), as a result of the scrip dividends declared for the year ended 31 December 2016.

## 54. COMPARATIVE INFORMATION

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

As reported Previously	Current Presentation	Note	BANK	GROUP	BANK	GROUP
			2016	2016	2015	2015
			LKR '000	LKR '000	LKR '000	LKR '000
<b>Assets</b>						
Other Non-Financial Assets – Group balances Receivable	Other Financial Assets	35.1	548,496	–	–	–
Freehold Buildings	Leasehold Buildings (net book value)	34	–	–	84,457	84,457
<b>Liabilities</b>						
Other Non-Financial Liabilities – Dividend payable	Other Financial Liabilities	41.1	49,933	49,933	60,014	60,014

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

### ACCOUNTING POLICY

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

### Significant Accounting Estimates and Assumptions

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

### Financial Instruments

#### Derivatives – Assets and Liabilities

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

#### Financial Assets – Held-for-Trading

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

#### Financial Investments – Available-for-Sale

Financial investments – Available-for-sale, consist of non-quoted ordinary shares, quoted ordinary shares and Government securities. The Sri Lanka Government securities are valued based on the market rates of the money brokers as at the reporting date and non-quoted ordinary shares are valued using internal valuation techniques.

### Non-Financial Instruments

#### Property, Plant & Equipment

##### Valuation Model

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

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

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

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

## Valuation Framework

Fair Values of Financial Instruments and Non-Financial Instruments are determined according to the following hierarchy:

Level 1 – quoted market price (unadjusted): financial instruments with quoted prices in active markets.

Level 2 – valuation techniques using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments are valued using models where all significant inputs are observable.

Level 3 – valuation techniques with significant unobservable inputs: this category includes all instruments valued using valuation techniques where one or more significant inputs are unobservable.

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

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

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

31 December 2016	BANK			Total LKR '000
	Fair Value Measurement Using			
	Quoted Prices in Active Markets Level 1 LKR '000	Significant Observable Inputs Level 2 LKR '000	Significant Unobservable Inputs Level 3 LKR '000	
<b>Financial Assets</b>				
<b>Derivative Financial Instruments</b>				
Currency options	–	331	–	331
Forward foreign exchange contracts	–	401,670	–	401,670
Currency SWAP	–	–	1,142,620	1,142,620
<b>Financial Assets – held-for-trading</b>				
Sri Lanka Government securities – treasury bonds	832,694	–	–	832,694
<b>Financial Investments – available-for-sale</b>				
Sri Lanka Government securities – treasury bills	7,865,451	–	–	7,865,451
Sri Lanka Government securities – treasury bonds	22,122,394	–	–	22,122,394
Quoted ordinary shares	1,497,030	–	–	1,497,030
<b>Total Financial Assets</b>	<b>32,317,569</b>	<b>402,001</b>	<b>1,142,620</b>	<b>33,862,190</b>
<b>Non-Financial Assets</b>				
Freehold land	–	–	431,500	431,500
Freehold buildings	–	–	900,863	900,863
<b>Total Non-Financial Assets</b>	<b>–</b>	<b>–</b>	<b>1,332,363</b>	<b>1,332,363</b>
<b>Financial Liabilities</b>				
<b>Derivative Financial Instruments</b>				
Currency options	–	331	–	331
Forward foreign exchange contracts	–	474,439	–	474,439
<b>Total Financial Liabilities</b>	<b>–</b>	<b>474,770</b>	<b>–</b>	<b>474,770</b>

31 December 2015	BANK			
	Fair Value Measurement Using			
	Quoted Prices in Active Markets Level 1 LKR '000	Significant Observable Inputs Level 2 LKR '000	Significant Unobservable Inputs Level 3 LKR '000	Total LKR '000
<b>Financial Assets</b>				
<b>Derivative Financial Instruments</b>				
Currency options	–	1,912	–	1,912
Forward foreign exchange contracts	–	1,060,248	–	1,060,248
Currency SWAP	–	–	841,413	841,413
<b>Financial Assets – Held-for-Trading</b>				
Sri Lanka Government securities – treasury bills	969	–	–	969
Sri Lanka Government securities – treasury bonds	576,964	–	–	576,964
Investment in unit trusts	2,407,329	–	–	2,407,329
<b>Financial Investments – Available-for-Sale</b>				
Sri Lanka Government securities – treasury bills	12,981,321	–	–	12,981,321
Sri Lanka Government securities – treasury bonds	13,936,379	–	–	13,936,379
Quoted ordinary shares	1,568,673	–	–	1,568,673
<b>Total Financial Assets</b>	<b>31,471,635</b>	<b>1,062,160</b>	<b>841,413</b>	<b>33,375,208</b>
<b>Non-Financial Assets</b>				
Freehold land	–	–	431,500	431,500
Freehold buildings	–	–	913,231	913,231
<b>Total Non-Financial Assets</b>	<b>–</b>	<b>–</b>	<b>1,344,731</b>	<b>1,344,731</b>
<b>Financial Liabilities</b>				
<b>Derivative Financial Instruments</b>				
Currency options	–	1,912	–	1,912
Forward foreign exchange contracts	–	637,360	–	637,360
<b>Total Financial Liabilities</b>	<b>–</b>	<b>639,272</b>	<b>–</b>	<b>639,272</b>

31 December 2016	GROUP			
	Fair Value Measurement Using			
	Quoted Prices in Active Markets Level 1 LKR '000	Significant Observable Inputs Level 2 LKR '000	Significant Unobservable Inputs Level 3 LKR '000	Total LKR '000
<b>Financial Assets</b>				
<b>Derivative Financial Instruments</b>				
Currency options	–	331	–	331
Forward foreign exchange contracts	–	401,670	–	401,670
Currency SWAP	–	–	1,142,620	1,142,620
<b>Financial Assets – Held-for-Trading</b>				
Sri Lanka Government securities – treasury bonds	832,694	–	–	832,694
Equity securities	392,944	–	–	392,944
Investment in unit trusts	2,435,892	–	–	2,435,892
<b>Financial Investments – Available-for-Sale</b>				
Sri Lanka Government securities – treasury bills	7,865,451	–	–	7,865,451
Sri Lanka Government securities – treasury bonds	22,122,394	–	–	22,122,394
Quoted ordinary shares	1,746,271	–	–	1,746,271
Non-quoted ordinary shares	–	–	150,000	150,000
<b>Total Financial Assets</b>	<b>35,395,646</b>	<b>402,001</b>	<b>1,292,620</b>	<b>37,090,267</b>
<b>Non-Financial Assets</b>				
Freehold land	–	–	431,500	431,500
Freehold buildings	–	–	1,295,509	1,295,509
Investment property	–	–	1,776,000	1,776,000
<b>Total Non-Financial Assets</b>	<b>–</b>	<b>–</b>	<b>3,503,009</b>	<b>3,503,009</b>
<b>Financial Liabilities</b>				
<b>Derivative Financial Instruments</b>				
Currency options	–	331	–	331
Forward foreign exchange contracts	–	474,439	–	474,439
<b>Total Financial Liabilities</b>	<b>–</b>	<b>474,770</b>	<b>–</b>	<b>474,770</b>

31 December 2015	GROUP			
	Fair Value Measurement Using			
	Quoted Prices in Active Markets Level 1 LKR '000	Significant Observable Inputs Level 2 LKR '000	Significant Unobservable Inputs Level 3 LKR '000	Total LKR '000
<b>Financial Assets</b>				
<b>Derivative Financial Instruments</b>				
Currency options	–	1,912	–	1,912
Forward foreign exchange contracts	–	1,060,248	–	1,060,248
Currency SWAP	–	–	841,413	841,413
<b>Financial Assets – Held-for-Trading</b>				
Sri Lanka Government securities – treasury bills	969	–	–	969
Sri Lanka Government securities – treasury bonds	576,964	–	–	576,964
Equity securities	336,769	–	–	336,769
Investment in unit trusts	4,314,791	–	–	4,314,791
<b>Financial Investments – Available-for-Sale</b>				
Sri Lanka Government securities – treasury bills	12,981,321	–	–	12,981,321
Sri Lanka Government securities – treasury bonds	13,936,379	–	–	13,936,379
Quoted ordinary shares	1,846,975	–	–	1,846,975
Non-quoted ordinary shares	–	–	185,000	185,000
<b>Total Financial Assets</b>	<b>33,994,168</b>	<b>1,062,160</b>	<b>1,026,413</b>	<b>36,082,741</b>
<b>Non-Financial Assets</b>				
Freehold land	–	–	431,500	431,500
Freehold buildings	–	–	1,292,662	1,292,662
Investment property	–	–	1,672,000	1,672,000
<b>Total Non-Financial Assets</b>	<b>–</b>	<b>–</b>	<b>3,396,162</b>	<b>3,396,162</b>
<b>Financial Liabilities</b>				
<b>Derivative Financial Instruments</b>				
Currency options	–	1,912	–	1,912
Forward foreign exchange contracts	–	637,360	–	637,360
<b>Total Financial Liabilities</b>	<b>–</b>	<b>639,272</b>	<b>–</b>	<b>639,272</b>

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

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

Included in	BANK					As at 31 December 2016 LKR '000
	As at 1 January 2016 LKR '000	Additions/ Disposals during the Year LKR '000	Total Gains/(Losses) and Charges Recorded in the Statement of Profit or Loss LKR '000	Total Gains/(Losses) Recorded in Other Comprehensive Income LKR '000		
<b>Financial Assets</b>						
Currency SWAP [Note 22.1 (b)]	Derivative financial instruments	841,413	–	–	301,207	1,142,620
<b>Non-Financial Assets</b>						
Freehold land	Property, plant & equipment	431,500	–	–	–	431,500
Freehold buildings (Note 34)	Property, plant & equipment	913,231	30,041	(42,409)	–	900,863
		2,186,144	30,041	(42,409)	301,207	2,474,983

Included in	GROUP					As at 31 December 2016 LKR '000
	As at 1 January 2016 LKR '000	Additions/ Disposals during the Year LKR '000	Total Gains/(Losses) and Charges Recorded in the Statement of Profit or Loss LKR '000	Total Gains/(Losses) Recorded in Other Comprehensive Income LKR '000		
<b>Financial Assets</b>						
Currency SWAP [Note 22.1 (b)]	Derivative financial instruments	841,413	–	–	301,207	1,142,620
<b>Non-Financial Assets</b>						
Freehold land	Property, plant & equipment	431,500	–	–	–	431,500
Freehold buildings (Note 34)	Property, plant & equipment	1,292,662	30,041	(48,194)	21,000	1,295,509
Investment property	Investment property	1,672,000	–	104,000	–	1,776,000
<b>Financial Assets</b>						
Non-quoted ordinary shares	Financial investments – available-for-sale	185,000	–	–	(35,000)	150,000
		4,422,575	30,041	55,806	287,207	4,795,629

Included in		BANK				As at 31 December 2015 LKR '000
		As at 1 January 2015 LKR '000	Additions/ Disposals during the Year LKR '000	Total Gains/(Losses) and Charges Recorded in the Statement of Profit or Loss LKR '000	Total Gains/(Losses) Recorded in Other Comprehensive Income LKR '000	
<b>Financial Assets</b>						
Currency SWAP [Note 22.1 (b)]	Derivative financial instruments	994,028	(52,477)	–	(100,138)	841,413
<b>Non-Financial Assets</b>						
Freehold land	Property, plant & equipment	431,500	–	–	–	431,500
Freehold buildings (Note 34)	Property, plant & equipment	935,485	12,864	(35,118)	–	913,231
		2,361,013	(39,613)	(35,118)	(100,138)	2,186,144

Included in		GROUP				As at 31 December 2015 LKR '000
		As at 1 January 2015 LKR '000	Additions/ Disposals during the Year LKR '000	Total Gains/(Losses) and Charges Recorded in the Statement of Profit or Loss LKR '000	Total Gains/(Losses) Recorded in Other Comprehensive Income LKR '000	
<b>Financial Assets</b>						
Currency SWAP [Note 22.1 (b)]	Derivative financial instruments	994,028	(52,477)	–	(100,138)	841,413
<b>Non-Financial Assets</b>						
Freehold land	Property, plant & equipment	431,500	–	–	–	431,500
Freehold buildings (Note 34)	Property, plant & equipment	1,219,577	12,864	(35,118)	95,339	1,292,662
Investment property	Investment property	1,545,693	–	126,307	–	1,672,000
<b>Financial Assets</b>						
Non-quoted ordinary shares	Financial investments - available-for-sale	185,000	–	–	–	185,000
		4,375,798	(39,613)	91,189	(4,799)	4,422,575



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

The table below sets out information about significant unobservable inputs used as at 31 December 2016 and as at 31 December 2015 in measuring financial and non-financial instruments categorized as Level 3 in the fair value hierarchy:

### Financial Assets

Type of Instrument	Fair Values as at 31 December 2016	Valuation Technique	BANK		
			Significant Unobservable Inputs	Range of Estimates (Weighted Average) for Unobservable Inputs	Fair Value Measurement Sensitivity to Unobservable Inputs
<b>Derivative Financial Assets</b>					
Currency SWAP	LKR 1,143 million	Forecasted cash flow valuation method	Forward Exchange Rate	One year market premium USD/LKR – 9.8875	Positive impact to the fair value

### Non-Financial Assets

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

### Financial Assets

Type of Instrument	Fair Values as at 31 December 2016	Valuation Technique	GROUP		
			Significant Unobservable Inputs	Range of Estimates (Weighted Average) for Unobservable Inputs	Fair Value Measurement Sensitivity to Unobservable Inputs
<b>Derivative Financial Assets</b>					
Currency SWAP	LKR 1,143 million	Forecasted cash flow valuation method	Forward Exchange Rate	One year market premium USD/LKR – 9.8875	Positive impact to the fair value

### Non-Financial Assets

Type of Instrument	Fair Values as at the valuation date	Valuation Technique	GROUP		
			Significant Unobservable Inputs	Range of Estimates (Weighted Average) for Unobservable Inputs	Fair Value Measurement Sensitivity to Unobservable Inputs
<b>Navam Mawatha</b>					
Land	LKR 11.5 million	Direct comparison method	Per perch value	Per perch – LKR 8 million	Positive impact to the fair value
Building	LKR 621.5 million	Current replacement cost	Replacement cost/ depreciation factor rate	LKR 13,500 per square feet and discount factor – 0.48	Positive impact to the fair value from both factors
<b>Dharmapala Mawatha</b>					
Land	LKR 420 million	Direct comparison method	Per perch value	Per perch – LKR 7 million	Positive impact to the fair value
Building	LKR 320 million	Current replacement cost	Replacement cost/ depreciation factor rate	LKR 12,500 per square feet and discount factor – 0.62	Positive impact to the fair value from both factors
<b>Navam Mawatha</b>					
Investment Property	LKR 2,125 million (Including the fair value of owner occupied portion of LKR 349 million)	Income approach	Rent per square feet	Rentable area at LKR 170/- Non-rentable area at LKR 100/-	Positive impact to the fair value from both factors

## Financial Assets

Type of Instrument	BANK				
	Fair Values as at 31 December 2015	Valuation Technique	Significant Unobservable Inputs	Range of Estimates (Weighted Average) for Unobservable Inputs	Fair Value Measurement Sensitivity to Unobservable Inputs
<b>Derivative Financial Assets</b>					
Currency SWAP	LKR 841 million	Forecasted cash flow valuation method	Forward Exchange Rate	One year market premium USD/LKR – 6.3875	Positive impact to the fair value

## Non-Financial Assets

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

## Financial Assets

Type of Instrument	GROUP				
	Fair Values as at 31 December 2015	Valuation Technique	Significant Unobservable Inputs	Range of Estimates (Weighted Average) for Unobservable Inputs	Fair Value Measurement Sensitivity to Unobservable Inputs
<b>Derivative Financial Assets</b>					
Currency SWAP	LKR 841 million	Forecasted cash flow valuation method	Forward Exchange Rate	One year market premium USD/LKR – 6.3875	Positive impact to the fair value

## Non-Financial Assets

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

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

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

	Fair Value Classification	BANK			
		2016		2015	
		Carrying Amount LKR '000	Fair Value LKR '000	Carrying Amount LKR '000	Fair Value LKR '000
<b>Financial Assets</b>					
Cash and cash equivalents	Note 55 (e)	5,018,438	5,018,438	11,821,503	11,821,503
Balances with the Central Bank of Sri Lanka	Note 55 (e)	11,815,277	11,815,277	6,999,898	6,999,898
Placements with banks	Note 55 (e)	3,297,262	3,297,262	1,153,619	1,153,619
Loans and receivables to banks	Level 2	37,032	37,057	102,632	102,714
Loans and receivables to other customers	Level 2	227,639,844	220,811,236	209,602,069	210,444,878
Financial investments – loans and receivables	Level 2	41,992,533	40,387,126	35,830,311	35,792,766
Financial investments – held-to-maturity	Level 1	4,137,601	4,023,336	4,436,973	4,572,341
Other financial assets		570,115	570,115	3,091	3,091
<b>Total Financial Assets</b>		<b>294,508,102</b>	<b>285,959,847</b>	<b>269,950,096</b>	<b>270,890,810</b>
<b>Financial Liabilities</b>					
Due to banks	Note 55 (e)	17,124,944	17,124,944	11,620,003	11,620,003
Due to other customers	Level 2	203,866,547	203,956,688	184,933,230	184,889,633
Debt securities issued and other borrowed funds	Level 2	59,233,264	59,233,264	60,527,844	60,527,844
Subordinated term debts	Level 2	19,446,501	20,246,623	19,573,883	22,004,203
Other financial liabilities	Note 55 (e)	2,777,519	2,777,519	2,960,063	2,960,063
<b>Total Financial Liabilities</b>		<b>302,448,775</b>	<b>303,339,038</b>	<b>279,615,023</b>	<b>282,001,746</b>

	Fair Value Classification	GROUP			
		2016		2015	
		Carrying Amount LKR '000	Fair Value LKR '000	Carrying Amount LKR '000	Fair Value LKR '000
<b>Financial Assets</b>					
Cash and cash equivalents	Note 55 (e)	5,139,389	5,139,389	11,848,575	11,848,575
Balances with the Central Bank of Sri Lanka	Note 55 (e)	11,815,277	11,815,277	6,999,898	6,999,898
Placements with banks	Note 55 (e)	3,297,262	3,297,262	1,153,619	1,153,619
Loans and receivables to banks	Level 2	37,032	37,057	102,632	102,714
Loans and receivables to other customers	Level 2	227,679,939	220,842,442	209,665,561	210,522,603
Financial investments – loans and receivables	Level 2	43,896,593	41,823,570	37,368,705	37,390,608
Financial investments – held-to-maturity	Level 1	4,946,120	4,677,816	5,660,868	6,036,352
Other financial assets		418,456	418,455	580,723	580,723
<b>Total Financial Assets</b>		<b>297,230,068</b>	<b>288,051,268</b>	<b>273,380,581</b>	<b>274,635,092</b>
<b>Financial Liabilities</b>					
Due to banks	Note 55 (e)	17,124,944	17,124,944	11,620,003	11,620,003
Due to other customers	Level 2	203,515,828	203,612,311	184,152,280	185,671,700
Debt securities issued and other borrowed funds	Level 2	59,233,264	59,233,264	60,497,844	60,497,845
Subordinated term debts	Level 2	19,446,501	20,246,623	19,573,883	22,004,203
Other financial liabilities	Note 55 (e)	3,516,073	3,516,073	3,194,279	3,194,279
<b>Total Financial Liabilities</b>		<b>302,836,610</b>	<b>303,733,215</b>	<b>279,038,289</b>	<b>282,988,030</b>

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

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

### Assets for which Fair Value Approximates Carrying Value

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

### Fixed Rate Financial Instruments

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

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

### Financial Investments Held-to-Maturity

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

## 56. RISK MANAGEMENT DISCLOSURES

### Introduction

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

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

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

### Risk Management Framework

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

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

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

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

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

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

## **Risk Measurement and Reporting**

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

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

## **Risk Mitigation**

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

### **56.1 Credit Risk**

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

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

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

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

## **Impairment Assessment**

### **Impairment of Financial Assets**

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

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

## Individually Assessed Impairment Allowances

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

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

## Collectively Assessed Impairment Allowances

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

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

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

## Credit-Related Commitment Risks

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

## 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 accessibility and valuation of each type of collateral.

The main types of collateral obtained, are as follows:

- for commercial lending - mortgages over immovable and movable fixed assets, inventory, trade receivables, corporate and personal guarantees
- for retail lending – mortgage over residential property, gold stocks, personal guarantees

## 56.1.1 Credit Quality

### 56.1 (a) Analysis of Gross Exposure on Credit Risk and Impairment

The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Bank's classification of assets. The amounts presented are gross of impairment allowances.

The Bank considers that any amount uncollected one day or more beyond their contractual due date is 'past due'.

As at 31 December 2016	BANK								Total LKR '000
	Neither Past due nor Impaired LKR '000	Past Due but not Impaired						Individually Impaired LKR '000	
		Less than 1 Month LKR '000	1-3 Months LKR '000	3-6 Months LKR '000	6-12 Months LKR '000	12-18 Months LKR '000	More than 18 Months LKR '000		
Assets									
Cash and cash equivalents	5,018,438	–	–	–	–	–	–	–	5,018,438
Balances with the Central Bank of Sri Lanka	11,815,277	–	–	–	–	–	–	–	11,815,277
Placements with banks	3,297,262	–	–	–	–	–	–	–	3,297,262
Derivative financial instruments	1,544,621	–	–	–	–	–	–	–	1,544,621
Financial assets – held-for-trading	832,694	–	–	–	–	–	–	–	832,694
Loans and receivables to banks	37,032	–	–	–	–	–	–	–	37,032
Loans and receivables to other customers	137,031,536	41,542,901	26,263,340	2,513,990	1,671,385	8,242,716	8,235,947	2,138,029	227,639,844
Financial investments – loans and receivables	41,992,533	–	–	–	–	–	–	–	41,992,533
Financial investments – available-for-sale	31,500,020	–	–	–	–	–	–	–	31,500,020
Financial investments – held-to-maturity	4,137,601	–	–	–	–	–	–	–	4,137,601
Other financial assets	570,115	–	–	–	–	–	–	–	570,115

As at 31 December 2015	BANK								Total LKR '000
	Neither Past due nor Impaired LKR '000	Past Due but not Impaired						Individually Impaired LKR '000	
		Less than 1 Month LKR '000	1-3 Months LKR '000	3-6 Months LKR '000	6-12 Months LKR '000	12-18 Months LKR '000	More than 18 Months LKR '000		
Assets									
Cash and cash equivalents	11,821,503	–	–	–	–	–	–	–	11,821,503
Balances with the Central Bank of Sri Lanka	6,999,898	–	–	–	–	–	–	–	6,999,898
Placements with banks	1,153,619	–	–	–	–	–	–	–	1,153,619
Derivative financial instruments	1,903,573	–	–	–	–	–	–	–	1,903,573
Financial assets – held-for-trading	2,985,262	–	–	–	–	–	–	–	2,985,262
Loans and receivables to banks	102,632	–	–	–	–	–	–	–	102,632
Loans and receivables to other customers	141,839,265	29,933,996	20,445,024	3,421,651	2,574,338	1,382,527	6,841,640	3,163,628	209,602,069
Financial investments – Loans and receivables	35,830,311	–	–	–	–	–	–	–	35,830,311
Financial investments – available-for-sale	28,501,518	–	–	–	–	–	–	–	28,501,518
Financial investments – held-to-maturity	4,436,973	–	–	–	–	–	–	–	4,436,973
Other financial assets	3,091	–	–	–	–	–	–	–	3,091

As at 31 December 2016	GROUP								Individually Impaired	Total
	Neither Past due nor Impaired	Past Due but not Impaired								
		Less than 1 Month	1-3 Months	3-6 Months	6-12 Months	12-18 Months	More than 18 Months			
LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	
<b>Assets</b>										
Cash and cash equivalents	5,139,389	–	–	–	–	–	–	–	5,139,389	
Balances with the Central Bank of Sri Lanka	11,815,277	–	–	–	–	–	–	–	11,815,277	
Placements with banks	3,297,262	–	–	–	–	–	–	–	3,297,262	
Derivative financial instruments	1,544,621	–	–	–	–	–	–	–	1,544,621	
Financial assets – held-for-trading	3,661,530	–	–	–	–	–	–	–	3,661,530	
Loans and receivables to banks	37,032	–	–	–	–	–	–	–	37,032	
Loans and receivables to other customers	137,071,631	41,542,901	26,263,340	2,513,990	1,671,385	8,242,716	8,235,947	2,138,029	227,679,939	
Financial investments – Loans and receivables	43,896,593	–	–	–	–	–	–	–	43,896,593	
Financial investments – available-for-sale	31,899,259	–	–	–	–	–	–	–	31,899,259	
Financial investments – held-to-maturity	4,946,120	–	–	–	–	–	–	–	4,946,120	
Other financial assets	418,455	–	–	–	–	–	–	–	418,455	

As at 31 December 2015	GROUP								Individually Impaired	Total
	Neither Past due nor Impaired	Past Due but not Impaired								
		Less than 1 Month	1-3 Months	3-6 Months	6-12 Months	12-18 Months	More than 18 Months			
LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	
<b>Assets</b>										
Cash and cash equivalents	11,848,575	–	–	–	–	–	–	–	11,848,575	
Balances with the Central Bank of Sri Lanka	6,999,898	–	–	–	–	–	–	–	6,999,898	
Placements with banks	1,153,619	–	–	–	–	–	–	–	1,153,619	
Derivative financial instruments	1,903,573	–	–	–	–	–	–	–	1,903,573	
Financial assets – held-for-trading	5,229,493	–	–	–	–	–	–	–	5,229,493	
Loans and receivables to banks	102,632	–	–	–	–	–	–	–	102,632	
Loans and receivables to other customers	141,902,757	29,933,996	20,445,024	3,421,651	2,574,338	1,382,527	6,841,640	3,163,628	209,665,561	
Financial investments – loans and receivables	37,368,705	–	–	–	–	–	–	–	37,368,705	
Financial investments – available-for-sale	28,964,820	–	–	–	–	–	–	–	28,964,820	
Financial investments – held-to-maturity	5,660,868	–	–	–	–	–	–	–	5,660,868	
Other financial assets	580,723	–	–	–	–	–	–	–	580,723	



## 56.1 (b) Maximum Exposure to Credit Risk

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

As at 31 December 2016	BANK	
	Maximum Exposure to Credit Risk	Exposure Net of Collateral
	LKR '000	LKR '000
Balances with the Central Bank of Sri Lanka	11,815,277	11,815,277
Placements with banks	3,297,262	3,297,262
Derivative financial instruments	1,544,621	1,544,621
Financial assets held-for-trading	832,694	832,694
Loans and receivables to banks	37,032	37,032
<b>Loans and receivables to other customers (Net)</b>		
Corporate lending	123,992,250	59,620,898
Branch lending	44,305,110	12,425,190
Consumer lending	46,965,546	27,765,579
Residential mortgages	10,144,178	–
Others	2,232,760	1,840,360
	227,639,844	101,652,027
Financial Investments – loans and receivables	41,992,533	22,183,671
Financial Investments – available-for-sale	31,500,020	31,500,020
Financial Investments – held-to-maturity	4,137,601	4,137,601
Other financial assets	570,115	570,115

As at 31 December 2015	BANK	
	Maximum Exposure to Credit Risk	Exposure Net of Collateral
	LKR '000	LKR '000
Balances with the Central Bank of Sri Lanka	6,999,898	6,999,898
Placements with banks	1,153,619	1,153,619
Derivative financial instruments	1,903,573	1,903,573
Financial assets held-for-trading	2,985,262	2,985,262
Loans and receivables to banks	102,632	102,632
<b>Loans and Receivables to other customers (Net)</b>		
Corporate lending	120,646,375	62,367,197
Branch lending	29,778,809	8,450,093
Consumer lending	47,852,802	35,961,558
Residential mortgages	8,758,937	–
Others	2,565,146	1,539,260
	209,602,069	108,318,108
Financial investments – loans and receivables	35,830,311	21,298,039
Financial investments – available-for-sale	28,501,518	28,501,518
Financial investments – held-to-maturity	4,436,973	4,436,973
Other financial assets	3,091	3,091

As at 31 December 2016	GROUP	
	Maximum Exposure to Credit Risk	Exposure Net of Collateral
	LKR '000	LKR '000
Balances with the Central Bank of Sri Lanka	11,815,277	11,815,277
Placements with banks	3,297,262	3,297,262
Derivative financial instruments	1,544,621	1,544,621
Financial assets held-for-trading	3,661,530	3,661,530
Loans and receivables to banks	37,032	37,032
<b>Loans and Receivables to other customers (Net)</b>		
Corporate lending	123,992,250	59,620,898
Branch lending	44,305,110	12,425,190
Consumer lending	46,965,546	27,765,579
Residential mortgages	10,144,178	–
Others	2,272,855	1,880,455
	227,679,939	101,692,122
Financial investments – loans and receivables	43,896,593	24,087,730
Financial investments – available-for-sale	31,899,259	31,899,259
Financial investments – held-to-maturity	4,946,120	4,946,120
Other financial assets	418,455	418,455

As at 31 December 2015	GROUP	
	Maximum Exposure to Credit Risk	Exposure Net of Collateral
	LKR '000	LKR '000
Balances with the Central Bank of Sri Lanka	6,999,898	6,999,898
Placements with banks	1,153,619	1,153,619
Derivative financial instruments	1,903,573	1,903,573
Financial assets held-for-trading	5,229,493	5,229,493
Loans and receivables to banks	102,632	102,632
<b>Loans and Receivables to other customers (Net)</b>		
Corporate lending	120,646,375	62,367,197
Branch lending	29,778,809	8,450,093
Consumer lending	47,852,802	35,961,558
Residential mortgages	8,758,937	–
Others	2,628,638	1,602,752
	209,665,561	108,381,600
Financial investments – loans and receivables	37,368,705	22,836,434
Financial investments – available-for-sale	28,964,820	28,964,820
Financial investments – held-to-maturity	5,660,868	5,660,868
Other financial assets	580,723	580,723

## 56.1 (c) Concentrations of Credit Risk

### Concentration by Sector

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

As at 31 December 2016	BANK									
	Agriculture & Fishing	Food & Beverages	Trading	Metals, Chemicals & Engineering	Retail	Services	Textiles & Garments	Government*	Others	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and cash equivalents	–	–	–	–	–	5,018,438	–	–	–	5,018,438
Balances with the Central Bank of Sri Lanka	–	–	–	–	–	–	–	11,815,277	–	11,815,277
Placements with banks	–	–	–	–	–	3,297,262	–	–	–	3,297,262
Derivative financial instruments	–	–	–	–	–	1,544,621	–	–	–	1,544,621
Financial assets – held-for-trading	–	–	–	–	–	–	–	832,694	–	832,694
Loans and receivables to banks	–	–	–	–	–	37,032	–	–	–	37,032
Loans and receivables to other customers (net)	24,748,916	11,078,304	26,391,465	23,433,465	17,154,581	49,144,848	17,632,148	16,032,125	42,023,992	227,639,844
Financial investments – loans and receivables	–	–	–	–	–	–	–	41,992,533	–	41,992,533
Financial investments – available-for-sale	–	–	–	–	–	1,497,030	–	29,987,845	15,145	31,500,020
Financial investments – held-to-maturity	–	641,980	–	–	–	1,509,350	–	891,918	1,094,353	4,137,601
Other financial assets	–	–	–	–	–	548,496	–	–	21,619	570,115

\*Government refers to the investments held with the Central Bank of Sri Lanka, and loans and advances given to the Government related institutions.

As at 31 December 2015	BANK									
	Agriculture & Fishing	Food & Beverages	Trading	Metals, Chemicals & Engineering	Retail	Services	Textiles & Garments	Government*	Others	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and cash equivalents	–	–	–	–	–	11,821,503	–	–	–	11,821,503
Balances with the Central Bank of Sri Lanka	–	–	–	–	–	–	–	6,999,898	–	6,999,898
Placements with banks	–	–	–	–	–	1,153,619	–	–	–	1,153,619
Derivative financial instruments	–	–	–	–	–	1,903,573	–	–	–	1,903,573
Financial assets – held-for-trading	–	–	–	–	–	2,407,328	–	577,934	–	2,985,262
Loans and receivables to banks	–	–	–	–	–	102,632	–	–	–	102,632
Loans and receivables to other customers (net)	24,612,175	7,670,692	20,106,766	12,980,130	40,138,496	33,811,736	24,027,169	10,958,294	35,296,611	209,602,069
Financial investments – loans and receivables	–	–	–	–	–	–	–	35,830,311	–	35,830,311
Financial investments – available-for-sale	–	–	–	–	–	1,483,458	–	26,917,700	100,360	28,501,518
Financial investments – held-to-maturity	–	797,980	196,000	–	–	1,328,650	–	1,044,602	1,069,741	4,436,973
Other financial assets	–	–	–	–	–	–	–	–	3,091	3,091

\*Government refers to the investments held with the Central Bank of Sri Lanka, and loans and advances given to the Government related institutions.

As at 31 December 2016	GROUP									
	Agriculture & Fishing	Food & Beverages	Trading	Metals, Chemicals & Engineering	Retail	Services	Textiles & Garments	Government*	Others	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and cash equivalents	–	–	–	–	–	5,139,389	–	–	–	5,139,389
Balances with the Central Bank of Sri Lanka	–	–	–	–	–	–	–	11,815,277	–	11,815,277
Placements with banks	–	–	–	–	–	3,297,262	–	–	–	3,297,262
Derivative financial instruments	–	–	–	–	–	1,544,621	–	–	–	1,544,621
Financial assets – held-for-trading	–	4,271	51,962	5,977	–	327,593	–	832,694	2,439,033	3,661,530
Loans and receivables to banks	–	–	–	–	–	37,032	–	–	–	37,032
Loans and receivables to other customers (net)	24,748,916	11,078,304	26,391,465	23,433,465	17,154,581	49,144,848	17,632,148	16,032,125	42,064,087	227,679,939
Financial investments – loans and receivables	–	–	–	–	–	1,178,821	–	41,992,533	725,239	43,896,593
Financial investments – available-for-sale	–	–	–	–	–	1,497,032	–	29,987,845	414,382	31,899,259
Financial investments – held-to-maturity	–	641,980	–	–	–	2,217,869	–	891,918	1,194,353	4,946,120
Other financial assets	–	–	–	–	–	–	–	–	418,456	418,456

\*Government refers to the investments held with the Central Bank of Sri Lanka, and loans and advances given to the Government related institutions.

As at 31 December 2015	GROUP									
	Agriculture & Fishing	Food & Beverages	Trading	Metals, Chemicals & Engineering	Retail	Services	Textiles & Garments	Government*	Others	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and cash equivalents	–	–	–	–	–	11,821,503	–	–	–	11,848,575
Balances with the Central Bank of Sri Lanka	–	–	–	–	–	–	–	6,999,898	–	6,999,898
Placements with banks	–	–	–	–	–	1,153,619	–	–	–	1,153,619
Derivative financial instruments	–	–	–	–	–	1,903,573	–	–	–	1,903,573
Financial assets – held-for-trading	–	6,794	55,527	2,910	–	2,671,240	1,775	577,933	1,913,314	5,229,493
Loans and receivables to banks	–	–	–	–	–	102,632	–	–	–	102,632
Loans and receivables to other customers (net)	24,612,175	7,670,692	20,106,766	12,980,130	40,138,496	33,811,736	24,027,169	10,958,294	35,360,103	209,665,561
Financial investments – loans and receivables	–	–	83,221	–	–	857,045	–	35,830,311	598,128	37,368,705
Financial investments – available-for-sale	–	–	–	–	–	1,483,458	–	26,917,700	563,662	28,964,820
Financial investments – held-to-maturity	–	797,980	528,940	–	–	1,976,197	–	1,044,602	1,313,149	5,660,868
Other financial assets	–	–	–	–	–	–	–	–	580,723	580,723

\*Government refers to the investments held with the Central Bank of Sri Lanka, and loans and advances given to the Government related institutions.

## 56.1 (d) Commitments and Contingencies

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

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

	BANK	
	2016	2015
	LKR '000	LKR '000
Guarantees and bonds	26,846,635	21,862,258
Shipping guarantees	2,232,165	4,058,389
Advance documents endorsed	637,612	963,966
Documentary credit	8,406,120	8,132,261
Acceptances	7,320,644	7,620,960
Undrawn overdrafts and credit cards	12,913,230	14,836,720
Commitments	97,922,585	95,813,207
Forward foreign exchange contracts	77,942,058	84,460,652
<b>Total</b>	<b>234,221,049</b>	<b>237,748,413</b>

	GROUP	
	2016	2015
	LKR '000	LKR '000
Guarantees and bonds	26,846,634	21,027,258
Shipping guarantees	2,232,165	4,058,389
Advance documents endorsed	637,612	963,966
Documentary credit	8,406,120	8,132,261
Acceptances	7,320,644	7,620,960
Undrawn overdrafts and credit cards	12,847,706	14,836,720
Commitments	98,897,534	97,489,367
Forward foreign exchange contracts	77,942,058	84,460,652
<b>Total</b>	<b>235,130,473</b>	<b>238,589,573</b>

## 56.1 (e) Offsetting of Financial Assets and Liabilities

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

### Financial Assets and Liabilities that are not subject to Offsetting

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

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

As at 31 December	2016			2015		
	Gross Amounts	Amount Subject to Netting but do not Qualify for Offsetting	Net Amount	Gross Amounts	Amount Subject to Netting but do not Qualify for Offsetting	Net Amount
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
<b>Financial Assets</b>						
Loans and receivables to other customers	53,503,255	27,658,204	25,845,051	40,846,345	19,423,046	21,423,299
<b>Financial Liabilities</b>						
Securities sold under repurchase agreements	24,471,554	25,842,249	–	26,667,251	27,949,792	–

## 56.2 Market Risk

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

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

### 56.2 (a) Interest Rate Risk

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

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

## 56.2 (b) Sensitivity of the Financial Assets Held-for-Trading (HFT) – Sri Lanka Government Securities

	2016			
	Portfolio Size	Increase/Decrease in Basis Points	Sensitivity of Profit or Loss, Bank	Sensitivity of Profit or Loss, Group
	LKR '000		LKR '000	LKR '000
HFT portfolio	814,034	+100/(100)	(2,293)/2,336	(2,293)/2,336

	2015			
	Portfolio Size	Increase/Decrease in Basis Points	Sensitivity of Profit or Loss, Bank	*Sensitivity of Profit or Loss, Group
	LKR '000		LKR '000	LKR '000
HFT Portfolio	560,908	+100/(100)	(7,223)/7,377	(7,223)/7,377

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

## Sensitivity of the Financial Investments Available-for-Sale (AFS) – Fixed Income Securities

	2016			
	Portfolio Size	Increase/Decrease in Basis Points	Sensitivity on Bank	Sensitivity on Group
	LKR '000		LKR '000	LKR '000
AFS Portfolio	30,528,207	+100/(100)	(416,841)/439,301	(416,841)/439,301

	2015			
	Portfolio Size	Increase/Decrease in Basis Points	Sensitivity on Bank	Sensitivity on Group
	LKR '000		LKR '000	LKR '000
AFS Portfolio	26,997,647	+100/(100)	(271,157)/281,080	(271,157)/281,080

The sensitivity of the Statement of Profit or Loss is the effect of the assumed changes in interest rates on the profit or loss for a year, based on the interest rate sensitive assets and liabilities as at 31 December 2016.

## 56.2 (c) Interest Rates Sensitivity Analysis

The table below analyse the Bank's and the Group's interest rate risk exposure on financial assets and liabilities as at 31 December 2016:

As at 31 December 2016	BANK						
	On Demand LKR '000	Less than 3 Months LKR '000	3-12 Months LKR '000	1-5 Years LKR '000	Over 5 Years LKR '000	Non-Interest Bearing LKR '000	Carrying Amount LKR '000
<b>Assets</b>							
Cash and cash equivalents	–	–	–	–	–	5,018,438	5,018,438
Balances with the Central Bank of Sri Lanka	–	–	–	–	–	11,815,277	11,815,277
Placements with banks	1,662	3,295,600	–	–	–	–	3,297,262
Financial assets held-for-trading	832,694	–	–	–	–	–	832,694
Loans and receivables to banks	655	5,643	14,731	16,003	–	–	37,032
Loans and receivables to other customers	47,786,678	53,355,472	28,773,596	76,960,484	20,763,614	–	227,639,844
Financial investments – loans and receivables	312,871	22,804,862	2,247,000	16,627,800	–	–	41,992,533
Financial investments – available-for-sale	29,987,845	–	–	–	–	1,512,175	31,500,020
Financial investments – held-to-maturity	166,538	–	583,923	3,387,140	–	–	4,137,601
Other financial assets	570,115	–	–	–	–	–	570,115
<b>Total financial assets</b>	<b>79,659,058</b>	<b>79,461,577</b>	<b>31,619,250</b>	<b>96,991,427</b>	<b>20,763,614</b>	<b>18,345,890</b>	<b>326,840,816</b>
<b>Liabilities</b>							
Due to banks	246,724	13,204,706	3,673,514	–	–	–	17,124,944
Due to other customers	38,255,684	79,044,505	59,287,231	9,766,441	1,248,268	16,264,418	203,866,547
Debt securities issued and other borrowed funds	19,555,178	23,560,412	2,872,456	9,061,723	4,183,495	–	59,233,264
Subordinated term debts	7,732	–	326,700	11,914,211	7,197,858	–	19,446,501
Other financial liabilities	2,777,519	–	–	–	–	–	2,777,519
<b>Total financial liabilities</b>	<b>60,842,837</b>	<b>115,809,623</b>	<b>66,159,901</b>	<b>30,742,375</b>	<b>12,629,621</b>	<b>16,264,418</b>	<b>302,448,775</b>
<b>Total interest sensitivity gap</b>	<b>18,816,221</b>	<b>(36,348,046)</b>	<b>(34,540,651)</b>	<b>66,249,052</b>	<b>8,133,993</b>	<b>2,081,472</b>	<b>24,392,041</b>

As at 31 December 2015	BANK						
	On Demand LKR '000	Less than 3 Months LKR '000	3 -12 Months LKR '000	1-5 Years LKR '000	Over 5 Years LKR '000	Non-Interest Bearing LKR '000	Carrying Amount LKR '000
<b>Assets</b>							
Cash and cash equivalents	–	–	–	–	–	11,821,503	11,821,503
Balances with the Central Bank of Sri Lanka	–	–	–	–	–	6,999,898	6,999,898
Placements with banks	1,619	1,152,000	–	–	–	–	1,153,619
Financial assets held-for-trading	2,985,262	–	–	–	–	–	2,985,262
Loans and receivables to banks	3,468	40,169	20,759	38,236	–	–	102,632
Loans and receivables to other customers	33,178,037	61,409,854	26,981,158	66,305,161	21,727,859	–	209,602,069
Financial investments – loans and receivables	274,039	29,220,272	6,336,000	–	–	–	35,830,311
Financial investments – available-for-sale	26,917,700	–	–	–	–	1,583,818	28,501,518
Financial investments – held-to-maturity	145,760	–	1,243,220	3,047,993	–	–	4,436,973
Other financial assets	3,091	–	–	–	–	–	3,091
<b>Total financial assets</b>	<b>63,508,976</b>	<b>91,822,295</b>	<b>34,581,137</b>	<b>69,391,390</b>	<b>21,727,859</b>	<b>20,405,219</b>	<b>301,436,876</b>
<b>Liabilities</b>							
Due to banks	49,366	11,127,600	443,037	–	–	–	11,620,003
Due to other customers	34,765,742	72,410,382	55,701,557	3,917,124	1,206,591	16,931,834	184,933,230
Debt securities issued and other borrowed funds	658,116	25,924,483	3,785,111	23,656,543	6,503,591	–	60,527,844
Subordinated term debts	13,477	–	326,700	11,977,336	7,256,370	–	19,573,883
Other financial liabilities	2,960,063	–	–	–	–	–	2,960,063
<b>Total financial liabilities</b>	<b>38,446,764</b>	<b>109,462,465</b>	<b>60,256,405</b>	<b>39,551,003</b>	<b>14,966,552</b>	<b>16,931,834</b>	<b>279,615,023</b>
<b>Total interest sensitivity gap</b>	<b>25,062,212</b>	<b>(17,640,170)</b>	<b>(25,675,268)</b>	<b>29,840,387</b>	<b>6,761,307</b>	<b>3,473,385</b>	<b>21,821,853</b>



As at 31 December 2016	GROUP						
	On Demand	Less than 3 Months	3 -12 Months	1-5 Years	Over 5 Years	Non-Interest Bearing	Carrying Amount
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
<b>Assets</b>							
Cash and cash equivalents	–	–	–	–	–	5,139,389	5,139,389
Balances with the Central Bank of Sri Lanka	–	–	–	–	–	11,815,277	11,815,277
Placements with banks	1,662	3,295,600	–	–	–	–	3,297,262
Financial assets held-for-trading	3,661,530	–	–	–	–	–	3,661,530
Loans and receivables to banks	655	5,643	14,731	16,003	–	–	37,032
Loans and receivables to other customers	47,720,571	53,361,105	28,787,444	77,017,857	20,792,962	–	227,679,939
Financial investments – loans and receivables	364,908	22,804,862	2,311,122	18,415,701	–	–	43,896,593
Financial investments – available-for-sale	29,987,845	–	–	–	–	1,911,414	31,899,259
Financial investments – held-to-maturity	207,474	–	838,515	3,900,131	–	–	4,946,120
Other financial assets	418,456	–	–	–	–	–	418,456
<b>Total financial assets</b>	<b>82,363,101</b>	<b>79,467,210</b>	<b>31,951,812</b>	<b>99,349,692</b>	<b>20,792,962</b>	<b>18,866,080</b>	<b>332,790,857</b>
<b>Liabilities</b>							
Due to Banks	246,724	13,204,706	3,673,514	–	–	–	17,124,944
Due to other Customers	38,208,665	78,750,902	59,287,231	9,766,441	1,248,268	16,254,321	203,515,828
Debt Securities issued and other borrowed funds	19,555,178	23,560,412	2,872,456	9,061,723	4,183,495	–	59,233,264
Subordinated term debts	7,732	–	326,700	11,914,211	7,197,858	–	19,446,501
Other financial liabilities	3,516,073	–	–	–	–	–	3,516,073
<b>Total financial liabilities</b>	<b>61,534,372</b>	<b>115,516,020</b>	<b>66,159,901</b>	<b>30,742,375</b>	<b>12,629,621</b>	<b>16,254,321</b>	<b>302,836,610</b>
<b>Total interest sensitivity gap</b>	<b>20,828,729</b>	<b>(36,048,810)</b>	<b>(34,208,089)</b>	<b>68,607,317</b>	<b>8,163,341</b>	<b>2,611,759</b>	<b>29,954,247</b>

As at 31 December 2015	GROUP						
	On Demand	Less than 3 Months	3 -12 Months	1-5 Years	Over 5 Years	Non-Interest Bearing	Carrying Amount
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
<b>Assets</b>							
Cash and cash equivalents	–	–	–	–	–	11,848,575	11,848,575
Balances with the Central Bank of Sri Lanka	–	–	–	–	–	6,999,898	6,999,898
Placements with banks	1,619	1,152,000	–	–	–	–	1,153,619
Financial assets held-for-trading	5,229,493	–	–	–	–	–	5,229,493
Loans and receivables to banks	3,468	40,169	20,759	38,236	–	–	102,632
Loans and receivables to other customers	33,154,376	61,414,552	26,992,468	66,353,399	21,750,766	–	209,665,561
Financial investments – loans and receivables	319,392	29,220,272	6,336,000	1,408,317	84,724	–	37,368,705
Financial investments – available-for-sale	26,917,700	–	–	–	–	2,047,120	28,964,820
Financial investments – held-to-maturity	201,448	–	1,673,550	3,785,870	–	–	5,660,868
Other financial assets	580,723	–	–	–	–	–	580,723
<b>Total financial assets</b>	<b>66,408,219</b>	<b>91,826,993</b>	<b>35,022,777</b>	<b>71,585,822</b>	<b>21,835,490</b>	<b>20,895,593</b>	<b>307,574,894</b>
<b>Liabilities</b>							
Due to banks	49,366	11,127,600	443,037	–	–	–	11,620,003
Due to other customers	34,660,881	71,759,264	55,701,557	3,917,124	1,206,590	16,906,864	184,152,280
Debt securities issued and other borrowed funds	658,115	25,924,483	3,755,111	23,656,543	6,503,592	–	60,497,844
Subordinated term debts	13,477	–	326,700	11,977,336	7,256,370	–	19,573,883
Other financial liabilities	3,194,279	–	–	–	–	–	3,194,279
<b>Total financial liabilities</b>	<b>38,576,118</b>	<b>108,811,347</b>	<b>60,226,405</b>	<b>39,551,003</b>	<b>14,966,552</b>	<b>16,906,864</b>	<b>279,038,289</b>
<b>Total interest sensitivity gap</b>	<b>27,832,101</b>	<b>(16,984,354)</b>	<b>(25,203,628)</b>	<b>32,034,819</b>	<b>6,868,938</b>	<b>3,988,729</b>	<b>28,536,605</b>

## 56.2 (d) Mark to Market Valuation

The Sri Lanka Government Securities portfolio classified as financial assets – Held-for-trading and financial investments – Available-for-sale, foreign exchange positions and foreign currency options are subject to marked to market valuations on a daily basis to derive the economic value of portfolios.

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

## 56.2 (e) Currency Risk

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

The table below indicate the currencies to which the Bank had significant exposure as at 31 December 2016 and 31 December 2015 on its currency exposures. The analysis calculates the sensitivity of each currency position to the increase in exchange rate against the Sri Lankan Rupee (functional currency) with all other variables held constant in the Statement of Profit or Loss and equity. A negative amount in the table reflects a potential net reduction in the Statement of Profit or Loss or equity, while a positive amount reflects a net potential increase depending on the side of the currency position.

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

### Change in Currency Rates in Percentage

Currency	Spot Rate Shock %	2016		2015	
		Effect on Profit LKR '000	Effect on Equity LKR '000	Effect on Profit LKR '000	Effect on Equity LKR '000
United States Dollar	2.50	21,916	21,916	3,996	3,996
Great Britain Pound	2.50	(180)	(180)	10	10
Euro	2.50	47	47	(236)	(236)
Japanese Yen	2.50	(43)	(43)	(1,749)	(1,749)
Australian Dollar	2.50	91	91	(20)	(20)

## 56.2 (f) Price Risk

### Equity Price Risk

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

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

Entity	2016			
	Magnitude of Shock and the Fall in Value of Equities – LKR '000			
	Portfolio Value	Scenario 1 5%	Scenario 2 10%	Scenario 3 15%
Bank	1,381,841	69,092	138,184	207,276
Group	2,024,024	100,741	201,483	302,224

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

### Sensitivity of the Unit Trust Investments

The Bank was insensitive for the investments under Unit Trust Fund; however, the sensitivity of the Group could have the following impact due to an adverse impact in the unit trust prices. The impact is monitored under three scenarios, mid moderate and adverse conditions.

Entity	2016			
	Magnitude of Shock and the Fall in Value of Units – LKR '000			
	Portfolio Value	Scenario 1 5%	Scenario 2 10%	Scenario 3 15%
Bank	–	–	–	–
Group	2,435,891	121,795	243,589	365,384

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

## 56.2 (g) Commodity Price Risk

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

Items	2016				
	Change in Value due to Decrease in Market Price – LKR '000				
	No. of Units	Present Value at Market Price	Scenario 1 2%	Scenario 2 5%	Scenario 3 8%
Coins	394	16,969	16,630	16,121	15,612
Biscuits	112	62,081	60,840	58,977	57,115

Items	2015				
	Change in Value due to Decrease in Market Price – LKR '000				
	No. of Units	Present Value at Market Price	Scenario 1 2%	Scenario 2 5%	Scenario 3 8%
Coins	395	15,076	14,775	14,322	13,870
Biscuits	113	55,507	54,397	52,732	51,067

## 56.2 (h) Country Risk

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

### Concentration by Country

#### Geographical Analysis

31 December 2016	BANK							Total LKR '000
	Sri Lanka	Europe	America	Asia	Middle East	Australia – New Zealand	Africa	
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	
Cash and cash equivalents	2,797,771	314,630	1,284,609	398,597	67,269	155,562	–	5,018,438
Balances with the Central Bank of Sri Lanka	11,815,277	–	–	–	–	–	–	11,815,277
Placements with banks	3,297,262	–	–	–	–	–	–	3,297,262
Derivative financial instruments	1,544,621	–	–	–	–	–	–	1,544,621
Financial assets held-for-trading	832,694	–	–	–	–	–	–	832,694
Loans and receivables to banks	37,032	–	–	–	–	–	–	37,032
Loans and receivables to other customers	218,358,823	–	–	7,662,827	130,856	–	1,487,338	227,639,844
Financial Investments – loans and receivables	41,992,533	–	–	–	–	–	–	41,992,533
Financial Investments – available-for-sale	31,500,020	–	–	–	–	–	–	31,500,020
Financial Investments – held-to-maturity	4,137,601	–	–	–	–	–	–	4,137,601
Other financial assets	570,115	–	–	–	–	–	–	570,115
<b>Total financial assets</b>	<b>316,883,749</b>	<b>314,630</b>	<b>1,284,609</b>	<b>8,061,424</b>	<b>198,125</b>	<b>155,562</b>	<b>1,487,338</b>	<b>328,385,437</b>

31 December 2015	BANK							
	Sri Lanka	Europe	America	Asia	Middle East	Australia – New Zealand	Africa	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and cash equivalents	2,773,122	1,539,976	7,008,139	434,738	7,708	57,820	–	11,821,503
Balances with the Central Bank of Sri Lanka	6,999,898	–	–	–	–	–	–	6,999,898
Placements with banks	1,153,619	–	–	–	–	–	–	1,153,619
Derivative financial instruments	1,903,573	–	–	–	–	–	–	1,903,573
Financial assets held-for-trading	2,985,262	–	–	–	–	–	–	2,985,262
Loans and receivables to banks	102,632	–	–	–	–	–	–	102,632
Loans and receivables to other customers	202,568,503	–	–	5,361,724	–	–	1,671,842	209,602,069
Financial Investments – loans and receivables	35,830,311	–	–	–	–	–	–	35,830,311
Financial Investments – available-for-sale	28,501,518	–	–	–	–	–	–	28,501,518
Financial Investments – held-to-maturity	4,436,973	–	–	–	–	–	–	4,436,973
Other financial assets	3,091	–	–	–	–	–	–	3,091
<b>Total financial assets</b>	<b>287,258,502</b>	<b>1,539,976</b>	<b>7,008,139</b>	<b>5,796,462</b>	<b>7,708</b>	<b>57,820</b>	<b>1,671,842</b>	<b>303,340,449</b>

31 December 2016	GROUP							
	Sri Lanka	Europe	America	Asia	Middle East	Australia – New Zealand	Africa	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and cash equivalents	2,918,722	314,630	1,284,609	398,597	67,269	155,562	–	5,139,389
Balances with the Central Bank of Sri Lanka	11,815,277	–	–	–	–	–	–	11,815,277
Placements with banks	3,297,262	–	–	–	–	–	–	3,297,262
Derivative financial instruments	1,544,621	–	–	–	–	–	–	1,544,621
Financial assets – held-for-trading	3,661,530	–	–	–	–	–	–	3,661,530
Loans and receivables to banks	37,032	–	–	–	–	–	–	37,032
Loans and receivables to other customers	218,398,918	–	–	7,662,827	130,856	–	1,487,338	227,679,939
Financial Investments – loans and receivables	43,896,593	–	–	–	–	–	–	43,896,593
Financial Investments – available-for-sale	31,899,259	–	–	–	–	–	–	31,899,259
Financial Investments – held-to-maturity	4,946,120	–	–	–	–	–	–	4,946,120
Other financial assets	418,456	–	–	–	–	–	–	418,456
<b>Total financial assets</b>	<b>322,833,789</b>	<b>314,630</b>	<b>1,284,609</b>	<b>8,061,424</b>	<b>198,125</b>	<b>155,562</b>	<b>1,487,338</b>	<b>334,335,478</b>

31 December 2015	GROUP							
	Sri Lanka	Europe	America	Asia	Middle East	Australia – New Zealand	Africa	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and cash equivalents	2,800,194	1,539,976	7,008,139	434,738	7,708	57,820	–	11,848,575
Balances with the Central Bank of Sri Lanka	6,999,898	–	–	–	–	–	–	6,999,898
Placements with banks	1,153,619	–	–	–	–	–	–	1,153,619
Derivative financial instruments	1,903,573	–	–	–	–	–	–	1,903,573
Financial assets – held-for-trading	5,229,493	–	–	–	–	–	–	5,229,493
Loans and receivables to banks	102,632	–	–	–	–	–	–	102,632
Loans and receivables to other customers	202,631,995	–	–	5,361,724	–	–	1,671,842	209,665,561
Financial Investments – loans and receivables	37,368,705	–	–	–	–	–	–	37,368,705
Financial Investments – available-for-sale	28,964,820	–	–	–	–	–	–	28,964,820
Financial Investments – held-to-maturity	5,660,868	–	–	–	–	–	–	5,660,868
Other financial assets	580,723	–	–	–	–	–	–	580,723
<b>Total financial assets</b>	<b>293,396,520</b>	<b>1,539,976</b>	<b>7,008,139</b>	<b>5,796,462</b>	<b>7,708</b>	<b>57,820</b>	<b>1,671,842</b>	<b>309,478,467</b>

## 56.2 (i) Liquidity Risk

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

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

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

### Liquidity Risk

The table below summarizes the maturity profile of the undiscounted cash flows of the Bank and the Group financial assets and liabilities as at 31 December 2016 and 31 December 2015:

31 December 2016	BANK						Total LKR '000
	On Demand	Trading Derivatives	Less than 3 Months	3-12 Months	1-5 Years	Over 5 years	
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	
<b>Financial Assets</b>							
Cash and cash equivalents	5,018,438	–	–	–	–	–	5,018,438
Balances with the Central Bank of Sri Lanka	11,815,277	–	–	–	–	–	11,815,277
Less: Restricted balance	(11,815,277)	–	–	–	–	–	(11,815,277)
Placements with banks	–	–	3,300,061	–	–	–	3,300,061
Derivative financial instruments	–	1,544,621	–	–	–	–	1,544,621
Financial assets – held-for-trading	832,694	–	–	–	–	–	832,694
Loans and receivables to banks	655	–	6,151	15,778	16,962	–	39,546
Loans and receivables to other customers	48,049,756	–	55,053,160	33,080,205	101,247,154	29,213,078	266,643,353
Financial Investments – loans and receivables	–	–	22,795,687	2,302,217	17,064,286	–	42,162,190
Financial assets – available-for-sale	31,500,020	–	–	–	–	–	31,500,020
Financial assets – held-to-maturity	–	–	74,848	934,048	4,145,056	–	5,153,952
Other financial assets	570,115	–	–	–	–	–	570,115
<b>Total undiscounted financial assets</b>	<b>85,971,678</b>	<b>1,544,621</b>	<b>81,229,907</b>	<b>36,332,248</b>	<b>122,473,458</b>	<b>29,213,078</b>	<b>356,764,990</b>
<b>Financial Liabilities</b>							
Due to banks	–	–	13,494,578	3,828,974	–	–	17,323,552
Derivative financial instruments	–	474,770	–	–	–	–	474,770
Due to other customers	50,949,027	–	81,822,557	64,423,653	13,357,965	1,499,064	212,052,266
Debt securities issued and other borrowed funds	18,726,154	–	23,816,568	3,848,034	11,527,355	4,875,116	62,793,227
Subordinated term debts	–	–	–	2,386,417	18,803,785	10,250,409	31,440,611
Other financial liabilities	2,777,519	–	–	–	–	–	2,777,519
<b>Total undiscounted financial liabilities</b>	<b>72,452,700</b>	<b>474,770</b>	<b>119,133,703</b>	<b>74,487,078</b>	<b>43,689,105</b>	<b>16,624,589</b>	<b>326,861,945</b>
<b>Net undiscounted financial assets and liabilities</b>	<b>13,518,978</b>	<b>1,069,851</b>	<b>(37,903,796)</b>	<b>(38,154,830)</b>	<b>78,784,353</b>	<b>12,588,489</b>	<b>29,903,045</b>

31 December 2015	BANK						Total LKR '000
	On Demand	Trading Derivatives	Less than 3 Months	3-12 Months	1-5 Years	Over 5 years	
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	
<b>Financial Assets</b>							
Cash and cash equivalents	11,821,503	–	–	–	–	–	11,821,503
Balances with the Central Bank of Sri Lanka	6,999,898	–	–	–	–	–	6,999,898
Less: Restricted balance	(6,999,898)	–	–	–	–	–	(6,999,898)
Placements with banks	–	–	1,154,104	–	–	–	1,154,104
Derivative financial instruments	–	1,903,573	–	–	–	–	1,903,573
Financial assets – held-for-trading	2,985,262	–	–	–	–	–	2,985,262
Loans and receivables to banks	3,468	–	41,401	22,943	40,783	–	108,595
Loans and receivables to other customers	33,030,237	–	62,783,612	30,642,200	85,289,432	32,496,643	244,242,124
Financial Investments – loans and receivables	–	–	29,516,807	6,478,074	–	–	35,994,881
Financial assets – available-for-sale	28,501,518	–	–	–	–	–	28,501,518
Financial assets – held-to-maturity	–	–	89,654	1,594,061	3,905,614	–	5,589,329
Other financial assets	3,091	–	–	–	–	–	3,091
<b>Total undiscounted financial assets</b>	<b>76,345,079</b>	<b>1,903,573</b>	<b>93,585,578</b>	<b>38,737,278</b>	<b>89,235,829</b>	<b>32,496,643</b>	<b>332,303,980</b>
<b>Financial Liabilities</b>							
Due to banks	16,891	–	11,172,037	452,538	–	–	11,641,466
Derivative financial instruments	–	639,272	–	–	–	–	639,272
Due to other customers	48,792,521	–	74,538,114	59,192,048	5,313,208	1,636,588	189,472,479
Debt securities issued and other borrowed funds	–	–	26,672,790	5,106,707	27,483,576	9,339,611	68,602,684
Subordinated term debts	–	–	–	2,418,040	20,179,192	11,260,126	33,857,358
Other financial liabilities	2,960,063	–	–	–	–	–	2,960,063
<b>Total undiscounted financial liabilities</b>	<b>51,769,475</b>	<b>639,272</b>	<b>112,382,941</b>	<b>67,169,333</b>	<b>52,975,976</b>	<b>22,236,325</b>	<b>307,173,322</b>
<b>Net undiscounted financial assets and liabilities</b>	<b>24,575,604</b>	<b>1,264,301</b>	<b>(18,797,363)</b>	<b>(28,432,055)</b>	<b>36,259,853</b>	<b>10,260,318</b>	<b>25,130,658</b>

31 December 2016	GROUP						Total LKR '000
	On Demand	Trading Derivatives	Less than 3 Months	3-12 Months	1-5 Years	Over 5 years	
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	
<b>Financial Assets</b>							
Cash and cash equivalents	5,139,389	–	–	–	–	–	5,139,389
Balances with the Central Bank of Sri Lanka	11,815,277	–	–	–	–	–	11,815,277
Less: Restricted balance	(11,815,277)	–	–	–	–	–	(11,815,277)
Placements with banks	–	–	3,300,061	–	–	–	3,300,061
Derivative financial instruments	–	1,544,621	–	–	–	–	1,544,621
Financial assets – held-for-trading	3,661,530	–	–	–	–	–	3,661,530
Loans and receivables to banks	655	–	6,151	15,778	16,962	–	39,546
Loans and receivables to other customers	47,983,649	–	55,058,822	33,094,253	101,308,680	29,245,758	266,691,162
Financial Investments – loans and receivables	–	–	22,795,687	2,373,115	18,877,781	–	44,046,583
Financial assets – available-for-sale	31,899,259	–	–	–	–	–	31,899,259
Financial assets – held-to-maturity	–	–	74,848	1,189,969	4,672,923	–	5,937,740
Other financial assets	418,456	–	–	–	–	–	418,456
<b>Total undiscounted financial assets</b>	<b>89,102,938</b>	<b>1,544,621</b>	<b>81,235,569</b>	<b>36,673,115</b>	<b>124,876,346</b>	<b>29,245,758</b>	<b>362,678,347</b>
<b>Financial Liabilities</b>							
Due to banks	–	–	13,494,578	3,828,974	–	–	17,323,552
Derivative financial instruments	–	474,770	–	–	–	–	474,770
Due to other customers	50,893,811	–	81,528,864	64,423,653	13,357,965	1,499,064	211,703,357
Debt securities issued and other borrowed funds	18,726,154	–	23,816,568	3,848,034	11,527,355	4,875,116	62,793,227
Subordinated term debts	–	–	–	2,386,417	18,803,785	10,250,409	31,440,611
Other financial liabilities	3,516,073	–	–	–	–	–	3,516,073
<b>Total undiscounted financial liabilities</b>	<b>73,136,038</b>	<b>474,770</b>	<b>118,840,010</b>	<b>74,487,078</b>	<b>43,689,105</b>	<b>16,624,589</b>	<b>327,251,590</b>
<b>Net undiscounted financial assets and liabilities</b>	<b>15,966,900</b>	<b>1,069,851</b>	<b>(37,604,441)</b>	<b>(37,813,963)</b>	<b>81,187,241</b>	<b>12,621,169</b>	<b>35,426,757</b>

31 December 2015	GROUP						Total LKR '000
	On Demand	Trading Derivatives	Less than 3 Months	3-12 Months	1-5 Years	Over 5 years	
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	
<b>Financial Assets</b>							
Cash and cash equivalents	11,848,575	–	–	–	–	–	11,848,575
Balances with the Central Bank of Sri Lanka	6,999,898	–	–	–	–	–	6,999,898
Less: Restricted balance	(6,999,898)	–	–	–	–	–	(6,999,898)
Placements with banks	–	–	1,154,104	–	–	–	1,154,104
Derivative financial instruments	–	1,903,573	–	–	–	–	1,903,573
Financial assets – held-for-trading	5,229,493	–	–	–	–	–	5,229,493
Loans and receivables to banks	3,468	–	41,401	22,943	40,783	–	108,595
Loans and receivables to other customers	33,027,847	–	62,788,334	30,653,678	85,341,281	32,522,158	244,333,298
Financial Investments – loans and receivables	–	–	29,516,807	6,478,074	2,164,910	156,655	38,316,446
Financial assets – available-for-sale	28,964,820	–	–	–	–	–	28,964,820
Financial assets – held-to-maturity	–	–	89,654	2,221,544	5,061,213	–	7,372,411
Other financial assets	580,723	–	–	–	–	–	580,723
<b>Total undiscounted financial assets</b>	<b>79,654,926</b>	<b>1,903,573</b>	<b>93,590,300</b>	<b>39,376,239</b>	<b>92,608,187</b>	<b>32,678,813</b>	<b>339,812,038</b>
<b>Financial Liabilities</b>							
Due to banks	16,891	–	11,172,037	452,538	–	–	11,641,466
Derivative financial instruments	–	639,272	–	–	–	–	639,272
Due to other customers	48,663,526	–	73,879,166	59,192,048	5,313,208	1,636,588	188,684,536
Debt securities issued and other borrowed funds	–	–	26,672,121	5,076,039	27,483,576	9,339,611	68,571,347
Subordinated term debts	–	–	–	2,418,040	20,179,192	11,260,126	33,857,358
Other financial liabilities	3,194,279	–	–	–	–	–	3,194,279
<b>Total undiscounted financial liabilities</b>	<b>51,874,696</b>	<b>639,272</b>	<b>111,723,324</b>	<b>67,138,665</b>	<b>52,975,976</b>	<b>22,236,325</b>	<b>306,588,258</b>
<b>Net undiscounted financial assets and liabilities</b>	<b>27,780,230</b>	<b>1,264,301</b>	<b>(18,133,024)</b>	<b>(27,762,426)</b>	<b>39,632,211</b>	<b>10,442,488</b>	<b>33,223,780</b>

## Contractual Maturities for Commitments and Contingencies

The table below summarises the maturity profile of the commitments and contingencies for the Bank and the Group, as at 31 December 2016 and 31 December 2015.

31 December 2016	BANK					Total LKR '000
	On Demand	Less than 3 Months	3-12 Months	1-5 Years	Over 5 years	
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	
Undisbursed financing commitments	110,835,816	–	–	–	–	110,835,816
Guarantees and performance bonds	–	6,069,353	11,853,491	8,876,679	2,916,888	29,716,411
Documentary credits	–	5,542,101	2,407,902	456,117	–	8,406,120
Forward foreign exchange contracts	–	46,728,313	31,165,835	47,910	–	77,942,058
Acceptances	–	5,671,190	1,638,219	11,235	–	7,320,644
	<b>110,835,816</b>	<b>64,010,958</b>	<b>47,065,447</b>	<b>9,391,941</b>	<b>2,916,888</b>	<b>234,221,049</b>

31 December 2015	BANK					Total LKR '000
	On Demand	Less than 3 Months	3-12 Months	1-5 Years	Over 5 years	
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	
Undisbursed financing commitments	110,649,926	–	–	–	–	110,649,926
Guarantees and performance bonds	–	5,201,239	8,841,724	7,814,944	5,026,707	26,884,614
Documentary credits	–	5,925,841	1,742,216	464,204	–	8,132,261
Forward foreign exchange contracts	–	51,558,560	32,758,091	144,000	–	84,460,652
Acceptances	–	5,106,522	2,514,438	–	–	7,620,960
	<b>110,649,926</b>	<b>67,792,162</b>	<b>45,856,469</b>	<b>8,423,148</b>	<b>5,026,707</b>	<b>237,748,413</b>



31 December 2016	GROUP					Total LKR '000
	On Demand	Less than 3 Months	3-12 Months	1-5 Years	Over 5 years	
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	
Undisbursed financing commitments	111,745,240	–	–	–	–	111,745,240
Guarantees and performance bonds	–	6,069,354	11,853,490	8,876,679	2,916,888	29,716,411
Documentary credits	–	5,542,102	2,407,901	456,117	–	8,406,120
Forward foreign exchange contracts	–	46,728,313	31,165,835	47,910	–	77,942,058
Acceptances	–	5,671,190	1,638,219	11,235	–	7,320,644
	111,745,240	64,010,959	47,065,445	9,391,941	2,916,888	235,130,473

31 December 2015	GROUP					Total LKR '000
	On Demand	Less than 3 Months	3-12 Months	1-5 Years	Over 5 years	
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	
Undisbursed financing commitments	112,326,086	–	–	–	–	112,326,086
Guarantees and performance bonds	–	4,366,239	8,841,724	7,814,944	5,026,707	26,049,614
Documentary credits	–	5,925,841	1,742,216	464,204	–	8,132,261
Forward foreign exchange contracts	–	51,558,561	32,758,091	144,000	–	84,460,652
Acceptances	–	5,106,522	2,514,438	–	–	7,620,960
	112,326,086	66,957,162	45,856,469	8,423,148	5,026,707	238,589,573

### 56.3 Capital Management

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

The detailed capital adequacy computation for the Bank and the Group as at 31 December 2016 and 31 December 2015 is given on page 186 to 189.