

## STATEMENT OF CASH FLOW

### ACCOUNTING POLICY

The Statement of Cash Flow has been prepared by using 'The Direct Method', whereby gross cash receipts and gross cash payments of operating, investing and financing activities have been recognized. For the purpose of the preparation of the Statement of Cash Flow, cash and cash equivalents include cash and cash equivalents, balances with the Central Bank of Sri Lanka and placements with banks net of unfavourable nostro account balances, as presented in the Statement of Financial Position.

For the year ended 31 December	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
<b>Cash flows from operating activities</b>				
Interest received	26,492,391	20,765,613	26,770,059	21,038,450
Fee and commission income received	2,253,226	2,016,259	3,273,243	2,765,456
Dividend income received	481,457	942,293	81,208	(636)
Other operating income received	1,370,942	1,700,796	1,377,172	1,870,590
Interest paid	(19,700,090)	(13,134,957)	(19,705,603)	(13,134,957)
Personnel costs paid	(3,387,278)	(3,162,861)	(3,488,904)	(3,280,182)
Other expenses paid	(2,574,442)	(2,415,887)	(3,121,736)	(2,519,663)
<b>Operating profit before changes in operating assets and liabilities (a)</b>	<b>4,936,206</b>	<b>6,711,256</b>	<b>5,185,439</b>	<b>6,739,058</b>
Net increase in loans and receivables to other customers	(17,564,396)	(34,473,636)	(17,568,625)	(34,473,636)
Net increase due to other customers	18,271,867	32,941,814	18,271,867	32,941,814
Net (increase)/decrease in other assets	130,036	(95,262)	174,537	(179,272)
Net increase/(decrease) in other liabilities	(297,687)	1,587,663	(319,036)	1,640,173
<b>Net cash inflow/(outflow) from operating activities before taxation</b>	<b>5,476,026</b>	<b>6,671,835</b>	<b>5,744,182</b>	<b>6,668,137</b>
Tax on Financial Services paid	(985,188)	(1,005,492)	(985,188)	(1,005,492)
Income taxes paid	(643,843)	(1,211,841)	(732,167)	(1,254,368)
Super Gain Tax Paid by the Parent Company	–	(732,081)	–	(833,548)
Super Gain Tax Paid by non-controlling interest	–	–	–	(21,123)
<b>Net cash provided by/(used in) operating activities</b>	<b>3,846,995</b>	<b>3,722,421</b>	<b>4,026,827</b>	<b>3,553,606</b>
<b>Cash flows from investing activities</b>				
Net changes in financial investments	(6,741,637)	(5,078,640)	(6,740,813)	(5,078,362)
Net changes in investments in subsidiaries/associates	–	(103,826)	–	(53,947)
Expenditure on property, plant & equipment	(612,468)	(594,790)	(654,471)	(637,259)
Proceeds from sale of property, plant & equipment	10,556	15,817	11,759	42,580
<b>Net cash used in investing activities</b>	<b>(7,343,549)</b>	<b>(5,761,439)</b>	<b>(7,383,525)</b>	<b>(5,726,988)</b>
<b>Cash flows from financing activities</b>				
Issue of shares	2,958	11,957	2,958	45,031
Net proceeds from issue of subordinated debts	–	8,914,408	–	8,914,408
Interest paid on subordinated debts	(2,032,761)	(1,719,085)	(2,032,761)	(1,719,085)
(Decrease)/increase in other borrowings	6,363,234	4,164,980	6,363,234	4,164,980
Dividends paid to non-controlling interests	–	–	(45,977)	(41,283)
Dividends paid to shareholders of the Bank	(664,029)	(1,806,863)	(664,029)	(1,806,863)
<b>Net cash provided by/(used in) financing activities</b>	<b>3,669,402</b>	<b>9,565,397</b>	<b>3,623,425</b>	<b>9,557,188</b>
<b>Net increase in cash and cash equivalents</b>	<b>172,848</b>	<b>7,526,379</b>	<b>266,727</b>	<b>7,383,806</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>19,958,129</b>	<b>12,431,750</b>	<b>19,985,201</b>	<b>12,601,395</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>20,130,977</b>	<b>19,958,129</b>	<b>20,251,928</b>	<b>19,985,201</b>

For the year ended 31 December	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
<b>Reconciliation of cash and cash equivalents</b>				
Cash and cash equivalents	5,018,438	11,821,503	5,139,389	11,848,575
Balances with the Central Bank of Sri Lanka	11,815,277	6,999,898	11,815,277	6,999,898
Placements with banks	3,297,262	1,153,619	3,297,262	1,153,619
	20,130,977	19,975,020	20,251,928	20,002,092
Unfavourable balances in Nostro accounts (Note 36)	–	(16,891)	–	(16,891)
	20,130,977	19,958,129	20,251,928	19,985,201

The balances with the Central Bank of Sri Lanka represent the reserve maintained for the rupee deposit liabilities of the Bank and it is not available to finance the Bank's day-to-day operations.

#### (a) Reconciliation of Operating Profit before Changes in Operating Assets and Liabilities

For the year ended 31 December	BANK		GROUP	
	2016	2015	2016	2015
	LKR '000	LKR '000	LKR '000	LKR '000
Operating profit before tax on financial services	5,335,004	5,447,875	5,093,546	5,715,283
Gains on sale of property, plant & equipment	(9,109)	(4,356)	(11,883)	(10,150)
Accrual for interest income	(2,125,855)	(402,236)	(2,206,395)	(420,812)
Accrual for interest expenses	430,845	511,067	436,358	511,067
Accrual for general expenses	35,406	85,130	45,555	93,342
Contribution made to pension fund	16,927	15,284	16,927	15,284
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
Gains on disposal of investments	(260)	(23,758)	(228)	(206,190)
Impairment for loans and receivables	1,378,686	711,833	1,378,686	711,833
Provision/(reversals) of investments in subsidiaries	(11,733)	–	45,887	34,312
Accrued dividend income	(548,496)	–	–	–
Fair value adjustments on investment property	–	–	(104,000)	(126,307)
<b>Operating profit before changes in operating assets and liabilities</b>	<b>4,936,206</b>	<b>6,711,256</b>	<b>5,185,439</b>	<b>6,739,058</b>

The Notes to the Financial Statements disclosed from pages 296 to 400 form an integral part of these Financial Statements.